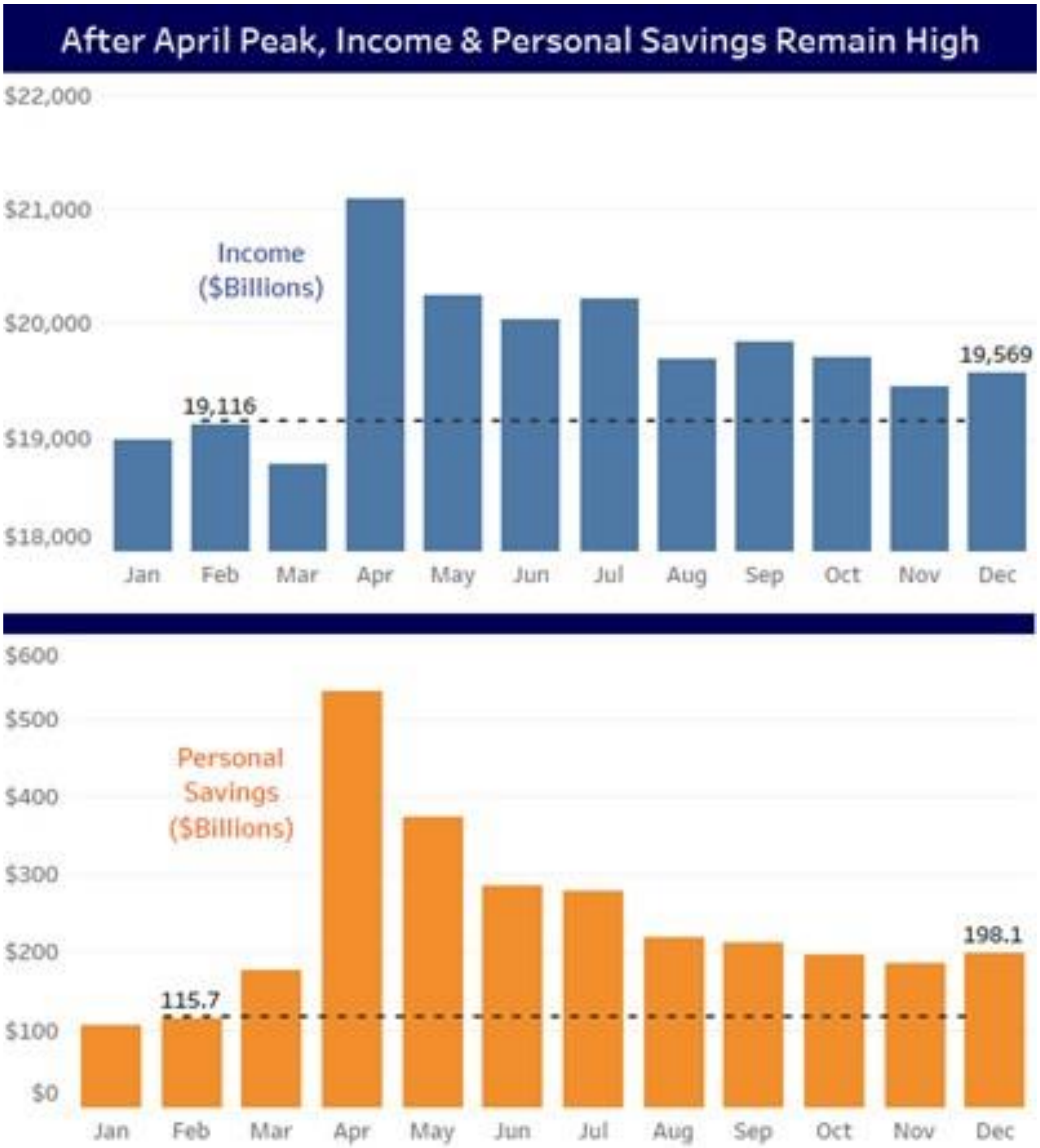
# Personal Incomes and Savings Remain High

The Bureau of Economic Analysis (BEA) reported income and savings data for December on Friday. Income rose 0.6% and savings 6.8% compared to November. Income is now 2.4% higher than it was prior to the pandemic. Savings is a whopping 71% higher.

Throughout the aftermath of the COVID-19 shock, income and savings data have been anomalies compared to other economic contractions. Both have risen sharply since February of 2020. During previous contractions they declined, which makes sense because many people lost their jobs and businesses' incomes fell. It follows that savings fell too as families had to dip into reserves to make ends meet.




**What's going on?** The story of why income has remained elevated this time is one of government support. The pandemic relief payments and higher unemployment benefits boosted incomes April through July. Then the return of workers to previously lost jobs kept incomes afloat through the end of the year, as did extra unemployment benefits for some of those out of work.

In December, the monthly increase in income was from workers earning more and higher government transfer payments. The increase in transfer payments came from higher unemployment benefits and a new round of checks that Congress passed at the end of the year helped, as well as a bump in payments to medical providers.

The increase in savings was likely caused by the surge in virus cases in November and December. That lead to people spending less (consumption was down in December) because they were less willing to go out and because renewed government restrictions in some areas closed many stores, mostly restaurants and bars.

**Bottom line:** Strong income and savings levels are two of the key reasons analysts expect a strong bounce for the economy later this year when reduced virus levels should allow us to go back to something closer to normal. Consumers will have the money to spend when that time comes. Expect them to spend strongly on services they have not been able to spend on in nearly a year, such as restaurants, bars, travel, tourism, and other forms of entertainment like movies, theaters, and sporting events.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce