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Exploring A Key Indicator of U.S. Consumer Health

The U.S. consumer plays an important role in the economy, accounting for almost two-thirds of U.S. GDP. For this reason, investors and economists pay close attention to the consumer's financial health and activity. One consumer metric that investors track is the Johnson Redbook Index, which measures the percentage change in sales at stores that have been open for at least one year. The dataset is a proxy for consumer spending and is based on a sample of large U.S. retailers, including about 9,000 department, discount, and chain stores.

The chart below shows consumer spending steadily increased during the last two decades, with notable exceptions in the early 2000s (U.S. Tech Bubble and 2001 recession), 2008 (Global Financial Crisis), and 2020 (Covid-19 Pandemic). A look at the past few years shows the pandemic-induced dip in 2020, followed by a 2021 spending spree fueled by stimulus checks, increased wages, and pent-up savings. However, consumer spending has steadily trended lower since July 2022, with the Johnson Redbook Index experiencing a relatively rare year-over-year decline in July 2023.

The sales decline reinforces three themes we are tracking. First, the U.S. economy is returning to its pre-pandemic trend, with job growth slowing, manufacturing activity softening, and home sales declining. Second, inflation pressures are easing after CPI peaked at a 40-year high of 9% in June 2022. Since the Johnson Redbook Index isn't adjusted for inflation, its 2021 growth and subsequent 2022 decline track inflation's rise and fall. Third, consumer spending is shifting from goods to services, such as travel, concerts, and dining out, as consumers make up for previously missed opportunities.

With a modest year-over-year decline of -0.2%, consumer spending remains resilient even amid higher interest rates and recession concerns. However, the decline adds to concerns about the consumer's strength. Recent data from the New York Fed showed that outstanding credit card balances reached a record high of \$1 trillion in Q2 2023, signaling an increased reliance on credit cards. Additionally, personal savings accumulated during the pandemic are gradually shrinking. Despite these potential challenges, consumer sentiment is improving and sits near a 2-year high. As we move into the latter half of 2023, attention is focused on consumer behavior.

