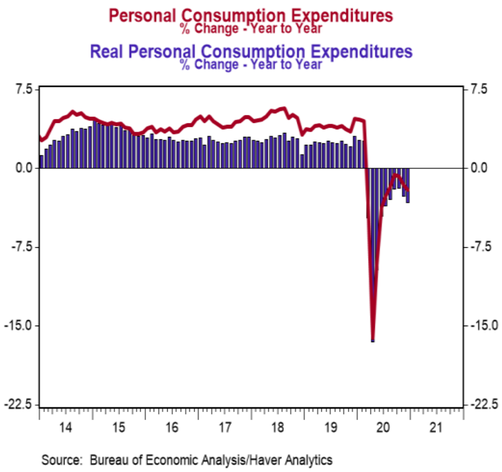
First Trust DATAWATCH

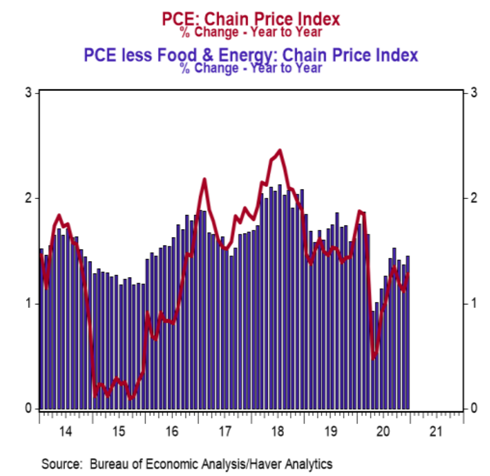
January 29, 2021 • 630.517.7756 • www.ftportfolios.com

# December Personal Income and Consumption

**Brian S. Wesbury** – Chief Economist
**Robert Stein, CFA** – Dep. Chief Economist
**Strider Elass** – Senior Economist
**Andrew Opdyke** – Senior Economist

- Personal income rose 0.6% in December (+0.4% including revisions to prior months), higher than the consensus expected gain of 0.1%. Personal consumption fell 0.2% in December (-0.5% including prior month revisions). The consensus expected a 0.4% decline. Personal income is up 4.1% in the past year, while spending has declined 2.0%.
- Disposable personal income (income after taxes) rose 0.6% in December, and is up 4.7% from a year ago.
- The overall PCE deflator (consumer prices) rose 0.4% in December and is up 1.3% versus a year ago. The "core" PCE deflator, which excludes food and energy, was up 0.3% in December and is up 1.5% in the past year.
- After adjusting for inflation, "real" consumption declined 0.6% in December, and is down 3.3% from a year ago.




**Implications**: Incomes rose while spending took a dip in December, as new stimulus started to take hold, but a slowdown in consumer purchases (in part, due to a return of economic restrictions) served as a headwind. On the income side, gains were led by government benefits. Unemployment insurance increased, reflecting an increase in pandemic unemployment compensation. There was also an increase in "other" social benefits, reflecting an increase in payments from the Provider Relief Fund to nonprofit institutions. Following government transfer payments, dividend income, and private sector wages & salaries (these wages are up 14.0% from the April bottom and sit at all-time high) led the gains. Income from wages and salaries are a far more sustainable long-term driver for the economy than government stimulus, which is really just borrowing spending activity from the future. Yes, it looks like more stimulus out of Washington is here and more is on the way, but the best economic tailwind for the economy comes not from our politicians, but from the near miraculous scientific achievements that now have COVID-19 vaccines being distributed across the country. So far, 48.4 million vaccines have been distributed with 26.2 million of those having been administered. Rarely does government ever under-promise and over-deliver, but in this case President Biden's goal of 100 million vaccines in 100 days will be easily achievable. Over the past seven days almost eleven million vaccines have been administered. It takes getting back to normal – getting back to work – to fully recover from the wounds of 2020; stimulus has and will continue to be a band-aid to tidy over until the real healing takes place. Unlike income, spending fell 0.2% in December, and is down 2% from a year ago. The slowdown in spending in December partially reflects the continued effects of re-introduced restrictions as COVID-19 cases rose in December. With incomes rising faster than spending in December, the saving rate rose to 13.7%. This is down from 33.7% back in April, but still well above "normal" levels. On the inflation front, PCE prices grew 0.4% in December, are up 1.3% from a year ago, but up at a faster 2.4% annualized rate in the past six months. Core prices, which exclude food and, more importantly, the very volatile energy component, rose 0.3% in December and are up 1.5% from a year ago, but have likewise accelerated of late, up 2.2% annualized over the past six months. We expect inflation will trend higher in the months ahead, moving toward – and then above – the 2.0% year-to-year pace that historically stood as the Fed's target, though the Fed changed that target this year to allow inflation to run above trend for a prolonged period of time without pressuring them to lift the federal funds rate. In other words, don't expect the faster pace of inflation to mean monetary policy will be tightening any time soon. In other news this morning, pending home sales, which are contracts on existing homes, declined 0.3% in December after a 2.5% decline in November. As a result, look for a modest decline in existing home sales for January after several months at a very rapid pace.

| **Personal Income and Spending**<br>*All Data Seasonally Adjusted* | Dec-20 | Nov-20 | Oct-20 | 3-mo % ch. annualized | 6-mo % ch. annualized | Yr to Yr % change |
|---|---|---|---|---|---|---|
| ***Personal Income*** | **0.6%** | -1.3% | -0.7% | -5.4% | -4.6% | 4.1% |
| ***Disposable (After-Tax) Income*** | **0.6%** | -1.5% | -0.8% | -6.4% | -6.2% | 4.7% |
| ***Personal Consumption Expenditures (PCE)*** | **-0.2%** | -0.7% | 0.3% | -2.4% | 7.0% | -2.0% |
| ***Durables*** | **-1.0%** | -2.6% | 0.8% | -10.7% | 4.6% | 11.0% |
| ***Nondurable Goods*** | **-0.7%** | -0.7% | -0.7% | -8.5% | 1.7% | 2.5% |
| ***Services*** | **0.1%** | -0.3% | 0.5% | 1.3% | 9.2% | -5.4% |
| ***PCE Prices*** | **0.4%** | 0.0% | 0.0% | 1.8% | 2.4% | 1.3% |
| ***"Core" PCE Prices (Ex Food and Energy)*** | **0.3%** | 0.0% | 0.0% | 1.3% | 2.2% | 1.5% |
| ***Real PCE*** | **-0.6%** | -0.7% | 0.2% | -4.2% | 4.4% | -3.3% |

*Source: Bureau of Economic Analysis*