



Economics Group

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U.S. Consumers on a Spending Spree?

Consumers seem to be putting their money where their feelings are, that is, spending is consistent with the improvement in consumer confidence. Personal consumption increased 0.8 percent in September.

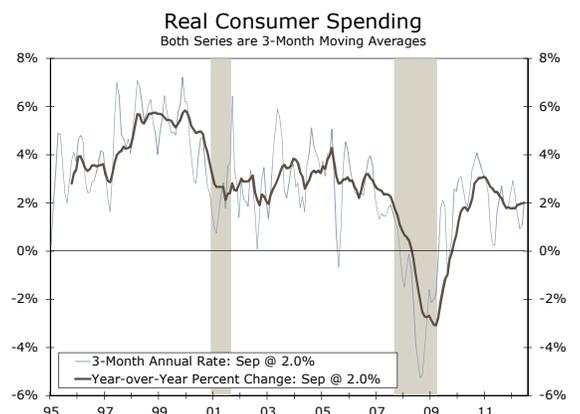
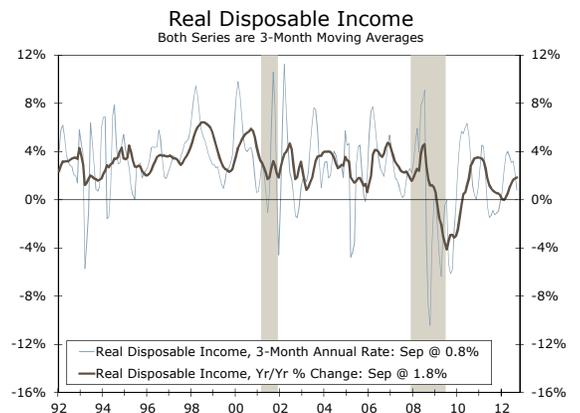
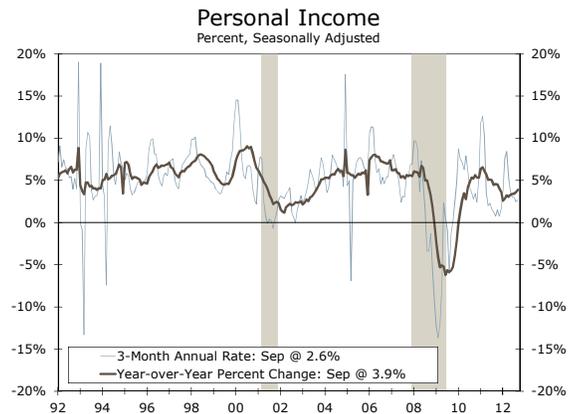
Consumers Lowering Savings Further

In what seems to be a repeat of pre-recession behavior, U.S. consumers are following their sentiment and re-engaging again in the economy. Most of this re-engagement seems to be coming from a draw-down in either savings or an increase in borrowing, or both, rather than an increase in income. We believe this spending trend may not be sustainable entering into 2013 if we do not see a significant improvement in the labor market. We believe this increase in consumption is at odds with the high probability that some taxes are going to increase early next year. Consumers may be trying to preempt this increase in taxes in the future by consuming today because they know they may not be able to increase consumption as much next year. In any case, we still believe that this improvement in consumption is not sustainable, and, while consumers still have some leeway, i.e., they can continue to save less to support higher consumption in the coming months, the end of this behavior is probably in sight. This is especially true, in our opinion, if personal income and employment does not improve considerably. Of course, consumers could be, once again, starting to use more credit, supported by an improvement in consumer confidence, but this, also, has to have some more real support to make this behavior sustainable in our view.

Personal consumption expenditures increased 0.8 percent during September after increasing 0.5 percent in August. However, due to inflation, real consumption expenditures increased by only half that measure; 0.4 percent. This was up from an increase in real consumption expenditures of 0.1 percent in August.

Personal Income Not Supportive of Higher Consumption

Personal income has not been supportive of personal consumption during the past several months. While nominal personal income increased 0.4 percent in September, real personal income remained flat during the month after dropping 0.3 percent in August. We may see some improvement in real personal income in the coming months if gasoline prices continue at current levels or drop further, but this may be temporary. Personal income was moderate during the third quarter and we expect it to come close to 2 percent during the fourth quarter. It appears that consumers are drawing some of the increase in consumption from saving or a combination of saving and increase borrowing. However, we remain concerned that the draw down in saving may not be sustainable in the medium term if we do not see an improvement in income and employment. Furthermore, personal income had extra help from the government during September as personal current transfers increased by \$12.7 billion in the month compared to an increase of only \$1.6 billion in August. This may not repeat in the months to come.



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