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March Personal Income and Consumption

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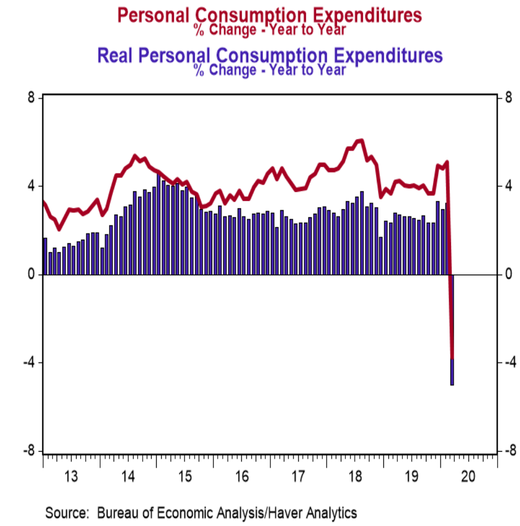
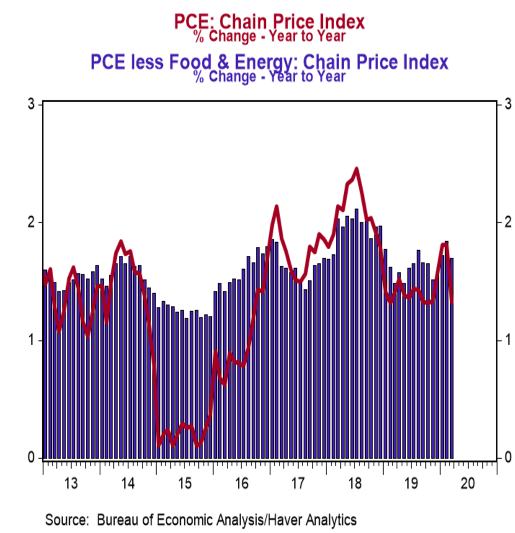
- Personal income declined 2.0% in March (-2.1% including revisions to prior months) versus a consensus expected -1.7%. Personal consumption declined 7.5% in March (-7.3% with prior revisions), lagging the consensus expected -5.1%. Personal income is up 1.4% in the past year, while spending has declined 3.8%.

- Disposable personal income (income after taxes) fell 2.0% in March but is up 1.4% from a year ago.

- The overall PCE deflator (consumer prices) declined 0.3% in March but is up 1.3% versus a year ago. The “core” PCE deflator, which excludes food and energy, declined 0.1% in March but is up 1.7% in the past year.

- After adjusting for inflation, “real” consumption declined 7.3% in March and is down 5.0% from a year ago.





Implications: Income and spending are falling as layoffs increase and today the government reported 3.84 million new claims for unemployment insurance last week, maintaining the recent trend of astronomically high readings. The (semi-)good news is that last week’s increase in initial claims was lower than the previous week, and it looks like the peak was four weeks ago at 6.87 million. Continuing claims, data, which lag initial claims by one week, hit a new record high of 17.99 million, an increase of 2.02 million over the previous week). While this number will likely rise further, continuing claims are not rising by as much as the initial claims data suggest they should as some companies begin to call back furloughed staff. Nonetheless, the unemployment rate for April will be in the vicinity of 18%, with nonfarm payroll losses in the range of 20-25 million. Turning back to the personal income and spending report shows that consumer spending slowed substantially in March. Consumption plunged 7.5% in March, the largest monthly decline in the report’s history going back to the late 1950s. The drop was led by services, which fell 9.5%. The largest service decline, in dollar value, was for hospitals and outpatient services (-17.6%, combined). But some other lowlights include air transportation (-53.5%), movie admissions (-62.1%), casino gambling (-45.4%), restaurants (-23.4%), hotels (-51.1%), barbers/hair salons (-22.8%), and laundry/drycleaners (-22.8%). On the goods side, the decline in outlays was led by purchases of motor vehicles and parts (-26.5%). Other big movers for goods included groceries (+20.3%, excluding alcohol), alcohol (+16.5%), apparel (-29.8%), gas and other energy goods (-15.2%), and household cleaners (+12.3). Incomes declined 2.0% in March, as private sector wages and salaries fell 3.7%. That was partially offset by a pickup in government transfer payments, most notably a 149% increase in unemployment insurance payments. Expect that trend to continue into April: big losses in wages while transfers to the jobless surge higher. On the inflation front, PCE prices fell 0.3% in March but remain up 1.3% from a year ago. Core prices, which exclude food and more importantly the very volatile energy component, declined 0.1% in March, although core prices are up 1.7% from a year ago. Expect more deflation in April before prices start moving gradually upward again later this year. Yes, the supply of money has surged, but so has the demand to hold cash, by both households and companies, which should prevent the rise in the money supply from turning into 1970s-style inflation. In recent news on the housing market, pending home sales, which are contracts on existing homes, plummeted 20.8% in March. This translates into a deep decline in closings in April. However, home sales are probably at or near a bottom in April and should start rising again by mid-year as lockdowns ease and the home sale market adapts to the recent Coronavirus challenge. On the manufacturing front, the Chicago PMI fell to 35.4 in April from 47.8 in March. Plugging this into our models suggests tomorrow’s national ISM index will show a drop to 35.3 versus 49.1 last month, the lowest since late 2008.

Personal Income and Spending *All Data Seasonally Adjusted*	Mar-20	Feb-20	Jan-20	3-mo % ch. annualized	6-mo % ch. annualized	Yr to Yr % change
Personal Income	**-2.0%**	0.6%	0.5%	-3.7%	-0.3%	1.4%
Disposable (After-Tax) Income	**-2.0%**	0.5%	0.5%	-3.7%	-0.7%	1.4%
Personal Consumption Expenditures (PCE)	**-7.5%**	0.2%	0.4%	-25.1%	-11.8%	-3.8%
Durables	**-15.1%**	-0.9%	1.0%	-48.1%	-29.2%	-12.9%
Nondurable Goods	**3.1%**	-0.4%	0.5%	13.7%	8.6%	6.0%
Services	**-9.5%**	0.5%	0.3%	-30.6%	-14.6%	-5.3%
PCE Prices	**-0.3%**	0.1%	0.2%	-0.1%	1.0%	1.3%
"Core" PCE Prices (Ex Food and Energy)	**-0.1%**	0.2%	0.2%	1.0%	1.4%	1.7%
Real PCE	**-7.3%**	0.1%	0.3%	-25.0%	-12.7%	-5.0%

Source: Bureau of Economic Analysis