US Macroeconomics

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Running on Empty?

Real consumption has been slowing but arguably has been more resilient to higher interest rates and cost of living increases than what many economists had projected. Spending is also much stronger than what is implied by the University of Michigan consumer sentiment figures as these data point to outright consumer spending declines. However, real household outlays rose 1.7% last year after surging over 7% in 2021. And the preliminary estimate for Q1 2023 is near 3% following the latest retail sales figures for March. What gives?

It is possible that households still have excess savings left over from various pandemic-related initiatives. Remember that after the economy already began recovering sharply in mid-2020 before $900 billion in fiscal stimulus was shepherded through Congress that December. This was dwarfed by another $2 trillion stimulus plan in March 2021. No doubt this was a catalyst behind the inflation surge that began in April 2021 and still plagues monetary policymakers today.

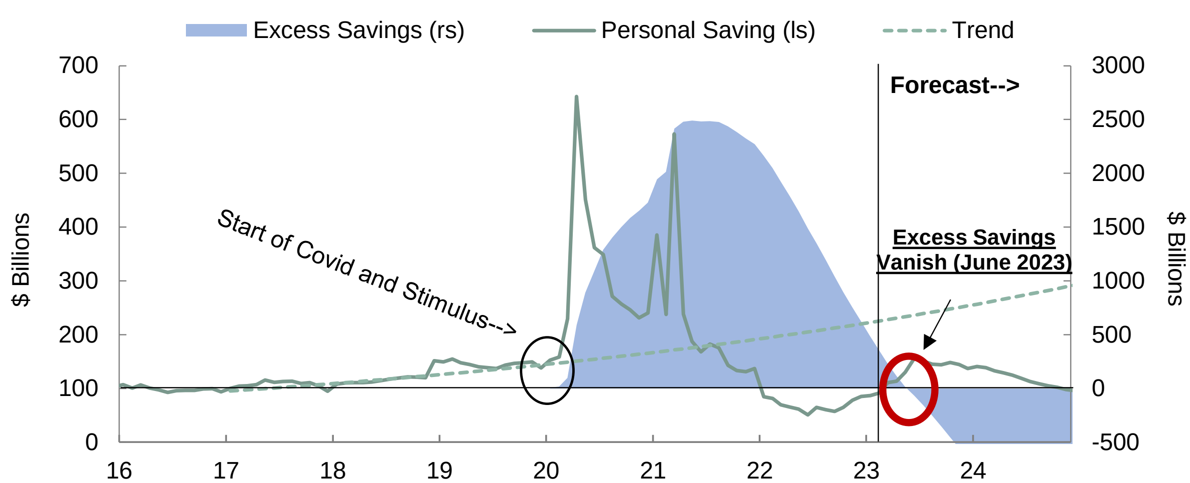
How do we measure excess savings?

When the pandemic hit and the government provided financial aid to households, the monthly flow of savings soared as illustrated in the chart below. Household savings (solid green line) increased to nearly $6 trillion at its peak.

Notably, this was much more than the underlying trend in savings (dashed line) which was extrapolated from its pre-covid direction. This acts as the baseline for estimating excess savings. The difference between the two series effectively amounts to the additional money (or excess savings) that was the result of government stimulus.

According to our estimates, household excess savings topped out at $2.5 trillion in July 2021. However, this surplus of funds has been steadily withdrawn, helping to support consumer spending above and beyond what underlying income growth would imply.

Most importantly, our latest projections suggest that excess savings are going to soon run out, possibly by the end of June. If so, real GDP growth could be much closer to a meaningful inflection point considering the consumers' importance to the economy's bottom line.



Sources: BEA, Haver, SMBC Nikko

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