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Troy Ludtka, US Economics
troy.ludtka@smbcnikko-si.com
1 212-224-5483

The Consumer's Narrowing Margin of Safety

After reaching a regional peak of 7.2% y/y in June 2023, real disposable incomes (DPI) have steadily trended lower to just 0.5% in June. Despite this, personal consumption is running 0.8% above its pre-Covid trend. This robust level of spending has been made possible by ***households reducing their savings rate to just 2.7%*** (July data are released August 26), which is ***among the lowest readings on record!*** Key to this dynamic is that ***periods of dissaving are tightly associated with robust wealth gains*** (shown below), meaning that wealth, equity wealth in particular, has become a marginal driver of consumption. While this dynamic has helped to sustain near-term growth, it also leaves the consumption outlook highly exposed to changes in asset prices.

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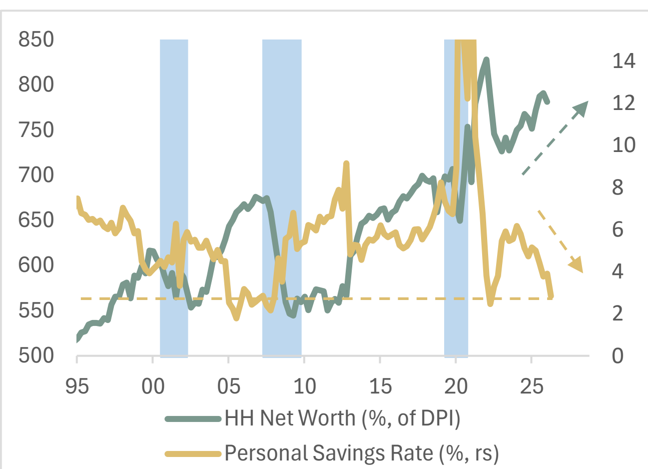
Household Net Worth (% of DPI) vs. Savings Rate…



Source: Federal Reserve, BEA, Haver, SMBC Nikko

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