ECONOMIC UPDATE

REGIONS

December 23, 2020

November Personal Income/Spending: Q4 Will Be A Weak Quarter For Personal Income

- Personal income fell by 1.1 percent in November, personal spending fell by 0.4 percent, and the saving rate fell to 12.9 percent
- The PCE Deflator and the core PCE Deflator were both unchanged in November; on an over-the-year basis, the PCE Deflator was up by 1.1 percent and the core PCE Deflator was up by 1.4 percent

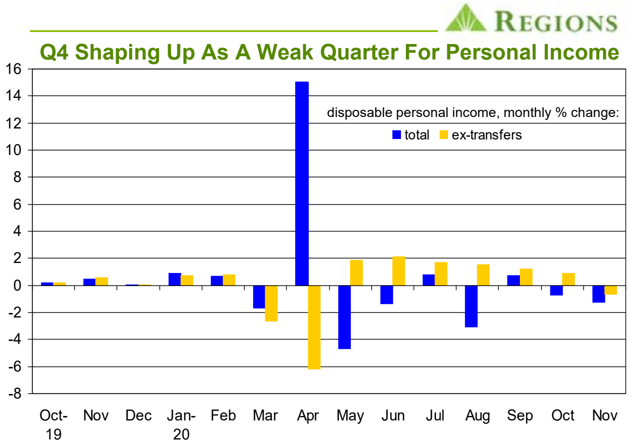
Total personal income fell by 1.1 percent in November, a bit worse than our forecast of a 0.9 percent decline and well below the consensus forecast of a 0.3 percent decline. Sharp declines in proprietors' income, farm and nonfarm, along with a decline in transfer payments dragged total personal income lower in November. Total personal spending fell by 0.4 percent, matching our below-consensus forecast, with declines in spending on goods and on services. With a much larger decline in income than in spending, the personal saving rate fell to 12.9 percent in November from 13.6 percent in October. Both the total and core PCE Deflators were unchanged in November, yielding year-on-year increases of 1.1 percent and 1.4 percent, respectively.

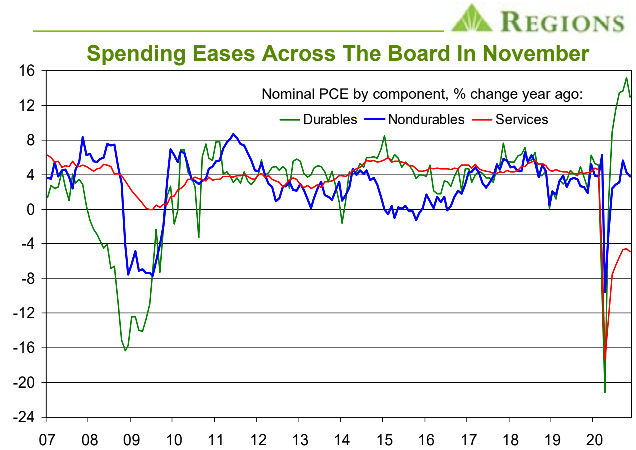
Our below-consensus forecast on November personal income was based on sizable declines in farm and nonfarm proprietors' income, a further decline in government sector labor earnings, and flattish transfer payments teaming up to more than offset another solid increase in private sector labor earnings. That proved broadly correct, though the decline in nonfarm proprietors' income was less harsh than our forecast anticipated while transfer payments were weaker than our forecast anticipated. Lower payments to farmers under the Corona Virus Food Assistance program were the main culprit behind the steep decline in farm income. The 5.4 percent decline in nonfarm proprietors' income, a proxy for small business profits, is more than accounted for by how the BEA is accounting for the Paycheck Protection Program (PPP). Loans that were ultimately converted to grants were treated as subsidies, which were spaced out over April through September, but this sequence is being reversed over the October 2020 through March 2021 period, and the deduction in November was much larger than that seen in October. With a new round of PPP funding on the way, there will be considerable noise in the nonfarm proprietors' income category over the next several months, large enough to move total personal income.

Total personal transfer receipts were down 3.3 percent in November following a 6.0 percent decline in October. Declining payouts under the Lost Wages Assistance Program have been the main factor behind the declines in transfer payments over the past two months, while payments of regular unemployment insurance (UI) payments have also been falling as people either find jobs or exhaust regular UI benefits. The new round of supplemental UI benefits and the extension of pandemic-related UI benefit programs agreed to by Congress will support overall UI payouts over the next few months, while the new round of Economic Impact Payments will provide a boost to personal transfer receipts, most of which should show up in the January personal income data.

Total consumer spending on goods fell by 1.0 percent in November, with spending on consumer durable goods down by 1.7 percent and spending on nondurable consumer goods down by 0.6 percent. Lower unit sales and weaker pricing contributed to a 3.6 percent decline in outlays on motor vehicles, while spending on household furnishings and appliances also fell sharply. Spending on nondurable consumer goods was weak pretty much across the board, with particularly pronounced declines in spending on apparel and gasoline, the latter in part reflecting price effects. Spending on services, which account for roughly two-thirds of all consumer spending, fell by 0.2 percent in November. Atypically warm weather contributed to a 6.5 percent decline in outlays for household utilities, though this is exaggerated by seasonal adjustment. In part a reflection of the surge in COVID-19 cases and renewed restrictions on economic and social activity, spending on dining out and on accommodations fell sharply in November.

Even if consumer spending slips further in December, the Q4 GDP data will nonetheless show solid growth in real consumer spending. Recall that the level of spending in September was well above the Q3 average, and October saw a strong increase. But, the trajectory of spending weakening as Q4 has progressed sets a low base for Q1 2021, which is where we will see it in the GDP data. While the new round of financial aid to households will boost personal income, we don't think it will do as much for spending as many other analysts are assuming. With large segments of the services sector still impaired or completely shut down, that will leave a large gap in consumer spending for months to come.





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