

# Strong Consumer Spending Boosts U.S. Economic Growth

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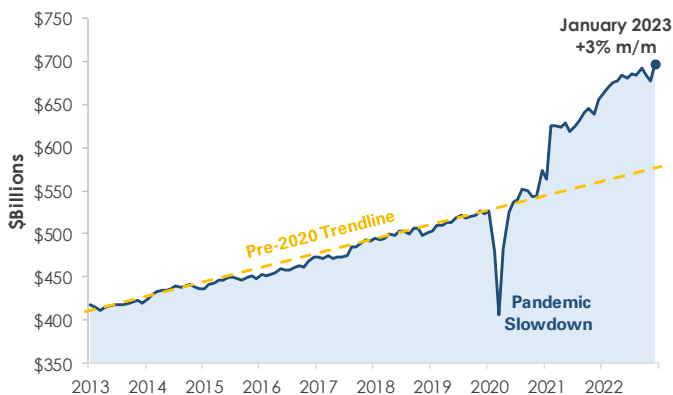
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The U.S. consumer powered strong economic growth during the past two years, supported by wage growth, multiple rounds of fiscal stimulus checks, and access to cheap credit. It was initially spending on goods that lifted the U.S. economy out of the pandemic before restrictions were relaxed and spending shifted back to services. Even as inflation spiked and interest rates rose over the last 12 months, data showed consumers continued to spend. Figure 1 tracks monthly U.S. retail and food service sales. It shows consumer spending surged during the pandemic recovery and remains significantly above trend at the start of 2023. While retail sales data are not adjusted for high inflation, the increase points to resilient consumer spending.

Figure 2 shows consumer spending accounts for approximately 70% of U.S. economic activity (i.e., GDP), making the consumer a large driver of economic growth. The remaining 30% is split between government consumption and private investment, which includes residential construction, business spending, and investment. While these two categories fluctuated up and down in 2021 and 2022, consumer spending remained a positive and steady contributor to GDP growth each of the past eight quarters. The U.S. consumer was the engine that kept the economy going.

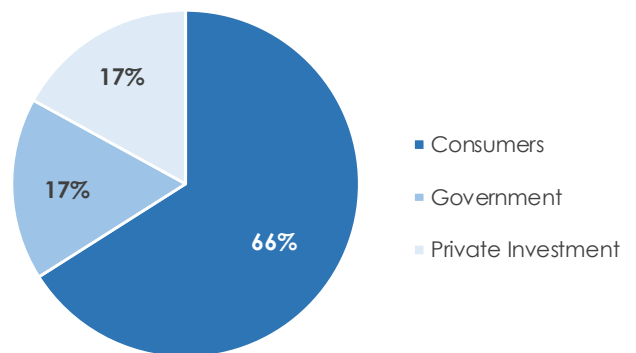
Can the U.S. consumer continue to power the economy? Data from the second half of 2022 shows spending grew at a slower pace with retail sales shrinking more than -1% in both November and December. The decline reflects easing inflation and lower gasoline prices, but the dip in spending has raised some concerns about the state of the economy and the resilience of consumers coming into 2023. However, recently released retail sales data from January 2023 revealed a surge in consumer spending, which is shown on the far-right side of Figure 1. Even as the cumulative effect of inflation depletes personal savings and more consumers rely on credit cards, labor markets continue to be a source of strength for consumers. If consumer spending growth continues, the U.S. economy may be able to avoid a sharp slowdown.

FIGURE 1 – U.S. Monthly Retail Sales (Retail & Food Services)



Source: MarketDesk, U.S. Census Bureau. Data is seasonally adjusted from February 2013 through January 2023.

FIGURE 2 – Percentage of U.S. Gross Domestic Product (GDP)



Source: MarketDesk, U.S. Bureau of Economic Analysis. Data represents the average percentage of annual Gross Domestic Product from 2013-2022.

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