

A Rebalancing Economy Produces Some Ripples on the Surface of Consumer Spending | June 2024

The US economy is rebalancing after years of distortion. We [recently noted](#) this is happening in the labor market as job growth slows, wages cool, and labor turnover declines. Is similar normalization ongoing in consumer spending? **Overall consumer spending remains fairly healthy, but there are a few ripples appearing on the surface for some pockets of American consumers.**

Despite more than two years of elevated inflation and higher interest rates, US consumer spending has been resilient. Excess income and savings that previously drove very high consumer spending growth have diminished, but tight labor markets and decent wage growth have buttressed spending. And for years, consumers across the income spectrum have seen improvement in their finances: lower-income households have seen above-trend nominal wage gains, and higher-income households have benefited from surging equity prices, appreciating home values, and rising interest income.

At the same time, a few warning signs are cropping up. Retail sales data have been mixed, and personal consumption spending growth was recently revised down. The labor market is strong, but it has softened.

One of the most significant yellow flags in consumer spending has been the rise in delinquency rates. After bottoming out in early 2022 at just 4.1%, 30-day credit card delinquency rates have now more than doubled to 8.9%, according to the Federal Reserve Bank of New York. This is well above the pre-pandemic level and the highest since 2011.

Interest-rate hikes largely appear to have had a muted effect on the economy so far compared to many expectations, especially in equity and capital markets. But higher rates are clearly starting to bite for lower-income households and borrowers with lower credit scores who rely on revolving credit.

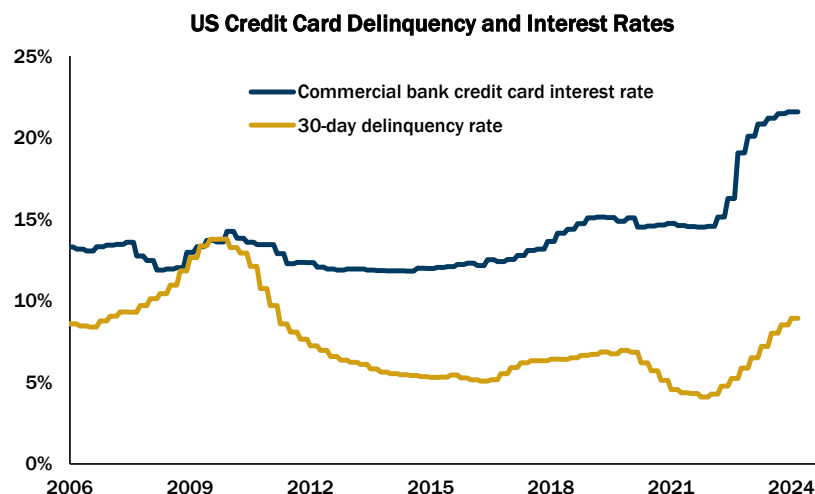
A cohort of households has been squeezed by higher inflation and interest rates. Although for now this may have a limited effect on aggregate consumer spending, it is a trend we will be following closely as downside risks have grown.

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Source: Bloomberg, Federal Reserve Bank of New York



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