ECONOMIC NEWS

United States: Consumption Up Despite Lower Household Income

HIGHLIGHTS

- U.S. real household consumption rose 0.5% in October after advancing 1.1% in September. Durable goods (+0.8%) and services (+0.6%) were both up whereas the consumption of non-durable goods stagnated. Households' real disposable income dropped 0.8%.
- Sales of new single-family dwellings were down slightly (-0.3%) in October, with 1,002,000 units sold in September (the highest level since November 2006) versus 999,000 in October.
- For the first time since July, new jobless claims increased for the second week in a row, climbing to 778,000 from 748,000 last week.

COMMENTS

Consumption continues to bounce back but unequally. Most of the growth in October was concentrated in the services sector, which is still somewhat behind (-6.8% compared to February) compared to goods (+8.4% compared to February). Consumption rose in October, even though disposable income fell as some federal assistance benefits decreased. Therefore, household spending increased to the detriment of savings, causing the savings rate to slide from 14.6% in September to 13.6% in October. This is a little less than twice the rate that existed prior to the pandemic (7.6% in January) but well below the 33.7% peak reached in April.

Different factors will affect household consumption during the holiday season, which is about to start. On the one hand, the latest wave of COVID-19 has led to the introduction of new health restrictions in some states and municipalities. These measures may effectively prevent spending on services from recovering. In addition, the consumer confidence indexes are clearly falling in November. Voluntary or imposed restrictions on travelling and gatherings may change the type of spending at Thanksgiving and Christmas and disrupt seasonal factors. Furthermore, as we saw in October, household income will continue to suffer as the federal government's assistance programs implemented earlier this year wind down. On the other hand, expectations are that employment will continue to increase in the United States in the coming months, although the recent hike in jobless claims has put a serious damper on the extent of any future job market gains. Another positive factor is the high household savings rate, which generally indicates that consumers may continue to spend despite the income constraints. Lastly, the healthy residential real estate market, indicated by the hike in home sales, is a reflection of the low interest rates, which are also buoying consumption. Home purchases are also driving up some types of spending.

IMPLICATIONS

Household consumption continued to recover in October. Still, the positive trend could run out of steam as several factors, including the second wave of COVID-19, threaten to put the brakes on household spending during the entire holiday period. The U.S. economy is still benefiting from the Federal Reserve's support, but the federal government must come to some kind of agreement to limit the negative impact of certain assistance programs coming to an end.

Francis Généreux, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics