TOMORROW NEVER COMES

Consumer Confidence or Consumer Cockiness?

There's an old adage, *"Tomorrow never comes. It's always today."* And *"today"* may be here sooner than one might think.

According to the latest **Federal Reserve Bank of New York's** July Survey, American consumers expectations of rising inflation fell in the near-, medium- and long-term are extremely optimistic.

Many respondents reported being better off now than a year. The number of people expecting to be better off a year from now is at its highest level in two years.

That kind of attitude has consumers spending freely, even though they are expecting the cost of gas, food, medical care, college, and rent, to fall in the year ahead and despite the fact that they aren't as optimistic about wage growth.

According to the latest data from the **New York Fed**, credit card debt has reached an all-time high. Credit card debt currently sits at $1.03trln, up 4.6% from the first quarter, and the highest on record, highlighting the effect inflation has had on the general population.

"Despite the many headwinds consumers have faced over the last year — higher interest rates, post-pandemic inflationary pressures, and recent bank failures — there is little evidence of widespread financial distress for consumers," read the report. But for how long?

The report also found that total household debt increased over the last three months of 2022, jumping 2.4% to nearly $17trln and delinquency rates are on the rise.

"Rising balances may present challenges for some borrowers, and the resumption of student loan payments this fall may add additional financial strain for many," NY Fed researchers wrote.

Everywhere you look, Americans are financially strained. **Target** CEO Brian Cornell cited a changing dynamic in just how consumers shop.

"As we look at the consumer landscape today, we recognize the consumer is still challenged by the levels of inflation that they're seeing in food and beverage and household essentials, so that's absorbing a much bigger portion of their budget," he said.

With many economists now calling for a soft landing as inflation appears to be waning, consumers, who make up 73% of the nation's economy, still appear to be spending like there's no tomorrow, only on different things.

"There has been a noticeable shift from "wants" to 'needs,'" commented one analyst. *"Discretionary income is now being diverted to big ticket items like concert tickets and vacation travel, after the consumer was stuck at home for the better part of two years. They are paying with savings from government stimuli during the pandemic. But that nest egg is running out, thus the rise in credit card debt,"* she added.

But, ever resourceful, consumers are coming up with ingenious ways to justify those *"want"* purchases, the latest being what **TikTok** has coined *"girl math,"* their term, not mine, alluding to an unflattering view of women and their finances.

It's sort of an *"out of sight, out of mind"* concept whereby the consumer breaks down the price of an item by the cost per use. For instance, if one were to buy a **Michael Kors** purse for, say, $400 and uses it on 200 occasions during the year, the theoretical cost is $2.00 a pop, giving one the illusion of a bargain.

Furthermore, buying something on sale not only means one spends less, but the difference can be

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considered *"found money,"* which can be put toward the purchase of something else.

"'Girl math' is just the latest iteration of us trying to rationalize financial behaviors that we know we shouldn't be doing," said one financial advisor. *"Why the need to justify it? Because you can't afford it and it will come back to bite you in the end. And that end is coming soon."*

Additionally, aside from this cockeyed rationalization, there's also what payment method to use. Many believe paying in cash has the psychological advantage of leaving no paper trail to remind one of what might have been a frivolous indulgence. But the consumer is running out of cash.

Then there's the *"buy now, pay later"* purchase, which has been made easier with a growing number of apps like **Affirm**, **Klarna** and **Apple Pay Later**. While some health experts laud this method as beneficial to one's mental welfare during stressful economic times, others see it as simply kicking the can down the road.

"This sort of spending leads to even more distress when it comes time to pay the piper," said one psychologist/CPA. *"While we are all vulnerable to destroying ourselves financially, buy now, pay later only prolongs the anxiety."*

All this amid more optimistic opinions about the economy which may be adding to the *"devil may care"* attitude of consumers. Economists at **Bank of America** and **JPMorgan** recently tabled their respective calls for a recession this year.

Investors have rallied behind calls for a *"soft landing,"* – the Fed's attempt to slow the economy and defeat inflation by raising rates, without tipping the country into a sharp economic downturn.

But not everyone agrees. There are still those who believe the economy will head into a recession next year. With some of the biggest retailers reporting earnings, good, bad, or indifferent, consumer spending is becoming harder to predict.

Inflation seems to be waning, but those *"need"* items – food, clothing and shelter - prices remain elevated. The price of eggs, for example, is double what it was a year ago, keeping shoppers going to stores for more *"needs"* than *"wants."*

In an effort to change that trend, some brands have even spoken about cutting prices. **Levi Strauss** will reduce the cost of about a half dozen items by $10 – though they are still $10 higher than they were before the pandemic - to appeal to more price-sensitive shoppers.

Yet Americans keep on spending, lulled into a false sense of security by higher wages and lower inflation and despite stubbornly higher prices for things like groceries, housing and vehicles.

But some analysts predict that if prices rise by smaller increments or even fall, consumers may spend more freely. The only problem being how they are going to pay. Many consumers may have pinched pennies, but others are still running up some hefty bills.

Some are afraid consumers may get complacent due to falling inflation and higher wages, and splurge just in time for the holiday season, while worrying whether consumers can afford to keep up their spending habits or need to cut back.

"High debt could get people into trouble, if they can't afford to pay down their balances and rack up interest charges each month," cautioned another financial advisor.

"The average credit card interest rate has spiked to nearly 21%, a more than 6 percentage point jump in the past 18 months, as a result of the rate hikes the Fed has used to bring down inflation," she added.

And, if that weren't worrisome enough, millions of Americans will resume student loan payments this fall, which will exacerbate the debt level problem as many will have bigger monthly bills to contend with, despite higher wages.

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"Thanks to a tight labor market, wages have risen significantly over the past two years, that has helped consumer spending to hang in there," she continued.

But what happens when the bills come due? Consumers are now spending more of their personal income on services and less on goods. As previously mentioned, concert ticket purchases, theme park visits and vacation travel have been the preferred target for consumer spending. But how are they paying for these big ticket items? – credit cards. And what happens when those bills come due?

"Many consumers bought pricier and longer-lasting items like appliances, electronics, furniture and laptops when they had stimulus dollars in their bank accounts and were forced to sequester at home due to the pandemic. Now, while consumers are resurrecting their desire for pricier items, they're doing so on credit," said one retail analyst.

Two years later, the ripple effect of the pandemic is still affecting consumer spending habits. Those government stimulus dollars that served as a lifeline for many and fueled discretionary purchases for others have dwindled.

According to one report, the personal savings rate in the US is less than half what it was before COVID, after Americans squirreled away money early in the pandemic, leaving them feeling much more financially healthy. That, and the pause on student loan payments also contributed to that financial well-being.

However, since those payments resume this fall, and the stimulus money, and the savings they contributed to, are running low, consumers may not feel too well in the near future.

The day of reckoning is near. As our psychologist/CPA said, *"it's time to pay the piper,"* and it won't be pretty, especially if the Fed is forced to raise rates again this year due to a burgeoning economy brought about by seemingly freewheeling shopping sprees.

The saving grace? Should consumers find themselves under a mound of debt, prompting them to cut back on their discretionary spending, there will be no need for the Fed to raise interest rates any further.

As a matter of fact, they may even consider a rate cut sometime in the near future. Maybe not tomorrow but remember *"tomorrow never comes."*

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