

U.S. Data Review

- Personal income & consumption: weak spending despite strong government support
- International trade in goods: marked retreats on both sides of the trade ledger

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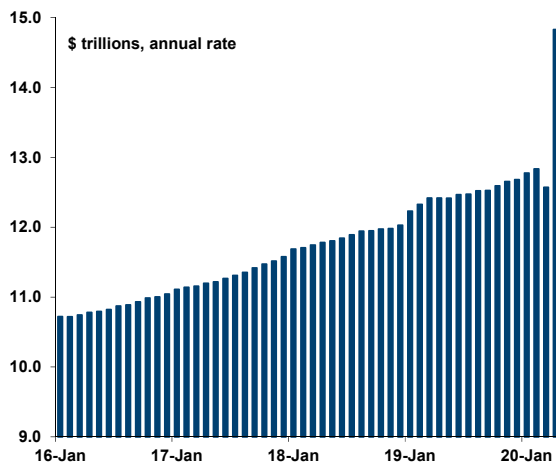
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Income and Consumption

Several components of personal income were decidedly weak in April: wages and salaries fell 8.0 percent, proprietors' income declined 12.2 percent, and investment dropped 1.5 percent (both interest and dividends contributing). However, these soft spots were overwhelmed by so-called transfer payments, which represent government support to individuals. Normally, this category is driven by outlays for Social Security, Medicare & Medicaid, and veterans' benefits, but in April it surged because of expanded unemployment benefits and the rebate payments from the Treasury Department (the \$1,200 checks). The support payments, at least for April, kept many households on solid financial ground, as the sum of wages and transfer payments was far larger than the norm (chart). Of course, the support from the government is temporary. The rebate checks are (presumably) one-time outlays, and the enhanced unemployment benefits are scheduled to end in July. We found the rental component of personal income interesting. Many observers were concerned about individuals and businesses missing rental payments, but rental income rose marginally (less than 0.1 percent).

Although income was firm in April, stay-at-home restrictions led to a stunning decline in consumer spending. If the April level of consumer expenditures were to be maintained over the next two months, real outlays in the second quarter would decline at an annual rate of approximately 50 percent (chart). Perhaps spending will pickup in May and June. Sheltering restrictions are starting to ease, and the income figures show that individuals still have financial wherewithal (assuming unemployment does not drag on).

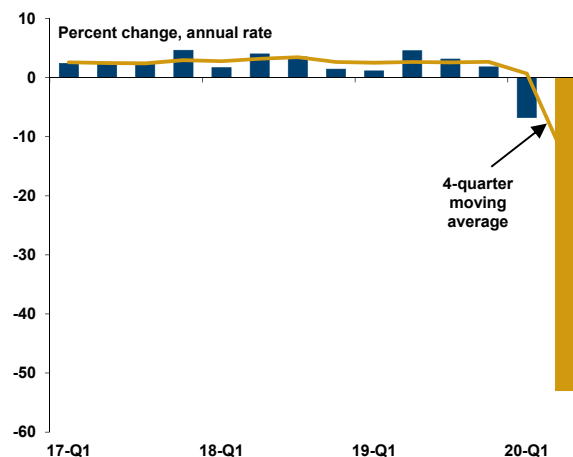
Personal Income*



* A sum of the wages and salaries and personal current transfer receipts components of personal income.

Source: Bureau of Economic Analysis via Haver Analytics

Real Consumer Spending*



* The reading for 2020-Q2 (gold bar) is an estimate based on results for April.

Source: Bureau of Economic Analysis via Haver Analytics; Daiwa Capital Markets America

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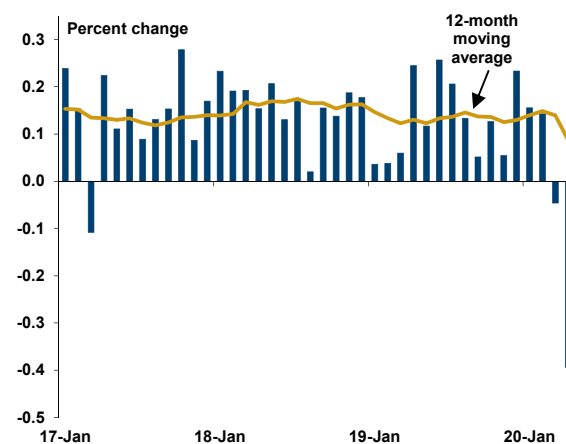
Inflation certainly is not an issue at this time. In fact, the latest price figures from today's report might stir concern about deflation. The headline price index for personal consumption expenditures fell 0.5 percent in April after a drop of 0.2 percent in March. Energy prices had a strong influence on the results, but core prices also were soft, slipping 0.4 percent in April after showing no change in March (and down slightly if rounded to more than one decimal point, -0.46 percent). The year-over-year changes totaled 0.5 percent for the headline index and 1.0 percent for the core measure (chart).

International Trade in Goods

The coronavirus seems to have hit the trade sector hard, as both exports and imports fell sharply in April (off 25.2 percent and 14.3 percent, respectively). Not only were the changes large, but they also were broadly based, with all six major categories on both sides of the trade ledger declining (food, industrial supplies, capital goods, motor vehicles, consumer, and other). Trade in motor vehicles stood out with declines of 65.9 percent in exports and 52.2 percent in imports, but other categories also posted notable retreats.

The shifts were larger on the export side, which left a noticeable widening in the monthly trade deficit (\$69.7 billion in April versus \$65.0 in March and an average of \$63.3 billion for the first quarter). The widening suggests a negative contribution from net exports to GDP growth in the second quarter. However, it is too early to shape definitive views because the figures are not price adjusted and the report did not include trade in services. Today's report also did not include trade by country, so an update on activity with China is not possible.

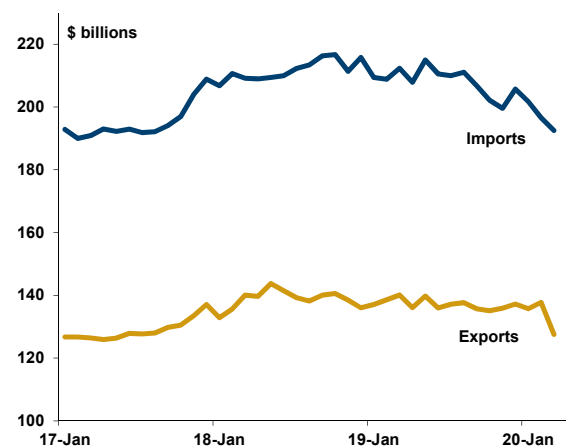
Core PCE Price Index



PCE = personal consumption expenditures

Source: Bureau of Economic Analysis via Haver Analytics

Nominal Imports & Exports of Goods



Source: U.S. Census Bureau via Haver Analytics