Economic Analysis Associates

Consumer Monitor

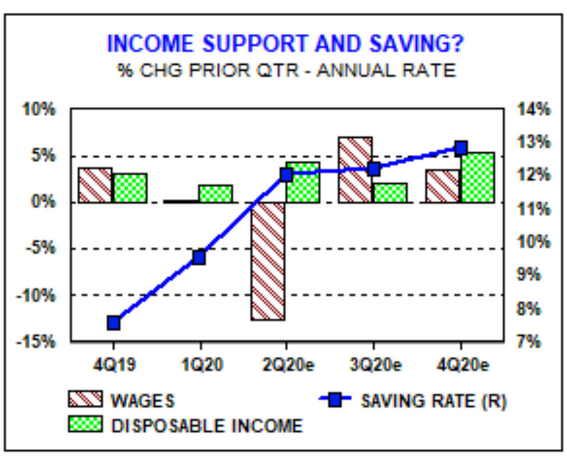
May, 2020

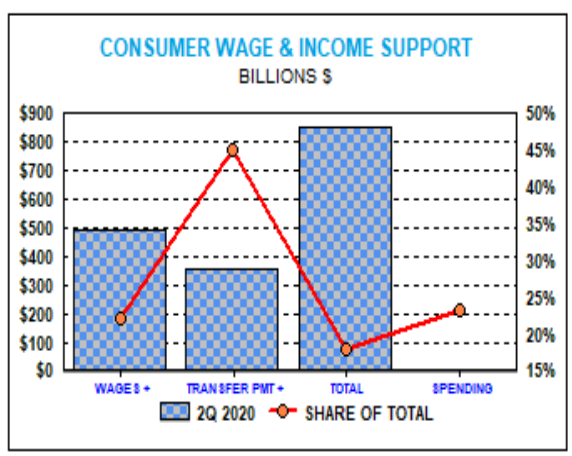
WHEN 2+2=5?

Have you read that weather forecasts are less accurate because there are fewer crucial observations being supplied by commercial aircraft due to Covid 19 flight reductions? Economic indicators face a similar challenge. With so many businesses closed or operating with reduced staff, response rates have fallen precipitously. Yet, despite their shortfalls, most choose to believe the economic statistics. How reliable can the popular initial claims data be? States are relying on decades old computer systems to manage record numbers of filings while simultaneously trying to adapt to the inclusion of independent contractors and added federal government support payments. How many states are like Connecticut and require two applications from independent contractors (the second can't be filed until the first is denied)? Are the data keepers really prepared to account for the billions of dollars of bonus payments offered to many essential workers? Will we ever see these in the data? There is no doubt that the impact of this pandemic will ripple through our economy for years, but the rebound is coming (soon) and whatever its magnitude it is going to feel really good.

FOLLOW THE MONEY

We wish we could follow the money, but it not easy. The massive consumer wage and income support is not exactly easy to track. We do know from Treasury data that most if not more than the $300 billion in recovery rebates and expanded unemployment dollars have flowed to the consumer already. It is still unclear how the Paycheck Protection Program (PPP) dollar benefits will be reported. These support payments, which either replace lost monies or sustain income, equal a large 25% of consumer 2Q spending. Since transfer payments are not wages, we expect wage income to decline but disposable income to continue





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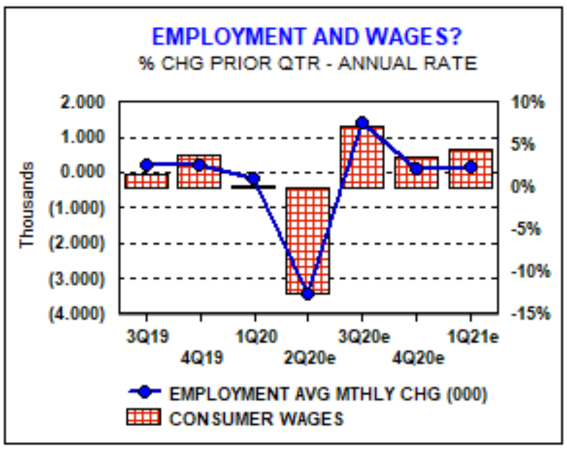
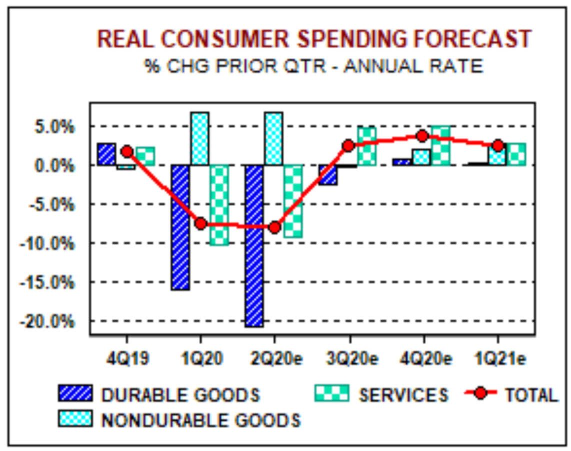
growing resulting in spending (and our view is more optimistic than most) that is well below the pace of income. Of course, that makes sense when consumers are unable to spend not because they have no money, but because they are unable to shop. The issue becomes how much of this lost spending is recaptured. Most forecasts assume none.

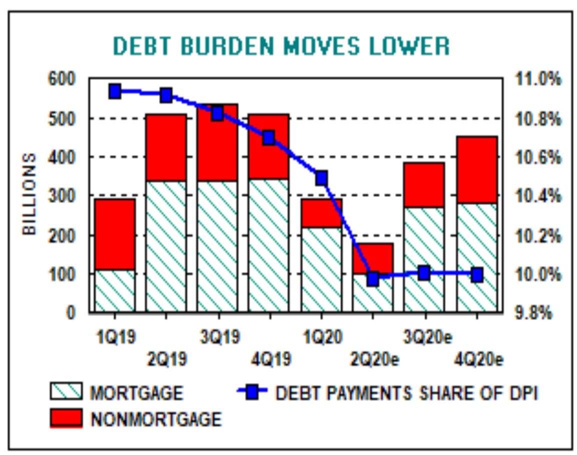
INVITATIONS TO DINE AND SPEND

As the economy starts to open the consumer is getting many invitations to dine and spend. Seasonally it is a good time of year for this to occur, but we have yet to see what the response will be. With doors opening jobs will return but you will never see this in the initial claims data and probably only with a lag in the employment statistics. In our forecast we see a potential inability to recoup lost sales particularly for durable goods and services. We're largely confident of our services forecast, but less so for durable goods where our outlook could be too bleak.



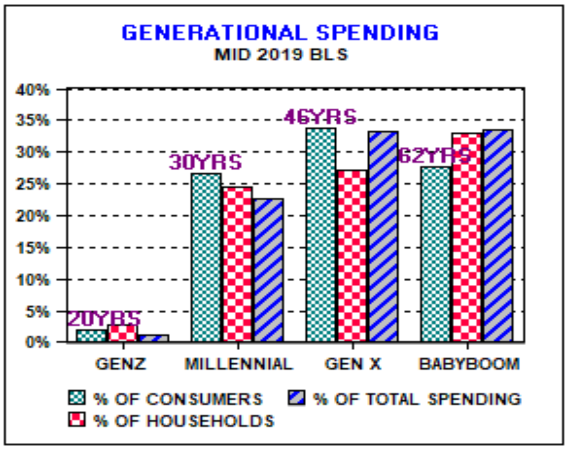


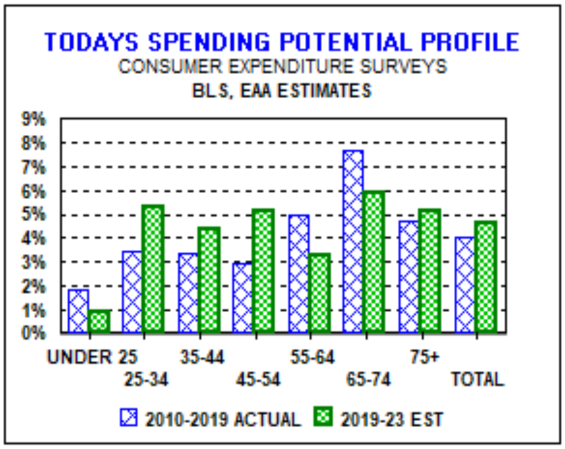
The yet to be resolved consumer headwind is nervous lenders who could potentially constrain the ability of the consumer to borrow to leverage income into better spending growth. Currently, borrowing has slowed due to no spending rather than no lenders, and it is encouraging to see that delinquencies overall remain lower than expected. We need to see a pickup in the pace of borrowing during 3Q2020, which would definitely be affordable for the consumer at current interest rates. Housing finance has been a notable positive as mortgage real estate activity and mortgage purchase applications continues to defy gloomy predictions and the consumer continues to refinance, either lowering monthly payments to free up spending power or to taking out some extra funds. Once again these are monies that never show up in the data.

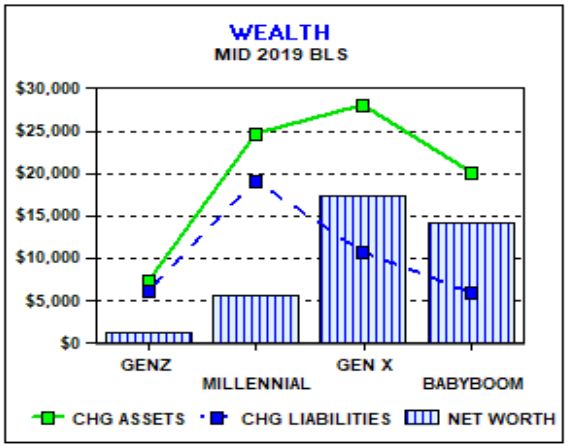


WHO IS THE CONSUMER?

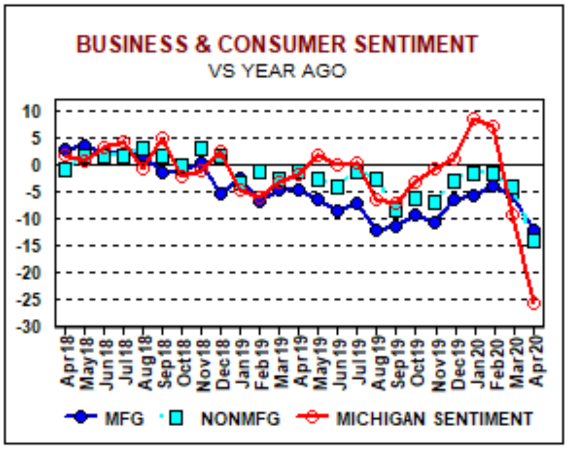
Adding to the forecasting challenge is the generational profile of consumer demand where two-thirds of spending is dominated by consumers aged 46 years and over, many who "need" nothing, but, on a more positive note, were more financially sound than younger consumers and thus less by affected job and income loss from Covid-19. But we are now moving into a period when spending growth transitions from older to younger consumer age groups. This yields higher life cycle spending demand as long as there are jobs, wages and credit. We have often noted in the past that wealth is more important than wages for our older consumer spending profile, and the Covid-19 consumer wealth profile has been a welcome plus during 2020. Now, however, wages and borrowing are more important ingredients for consumer spending growth.







So the early stage of the recovery is looking secured. The challenge now is to shift to the normal 2+2=4 without slipping first into something less.



Susan M. Sterne

FORECAST SUMMARY

			2020e				2021e							
	3Q	4Q	1Q	2Qe	3Qe	4Qe	1Qe	2Qe	3Qe	4Qe	2018	2019e	2020e	2021e
Employment(Payroll)	1.5%	1.7%	0.8%	-36.7%	29.6%	2.6%	1.4%	1.7%	1.7%	1.4%	1.6%	1.4%	-4.3%	1.7%
Payroll-Goods	0.7%	0.5%	0.8%	-32.5%	18.3%	3.0%	1.4%	1.9%	1.9%	1.2%	3.1%	1.8%	-4.5%	1.2%
Manufacturing	0.5%	0.0%	-0.3%	-32.0%	16.7%	4.4%	1.1%	1.1%	0.9%	0.6%	2.0%	1.2%	-4.9%	0.9%
Payroll-Services	1.6%	1.9%	0.7%	-37.4%	31.6%	2.5%	1.4%	1.6%	1.6%	1.4%	1.3%	1.3%	-4.2%	1.8%
Services less Govt	1.6%	2.1%	0.7%	-41.9%	36.3%	3.9%	1.5%	1.8%	1.8%	1.5%	1.5%	1.5%	-5.0%	2.1%
Employment(Household)	2.4%	2.0%	-2.2%	-18.1%	0.7%	-0.1%	0.6%	0.9%	0.7%	0.9%	1.6%	1.1%	-3.4%	-0.8%
Labor Force	2.4%	1.6%	-1.0%	-3.1%	0.4%	0.7%	0.7%	0.6%	0.6%	0.6%	1.1%	0.9%	-0.2%	0.4%
Unemployment Rate(%)	3.6%	3.5%	3.8%	7.8%	7.8%	7.9%	7.9%	7.9%	7.8%	7.8%	3.9%	3.7%	6.8%	7.8%
Avg Hourly Earnings	3.5%	2.8%	2.9%	3.0%	2.4%	2.6%	2.3%	2.8%	2.9%	2.6%	2.2%	2.6%	2.6%	3.0%
Avg Workweek(Hours)	34.4	34.3	34.3	33.9	34.0	34.3	34.2	34.2	34.2	34.2	34.5	34.4	34.4	34.5
Total Wages	1.6%	3.8%	0.1%	-12.6%	7.1%	3.6%	4.5%	5.6%	5.3%	5.0%	5.0%	4.6%	-0.4%	3.8%
Personal Income	2.6%	3.1%	2.0%	2.9%	1.2%	4.5%	3.9%	4.1%	3.8%	3.8%	5.6%	4.4%	2.7%	3.6%
Disposable Income	3.6%	3.0%	1.9%	4.3%	2.1%	5.4%	2.5%	4.6%	3.8%	3.4%	6.1%	4.3%	3.1%	3.7%
Real DPI (2012$)	2.1%	1.6%	0.5%	3.3%	1.3%	4.1%	0.8%	2.3%	1.7%	1.3%	4.0%	2.9%	1.8%	2.0%
Nominal Spending	4.7%	3.2%	-6.3%	-7.2%	3.5%	5.2%	4.2%	4.4%	5.0%	5.1%	5.2%	4.0%	-0.7%	3.8%
% year ago	*4.0%*	*4.1%*	*2.0%*	*-1.5%*	*-1.8%*	*-1.4%*	*1.3%*	*4.3%*	*4.7%*	*4.7%*				
Durables	6.7%	-0.5%	-17.4%	-27.6%	-5.9%	-4.0%	-2.5%	-1.1%	3.7%	5.0%	4.5%	3.5%	-9.9%	-3.6%
Nondurables	3.3%	0.5%	6.2%	10.0%	0.8%	3.8%	4.6%	4.1%	3.8%	4.3%	5.0%	3.1%	4.8%	4.1%
Household Services	4.8%	5.2%	-9.8%	-8.8%	6.6%	7.4%	5.0%	5.2%	5.7%	5.4%	5.3%	4.4%	-0.9%	4.7%
Real Spending (2012$)	3.1%	1.8%	-7.6%	-8.1%	2.6%	3.8%	2.5%	2.1%	2.8%	3.1%	3.0%	2.6%	-2.0%	2.1%
% year ago	*2.6%*	*2.7%*	*0.4%*	*-2.8%*	*-2.9%*	*-2.4%*	*0.1%*	*2.8%*	*2.8%*	*2.6%*				
Durable Goods	8.1%	2.8%	-16.1%	-21.0%	-2.5%	0.9%	0.3%	0.4%	4.9%	5.9%	6.3%	4.8%	-6.6%	-0.5%
Nondurable Goods	3.9%	-0.6%	6.9%	6.8%	-0.3%	2.0%	2.9%	2.1%	1.6%	2.6%	3.0%	3.1%	3.9%	2.2%
Household Services	2.3%	2.9%	-11.9%	-9.7%	5.4%	5.2%	2.8%	2.4%	2.9%	2.7%	2.5%	2.0%	-2.6%	2.6%
Consumer Inflation	1.5%	1.4%	1.3%	1.0%	0.8%	1.3%	1.7%	2.2%	2.1%	2.0%	2.1%	1.4%	1.3%	1.6%
% year ago	*1.4%*	*1.4%*	*1.6%*	*1.3%*	*1.1%*	*1.1%*	*1.2%*	*1.5%*	*1.8%*	*2.0%*				
Core PCE Inflation	2.1%	1.3%	1.8%	2.4%	1.8%	1.2%	1.6%	2.4%	2.0%	2.1%	2.0%	1.6%	1.8%	1.8%
% year ago	*1.7%*	*1.6%*	*1.8%*	*1.9%*	*1.8%*	*1.8%*	*1.7%*	*1.7%*	*1.8%*	*2.0%*				
Saving Rate (%DPI)	7.7%	7.6%	9.6%	12.0%	12.3%	12.9%	12.4%	12.4%	12.1%	11.8%	7.6%	7.9%	11.7%	12.4%
Borrowing(Net Bil$)														
Mortgage	$340	$343	$220	$100	$272	$280	$280	$288	$280	$292	$267	$282	$217	$277
Nonmortgage	$197	$167	$88	$76	$112	$172	$188	$208	$224	$216	$182	$180	$112	$209
Total	$538	$510	$308	$176	$384	$452	$468	$496	$504	$508	$449	$463	$329	$486
Debt Payments (%DPI)	10.8%	10.7%	10.3%	10.0%	10.1%	10.0%	10.2%	10.2%	10.3%	10.4%	10.8%	10.9%	10.1%	10.3%
Vehicles(Millions)														
Total	17.0	16.7	15.0	9.6	14.8	15.7	15.4	15.7	15.9	16.0	17.2	16.9	13.8	15.8
Total Autos	4.6	4.4	3.8	1.6	3.8	4.1	4.0	4.1	4.1	4.0	5.3	4.7	3.3	4.1
Total Light Trucks	12.4	12.3	11.2	8.0	11.0	11.6	11.4	11.6	11.8	12.0	11.9	12.2	10.4	11.7
Housing (000)														
Starts	1282	1441	1466	1150	1290	1330	1310	1360	1320	1330	1250	1298	1309	1330
Sales - New Homes	698	710	715	400	450	550	620	630	675	660	615	684	529	646
Sales - Existing Homes	5410	5420	5483	4200	4300	4800	5200	5150	5200	5210	5341	5330	4696	5190
GDP														
Nominal	3.8%	3.5%	-3.5%	-9.5%	2.4%	5.7%	4.2%	3.8%	5.1%	4.9%	5.4%	4.1%	-0.7%	3.4%
% year ago	*3.8%*	*4.0%*	*2.1%*	*-1.6%*	*-1.9%*	*-1.4%*	*0.5%*	*4.0%*	*4.7%*	*4.5%*				
Real (2012$)	2.1%	2.1%	-4.8%	-10.7%	1.2%	3.9%	2.4%	1.7%	2.8%	2.8%	2.9%	2.3%	-2.2%	2.2%
% year ago	*2.1%*	*2.3%*	*0.3%*	*-3.0%*	*-3.2%*	*-2.8%*	*-1.0%*	*2.3%*	*2.7%*	*2.4%*				
Inflation	1.8%	1.3%	1.3%	1.4%	1.2%	1.8%	1.7%	2.0%	2.2%	2.0%	2.4%	1.8%	1.5%	1.8%
% year ago	*1.7%*	*1.6%*	*1.7%*	*1.5%*	*1.3%*	*1.4%*	*1.5%*	*1.7%*	*1.9%*	*2.0%*				
Interest Rates														
Federal Funds	2.19%	1.64%	1.26%	0.09%	0.13%	0.13%	0.13%	0.13%	0.13%	0.35%	1.83%	2.16%	0.40%	0.19%
10 Yr Treasury	1.80%	1.79%	1.38%	0.77%	0.90%	1.00%	1.20%	1.50%	1.70%	1.80%	2.91%	2.14%	1.01%	1.55%
% chg vs yr ago														
Household Net Worth	4.2%	5.0%				-0.1%				4.2%	1.1%	5.0%	-0.1%	4.2%
													DATE:	May. 21, 2020