TD Bank Financial Group

Commentary

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TD Economics
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U.S.: PERSONAL SPENDING ADVANCES NICELY IN NOVEMBER

- **Personal spending rose by 0.5% M/M in November, while personal income advanced by 0.4% M/M.**
- **Core PCE inflation was flat during the month, leaving the annual rate at 1.4% Y/Y.**
- **In real terms, personal spending was up 0.2% M/M, while real personal income advanced by 0.2% M/M.**

U.S. consumer spending advanced by 0.5% M/M in November, following the downwardly revised 0.6% M/M gain the prior month (originally reported at 0.7% M/M). This was softer than the market consensus, given that the Street was looking for a print of 0.7% M/M on account of the strength seen in the November retail sales report (which rose by 1.3% M/M). In real terms, personal spending was up a softer 0.2% M/M. Personal income was also softer than the market consensus, coming in at 0.4% M/M, though the prior month was revised higher to 0.3% M/M (originally reported as 0.2% M/M). If we were to remove transfer payments from the government, personal income only grew by 0.1% M/M which underscores the extent of support from government subsidies. Labour income improved during the month, rising by 0.3% M/M.

In terms of details, durable goods expenditures grew by 1.12% M/M which is softer than the prior month's print of 2.6% M/M. Non-durable goods expenditures, on the other hand, grew by an impressive 1.5% M/M on the back of October's meagre 0.3% M/M advance. Lastly, expenditures on services grew by a tiny 0.04% M/M, while the prior month was revised lower to 0.4% M/M (originally reported as 0.5% M/M). The savings rate held steady at 4.7%.

On the inflation front, core PCE inflation was flat during the month (0.006% M/M to three decimal places) which is consistent with the soft pricing pressures we saw in the latest CPI release. On an annual basis core PCE inflation continued to sit at 1.4% Y/Y.

This was a mixed report, and highlights the turbulence faced by the U.S. consumer despite the improving economic landscape. Outside of government transfers, personal income is looking soft, though we expect that to improve modestly as the pace of job creation really gets going in 2010 (recall: we are looking for net job creation to occur in Q1-2010). Personal spending, on the other hand, continues to look healthy and should hopefully continue advancing during the December holiday season. Inflation looks subdued to us, and with the large degree of slack in the U.S. economy we don't expect core pricing pressures to materialize meaningfully in the interim.