U.S. Flash

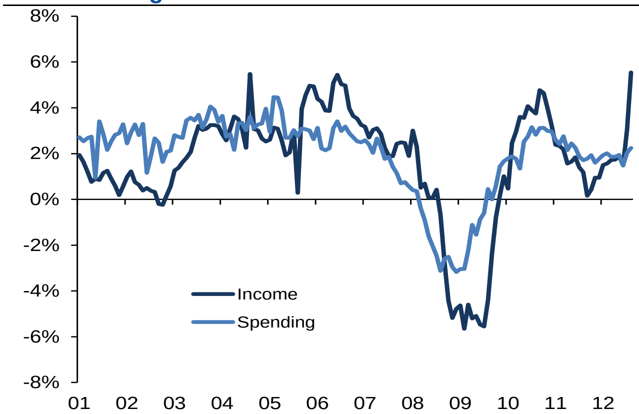
Income and Spending Gain as Fiscal Cliff Incentivizes Payouts

- **Personal income surged by 2.6% in December as companies dished out dividends**
- **Consumption expenditures rose slightly by 0.2%, lower than November's figure**
- **Inflation shows no monthly change and decelerated to a 1.3% YoY rate**

The personal income and spending report for December showed some astounding effects from the fiscal cliff situation but lower than expected growth once the augmentation was excluded. Beginning with the less amplified result, spending, the report suggests that consumers were not as apt to spend considering their unease regarding their taxable income in the new year. Up only 0.2%, the figure was lower than in November's, notably due to the continuing decline in nondurable goods purchases which fell by 0.16% on account of lower fuel prices. Durable goods shouldered the spending figure, up 1.0% on higher vehicle sales. Spending on services also increased, up 0.2%, but at a much slower pace than the month before. Overall, spending rose 3.6% on a YoY basis, suggesting that December's monthly gain is still encouraging and that spending is continuing to show some revival in consumer activity from the year before.

Still, spending did not seem to reflect the extreme jump in personal income for the month, which saw a dramatic rise as the fiscal cliff worries prodded companies to shell out dividends in order to avoid possible taxation in 2013. Income rose by 2.6%, the highest rate since December 2004, right before the Tax Increase Prevention and Reconciliation Act of 2005 was introduced. The reason behind this was a 34.3% monthly increase in dividend income for December after a strong 4.5% rise the month before. Similar to that period, however, we are likely to see a reversal in this component in January as companies fail to match the dividend payouts in December. Excluding the dividend rise, wage and salary disbursements rose moderately by 0.65%, a slower pace than in November. While dividend growth was a positive aspect, slower wage growth means the 2.6% growth should be read cautiously as only a temporary increase due to political pressure rather than across the board gains. With December's data, the quarter is complete and both spending and incomes have risen in a strong manner considering some of the headwinds they have faced including natural disasters and political turmoil. Nonetheless, with both income and spending still on the rise, and inflationary pressures unchanged since November, the report does point toward continuing growth and better spending activity in the coming months as political uncertainty becomes less worrying. However, January's report will likely see some impact from the initial hit of the expiring payroll tax cut on disposable personal income.

Chart 1
Real Personal Income and Spending
YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

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