



Economics Group

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The U.S. Consumer Probably Can't Do Much More

It is time for other sectors of the U.S. economy to contribute more to GDP growth. U.S. consumers already contribute so much to topline growth and it could be problematic to ask for more.

Economy Highly Dependent on Consumers

Back in the 1980's, real U.S. personal consumption expenditures (PCE) represented about 63 to 64 percent of the U.S. economy. Today, PCE is close to 69.5 percent of real gross domestic product (GDP), up from about 67 to 68 percent since the turn of the century. The latest push by the U.S. consumer has occurred since 2014 and represents a historical peak for the U.S. consumer (top chart). Still, PCE's contribution to GDP growth is not higher today than its historical norm, quite the opposite; today's contribution of PCE to GDP growth is actually relatively weak compared to historical standards (middle chart). So, how is it that PCE is, today, about 69.5 percent of GDP, if the contribution to GDP growth is so small? The answer is that the U.S. consumer is basically the only, or one of the few, components of GDP that is actually contributing positively to growth. That is, real government consumption, real gross fixed investment and net exports are not contributing much to the rate GDP growth. This is the reason why PCE as a percentage of GDP has continued to increase in the face of declining contributions to GDP growth.

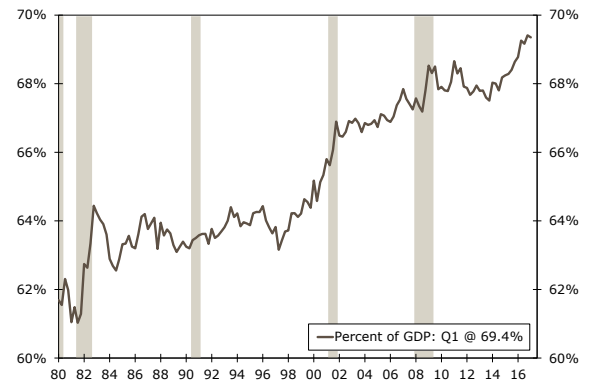
Investment in the energy sector during the high oil price period helped push gross fixed investment's contribution to GDP higher. However, that process has reversed since the collapse in oil prices. Meanwhile, the contribution from net exports has been almost consistently negative. Meanwhile, the contribution from government expenditures has also been weak to non-existent.

Real Disposable Income Growth Could Potentially Improve

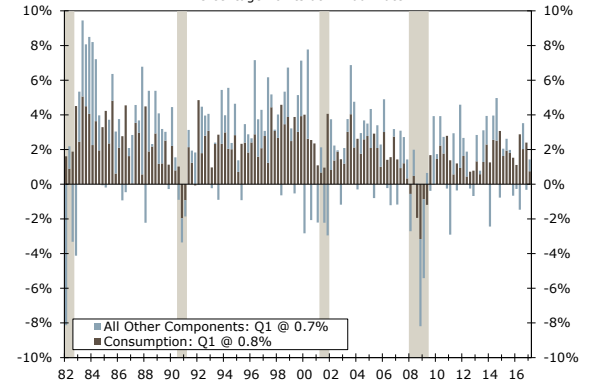
After a relatively strong comeback by real disposable income after the Great Recession, the growth rate of this important determinant of real PCE growth has weakened considerably, even though it has slightly improved over the last several quarters. In fact, PCE growth has outpaced real disposable income growth since late 2016, which means, over this period of time, PCE has been punching above its weight (bottom chart). Therefore, unless we see a stronger rate of growth in real disposable income, we may not see further strengthening in PCE growth.

The good news is that real disposable income growth during the last several years has been driven by low petroleum and gasoline prices, which have continued to remain low and should help the growth of real disposable income in the coming quarters, even if salary and wage growth remain contained. Furthermore, the prospect of lower taxes in President Trump's tax reform plan could boost real disposable income growth and thus help improve the rate of growth of PCE. However, there is probably little more punch left in the consumer today, so other sectors will need to pitch-in if we want to see an improvement in overall economic growth.

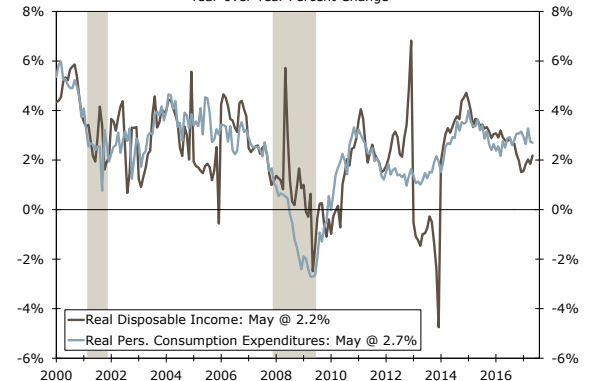
Real Personal Consumption Expenditures
As a Percent of GDP



Contributions to U.S. Real GDP Growth
Percentage Points at Annual Rate



Real Disposable Income vs. Real PCE
Year-over-Year Percent Change



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