

Economic Analysis

Consumption Down, Savings Up in January 2015

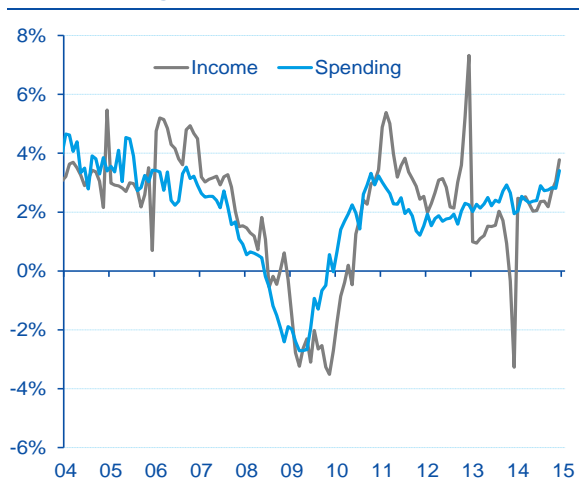
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- **Personal income increased 0.3%, while personal expenditures decreased 0.2%**
- **The personal savings rate hit its highest level in two years, at 5.5%**
- **Decline in oil and gas prices lowered inflation but boosted real wages**

Personal income increased 0.3% in January 2015 after a similar rise in December. At the same time, personal consumption expenditures (PCE) decreased 0.2%, a smaller decrease than seen in December (-0.3%). National wages and salaries alone increased 0.6% in January, up from December's 0.1% increase. Real disposable personal income (DPI) increased 0.9% in January, the largest increase seen since December 2012. Also at its highest level since December 2012 was the personal saving rate at 5.5%. On inflation, the PCE price index increased 0.2% YoY, the weakest reading since October 2009. However, the core PCE price index (excluding food and energy) increased 1.3% YoY in January.

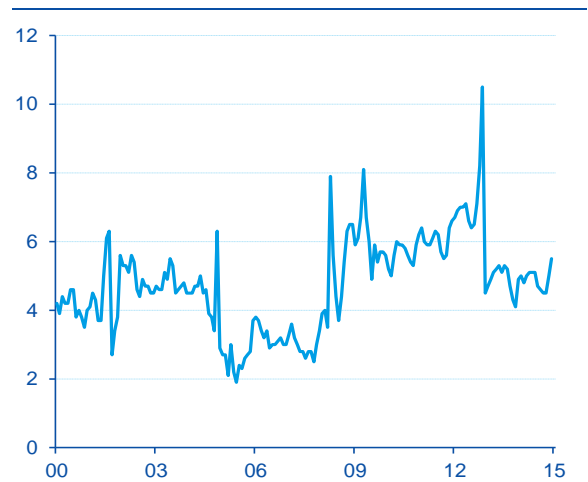
Oil and gas prices had a definite impact on both the increase in personal income and the decrease in personal expenditures. Lower inflation levels triggered by falling energy prices helped to boost real wages. The decrease in PCE was pulled down by the decline in oil and gas prices, as outlays on energy sank 18% in January. However, the gain in real PCE is a welcome surprise given the weaker-than-expected reading from real retail sales for the month. This suggests that underlying consumer demand remains strong. As gas prices continue to rise after their slump earlier in the year, personal outlays can be expected to increase as receipts at service stations rise. Consumers opted to save rather than spend their greater disposable income as a result of lower gas prices and rising wages, but the savings rate can be expected to decline once gas prices are closer to their previous levels. Overall, our expectations remain optimistic for strong consumer-driven growth throughout 2015.

Chart 1
Real PCE and Income
(YoY % Change)



Source: BEA & BBVA Research

Chart 2
Personal Savings Rate
(% of Disposable Personal Income)



Source: BEA & BBVA Research

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