July 19, 2017

Economics Group

WELLS FARGO SECURITIES

Eugenio J. Alemán, Senior Economist
eugenio.j.aleman@wellsfargo.com • (704) 410-3273

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

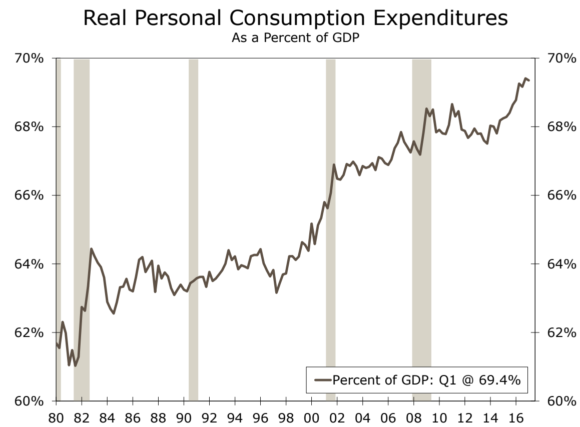
Back in the 1980's, real U.S. personal consumption expenditures (PCE) represented about 63 to 64 percent of the U.S. economy. Today, PCE is close to 69.5 percent of real gross domestic product (GDP), up from about 67 to 68 percent since the turn of the century. The latest push by the U.S. consumer has 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.

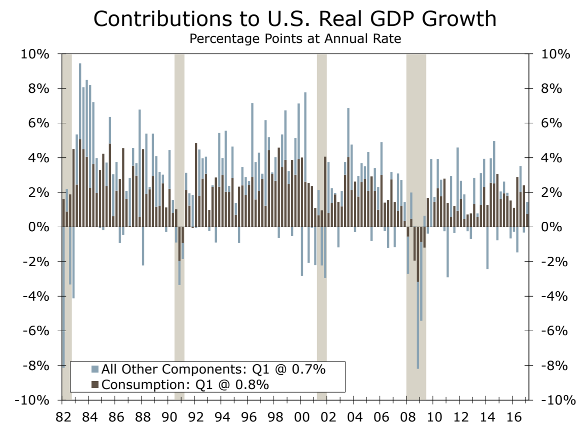
Investment in the energy sector during the high oil price period helped push gross fixed investment's contribution to GDP higher. However, that process has reversed since the collapse in oil prices. Meanwhile, the contribution from net exports has been almost consistently negative. Meanwhile, the contribution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

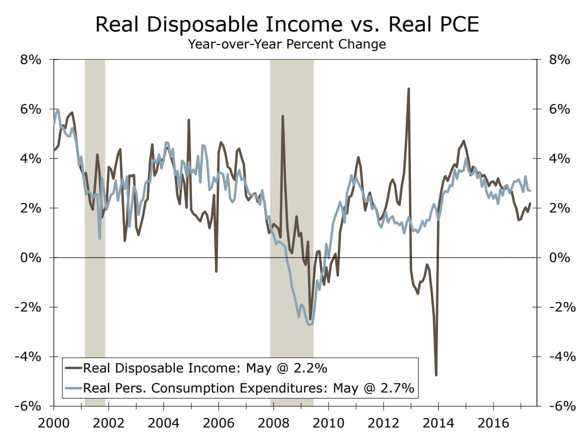
Real Disposable Income Growth Could Potentially Improve

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.







Source: U.S. Department of Commerce and Wells Fargo Securities

Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloria, CFA	Currency Strategist	(212) 214-5637	eric.viloria@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Hank Carmichael	Economic Analyst	(704) 410-3059	john.h.carmichael@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com