



## UNITED STATES

### Modest consumption in spite of good income growth

#### HIGHLIGHTS

- Real consumption rose 0.1% in October, as in September. Consumption of goods advanced 0.2%, while consumption of services stagnated. Real disposable income increased 0.4%. The consumption expenditure deflator rose 0.1%, while the core deflator, which excludes food and energy, was stable.
- New durable goods orders jumped 3.0% in October after retreating 0.8% in September, their first increase since July. The rise primarily stems from civil aviation (+81.0%); however, the gain was 0.5% without transportation. Excluding defence and aviation, new capital goods orders rose 1.3%.

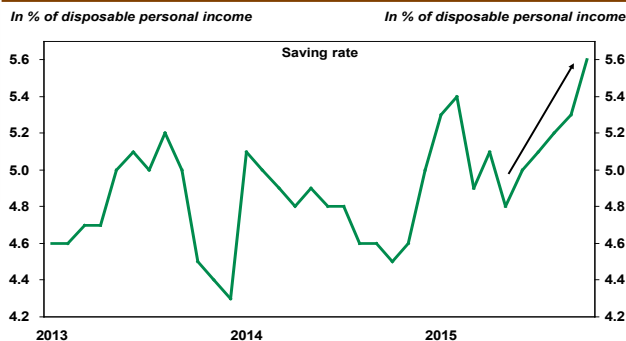
#### COMMENTS

U.S. consumption growth has been fairly lacklustre in the last two months. There is also some divergence between the modest expenditure growth and the more sustained advance by real disposable household income, supported by the improved job market and weak inflation (including the drop in gas prices). This shows that consumers are being somewhat prudent, resulting in a net upswing in the saving rate, which reached 5.6% of disposable income in October—its highest point since the end of 2012 when it had been magnified by some tax measures. When disposable income was rising at a similar rate in the mid-2000s (close to 4% annually), the saving rate had been 3%.

For their part, capital goods orders have gone up in four of the last five months. Therefore, despite the recent problems in manufacturing (oil sector and strong dollar), the situation for business investment is rather encouraging.

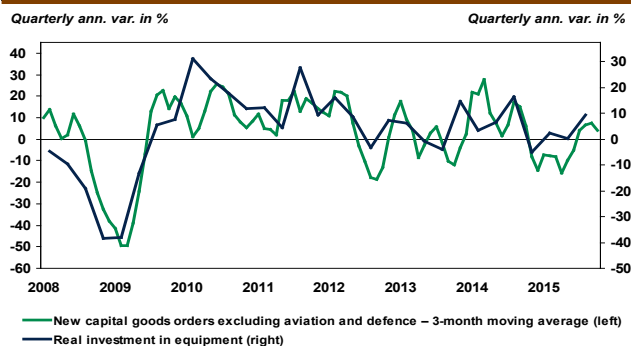
**Implications:** Notwithstanding a possible rebound during the holiday season, consumption growth promises to be a little slower in the fourth quarter than it was last spring and summer. Modest growth is still expected for investment. Neither of these would be enough to worry the Federal Reserve to the point that it would not move ahead with a first key rate increase in December. However, caution

#### Savings has benefited the most from the solid rise in disposable income



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

#### The trend in orders suggests that business investment will continue to grow moderately



Sources: Bureau of Economic Analysis, U.S. Census Bureau and Desjardins, Economic Studies

shown by consumers and businesses will prompt it to limit subsequent increases.

**Francis Généreux**  
Senior Economist

**François Dupuis**  
Vice-President and Chief Economist

**Hélène Bégin**  
Senior Economist

**Benoît P. Durocher**  
Senior Economist

**Francis Généreux**  
Senior Economist

514-281-2336 or 1 866 866-7000, ext. 2336  
E-mail: [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com)

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