

# THE ECONOMIC OUTLOOK GROUP



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## ECONOMIC TALKING POINTS

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### **Consumer Confidence Vanishes.**

**This summer may be the last hurrah before Americans shut down spending.**

Consumers are the bedrock of the economy. If they sharply cut spending, there is little the government or business can do to prevent an economic downturn. Simply put, shoppers largely determine the shape of the business cycle.

It is not a stretch to say that consumers have been on an emotional roller coaster the past two and half years. What's worrisome is that it now appears they are at or near a breaking point, and who can blame them?

It's not just that the cost of gasoline, food and shelter are climbing faster than wages. What is so worrisome is that many Americans don't see much relief ahead--- even if the Federal Reserve kicks up interest rates to tamp down demand.

That's because this is a unique inflation cycle. Most of the forces driving prices higher these days stem from events from outside the US, such as the war in Ukraine, sanctions on Russia, the constraints on global supply chains, and tight supplies of oil and natural gas. Americans fear there is little Washington can do to bring inflation down under such circumstances. The Fed has the tools to reduce demand for goods and services, it but when it comes to inflation they are largely captive to foreign economic and geopolitical shocks.

Nevertheless they are charging ahead, raising the cost of borrowing to dampen demand on the questionable assumption that it will make difference in beating back inflation.

Consumers know what higher interest rates will damage their personal finances and the broader economy. But they're beginning to doubt all that pain will materially lower prices.

Such a gloomy outlook was bound to hammer consumer spirits. June's consumer confidence index dropped to its lowest in more than a year. The Conference Board also noted that expectations plummeted to near a decade low! All this comes on top of the University of Michigan's gauge of consumer sentiment, which dove to the lowest level ever recorded in this survey's 52-year history.

Given the powerful role of consumer, it's fair to say the US economy is now at a knife's edge of succumbing to stagflation.

Our assessment is that this summer will represent the last hurrah for consumer spending before it nose dives in the final quarter and thru the first half of 2023.

Two quick additional points: We often hear about the \$2.5 trillion cash cushion Americans accumulated after the government sent emergency Covid checks to households. Most, if not all, of this excess savings has already been depleted by lower income groups, and to some extent even among the middle class. Households always seek to maintain their standard of living initially even as the economy sours. But to do so increasingly meant digging deeper into savings. The result: The amount people save from each dollar of income has now dropped to a 14-year low. (We'll get fresh data on savings this Friday.)

Secondly, let's not ignore how the plunge in the stock market this year impacts the wealth effect. People will happily spend more if they see the value of their investments rise. But it's the reverse if those assets sharply depreciate. Research has shown that for every dollar in value that declines in stock prices, Americans scale back outlays by two to five cents a year. Well, we've seen the stock market's capitalization drop by roughly \$8 trillion since the beginning of the year. That means consumers could potentially slash expenditures anywhere from \$160 billion to \$400 billion, not an unsubstantial amount.

What the latest dismal numbers on consumer moods tell us is that households are getting seriously stressed. They may be eager to go out on vacation this summer and grudgingly absorb the high cost of travel for now. But come late this year and thru 2023, we should expect households to start pinching pennies ---- and that may well bring this business cycle to an end.

(Tables below)

## United States

	I 2021	II 2021	III 2021	IV 2021	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023	I 2024	II 2024	III 2024	IV 2024
<b>Real Gross Domestic Product (GDP):</b>																
%	6.3	6.7	2.3	6.9	-1.5	0.9	1.8	1.3	-1.1	-0.2	1.9	2.3	2.1	3.3	2.4	2.8
<b>Personal Consumption Expenditures:</b>																
PCE %	11.4	12.0	2.0	2.5	3.1	2.1	1.8	2.4	-0.9	1.4	2.6	2.4	2.7	3.8	2.7	2.2
<b>Inflation, end of period, year-over-year:</b>																
CPI %	2.6	5.3	5.4	7.0	8.5	8.7	7.8	6.9	6.6	6.5	6.2	4.5	3.0	2.5	2.5	2.5
<b>Unemployment Rate (end of period):</b>																
%	6.0	5.9	4.7	3.9	3.6	3.7	3.9	4.3	4.6	4.9	4.9	5.2	5.0	4.5	3.9	3.6
<b>Non-farm Payrolls, monthly avg. thousand:</b>																
	513	615	651	365	562	375	245	195	190	190	210	255	275	310	315	325
<b>Treasury 10-yr Note Yield % (end of period):</b>																
	1.75	1.44	1.52	1.51	2.32	3.47	3.30	3.05	3.05	2.99	2.85	2.80	2.10	3.10	3.15	3.20
<b>Federal funds rate % (end of period):</b>																
	0.13	0.13	0.13	0.13	0.38	1.63	2.63	2.88	2.88	2.88	2.88	2.38	2.38	2.38	2.38	2.38

## GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
US	2.6	1.6	2.2	1.8	2.3	2.7	1.7	2.3	2.9	2.3	-3.4	5.7	1.4	1.0	2.6
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.9	1.2	-6.7	5.2	1.6	1.5	2.5
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.3	1.5	-9.8	7.5	2.9	1.4	2.0
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.2	-4.5	1.7	2.1	2.0	1.9
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.0	1.6	-5.3	4.5	2.5	2.3	2.8
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.8	4.8	-7.5	9.2	6.7	6.5	7.2
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.6	6.1	2.2	8.1	4.3	5.2	5.5
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.1	-3.9	4.5	0.9	2.1	2.4
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.1	-0.1	-8.5	5.0	1.8	1.5	2.7
Australia	2.8	2.6	3.6	2.4	2.6	2.5	2.4	2.4	2.7	1.8	-1.1	4.7	2.8	2.4	2.9
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.5	1.2	-2.9	4.5	-9.0	-2.0	1.9
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.7	-3.1	5.9	2.8	3.1	4.4