

U.S. Consumers Spending Cautiously

U.S. personal spending rose a slightly faster-than-expected 0.4% in July, and half as much in real terms. Real spending was up 2.1% in the past three months annualized, supported by firmer auto sales and services spending, suggesting the Q3 pace will echo the modest 2.0% rate of Q2. The positive surprise in spending was at the expense of a lower savings rate, which eased a few notches to 5.9% of disposable income, as income growth was actually softer than expected (0.2%). Real disposable income fell slightly for the first time in six months, and is tracking a lacklustre 1.8% annualized rate in the past three months. With deleveraging households unlikely to reduce their savings rate much further, a sustained pickup in spending depends on stronger income gains. While income is likely to get a temporary boost from extended UI benefits in August, a sustained pickup requires stronger job growth—and that still seems to be on the horizon.

The core PCE deflator rose an expected 0.1% in July, holding the yearly rate at 1.4%, though shorter-term metrics are weaker (e.g., the 3-month annualized rate is just 1.0%). Although the core rate is little changed in the past year, the sluggish economy and high unemployment should nudge it modestly lower in coming months. We see it moving further below the Fed's longer-range forecast of 1.7% to 2.0%, thus paving the way for renewed QE by year end.

	(month/month % change)			(% change : a.r.)	
	Jul	Jun	May	3-month	12-month
Personal Income	0.2	0.0	0.3	2.1	3.0
Real Disposable Income	-0.1	0.1	0.4	1.8	1.4
Personal Spending	0.4	0.0	0.1	2.1	3.4
Real Personal Spending	0.2	0.1	0.2	2.1	1.9
Durables	1.2	-0.1	-0.1	4.1	6.4
Non-Durables	-0.3	0.2	-0.1	-0.9	2.7
Services	0.2	0.1	0.4	2.8	0.9
Savings Rate (percent)	5.9	6.2	6.1	5.9 *	6.1 **
Core PCE Deflator	0.1	0.0	0.1	1.0	1.4

* value at 3 months ago

** value at 12 months ago

The Bottom Line: Consumers won't lead the recovery until job growth strengthens and debts are pared further.

Sal Guatieri, 416-359-5295