



# Economics Group

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## Despite Virus, Consumer Spending on Track for Solid Q3

*As transfer payments fade, other sources of income are firming for households. Increased spending puts Q3 PCE on track to be quite strong. The test now is whether spending will be sustained amid a resurgent virus.*

### Broad-based Income Gains for Now

With a double digit unemployment rate, a slowing in the jobs rebound and over a million people a week still filing jobless claims, financial markets were braced for a decline in personal income in July and a sharp slowing in spending—that is not what happened. Despite expectations for a 0.2% decline, personal income increased 0.4%, a feat made more impressive by the fact that last month’s decline in income was revised to a smaller drop. Unlike the spring and early summer when transfer payments were the only source of income growth, today’s report reveals that in July, the increased income came from a variety of sources, including a third straight monthly increase in wages and salaries (up 1.4%). Rental income climbed 1.3% and proprietors’ income rose 1.4%.

Transfer payments were down for the third straight month falling 1.7% in July; note however that August will mark the first month since the \$600 federal top-up to jobless benefits went away, so look for a sharp decline here next month. The saving rate at 17.8% remained in double digits for the fifth straight month suggesting that at least in the aggregate households have built up some rainy-day funds that can be called upon to sustain spending the second half of the year.

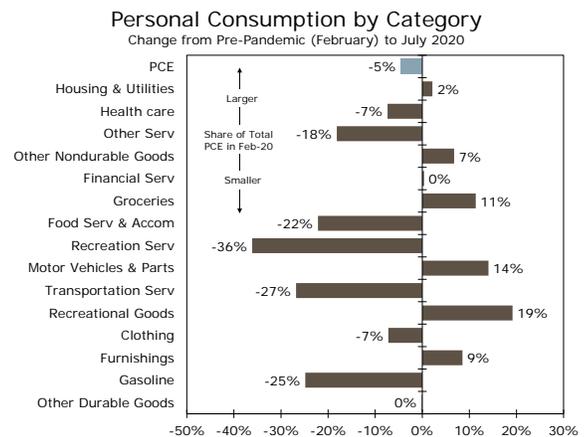
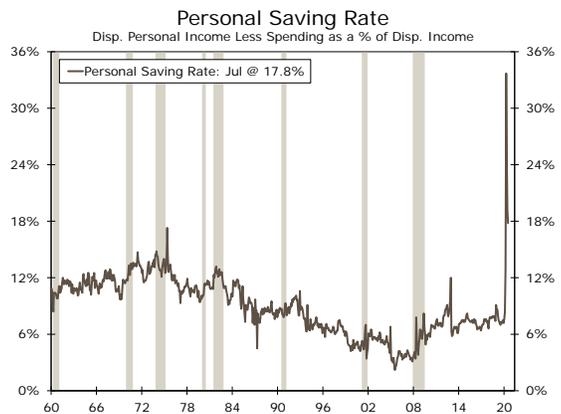
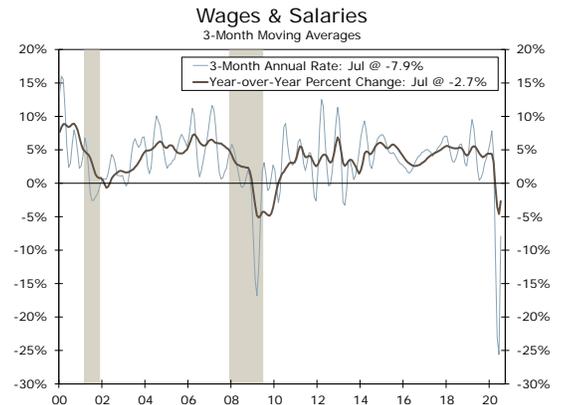
### Spending: Services Recovery Still Has a Long Way to Go

The initial hopes for a V-shaped recovery may have faded with virus case counts rising throughout the summer months, but consumer spending has been a bright spot. Total personal consumption expenditures remain just 4.6% off its pre-virus January peak. Recreational goods and vehicles remain the highest above their pre-virus peak (which was February for this category). Demand for recreational goods has pushed outlays here to a level that is now a remarkable 19.2% above where it was before the lockdowns.

Auto dealers did not have the wind at their back going into this crisis, sales had plateaued back in September of 2019 and hadn’t regained footing materially in the winter months. Many auto dealers were initially worried about moving inventory on their lots amid a pandemic, but as the virus remains with us, we have seen lower ridership on public transit and diminished interest in ride-sharing. Remarkably, autos are the next strongest overall category during this crisis, up more than 10% from that September peak of last year.

### Upside for Q3 Growth

Today’s report is a bell-ringer for Q3 GDP. The better-than-expected print combined with upward revisions to spending at the end of Q2 mean that Q3 is on track for a big gain. With no change to goods or services spending in July or August, the annualized growth rate would come in north of 35%. But with the virus still with us, we could still see some retrenchment in spending, particularly services which would pull that figure lower.



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