

ECONOMIC NEWS

United States: Predictable Drop in Household Income

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HIGHLIGHTS

- ▶ Real U.S. household consumption fell 0.1% in April, after a sharp 4.1% increase in March (revised from 3.6%).
- ▶ Real consumption of durable goods fell 0.9%, despite a 1.6% increase in the automobile sector. Real consumption of non-durable goods decreased 1.6%, with clothing down 3.6%. Real consumption of services increased 0.6%, while food services and energy consumption increased by more than 2%.
- ▶ Real disposable income tumbled 15.1% in April, after surging 22.7% in March.
- ▶ The household savings rate went from 14.7% in February to 27.7% in March, then fell to 14.9% in April. It was 8.3% in February 2020.
- ▶ The consumption expenditures deflator increased 0.6% in April, following an equivalent increase in March. The annual variation in the deflator increased from 2.4% to 3.6%, the highest since September 2008. Excluding food and energy, the annual variation of the deflator went from 1.9% to 3.1%, the highest since July 1992.

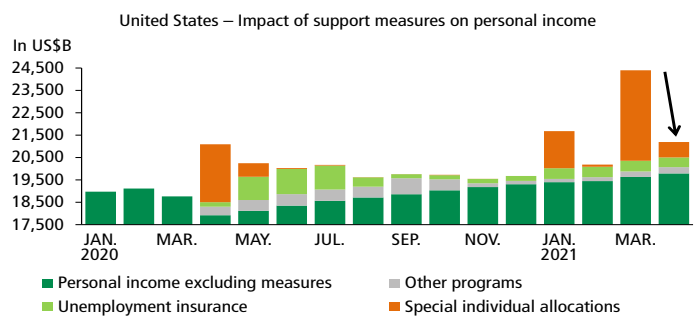
COMMENTS

It was clear that disposable income would see a significant drop in April. The vast majority of the US\$1,400 personal amounts provided under the *American Rescue Plan* adopted in mid-March were paid out the same month. As this assistance was already largely a thing of the past in April, a drop in income was inevitable. However, personal income excluding assistance measures continues to increase, and was up 0.2% in real terms in April.

The progress of consumption in April is somewhat disappointing, nonetheless. There too, a certain pullback was expected as the sharp increase in March was supported by the increase in income. Retail sales pointed to a certain weakness in the consumption of goods excluding automobiles, and that is what

GRAPH

The winding down of federal assistance has led to a pullback in household income



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

was observed. However, the progress in services was weaker than expected. Services excluding energy and food services increased by only 0.2% while the loosening of public health measures raised hopes for better performance. Once can hope that the momentum will increase in May as reopening's continue. Real consumption data for April present an annualized carry-over growth of 9.0% for the second quarter and we can already state that the contribution of household spending to the growth of real GDP will be substantial.

IMPLICATIONS

April's drop in income is far from dramatic after the jump in March. Despite the weakness in consumption in the past month, strong economic growth is expected for the second quarter of 2021.