



Economics Group

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Personal Income & Spending Remained Solid in November

Solid gains in employment and hours worked are creating strong growth in income. Robust income growth and low inflation are supporting solid growth in real consumer spending.

Wages & Salaries Drive Personal Income

Driven by a strong 0.5 percent increase in wages and salaries, personal income rose 0.3 percent in November, besting the 0.2 percent increase expected by the consensus forecast. The rise in total personal income in November would have been even stronger had interest income and income received from dividends not slipped 0.2 percent and 0.8 percent, respectively. Strong growth in employment and the rise in hours worked have supported growth in private wages and salaries, which are up nearly 5 percent on a year-ago basis at present (top chart). As we discuss further below, robust growth in income has helped underpin growth in consumer spending.

Overall Prices Were Flat in November

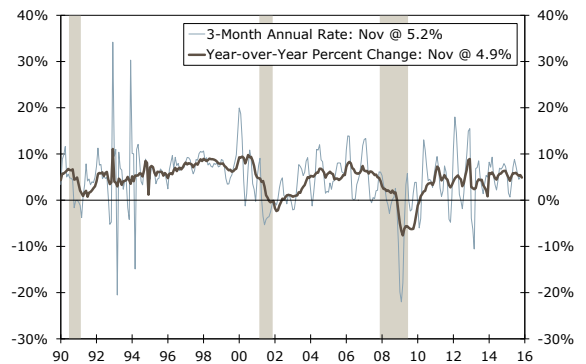
The 1.4 percent drop in prices of energy goods and services helped to keep overall consumer prices, as measured by the personal consumption expenditures (PCE) deflator, flat in November. Excluding food and energy, the core PCE deflator rose only 0.1 percent during the month. On a year-over-year basis, prices of energy goods and services are down nearly 16 percent, which has restrained the rise in the overall PCE to only 0.4 percent (middle chart). The year-over-year rise in the core PCE has remained unchanged at 1.3 percent thus far throughout 2015. There clearly is not much consumer price inflation in the economy at present, whether one looks at the overall PCE deflator or the core deflator.

Strong Real Income = Solid Real Spending

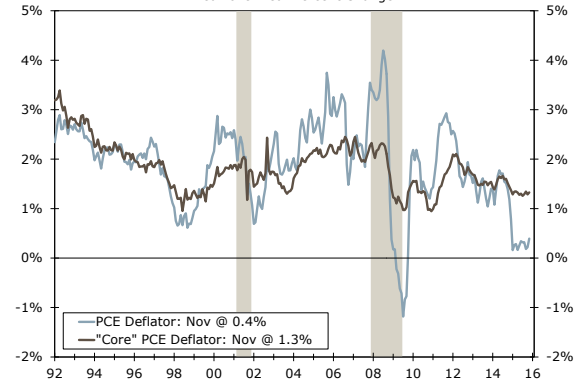
Personal consumption expenditures, which include consumer spending on goods and services, rose 0.3 percent in November in both nominal and real terms. Real consumer purchases of goods remained strong in November as durable goods and nondurable goods rose 1.1 percent and 0.9 percent, respectively. Real purchases of services were flat for the second consecutive month, which likely reflects, at least in part, weak purchases of utility services due to the unseasonably warm weather that many parts of the country have enjoyed recently.

The collapse in energy prices over the past year may be bad news for energy producers but it is a boon for consumers. The flat reading on the PCE deflator in November means that the 0.3 percent rise in nominal income translated into a solid 0.2 percent increase in real disposable income. (Tax payments by consumers rose 0.1 percent). On a year-over-year basis, real disposable income (a.k.a., purchasing power) was up 3.7 percent in the September-November period (bottom chart). Strong growth in real income has helped to support solid growth in real PCE recently, a trend that we expect will remain largely intact in 2016.

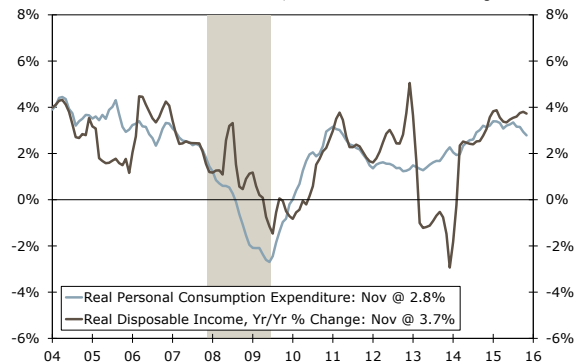
Private Wages and Salary Growth



PCE Deflator vs. Core PCE Deflator
 Year-over-Year Percent Change



Real Disposable Income vs. Real PCE
 Both Series are 3-Month M.A., Year-over-Year Percent Change



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