

U.S. Consumer: No Clunker In August

U.S. personal spending rose a faster-than-expected 1.3% in August, the biggest gain in nearly eight years, driven not only by the autos cash-for-clunkers program but by solid increases elsewhere too. Real spending jumped 0.9% (following modest gains the previous two months), led by durables (5.8%, largely autos but also widespread gains including furniture), with assists from a nice bounce in non-durables (1.0%, the first rise in six months but broad-based) and a third straight modest gain in services (0.2%). Even with an expected sharp pullback in unit auto sales in September (to pre-clunker levels), consumer spending should advance about 3% annualized in Q3 after contracting 0.9% in Q2.

This is an amazing show of strength by consumers. Still, due to the weak jobs and income backdrop, tight credit standards and high debts, consumers are likely to return to the pit-stop in Q4 in the absence of another “cash-for-(insert favoured sector here)” program. Personal income rose a modest 0.2% in August, pushed by the 11% increase in the federal minimum wage that took effect in late July. Disposable income rose half as much, and in inflation-adjusted terms has fallen for three straight months since the spring tax cuts. The lack of income won't help households rebuild savings. The savings rate dove one percentage point to 3.0%, and likely needs to double to restore household finances to pre-credit boom levels.

At least inflation isn't a threat. The core PCE deflator rose an expected 0.1% for the fourth straight month, taking the yearly rate down another notch to 1.3%. It has fallen from a cycle-peak of 2.7% last year, and is moving further below the Fed's long-term inflation forecast of 1.7%-to-2%. Any talk of an exit strategy will remain just that for a while.

	(month/month % change)			(% change : a.r.)	
	Aug	Jul	Jun	3-month	12-month
Personal Income	0.2	0.2	-1.1	-3.2	-2.6
Real Disposable Income	-0.2	-0.1	-1.6	-7.3	1.3
Personal Spending	1.3	0.3	0.7	9.4	-0.3
Real Personal Spending	0.9	0.2	0.2	5.4	0.3
Durables	5.8	1.8	1.0	40.4	0.9
Non-Durables	1.0	-0.3	-0.1	2.6	-1.1
Services	0.2	0.1	0.1	1.8	0.7
Savings Rate (percent)	3.0	4.0	4.2	5.9 *	1.7 **
Core PCE Deflator	0.1	0.1	0.1	1.4	1.3

* value at 3 months ago ** value at 12 months ago

The Bottom Line: Consumers are out of intensive care, but they have a long recuperation period before they can leave the hospital.

Sal Guatieri, 416-359-5295