Consumer Finances and the Outlook for Consumer Spending

Daniel Cooper[1]

Federal Reserve Bank of Boston
Research Department

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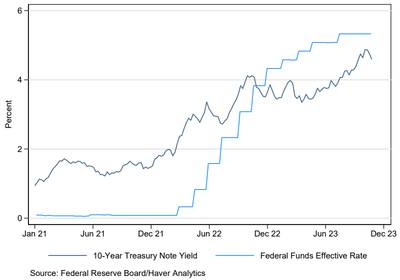
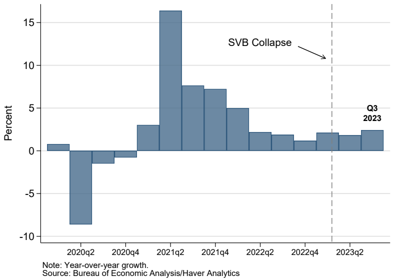
[1]All views are my own and not of the Federal Reserve Bank of Boston or the Federal Reserve System.

Consumer spending has remained surprisingly resilient this year despite further tightening of financial conditions.

Interest Rates

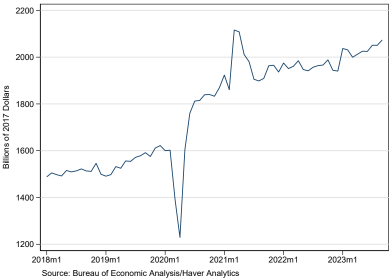


Consumption Growth

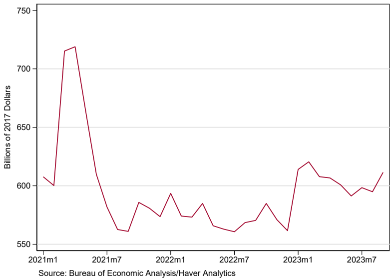


Indeed, interest sensitive durable goods expenditures have shown a limited response to higher interest rates.

Total Durable Goods Spending

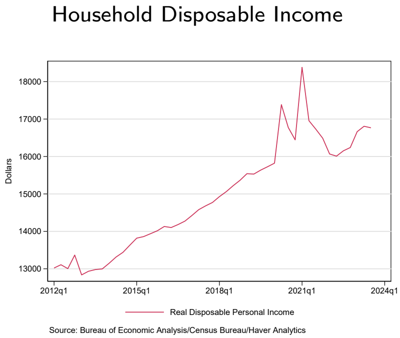


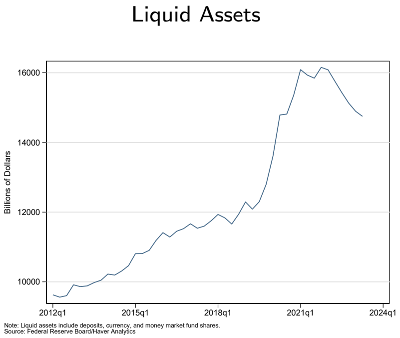
Motor Vehicle Expenditures



Note that other factors have affected motor vehicle purchases, and credit availability has not deteriorated as much as expected after the banking turmoil in March.

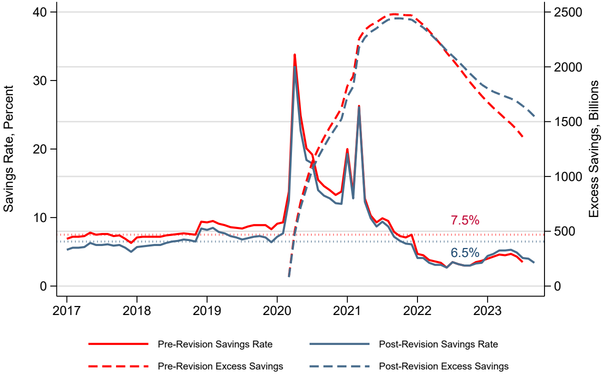
Strong household balance sheets due to pandemic-era fiscal support have likely been a driver of the resilience in household consumption to date.





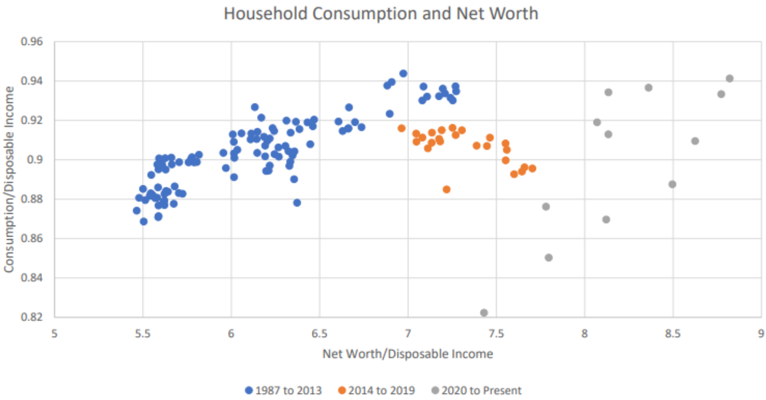
Recent data revisions suggest more pandemic-related excess savings than previously believed, implying that support for consumption may last longer.

Saving Rate and Excess Savings



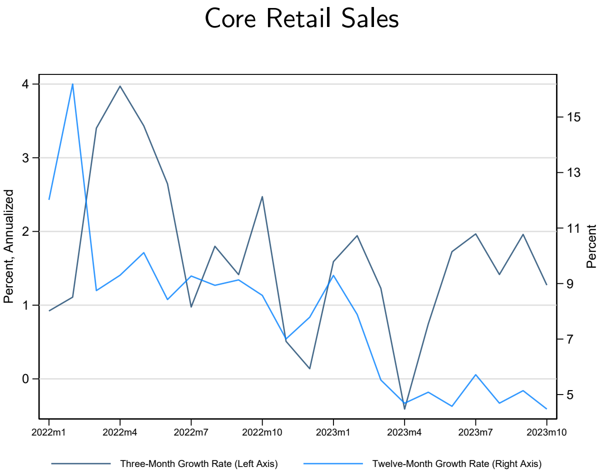
Notes: Excess savings is the difference between actual consumption and the level of spending one would have expected given realized household disposable income and the noted (assumed) pre-pandemic average saving rate (7.5 percent pre-revision and 6.5 percent currently). The graph shows cumulated excess savings.
Source: Author's calculations using Bureau of Economic Analysis data.

Regardless of the amount of excess savings left, household net worth relative to disposable income is very high by historical standards.



Still, households' propensity to spend out of their wealth (and remaining excess savings) may be relatively low.

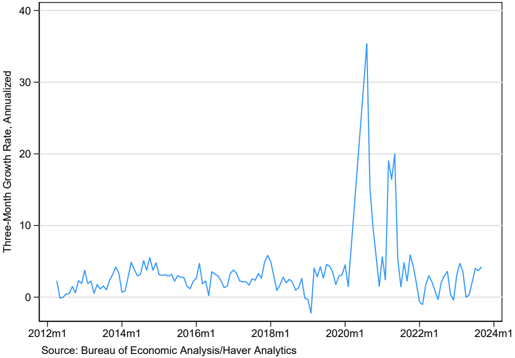
Indeed, while still relatively robust, retail sales growth has been trending down.



Source: Census Bureau/Haver Analytics

The spending data have also been volatile of late so month-to-month movements should be viewed with some caution.

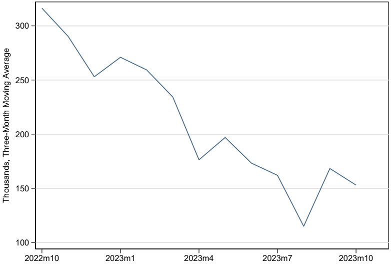
PCE Growth



The volatility adds uncertainty to the outlook.

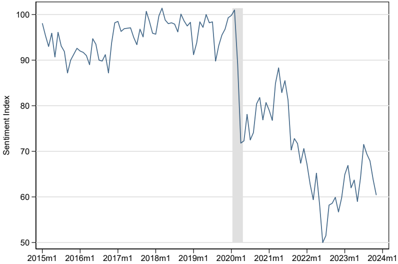
In addition, job growth has slowed relative to earlier in the year and consumer sentiment has weakened recently.

Change in Private Payrolls



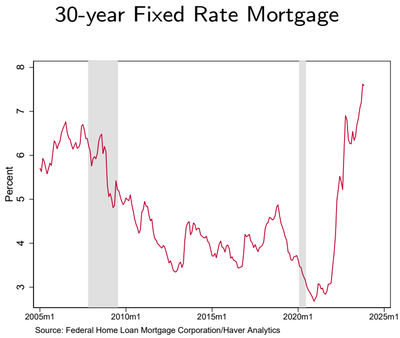
Source: Bureau of Labor Statistics/Haver Analytics

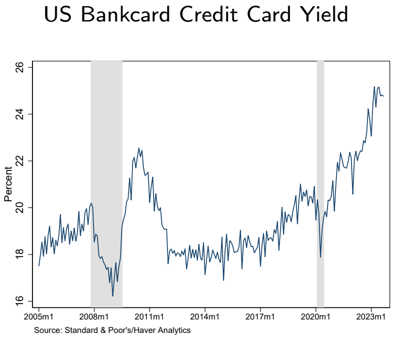
Consumer Sentiment



Source: University of Michigan/Haver Analytics

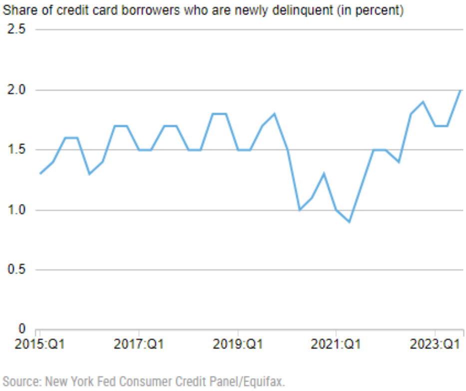
As excess savings decrease further and a cooling labor market reduces income growth, consumers' financing needs will rise and higher rates should restrain spending.





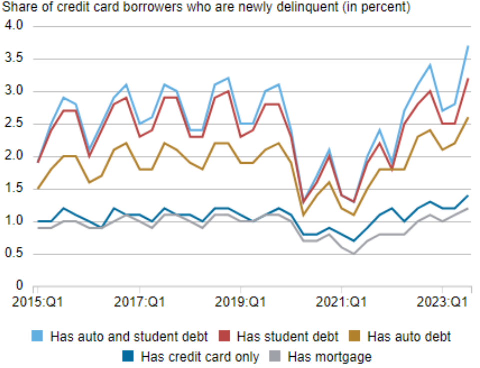
Indeed, we are starting to see some evidence of financial strain. Credit usage continues to rise and credit card delinquencies are up.

Newly Delinquent CC Borrowers



Source: *https://libertystreeteconomics.newyorkfed.org/2023/11/credit-card-delinquencies-continue-to-rise-who-is-missing-payments/

As highlighted by the New York Fed, individuals with auto debt and student loan debt are having the most difficulty paying their credit card bills.

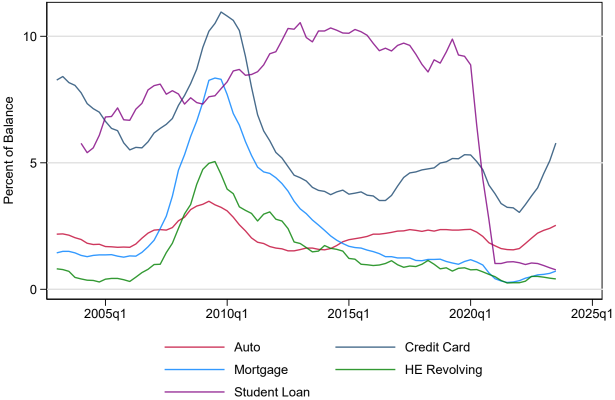


Source: New York Fed Consumer Credit Panel/Equifax.
Notes: Credit card users are categorized into groups based on whether they had a nonzero balance for other debt types. Borrowers can contribute to multiple groups depending on which loans they hold.

Source: *`https://libertystreeteconomics.newyorkfed.org/2023/11/credit-card-delinquencies-continue-to-rise-who-is-missing-payments/`

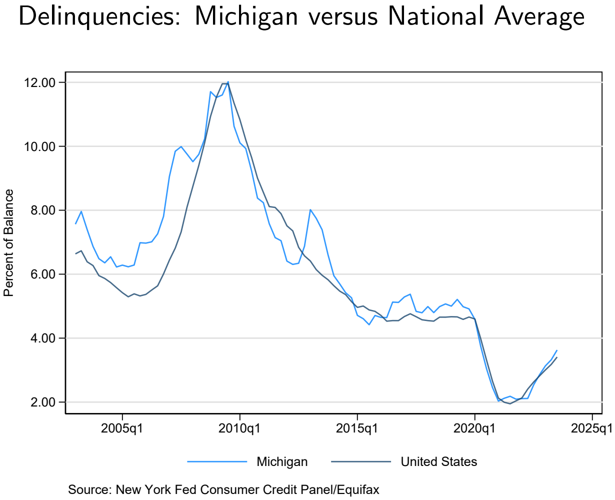
In addition, the percent of newly delinquent credit card balances (and auto loan balances) is above pre-pandemic levels.

Percent of Debt Balances Transitioning to (30+ day) Delinquency



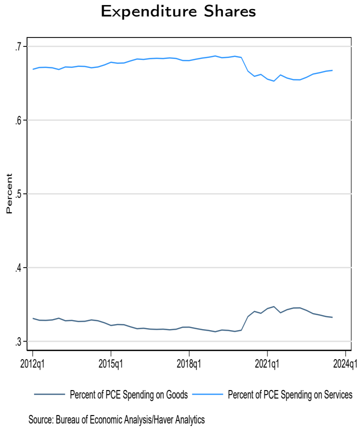
Source: Bureau of Economic Analysis/Census Bureau/Haver Analytics

Credit delinquency patterns (across all debt types) in Michigan are similar to the national average.



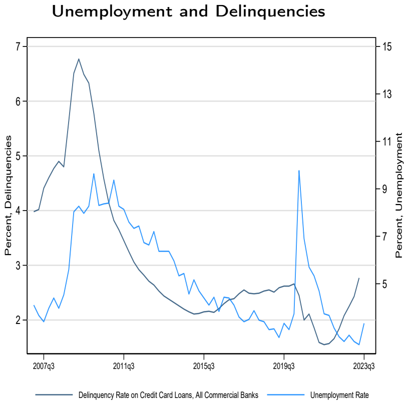
Some considerations regarding the consumption outlook.

1. The pandemic led to a shift in household spending on durables versus services that has persisted.
2. Will there be long lasting changes in precautionary saving or other household behavior?



Some considerations regarding the consumption outlook.

3. Delinquencies and other measures of consumer distress bear watching.
4. When the economy is doing well, delinquencies appear less tied to labor market conditions.

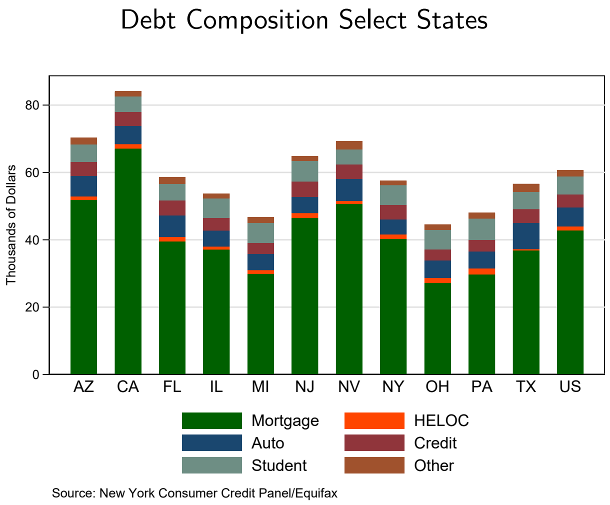


Source: Bureau of Labor Statistics/Federal Reserve Board/Haver Analytics

Concluding Thoughts

- Consumer spending has been more resilient than expected this year and the key question is how long this pattern persists.
- For now, household fundamentals seem favorable overall, but signs of stress are increasing and consumer sentiment has weakened recently.
- Consumer spending should slow–it is just a question of when and by how much.

Appendix



Debt Composition Select States
Thousands of Dollars
0
20
40
60
80
AZ
CA
FL
IL
MI
NJ
NV
NY
OH
PA
TX
US
Mortgage
Auto
Student
HELOC
Credit
Other
Source: New York Consumer Credit Panel/Equifax