

## US: SLUGGISH GAINS IN OCTOBER PRIVATE CONSUMPTION LIKELY TEMPORARY

*\*US real private consumption moderated to a slight 0.1% gain in October after a robust finish to Q3*

*\*The slowdown was due to anomalous drop in services spending, fundamentals point to a solid rebound in coming months*

*\*Over the medium term, expectations for personal consumption have been revised up moderately due to likely cuts in marginal income tax rates*

*\*The 1.74% yr/yr increase in the core PCE deflator is enough for the Fed to increase rates at its December meeting*

US nominal private consumption growth decelerated to 0.3% m/m in October from an upwardly revised 0.7% m/m in September (previously reported as +0.5%). In real terms, private consumption moderated to a slight 0.1% gain after a robust finish to Q3. The slowdown in spending was due to what was likely an anomalous decline in services spending which posted its largest monthly fall since August 2012, as goods spending held up quite well (see Chart 1).

Expect to see a rebound in private consumption in coming months as fundamentals remain solid:

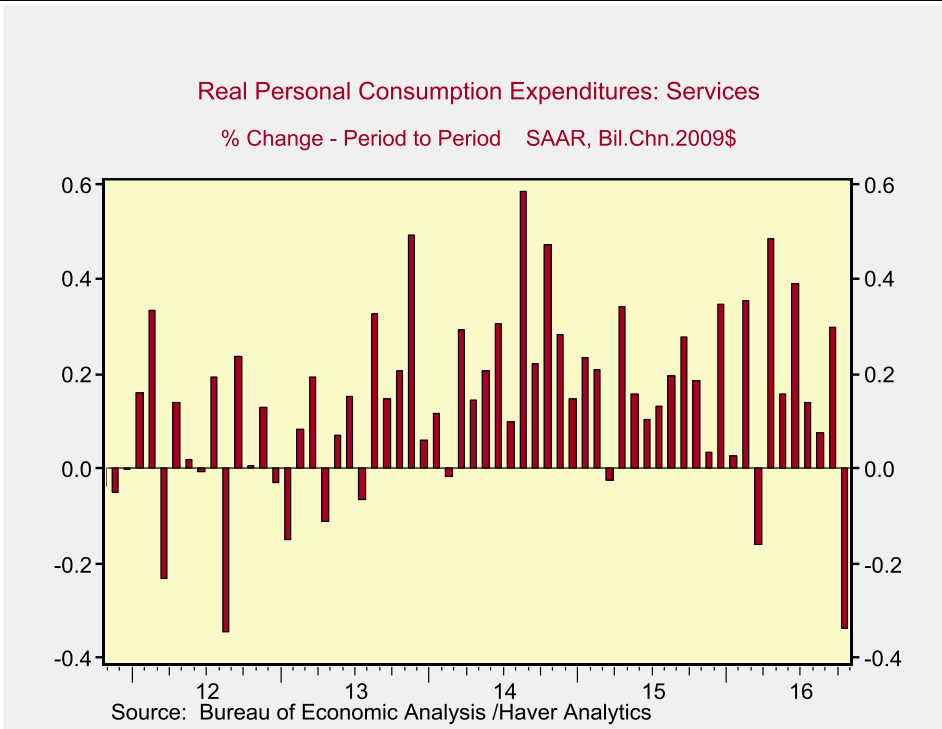
- Sharp declines in services spending over the last five years have been followed by rebounds (see Chart 1).
- Real disposable incomes advanced 0.4% - the strongest gain since last December - pushing the personal saving rate up 0.3pp to 6% (see Chart 2).
- Measures of consumer sentiment jumped in November (see Chart 3).
- Major US equity indexes have rallied to new highs.
- According to **ADP/Moody's Analytics which reported an above-200k gain in November private payrolls, "growth was seen in primarily consumer-driven industries like retail and, leisure and hospitality."** The distributions of these job gains bode well for the holiday shopping season.

Over the medium term, expectations for personal consumption have been revised up moderately because of the higher likelihood of cuts in marginal income tax rates after the US presidential elections (see Chart 4). Personal consumption forecasts have been nudged up only modestly, because households appear to have become **more cautious after the "Great Recession"** (see ["US: stronger growth, higher rates, more uncertainty"](#) for a discussion of our revised economic forecasts). Indeed, US consumer stocks have been mixed since the US presidential elections, with many key sectors underperforming the market since then (see Chart 5).

On prices, the headline PCE inflation accelerated to 1.4% yr/yr due to higher energy prices and the Fed's preferred measure of consumer inflation, the core PCE deflator, rose 1.74% yr/yr, the highest since July 2014 and enough for the Fed to increase rates at its December meeting. The core PCE deflator is expected to move above 2% by the end of 2018 due to expectations of sizable fiscal stimulus. However, the Fed will likely be much more sensitive to signs of rising inflation in this new environment.

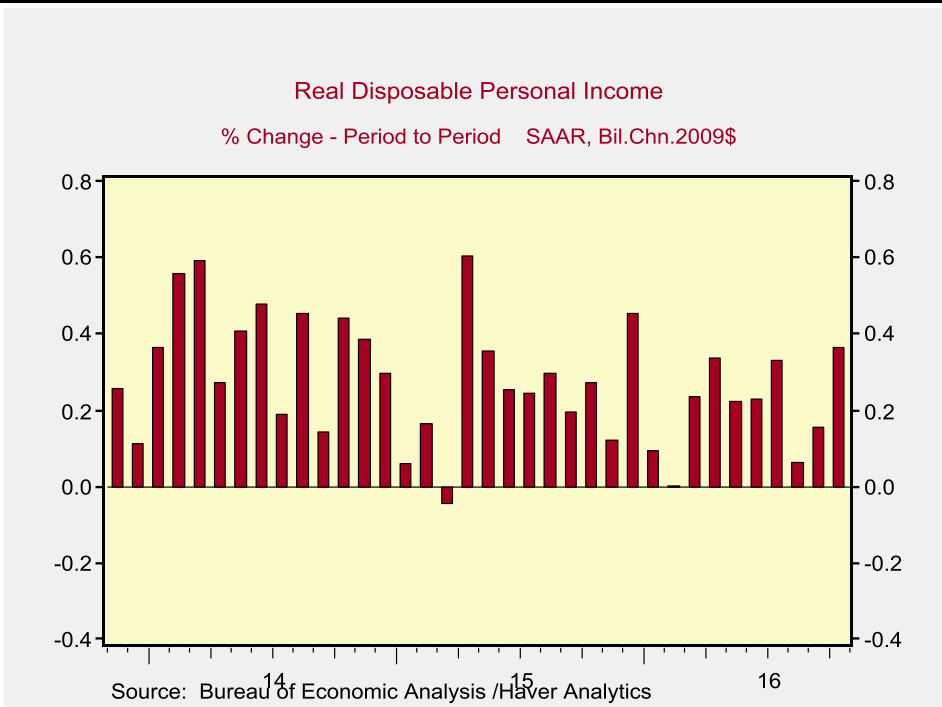
30 November 2016

Chart 1: Real personal consumption expenditures on services



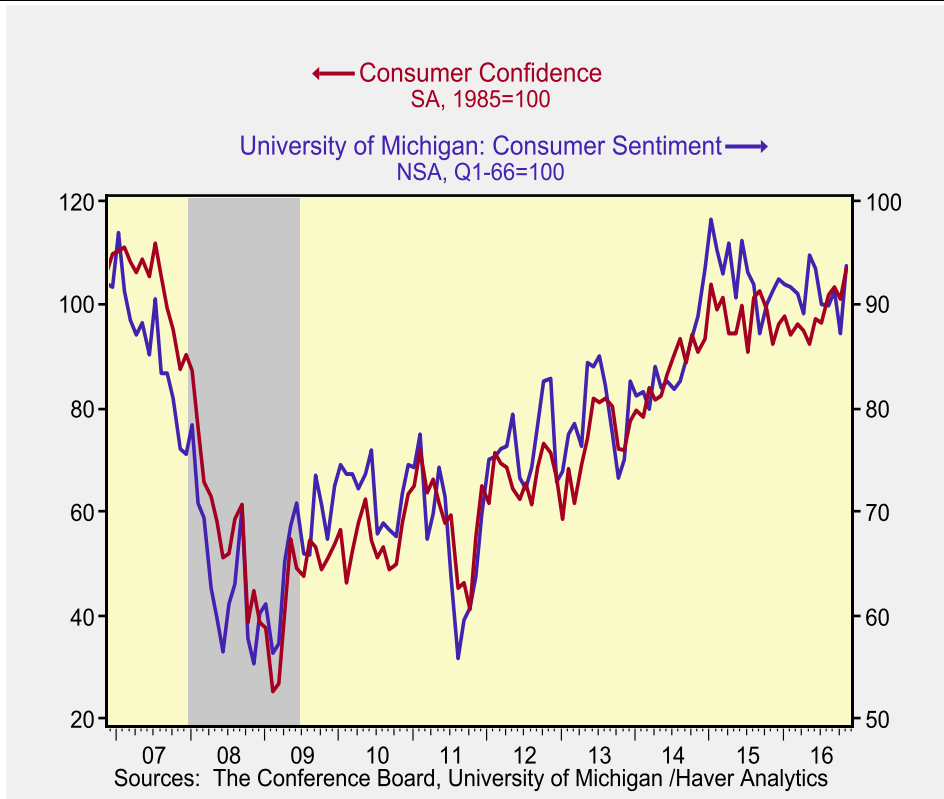
Source: Monthly data. Source: Bureau of Economic Analysis and Haver Analytics

Chart 2: Real disposable personal income



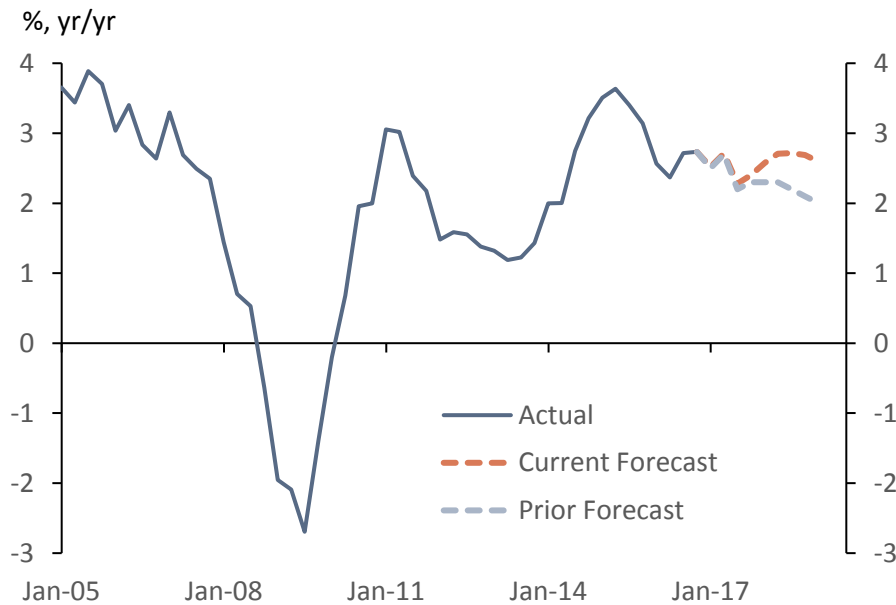
Source: Monthly data. Source: Bureau of Economic Analysis and Haver Analytics

Chart 3: University of Michigan's and the Conference Board's consumer confidence indexes



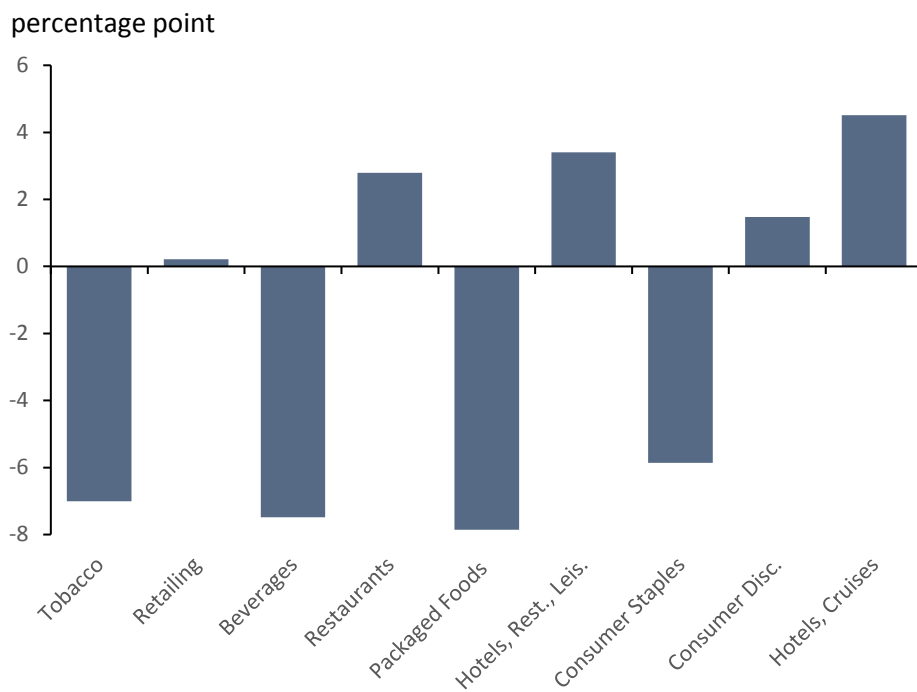
Source: Monthly data. Source: University of Michigan, the Conference Board and Haver Analytics

Chart 4: Real private consumption growth, actual and Berenberg forecast



Source: Monthly data. Source: Bureau of Economic Analysis, Berenberg Capital Markets and Haver Analytics

Chart 5: Performance of US consumer stocks relative to market since US presidential elections\*



\*Note: Performance of key S&P sectors relative to the S&P 500 composite index since the US presidential elections on November 8th. Source: Standard & Poor's, Berenberg Capital Markets and Haver Analytics

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