

# Consumers and the Economic Outlook - US - Winter 2023

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## This report looks at the following areas:

- Change in consumer finances within the past year
- Sentiments toward consumers' financial futures
- Consumers' past spending behaviors
- Consumers' future spending expectations
- How consumers plan to manage ongoing inflation

Compared to the first half of 2022, inflation levels have declined for the past six months of the year, with labor markets showing no signs of weakness in spite of the Federal Reserve's aggressive tightening cycle. While economic activity is expected to slow down in 2023, 48% of consumers still believe they will be financially better off over the next twelve months. Easing inflationary pressures and year-ahead CPI expectations are likely the direct sources of this rosy outlook for some, alongside a tight labor market aiding this optimism. Despite inflation projected to moderate in 2023, further rate hikes are expected to lead to muted economic growth, alongside decelerating consumer spending as well as further exhaustion of households' pandemic-era accumulated savings. As with any period of slowing economic growth, low-earning households are most likely to feel the brunt of increased joblessness – only amplified amid a high-rate environment with rising credit card balances to match (see Opportunities and Challenges). For those financially better off, there are no expected slowdowns when it comes to their discretionary expenses, with travel expected to still be a significant spending outlet for this group in 2023 (see Spending Behaviors). However, for those in financial dire straits, continuing to seek ways to stretch their limited budgets will be even more pressing amid a recessionary environment expected to commence in the second half of 2023.



"Cooling inflation and a solid labor market are likely the direct contributors to consumers' positive outlook entering the new year. With further rate hikes and unemployment projected to rise, revisiting these sentiments six months from now – which is when experts project the US to enter a mild recession – will be interesting to observe."

**- Amr Hamdi, Senior Finance Analyst**

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### Did you know?

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