Market Minute

ARE CONSUMERS TAPPED OUT?

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A consumer spending spree has kept the economy afloat. But as the tides turn, will growth sink?

CONSUMERS DRIVE THE ECONOMY

Consumers represent the largest contributor to the U.S. economy, accounting for nearly 70% of the nation's gross domestic product (GDP).

When consumers spend, GDP expands — a dynamic that helped the U.S. economy avoid a recession in 2023.

But just as consumers get credit for keeping the economy afloat, they will likely drive an economic pullback. Here's why:

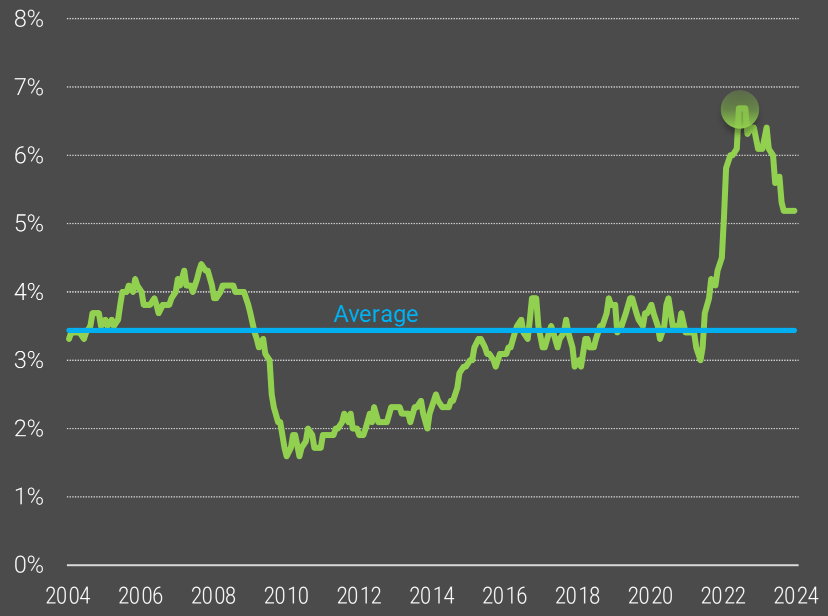
- Wage growth is slowing.
- Savings are dwindling.
- Discretionary spending is easing.

WAGE GROWTH IS SLOWING

- Wage growth peaked at all-time highs in mid-2022, fueling several quarters of solid economic growth.
- Since then, wage growth has steadily declined.
- We expect it to settle near longer-term averages, or 3.4% year over year.

Wage Growth Has Declined Since Its 2022 Peak

Annual Percent Change in Wages



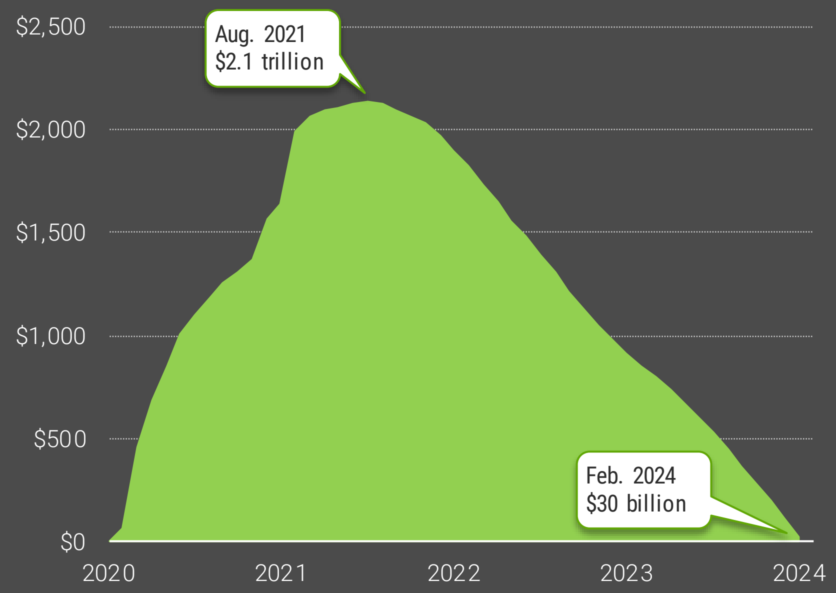
Data from 1/31/2004—1/31/2024. Source: FactSet.

SAVINGS ARE DWINDLING

- The total excess savings U.S. consumers amassed during the pandemic supported a surge in post-pandemic spending.
- Excess savings soared to $2.1 trillion in August 2021.
- Since then, consumers have nearly depleted those reserves, which sank to $30 billion in 18 months.

Excess Savings Are Down, Too

Pandemic Era Cumulative Excess Savings in $Billions



Data from 1/1/2020–2/29/2024. Source: FactSet, Federal Reserve Bank of San Francisco, American Century Investments.

DISCRETIONARY SPENDING IS EASING

Consumers' monthly spending intentions on discretionary and essential items are 25% lower and 1% higher, respectively, compared with November 2021.*

Less spending

At the same time, high interest rates and tougher lending standards have constrained access to financing for consumers and businesses.**

Less access to financing

* State of the US Consumer: March 2024, Deloitte Center for Consumer Industry; data as of March 22, 2024. ** Federal Reserve, Senior Loan Officer Opinion Survey on Bank Lending, January 2024.

THE BOTTOM LINE

- As wage growth slows, savings diminish and discretionary spending fades, we expect U.S. GDP growth to follow suit.
- In our view, staying broadly diversified remains a prudent strategy as growth slows. But tactical investment shifts may offer opportunity.

We Believe Certain Asset Classes May Offer Resilience in a Slowing Economy

- High-quality stocks from companies with competitive advantages and earnings durability.
- Stocks in defensive sectors (utilities, health care, consumer staples).
- High-quality bonds.
- Longer-duration strategies.

ARE CONSUMERS TAPPED OUT?

GLOSSARY

Duration: A measure of the price sensitivity of a fixed-income investment to changes in interest rates. The longer the duration, the more a fixed-income investment's price will change when interest rates change.

Excess savings: The additional funds that many individuals accumulated during the pandemic due to changes in spending patterns and government stimulus measures.

Gross domestic product (GDP): A measure of the total economic output in goods and services for an economy.

Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

Diversification does not assure a profit, nor does it protect against loss of principal.

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