

U.S. Flash

Spending & Income Rebound After Sandy's Effects Dissipate

- **Consumer spending rose 0.4% in November while income jumped 0.6%**
- **Wages and salaries rose 0.6% after falling 0.3% in October**
- **Inflation remains subdued, with the headline PCE price index falling 0.2%**

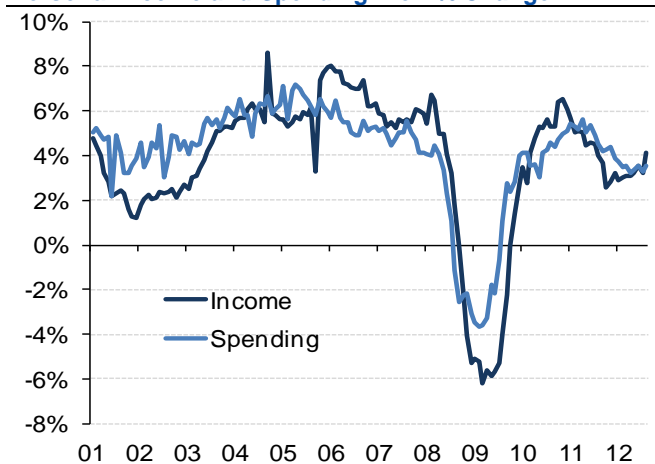
After a disappointing result from October's report, due in part to Hurricane Sandy, personal income and spending appear to have bounced back in November. Personal consumption expenditures (PCE) rose 0.4%, on par with our estimate, as the holiday season kicks off and retail sales show signs of increasing purchases due to the year-end sales. Up from a 0.2% decline in October, spending was driven primarily by a 2.7% increase in durable goods and a 0.5% increase in services. Nondurable goods outlays fell by 1.0% following a smaller decline in October. Barring the possibility of a significant reduction in spending due to increased fiscal uncertainty, December has historically been a positive month for personal consumption. With the upcoming surge in retail sales most likely to be reflected in PCE, tied to holiday purchases and the sort, we expect December's spending figure to climb at a similar rate.

The jump in spending was also helped by a 0.6% rise in personal income, doubling Bloomberg's consensus estimate from a survey of economists. Lead by a 0.6% rise in wages and salaries, the highest since February, the figures likely reflect the fact that businesses affected by Hurricane Sandy, partially to blame for October's weak report, have come back online. Wages and salaries in the private industry grew noticeably, up 0.7% while the government equivalent rose by a meager 0.1%, although the government figure has been depressed since the recession began. Peering into the details behind the rise in income, the service industry topped the private arena growing 0.8% after falling in the previous month while goods-producing firms also grew, up 0.4% after falling 0.3% in October.

Little could be said about inflationary pressures as the headline figure for personal consumption fell by 0.2% and the core figure remained unchanged. Overall, this signals softer than expected inflation which bodes well for the Fed's loose policy prerogatives and helps maintain healthy purchasing power for consumers. For December, we expect the personal income and spending figures to reflect the increase in spending from the holiday season and some increase in the income category as the areas affected by Sandy fully return to business, although most likely at a repressed rate due to fiscal uncertainty.

Chart 1

Personal Income and Spending. YoY % Change



Source: Bureau of Economic Analysis & BBVA Research

Kim Fraser
kim.fraser@bbvacompass.com
+1 713 831 7342

Alejandro Vargas
alejandrovargas@bbvacompass.com
+1 713 831 7348

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