Yardeni Research

MORNING BRIEFING
May 3, 2021

Taxing Matters

Check out the accompanying chart collection.

(1) Third round of relief checks. (2) Record increase to record high in personal income. (3) Personal saving at record high. (4) Plenty of liquidity available to push real GDP to record highs over rest of 2021. (5) Why raising tax rates may not raise tax revenues. (6) Economic growth is the best driver of tax revenues. (7) Tax expenditures are a sinkhole of exemptions and deductions. (8) Taxing capital gains. (9) The One Percent is paying more than 40% of federal income taxes. Isn't that enough? (10) Trump's tax cut benefitted people who probably hired more people with their tax windfalls. (11) Movie review: "Quo Vadis, Aida?" (+ + +).

YRI Zoomcast. In our latest video *podcast*, Dr. Ed discusses the main points of today's *Morning Briefing*.

US Economy: Over-the-Top Rescue. During March, the US federal government rescued us from the adverse economic effects of the pandemic for yet a third time since it started, by sending us a third round of relief checks. The personal income report released on Friday showed that March's installment of these *Economic Impact Payments* (EIP) totaled $337 billion, or $4.0 trillion at an annual rate. That implies that the $1,400 payments per eligible person were sent to 241 million Americans so far. Did so many of us really need another round of such relief?

The impact of the March payments was to send personal income and several of its components off the charts. All the data in the personal income release are reported at seasonally adjusted annual rates. Consider the following:

(1) *Record personal income.* During March, personal income soared by a record 21.1% m/m, or $4.2 trillion (saar) to a record $24.2 trillion, which is 26.6% above its February 2020 pre-pandemic record high (*Fig. 1*). Excluding "government social benefits to persons" (which includes the EIP), personal income rose 1.4% m/m during March to slightly above its February 2020 reading.

(2) *Lots of relief went into saving.* Not all of the relief money sent during the first two rounds was spent right away. The same can be said about the third round. Personal saving jumped from $2.5 trillion (saar) during February to $6.0 trillion during March, nearly matching last April's record $6.4 trillion (*Fig. 2*). At an annual rate, the EIPs totaled $4.0 trillion (saar) during March. Over the past

year, much of the EIPs has been saved in liquid assets, as evidenced by the record $3.9 trillion y/y increase in M2 through March.

(3) *Big GDP boost.* The $337 billion in EIPs sent during March followed $138 billion in such payments during January. As a result, real GDP jumped 6.4% (saar) during Q1, led by a 10.7% jump in consumer spending. (The 41.0% record jump in consumer spending occurred during Q3-2020 following the first round of EIP checks, totaling $300 billion, during April and May.) The huge pile-up in personal saving during March suggests that there is plenty of purchasing power available in liquid assets to fuel further big gains in consumer spending and GDP over the rest of the year.

By the way, the biggest drag on Q1's real GDP was inventory investment. Final sales rose 9.2% during the quarter. In any event, real GDP has almost fully recovered and is set to rise into record-high territory during Q2 as consumer spending is fueled by a drop in personal saving while businesses scramble to rebuild inventories.

Taxes I: Growth Is Good. The Biden administration is proposing to raise tax rates on corporate profits, individual incomes, and capital gains to boost federal revenues by trillions of dollars over the next 10 years to pay for its $2.0 trillion American Jobs Plan and $1.8 trillion American Family Plan. The administration has already committed to spend $1.9 trillion on its *American Rescue Plan*, which was enacted on March 18 and is 100% deficit financed.

This raises an interesting question: Will raising tax rates raise more revenues for the federal government? It should, unless the higher tax rates weigh on economic growth, i.e., slow the growth rates of profits and incomes and reduce capital gains. The exact impact of higher tax rates on revenues and economic growth is hard to predict. But higher tax rates are more likely to depress economic growth than to boost it. Then again, the administration can argue that the positive multiplier effects of fiscal spending on the economy should more than offset the negative effects of higher taxes.

I've never been a big believer in the so-called "multiplier effect" of fiscal spending, so I'm skeptical that the net effect of the administration's latest two tax-financed plans will be stimulative. In any event, the historical data, starting in 1948, suggest that federal tax revenues tend to follow the underlying trend in nominal GDP very closely, with offsetting cyclical swings around the trend no matter what changes are made in the tax code. So the outlook for federal revenues will be mostly determined by whether the latest two plans are positive or negative contributors to economic growth. Consider the following:

(1) *Automatic stabilizer.* Federal tax receipts as a ratio of nominal GDP have averaged 17.6%

since 1948 (*Fig. 3*). This ratio tends to rise during economic expansions and to fall during recessions. While I am not a fan of most Keynesian textbook economic dogmas, there is plenty of evidence that taxes tend to act as an "automatic stabilizer" during business cycles. Tax revenues tend to rise during economic booms, thus automatically tapping on the economic brakes. They tend to fall during the bad times, thus providing some relief to taxpayers.

(2) *Income tax cycle.* Much of the cycle in the ratio of federal tax receipts to nominal GDP is attributable to individual income tax receipts (*Fig. 4*). This cycle too seems to have more to do with the business cycle than with any changes in income tax rates. The ratio of payroll taxes to nominal GDP has been relatively flat during the past four business cycles. The ratio of corporate tax revenues to nominal GDP is also pro-cyclical, but less so than the one for individual income taxes, which may be more cyclical because of the impact of capital gains taxes.

(3) *The deepest well.* Last year, current-dollar personal income totaled $19.7 trillion, while corporate pre-tax book profits totaled $2.2 trillion. Clearly, taxing individual incomes produces lots more revenues than taxing corporations. Over the past 12 months through March, the Treasury collected $1.7 trillion in taxes on individual incomes, $1.3 trillion through payroll taxes, and only $232 billion on corporations (*Fig. 5*).

The percentages of federal tax revenues attributable to receipts from taxing individual incomes, payrolls, and corporate profits have been remarkably stable since 1983 (*Fig. 6*). The first percentage has fluctuated around 50%, the second percentage has fluctuated around 40%, while the third has averaged about 10%. Again, that's despite all the changes that have occurred in the tax code.

This analysis confirms that fiscal and regulatory policies that boost economic growth are a surer way to boost federal tax revenues than to raise tax rates, especially over the 10-year timeframe of our government's budget projections.

Taxes II: The Tax Base & Tax Expenditures. Again, all of the above suggests that raising tax rates isn't the best way to raise tax revenues. Pro-growth economic policies make more sense. So does increasing the tax base.

However, the trend in our country has been to reduce the tax base, which has shrunk as tax credits, exemptions, and deductions have proliferated. According to the latest available IRS data, while everyone who works on the books pays payroll taxes, one-third of tax returns filed for 2016 showed no income taxes paid. (Apparently, the IRS has stopped reporting this series.) Furthermore, the increasingly convoluted tax code continues to provide corporate tax attorneys with lots of legitimate ways to lower their clients' tax bills.

The Congressional Budget Act of 1974 requires that a list of "tax expenditures'' be included in the budget. Tax expenditures are defined in the law as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability.'' These exceptions may be viewed as alternatives to other policy instruments, such as spending or regulatory programs.

The Treasury *projects* that tax expenditures will total $1.4 trillion during the current fiscal year (ending September) and $17.7 trillion from 2020 to 2029. At the top of the list is the exclusion of employer contributions for medical insurance premiums at $3.1 trillion from 2020 to 2029. In seventh place on the list is the deductibility of mortgage interest on owner-occupied homes at $644 billion. In ninth place is the capital gains exclusion on home sales at $594 billion.

Taxes III: What's the Fair Share? Socialists promote policies that they claim will lead to income equality. Most countries that have embraced socialism have achieved income equality: Almost everyone is poorer than before socialism was imposed on them for their own good.

Socialists declare that the rich must pay their "fair share" so that the proceeds can be redistributed to boost the incomes of the poor. The problem is that the fair share that the rich must pay never seems to be enough. Higher and higher taxes on the rich result in fewer and fewer of them. Eventually, the only fat cats left are the socialist elites, who always get richer as most of the rich in the private sector get poorer. Needless to say, the poor also get poorer as a result.

In the US today, progressive politicians claim that the "One Percent" of taxpayers of taxpayers are compensated too much, have too much wealth, and don't pay their fair share of taxes. Let's see what the latest available data through 2018 show:

(1) *Number of tax returns.* The total number of all the tycoons on Wall Street, in Silicon Valley, and in the C-suites of corporate America—including everyone with adjusted gross income (AGI) exceeding $500,000 a year—was 1.6 million taxpayers in 2018, exactly 1% of the 153.6 million taxpayers who filed individual income tax returns that year, according to the latest available data from the Internal Revenue Service (IRS) (*Fig. 7*).

(2) *Adjusted gross income.* During 2018, US adjusted gross income (AGI) totaled $11.7 trillion. The AGI of the One Percent was $2.5 trillion during 2018, accounting for 21.7% of the total (*Fig. 8* and *Fig. 9*).

That’s outrageous: The One Percent earned one-fifth of all national AGI! Off with their heads!

(3) *Taxes.* Not so fast, Robespierre. Collectively, during 2018, the One Percent paid $639 billion in income taxes, or 25.3% of their AGI (*Fig. 10* and *Fig. 11*). That amount represented a record 41.5% of the $1.54 trillion in federal income taxes paid by all taxpayers (*Fig. 12*). That’s up from 26.1% in 2001. Meanwhile, the rest of us working stiffs, the “Ninety-Nine Percent,” picked up only 58.5% of the total tax bill during 2018.

What should be the fair share for the One Percent? Instead of about 40% of the federal government’s tax revenue, should the One Percent be kicking in 50%? Why not 75%? These taxpayers would be less rich, but everyone else would be richer—unless paying more in taxes caused the One Percent to work less hard or leave the country, sapping their incentive to keep creating new businesses, jobs, and wealth.

(4) *Taxing math.* To repeat, during 2018 the One Percent reported $2.5 trillion in AGI, which accounted for 21.7% of total AGI. They paid $639 billion in income taxes, which was 25.3% of their AGI but accounted for 41.5% of total income taxes paid to the IRS.

I’m sure there are plenty of progressives who believe that the One Percent should pay at least 50% of their AGI in income taxes. That would have amounted to an extra $600 billion in their tax bill for a total of $1.25 trillion. Total tax revenues would have been $2.1 trillion, with the One Percent’s fair share of that at 60%. There would have been plenty more tax revenues for the government to spend and redistribute.

So let’s tax the rich much more! But what will we do when they are all gone?

Taxes IV: Trump’s Tax Cut. We can slice and dice the IRS data to see how President Trump’s tax reform affected individual income tax receipts during 2018 compared to 2017, i.e., before and after tax reform. The number of tax returns increased 0.6% from 152.9 million to 153.8 million, while AGI rose 5.7% to $11.64 trillion (*Fig. 13* and *Fig. 14*). Total individual income taxes paid fell 4.3% to $1.54 trillion as the average tax rate fell from 14.6% during 2017 to 13.2% during 2018, which was the lowest since 13.1% during 2012 (*Fig. 15* and *Fig. 16*).

The IRS data show the following declines in the average tax rates (based on AGI) for the following AGI income groups:

$0-$50,000 (down 0.1ppt … from 0.7% to 0.6%)

$50,000-$100,000 (down 1.4ppt … from 8.9% to 7.5%)
$100,000-$200,000 (down 1.5ppt … from 12.6% to 11.1%)
$200,000-$500,000 (down 2.6ppt … from 19.2% to 16.6%)
$500,000 and over (down 1.4ppt … from 26.7% to 25.3%)

These numbers suggest that the biggest winners were in the $200,000-$500,000 AGI group that filed 6.9 million returns during 2018. They aren't the One Percent, but they are in the "Five Percent," i.e., upper middle class, with many of them owning their own businesses that employ lots of people. Arguably, the tax break provided the Five Percent with more cash to expand their businesses, which certainly explains why the labor market was so strong in 2018 and 2019.

The Biden administration's pledge only to raise taxes on taxpayers earning more than $400,000 per year means that lots of business owners will be hit. An increase in their tax bills reduces the cash that they have to invest in growing their businesses. In one way or another, a tax increase on them will trickle down and hurt the wages and employment opportunities of lots of people earning much less than $400,000.

But at least there will surely be more income equality.

Movie. "Quo Vadis, Aida?" (+ + +) (*link*) is a searing docudrama about the mass murder committed by the Serbian army in Srebrenica during 1995. When Serbian General Ratko Mladic and his soldiers invaded the town, which was supposed to be a safe zone protected by the United Nations, thousands of Bosnians fled to the UN base camp begging for protection. The movie was nominated for Best International Feature Film by the Academy Awards. In yet another sign of how clueless Hollywood is these days, the winner was a Danish film about getting drunk to find happiness.

Calendars

US: Mon: ISM & Markit M-PMIs 65.0/60.6, ISM Price Index 86.0, Construction Spending 2.0%, Motor Vehicle Sales, Powell. **Tues:** Balance of Trade -$74.3b, Factory Orders 1.3%, API Crude Oil Inventories. (DailyFX estimates)

Global: Mon: Eurozone, Germany, France, Italy, and Spain M-PMIs 63.3/66.4/59.2/61.0/59.0, Germany Retail Sales 3.0%m/m/-0.3%y/y, Enria, Balz. **Tues:** UK M-PMI 60.7, UK Mortgage Lending £5.8b, Canada Balance of Trade $0.8b, RBA Interest Rate Decision 0.1%. (DailyFX estimates)

Strategy Indicators

Global Stock Markets Performance (*link*): Last week saw the US MSCI index tick down 0.1% for its second straight weekly decline after four weeks of gains. The US ranked 23rd of the 49 global stock markets that we follow in a week when just 19 of the 49 countries rose in US dollar terms and the AC World ex-US index dropped 0.5%. EMEA was the best-performing region last week with a gain of 0.9%, ahead of EM Asia (-0.3%). EM Latin America was the biggest underperformer with a decline of 1.7%, followed by EAFE (-0.8), BRIC (-0.8), EM Eastern Europe (-0.7), and EMU (-0.7). India was the best-performing country last week, with a 3.3% gain, followed by Turkey (3.2), Poland (2.5), and Thailand (2.5). Chile was the worst performer with a decline of 7.9%, followed by Colombia (-5.6), Sri Lanka (-4.2), and Mexico (-3.8). In April, the US MSCI rose 5.4% and ranked 12/49 as the AC World ex-US index underperformed with a gain of 2.7%. Thirty-six of the 49 countries moved higher in April as all regions rose. Poland was the best performer with a gain of 9.4%, followed by Taiwan (7.7), Argentina (7.5), and Greece (7.2). The worst-performing countries in April: Chile (-9.6), Colombia (-7.2), Peru (-6.4), and Sri Lanka (-4.3). EMU rose 4.2% in April, ahead of EM Latin America (3.2), EMEA (3.1), and EAFE (2.7). BRIC was April's worst-performing region, albeit with a gain of 1.2%, followed by EM Eastern Europe (1.6) and EM Asia (2.3). The US is the top-performing region so far in 2021 with a gain of 10.7%, ahead of EMEA (9.1), EMU (8.9), and the AC-World ex-US (5.7). The following regions are lagging: EM Latin America (-3.1), BRIC (1.0), EM Eastern Europe (4.2), and EM Asia (4.3). The top-performing countries ytd: Taiwan (19.2), the Netherlands (16.6), Sweden (14.3), Norway (13.7), and Canada (13.6). The biggest laggards of 2021 so far: Colombia (-23.2), Turkey (-21.4), Peru (-16.5), the Philippines (-11.2), and Sri Lanka (-9.6).

S&P 1500/500/400/600 Performance (*link*): LargeCap was the only one of these three indexes to rise last week, but barely did so, by less than 0.1%. SmallCap dropped 0.3% for the week and MidCap was down 0.7%. Fifteen of the 33 sectors were higher for the week, down from 18 rising a week earlier. LargeCap ended the week 0.7% below its record high on Thursday, while MidCap ended the week 1.3% below its Tuesday record high. SmallCap is 3.7% below its record high on March 12. SmallCap Energy rose 5.1% in the best performance for the week, followed by LargeCap Energy (3.6), LargeCap Communication Services (2.9), and MidCap Energy (2.9). MidCap Tech (-3.7) was the worst performer, followed by MidCap Communication Services (-3.0), SmallCap Tech (-2.9), and SmallCap Consumer Staples (-2.7). LargeCap rose 5.2% during April, ahead of MidCap (4.4) and SmallCap (2.0) as 30 of the 33 sectors rose. April's best performers:

LargeCap Real Estate (8.1), LargeCap Communication Services (7.6), LargeCap Consumer Discretionary (7.1), MidCap Real Estate (6.7), and LargeCap Financials (6.4). April's decliners: MidCap Communication Services (-3.3), SmallCap Energy (-3.0), and SmallCap Consumer Staples (-0.9). SmallCap continues to lead so far in 2021 with a gain of 20.3%, ahead of both MidCap (18.1) and LargeCap (11.3). All 33 sectors are higher ytd, paced by these best sector performers: SmallCap Consumer Discretionary (42.1), SmallCap Energy (38.7), MidCap Energy (34.2), LargeCap Energy (29.9), and MidCap Consumer Discretionary (28.1). The biggest laggards so far in 2021, albeit with gains: LargeCap Consumer Staples (2.5), MidCap Communication Services (2.9), LargeCap Utilities (6.2), LargeCap Health Care (6.7), and LargeCap Tech (7.0).

S&P 500 Sectors and Industries Performance (*link*): Seven of the 11 S&P 500 sectors rose last week as eight outperformed the composite index's relatively flat performance. That compares to a 0.1% decline for the S&P 500 a week earlier when four sectors rose and five outperformed the index. Energy rose 3.6% for the biggest gain of the week, ahead of Communication Services (2.9%), Financials (2.4), Real Estate (1.1), Consumer Discretionary (0.9), Industrials (0.3), Utilities (0.2), and Materials (0.0). The worst performers: Tech (-2.1), Health Care (-1.9), and Consumer Staples (-0.1). The S&P 500 rose 5.2% in April as all 11 sectors moved higher and five beat the broader index. That compares to all 11 rising in March, when six beat the S&P 500's 4.2% gain. The leading sectors in April: Real Estate (8.1), Communication Services (7.6), Consumer Discretionary (7.1), Financials (6.4), and Materials (5.3). April's smallest gainers: Energy (0.5), Consumer Staples (2.0), Industrials (3.5), Health Care (3.9), Utilities (4.2), and Tech (5.2). With respect to 2021's performance, the S&P 500 has risen 11.3% so far, with all 11 sectors higher ytd and six beating the broader index. The leading sectors so far in 2021: Energy (29.9), Financials (22.7), Real Estate (17.2), Communication Services (16.1), Industrials (14.9), and Materials (14.3). This year's laggards to date: Consumer Staples (2.5), Utilities (6.2), Health Care (6.7), Tech (7.0), and Consumer Discretionary (10.2).

S&P 500 Technical Indicators (*link*): The S&P 500 was up less than 0.1% last week and weakened relative to its 50-day (50-dma) and 200-day moving averages (200-dma). It was above its 50-dma for a ninth week after dropping below for a week at the end of February for only the second time since early November. It was above its 200-dma for a 44th straight week after being below for 13 weeks through late May. The S&P 500's 50-dma rose for a 26th week after falling for a week at the end of October for the first time in six months. The price index dropped to 4.4% above its rising 50-dma from 5.1% a week earlier and a 19-week high of 5.8% the week before that. That compares to 0.1% below its rising 50-dma the week at the end of February and is down from a 13-week high of 6.0% above its rising 50-dma in mid-November. It has been mostly trading above its 50-dma since late April 2020 and peaked in June 2020 at 11.7% above, which was the highest since its record high of 14.0% in May 2009. That compares to 27.7% below on March 23, 2020—its lowest reading since it was 29.7% below on Black Monday, October 19, 1987. The price index was above its 200-dma for a 44th week, but dropped to 13.8% above its rising 200-dma from 14.5% a week earlier and a 14-week high of 15.4% the week before that. It had been at a 17-week low of 9.7% above at the end of February. That compares to a 17.0% reading in early December, which was the highest since November 2009 and up from the 26.6% below registered on March 23—the lowest reading since March 2009. At its worst levels of the Great Financial Crisis, the S&P 500 index was 25.5% below its 50-dma on October 10, 2008 and 39.6% below its 200-dma on November 11, 2008.

S&P 500 Sectors Technical Indicators (*link*): Ten of the 11 S&P 500 sectors traded above their 50-dmas last week, unchanged from the prior two weeks and down from all 11 during the first two weeks of April; that compares to four above at the end of January. Energy was the sole laggard, trading below its 50-dma for a third week after 10 weeks above. Looking at the longer-term 200-dmas, all 11 sectors traded above them for a ninth week. During April 2020, just one sector (Health Care) was above its 200-dma. The 50-dma has been rising for all 11 sectors for four weeks. That compares to just six sectors with a rising 50-dma in mid-March, which had been the lowest count since early November. All 11 sectors have had rising 200-dmas for the past eight weeks. Energy's 200-dma finally turned higher in mid-December after mostly falling since October 2018.

US Economic Indicators

GDP (*link*): Real GDP for Q1 accelerated 6.4% (saar), as a surge in consumer spending led overall GDP to within a fraction of Q4-2019's record high. Economic growth had slowed to 4.3% (saar) during the final quarter of last year, after soaring from a record decrease of 31.4% during Q2 (at the height of the Covid outbreak) to a record increase of 33.4% during Q3. Real personal consumption expenditures expanded 10.7% (saar) during Q1—more than quadruple Q4's 2.3%—and the second largest quarterly expansion since 1965 (behind Q3-2020's record high of 41.0%). Spending on goods (23.6%, saar) rebounded from Q4's 1.4% drop, as both consumer durable (41.4) and nondurable (14.4) goods spending accelerated at double-digit rates. The former was driven by motor vehicles, the latter by food & beverages. Meanwhile, consumer services (4.6%, saar) consumption was led by an acceleration in food services & accommodations. Also pushing real GDP higher were nonresidential and residential investment, along with government spending. Real nonresidential investment growth slowed for the second month, to 9.9% (saar) from Q2-2020's 22.9%, though growth in equipment (16.7) and intellectual products (10.1) continued to record double-digit gains, while investment in structures (-4.8) contracted for the sixth successive quarter. Real residential investment advanced 10.3% (saar) last quarter, slowing from gains of

36.6% and 63.0% the previous two quarters. Real government spending expanded 6.3% (saar)—its first quarterly increase since mid-2020—as federal spending (13.9%, saar) wasn't far from Q2-2020's gain of 16.4%—which was the strongest since Q1-1967; state & local government spending (1.7%, saar) posted its first increase in a year, though a modest one. The real trade deficit widened for the third straight quarter during Q1 to a record -$1,176 billion. Exports (-1.1%, saar) were marginally lower last quarter after soaring 22.3% and 59.6% the prior two quarters., while real imports advanced for the third quarter, by 5.7% (saar), after spiking 29.8% and 93.1% the prior two quarters. The change in real inventories contracted $85.5 billion (saar) during Q1 after accumulating for the first time in five quarters during Q4, by $62.1 billion.

Contributions to GDP Growth (*link*): Real consumer spending was by far the biggest contributor to Q1 real GDP growth, followed by capital, government, and residential investment. Inventory investment was the largest negative contributor. Some highlights: 1) Real consumer spending added 7.02ppts to Q1 GDP—with goods consumption contributing 4.94ppts and services consumption 2.07ppts. Within goods consumption, both durable (2.95ppts) and nondurable (2.00) goods consumption added to growth after subtracting slightly during Q4. 2) Real nonresidential investment contributed 1.29ppt, as positive contributions from equipment (0.93ppt) and intellectual property products (0.48) more than offset the negative contribution from structures (-0.12)—which subtracted from growth for the sixth consecutive quarter. 3) Government (1.12ppt) spending added to GDP growth for the first time in three quarters, with federal (0.93ppt) spending contributing over 80% of the gain from the government sector. 4) Real residential investment contributed 0.49ppt to real GDP growth last quarter, its sixth positive contribution in seven quarters; Q2-2020 was the exception. 5) Inventory investment (-2.64ppts) was a drag on real GDP growth for the first time since mid-2020, with nonfarm (-2.57) accounting for most of the loss. 6) Meanwhile, the real net exports (-0.87ppt) subtracted from GDP growth for the third consecutive quarter after adding to growth the prior four quarters, with real imports (-0.77) accounting for nearly all of the negative contribution last quarter.

Personal Income & Consumption (*link*): Both personal income and spending rebounded in March, boosted by the distribution of the $1,400 stimulus checks. Personal income soared 21.1% to a new record high of $24.2 trillion, after sinking 7.0% during February, as government social benefits jumped 96.2% and fell 27.7% over the comparable periods. Meanwhile, wages & salaries hasn't posted a decline in 11 months, climbing by 1.1% m/m and 12.8% over the period to a new record high. Consumer spending rebounded 4.2% in March to a new record high, following a 1.0% loss in February and a 3.4% gain in January. Real personal consumption expenditures expanded 10.7% (saar) during Q1 and was the biggest positive contributor to GDP growth last quarter—led by goods (23.6%, saar) consumption—though services (4.6) spending also contributed and will likely contribute more as the broader economy opens up. Consumers are sitting on a near-record

$6.0 trillion in savings, which should keep consumers spending.

Consumer Sentiment Index (*link*): Consumer sentiment continued to improve in late April, climbing to a new pandemic high, and Richard Curtin, director of the survey, notes “The data indicate an exceptional outlook.” According to the report, “The largest and most important change in April was that an all-time record number of consumers expected declines in the unemployment rate during the year ahead.” The Consumer Sentiment Index (CSI) climbed for a second month last month to a 13-month high of 88.3 (up from the 86.5 mid-April reading); it had dropped the first two months of the year from 80.7 in December to 76.8 by February. All of the upward revision to the headline number from the mid-month reading occurred in the expectations component. It climbed from 70.7 in February to a 14-month high of 82.7 in April—up from the mid-month reading of 79.7. Meanwhile, the present situation (to 97.2 from 86.2) component climbed 11.0 points over the two-month period—to a 13-month high. Renewed confidence stems from a growing share of the population that is vaccinated along with record fiscal stimulus spending, both recently passed and proposed.

Pending Home Sales (*link*): “The increase in pending sales transactions for the month of March is indicative of high housing demand," said Lawrence Yun, NAR's chief economist. The Pending Home Sales Index rose 1.9% in March to 111.3, snapping two consecutive months of losses, with sales 23.3% above last March. Regionally, sales rose in every region but the Midwest in March, with all recording double-digit yearly gains. Here’s a look: Northeast (6.1% m/m & 16.7% y/y), West (2.9 & 29.8), South 2.9 & 27.9), and Midwest (-3.7 & 14.1). Yun notes that low inventory has been a consistent problem, but more inventory is expected as new home construction escalates. Existing home sales are projected to rise by 10% this year to 6.2mu, while housing starts are projected to reach 1.6mu this year and 1.7mu next year.

Global Economic Indicators

Eurozone Economic Sentiment Indicators (*link*): Economic Sentiment Indexes (ESIs) for both the EU (+9.8 points to 109.7) and Eurozone (+9.4 to 110.3) posted the biggest monthly gains on record in April, building on March gains of 6.8 points and 7.5 points, respectively. EU sentiment is the highest since November 2018, the Eurozone’s since September 2018. The ESI rose markedly in Poland (+11.3 points to 101.6) and the Netherlands (+10.7 to 108.6), as well as the top four Eurozone economies, led by Spain (+9.1 to 106.0), followed by France (+8.5 to 104.7), Germany (+5.7 to 109.4), and Italy (+5.3 to 104.8), respectively. With the recent move up, all six of these countries are above their long-term averages of 100. For the overall EU at the sector level, industry confidence (+8.3 points to 9.4) increased in April for the fifth successive month—and the 11th time since bottoming last April—soaring 41.7 points over the 12 months through April. Last month, services' (+12.2 points to +2.8) confidence posted its second significant increase in a row, adding to its 6.7-point advance in March. Meanwhile, consumer confidence climbed for the fourth time in five months, by 9.5 points over the period to -9.0—its best reading since last February. Construction (+5.8 points to +0.8) confidence got a big shot in the arm in April for the second month, though it has been steadily improving since November. It's up 10.5 points during the two months through April to its best level since before the pandemic. Retail trade (+9.5 points to -1.5) confidence also posted a sizeable gain for the second successive month, rebounding 15.6 points the past two months to its best reading since February 2020.

Eurozone GDP Flash Estimates (*link*): Economic activity in the Eurozone contracted during the first three months of this year as a third wave of coronavirus infections triggered new lockdowns and restrictions. Real GDP fell 0.6%, according to preliminary estimates, following Q4's 0.7% shortfall, signaling that the region is in a technical recession. Of the top four Eurozone economies, Germany (-1.7%) recorded the largest decline, followed by Spain (-0.5), and Italy (-0.4)—with the former recording its first decline since Q2-2020. In the meantime, France (+0.4) bucked the trend and returned to growth. Looking ahead, the overall region is expected to return to growth as vaccination programs allow governments to lift restrictions and Covid-support funds start during the second half of this year.

Eurozone CPI Flash Estimate (*link*): April's CPI headline rate is expected to accelerate to a two-year high, according to flash estimates, while the core rate is expected to slow for the third successive month. April's rate is predicted to climb to 1.6% y/y, up from 1.3% in March and a recent low of -0.3% all three months of Q4. The core rate is expected to slow for the third month to 0.8% y/y after accelerating sharply to 1.4% in January—which was the highest since October 2015—following record-low readings of 0.2% from September through December. Looking at the main components, energy (to 10.3% from 4.3%) is expected to swing further into positive territory after moving above zero in March for the first time since January 2020, while the rate for non-energy industrial goods is expected to accelerate 0.5% after slowing from 1.5% in January to 0.3% by March. Inflation rates for both services (to 0.9% from 1.4% in January) and food, alcohol & tobacco (0.7 from 1.5) are expected to slow for the third straight month. Of the top four Eurozone economies, rates for Germany (2.1% y/y), Spain (1.9), and France (1.7) are expected to be above the headline rate of 1.6%, while Italy's (1.0) is expected to be below. Spain's rate was negative every month but one from October through February.

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