A Positive Outlook

The All-Powerful Consumer

Consumer expenditures—the amount spent by households on goods and services—account for 68 percent of our country's gross domestic product. Consumers spent $14.5 trillion in the second quarter of 2019, the highest level ever reported.

Not only are we spending more than at any point in history, we are also spending differently. Consumers spend about 30 percent of their money on goods like food, clothing and cars. The remaining 70 percent is spent on services, including housing and health care, which combine to account for more than 35 percent of all consumer outlays.

Fifty years ago, these numbers looked very different. In 1969, spending on goods accounted for more than half of all consumer expenditures. Today, we spend half as much of our income on motor vehicles and twice as much on health care.

It is easy to point to the internet as the proximate cause of this shift in spending. When I was a kid, we went to Warehouse Records on Saturdays to get new music (a good); today, my children subscribe to Apple Music (a service). When I was a kid, my grandmother routinely pummeled me in Scrabble (a good); today, I attempt to inflict the same punishment on my children using Words With Friends (a service). But it is more than that. U.S. households spend a smaller percentage of their income on groceries (a good) and a higher share on eating out (a service). We are spending more on entertainment, household services (e.g., housekeepers and landscapers) and education—all services.

The bottom line is that consumers are spending more, differently. And, their willingness to spend is more important than ever before to the health and vitality of our nation's economy.

The good news is that consumers remain optimistic. Consumer confidence has been flirting with all-time highs since May 2018, with households bullish relative to their present situation as well as their short-term outlook. Fueled by a strong job market, The Conference Board recently noted improvements in a number of key metrics, including a reduction in the number of individuals reporting jobs are "hard to get," a reduction in the relative share of involuntarily part-time workers, lower initial unemployment insurance claims, and an increase in employees hired through the temporary-help industry.

The bad news, of course, is that what goes up inevitably comes down. While consumer spending is increasing, business spending is not. Importantly, consumer spending is more effect than cause, where business investment is more cause than effect. If business activity continues to slow, it will inevitably limit employment opportunities, wage and salary payments and consumer expenditures. Also unsettling is that consumers are financing more of their consumption. After falling significantly from 2001 to 2012, consumer debt service payments as a share of disposable personal income is rising again.

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Consumers matter to the health of our nation's economy, so it is in our interest to be mindful of their well-being. Distinguishing between economic recovery, expansion, and exuberance can be difficult and oftentimes those lines are blurred by optimists wanting to believe the good times will never end or pessimists wanting to believe the next recession is always right around the corner.

Attempting to predict the next recession, much less its depth or its length, is a Sisyphean task. That said, we have better insight than ever before into how consumers are feeling and what factors are contributing to their world view. Considering consumers now account for two-thirds of our nation's economy, they should warrant an equal measure of our time and attention.