ECONOMIC UPDATE
REGIONS
February 26, 2021

January Personal Income/Spending: Round Two Of EIP Boosts January Personal Income

- Personal income rose by 10.0 percent in January, personal spending rose by 2.4 percent, and the saving rate rose to 20.5 percent
- The PCE Deflator rose by 0.3 percent and the core PCE Deflator rose by 0.3 percent in January; on an over-the-year basis, the PCE Deflator was up by 1.5 percent and the core PCE Deflator was up by 1.5 percent

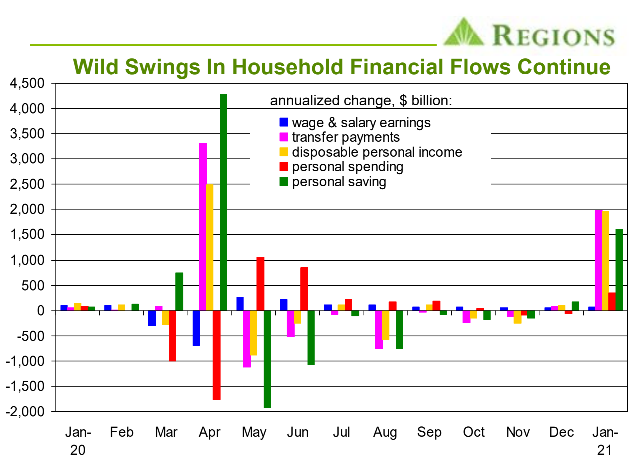
Fueled by the second round of Economic Impact Payments, total personal income jumped by 10.0 percent in January, just shy of the 10.1 percent increase our forecast anticipated but better than the consensus forecast of a 9.5 percent increase. Total personal spending rose by 2.4 percent in January, below the consensus forecast of a 2.5 percent increase and our forecast of a 3.1 percent increase, with our miss coming courtesy of a smaller gain in spending on services than we anticipated. Both the PCE Deflator and the core PCE deflator were up by 0.3 percent in January, a bit softer than we had anticipated, with each up 1.5 percent year-on-year. While the February data will obviously bring a reversal in personal income, the saving rate will remain notably elevated and will be pushed even higher by a third round of (even larger) Economic Impact Payments, which we expect to hit the economy in either late-March or early-April.

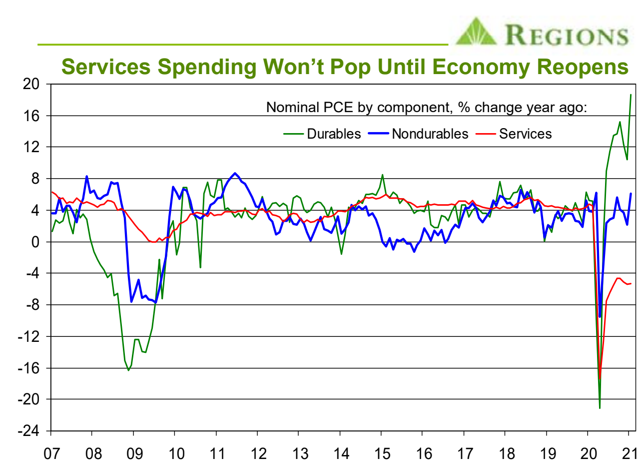
The 52.0 percent increase in transfer payments in January mainly reflects Economic Impact Payments of up to $600 per eligible adult and each eligible dependent. Treasury distributed around $140 billion in payments in January, but keep in mind the personal income data are reported on an annualized basis, hence the larger increase seen in the chart below. Transfer payments were also bolstered by Pandemic Unemployment Compensation payments, i.e., payments of $300 per week in supplemental unemployment insurance benefits which resumed in the first week of January.

Private sector wage and salary earnings rose by 0.8 percent in January, a smaller increase than we had anticipated given the increase in aggregate hours worked. The January data incorporate revisions to private sector labor earnings going back to last July based on the latest data from the Quarterly Census of Employment and Wages, with a net downward revision over the July-December period. Total proprietors' income fell by 0.5 percent in January. Farm income fell sharply, mainly reflecting the reversal of subsidies paid in earlier months under the Coronavirus Food Assistance program, while nonfarm proprietors' income rose by 0.5 percent as the second round of the Paycheck Protection Program (PPP) got underway – loans made under this program that are eventually converted into grants are treated as subsidies in the personal income data and will ultimately be reversed, as was the case with the initial round of PPP loans. Rental income turned in a surprisingly large 1.1 percent increase. While dividend income fell by 6.7 percent, recall that Costco's special dividend significantly boosted dividend income in December, so the January data largely reflect a reversal of that bounce.

Total consumer spending on goods rose by 5.8 percent in January, with spending on consumer durable goods up by 8.4 percent and spending on nondurable consumer goods up by 4.3 percent. While these increases were in line with our forecast, the 0.7 percent increase in consumer spending on services was smaller than our forecast anticipated. As with the data on January retail sales, we think the BEA's January spending data are significantly inflated by seasonal adjustment noise, making spending look much stronger than was actually the case. Be that as it may, these are the data that will feed into the Q1 GDP data, and the 2.0 percent increase in real consumer spending in January sets the stage for Q1 growth in consumer spending to be much stronger than we had been anticipating, even allowing for a likely decline in spending in February.

The level of spending on consumer durable goods is now 19.8 percent above the pre-pandemic level, with spending on nondurable consumer goods 6.4 percent higher (based on the nominal spending data). At the same time, consumer spending on services, which account for roughly two-thirds of consumer spending, is 5.5 percent below the pre-pandemic level. This of course reflects the degree to which the services sector has been restricted over the course of the pandemic, with spending to remain repressed until the economy is more fully reopened. With the saving rate now sitting at 20.5 percent, reopening would bring a significant boost in spending even without the looming third round of Economic Impact Payments. What will take time to discern, however, is whether, or to what extent, there have been lasting changes in consumer behavior in a post-pandemic world, which will clearly impact the scope of any reopening bounce in spending on consumer services.





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