U.S. Households Appear to Be in a Better Financial Position

The national economic accounts for the second quarter showed that the U.S. economy had recorded its strongest growth since the summer of 2014, while household consumption rebounded after a disappointing first quarter. These results were accompanied by a major revision of the economic accounts, going back to 1929. Nevertheless, the overall picture of recent changes in U.S. GDP remained the same. Average growth in real GDP from 2012 to 2017 is still at 2.2%.

Revisions to the statistics on household income are much more significant. The new estimates reveal that employment income and, in particular, income earned from assets held by households, are much higher. Consequently, the estimated household disposable income for the month of May 2018, the most recent month available before the revision, jumped more than US$500 billion. This hike in income translated into much higher savings. Prior to the revision, the acceleration in consumer consumption since 2014 appeared to have caused the savings rate to plunge near 3%. In contrast, the new estimate shows that the savings rate has remained fairly stable at around 7%.

IMPLICATIONS

The new estimated savings rate does not alter the actual situation of U.S. households. Therefore, no jump in confidence or consumption should be expected following the revision. Nonetheless, the much higher savings rate and the absence of a marked drop following the acceleration in household spending dispel, in part, the impression that a slowdown in consumption is inevitable. If the job market situation stays positive, household consumption may remain a major driver of growth for the U.S. economy over the next several quarters. Therefore, we continue to believe that the probability of a recession in the United States before 2020 is low.

érois Dupuis, Vice-President and Chief Economist • Carine Bergevin-Chammah, Economist
Mathieu D’Anjou, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist • Hendrix Vachon, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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