# ECONOMIC UPDATE

REGIONS

August 28, 2020

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## July Personal Income/Spending: Uncertain Trajectory For Consumer Spending

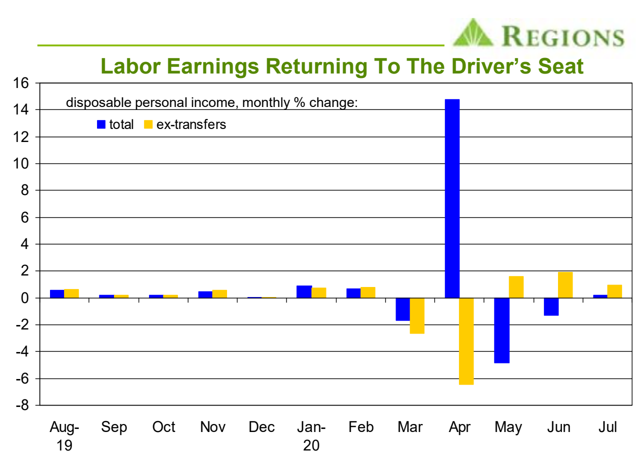
- Personal income rose by 0.4 percent in July, personal spending rose by 1.9 percent, and the saving rate fell to 17.8 percent
- The PCE Deflator rose by 0.3 percent and the core PCE Deflator rose by 0.3 percent in July; on an over-the-year basis, the PCE Deflator was up by 1.0 percent and the core PCE Deflator was up by 1.3 percent

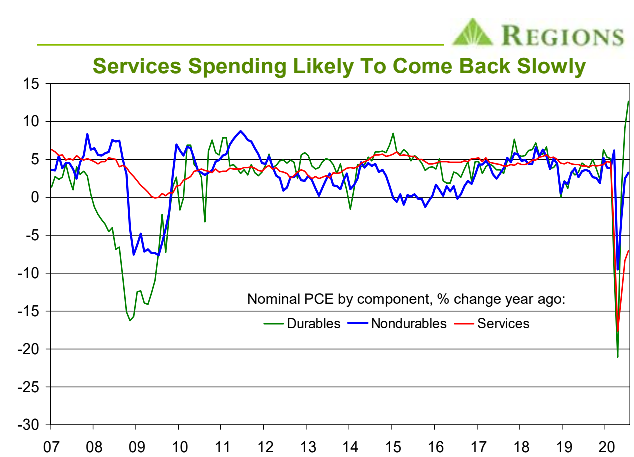
Total personal income rose by 0.4 percent in July, a bit shy of the 0.6 percent increase our forecast anticipated but better than the consensus forecast of a 0.5 percent decline. Total personal spending rose by 1.9 percent in July, close to the consensus forecast of a 1.5 percent increase but short of our forecast of a 2.7 percent increase, though with a sizable upward revision to the initial estimate of June consumer spending the level of consumer spending as of July is pretty much in line with where our forecast anticipated it would be. While spending on goods has returned to pre-pandemic levels, spending on services, which accounts for roughly two-thirds of consumer spending as measured in the GDP data, remains well below pre-pandemic levels. Moreover, with millions of households seeing a sharp decline in cash flows in August and a labor market recovery which is looking somewhat tentative, it remains to be seen how consumer spending will fare in the months ahead. While the magic of annualized percentage changes will yield a very large Q3 growth number for consumer spending, we think the intra-quarter trajectory of spending is much more critical to watch.

Private sector wage and salary earnings rose by 1.4 percent in July, providing the main support for growth in total personal income. Nonfarm proprietors' income, a proxy for small business profits, rose by 2.2 percent in July following better than 4.0 percent increases in both May and June. These increases, however, were buttressed by the manner in which BEA accounts for loans issued under the Paycheck Protection Program (PPP), with loans that are forgiven and converted to grants booked as income. What is notable about the July data is that there was growth in nonfarm proprietors' income absent any effects from the PPP, which was to have been expected with the economy having been opened back up. Keep in mind, however, that as the PPP funds are exhausted, that will leave a hole in the data on nonfarm proprietors' income, and we could easily see declines in coming months. Elsewhere, total Unemployment Insurance (UI) payouts fell in July, which is consistent with the decline seen in continuing claims, but, with the supplemental UI payments of $600 per week having expired at the end of July, we'll likely see a far more significant decline in UI payouts in August. Rental income was up by 1.3 percent in July after a run of three straight monthly declines, but it is unlikely that the increase seen in July will be sustained in the months ahead. As our forecast anticipated, asset-based income declined in July but to a lesser degree than the declines seen over the prior three months, down 0.4 percent in July compared with average monthly declines of 1.2 percent over the prior three months. With July's increase, total personal income is up 8.2 percent year-on-year, but this reflects transfer payments being up 56.6 percent, as private sector labor earnings are down 1.1 percent.

Spending on goods rose by 2.0 percent in July, with spending on services up by 1.9 percent, less than we anticipated and thus accounting for our miss on our forecast of total consumer spending. To the extent that economic activity has yet to return to "normal," that is most readily seen in areas such as travel, tourism, dining out, sporting events, movies, and live arts/music performances, all of which remain either totally offline or significantly repressed. Though to some extent policy decisions, such as capacity limitations on restaurants and bars and restrictions on large-scale gatherings such as sporting events account for this, consumer attitudes are also playing a role, and will continue to do so. In other words, it isn't only a matter of what consumers are allowed to do, it's also a matter of what consumers feel comfortable doing, and it could be quite some time before we see "normal" again.

For now, though, that discretionary spending remains depressed is a key reason the personal saving rate remains elevated. This in turn has key implications for the distribution of that pool of savings; though the Economic Impact Payments and supplemental UI benefits allowed for 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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