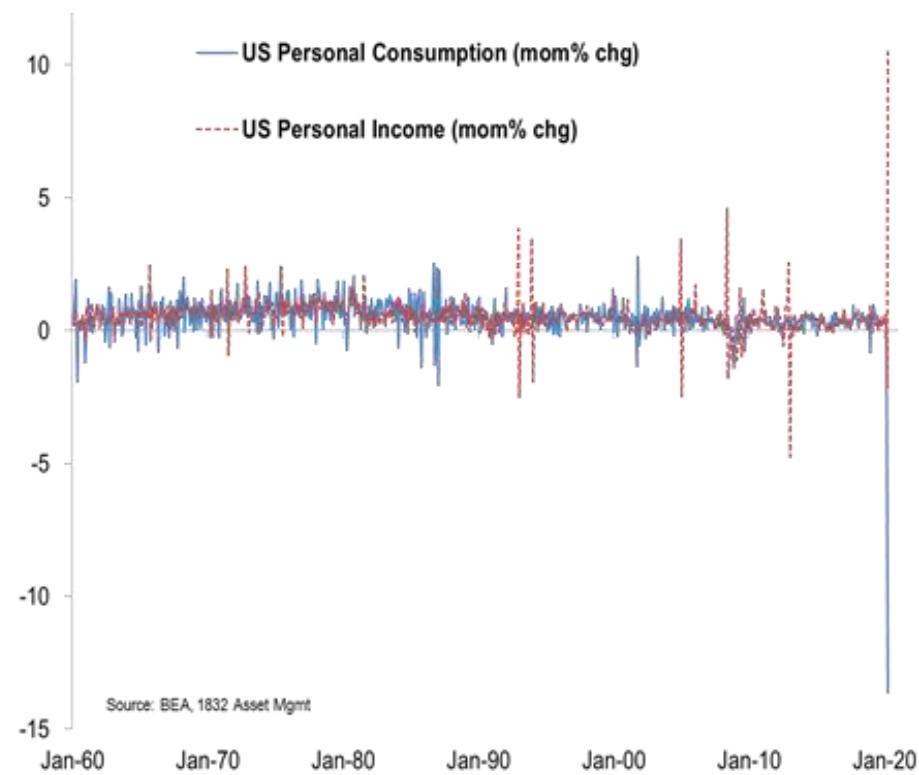


# Insights on recent market events

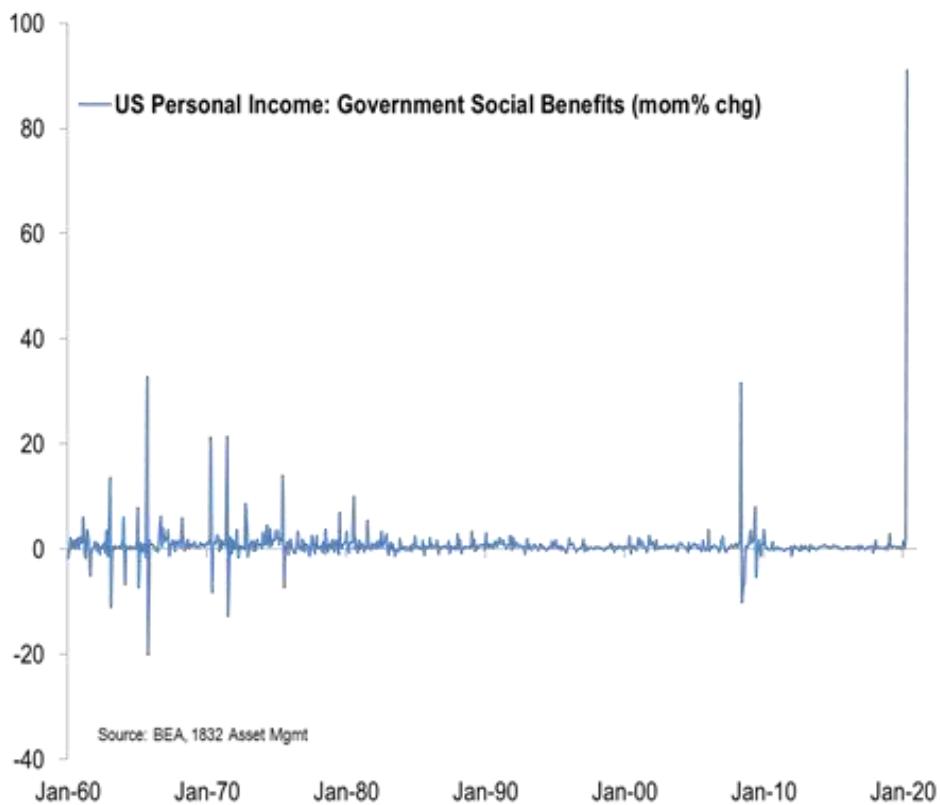
## Market Update: Rebuilding of Future Consumption

The latest set of data on U.S. personal income and spending, which covered the period to April, was a shocker. Consumption crashed, falling by 13.6% on a month-over-month basis. While the magnitude of the move was eye-catching, its direction was not entirely surprising given the widespread economic lockdowns in place. But both the direction and the size of the increase in personal income was a major surprise. We saw a 10.5% monthly increase, a spike never seen before in the history of this data. This was set against expectations from the analyst community for a 6% drop in income.



Personal income is mainly comprised of labor income and government transfer payments. We know with the spike in the unemployment rate that labor market income was under severe downward pressure during the period. Nevertheless, the surge in government transfers to individuals (+91%, m-o-m) much more than offset the loss in private sector income. The generosity of government programs has been unprecedented.

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So what were households doing with all of this new-found income? Stuffing it under their mattress. The savings rate has moved from 8.2% just before the health crisis to 33% most recently. The prior record occurred in May 1975, when the personal savings rate hit 17.3%. Civil unrest which has gripped the nation has only emboldened the precautionary motive to save. The historically-elevated savings rate leaves one heck of a lot of dry powder to use at some point after conditions begin to normalize.

## Insights on recent market events



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