U.S. Flash

Personal Spending Grows in December, but Income Flat

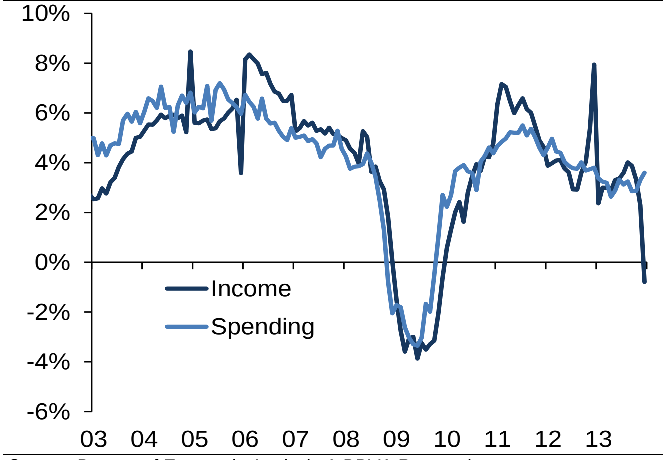
- **Increase in spending marks strongest consecutive months in nearly two years**
- **Personal income remains flat for December, down 0.8% from one year ago**
- **Core PCE inflation finishes at 1.2% YoY, remaining well below the Fed's target**

Consumer spending in December increased 0.4% MoM, marking the eighth consecutive month of spending increases to finish out the year. Furthermore, November's original estimate was revised upwards to 0.6%, reinforcing the notion that the economic expansion in 4Q13 was largely attributed to a boost in consumption. Goods and services equally contributed to the increase in personal spending as they both were up 0.4% for the month. The jump in goods consumption can be mainly attributed to an increase in nondurable goods spending, as consumption in this component leaped 1.5% MoM. Looking at the bigger picture, personal consumption expenditures were up 3.6% from one year ago, the biggest YoY gain of the year.

After posting a moderate gain of 0.2% in November, personal income flatlined for December even as spending rose. Much of the spending appears to be attributed to the recent trend of consumers saving a smaller percentage of their income. In fact, the personal savings rate dropped to 3.9% in December, the fourth consecutive month of declines and the lowest rate since January. The fact that consumers are willing to spend a larger portion of their paycheck in part reflects an increase in confidence of a robust economic recovery. However, personal income is down 0.8% YoY, the first year-over-year decline in over four years, with the drop in real terms even more significant at -1.8%. For consumer spending to remain elevated in 2014, employment and personal income will need to strengthen simultaneously.

In terms of core PCE inflation, the situation has remained largely unchanged from previous months, increasing by 0.1% for the sixth straight month. Core inflation, which is widely considered to be the Fed's preferred measure of national inflation, clocked in at 1.2% YoY and continues to remain well below the target level of inflation. After concerns of excessive inflation due to quantitative easing, thus far inflation has been largely on the low end of the Fed's target. Looking forward, it will be crucial to monitor how PCE and spending data react to tapering and how the Fed might adjust monetary policy to be as accommodative to the recovery as possible.

Chart 1
Real Personal Income and Spending
YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

Michael Soni
michael.soni@bbvacompass.com
+1 713 831 7348