December 22, 2017

Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277

Personal Income Rose Solidly in November

Personal income rose 0.3 percent in November, with wages and salaries rising 0.4 percent. Inflation rose less than expected, and helped send real consumer outlays up 0.4 percent or twice the consensus estimate.

Income Growth is Perking Up

Personal income grew 0.3 percent in November, following a 0.4 percent rise the prior month and 0.5 percent in September. Over the three months, personal income is up at a 4.4 percent annual rate, which partly explains why consumers appear to be spending so freely this holiday season.

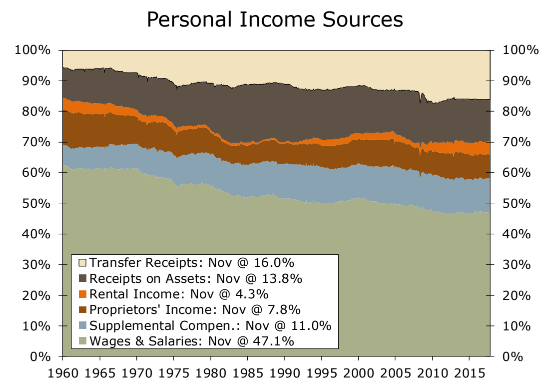
The acceleration in income growth has primarily been driven by a pickup in wages and salaries, which comprise about 47 percent of personal income. Sluggish wage growth over the past few years have caused the share of personal income growth derived from wages and salaries to decline steadily. That drop may be ending, as wage increases are showing signs of accelerating, particularly alternative measures of wage growth such as the wage tracker from the Federal Reserve Bank of Atlanta.

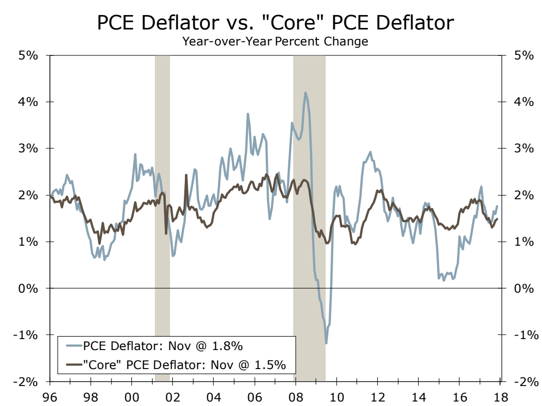
While wages are picking up, inflation is largely remaining quiescent. The overall PCE deflator rose just 0.2 percent in November and is up just 1.8 percent year-over-year. The core PCE deflator increased just 0.1 percent in November and is up just 1.5 percent year-over-year. The continued modest pace of inflation remains a mystery. There is little doubt that structural shifts, including increased global competition, the growth in online retailing and new technologies that enable consumers to find the best price instantly and at little cost, are playing a role in holding down prices. At some point, however, tightening labor markets and stressed resource markets will reassert themselves. For now, however, consumers are enjoying their increased purchasing power.

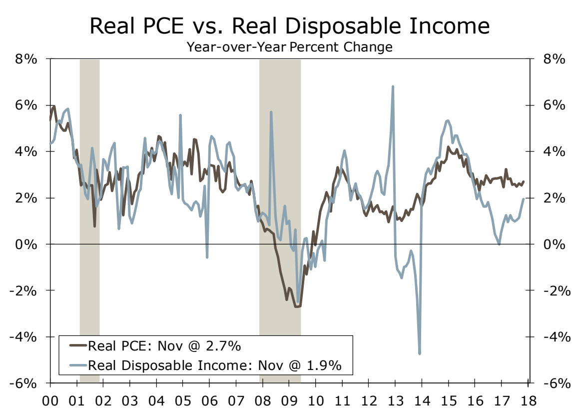
That increased purchasing power was particularly evident in November. Real personal consumption expenditures rose 0.4 percent during the month, which was twice the consensus estimate. The stronger number is surprising in that forecasters already new that retail sales had a blowout month, with nominal sales surging 0.8 percent. Spending on goods, which comprise 31 percent of personal consumption expenditure outlays, rose 0.5 percent during the month, while services outlays, which comprise the other 69 percent, rose 0.4 percent.

The stronger real personal consumption numbers suggest that consumer spending is a potential upside surprise for Q4 real GDP growth. Even if personal consumption is unchanged in December, real consumer spending would rise at a 2.8 percent annual rate during the fourth quarter. If real outlays rise an additional 0.2 percent in December, as we expect, then real consumer spending would climb at a 3.0 percent annual rate in the fourth quarter. That would lift real GDP growth well above the current consensus.

The strength in spending continues to pull the saving rate lower, as consumers are spending a larger portion of their take-home pay.







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

Wells Fargo Securities 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
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Harry Pershing	Economic Analyst	(704) 410-3034	harry.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Ariana Vaisey	Economic Analyst	(704) 410-1309	ariana.b.vaisey@wellsfargo.com
Abigail Kinnaman	Economic Analyst	(704) 410-1570	abigail.kinnaman@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

WELLS FARGO SECURITIES