

FOCAL POINT

US: weakening consumption tempers the 2026 growth outlook

Paolo Zanghieri

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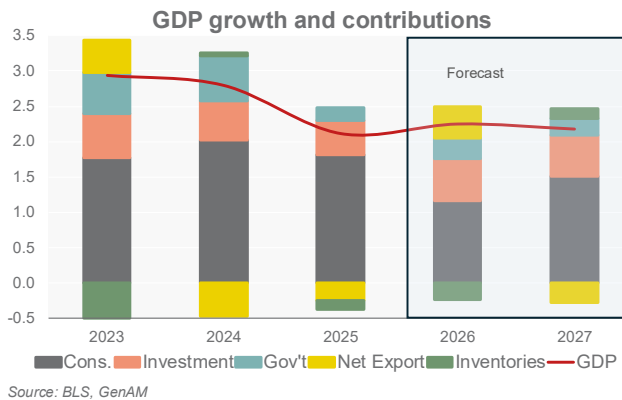
Our Focal Point series explores topical issues on macro, markets and investment

- Rising energy costs and inflation coincide with reduced real income growth, and we revise down our consumption growth forecast for this year to 1.7%, which leads 0.2 downward revision of the 2026 GDP growth forecast, to 2.3%.
- Private sector job growth has stalled except in healthcare, with the lowest hiring rate since April 2020 and a declining quit rate, signalling slower wage growth and strained real incomes. Consumption has been sustained by dissaving but saving rates likely bottoming and credit support is limited due to elevated delinquencies.
- Wealthier households have increased their share of consumption due to rising equity prices and liquid assets, while lower-income groups face wage growth slowdowns and higher prices on essential goods, leading to diverging consumer sentiment and spending behaviours.
- Spending pressures on essential goods and limited fiscal relief disproportionately impact poorer households, with tax benefits favouring higher income earners and no further support expected before elections, resulting in a likely decline in consumption among lower-income groups that wealth gains among the affluent cannot fully offset.

The surge in energy prices, accompanied by second-round inflationary effects, has arrived at a time when US households are witnessing diminished real income growth. Data for the first two months of the year point to consumption growing at no more than 1% annualised in Q1, dragged down by very weak real income dynamics, and that is before the hit to purchasing power from the oil shock. As a result, the prospects for consumer spending have weakened. It is anticipated that purchases will only rise by up to 1.7% yoy in 2026, which is one percentage point lower than the increase observed in 2025. This subdued outlook for consumption is the principal factor behind the downward revision of the 2026 growth forecast to just below consensus, at 2.3%, from 2.5% before.

Labour Market Weakness caps Consumption growth

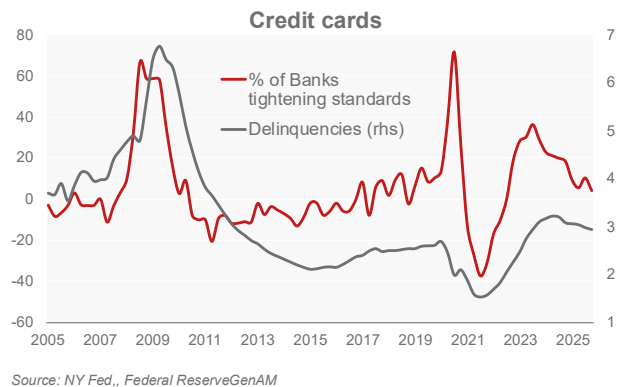
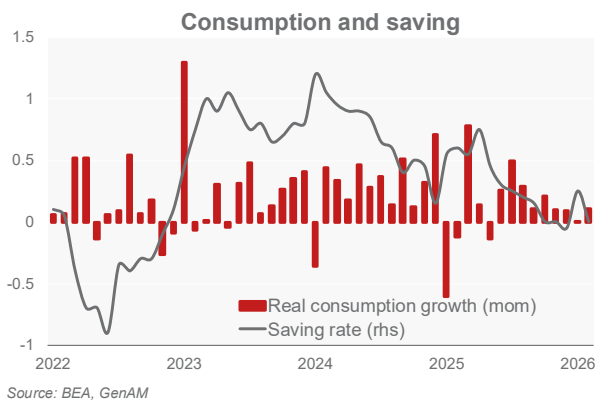
The most significant contributor to slower consumption growth is the deterioration of the labour market. Private sector job creation has virtually stalled, except in healthcare, and in



February, the hiring rate reached its lowest level since April 2020 — the height of the COVID pandemic. While layoffs and jobless claims remain at historic lows, this equilibrium of minimal hiring and firing is precarious. Should economic activity weaken further, an increase in redundancies is likely. The quit rate fell in February to its lowest since 2019, signalling a continued slowdown in wage growth.

With nominal wage growth fading and inflation remaining persistent, real incomes are under strain. Consequently, consumption growth has been maintained through dissaving. In the three months ending February 2026, the average saving rate was 4.1%, which is two percentage points below the pre-pandemic average and one percentage point lower than the average since 2023. The potential for further dissaving is limited, and rising uncertainty may prompt more precautionary saving.

There is little expectation of additional support for consumption via credit. Although banks are tightening credit card standards more slowly than before, delinquencies remain at historically elevated levels and are unlikely to fall significantly given the fragile “no hire-no fire” balance in the labour market.



The K-shaped consumption pattern is a reality...

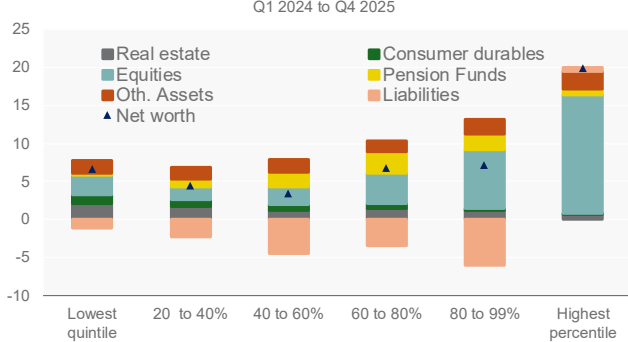
A widely discussed theme is the “K-shaped” pattern of consumption, which illustrates the divergence between robust spending among wealthier households and the challenges faced by lower-income consumers. Estimates suggest that the share of consumption by the richest 20% has risen from 55% in 2019 to 59% in 2025, although these figures

rely on assumptions about saving behaviour rather than official data. Nonetheless, evidence shows a diverging pattern has begun to emerge since 2023.

Wealth has grown sharply, but its distribution has become even more unequal. Gains from rising equity prices have primarily benefited the highest income households, not only by boosting net wealth but also by increasing their access to liquid assets that can fund consumption. According to our calculations, wealthier households have a lower propensity to consume out of wealth compared to poorer, cash-constrained households. As a result, in the decade preceding COVID, the aggregate marginal propensity to save declined and then stabilised at low levels, providing some insulation for domestic demand against asset price volatility (see Appendix). Nevertheless, the absolute increase in financial wealth has been so substantial for some households that it continues to significantly influence spending among the wealthy.

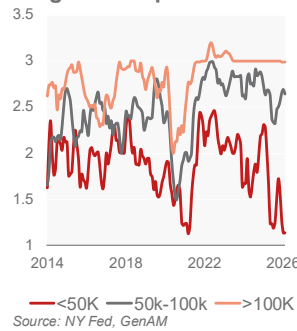
Consumer mood is also diverging. Since the pandemic, consumer sentiment indexes have struggled to predict actual spending, but the gap in expectations regarding earnings growth and unemployment between high- and low-income earners is too pronounced to ignore. This disparity is likely to further dampen willingness to spend, compounding the effects of reduced purchasing power.

Change in net worth and component by income class



Source: Federal Reserve, GenAM

One year ahead Earning growth expectations



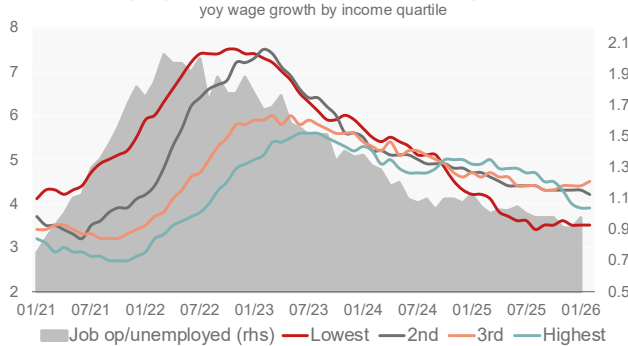
Source: NY Fed, GenAM

One year ahead probability of losing the job



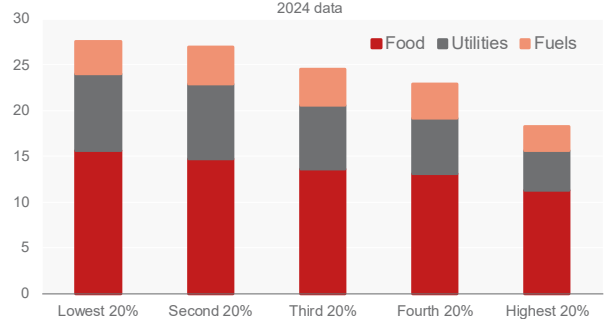
Source: NY Fed, GenAM

Wage growth and labour market tightness



Source: BLS, Atlanta Fed, GenAM

Share in total consumption by income level



Source: BLS, GenAM

While the rapid post-pandemic reopening and the subsequent tight labour market benefited low-income wages, this trend has reversed as labour demand cools. This is especially apparent in the sharp slowdown in wage growth for low-income earners. A weak

labour market will ensure that a larger proportion of the productivity gains accrue to profits rather than wages. Additionally, the impact on real income is intensified by the fact that low-income households' consumption baskets are weighted towards goods whose prices have increased the most due to tariffs

...but will turn into a source of weakness

The bifurcation in real income dynamics is expected to persist. Lower-income households will be disproportionately affected by rising energy and food prices, as spending on these essentials cannot easily be reduced, forcing cutbacks in discretionary purchases. Some relief may come from tax cuts legislated in the budget, which are partially offset by reductions in social expenditure. However, Congressional Budget Office estimates indicate that the [OBBA will have a net negative impact on the 30% poorest households](#), with most fiscal benefits accruing to those in the top two income deciles. Moreover, tax refunds for this year are unlikely to compensate for higher petrol prices, especially for lower-income households. With heightened demand for security expenditure, there is no scope for further measures to support disposable income ahead of the November mid-terms.

Consequently, the outlook for lower-income households' purchasing power is likely to deteriorate. In 2024, the poorest 40% of households accounted for 23% of consumption, whereas the richest 20% accounted for 40%. In the latter half of 2025, wealth effects supported consumption among wealthier households, helping to offset the drag from stagnant real incomes.

Looking ahead, it is unlikely that this trend will continue, as wealth gains (if any) are not expected to be sufficient to boost spending by the affluent enough to counterbalance weakness among lower-income households.

Conclusion

We still expect the US economy to grow at just below potential despite the large shock it has faced over the last year. Still the ongoing weakness in consumption is a key source of fragility, and together with uncertainty on the size and duration of the oil shock and the reliance of capex on AI, tilts the risks around the central forecast slightly to the downside.

APPENDIX: TIME VARYING WEALTH PROPENSITY TO CONSUME

Following a [recent note by the Federal Reserve Board](#), we estimate the elasticity of consumption with respect to wealth, accounting explicitly for the increase in wealth concentration among higher income, lower consumption propensity households.

Using quarterly data from 1989 to 2025 we estimate the following equation

$$\frac{C_t}{Y_t} = \alpha + \beta^{Top20} \frac{W_t^{Top20}}{Y_t} + \beta^{Bottom80} \frac{W_t^{Bottom80}}{Y_t} + \theta_1 RR_t + \theta_2 Covid + \epsilon_t$$

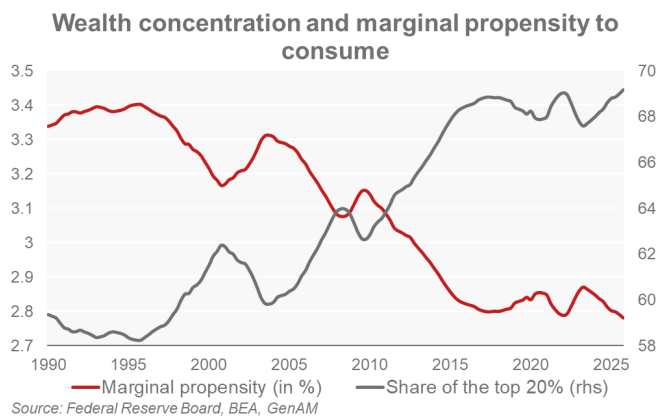
Where C_t is consumption, Y_t is disposable income ex transfer, W_t is the amount of wealth owned by the 20% richest and 80% poorest households, RR is the 2-year Treasury yield deflated by PCE inflation. We repeated using net worth instead of total wealth. The results below show that in both cases the propensity of consume out of wealth by the richest 20% is less than one tenth of that by the other 80%.

| Dep. Var.: Consumption over Income | | |
|--|--------|-----------|
| | Wealth | Net worth |
| Constant | 0.723 | 0.750 |
| Top 20% share | 0.006 | 0.005 |
| Bottom 80% share | 0.063 | 0.075 |
| Real Rate | -0.002 | -0.004 |
| Adj. R-sq | 0.883 | 0.829 |
| All coefficients are significant at 1% | | |

The time varying marginal propensity to save is computed as

$$MPCW_t = \beta^{Top20} \frac{W_t^{Top20}}{W_t} + \beta^{Bottom80} \frac{W_t^{Bottom80}}{W_t}$$

As the chart below shows, the more than 10pp increase in wealth concentration led to a significant decrease in marginal propensity.



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Società di gestione del risparmio, Research Department

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