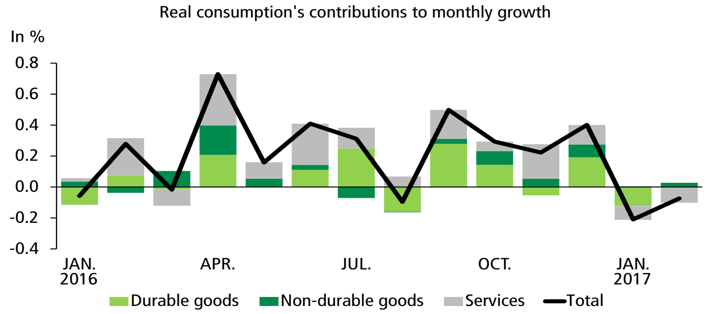
ECONOMIC NEWS

United States: More Slow Growth in Consumption

HIGHLIGHTS

- Real consumption slipped 0.1% in February, following a 0.2% decrease in January (revised from -0.3%) and a 0.4% gain in December. Spending on durable goods fell 0.1%. Non-durable goods consumption was up 0.1%, while consumption of services was down 0.1%.
- Real personal disposable income increased 0.2%.
- The consumer expenditure deflator was up 0.1%. Its annual change went from 1.9% to 2.1%, exceeding the Federal Reserve (Fed) target for the first time since April 2012. Excluding food and energy, the deflator edged up 0.2% and the annual change remained at 1.8%.

GRAPH 1
U.S. real consumption started the year with two months of decreases

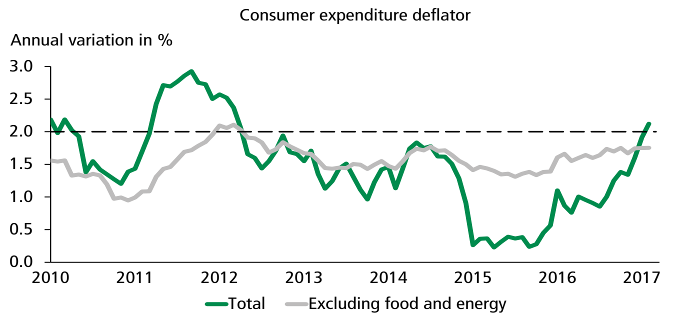


Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

COMMENTS

Consumer confidence is rising strongly in the United States, but this good news has not yet made its way into the consumption numbers. For the first time since fall 2011, real consumer spending fell for two months straight. Several components are driving this pullback. For durable goods, we note a decrease in electronic products and luxury goods. For services, there is a decline in food services and, particularly, in heating-related energy spending, given temperatures that were again unusually warm. Colder temperatures in March could help reverse this situation.

GRAPH 2
The total consumer price index achieves the Federal Reserve's target



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IMPLICATIONS

Weak consumer spending in January and February does not bode well for GDP growth for the quarter as a whole. For now, the carryover from real consumption is only 0.3% annualized, mainly due to the results of December 2016. A rebound will therefore be needed in March to provide hope of a better contribution to real GDP growth. Weak economic growth in the first quarter could prompt the Fed to take a break from monetary firming, following rate hikes in December and March. The Fed will monitor price changes now that the deflator has finally achieved its long-term target. Excluding food and energy, prices remain below this target.

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