AUG 02
Zak Stambor

Storm clouds cast a shadow over the US economy, making it harder to convince consumers to spend

Article

The situation: While consumers have been remarkably resilient over the past few years, they may be reaching their limits. Here are the signals:

- **The labor market is weakening.** The unemployment rate rose to 4.3% in July, which is 0.6 percentage points higher than it was in January, and the highest since October 2021. It's also getting harder for consumers to find a job as the number of job openings in June was down over 10% year over year, per the US Labor Department.
- **Consumers are struggling to pay off their credit card debt.** The share of past due credit card balances reached the highest level since at least 2012 when the Philadelphia Federal Reserve began tracking the metric.
- **Not surprisingly, consumers don't feel great.** While consumer confidence ticked up in July, it remains below the traditional threshold that signals a recession ahead, per The Conference Board.
- **Forecasts are trending downward.** The challenging conditions have driven the Atlanta Fed's GDP Now forecast—a running estimate of real GDP growth based on available economic data—to shift its Q3 GDP growth estimate down to 2.5%, a significant adjustment from its 2.8% estimate a week earlier, and lower its consumer spending forecast to 2.6% from 2.9%.

"Consumers are being careful with their spend, trading down…looking for deals," said **Brian Olsavsky**, CFO of **Amazon**, which missed quarterly sales expectations in Q2, despite hosting a series of smaller sales events to spur spending. "That continued into Q2, and we expect it to continue into Q3."

A tough landscape: There's growing sentiment that the US Federal Reserve waited too long to cut interest rates. While the Fed remained focused on half of its dual mandate—price stability—that may have come at the cost of the labor market.

- Now the job market is cooling, the housing market is stagnant, and consumers remain wary of opening their wallets to make big-ticket purchases.
- The situation drove **Wayfair CEO Niraj Shah** to compare consumers' reluctance to spend to the landscape during the Great Recession.

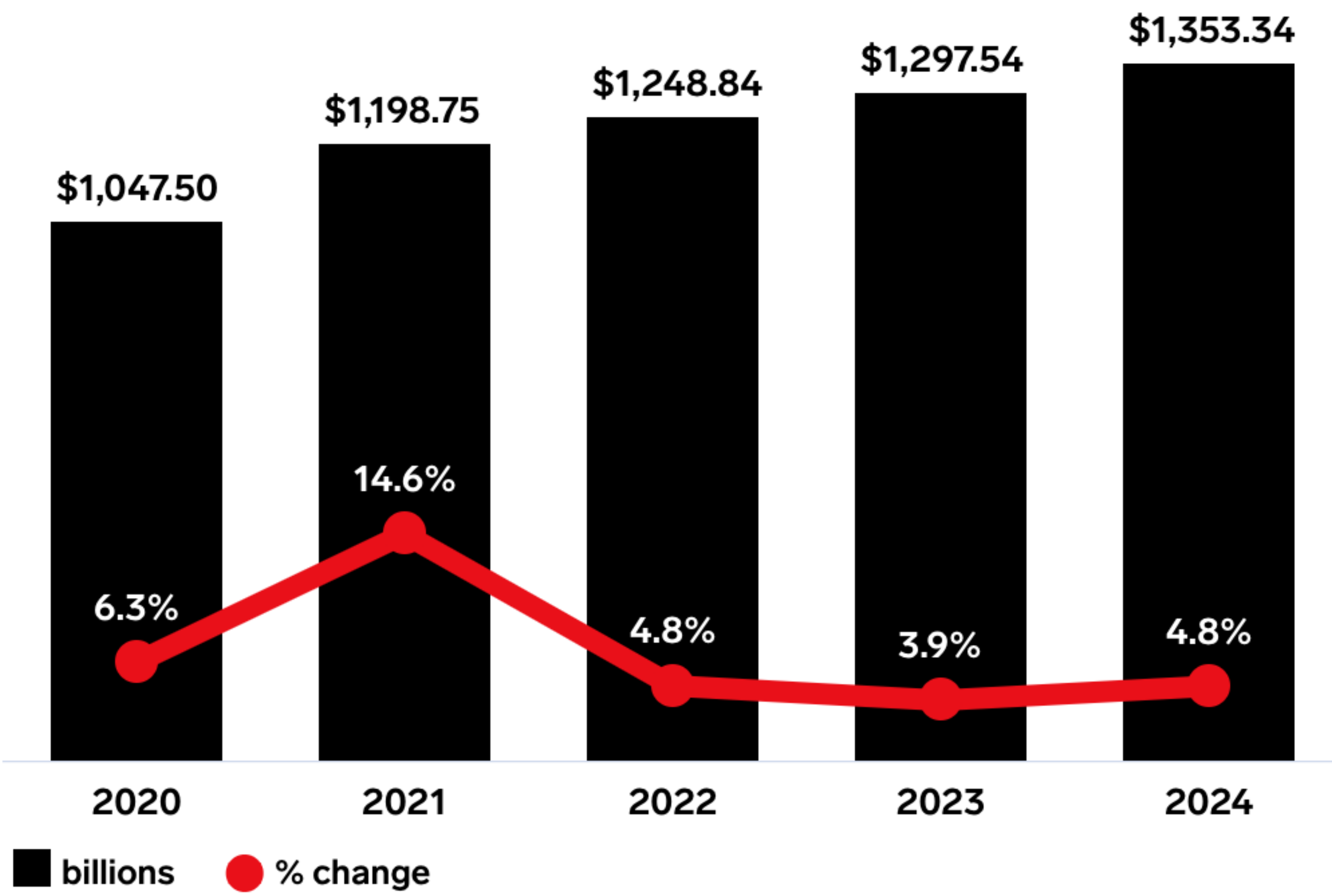
In addition to the looming economic storm clouds, **consumers have also been distracted by the flood of news that turned consumers' attention away from shopping**, Olsavsky told reporters, according to The New York Times. "When high-profile things happen...people shift their attention to news," he said, adding, "This is going to be a tough quarter to forecast."

- That's because consumers' spending patterns don't always follow a straight line.
- For example, while restaurant traffic dropped 2.6% in the first half of the year, **DoorDash**'s orders rose 19% YoY and revenues jumped 23% YoY, shattering records and surging past analysts' expectations.

The big takeaway: Value is likely to be front of mind for many consumers as they confront an uncertain economic environment ahead. While we expect holiday sales to grow a solid 4.8% this year, that spending may well depend on how aggressively the Fed cuts interest rates. In the meantime, retailers may need to lean into discounts and promotions to drive consumers to spend.

Holiday Retail Sales

US, 2020-2024



Note: sales are for Nov and Dec of each year; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, food services and drinking place sales, gambling and other vice goods sales

Source: EMARKETER Forecast, July 2024

EMARKETER