

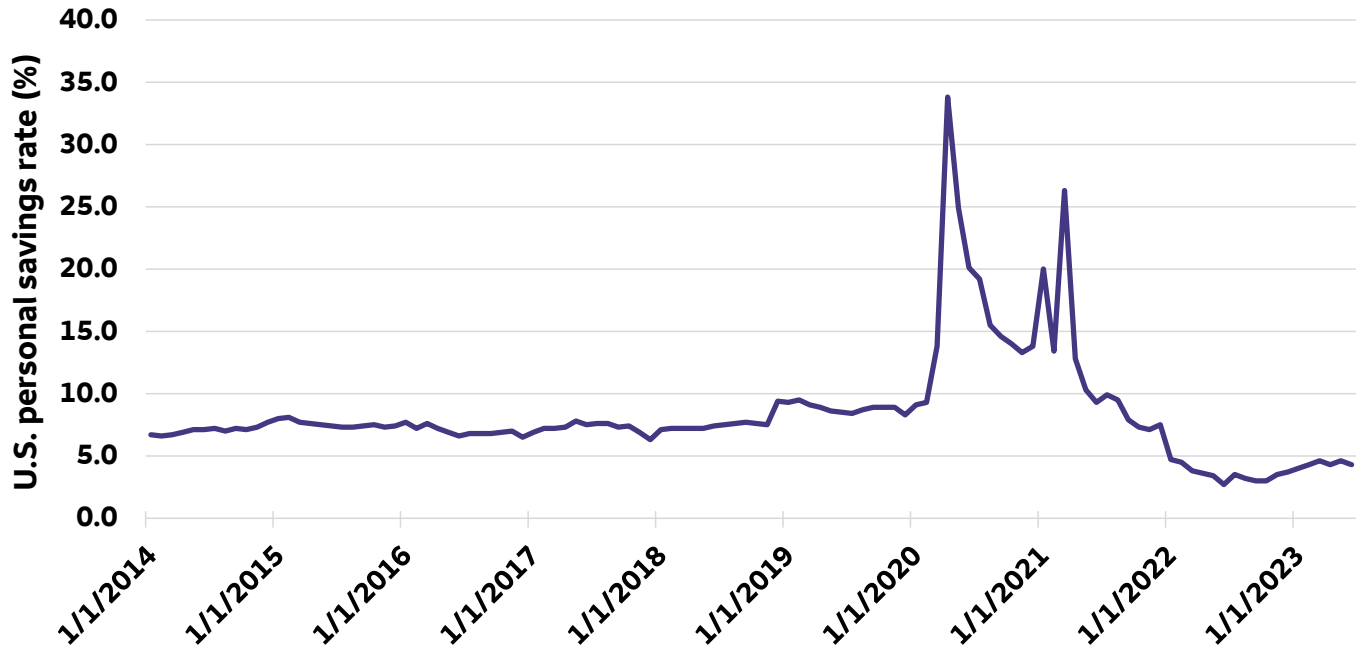


Chart of the Week

Weekly market analysis on key market indexes

August 15, 2023

Pressure on consumer spending may intensify



Sources: U.S. Bureau of Economic Analysis and Wells Fargo Investment Institute. Data from January 1, 2014 – June 1, 2023.

U.S. personal savings rate from January 1, 2014, through June 1, 2023

Through the first half of 2023, the consumer remained resilient. According to the U.S. Census Bureau, excess savings remains substantial but has dropped to around \$0.8 trillion (versus the \$2.2 trillion pandemic peak), delaying a deeper pullback in retail sales. The chart shows that personal savings as a percentage of disposable income has also declined since pandemic highs, running below 5% since January 2022.

We expect U.S. retail sales to decelerate in the second half of 2023, mainly due to disinflation in grocery, as well as big-ticket durable categories with limited pricing power (think electronics, furniture, etc.). Importantly, household balance sheets appear to still be on solid footing — with most borrowing (mortgages, for example) locked in at low fixed rates.

What it may mean for investors

Our outlook on retail spending trends is bearish for a number of reasons, including our expectation that: a.) inflation should continue to have a negative impact on consumer spending; b.) consumers are likely to feel the impact of lapsing fiscal stimulus more in 2023 than in 2022, given the resumption of student loan payments as well as decreased Supplemental Nutrition Assistance Program (SNAP) benefits and child tax credits, and c.) the Federal Reserve's interest rate hikes may prove more harmful to consumer spending than anticipated.

Brian Postol, *Equity Sector Analyst*

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