ECONOMIC UPDATE
REGIONS
January 29, 2021

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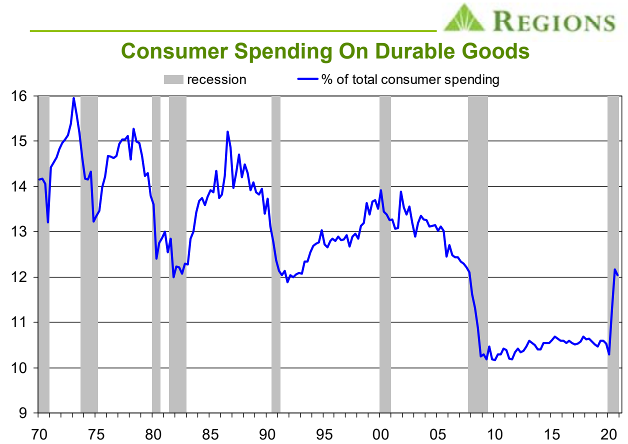
December Personal Income/Spending: A Weak Base For Q1 2021 Consumer Spending

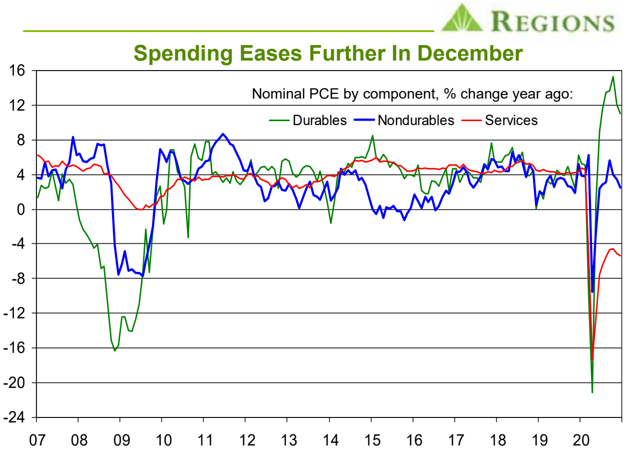
- Personal income rose by 0.6 percent in December, personal spending fell by 0.2 percent, and the saving rate rose to 13.7 percent
- The PCE Deflator rose by 0.4 percent and the core PCE Deflator rose by 0.3 percent in December; on an over-the-year basis, the PCE Deflator was up by 1.3 percent and the core PCE Deflator was up by 1.5 percent

Total personal income rose by 0.6 percent in December, just ahead of our forecast of a 0.5 percent increase and easily above the 0.1 percent increase expected in the consensus forecast. Dividend income, private sector labor earnings, and transfer payments accounted for the increase in total personal income. Total personal spending fell by 0.2 percent, falling between the consensus forecast of a 0.4 percent decline and our forecast of a 0.1 percent increase. While spending on goods fell as we anticipated, the increase in services spending was lighter than what we had built into our forecast. With personal income rising and personal spending falling in December, the personal saving rate rose to 13.7 percent from 12.9 percent in November. The PCE Deflator rose by 0.4 percent in December and the core PCE Deflator, the FOMC's preferred gauge of inflation, rose by 0.3 percent. The sharp increase in the PCE Deflator combined with the drop in nominal spending means real personal spending fell by 0.6 percent in December. This is more than just old news, however, as it sets a very low base for growth in real consumer spending, and hence real GDP, in Q1 2021.

Dividend income rose by 4.6 percent in December, reflecting Costco's special dividend payout of $10 per share. While this amounted to roughly $4.4 billion, keep in mind that the personal income data are reported on an annualized basis, thus exaggerating the boost to dividend income in December and adding three-tenths of a point to the change in total personal income. Private sector wage and salary earnings rose by 0.6 percent in December. Though total nonfarm employment fell by 140,000 jobs in December, this was more than accounted for by payrolls in leisure and hospitality services falling by 498,000 jobs, thus masking what was broad based hiring across other private sector industry groups. With the mix of jobs more weighted toward higher earning and longer hour industry groups, aggregate wage and salary earnings rose smartly despite the decline in total employment. Transfer payments rose by 2.3 percent in December, more than we expected. BEA indicates that the late-December passage of fiscal policy support led to the restoration of the various unemployment insurance benefits that had lapsed earlier in the month, thus adding to total transfer payouts. The second round of Economic Impact Payments incorporated into the December bill did not turn up in the December personal income data but will lead to a spike in total personal income in January. Nonfarm proprietors' income fell by 4.3 percent in December. While part of the decline reflects the run-off of loans made under the Paycheck Protection Program (PPP) that had boosted nonfarm proprietor's income in earlier months, this does not fully account for the weakness in this category in December. The surge in COVID-19 cases and new curbs on activity seen over the final weeks of 2020 clearly weighed on the services sector, setting up the weakness in nonfarm proprietor's income.

Consumer spending on goods fell by 0.8 percent in December, though our sense is that much of this decline is nothing more than seasonal adjustment noise. Spending on services rose by 0.1 percent, supported by higher utilities outlays but there were broad based declines amongst most of the other services components. Even with December's decline, the level of consumer spending on goods stood 5.3 percent above the level as of February, while the level of consumer spending on services was 6.1 percent below that of February. To our earlier point, the decline in real personal spending left the level of spending in December 0.6 percent below the Q4 average, which is the base for Q1 real consumer spending. This raises the possibility that Q1 will see little or no growth in spending. While many are pointing to the second round of economic impact payments as a boost to Q1 consumer spending, we'll repeat a point we've made before. It is unlikely that there will be a repeat of the burst of growth in spending on consumer durable goods triggered by the initial round of Economic Impact Payments (EIP). As such, much, if not most, of the second round of EIP is likely to either be used to pay down debt or to sit in bank accounts until the services sector is more fully reopened and people feel comfortable engaging in activities that were considered normal prior to the pandemic. While we do not doubt that will happen at some point, we think that highly unlikely to take place in Q1, and perhaps not even in Q2.





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