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ECONOMIC TALKING POINTS

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Costly fuel, record debt and high interest rates. Consumers are about to downshift spending

August may well represent the last hurrah for robust consumer spending.

Here's why. There is no doubt August retail sales was a surprise when it jumped by 0.6%; the estimate by analysts was for just a 0.1% increase. But drill down into the data and you see the single biggest contributor to last month's jump in spending was because of the spike in gasoline prices. Drivers spent 5.2% more at the pump in August, the largest monthly increase since March 2022. Remove gasoline from total outlays and retail sales inched up a bare 0.2% in August.

By paying more at the pump, Americans were forced to spend less elsewhere. For example, consumers cut back on dining out. Outlays at restaurants and drinking places were up a mere 0.3%, the smallest rise since last March. And purchases of sporting goods, hobby and books fell 1.6%, the biggest monthly decline for this category in 19 months! Sales of furniture and home furnishings plummeted 1% last month.
Even online shopping was flat for the month.

Let's face it, households are feeling more financial pressures. They're not only paying more for fuel but also carrying a record level of debt, (more than $17 trillion) and doing so at a time when short term rates are at a 22-year high.

So does this spell serious trouble ahead for the economy? Is there a risk of a total shutdown in consumer spending, one that may bring on a recession?

The answers to both are no!

There is no doubt this high level of personal debt in an environment of high interest rates puts a strain on spending. Delinquencies on credit cards and auto loans have turned up.

But we also have to consider other factors that will help support consumers. Labor market conditions are still strong. Employers are clearly in no rush to lay off workers. New applications for unemployment benefits for the latest week (ending Sept. 9) were just 220,000. The latest four-week average dropped to 224,500, the lowest seen in seven months. The number of job openings, at 8.8 million, still far exceed the 5.8 million who are unemployed. And the unemployment rate stands at a remarkably low 3.8%.

This is still very much a full-employment economy, which by definition makes a recession highly improbable.

Moreover, real (inflation-adjusted) take home pay has been rising. That means Americans are enjoying an increase in purchasing power. The Federal Reserve last week also reported that household net worth reached a record high of $154 trillion, fueled by rising property prices and higher stock prices.

Look, if you are now utterly perplexed by all the contradictory forces that determine consumer spending, you are not alone. There's no denying households face lots of cross currents these days.

Having said that, we believe that if the Fed freezes their policy rate at 5.25% - 5.50% for at least the rest of the year, the debt service burden on consumers will remain manageable and that should prevent a serious retrenchment in spending.

Nevertheless, we enter a new phase in household consumption, one more modest than what we have seen so far this year. But there is little to support the notion that consumers will shutoff spending to the point where it brings this economic expansion to an abrupt halt.

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Key Economic Forecasts

- Actual
- Forecast

United States

	I 2022	II 2022	III 2022	IV 2022	I 2023	II 2023	III 2023	IV 2023	I 2024	II 2024	III 2024	IV 2024	I 2025	II 2025	III 2025	IV 2025
Real Gross Domestic Product (GDP):																
%	-1.6	-0.6	3.2	2.6	2.0	2.1	3.2	1.9	0.9	1.6	2.2	2.9	1.7	2.5	3.0	2.6
Personal Consumption Expenditures:																
PCE %	1.3	2.0	2.3	1.0	4.2	1.7	3.7	2.0	1.0	1.9	2.7	2.6	1.7	2.8	3.1	2.9
Inflation, end of period, year-over-year:																
CPI %	8.5	9.1	8.2	6.5	5.0	3.0	3.5	3.1	2.8	2.6	2.5	2.8	2.6	2.7	2.8	2.8
Unemployment Rate (end of period):																
%	3.6	3.6	3.5	3.5	3.5	3.6	3.7	3.8	3.9	4.0	4.1	3.8	3.8	3.7	3.5	3.5
Non-farm Payrolls, monthly avg. thousand:																
	561	329	423	291	297	201	165	180	155	185	235	230	200	235	240	240
Treasury 10-yr Note Yield % (end of period):																
	2.32	2.97	3.80	3.83	3.47	3.82	4.20	3.95	3.70	3.70	3.60	3.65	3.70	3.75	3.80	3.80
Federal funds rate % (end of period):																
	0.38	1.63	3.13	4.38	4.88	5.13	5.38	5.38	5.38	5.38	4.88	4.38	3.88	3.63	3.13	3.38

GDP Growth - Global Economy - Year over Year

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
US	2.6	1.6	2.2	1.8	2.3	2.7	1.7	2.2	2.9	2.3	-2.8	5.9	2.1	2.2	1.8	2.5
Eurozone	1.7	1.4	-0.9	-0.2	1.4	2.1	1.9	2.5	1.8	1.6	-6.2	5.3	3.5	0.8	1.3	1.7
United Kingdom	1.7	0.7	0.3	1.8	2.9	2.2	1.9	1.9	1.7	1.7	-9.3	7.6	4.1	0.3	1.0	1.3
Japan	4.6	-0.4	1.6	1.5	-0.1	1.1	0.5	1.7	0.6	-0.2	-4.6	1.7	1.0	1.2	0.9	1.6
Canada	3.1	3.1	1.8	2.3	2.9	0.7	1.0	3.2	2.8	1.9	-5.1	5.0	3.4	1.6	1.4	1.8
India	8.4	8.6	6.7	4.9	7.4	8.0	8.1	7.2	6.4	3.8	-6.6	8.7	6.7	5.6	6.1	6.6
China	10.5	9.5	7.8	7.7	7.3	6.9	6.7	6.8	6.7	6.0	2.2	8.1	3.0	5.0	4.6	4.8
Brazil	7.5	2.7	0.9	2.3	0.1	-3.5	-3.5	1.2	1.2	1.7	-3.6	5.3	3.0	2.3	2.2	3.1
Mexico	5.2	4.0	3.9	1.4	2.3	2.7	2.7	2.4	2.2	-0.2	-8.2	4.9	3.0	2.5	2.2	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	3.7	1.3	1.7	2.8
Russia	4.0	4.3	3.4	1.3	0.6	-2.8	-0.2	1.6	2.8	2.2	-2.7	5.6	-2.1	0.9	1.2	1.7
World	4.2	3.1	2.5	2.6	2.8	2.8	2.6	3.4	3.2	2.6	--3.1	6.0	3.1	2.3	2.0	2.9

Key Economic & Geopolitical Projections for 2023

- Latest revision: September 3, 2023

PROBABILITY	U.S.
HIGH	Odds of US recession in 2024 stands at 25%, assuming fed funds do not exceed current upper limit of 5.50%.
Moderate	Expect Federal Reserve to begin cutting rates by summer 2024 as inflation nears the 2% target.
HIGH	Geopolitical assumptions: War in Ukraine ends in 2024 AND the border between China and India remains quiescent
Moderate	Treasury 10-yr. yield to slide back below 4% in IVQ 2023, then Hover between 3.65% to 4.10% next 12 - 18 months.
HIGH	Supply chain flows return to pre-pandemic levels and allows for faster delivery times and lower costs.
HIGH	Labor shortage eases in U.S. but employers remain reluctant to layoff workers thru 2024 as economy avoids recession.
	FOREIGN
HIGH	While Russia has been able to circumvent Western sanctions, its economy is in distress with a weak currency.
Moderate	China's struggle to revive its economy will reduce demand for commodities. That should help contain global inflation.
HIGH	Beijing fortifies naval presence in South China Sea and Taiwan Straight to counter US political support of Taiwan.
HIGH	China seeks to keep U.S. and Europe bogged down in Ukraine so as to reduce US presence in western Pacific.
Moderate	OPEC+ reduces oil production in 2H, but non-OPEC producers boost output, which will stabilize WTI in $75 to $85 range.
HIGH	Iran's increasing ties with Russia and China allows it to quietly work a nuclear bomb, despite Israel's warnings.
HIGH	Global economy to rebound in 2H 2024 as inflation eases and central banks begin to lower rates.