ECONOMIC UPDATE

REGIONS

October 1, 2020

August Personal Income/Spending: Expiration Of UI Benefits Leaves A Gaping Hole

- Personal income fell by 2.7 percent in August, personal spending rose by 1.0 percent, and the saving rate fell to 14.1 percent
- The PCE Deflator rose by 0.3 percent and the core PCE Deflator rose by 0.3 percent in August; on an over-the-year basis, the PCE Deflator was up by 1.4 percent and the core PCE Deflator was up by 1.6 percent

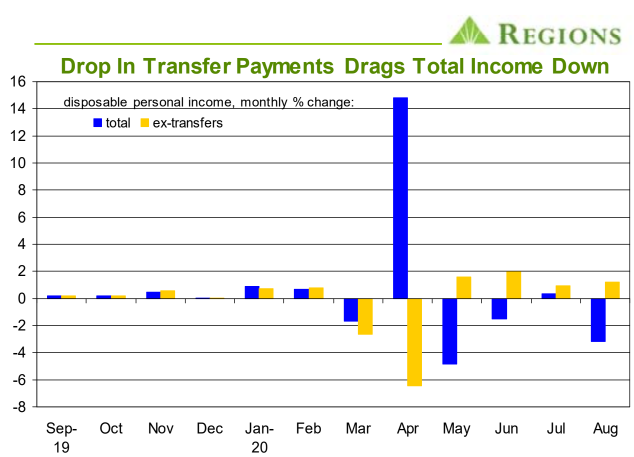
Total personal income fell by 2.7 percent in August, a bigger decline than we (-2.1 percent) and the consensus (-2.5 percent) expected, as a sharp decline in unemployment insurance benefit payouts more than offset a solid increase in wage and salary earnings. Total personal spending rose by 1.0 percent, just shy of our forecast of a 1.1 percent increase but topping the consensus forecast of a 0.8 percent increase. The decline in income coupled with the increase in spending pushed the personal saving rate down to 14.1 percent, and while this remains well above the pre-pandemic rate, the saving rate will fall further in the months ahead barring another round of financial aid to households such as that provided under the CARES Act.

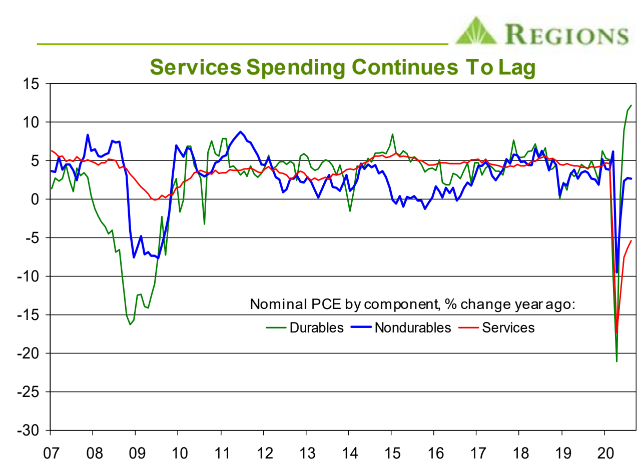
The decrease in total personal income in August is more than accounted for by the decrease in unemployment insurance (UI) payouts, reflecting the late-July expiration of the $600 in supplemental UI benefits provided under the CARES Act. Total UI payouts fell from $1.320 trillion in July to $634 billion in August (these are annualized rates), which led a 14.8 percent decline in total transfer payments. This was a larger decline than our forecast anticipated, more than accounting for our miss on our forecast of top-line personal income.

The remaining components of personal income were a bit stronger than our forecast anticipated. We noted in our weekly *Economic Preview* that, excluding transfer payments, our forecast would leave personal income up 0.6 percent, while the actual increase was 0.9 percent. Private sector wage and salary earnings were up by 1.3 percent in August, reflecting the combination of higher private sector payrolls, higher hourly earnings, and a longer workweek. Nonfarm proprietors' income, a proxy for small business profits, rose by 1.1 percent in August, easily ahead of the 0.6 percent increase our forecast anticipated. What must be noted, however, is that much of the growth in nonfarm proprietors' income in recent months reflects how funds received through the Paycheck Protection Program (PPP) are accounted for. Loans that are ultimately converted into grants under the terms of the PPP are recognized as income, and the BEA is spreading out these proceeds over a six-month period, but the flip side will come when as the PPP funds are exhausted, which will result in deductions from nonfarm proprietors' income. As such, this component of the personal income data has not been a reliable gauge of small business profits over recent months, nor will it be in the months ahead. Asset-based income rose by 0.2 percent in August, as an increase in interest income more than offset a 0.7 percent decline in dividend income – August was the fifth straight month in which dividend income declined.

August consumer spending played out much as our forecast anticipated, with higher spending on consumer durable goods, a decline in spending on nondurable consumer goods, and a healthy increase in spending on services. But, while consumer spending on goods has more than recovered from the sharp declines seen in March and April, there is still a yawning gap in spending on services. As of August, the dollar volume of spending on goods was 5.6 percent above that of February, while the dollar volume of services outlays was 7.4 percent below February's level. As spending on services accounts for roughly two-thirds of all consumer spending, this leaves total consumer spending 3.4 percent below February's level.

While the surge in transfer payments in Q2 was clearly an important component of the spike in the personal saving rate, what is often overlooked is that lower spending on services, much of it discretionary spending on the part of higher income households, also played a part in the increase in the saving rate. This is worth keeping in mind because, to the extent this is the case, there are implications for the distribution of that pool of savings. Though payments provided under the CARES Act enabled lower income households to increase saving, any such buffer will not last nearly as long as will be the case for upper-income households who are saving more due to spending less on discretionary activities. Distribution issues are being overlooked by those who point to the high saving rate as evidence that no further assistance is needed for those who have been displaced from the labor market by the pandemic and the efforts to stem its spread.





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