

November 26, 2008



UNITED STATES

Another tumble by consumption

HIGHLIGHTS

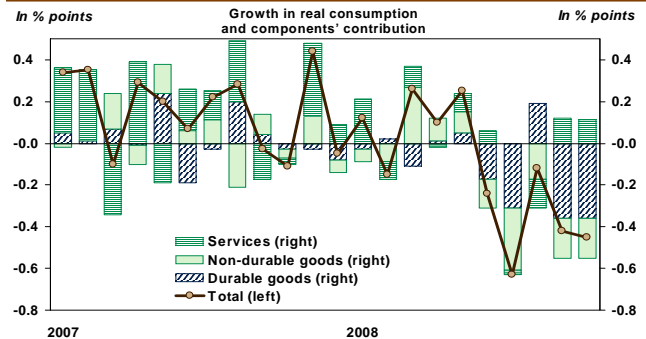
- Consumer spending fell 1.0% in current dollars in October, following September's decrease of 0.3%.
- Personal income rose 0.3% in October after gaining 0.1% in September.
- The consumer spending deflator tumbled 0.6% in October; it went up 0.1% in September. Excluding food and energy, the core deflator remained steady. The annual change in the consumption expenditure deflator goes from 4.1% to 3.2%. The change in the core deflator goes from 2.3% to 2.1%.
- If the effect of price increases is removed, the drop in real consumption is not as large, at -0.5%, whereas disposable income is up by a fairly substantial 1.0%.

COMMENTS

In October, real monthly consumption recorded its fifth straight decline. This run of pullbacks is a first since the statistic was first published in 1990. Once again, the decline primarily comes from the durable goods sector (-3.8%), especially motor vehicles. Consumption of non-durable goods also fell again (-0.6%), whereas the growth in services was quite soft (+0.2%). The results for the fourth quarter's first month easily suggest that real consumption will see another decline for the quarter as a whole. Comparing October's consumption with the average level of last summer already yields an annualized 3.1% contraction. It would take a real holiday miracle to see even neutral performance by consumption. Instead, it seems that household spending will once again be a heavy drag on economic growth in the final quarter of 2008, deepening the current recession.

Even the bump in real disposable income is only a faint bright spot. Some of the income growth reflects adjustments following September's hurricanes. Moreover, Americans' enthusiasm for savings (or debt repayment) during these uncertain times does not leave room to hope that an increase in income will turn into an increase in consumption. The savings rate continues to grow, going from 1.0% of disposable income in September to 2.4% in October. At the beginning of the year, the savings rate was 0.1%.

Consumption does not improve



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Implications: The financial crisis, difficulty in getting credit, job losses and tumble in home values are all factors that are undermining Americans' confidence, driving them to save more and consume less. It is hard to see how the economy can recover unless consumption improves. Other measures to stimulate American economic activity will therefore be needed, including further interest rate cuts, continued efforts to ease the credit market and, certainly, another recovery plan from the American government.

Francis Généreux
Senior Economist

François Dupuis
Vice-President and Chief Economist

Yves St-Maurice
Director and Deputy Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336
418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

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