Economics Group

December 20, 2019

Personal Income and Consumer Confidence Rising in Tandem

Consumer sentiment rose to its second highest level all year right as the holiday shopping season hit high gear. With income growing, consumers are able to increase spending and still save.

We’re Happy Tonight

Consumers are in bright spirits and it could not come at a better time for retailers at the height of the critical holiday shopping season. Consumer sentiment rose to 99.3, the second highest reading of the year.

Spirits aren’t the only thing rising either, the latest personal income figures posted a solid 0.5% increase in November led higher by a 0.4% increase in wages and salaries. Of particular importance for holiday-related spending, disposable personal income swelled 0.5% in the month. Personal spending rose 0.4% marking the ninth straight monthly increase.

From Now on Our Troubles Will be Miles Away

Revised GDP figures for the third quarter released earlier this morning showed the annualized pace of consumer spending grew 3.2%, which is faster than initially reported. With two months now on the books for the fourth quarter, it looks as though consumer spending is still on track to be supportive of growth in the fourth quarter, though the pace of personal outlays is apt to moderate slightly.

Last Christmas

This year is finishing better than last year when a government shutdown and steep selloff in equity markets in December caused consumer spending to crater in what turned out to be the worst one-month drop since the height of the recession. The middle chart on the right shows monthly changes in PCE and offers a visual on just how extraordinary that was.

Contrast that with the current situation—the government has reached a deal to avoid a shutdown and the stock market is trading near all-time record highs—and you have a recipe for much better holiday sales. We are looking for a 5.0% increase over last year, a view some thought was too optimistic back in October but seems very do-able now.

What Are you Doing New Year’s?

We were less optimistic about the outlook for the consumer prior to the phase one trade deal announced last week. While the details of that deal are limited at the moment, one important thing that came from it was that the expected tariffs on mostly consumer goods set to go into effect on December 15 are off the table...for now. Even with that deal in hand, we are still somewhat cautious. Confidence is trending higher, but both the University of Michigan and the Conference Board’s measures are below where they were at their 2018 highs.

The PCE deflator shows year-over-year inflation of roughly 1½% on both the headline and the core measure. The headline figure will rise next year due to the timing of the slide in oil prices, but on balance the inflation picture should remain supportive of the Federal Reserve remaining on hold.

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