US Consumers Say Take That Recessionistas!

- Another strong consumption gain is in place for Q3
- US consumers may be rescuing the global economy once more
- Don't get too worried about soft income growth…
- …as consumers spent strong prior gains
- Core PCE inflation did not follow core CPI higher…
- ...but its prior decline is in the rear view mirror

United States, Personal Income / Consumption, % m/m, July:
Actual: 0.1 / 0.6
Consensus: 0.3 / 0.5
Scotia: 0.3 / 0.4
Prior: 0.5 / 0.3 (revised from 0.4 / 0.3)

United States, PCE / core PCE deflators, y/y % change, July:
Actual: 1.4 / 1.6
Consensus: 1.4 / 1.6
Scotia: 1.4 / 1.4
Prior: 1.3 / 1.6 (revised from 1.4 / 1.6)

If a recession lurks around the corner—let alone if we're in one already as some have contended!—then someone forgot to tell consumers. The strong consumption gain in the second quarter is so far carrying on unabated into the third quarter (chart 1). Could US consumers yet again be rescuing the global economy from a plight that the recessionistas have excitedly predicted? The capacity to induce downsides to consumer spending by sapping confidence through Washington's policy actions remains in place, but at least so far, the underlying spending momentum remains intact and is backed by arguably the best household finances in decades.

Third quarter consumption growth is tracking 2.9% at an annualized pace in Q3 so far. That is based upon July data and Q2 while assuming flat spending in August and September in order to focus upon the effects of known data thus far. After 4.7% annualized consumption growth, a follow-up quarter of about 3% growth would not be shabby at all.

Having said this, the July spending gain came at the expense of the saving rate that fell three-tenths. The saving rate is still at a very healthy 7.7% (chart 2), but income growth of just 0.1% m/m offered thin foundations for the spending surge. Having said that, personal income was up by 0.5% m/m in June for the biggest month since last December. Consumers simply spent it the next month.

Furthermore, disposable income is what pays the bills. Disposable income was up 0.3% m/m and has been rising by 0.3–0.4% per month for the past five months. Inflation-adjusted disposable income was up by 2½% in Q2 and is so far tracking another 1.4% gain in Q3 but with a lot of data still ahead such that I'm not too fussed by the income figures at this point. Further, automatic stabilizers like an 11% decline in average gasoline prices since early May and the 1.1 percentage

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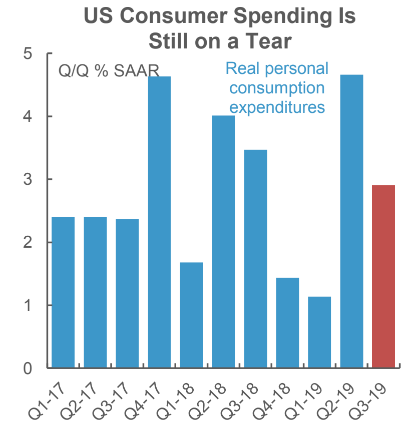

Sources: Scotiabank Economics, BEA.

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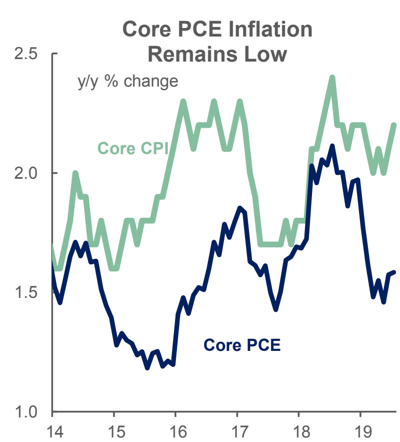

Sources: Scotiabank Economics, Bloomberg.

point decline in the 30 year fixed mortgage rate since last November put money back into pockets while debt payments as a share of incomes remain at a record low.

US core PCE inflation did not follow core CPI higher after all, or at least not materially after rounding (chart 3). Still, the Fed should seek some comfort in the fact that at 1.6%, core PCE inflation is done with the slide that occurred earlier in the year and not so far below 2% as to send it to panic stations.