ECONOMIC NEWS

United States: Disposable Income and Spending Pull Back before a March Surge

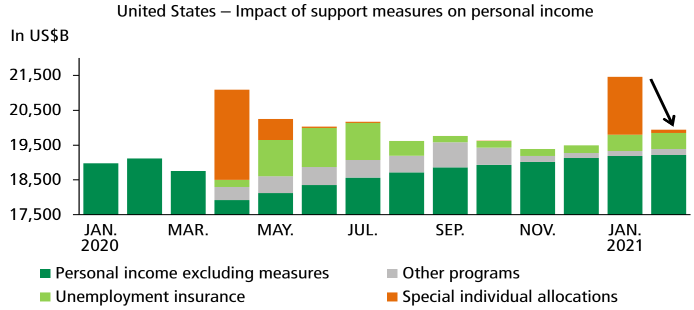
HIGHLIGHTS

- Real household consumption expenditures in the United States fell 1.2% in February after rising 3.0% in January (revised from 2.0%) and declining 0.9% in December and 0.6% in November.
- Real consumption of durable goods was down 4.6%, including declines of 4.2% for cars and 5.0% for furniture. Real consumption of non-durable goods decreased 2.5%, with clothing down 4.9%. Real consumption of services posted a 0.1% decrease despite a 3.9% hike in energy consumption to meet the demand for heating.
- Real disposable income tumbled 8.2% in February after surging 11.1% in January.
- The household savings rate went from 19.8% in January to 13.6% in February. One year ago, it was at 8.3%.

COMMENTS

There had been a feeling that disposable income and consumption would pull back. These declines are perfectly normal after the strong showing in January, which was supported by the US$900B federal relief plan passed at the very end of 2020. This plan boosted jobless claims benefits and provided a one-time amount of US$600 per individual up to a certain income level. Once this allocation was distributed, income could only go down. The effect on consumption was already visible in the decline in February's retail sales figures published a few weeks ago. Additionally, it appears that the decrease was made worse by the bad weather that hit mid-February. Despite the drop, consumption levels in February continue to exceed those of December. By combining January and February, consumption was up 6.3% annualized compared to the previous quarter.

GRAPH
The drop in income is due to the decrease in the US$600 granted as part of the relief plan passed in December



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

Furthermore, this figure doesn't include the anticipated jump in March. That's when the US$1,400 per individual allocated in the new relief plan signed by President Joe Biden on March 11 kicked in. Distribution of this money was quickly rolled out, and the bulk of the positive impact on income will be seen as early as this month. There may also be a positive effect on household spending and savings, which, in the long run, will boost consumption in the coming months and quarters.

IMPLICATIONS

The drop in income and consumption isn't a concern, and these two indicators are expected to climb quickly in March. Economic growth looks to be strong in the first quarter of 2021, i.e., around 7.0% annualized. The effects of the new relief plan and the successful vaccination rollout will provide an additional boost to the economy in the next quarters.

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