

US: Gimme more, more, more

Stimulus payments, expanded unemployment benefits and the return of jobs means household incomes are surging. Spending and saving are rising strongly as a direct result, but inflation pressures are too...



Shoppers in Fairfax, USA

Cash is king!

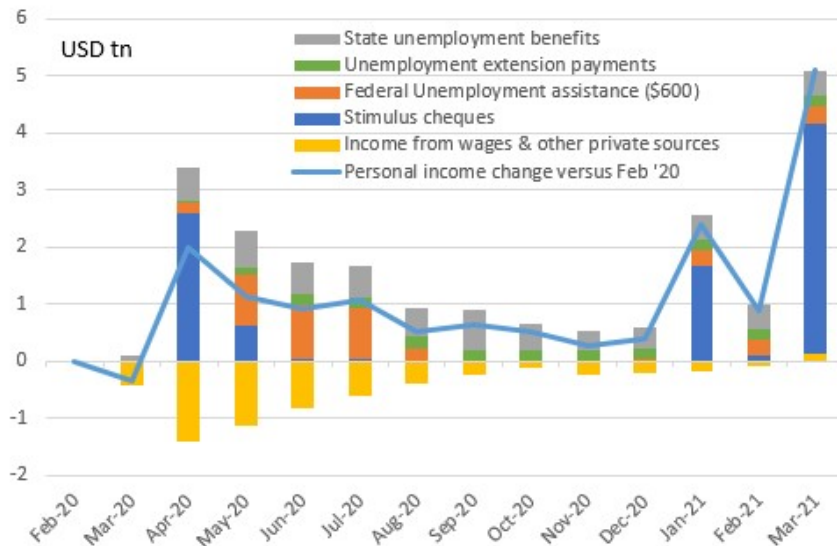
There is quite a lot to break down in the US household data for March. Firstly, incomes surged 21.1% month-on-month on the back of the latest \$1,400 stimulus payment made to tens of millions of Americans. There were also small, but important increases to household incomes from the extended and uprated unemployment benefits, but so too from wages and salaries. As the chart below shows, household incomes are, on an annualized basis, \$5tn higher than they were before the pandemic hit. An astonishing figure that helps to explain why the US economy has performed so well relative to Europe.

The European governments took the decision to try and preserve jobs by introducing furloughing schemes that effectively meant the government subsidized private sector salaries, albeit to a capped percentage and/or amount.

However, the US let the labour market clear – not standing in the way of job losses as lockdowns bit hard. This led to unemployment surging higher by 22 million, but the government then expanded and upgraded the unemployment benefit safety net and introduced stimulus payments of \$1,200 in April last year, \$600 in January and now \$1,400 in March. This financial support meant

that a majority of people who lost their jobs actually saw their incomes rise whereas European citizens in aggregate saw their incomes fall.

Change in annualised income levels versus February 2020



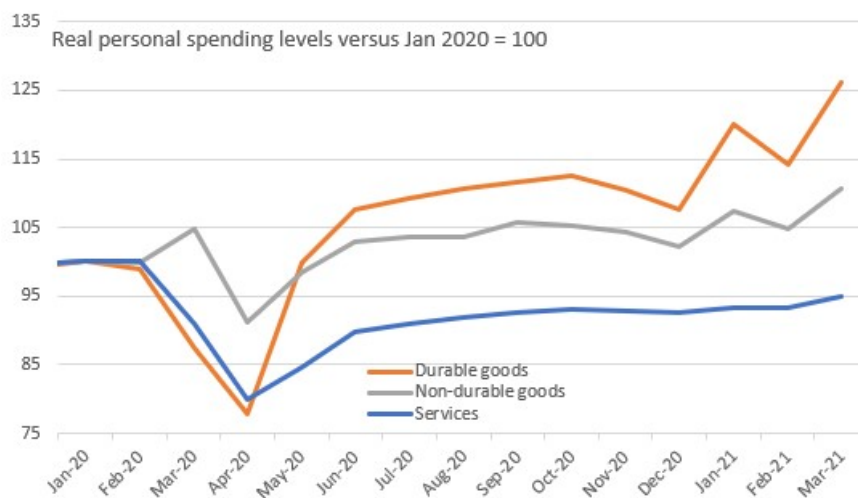
Source: Macrobond, ING

Spending up, saving up, debt down

With US incomes having been boosted so much this allowed consumer spending to rebound strongly after the initial lockdown shock and this has continued into March this year with a 3.6% MoM increase in real spending (adjusted for inflation). Not all of the income gains are being spent though with households strengthening their balance sheets by boosting savings and paying down debt – the US household savings ratio has jumped back up to 27.6% versus a long run average (since 2000) of 6.7%.

The pandemic effects can still be seen in the spending data with spending on durable goods (ones that should last more than 3 years – so not perishables such as food) up 25% on January 2020's levels, while spending on services is still down 5% on those levels. As the re-opening gathers momentum we expect to see the service sector narrow the gap with households choosing to spend a greater proportion of income on travel and leisure. With households having saved trillions of dollars, there is a lot of cash ammunition to fund it.

Level of real spending versus January 2020



Source: Macrobond, ING

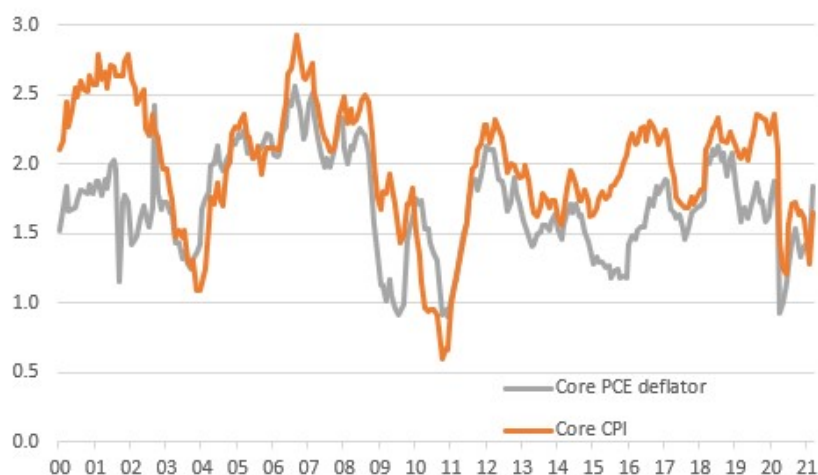
Price pressures are building

Turning to the inflation measures, the personal consumer expenditure deflator rose to 2.3% year-on-year in March versus 1.5% YoY in February while the core (ex food & energy) measure, which is regarded as the Fed's preferred metric, rose to 1.8% from 1.4%. While this was in line with expectations the fact that the core MoM rose 0.4% versus the 0.3% consensus suggests inflation momentum is starting to build more quickly.

Note too that employment cost index rose 0.9% QoQ versus 0.7% expected. This is arguably the more significant inflation news as it shows price pressures are spreading to the jobs market. This is typically viewed as a signal that inflation could be stickier over the longer term. The details show it is the biggest quarterly increase in employment costs for 14 years and is being driven by both salary & wages and higher benefits in the private sector.

So with more income, more spending and more inflation in the US household sector we continue to view the risks being skewed to an earlier reversal of the Federal Reserve's monetary policy stance than officials are signaling. We expect monthly QE asset purchases to be tapered before year end with a first interest rate increase in early 2023.

Annual inflation excluding food and energy



Source: Macrobond, ING

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