

# US Macroeconomics

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Joseph Lavorgna, Chief US Economist | 212.893.1528 | joseph.lavorgna@smbcnikko-si.com

## Consumption Living on Borrowed Time

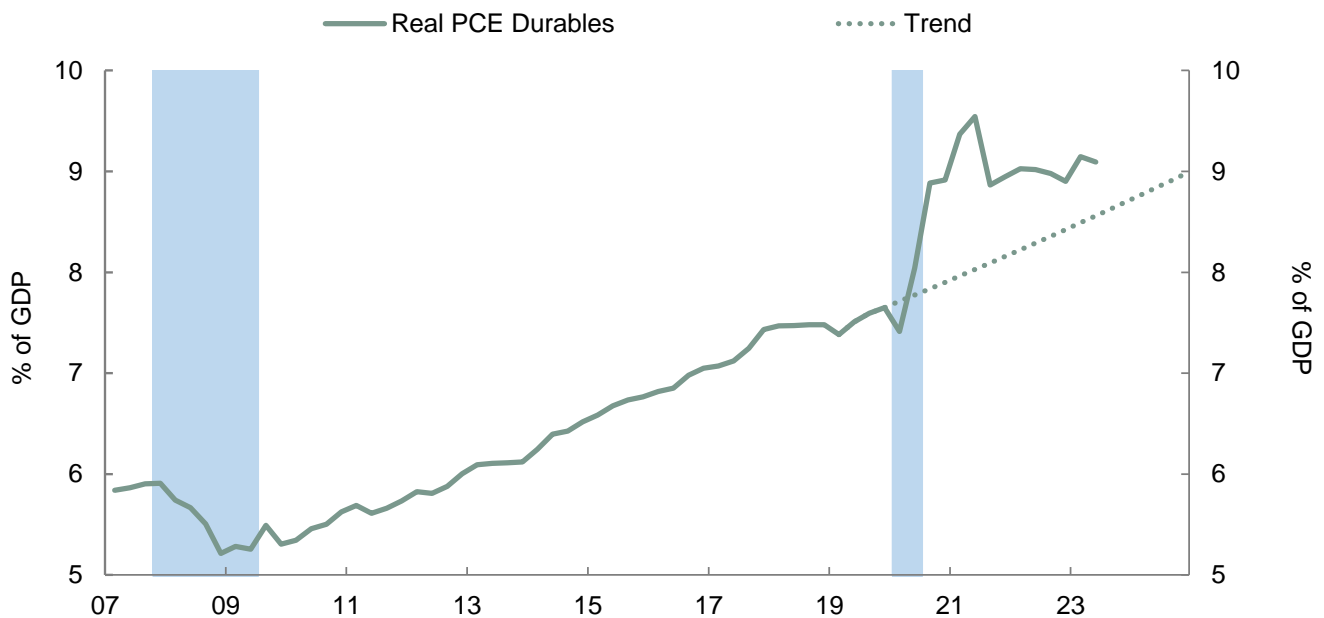
Near zero interest rates, pandemic-related stimulus and various travel restrictions led to a massive pulling forward of spending on big-ticket durable goods. This excess spending is illustrated in the chart below which shows the ratio of real consumer durables spending relative to real GDP.

**At present, the durables share of GDP is 9.1%. Notably, this is substantially higher than its 7.7% reading in Q4 2019 and an extrapolated 8.6% Q3 reading** (which likely would have occurred had the ratio followed its 2015 to 2019 trend). This is illustrated by the dashed line in the chart extending through the remainder of this year.

**A return to trend would lop half of a percentage point from real GDP.** But the payback is likely to be much larger, meaning the ratio is likely to fall well below trend. In fact, the cumulative excess spending on durable goods, relative to its underlying trend, is \$2.2 trillion. Interestingly, this is within the range of various estimates of the excess savings that households accumulated during the pandemic.

Regarding excess savings, we calculate they are largely gone. Now, **households must contend with multi-decade highs in borrowing costs while commercial lenders are becoming stingier with their provisioning of credit.** Consequently, all signs point to a substantial decline in the durables share of GDP. The only question is: How much?

**Our best guess is that durable goods spending will return to its pre-covid 7.7% of GDP ratio sometime over the next year.** In the process, the growth rate in real GDP would be dragged 140 basis points lower. While this by itself would not be large enough to cause a downturn, especially since the economy has been expanding by over 2% on a year-over-year basis, recession worries would likely persist. For a more substantive growth hit to occur, business investment would have to meaningfully soften.



Sources: BEA, Haver, SMBC Nikko

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