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April Personal Income/Spending: Transfer Payments A Lifeline . . . For Now

- › Personal income **rose** by 10.5 percent in April, personal spending **fell** by 13.6 percent, and the saving rate **rose** to 33.0 percent
- › The PCE Deflator **fell** by 0.5 percent and the core PCE Deflator **fell** by 0.4 percent in April; on an over-the-year basis, the PCE Deflator was **up** by 0.5 percent and the core PCE Deflator was **up** by 1.0 percent

Total personal income rose by 10.5 percent in April, topping the 6.2 percent increase our forecast anticipated and much better than the consensus forecast of a 6.0 percent decline. Total personal spending fell by 13.6 percent, not as steep as the 15.2 percent decline our forecast anticipated but worse than the consensus forecast of a 12.8 percent decline. With personal income spiking as personal spending cratered, the personal saving rate rose to 33.0 percent. The PCE Deflator fell by 0.5 percent and the core PCE Deflator fell by 0.4 percent in April, good for year-on-year increases of 0.5 percent and 1.0 percent, respectively.

In light of what were massive job losses amidst the shuttering of a wide swath of the U.S. economy during the month of April, you might be tempted to think the BEA forgot to put the minus sign in front of the change in personal income for April. As we noted in our weekly *Economic Preview*, however, the April personal income data captured portions of the Economic Impact Payments (EIP) that were part of the CARES Act as well as the early rounds of the \$600 per week in supplemental Unemployment Insurance (UI) benefits being paid by the federal government on top of state-level payments. The question we had was one of timing, i.e., how much of these payments would be captured in the April data, and that figure turned out to be more than our forecast anticipated. The collective force of the EIP, state-level UI benefits, and the supplemental UI benefits pushed total transfer payments up by 89.6 percent in April, thus offsetting declines in other components of total personal income. This can be seen in our first chart below, which shows the monthly percentage changes in disposable personal income, total and excluding transfer payments. Excluding transfers, disposable personal income fell by 6.6 percent in April, quite the contrast to the 12.9 percent increase with transfer payments included.

As things now stand, the EIP program was a one-off, and while some of those payments fell into May, they won't be repeated, while the extra \$600 in weekly UI benefits come to an end at the end of July. While by that point labor market conditions, as well as overall economic conditions, will have begun to improve, the rate of improvement is

highly uncertain, and it is unlikely that aggregate wage and salary earnings, the largest single component of personal income, will be even close to the level seen in February, which was the cycle high. In April, private sector wage and salary earnings fell by 8.9 percent – a smaller decline than our forecast anticipated – and will fall further in May as nonfarm employment will have declined further. Moreover, nonfarm proprietors' income, a proxy for small business profits, fell by 12.1 percent in April after having fallen by 6.6 percent in March. Any recovery in small business profits is contingent upon both the rate at which economic activity opens back up and how comfortable consumers are in returning to pre-virus behavior and spending patterns.

Total consumer spending fell by 13.6 percent in April, with spending on consumer durable goods down by 17.3 percent, spending on nondurable consumer goods down by 16.2 percent, and spending on household and personal services down by 12.2 percent. Spending on goods will likely come back more rapidly than will spending on services, which matters given the relative weights of each component of total personal spending. In our second chart below, the figures beneath the categories show the share of total consumer spending accounted for by each component over the ten years prior to this Spring's shutdowns. It is spending on services that will likely be most impacted by any changes in consumer attitudes in the "post-virus" world – changes in spending on goods are likely to be more of "how" than of "how much." In April, spending on health care fell by 28.8 percent, spending on transportation services fell by 31.9 percent, spending on recreation services fell by 42.9 percent, and spending on food services/accommodations fell by 34.4 percent. While spending in these categories will come back, the question is to what extent that will be the case.

Aside from whatever changes there maybe in consumer attitudes, the more immediate question will be the path of personal income. Absent extensions of the transfer payments that are boosting the Q2 data, personal income is set to decline sharply in Q3, which would obviously have implications for consumer spending.

