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on topical economic issues

October 2023 Economic Outlook: Potential consumer pullback in the fall months could lead to a bumpy end of year

Key takeaways:

- **Consumer confidence and consumer spending expectations have moved significantly lower in recent months after a robust summer.**
- **We may be seeing the earliest signs of the anticipated bumpy ride for consumer spending through the fourth quarter of the year**
- **The strength and resilience of the labor market heading into the end of year volatility will likely help keep any pullback in consumer spending relatively mild and short-lived.**

This October Economic Outlook report provides an overview of the current state of the economy and consumer behavior trends. Many headlines have been swirling, presenting potential headwinds for consumers in late 2023 and early 2024:

- Higher interest rates
- Depleting consumer savings
- Reduction of government benefits (i.e., SNAP benefits)
- The resumption of student loan repayments

These headwinds may hinder the consumer's ability to spend during the final few months of the year.

Yet, during the summer months, the consumer remained resilient. Consumer spending continued to surprise to the

high side and with significant strength. During the summer, there wasn't a clear sign of any impending headwinds coming to fruition. But in October, we see some of the earliest potential signs that this pullback may be emerging, at least when it comes to the way the consumer is feeling about the future.

Consumer Confidence turns lower after summer bounce

September and October saw a pretty quick about face in consumer confidence. During the summer months, confidence rebounded from the Spring low. However, during the final month of summer and early fall, confidence was weighed down by a few key themes that

developed. Notably, higher interest rates, reacceleration in gas prices, the resumption of student loan repayments, and geopolitical concerns all impacted consumers.

The recent decline in consumer confidence spreads across all generational breakouts and household income levels. Most demographic cohorts saw a significant decrease, indicating that this uncertainty creates widespread concern. Falling consumer confidence could be one of the earliest signs of a potential pullback in consumer spending late this year.

Consumer spending expectations drop below last year

Consumer Confidence translates into how much consumers want to spend in the near term. Prosper Analytics Consumer Survey helps aggregate consumer spending expectations through monthly surveys asking respondents about their spending plans over the next 90 days.

In June and July of this year, nearly all income cohorts were feeling quite confident and looking to spend more than they were at this point last year. Even with the highest-income earners, September brought a significant decline in spending expectations.

One thing to keep in mind, however, is that consumer spending expectations are 'soft data' and the actual retail sales data and personal consumption expenditures data from government agencies is the 'hard data.' Since the pandemic, there has been a significant divergence

between spending expectations and actual spending. The official retail sales numbers trend closely to consumer expectations, but the level has seen a pretty big divergence.

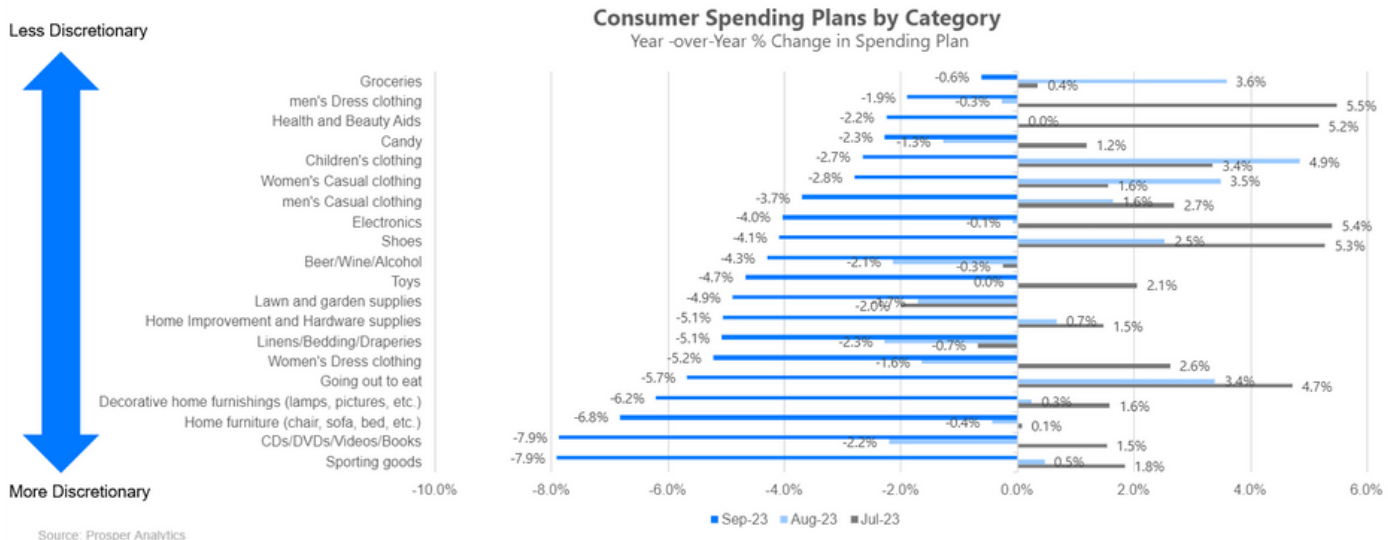
These soft data trends alone are not enough to say a full-fledged consumer spending pullback is starting, but they support our expectation of a bit of bumpiness for the consumer later this year. The consumer feels less optimistic than they did during the summer, and their future spending could reflect this apprehension.

What are consumers looking to pull back?

It's becoming clear that the consumer feels hesitancy to spend, even if this hesitancy isn't necessarily resulting in an immediate pullback. Consumers are looking to reduce spending across all categories according to recent survey results, with the most significant contractions expected in the more discretionary categories.

The consumer spending plans by category are what the consumer plans to spend over the next 90 days versus the same month last year. *(See chart on next page)*. In July, consumers reported an increase versus last year in nearly all categories with only three categories seeing readings below the year-earlier levels. Those categories were alcohol, Lawn & Garden Supplies, and Linens/Beddings/Draperies. These expectations embodied the summer resurgence where consumers were planning to spend more this summer than they did the summer before, and their actual spending levels reflected that in the retail numbers.





In August, we saw spending plans begin to hit a turning point. A few more categories started to see a decline in expectations versus the prior year, but a large portion of consumers were still expecting to spend more this year.

Then consumers shifted their mentality in September. During the early weeks in September, every single category of consumer spending plans turned negative versus last year. Consumer spending expectations over the next 90 days were less than their expected spending in September of 2022 across every reported category.

While consumers expect to pull back across the board, the most anticipated cutback is for more discretionary items. Consumers reported the lowest readings in anticipated spend versus last year in things that can be labeled more discretionary such as sporting goods, home furniture, going out to eat, decorative home furnishings, and home improvement and hardware supplies.

What's this mean for your business?

All of the data cited in this report is aggregate for overall consumer spending. We have been examining consumer spending expectations across all income and demographic cohorts. Yet, at an individual business level, you need to truly hone in on your specific demographic and understand how your business behaves and reacts to these shifts in consumer mentality and spending.

It is essential to take a more predictive approach to understand how this data will impact your business and begin to truly quantify the impact each of these metrics has on your consumer, your demographic, your industry, and your business specifically. Not all companies will be impacted similarly, and not all businesses will follow this higher-level aggregate trend. Businesses should explore their correlations to these overall economic themes to understand what it means going forward.

Conclusion

In review, consumer confidence, and consumer spending expectations lost steam in October. Across all demographic cohorts, confidence decreased significantly at the beginning of this new school year as we entered into the late August/September timeframe. We saw a sizable turnaround with consumer spending expectations dropping below a year-ago level after a summer resurgence.

At Prevedere, we are not drawing a line in the sand and saying the consumer is showing full-fledged evidence of this decline, but we are starting to see some of those earliest signs come through in this soft data. Specifically, consumer spending expectations and consumer confidence are trending lower. It will be critical to monitor those metrics over the coming months closely.

The strength and resilience of the labor market heading into the end-of-year volatility will likely help keep any pullback in consumer spending relatively mild and short-lived. The labor market saw a pretty robust reading for September. There is still a lot of strength and resilience in the labor market as we head into this end-of-year volatility, which will help with the recovery on the back end of this economic business cycle.



Thank you

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