MONTHLY Economic Review

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The data for this report is released on a rolling schedule. The presented numbers are current as of publication and are subject to revision.

SYNOPSIS | Economic shadows and revelations in late fall

Thinking back to elementary school, we explored the concept of how the change of seasons impacts sunlight and shadows. We were instructed to go outside to the school flagpole to take repeated daily measurements and make observations. What we learned was that as autumn progresses, the shadows become longer and then on the first day of winter they are the longest. So, what are some of the shadows and revelations we can measure regarding the economy as we move into the final days of autumn and approach winter and the holiday shopping season? Fortunately, we are awash with key indicators that are released monthly or quarterly as well as high-frequency daily and weekly statistics that provide snapshots of economic activity.

The Commerce's Department's report on August income and consumption showed a divergence between the two, as expected. Year-over-year growth in nominal disposable personal income subsided to 5.4 percent from 9.5 percent the month before as government stimulus benefits declined. But consumer spending grew 1 percent over July. And even though it remained 1.9 percent lower than a year ago and 3.4 percent below its pre-COVID February level, that compares with being down by 16.1 percent in April, making the current numbers a comparative bright spot. Strong growth in retail sales during the last few months points to the resiliency of consumers even in this disruptive pandemic environment. Retail sales have been up both month over month and year over year since June, according to the Census Bureau. Meanwhile, the savings rate was at 14.4 percent in August, remaining in double digits for the sixth straight month. That means savings are available if consumers decide to spend more aggressively, potentially offsetting the loss of government payments.

As we wait each month and quarter for data from the Bureau of Economic Analysis and other sources, a quicker look is available from the Federal Reserve Bank of New York's Weekly Economic Index, a composite of 10 weekly indicators of real economic activity which indicates the economy is now tracking approximately 4 percent lower than a year ago but improving. The index stood at 1.55 percent for the week ending February 29 before plummeting to -11.45 percent the week of April 25, but had risen to -3.8 percent as of October 22. In addition, government statistics reveal that almost all the reduction in gross domestic product and subsequent gains have come from consumer spending.

Opportunity Insights, a Harvard-based research project that uses daily credit and debit card data, shows that there has been a sizeable consumer recovery. Their numbers show consumer spending was 3.7 percent lower as of October 11 compared with January, but that's a vast improvement over the low point of a 33 percent falloff as of March 30. The report found low-income households were spending 1.1 percent more than in January but that high-income households' spending was off by 7.2 percent. This and other studies provide preliminary evidence that most of the reduction in consumer spending has resulted from reductions by wealthier households, which cut spending more heavily when the COVID shock first hit in mid-March and have increased spending more gradually since then with levels remaining below normal. One potential reason could be that nonessential categories, including services, represent a larger share of spending for high-income households. Even though overall consumer spending remains below last year's levels, this real-time barometer indicates that retail sales have completed a V-shaped recovery and are up 8.6 percent since January, approximating the results of the Census Bureau's retail sales reports.

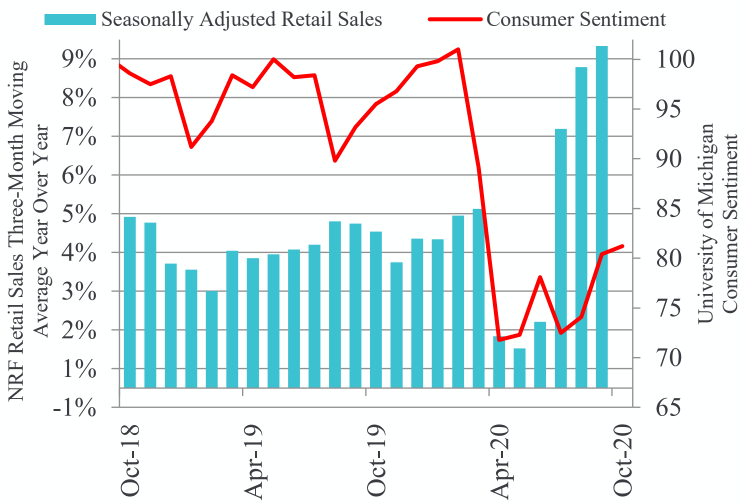
The University of Michigan's Consumer Confidence Index was at 81.2 in mid-October, relatively unchanged after a jump of more than six points to 80.4 in September from August. While confidence remained nearly 20 points below February, it continues to inch forward. The recent gains are driven by the expectations component, which rose 3.2 points from September. The survey showed the share of consumers saying finances were better than a year ago slipped modestly. Looking forward, how households perceive their finances will be an indication of their willingness to spend given decreased government support and an increased reliance on savings.

Unfortunately, recent economic gains are being overshadowed by the number of virus cases, which are up sharply in states across the Midwest and the Rocky Mountains after an earlier resurgence in Sun Belt. The acceleration raises concern about the potential inauspicious effect on economic activity but daily and weekly data does not show any fallout so far. The Federal Reserve Bank of Dallas' Mobility and Engagement Index, which tracks mobile devices to know where people go and gain insight into the economic impact of the pandemic, improved slightly to -37.71 as of October 17. That was far worse than the February 1 rating of 7.1 but far better than the -100 reading hit in mid-April as the country stayed home to avoid becoming infected. While more mobility is critical to economic activity, it also means spreading the virus, which presents a double threat to both lives and livelihoods.

Taking in all the evidence available, the U.S. economic recovery has progressed more quickly than generally expected. However, Federal Reserve Chairman Jerome Powell clearly stated in a recent speech to the National Association for Business Economics that the expansion "is still far from complete and the risks of policy intervention are still asymmetric." Powell said too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses, predicting bankruptcies would rise for both, harming the capacity of the economy and holding back wage growth. The chairman said "the risks of overdoing it seem, for now, to be smaller" and that "even if policy actions ultimately prove to be greater than needed, they will not go to waste." I agree that while there might be sufficient momentum and resiliency to propel the economy in the months ahead, additional fiscal policy support is critical to ensure that the recovery doesn't stall at a lower growth trajectory.

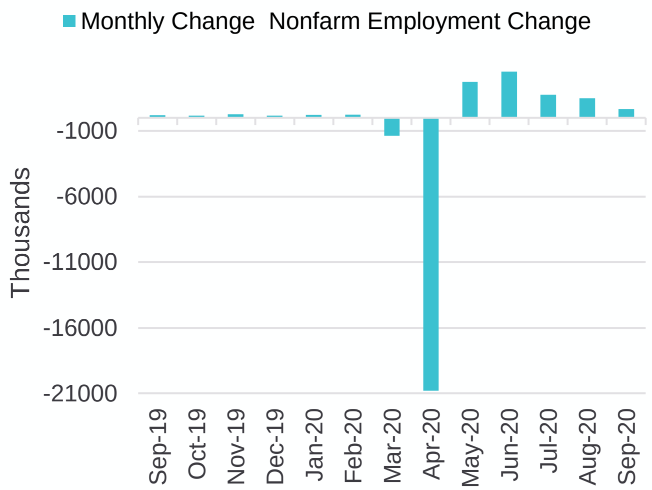
SALES AND SENTIMENT

Retail sales continue to recover strongly with the improving labor market, a rebound in consumer confidence and a shift in spending from services to goods.



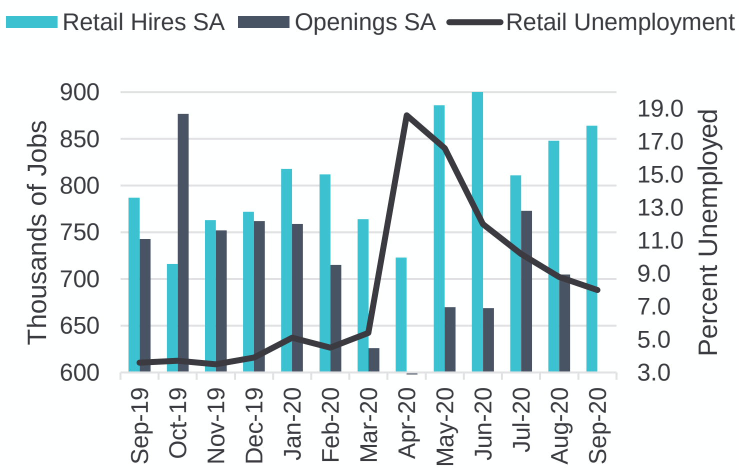
PAYROLL EMPLOYMENT

September's payroll employment gain of 661,000 showed jobs are recovering but was down from 1.49 million in August as the pace of recovery slowed.



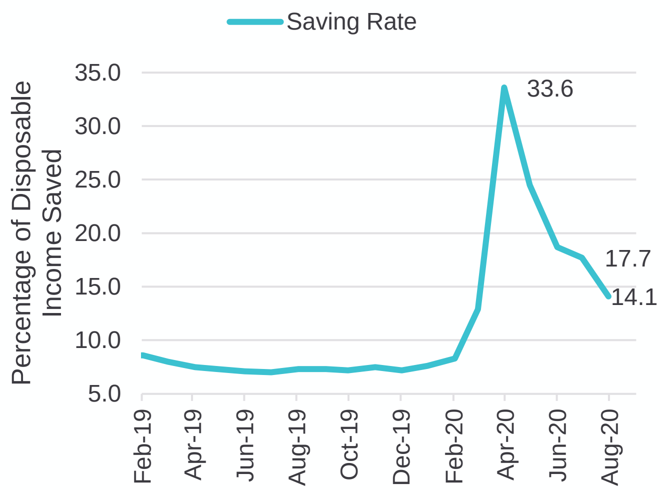
EMPLOYMENT CONDITIONS

American jobs were supported by the retail industry with monthly hires averaging approximately 850,000, according to the Job Openings and Labor Turnover Survey. September's retail unemployment rate of 8 percent was 10.6 percentage points lower than April.



SAVINGS RATE

August personal savings rate fell to 14.1 percent from July's 17.7 percent. Recent findings show stimulus payments helped consumer spending but most were saved or applied to debt.



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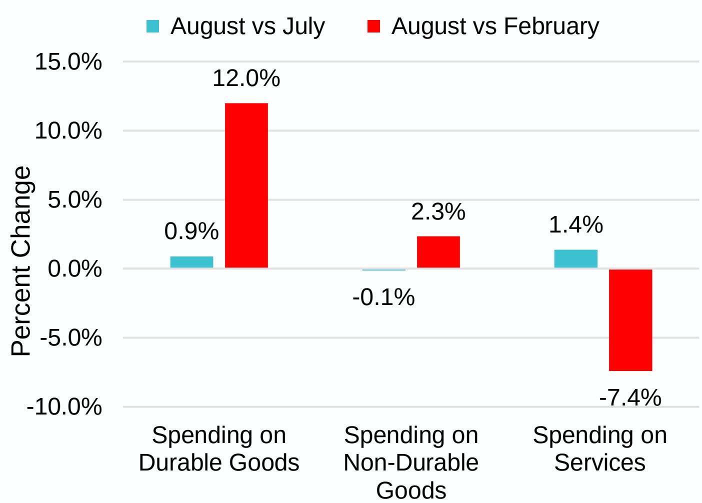
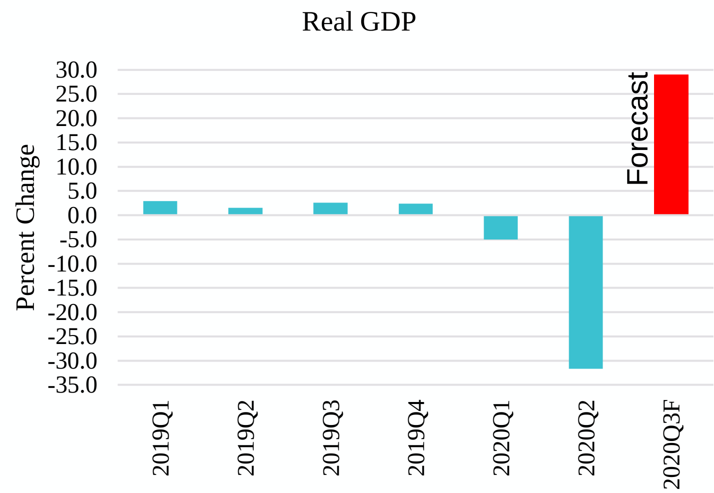
CONSUMER SPENDING

The impact of the pandemic and government stimulus has resulted in strong consumer goods purchases. However, services spending has not recovered from the pandemic shock.



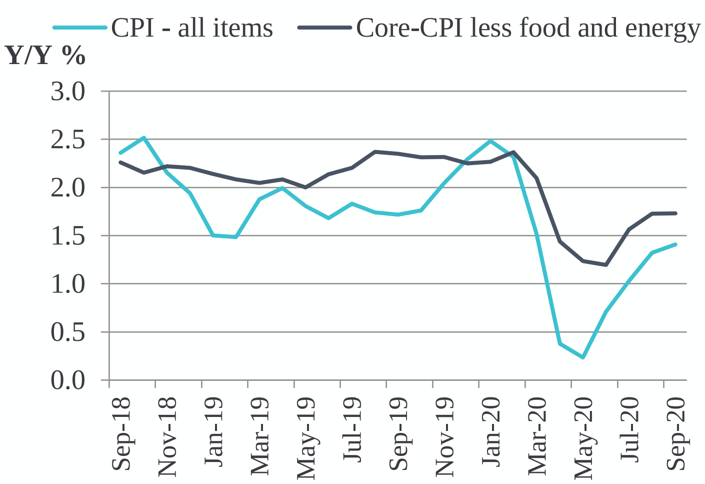
GDP GROWTH

Third-quarter GDP growth results are expected to rebound sharply and would reverse much of the 32 percent annualized decline in the second quarter.



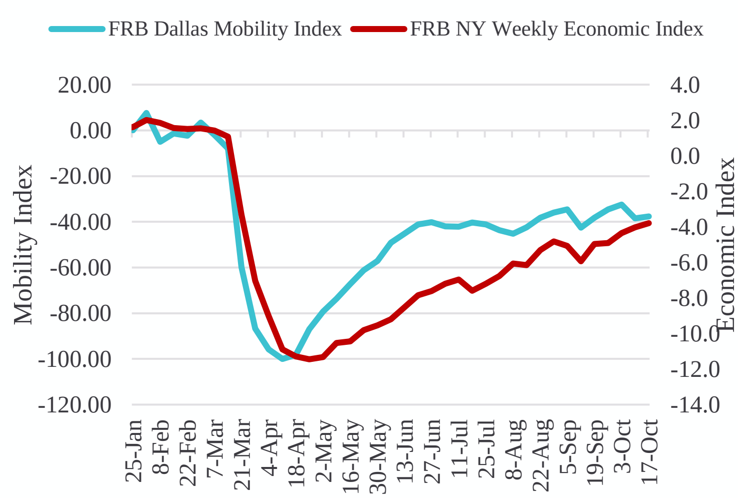
INFLATION

The pandemic has caused sizeable swings in consumer prices and inflation accelerated in the third quarter. However, the September CPI report reinforced a slowing of inflation in coming months.



FRB INDEXES

The New York Fed's Weekly Economic Index indicates overall economic activity has picked up from the summer slowdown. The Dallas Fed's Mobility and Engagement Index shows consumer activity has essentially leveled off.



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