

US Daily: Updating Our Distributional Disposable Income Forecasts to Remove the Expanded Child Tax Credit (Briggs)

- In December we updated our economic forecasts to remove the assumption that President Biden's Build Back Better (BBB) legislation will become law. This change implies a bigger step down in household income in 2022Q1 due to the lapse of the child tax credit, and we now expect overall disposable personal income will remain a bit below its pre-pandemic trend in 2022.
- The removal of the child tax credit and other support will predominantly weigh on income for households in lower income quintiles. Although we expect that income for the bottom income quintile will benefit from firm wage growth and a persistent boost in food stamp benefits, real income for the bottom income quintile is set to step down sharply in 2022H1.
- We expect that other positive growth impulses—including further reopening of the economy, a spending boost from pent-up savings, and inventory restocking—will offset the pullback in fiscal transfers and keep growth above potential in 2022, but the significant stepdown in household income—particularly among lower-income households—is one reason why we expect growth will decelerate from 5.4% (Q4/Q4 basis) in 2021 to 2.4% in 2022.

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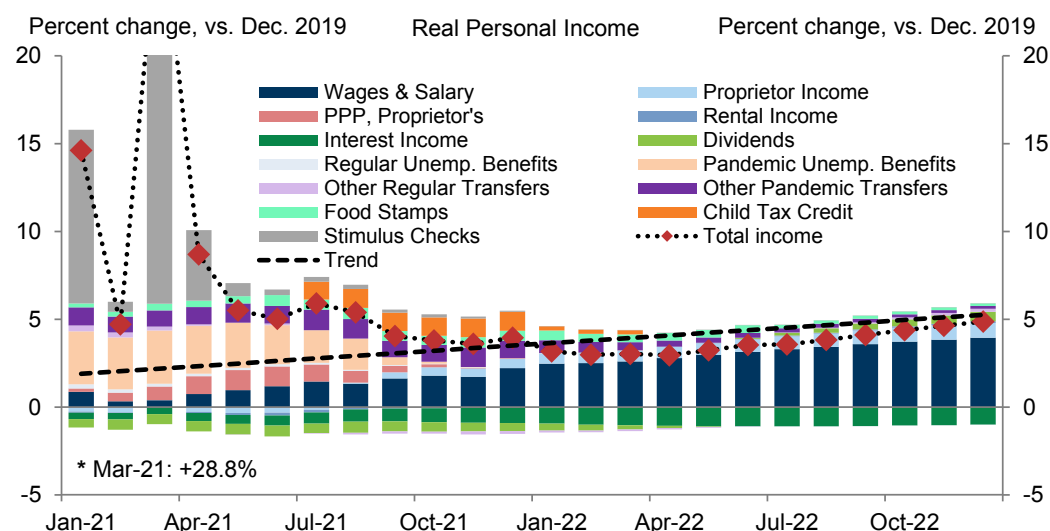
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Updating Our Distributional Disposable Income Forecasts to Remove the Expanded Child Tax Credit

In December we updated our economic forecasts to remove the assumption that President Biden's Build Back Better (BBB) legislation will become law. This change in our fiscal outlook implies that the large stepdown in fiscal transfers that weighed heavily on income growth in 2021H2 will continue in early 2022, mostly due to the January expiration of monthly child tax credit payments that boosted household income by around \$200bn (SAAR) from July to December 2021.

After updating our income forecast, we now expect that household real disposable income will sequentially decline by more than 3% (annualized) from 2021Q4 to 2022Q1 and by almost 4% from 2021 to 2022 on an annual average basis. Furthermore, we now forecast that aggregate real disposable personal income will remain a bit below its pre-pandemic trend in 2022 (Exhibit 1).

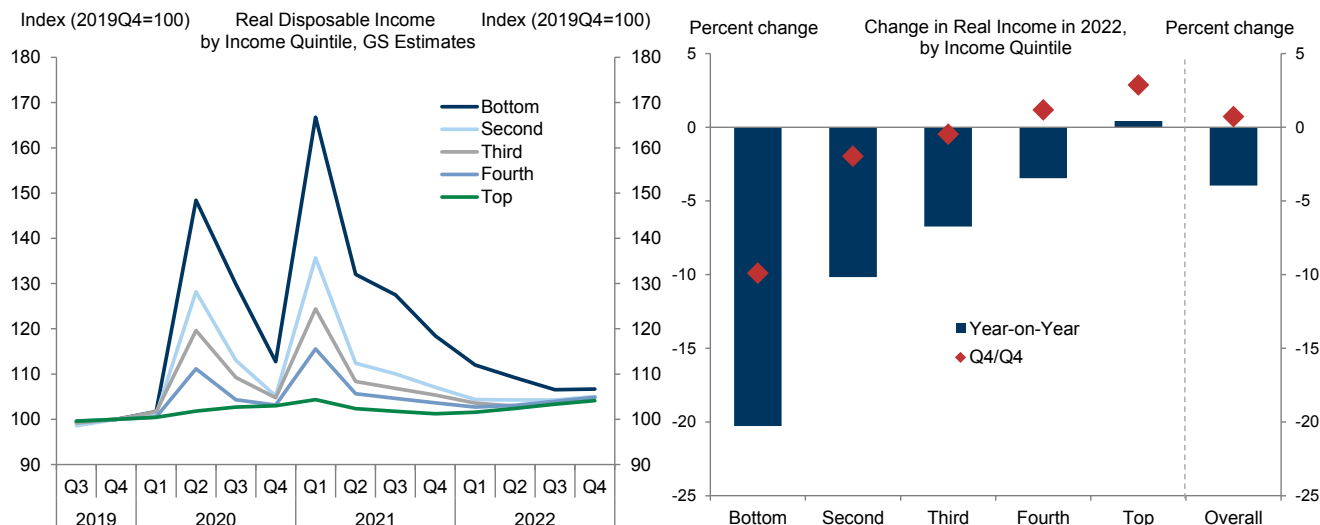
Exhibit 1: We Expect Household Income to Step Down in January Due to the Expiration of the Expanded Child Tax Credit and Remain a Bit Below Trend in 2022



Source: Goldman Sachs Global Investment Research

The removal of the Child Tax Credit and other fiscal transfers will predominantly weigh on income for households in lower income quintiles that already faced the largest stepdown in income (left chart, Exhibit 2). Although we expect that income for the bottom income quintile will remain moderately above trend in 2022 due to firm wage growth and a persistent boost from food stamps benefits¹, we now expect real income for the bottom income quintile in 2022 will decline by almost 10% from the elevated level of 2021 on a Q4/Q4 basis and 20% on an annual average basis.

¹ The boost to food stamps reflects a large permanent increase in benefit amounts related to re-evaluation of the Thrifty Food Plan that went into effect on October 1, as well as temporary benefit expansions that were passed during the pandemic and that will remain in place in most states while the US remains in a public health emergency.

Exhibit 2: Less Fiscal Support Will Predominantly Weigh on Income for Lower Income Quintiles in 2022

Source: Goldman Sachs Global Investment Research

Normally such large sequential declines in income—particularly among lower-income households—and fiscal support more broadly would raise risk of recession, but we expect that three positive growth impulses—including further reopening of the service sector as health risks decline, a boost to consumer spending from pent-up savings and wealth effects, and inventory restocking—will offset these declines by enough to keep growth above trend this year. Nevertheless, the significant stepdown in household income is one reason why we expect growth will decelerate from 5.4% in 2021 to 2.4% in 2022 on a Q4/Q4 basis.

Joseph Briggs

Disclosure Appendix

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