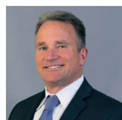
Awash in cash

Lifestyles of the rich and stimulated: The impacts of COVID-19 stimulus payments



Thomas Nun, CFA
Portfolio Strategist

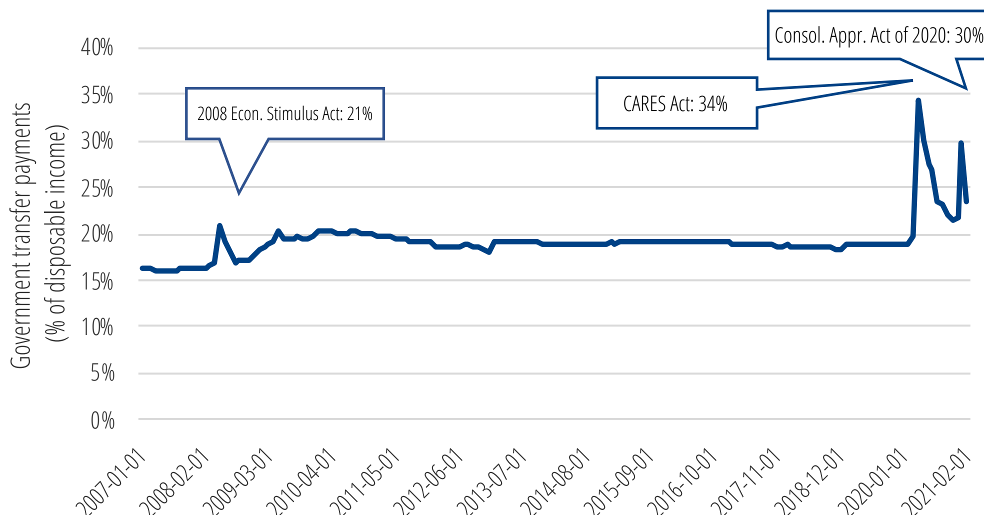
- COVID-related stimulus has been significantly more generous than previous direct-to-taxpayer stimulus efforts.
- Consumption patterns are different this time, too: Rather than spending on staples, COVID stimulus spending seems to reflect the realities of the "lockdown lifestyle."
- And not all of that COVID cash was spent: The U.S. savings rate spiked to 33% last April, and at least some of that cash seems to have found its way into markets (and provided a tailwind to asset prices in the process).
- But eventually the payments will stop, and when they do, continued robust economic growth may be necessary to prevent those asset-price tailwinds from becoming headwinds.

In early 2008, when the bursting of the housing bubble was just beginning to evolve into the Great Recession, then-President George W. Bush and a Democratic Congress passed the Economic Stimulus Act of 2008. Included in the $152 billion package was a tax rebate of $300 per individual filer ($600 for couples filing jointly) and a $300 bonus rebate for each dependent child under the age of 17. Academics are still debating whether this was wise policy that prevented an even deeper recession or simply an exercise in throwing good money after bad, but the idea — considered highly controversial at the time — stuck nonetheless.

Fast forward to 2020, and the cash being funneled to consumers to offset the economic impacts of the COVID-19 pandemic makes 2008's dollop of liquidity seem stingy by comparison. Depending on an individual's taxable earnings, the first round of COVID-related payments to consumers included in the $2.2 trillion CARES Act were approximately four times more generous than the 2008 stimulus. Since those first checks began hitting mailboxes in April 2020, two more direct-to-consumer COVID relief payments have been made to most consumers: $600 per individual as part of the Consolidated Appropriations Act of 2021 and $1,400 per individual under the America Rescue Plan (again, scaled to a taxpayer's total reported income). And still more may be on the way.

Thanks, Uncle Sam!

Government transfers have been a far larger portion of income during COVID than the 2008 stimulus



Source: FRED, St. Louis Federal Reserve; Bureau of Economic Analysis

Academia will of course debate the wisdom and

efficacy of these efforts long into the future just as they did with the 2008 stimulus, but for now it seems a safe assumption that such a large flood of cash paid directly to consumers has been at least partially responsible for the robust economic recovery that now appears to be unfolding. In any case, it almost certainly made the inevitable drop in consumer spending after millions of workers were sidelined by the pandemic shallower than it would have been otherwise.

But when you compare the 2008 stimulus to the more recent COVID-era stimulus payments, some interesting differences emerge. First, COVID-era stimulus payments have represented a far more significant portion of disposable income than the 2008 Economic Stimulus Act: In April, government transfers represented a full 34% of disposable income, far higher than the 21% peak represented by the stimulus payments made in May 2008.[1] Some of that is certainly the result of a deep erosion in personal income during the COVID-19 shutdown wrought by mass layoffs and stay-at-home orders, but it's nonetheless interesting that for every two dollars of disposable income from non-government sources in April of last year, there was another dollar of transfers directly from Uncle Sam.

There were also significant differences in how consumers spent all that cash. For example, during the 2008 crisis, retail sales data from the Census Department suggests that consumers were willing to delay or forego altogether purchases of big, durable items like cars and couches and instead spent the incremental income on staples at places that sell them, like general merchandise stores and gas stations (although a large spike in gasoline prices that occurred simultaneously certainly skewed that result).

Program	$Per taxpayer[2]	Date received[3]	Retail sales (% Yr-over Yr)	Retail categories with biggest Year-over-Year INCREASE			Retail categories with biggest Yr-over-Yr DECREASE		
Economic Stimulus Act of 2008	$300	May 2008	+1.4%	Gasoline stations (+16.7%)	Non-store retail (+8.9%)	General mdse. (+5.2%)	Motor vehicles (-10.4%)	Furniture stores (8.0%)	Building materials (-5.5%)
CARES Act of 2020	$1,200	April 2020	-19.9%	Non-store retail (+22.7%)	Food/ Bev. stores (+12.3%)	Building materials (+3.4%)	Clothing & access. (-86.5%)	Furniture stores (-59.1%)	Electronics retailers (-53.3%)
Consolidated Appropriations Act of 2020	$600	January 2021	+9.6%	Non-store retail (+34.5%)	Sporting goods, etc. (+25.1%	Building materials (+20.6%)	Restaurants & bars (-14.7%)	Clothing & access. (-9.2%)	Gasoline stations (-5.4%)
America Rescue Plan (2021)	$1,400	March 2021	+27.7%	Clothing & access. (+101%)	Sporting goods, etc. (73.5%)	Motor vehicles (+71.1%)	Food/Bev. stores (-11.8%)	General mdse. (+4.6%)	Health & pers. care (+5.5%)

Source: FRED, St. Louis Federal Reserve; US Census Department, GWI Calculations

But this time, spending by consumers during and immediately after the various rounds of COVID stimulus has tended to reflect the realities of the pandemic itself. With consumers unable to leave their homes to buy all but the barest essentials, sales at non-store retailers (think "Amazon" and its ilk) spiked. Meanwhile, staring at the same four walls for months on end made that faded paint on your living room wall seem like a priority — and sales at building supply stores surged accordingly. Just as predictably, gas stations languished as commuters stayed home, and clothing stores followed suit (after all, who in their right mind would by a new pair of slacks or a fancy new jacket when sweatpants are the new standard for a Zoom-enabled casual Friday?).

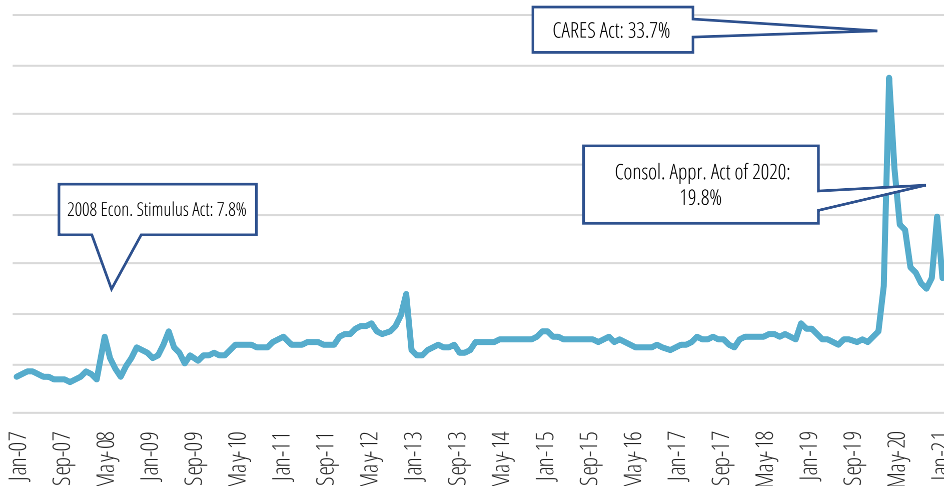
1 U.S. Census Bureau, Monthly Retail Trade, census.gov/retail/index.html. All data reflects seasonally adjusted annual rates.
2 Represents baseline payment per taxpayer, filing as single. Actual payments made under each program varied significantly based on number of dependents, income and other factors.

3 Represents the approximate date when payments to individuals had the most impact on consumer incomes. Actual payment dates varied under each program.

It's interesting, too, that the latest round of stimulus — which began to hit bank accounts in March 2021 — saw a quick return to demand for motor vehicles and clothing stores (no doubt as we all prepare for a return to work driving a shiny, new ride and update our wardrobes to accommodate the onset of the "COVID-15" that many of us have packed on over the last 12 months at home).

Spendthrifts

This time around, U.S. consumers saved their stimulus checks



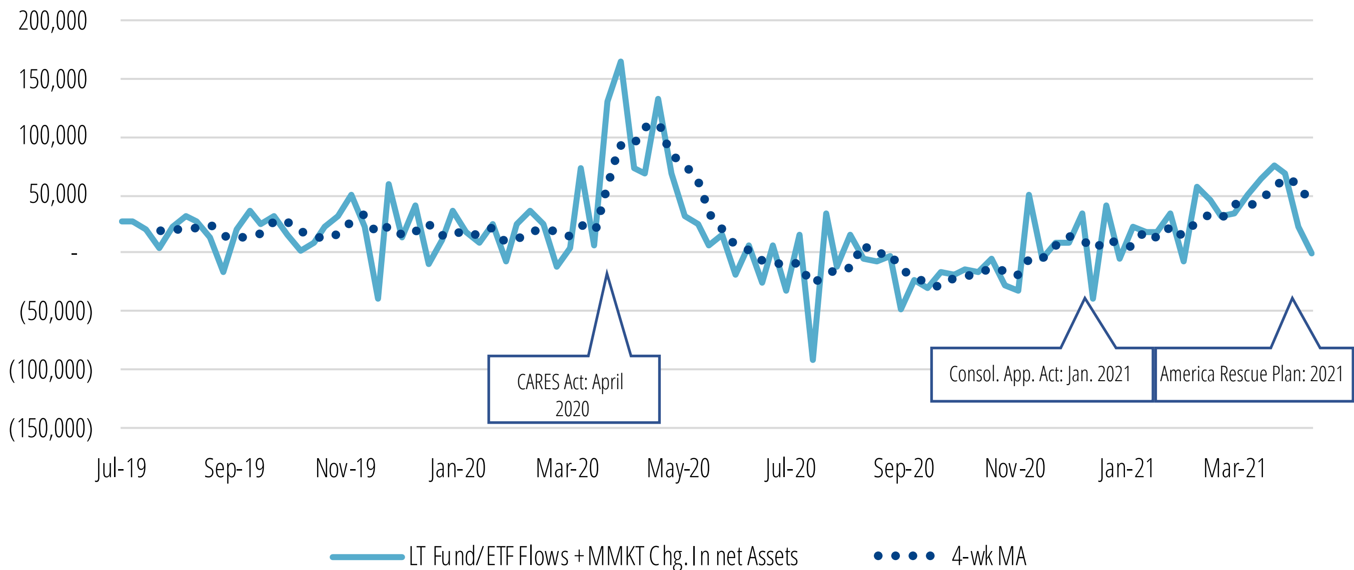
Source: : FRED, St. Louis Federal Reserve; Bureau of Economic Analysis

These distorted consumption patterns are interesting in their own right and once likely held plenty of investment implications of their own. But they also seem very likely to continue to resolve spontaneously as the economy reopens and things return to normal. But another, equally interesting dynamic with the potential to have perhaps even a more profound impact on markets is the fact that consumers have so far appeared less willing to immediately spend their stimulus checks this time around than they were during the 2008 recession and stimulus.

In fact, when the first CARES Act payments hit, the U.S. savings rate jumped to an all-time high of 34% — nearly twice as high as the previous record set in the mid-1970s. And it has remained elevated: Americans have saved more of their transfer-enhanced incomes during the COVID-19 pandemic than at any other point in post-war history.

Mattress stuffing

Long-term fund and ETF flows plus change in money fund assets



Source: Investment Company Institute, GWI Calculations

That's significant, because all that cash sloshing around represents a very real, potential source of future economic growth once the economy fully reopens. Regardless, all that spending power has undoubtedly helped underwrite a very robust economic recovery since the second quarter of 2020, when the COVID recession (hopefully) hit its trough.

But it's also interesting to consider that all the cash that wasn't being spent ultimately had to find a new home, and it's easy to assume that much of that extra liquidity simply sat idle in bank accounts of the newly unemployed or the economically cautious, waiting to be spent on staples like food and rent. But if you look hard enough, you can also find evidence to suggest that at least some of that stimulus money found a home in the investment markets. For example, investors reacted predictably (if perhaps unwisely) at the onset of the pandemic by withdrawing significant amounts from long-term fund and ETF holdings in what appears to have been a knee-jerk, risk-off reaction to all the uncertainty that COVID represented. That impact seems to have been largely offset by an accompanying surge in money fund assets, however, and the net result appears to have been a noticeable increase in investment assets that corresponds roughly to the timing of some of the aforementioned stimulus programs.

So what does all this mean? Perhaps nothing. Perhaps all the COVID-related liquidity that found its way into capital markets is there to stay and has already become part of the productive capital of the U.S. economy. If so, the post-pandemic return to growth will continue to gather pace, and we'll all be better for it in the long run. But on the other hand, the next stimulus — if it comes — seems likely to be the last (barring, of course, a dramatic worsening of the pandemic). At a minimum, that could mean that any tailwind provided to asset prices by ongoing stimulus efforts will eventually cease to blow. Or worse, those same gales of excess liquidity could turn to a headwind if economic growth stalls and consumers need to lean on excess savings to fund current consumption. Either way, the pressure seems to be on the economy to continue what has so far been a very impressive return to growth. Here's to hoping it continues.

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