ECONOMIC UPDATE

REGIONS

April 30, 2020

March Personal Income/Spending: Record Decline In Spending Won't Stand For Long . . .

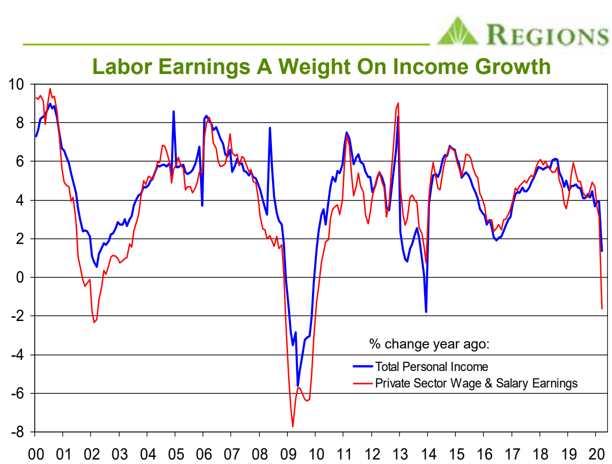
- Personal income fell by 2.0 percent in March, personal spending fell by 7.5 percent, and the saving rate rose to 13.1 percent
- The PCE deflator fell by 0.3 percent and the core PCE deflator fell by 0.1 percent in January; year-on-year, the PCE deflator was up by 1.3 percent and the core deflator was up by 1.7 percent

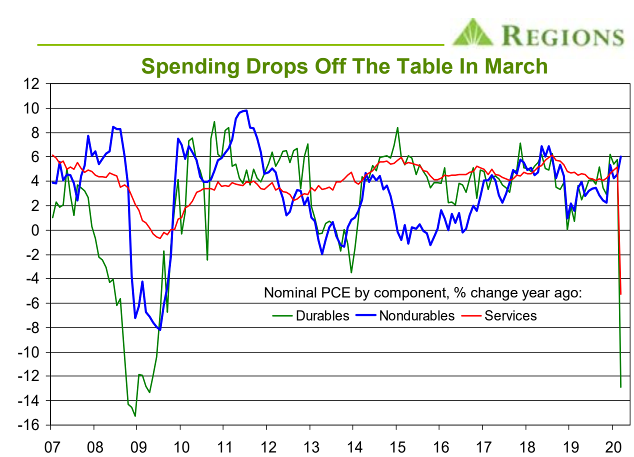
Total personal income fell by 2.0 percent in March, a larger decline than we and the consensus expected, while total personal spending fell by 7.5 percent, splitting the difference between the 5.0 percent decline the consensus expected and the 10 percent decline our forecast anticipated. The decline in consumer spending is the largest monthly decline in the life of the data, which go back to 1959. With the decline in spending far outpacing the decline in income, the personal saving rate jumped to 13.1 percent in March, the highest monthly rate since November 1981. The PCE Deflator fell by 0.3 percent and the core PCE Deflator fell by 0.1 percent in March; on an over-the-year basis, the total PCE Deflator is up 1.3 percent and the core PCE Deflator is up 1.7 percent.

Private sector wage and salary earnings plummeted in March, with the 3.7 percent decline much larger than implied by the details of the March employment report, which accounts for the miss on our forecast of total personal income. On an over-the-year basis, private sector wage and salary earnings were down by 1.6 percent as of March. Nonfarm proprietors' income, a proxy for small business profit, fell by 6.4 percent in March, leaving it down 0.3 percent year-on-year. Dividend income rose by 0.3 percent in March, but this was offset by a larger decline in interest income, leaving total asset-based income down 0.1 percent for the month. Rental income was up by 0.4 percent, and public sector wage and salary earnings were up by 0.2 percent in March. Total transfer payment receipts jumped by 1.6 percent in March, with much of this increase attributable to the first wave of state payouts of Unemployment Insurance (UI) benefits, which more than doubled in March. Note that this covers only the initial spike in claims for UI benefits over the second half of March and does not include the added $600 per week federal government payouts that supplement, not replace, state level benefits. As such, total UI payouts for April will be several times larger than those for March, and with the rebate checks incorporated into the CARES Act, total transfer payments in April will be materially larger, thus placing a floor under personal income despite what will be an even larger decline in wage and salary earnings.

There will be no such floor under personal spending, as the record decline in total personal consumption expenditures in March is just a placeholder for what will be a much larger decline in April. Spending on consumer durables fell by 15.1 percent, while spending on household services fell by 9.5 percent, with the decline in these two components swamping the 3.1 percent increase in spending on nondurable consumer goods. The decline in spending on services was less than our forecast anticipated, which accounts for the miss on our forecast of total spending in March. While we look for this initial estimate to be revised lower, the more significant point is that the decline in April will be much more severe. Keep in mind that it was not until mid-March that spending on services began its dramatic decline, and the April data will incorporate an entire month of lost spending on travel, lodging, tourism, sporting events, cinema, and various forms of live entertainment. On a nominal basis, spending on services accounts for over 70 percent of total consumer spending as measured in the GDP data.

While the temptation may be to dismiss the March data on personal income and spending as yesterday's news, as they were incorporated into the initial estimate of Q1 GDP, they merit attention because the March data set the base for Q2. The level of total personal consumption expenditures in March is 5.1 percent below the Q1 average, and it is this March figure, not the Q1 average, that the April decline will be based off of. With the declines in personal spending in April being larger than those in March, this sets the stage for the declines in consumer spending for Q2 as a whole to be significantly larger than those seen in Q1, even allowing for growth in May and June. As similar effects hold for other data series, the contraction in GDP in Q2 will be much more severe than the contraction seen in Q1, with the practice of reporting the data in terms of annualized percentage changes (which, as we've noted many times, we seriously dislike) only exaggerating the fall. April should be the worst of the decline in consumer spending, but the rebound in subsequent months will greatly depend on how consumer confidence responds as economic activity begins to normalize.





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