ECONOMIC UPDATE
REGIONS
October 30, 2020

September Personal Income/Spending: Headline Increase Covers Gaps In Personal Income

- Personal income rose by 0.9 percent in September, personal spending rose by 1.4 percent, and the saving rate fell to 14.3 percent
- The PCE Deflator rose by 0.2 percent and the core PCE Deflator rose by 0.2 percent in September; on an over-the-year basis, the PCE Deflator was up by 1.4 percent and the core PCE Deflator was up by 1.5 percent

Total personal income rose by 0.9 percent in September, a touch below our forecast of a 1.1 percent increase but above the consensus forecast of a 0.4 percent increase. Total personal spending rose by 1.4 percent, better than we (1.2 percent) and the consensus (1.0 percent) were looking for. With growth in spending outpacing growth in income, the personal saving rate fell to 14.3 percent in September from 14.8 percent in August, but nonetheless remains significantly above where it had been prior to the pandemic. Both the total and core PCE Deflators rose by 0.2 percent in September, yielding year-on-year increases of 1.4 percent and 1.5 percent, respectively.

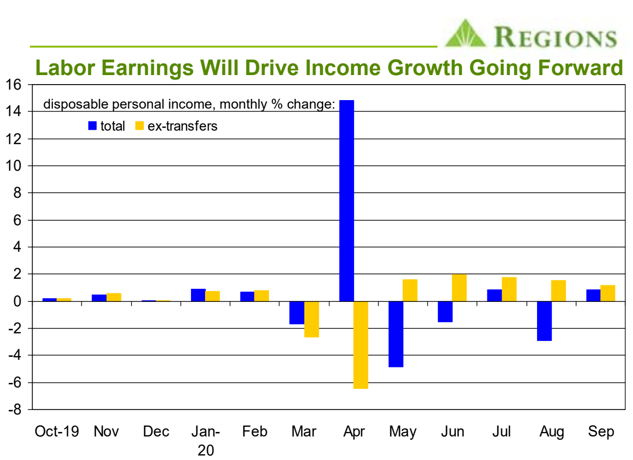
That they were woven into the BEA's initial estimate of Q3 GDP released on Thursday may make the September data on personal income and spending seem like old news, but they still merit attention. One reason is that the September data provide the "jumping off" point for the Q4 data (the quarterly values reported in the GDP data are the averages of the monthly readings). For instance, growth in real consumer will clearly slow from the annualized rate of 40.7 percent posted in Q3, and the September data will help us gauge the extent to which growth will slow. Were real consumer spending simply to remain at the September level through Q4, that would yield annualized growth of 4.3 percent, meaning that even with only modest month-to-month growth, Q4 should see robust growth in real consumer spending.

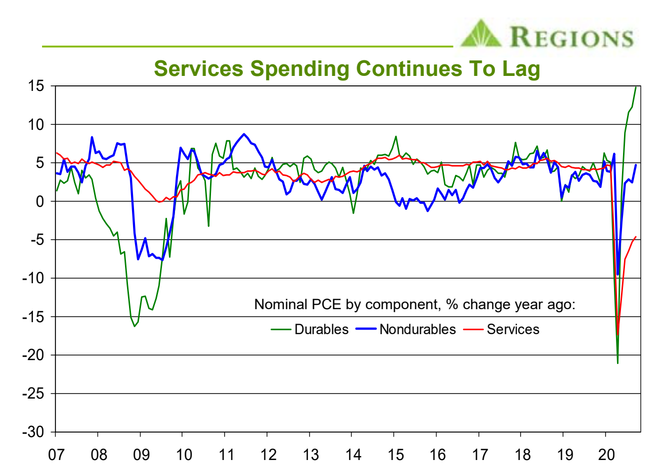
Total wage and salary earnings rose by 0.8 percent in September, with private sector earnings rising by 1.0 percent and government sector earnings falling by 0.5 percent. With transfer payments making a smaller contribution – barring an additional round of financial aid to households – going forward, wage and salary earnings will resume their position as the main driver of growth in total personal income. With the increase in September, private sector earnings were up 0.9 percent year-on-year, the first such increase since March. Still, with a considerable degree of slack remaining in the labor market and concerns that the pace of job growth is flagging, monthly growth in private sector labor earnings will likely slow.

Transfer payments fell by 0.1 percent in September, underperforming our forecast. This largely reflects a sharp decline in unemployment insurance (UI) benefits, which fell by 42.2 percent after having declined by 52.1 percent in August. The decline in August came as no surprise given the expiration of the $600 per week in supplemental UI benefits provided by the CARES Act, the further decline in September could just reflect what in many states had been lags in payments. As our forecast anticipated, the Lost Wages Assistance Program filled some of the void, but these payments are booked as "other" transfer payments as they are paid via FEMA's Disaster Relief Fund. But, this fund will be exhausted in short order, leaving another gap in personal income. Nonfarm proprietors' income was up by 5.5 percent in September, with another assist from the Paycheck Protection Program (PPP) which, given how BEA is accounting for these funds, has provided a significant boost to nonfarm proprietors' income over the past six months. But, going forward, these monthly boosts will be reversed, which will act as a drag on nonfarm proprietors' income and, in turn, total personal income.

Total consumer spending on goods rose by 2.0 percent, with spending on durable goods up 3.0 percent and spending on nondurable goods up 1.5 percent. As of September, spending on goods is 7.7 percent above February's level. In contrast, despite a 1.1 percent increase in September, the level of consumer spending on services was 6.3 percent below February's level. With services accounting for roughly two-thirds of all consumer spending, this leaves the level of total consumer spending 2.0 percent below that of February. Our view is that it will take some time to fill the remaining gap in services spending, as this depends on the willingness as well as the wherewithal of consumers to engage in activities seen as "normal" prior to the pandemic.

Despite the solid increase in total personal income in September, the details of the data offer cause for concern. Barring further assistance, gaps in the income and spending power of those displaced from the labor market by the pandemic will widen in the months ahead, which will weigh on growth in consumer spending.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com