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Economics Group

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Personal Income and Spending Accelerate

Personal income grew 0.4 percent in November, while personal spending jumped 0.6 percent. Income and spending were both revised higher in the previous month. Prices moved lower amid more oil price declines.

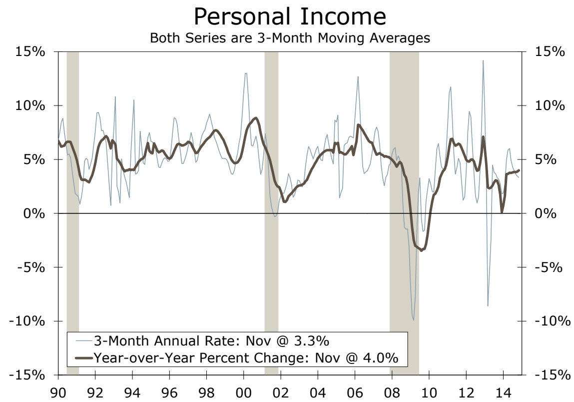
Show Me The Money

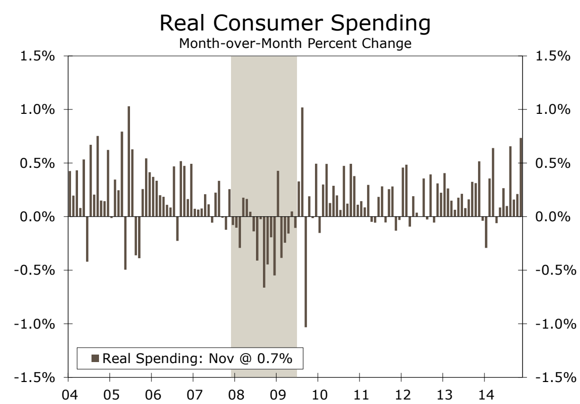
Personal income growth gained steam, rising 0.4 percent in November from an upwardly revised 0.3 percent growth in October. Wages and salaries jumped 0.5 percent in the month, thanks in large part to sizable employment gains and a slightly longer workweek. Other income sources were also relatively strong in the month. Proprietors' income jumped 0.5 percent, dividend income grew 0.9 percent and supplements to wages and salaries were up 0.3 percent. Interest income, on the other hand, fell for the fifth straight month, while rental income posted only a modest gain. Disposable income grew 0.3 percent for the second straight month. The more modest gain in disposable income was largely due to an acceleration in personal current taxes paid, which grew 0.7 percent.

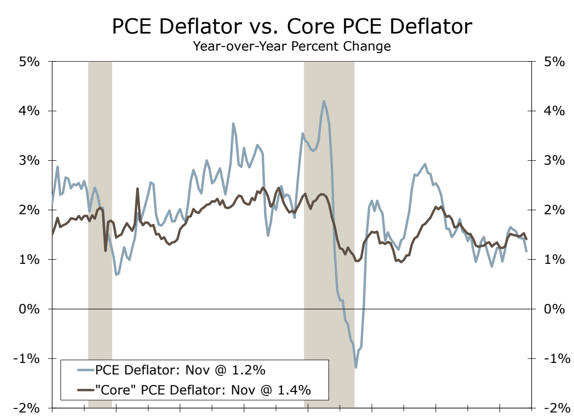
With oil prices falling, the acceleration in income becomes even more pronounced. In real terms, disposable personal income jumped 2.9 percent from a year ago. The additional purchasing power bodes well for consumption in the fourth quarter. This comes after third quarter real personal consumption growth was revised upward to an annualized rate of 3.2 percent. In November, real personal consumption expenditures were up 2.8 percent from a year earlier, two tenths higher than October's year-over-year rate. Durable goods spending continued to be the largest driver of better spending in both real and nominal terms. The falling price of durable goods has pushed real spending on those products up 8.4 percent year over year. Spending on nondurable goods held steady in nominal terms, but falling prices pushed real expenditures 2.6 percent higher than a year ago. Services held their own as well, and even with rising prices in this category, spending grew 2.1 percent in real terms.

Fed Can Move Without Stronger Inflation

The Personal Consumption Expenditure (PCE) deflator fell 0.2 percent in November, pushing the year-over-year rate to just 1.2 percent. Falling oil prices played an outsized role in this month's decline, with the energy goods and services index falling 4.0 percent in November alone, marking the fifth consecutive month of declines in the energy index. After excluding the more volatile food and energy components of the PCE deflator, prices were flat, and on a year-ago basis, ticked down one tenth to 1.4 percent. This is the price series that the Fed watches most closely. The Fed tries to maintain core inflation around 2.0 percent. As the labor market pulls ahead and oil prices keep inflation relatively subdued, the Fed may raise rates before inflation reaches its target. In her testimony following the most recent Fed meeting, Chair Yellen indicated that this could be the case. Look for the next rate hike to come in June, with or without core PCE returning to the 2.0 percent target.







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