



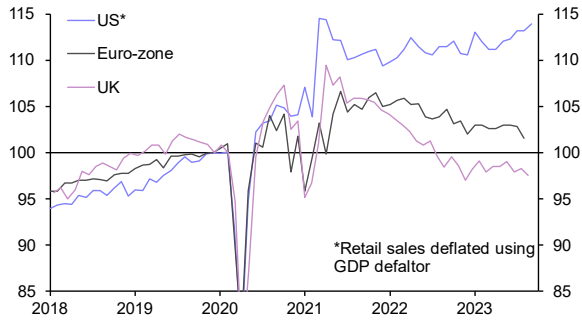
GLOBAL ECONOMICS UPDATE

Bleak outlook for consumer spending across DMs

- **Although consumer spending has remained remarkably resilient in the US so far this year, it has weakened in other advanced economies. And as the lagged effects of high interest rates filter through to households in an environment of low consumer confidence, we expect consumer spending – even in the US – to be weak over the coming months.**
- US households appear to have retained their position as the world’s spenders of the last resort, with consumption rising by a solid 4% q/q annualised in Q3. Spending has been supported by healthy employment growth, strong asset performance and households running down their pandemic savings. But consumer spending has been much weaker in Europe. In Germany, the GDP press release noted that consumption fell in Q3. And although consumption rose in Q3 in France and Spain, in both cases it has broadly flatlined over the past year. In the UK we think that the weakness in monthly GDP in July and August in part is a result of low consumer spending, we expect it to have contracted by 0.3%q/q in Q3.
- **The timelier retail sales data suggest that this regional divergence continued right up to the end of Q3 and heading into Q4.** In the US, retail sales rose again in September, whereas in the UK and euro-zone (where the latest data are for August) retail sales have ticked down after broadly flatlining for most of this year. (See Chart 1.) **However, there is some evidence that high interest rates are starting to weigh more heavily on retail sales, even in the US.** For example, household goods sales – which are relatively [interest rate-sensitive](#) – have been falling across advanced economies, albeit still particularly sharply in the euro-zone.
- **And as the lagged impacts of previous policy tightening filter through, we expect other areas of consumer spending to weaken too.** Part of the reason consumer spending hasn’t fallen by more is that the rise in policy rates has been slow to feed through to average effective interest rates for households. But there has now been a significant increase, including in the US (see Chart 2), and this has further to run. **We expect the rise in effective interest rates combined with weaker employment growth to more than offset any boost from falling inflation over the next twelve months.** (See [here](#).)
- **The latest survey data already point to weak consumption growth in advanced economies over the remainder of the year.** Despite some resurrection in consumer confidence this year, it remains at historically low levels and has resumed falling in the US and UK in recent months. (See Chart 3.) In September, the net majority of surveyed households in the US and euro-zone reported that it was either not a good time, or that they had no intention, to make major purchases such as large household items or vehicles in the coming months. And in the US, the fact that the household savings rate is now 3.1%-pts *lower* than its pre-pandemic average suggests that households, for the most part, will no longer be able to dip into their savings to support spending going forwards.
- **The upshot is that we expect consumer spending growth to slow sharply in the US, and remain particularly weak in both the euro-zone and UK in the coming quarters (see Chart 4), pushing them into mild recessions or at least a period of very weak GDP growth.**

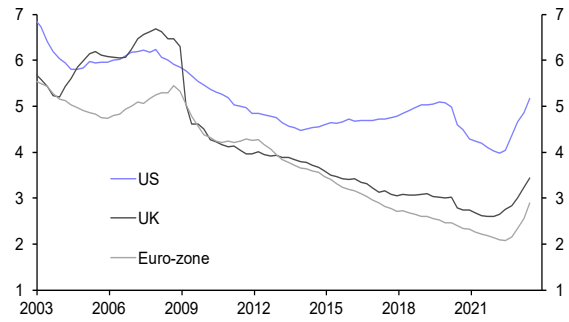


Chart 1: Retail Sales Volumes (Dec. 2019=100)



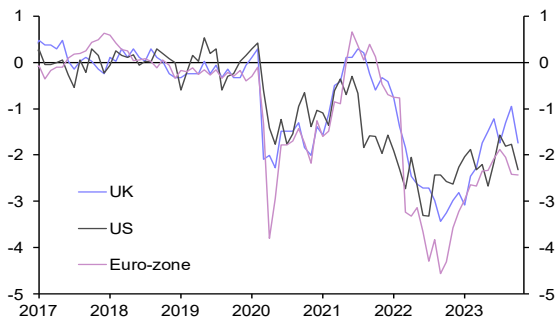
Sources: Refinitiv, Capital Economics

Chart 2: Effective Household Interest Rates (%)



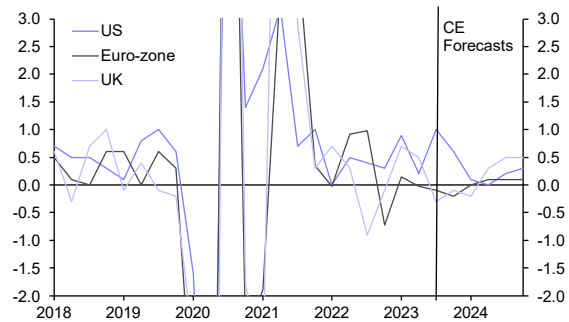
Sources: Refinitiv, Capital Economics

Chart 3: Consumer Confidence (Z-Scores)



Sources: Refinitiv, Capital Economics

Chart 4: Real Consumer Spending (% q/q)



Sources: Refinitiv, Capital Economics



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