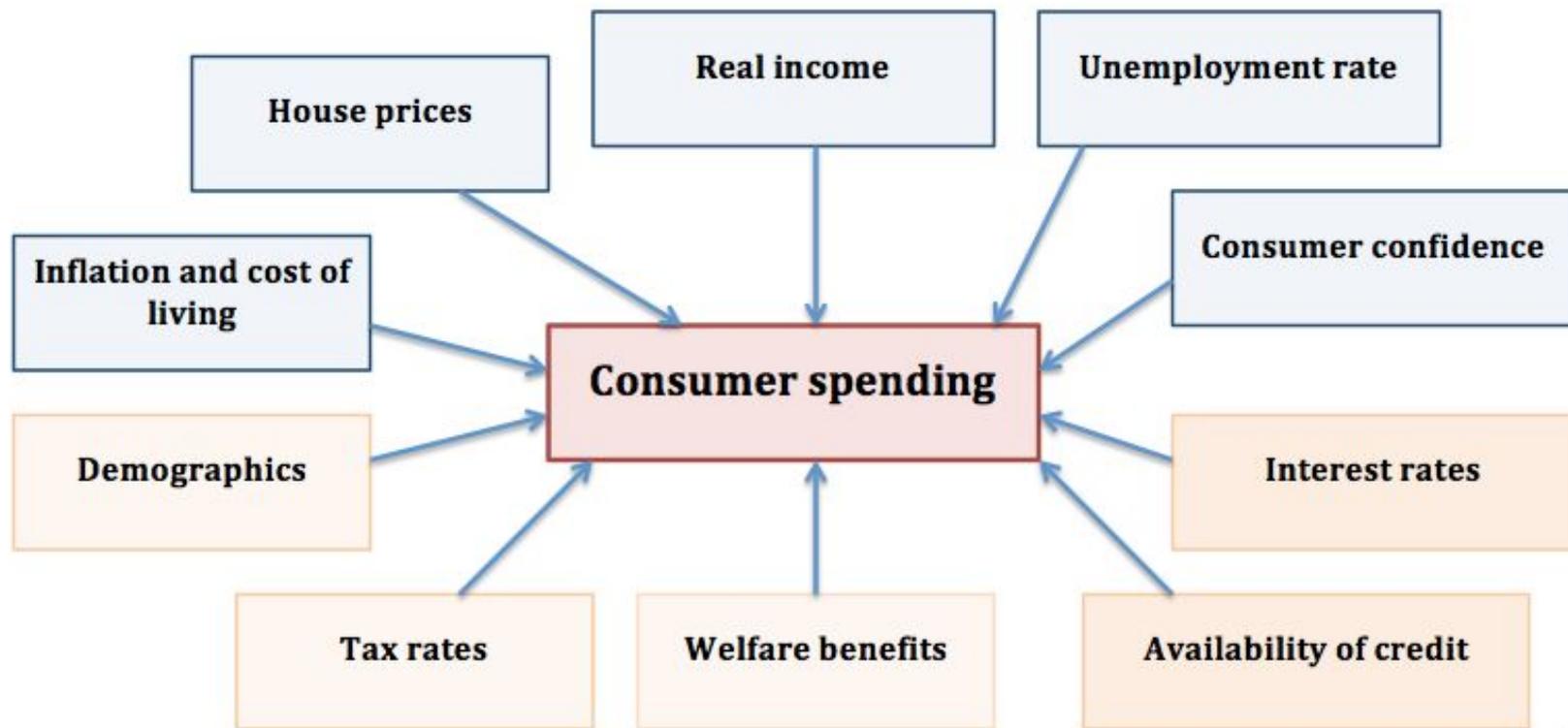


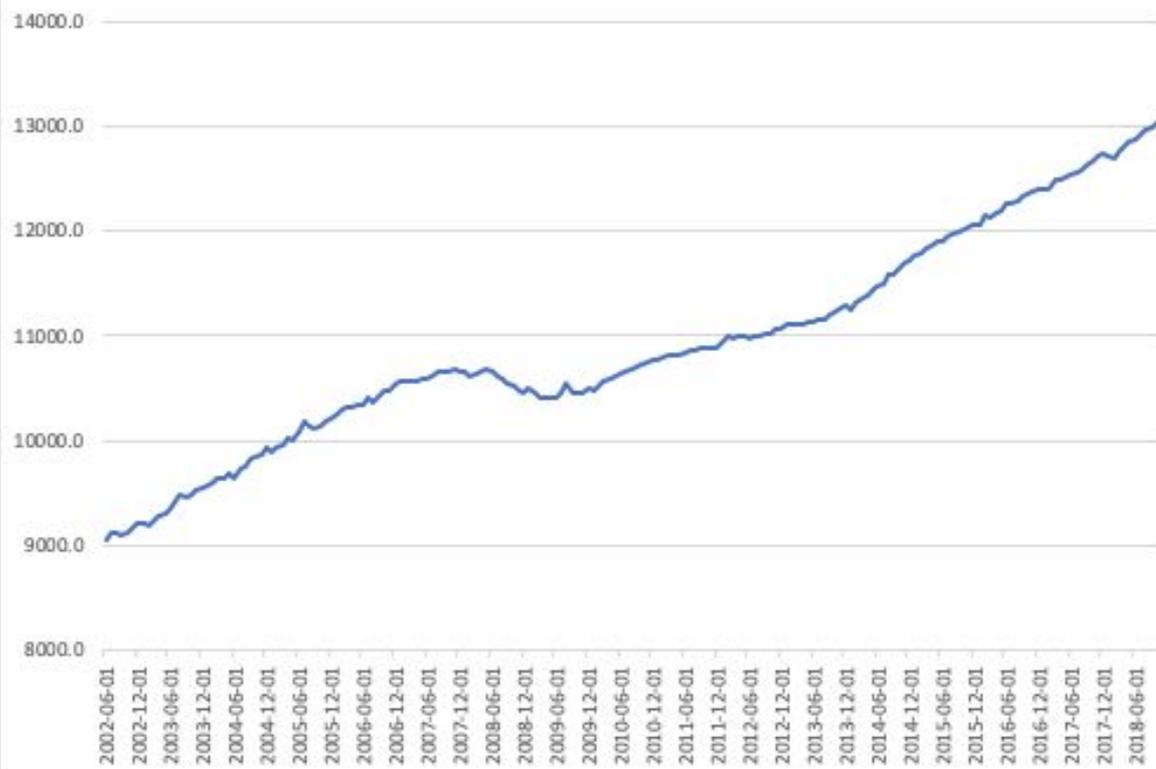
Changes in Consumer Spending

Factors influencing consumer spending



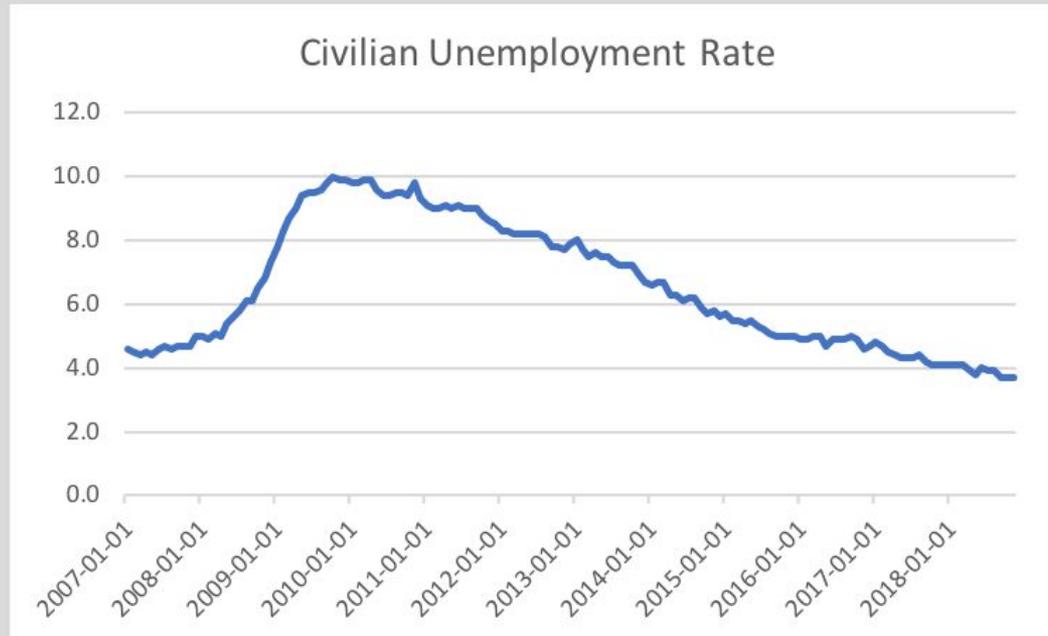
- Unemployment Rate and the Labor Force
- Consumer Confidence
- Revolving Credit (Credit Cards)

Real Personal Consumption Expenditure



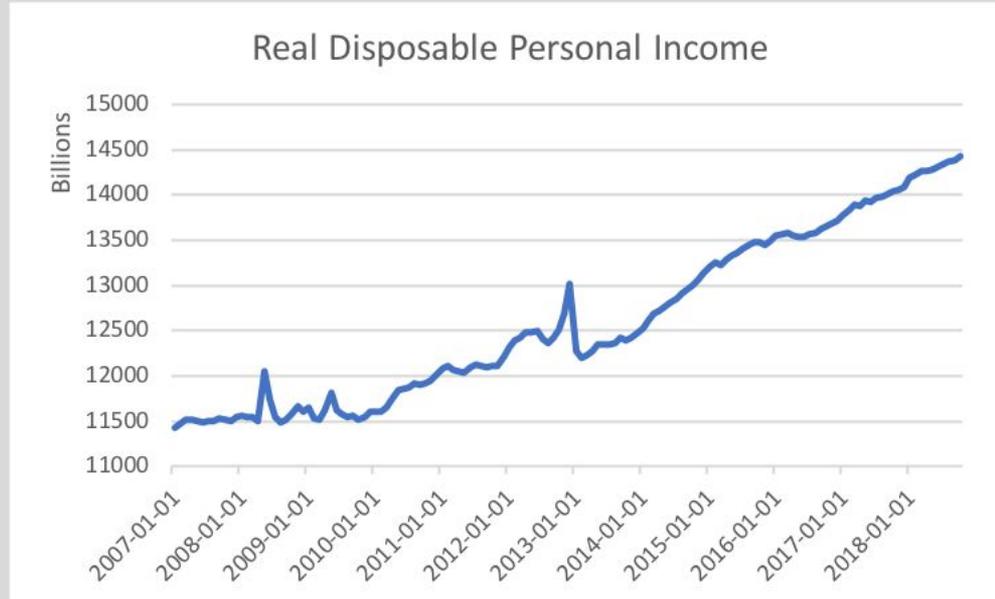
Labor Market, Unemployment

- Consumption is supported by the labor market
- Unemployment Rate October 2018: 3.7%



Real Disposable Income

- Increasing after the recession



Consumer Confidence Index

—People's expectation of their future financial situation



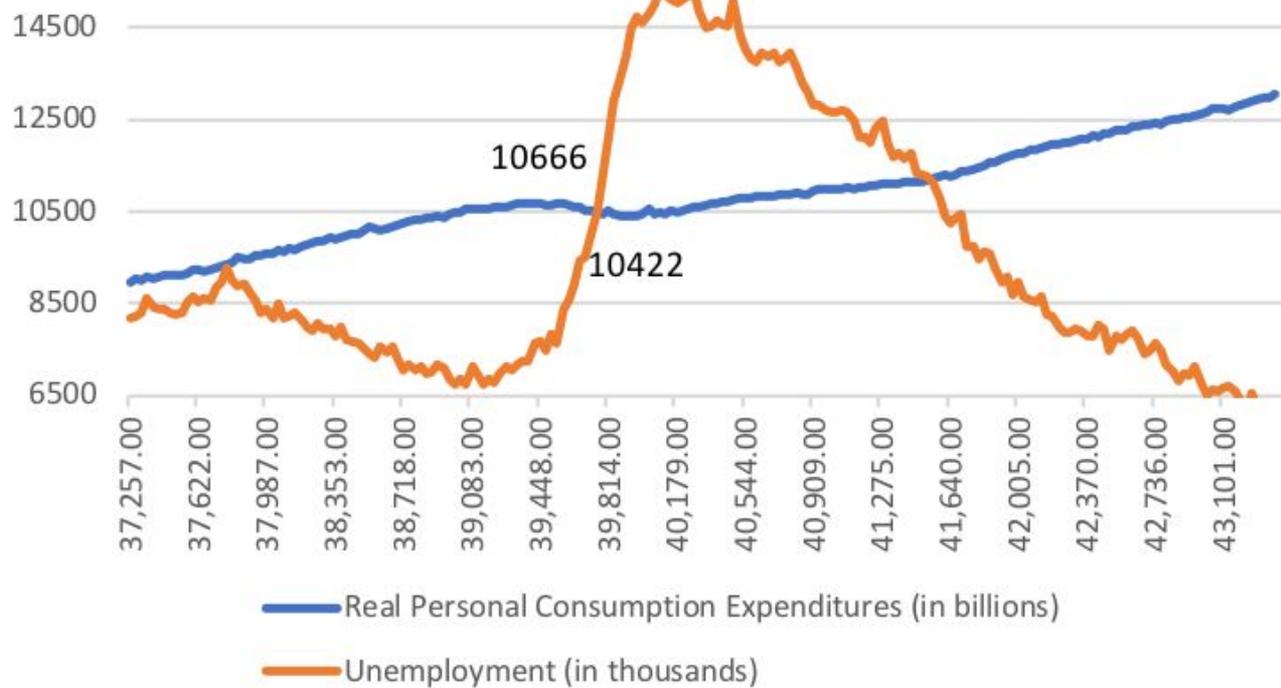
Source: OECD

Consumption patterns related to CCI

Experiment by Carbone and Hey (2004)

- Oversensitivity of consumption to current income
- People tend to overreact to the current employment status
- Consumers usually don't smooth their consumption sufficiently—with current consumption too closely tracking current income.
- Worse off in periods of unemployment (recessions) than they need to be

Unemployment vs. Personal Consumption



Consumer Credit Card Debt

“In fact, earnings results show that the four largest U.S. retail banks indicate an almost **20 percent increase in credit card losses** across the board during 2017.’

- PYMNTS

“There’s an **underlying deterioration** in the ability of the consumer to keep up with their debt service burden.”

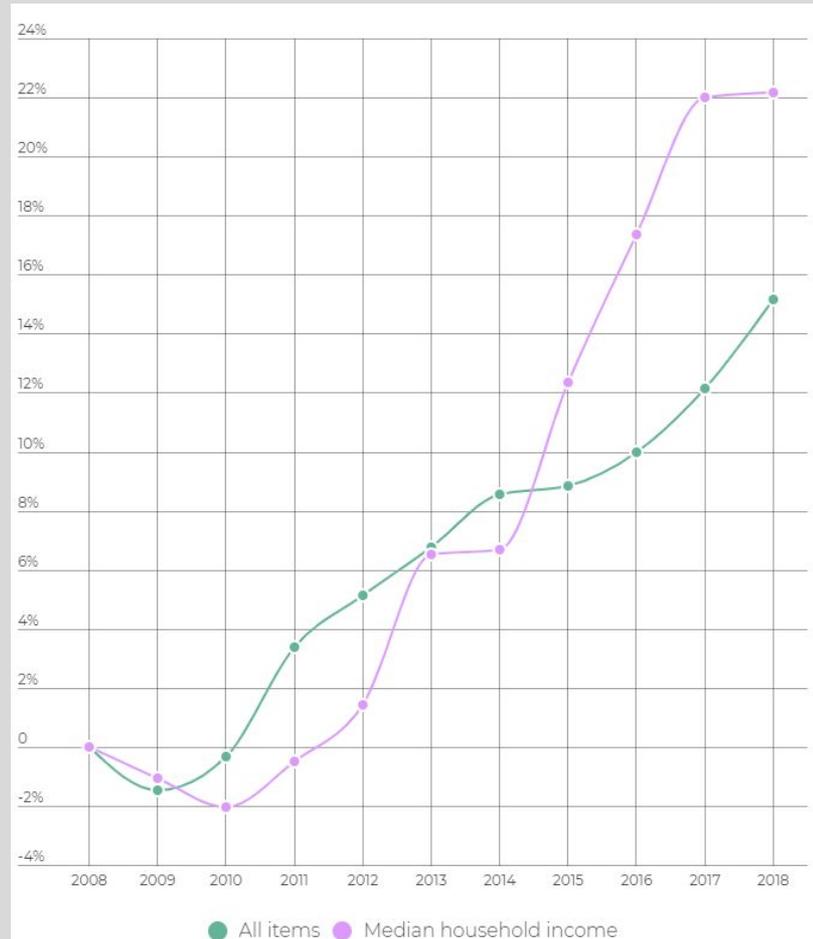
- Charles Peabody, managing director at Compass Point

“In a gloomier future, U.S. consumers will continue to borrow freely even as rates climb. The **ability to make their debt payments will erode with time**, which will leave them vulnerable to the next economic shock”

-Kevin Wack, reporter for American Banker

Income vs Cost of Living

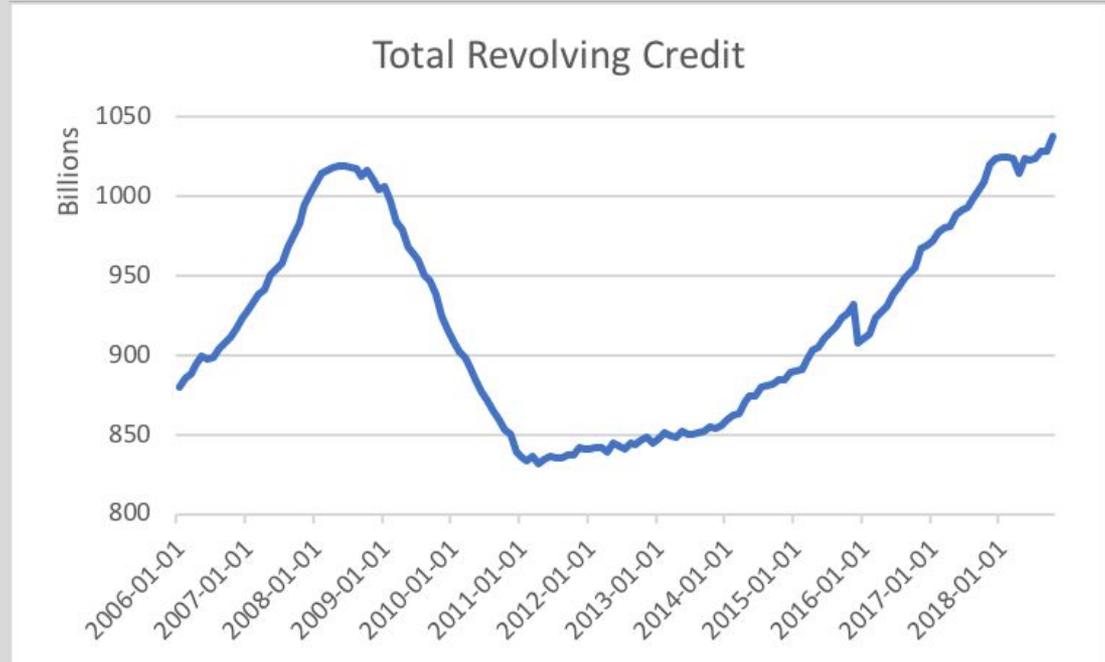
- The highest incomes are growing at a much faster pace than the lowest incomes
- Nominal terms



Sources: U.S. Bureau of Labor Statistics, U.S. Census and NerdWallet analysis. All numbers are nominal, meaning that they aren't adjusted for inflation.

Total Revolving Credit

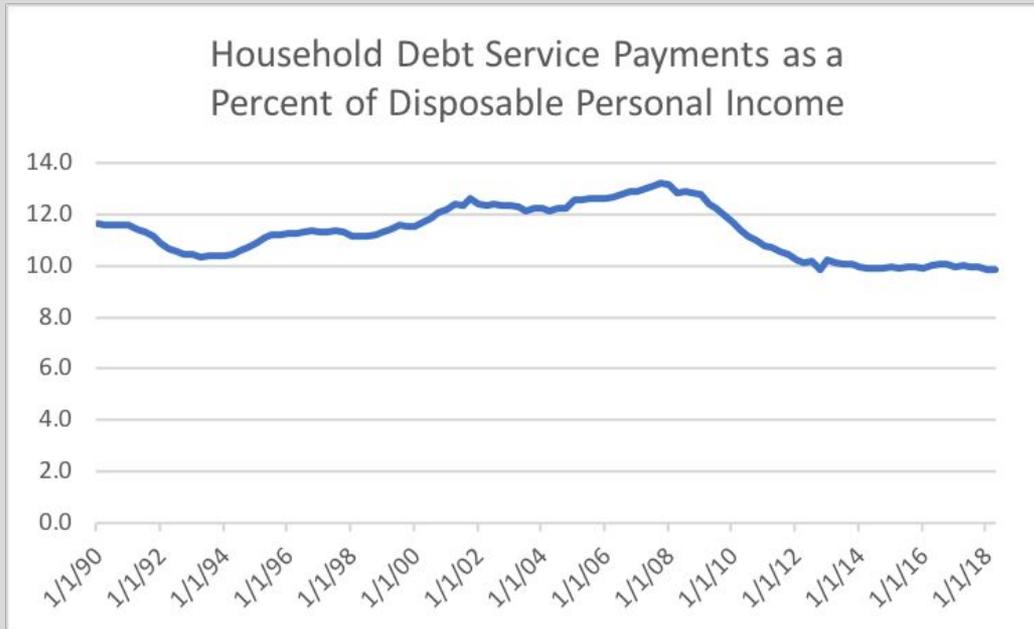
- 835 → 1,025 billion dollars within the past 7 years
- During the last recession, credit peaked at around 1,020 billion



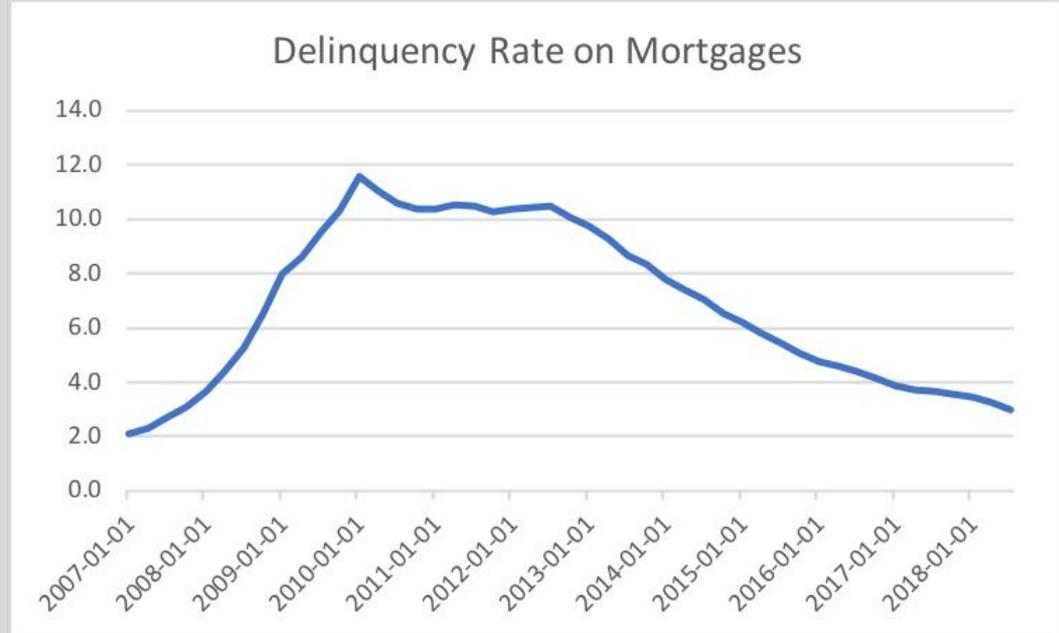
Manageable debt?

- As a percentage of disposable income, **household debt** is **near its average** from 1990 to 2018.
- **Delinquency rates** have been **decreasing** or at a low thanks in large part to a strong labor market

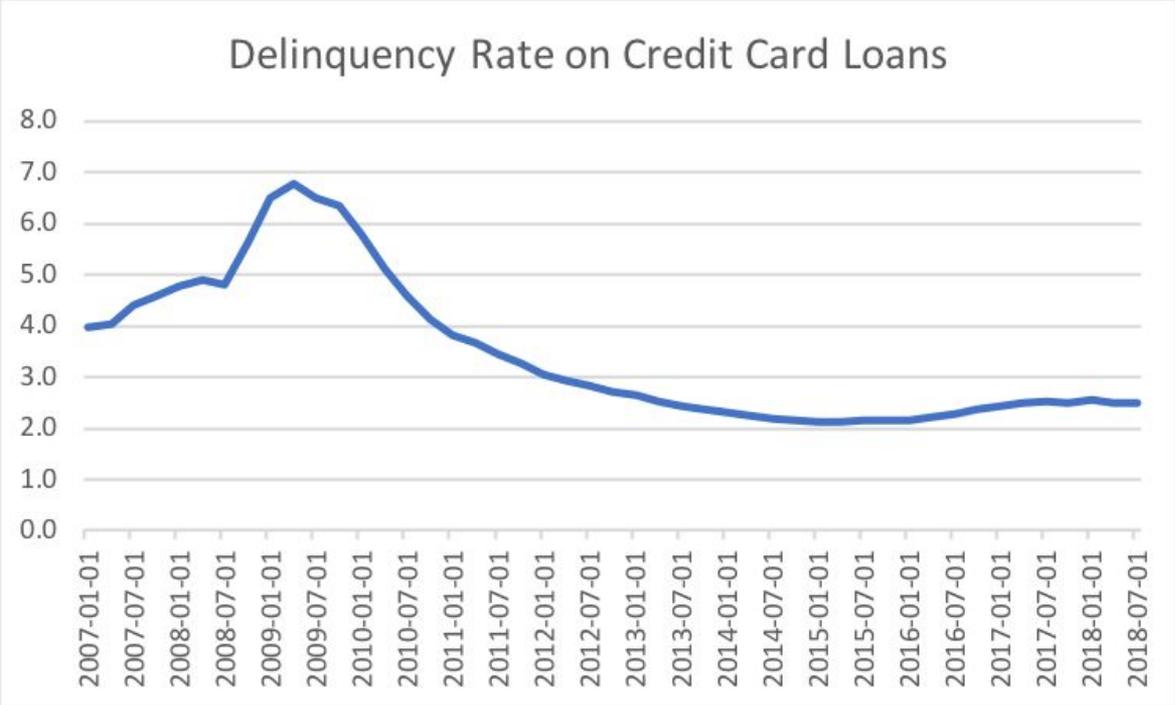
Household Debt Service Payments as a Percent of Disposable Personal Income



Delinquency Rate on Mortgages

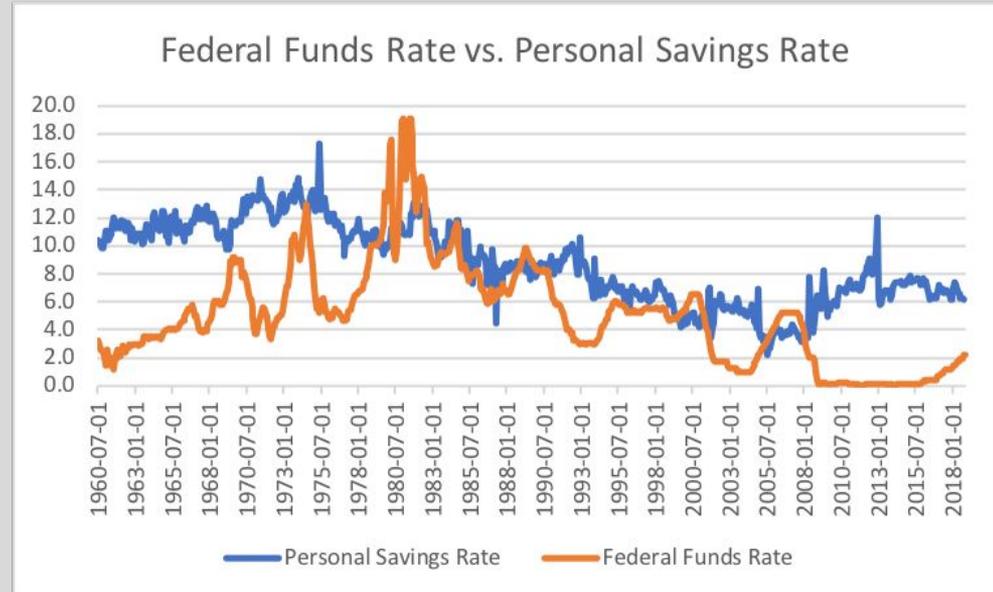
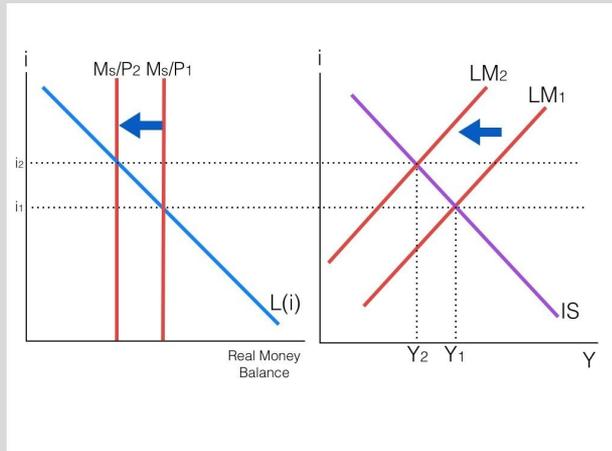


Delinquency Rate on Credit Card Loans



Possible Policies

- Monetary Policy
 - Fed raises interest rate
- Fiscal Policy
 - $S = Y - C - G$



Potential Drawbacks

- Monetary Policy
 - “The Federal Reserve plans to raise interest rates several times this year, which will **inevitably make consumers' debt burden more expensive**. ‘Consumers should probably consider refinancing some of their debts,’ Kapfidze said. That could mean moving credit card debt at a 16 percent annual percentage rate to a personal loan that offers 6 percent to 8 percent”
- Fiscal Policy
 - Slower economic growth
 - Cuts to capital spending can harm long-term productivity

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