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Economics Group

Eugenio J. Alemán, Senior Economist
eugenio.j.aleman@wellsfargo.com • (704) 410-3273
Sarah Watt House, Economist
sarah.house@wellsfargo.com • (704) 410-3282

Personal Income Rebounds in November

Following a 0.1 percent decline in October, personal income rebounded 0.2 percent in November. Spending rose a solid 0.5 percent, helped by strong autos and utilities spending. The saving rate fell back to 4.2 percent.

Stronger Wages and Salaries Lift Income in November

Personal income rose 0.2 percent in November, coming in short of expectations for a 0.5 percent gain. The weaker-than-expected outturn stemmed from another sizeable drop in farm proprietors' income. In October, headline income fell by 0.1 percent as farm proprietors' income dropped 15.0 percent following a payout for a class action lawsuit in September. For November, farm income fell 9.5 percent, weighed down by pressure on commodity prices.

Outside the volatility of this relatively small source of income—farm income accounted for less than 1 percent of total income over the past 12 months—the trend in income looks a bit stronger. Wage and salaries—which account for a little over half of income—advanced more quickly in November, rising 0.4 percent as hourly earnings, the workweek and employment picked up. Further boosting income in November was a rebound in receipts on assets, as well as greater transfer payments, rental income and nonfarm proprietors' income. Total income is up at an annualized rate of 2.3 percent over the past three months.

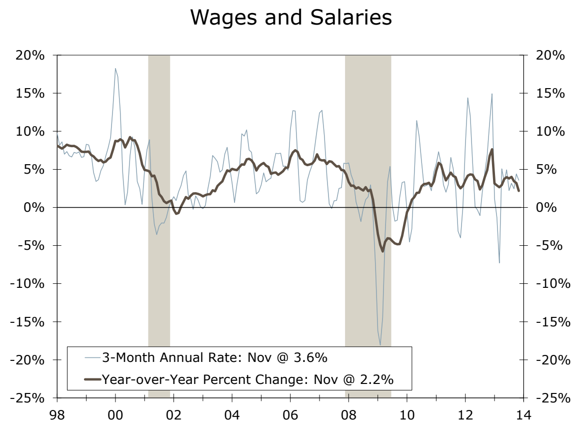
Consumer Spending Strengthens

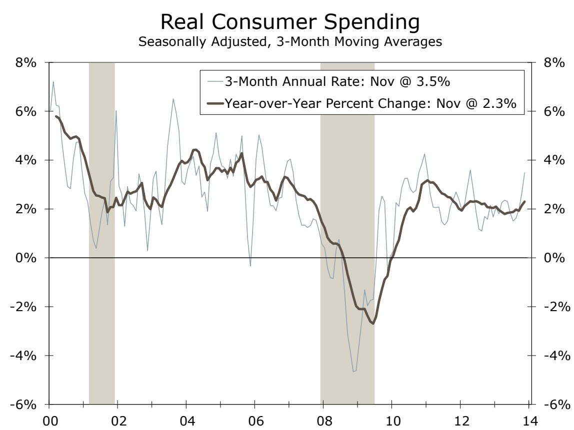
Consumer spending rose in line with expectations, rising 0.5 percent in November. Colder-than-usual temperatures look to have given a boost to services spending, which rose 0.6 percent in November, the strongest monthly gain since August 2007. Strong auto sales in November helped to lead spending on durables 1.9 percent higher, while spending on nondurables contracted. With inflation low, real spending advanced at the quickest pace since February 2012.

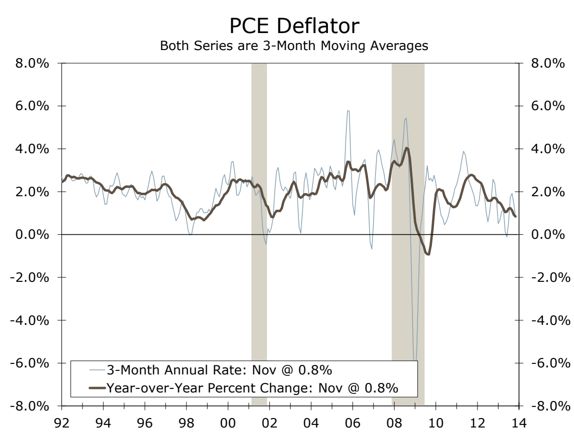
Consumers look to be growing more confident in their income prospects. The saving rate fell to 4.2 percent in November, the lowest rate since early in the year when tax changes shocked disposable income. We look for income and spending to rise more quickly over the coming year as the labor market and consumer confidence strengthen further.

Inflation Still Quiet

The Federal Open Market Committee's decision last week to begin reducing the pace of asset purchases, even with the PCE deflator for October running at 0.7 percent year over year, showed the weak rate of inflation is not a significant concern for the Fed. In November, the PCE deflator was flat for the second consecutive month. Excluding energy and food, inflation ticked up 0.1 percent, keeping the year-over-year gain at 1.1 percent. The recent pickup in income and spending should help to further lift broad price levels and bring inflation closer to the Fed's 2 percent target over the next few years—the time horizon the Fed is most concerned about when formulating policy.







Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Sarah Watt House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Sara Silverman	Economic Analyst	(704) 410-3281	sara.silverman@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Blaire Zachary	Economic Analyst	(704) 410-3359	blaire.a.zachary@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 410-3279	peg.gavin@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com