Weak American growth is probably a blip

Slower consumer spending dragged down growth, but Americans are flush with cash

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IT IS a bad time for bad news. With American stocks down 6% since the start of 2016, the revelation on January 29th that the economy grew by only 0.7% (annualised) in the final quarter of 2015, down from 2% in the third quarter, was hardly the news markets needed. The slowdown has three causes. Two are familiar: exports, which are being made more expensive by a strong dollar, are shrinking; and oil and gas firms are reducing their investment in response to cheap oil. The third is new. Until recently, decent consumer-spending growth had kept things moving. Now consumer spending has decelerated too, dragging growth down.

This is strange, because falling gasoline (petrol) prices have fattened American wallets. In 2014 Americans spent an average of $2,500, or 4.2% of their after-tax income, on gas. A year later, thanks to tumbling oil prices, gas cost 27% less. As a result Americans benefited from a windfall worth $659, or 1.1% of their 2014 disposable income. At the same time, per-person income in cash terms rose by about 3%. Unsurprisingly, consumer confidence soared.

So why the slowdown? The savings rate has increased from 4.8% in 2014 to 5.4% in the fourth quarter of 2015, the highest level in three years. Some argue that consumers have chosen to save rather than spend the oil-price windfall. This is an exaggeration; were the windfall being saved in its entirety, the slowdown would be much worse. In October 2015 researchers from the JPMorgan Chase Institute, a think-tank attached to the bank, compared the accounts of consumers in zip-codes who spend a lot on gas with those in zip-codes who spend much less—and concluded that for every dollar saved on gas, consumers spent 89 cents more elsewhere.

Higher saving might be unrelated to the windfall. The end of 2015 was both the warmest and the wettest on record. The warmth reduced spending on heating; the wet may have kept people indoors (spending at restaurants fell by 1.7%). And output may be revised up in time. The jobs market fizzed at the end of the year, creating an average of 284,000 jobs a month. Weak growth combined with plentiful jobs suggests dismal growth in productivity—perhaps enough to merit raising an eyebrow at the data. Quarterly growth has, after all, been strangely volatile in the aftermath of the financial crisis.

With consumer finances healthy, the outlook for 2016 depends primarily on whether trends in investment and exports persist. It is a brave analyst who calls the bottom of the oil market, or the end of the dollar's surge. Still, there is a limit to the damage falling oil-and-gas investment can do to spending; investment in mining has already fallen by half since 2014. The dollar is the bigger worry: it has already appreciated by 1.4% since the start of the year. That might deter the Federal Reserve from raising interest rates quickly. Recent work by Stanley Fischer, the Fed's vice-chair, suggests that a 10% rise in the dollar reduces GDP by more than 1.5% in the medium term.

Stockmarket woes may also damage consumer confidence, which was flat in January. Only 14% of American household wealth is invested in the stockmarket; 45% of Americans do not own shares at all. The biggest worry for consumers is gloomy headlines.

Your notes : vocabulary, ideas…

1st reason of the recession:

2n reason:

Why the dollar "is the bigger worry" ?

Sum up the article schematically :