

## Expectations that US private consumption will be boosted as people dig into their “forced savings”

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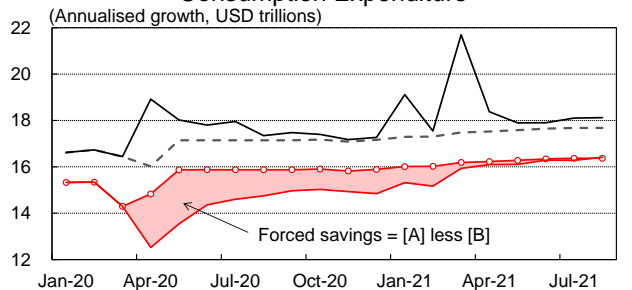
At the Federal Open Market Committee meeting on 21st and 22nd September, the overall stance appeared to be hawkish; the federal funds rate projection by participants shows the period when rate hikes are expected to start has been brought forwards. However, economic projections, such as those for the real GDP growth rate and the unemployment rate, have been lowered since the previous forecast in June, which reflects the current situation where COVID-19 cases are rising. US consumer sentiment appears to have been falling since August, when the number of cases was rising, and even weekly data related to retail sales published by the US Department of Commerce suggests the recovery in consumption of face-to-face services, such as dining, accommodation and recreation, has peaked.

On the other hand, household income and expenditure show disposable income has been following an upward trend owing to improvements in the labour market. In addition, opportunities for spending have been constrained since the outbreak of the pandemic, which has resulted in an accumulation of “forced savings” up until now equating to around 7% of annual disposable income. Therefore, there are ample financial resources available for consumption (Chart 1). In fact, The Federal Bank of New York’s Household Spending Survey shows expectations for future income have recovered to pre-pandemic levels at present, and expectations for spending are significantly higher than the level they were at before the pandemic (Chart 2, upper). This could suggest the possibility that personal consumption expenditure will increase at a pace which is faster than that of disposable income as people dig into their “forced savings”.

Private consumption expenditure had been led by the recovery in consumption of durable goods caused by increased demand related to the home since early spring last year and the realisation of pent-up demand, but this demand is currently decreasing (Chart 2, lower; the impact of some shortages should be kept in mind). However, it appears that the rise in COVID-19 cases, which had been a source of downward pressure on the consumption of face-to-face services, has passed its peak. In light of this, the driver of consumption will shift from durable goods to face-to-face services. Though it still depends on the course of the pandemic, personal consumption expenditure is predicted to have firm underpinnings thanks to ample financial resources.

\*Forced savings are the proportion of disposable income that individuals virtually had to deposit due to an absence of opportunities for consumption caused by the pandemic. The original level of consumption (if there had been no pandemic) is calculated by multiplying disposable income (excluding temporary effects such as cash payments) by average consumption over the five years before the pandemic, and subtracting the level of actual consumption from that.

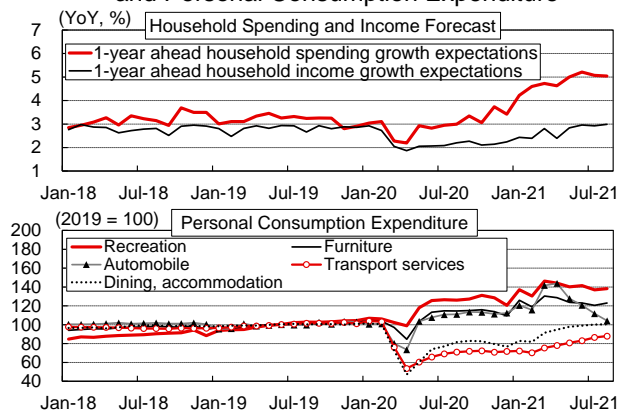
Chart 1: Disposable Personal Income and Personal Consumption Expenditure



- - Disposable income (excluding impact from cash payments etc.)  
 — Disposable income (actual amount)  
 ○ Personal consumption expenditure (excluding COVID-19 impact) [A]  
 — Personal consumption expenditure (real amount) [B]

Note: [A] is estimated by multiplying disposable income that does not include the impact from temporary economic effects, such as the government cash payments, with the average consumption from 2015 to 2019  
 Source: Department of Commerce, MUFG Bank Economic Research Office

Chart 2: Household Spending and Income Forecast and Personal Consumption Expenditure



Source: The Federal Reserve Bank of New York, Department of Commerce, MUFG Bank Economic Research Office

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