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Market Perspectives: The Consumer Remains the Key

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MARKET PERSPECTIVES: THE CONSUMER REMAINS THE KEY

"Your customers dream of a happier and better life.

Don't move products. Instead, enrich lives."

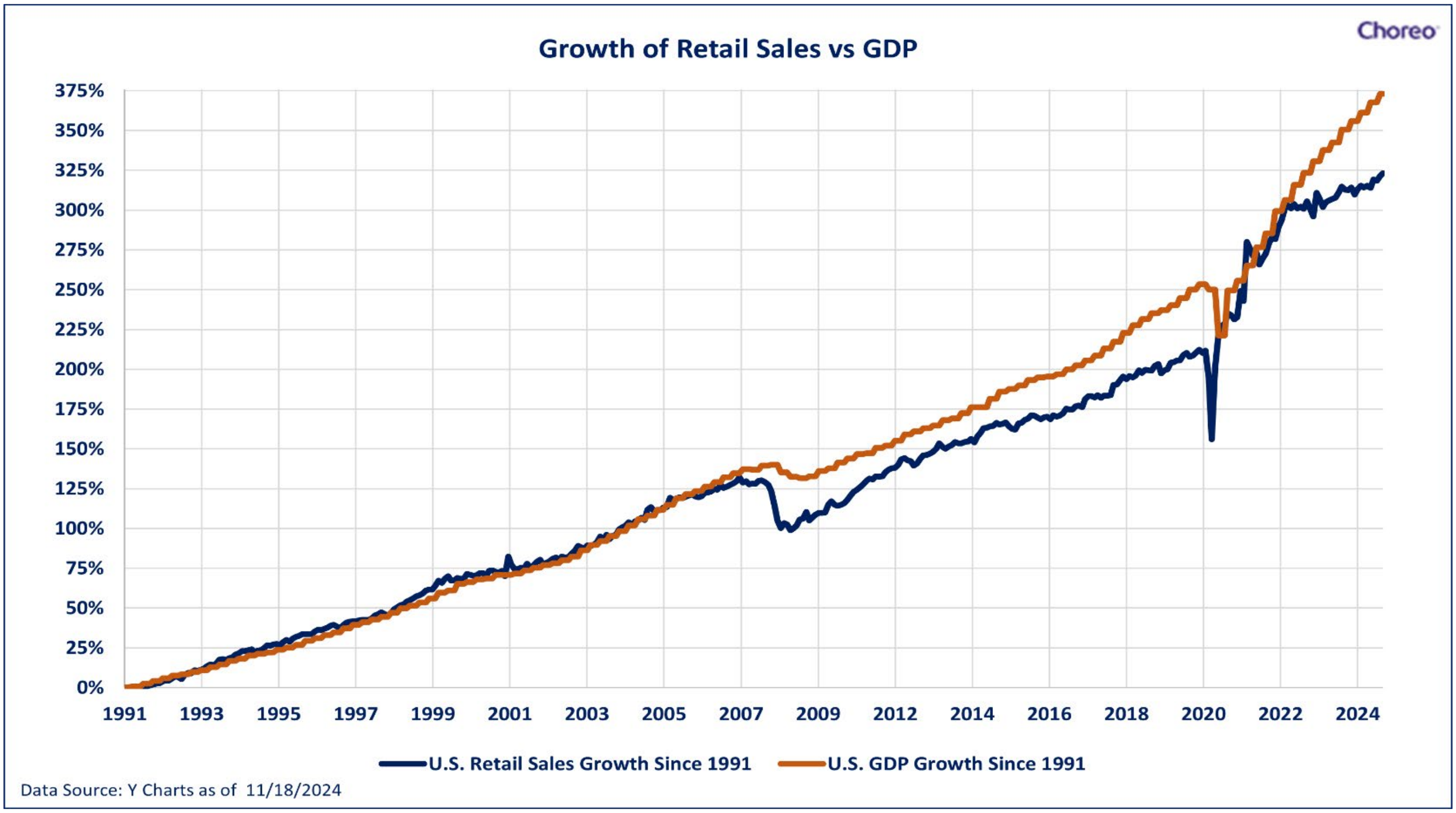
~ Steve Jobs, Apple Founder

- Consumers are expected to spend a record amount this holiday season; nearly $1 trillion dollars, according to National Retail Federation estimates[1], with the trend towards online sales continuing.
- Credit card delinquency rates are rising but remain below long-term averages.
- The consumer remains essential to the economic environment and generally speaking, the consumer has remained resilient.

In numerous ways, Apple has transformed the modern world with a relentless focus on the consumer. That focus was built and evolved over decades with founder Steve Jobs leading the charge until his passing. Jobs was prescient in his views that a strong products company should focus on the consumer. This approach aligns with the broader context of the U.S. economy, which has been and continues to be driven by consumer spending.

The consumer has long been the cornerstone of the U.S. economy, driving approximately 69% of Gross Domestic Product (GDP) through consumption. This relationship, as shown in the graph below, highlights the strong correlation between retail spending and U.S. economic growth since 1991. However, the consumer's resilience has been tested repeatedly over the past few years, navigating through uncertainty from the COVID-19 pandemic and the inflationary pressures that followed.

[1] https://nrf.com/media-center/press-releases/steady-sales-growth-expected-2024-holiday-season-according-nrf?Fds-Load-Behavior=force-external#:~:text=WASHINGTON%20%E2%80%93%20The%20National%20Retail%20Federation,the%20same%20timeframe%20last%20year.

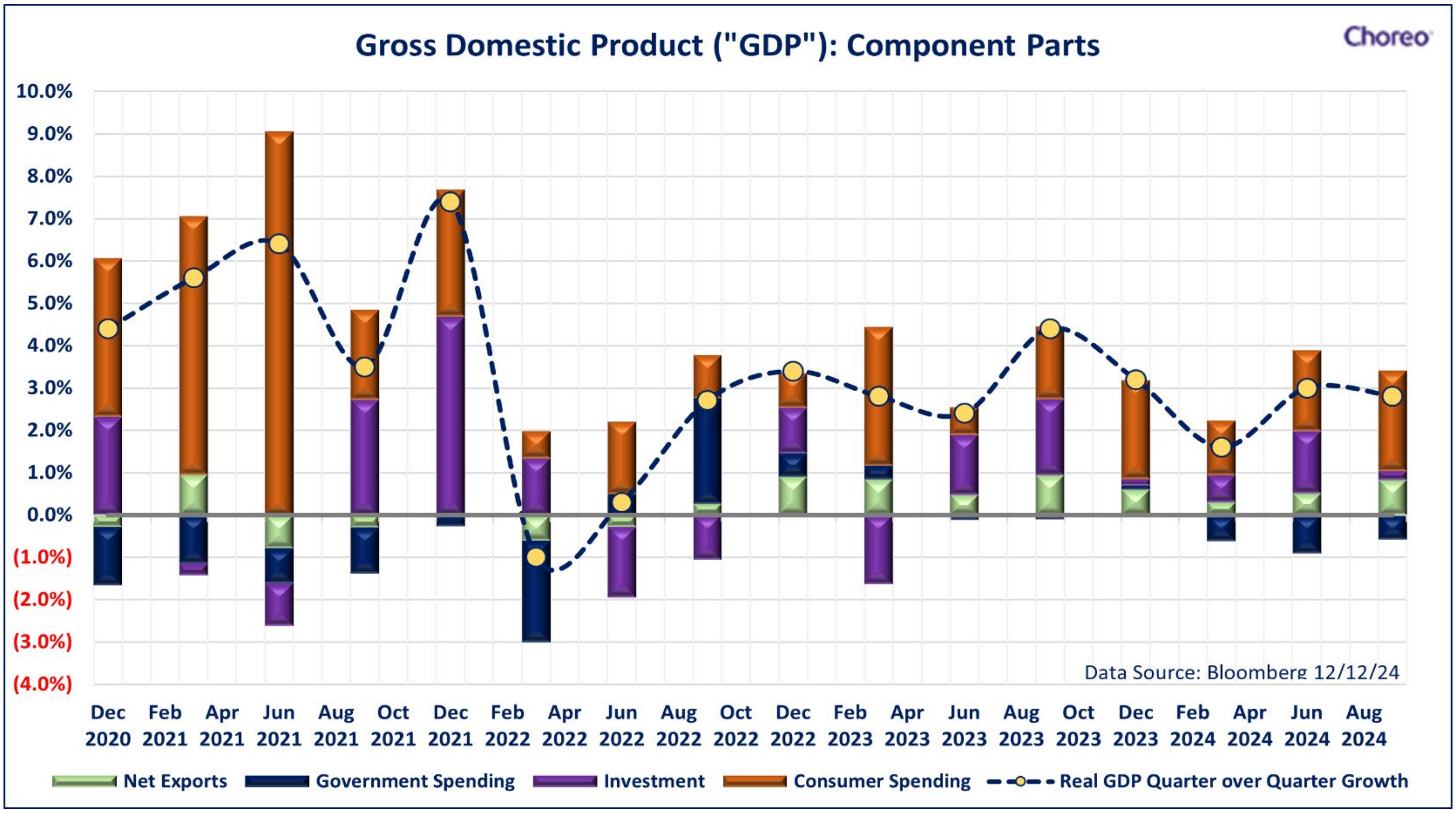


This time of year, annual holidays, traditions, and various festivities take place; and, while customs may vary, many Americans engage in their favorite pastime — shopping. But, with credit card rates at multi-decade highs (50% higher than the long-term average borrowing rate), and household credit card debt levels at all-time highs, are consumers stretched?

The Resilient Consumer

The economic fallout from the COVID-19 pandemic initially triggered a sharp recession in the United States. However, this recession was brief, largely due to the massive federal and monetary stimulus that bolstered household finances. By December 2020, consumer spending had rebounded and has since remained a source of economic stability.

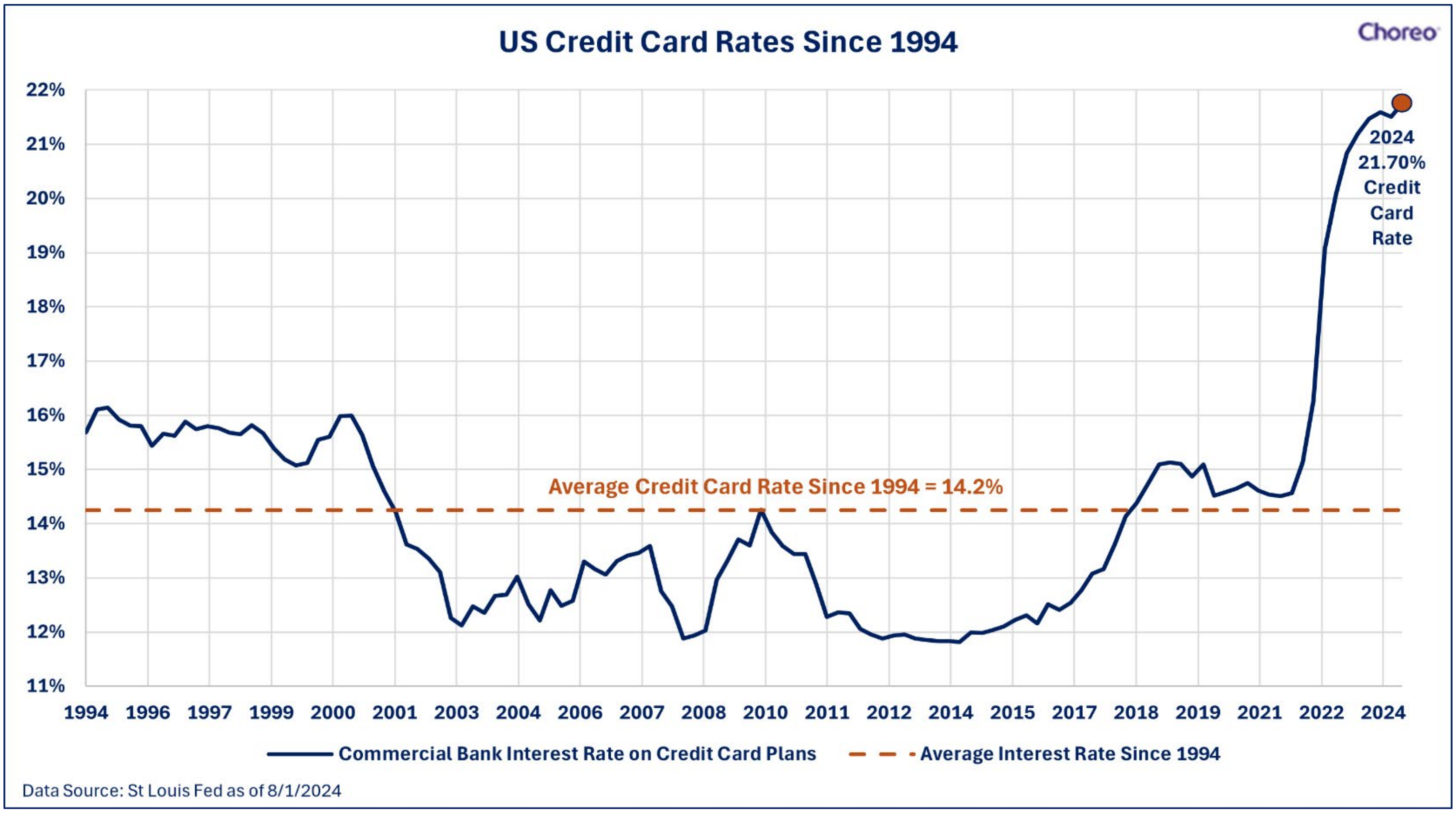
The chart below illustrates how consumer spending has consistently contributed positively to GDP despite the ups and downs of recent years. Notably, wage growth has outpaced inflation in recent months, restoring real purchasing power for many households. This bolsters consumers for what is expected to be a record level of spending this holiday season.



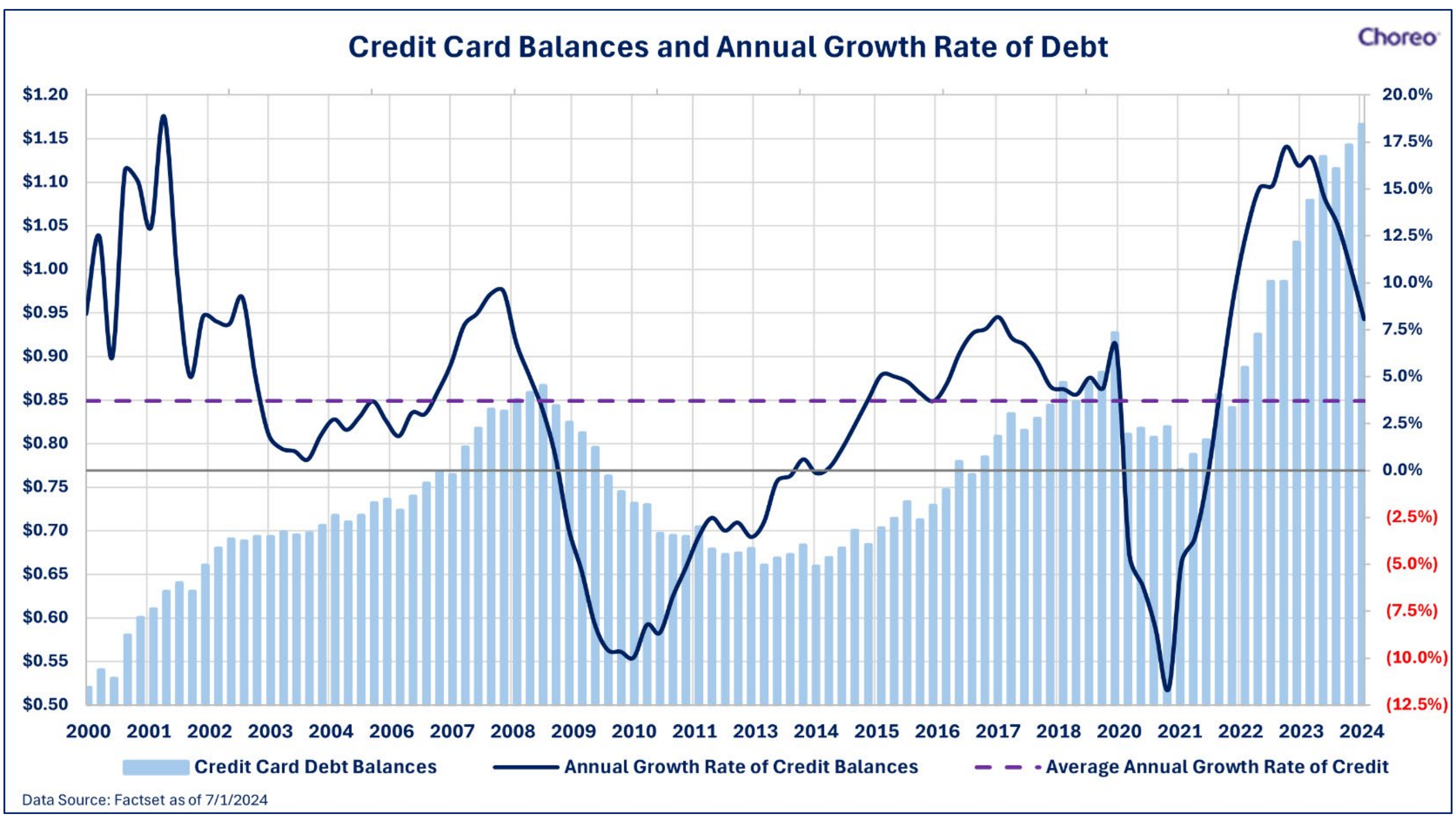
Is the Consumer Stretched?

While the consumer remains a critical driver of economic growth, several factors could pose challenges:

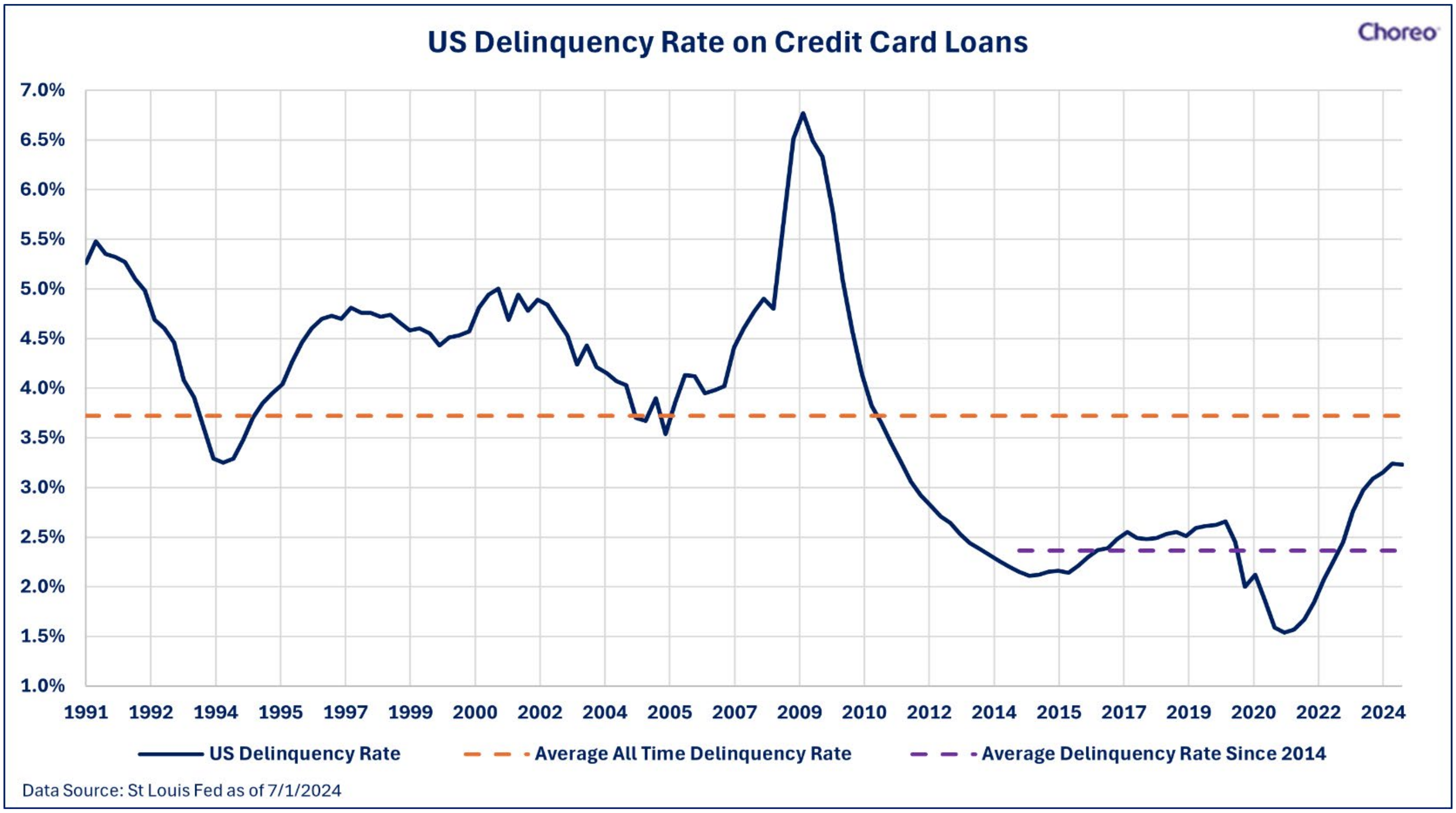
- High Credit Card Rates: Credit card interest rates have reached multi-decade highs, standing approximately 50% above the long-term average borrowing rate as seen in the graph below.



- **Record Debt Levels**: Household credit card debt hit $1.1 trillion in 2024, up from $810 billion in 2020. Although the pace of debt growth has slowed from 17% in 2023 to 8% in 2024, this deceleration reflects a return to the long-term average of 3.7% growth since 2000.



- **Rising Delinquencies**: Delinquency rates on revolving debt, such as credit cards, have increased since the Federal Reserve began raising interest rates. While these rates are above the 10-year average, they remain below the 30-year average and significantly lower than the peaks seen after the Global Financial Crisis.



Online Migration Continues

This year's peak shopping season, measured as the time between Thanksgiving and Christmas, has five fewer days than last year since Thanksgiving fell late in November. How this could impact sales remains to be seen, but the increasing tendency of consumers to do their shopping online — online sales are forecast to increase 8-9% versus 2.5-3.5% sales growth overall[2] — suggests it may have an increasingly smaller effect since consumers can shop from their couch in lieu of needing to carve out time to go to physical stores. In fact, online shoppers outnumbered in-store shoppers every day during Cyber Week last year, which is defined as Thanksgiving through the following Monday (Cyber Monday)[3].

A Nuanced Outlook

Despite these challenges, there are reasons for optimism. Wage growth exceeding inflation suggests improved purchasing power, which could support consumer spending. Additionally, the deceleration in credit card debt growth may indicate more cautious behavior among consumers, whether due to higher interest rates, reduced reliance on credit, or hitting borrowing limits. As the holiday season approaches, the consumer's financial health will be closely watched. While the consumer's resilience has proven vital in sustaining economic stability, emerging headwinds such as high borrowing costs and elevated debt levels warrant attention. The balance between these forces will likely shape the trajectory of the economy in the coming months.

[2] https://nrf.com/media-center/press-releases/steady-sales-growth-expected-2024-holiday-season-according-nrf?Fds-Load-Behavior=force-external#:~:text=WASHINGTON%20%E2%80%93%20The%20National%20Retail%20Federation,the%20same%20timeframe%20last%20year.

[3] https://nrf.com/media-center/press-releases/thanksgiving-holiday-weekend-sees-record-number-shoppers

Conclusion

Higher interest rates may be weighing on consumer budgets; however, still-low unemployment and healthy wage gains support ongoing spending growth. As always, we continue to monitor these trends and how they could impact the investment landscape. In the meantime, please reach out with any questions. From all of us at Choreo, we hope you have a wonderful holiday season!

Disclosures

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