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Consumer Trends that Will Impact 2023

- Carol Roth

In this informative newsletter, Carol covers what has been happening to "excess savings" and how soon those are expected to run out; why one historic debt measure is expected to increase; how the housing market differs from 2008, but could lead to a decline in personal wealth; why the labor market is the economy's linchpin; how you can hedge against all of this; and more.

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The Consumer Has Been Keeping Up with the Joneses and the Federal Reserve—How Long Can that Last?

As the Fed keeps trying to destroy demand, most recently with their 50 basis point interest rate hike in December, consumers have been doing their best to ignore them. But, how long can they keep doing that for?

Projecting what's ahead for 2023, the hardness of an economic landing depends most heavily on the consumer. That shouldn't be a surprise—the consumer typically accounts for about two-thirds of the US economy. So, how the consumer is feeling, as well as how they are performing financially, tells us a lot about what's ahead economically.

So, will the Fed win, and in doing so take down the economy with it? Or, will the consumer continue to carry the economy on its back, keeping prices elevated and sacrificing their own wealth?

Let's take a look at the key consumer trends to watch. After reading this, if you haven't hedged your personal portfolio or are concerned you have not hedged enough, you may want to get more information about diversifying into hard assets, such as gold. My friends at Goldline can provide you with more information.

Hanging on for the Holidays

The consumer rallied enough to make the 2022 holiday spending season a resounding "meh". Mastercard's Spending Pulse estimated that US holiday sales grew about 7.6% for the 2022 holiday season (over the 2021 holiday season's total). Note that this number not only excludes autos, but it is not inflation adjusted (most retail sales numbers are not).

This has two implications. One is that inflation-adjusted economic activity was basically flat. The second is that the consumer, despite the higher inflation backdrop, worked to just keep pace with their spending. However, balance sheet pressures (discussed below) and the overall elevated expense environment contributed to a growth slowdown year-over-year (2021 holiday sales were up 8.5% over 2020).

While layoffs have accelerated in recent months, the labor market still remains strong, giving consumers enough confidence to continue to spend.

The Incredible Shrinking Balance Sheet

Consumers as a group have had the benefit of strong balance sheets, on the back of a supply/demand imbalance in the job market that favored workers and large amounts of government stimulus. However, the personal balance sheets of Americans are starting to show some signs of trouble ahead.

The personal saving rate, which measures the percentage of their disposable personal income that people are saving, continues to stay near historical lows. Per the Bureau of Economic Analysis's recent release, the personal saving rate for November 2022 was 2.4%, a tad higher than October, but still in a

range that we haven't seen since the Great Recession Financial Crisis. For context, in 2017-2019, the personal saving rate was in the seven-to-nine plus percent range.

In addition to saving less each month, consumers' savings in the bank are also being eaten up. A combination of inflation making the cost of everyday living more expensive and Fed policy raising rates that makes financing everyday living also more expensive has led to an erosion of savings.

The Federal Reserve reported a high in what they call "excess" savings in the third quarter of 2021. A year later, at the end of September 2022, that amount has been cut to around $1.5 trillion. Jamie Dimon, Head of JPMorgan Chase, told CNBC, he projects that amount to run out some time mid-2023, consistent with the projections of other economists.

Moreover, the bulk of that savings (more than half) skews towards the wealthiest Americans, creating a potentially misleading narrative on the strength of the consumer.

LendingClub reported via *Forbes* that as of November "63% of Americans were living paycheck to paycheck…up from 60% the previous month and near the 64% historic high hit in March. Even high-income earners are under pressure. Of those earning more than six figures, 47% reported living paycheck to paycheck, a jump from the previous month's 43%."

'Til Debt Do Us Part

In addition to the dwindling savings side of personal balance sheets, debt trends are also moving in the wrong direction.

Credit card debt hit a record high in the third quarter of 2022 of around $930 billion, an amount staggering on its own, but worse given the higher interest rate loads that have come out of the Fed-induced rising interest rate environment. This has a double-whammy effect of decreasing purchasing power and creating a long-term drag on the economy.

Despite increasing delinquency rates, the forecasters aren't expecting consumers to stop leaning on credit card debt. TransUnion, for example, projects "14 million more credit cards to be issued in 2023 than in 2019."

They also have projected that serious credit card delinquencies and unsecured personal loan delinquency rates will retrace 2010 levels.

This will create a headwind for the economy and also hit the wealth of individuals.

This is already showing up in terms of Americans tapping their long-term wealth to help them pay for their spending. CNN reported that, "A recent survey from Vanguard showed a 'concerning' rise in hardship withdrawals, or cash that workers are taking out of their employer retirement programs, like 401(k) plans.

Fox Business also noted that more people will be dipping into their home's equity to pay off loans like credit cards that carry a higher interest rate.

This creates a personal “robbing Peter to pay Paul” scenario that could be made worse by further degradation in the labor market, the housing market or the stock market.

Fear the Repo…

Another key data point in terms of the consumer’s strength relates to car repos. NBC News reported that “in recent months, the number of people behind on their car payments has been approaching prepandemic levels, and for the lowest-income consumers, the rate of loan defaults is now exceeding where it was in 2019, according to data from ratings agency Fitch.”

A confluence of events, including supply chain issues that pushed up prices on both new and used vehicles over the past few years coupled with increasing financing rates, not to mention soaring gas and maintenance costs, has made cars an extra financial burden on top of other everyday living costs. It is estimated that the average monthly payment for a new car is up around 26% since 2019.

And again, the lowest income consumers are the first and hardest hit. Fitch is expecting the delinquency rate to continue to increase, but perhaps not reach Great Recession Financial Crisis levels.

Housing on More Solid Ground

The supply/demand imbalance in housing has kept prices generally elevated, even in the face of mortgage rates that are double what they were last year at the same time. This has kept the wealth effect of housing going for many Americans, perhaps giving them more confidence than they would otherwise have in terms of spending.

It is also likely to put a floor on default rates, ensuring that we don’t see a repeat of the Great Recession in housing. The *Wall Street Journal* notes that, “A 28% decline in U.S. home prices between 2006 and 2009 sent the value of some 11 million homes below their mortgage balances, triggering widespread defaults, a near-collapse of the financial system and a deep recession. Home prices would have to fall between 40% and 45% from their peak to put the same proportion of mortgaged homes underwater today, according to a CoreLogic analysis.”

However, that doesn’t mean that everything is rosy for homebuyers. This is particularly the case for those who purchased in 2022. *Yahoo* reported that of homes purchased with mortgages in 2022, about 8% of those (or 270,000 mortgages) already owe more than the current value of their home.

Still, housing isn’t likely to be the canary in the coal mine this time around, although any major shifts will be meaningful.

Where Does the Consumer Go from Here?

With the Fed resolute in their battle to try to fight inflation, deteriorating personal balance sheets and companies starting to be concerned about costs, it still reads that 2023 will be a tough year for the US economy, not to mention the global economy. With Congress continuing to spend and a consumer pushing against the Fed, stagflation or a stagflationary recession look to be forgone conclusions.

Given the consumer data above, savings depletion is critical to continue to watch. The labor market rolling over will all but guarantee a hard landing and be a catalyst for the shift in the consumer and the economy.

It's been a slow undoing, but pay attention, because when it breaks, things can shift very quickly.

In preparation, do your best to undertake personal austerity and have a cushion for this time. Cut unnecessary expenses, keep your powder dry and live below your means. Again, if you haven't hedged your personal portfolio, or are concerned you haven't hedged enough, do look to hard assets, including gold, as a mechanism to do so. If you need some help in sorting through that, please consider giving my friends at Goldline a call. They can help explain why diversifying with physical metals (many experts recommend hedging up to 5-10% of your portfolio with gold and other alternative assets) may be an appropriate choice for you. Ask them for their Buyer's Guide and don't forget to claim the special newsletter offer!

The consumer has been willing to sacrifice their long-term wealth for short-term spending. That will neither work out well for them nor the economy long-term. Buck the trend and don't keep up with the Joneses, keep up with your investments.

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