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INSIGHT

Personal Income Growth During the COVID-19 Pandemic

November 30, 2020

Personal income measures the resources an individual accrues over a period of time. Typically, measures of personal income move in line with the business cycle (the pattern of economic expansions and contractions). During an economic contraction, individuals typically demand fewer goods and services, causing total output to decrease, unemployment to increase, and personal income to decrease. However, personal income has behaved unusually during the recession caused by the Coronavirus Disease 2019 (COVID-19) pandemic. This Insight discusses recent patterns of personal income and offers potential explanations for its irregular behavior.

COVID-19 Personal Income Patterns

In contrast to many previous recessions, total personal income has increased during the COVID-19 recession (see **Figure 1** and **Figure 2**). This is unusual, especially given the unprecedented decreases in employment and GDP. In April alone, personal income increased by over 12%. Personal income in September was still higher than it was in February, before the pandemic began, but lower than in April. This increase and maintenance of levels of personal income, due in large part (see **Figure 4**) to provisions in the CARES Act, could be responsible for some of the other unusual economic trends in this recession, such as the maintenance of housing demand and the smaller-than-usual drop in durable goods spending.

Of course, summary data may not show informative trends happening within groups of individuals and households. With the increased unemployment rate, many are likely to have seen decreased levels of income over the same period, even as aggregate measures were increasing. As recently as the weeks of October 28 through November 9, roughly 25% of adults expected someone in their households to have a loss in employment income in the next four weeks, according to the Census Pulse Survey. In some cases, enhanced unemployment benefits may have more than replaced normal income for individuals before expiration, but this is not true across the board.

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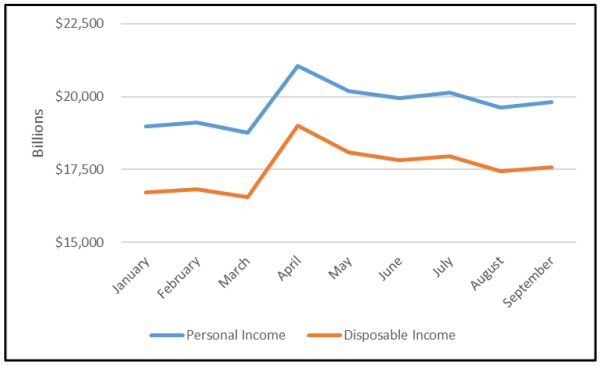
IN11546

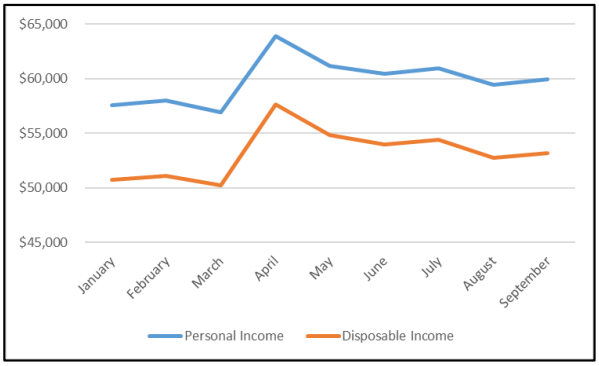
Figure 1. Total Personal Income, 2020



Source: CRS calculations using BEA data.

Notes: Seasonally adjusted at annual rates.

Figure 2. Per Capita Personal Income, 2020



Source: BEA.

Notes: Seasonally adjusted at annual rates.

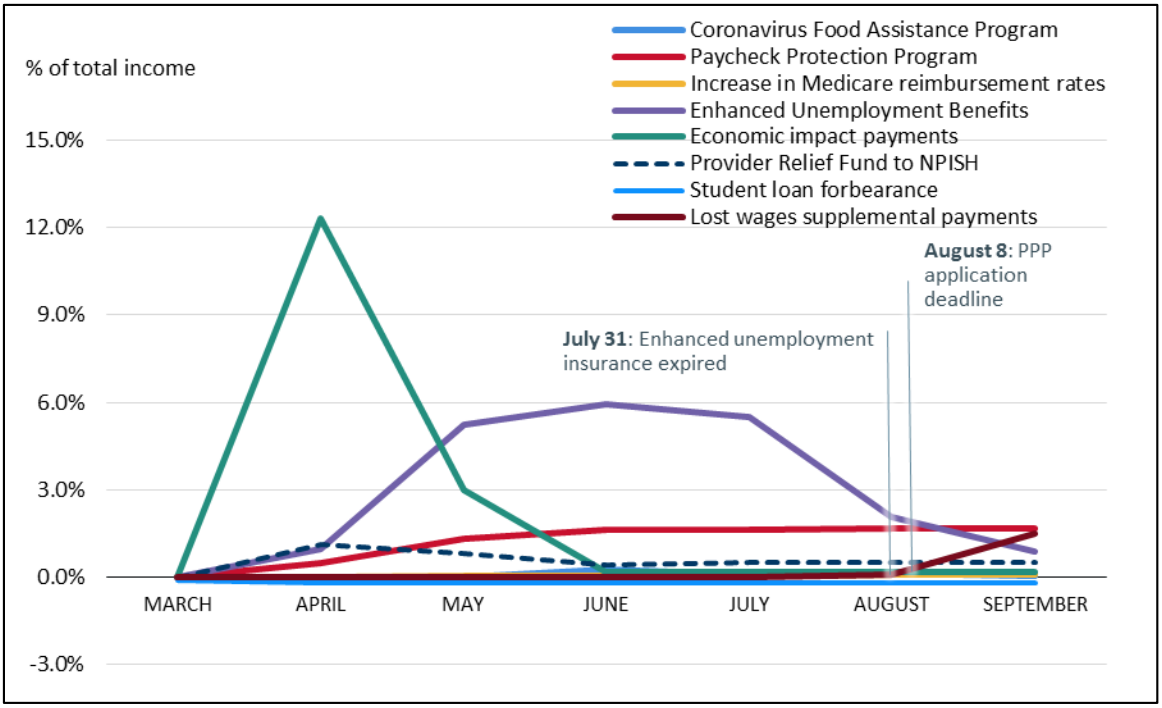
Policy Impact on Personal Income

The increase in personal income can be explained in large part by the effects of legislation. In response to the COVID-19 pandemic, the federal government implemented a wide range of stimulus measures. Four major laws were enacted between March and April 2020, including the CARES Act (P.L. 116-136), to address the effects of the COVID-19 pandemic and provide direct assistance to households and businesses.

Several provisions contributed to personal income in some capacity starting in April. **Figure 3** displays the effects of certain pandemic-related enacted provisions on personal income as determined by BEA. The economic impact payments had the largest single-month impact on personal income of the programs analyzed. In April, the payments constituted more than 12% of total personal income and were largely responsible for the increase in total personal income in the same month.

Most of the one-time payments were made in April, and therefore the effects dropped off quickly—total personal income fell 4.2% and 1.2% in May and June, respectively. The enhanced unemployment benefits also contributed significantly to personal income—over 5% in May, June, and July, at which point the provision for the additional $600 per week expired, likely contributing to a 2.7% drop in total personal income in August. This 5% represents the effect on total personal income. For those unemployed individuals actually receiving the benefits, this percentage will be much higher because their incomes would be lower than average. Other programs, such as the Paycheck Protection Program, contributed relatively less to total personal income but would also have much larger effects for those individuals directly receiving the benefits.

Figure 3. Effects of Selected Policies on Personal Income

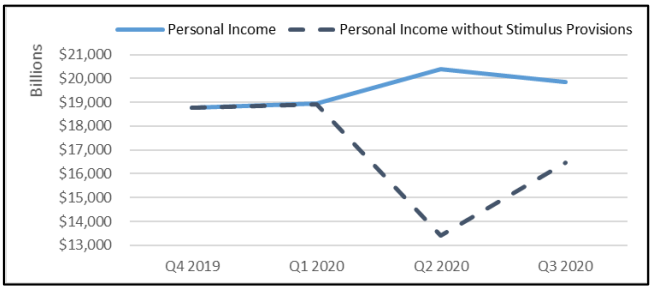


Source: CRS calculations using BEA data.

Notes: Underlying data seasonally adjusted at annual rates. Data subject to revision. NPISH stands for nonprofit institutions serving households.

Personal income could have been much lower without the policy interventions. **Figure 4** shows actual quarterly personal income levels and what they would have been without the provisions. Instead of increasing, personal income levels might have decreased and remained well below pre-pandemic levels. This would have had the potential to significantly worsen already large drops in consumer spending and GDP. Given that personal income has been trending downward since April and that many of the provisions of the CARES Act have expired or been exhausted—of note, the Payroll Protection Program closed on August 8, nearly 90% of the $300 billion in direct support economic payments provided for in the CARES Act were made as of August 28, and the temporary increase of $600 per week in unemployment benefits expired on July 31—personal income could fall below pre-pandemic levels and contribute to decreases in aggregate demand and spending.

Figure 4. Total Personal Income During COVID-19



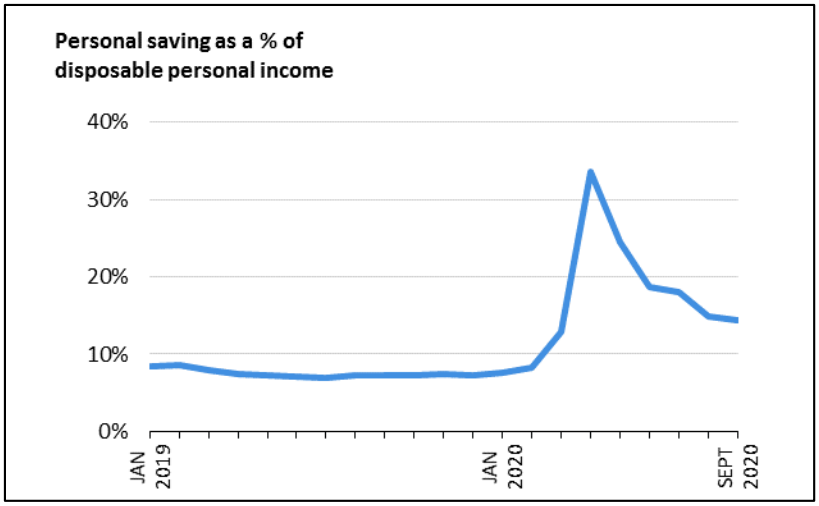
Source: CRS calculations based on BEA data.

Notes: Data in nominal dollars and seasonally adjusted at annual rates.

Breakdown of Personal Income During COVID-19

Individuals receive a certain amount of after-tax income (disposable income) that they can spend or save. For this reason, it follows that when personal consumption expenditures decreased as COVID-19 spread, personal saving as a percentage of disposable income would increase, as evidenced by **Figure 5**. As shown, the personal saving rate in the United States increased rapidly to 33.7% by April 2020 and has since fallen, although it still remains elevated from 8.3% in February. The inability to spend money due to business closures may be one reason for the spike in the saving rate. However, increased personal income from various stimulus programs, notably the economic impact payments, likely contributed to the increase as well. Conventional economic theory argues that since one-time transfer payments do not permanently increase individuals' income, the individuals will not adjust their behavior as much as with a permanent shift and, therefore, are more likely to save than spend such payments.

Figure 5. Monthly Personal Saving Rate



Source: BEA

Notes: Underlying data seasonally adjusted at annual rates.

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