

US CONSUMERS GAINING CONFIDENCE IN FINANCES, ENERGY FINALLY BOOSTING PRICES

**US nominal private consumption rose 0.5%/m in December, outpacing the 0.3%/m rise in personal income*

**The almost two-year low in the personal saving rate is consistent with growing consumer confidence*

**PCE inflation rose 1.6% yr/yr in December 2016, a full percentage point higher than its 0.6% yr/yr rise in December 2015 likely enabling the Fed to proceed with its rate normalization*

US nominal private consumption rose 0.5%/m in December, outpacing the 0.3%/m rise in personal income, as the saving rate fell 0.2pp to 5.4%, its lowest since March 2015. Households are becoming more confident in their financial situations and taking more risk (see Chart 1). Indeed, revolving consumer credit grew at a very fast pace in 2016, equity prices rallied significantly at the end of the year and consumer sentiment has grown very optimistic (see Chart 2).

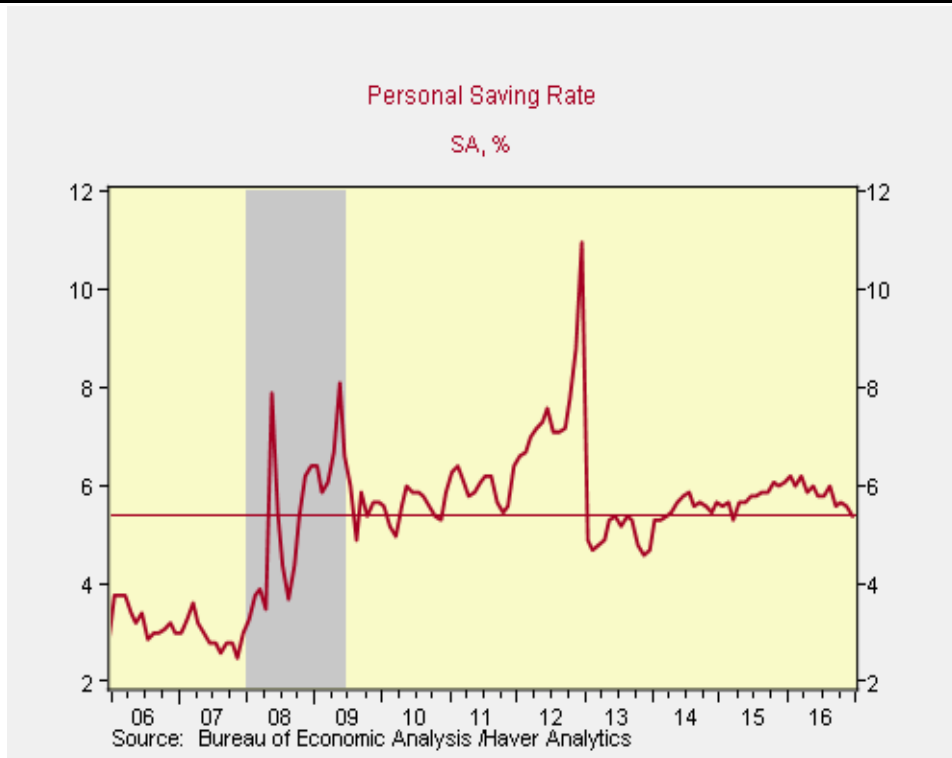
In real terms, private consumption advanced 0.3% m/m in December, gaining momentum through year-end, providing a favorable starting point for private consumption in 2017 Q1. On the whole, real personal spending rose 2.7% in 2016, and a similar pace of growth is expected in the next two years. Larger-than-expected cuts in individual income taxes would increase the upside to private consumption.

The headline PCE deflator rose 1.6% yr/yr, inching closer to core PCE inflation - excludes food and energy - which advanced 1.7% yr/yr, as energy rose 5.7%--its largest gain since February 2012 (see Chart 3) and provided a significant boost to overall prices.

The Fed should be happy with the rise in headline inflation and will proceed with its interest rate normalization process. Signs of building inflationary pressures via wages, producer prices, inflation expectations, will be watched very closely, for signs of overheating economy. The Fed and financial markets will be on lookout.

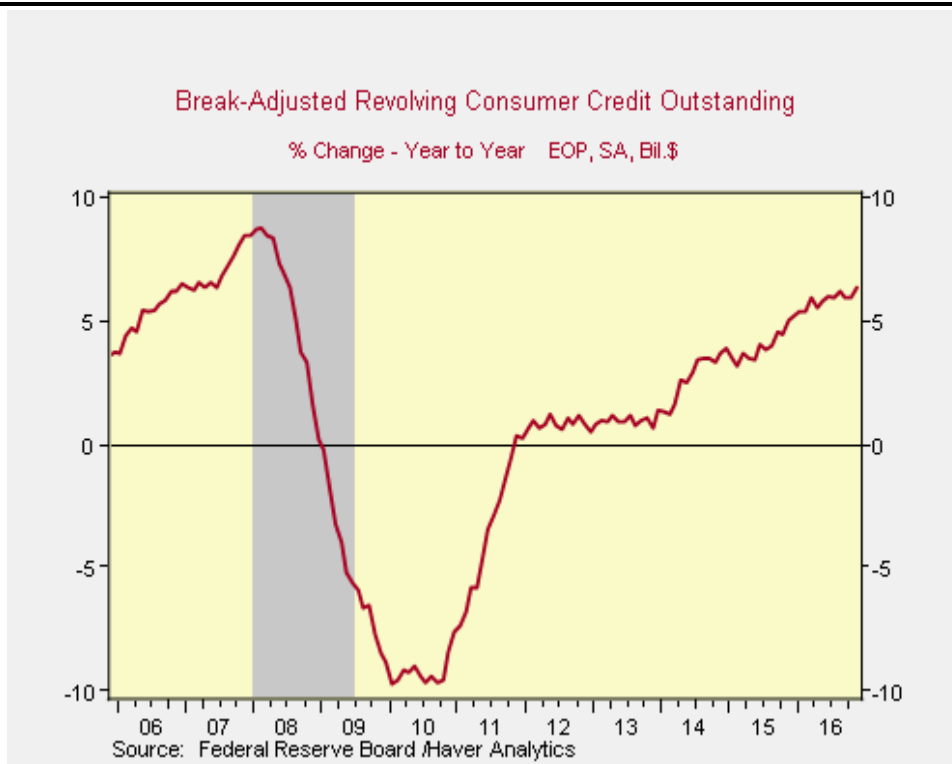
30 January 2017

Chart 1: Personal Saving Rate



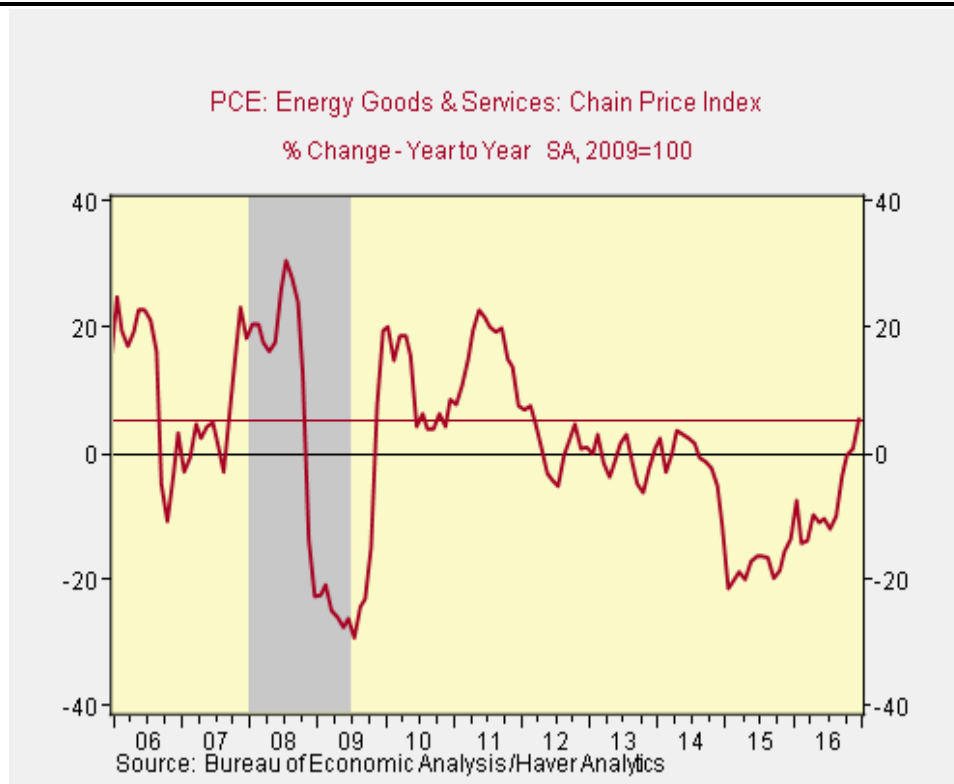
Source: Monthly data. Source: Bureau of Economic Analysis and Haver Analytics

Chart 2: Revolving Consumer Credit Outstanding (Year-Over-Year, %)



Source: Monthly data. Source: Federal Reserve and Haver Analytics

Chart 3: PCE Energy Goods and Services Price Index (Year-Over-Year, %)



Source: Monthly data. Source: Bureau of Economic Analysis and Haver Analytics

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