

Consumers May Be Reaching Their Limit

October Marks Slowest Pace For Spending Growth Since Early 2021



By [Christine Cooper](#) and [Rafael De Anda](#)
CoStar Analytics

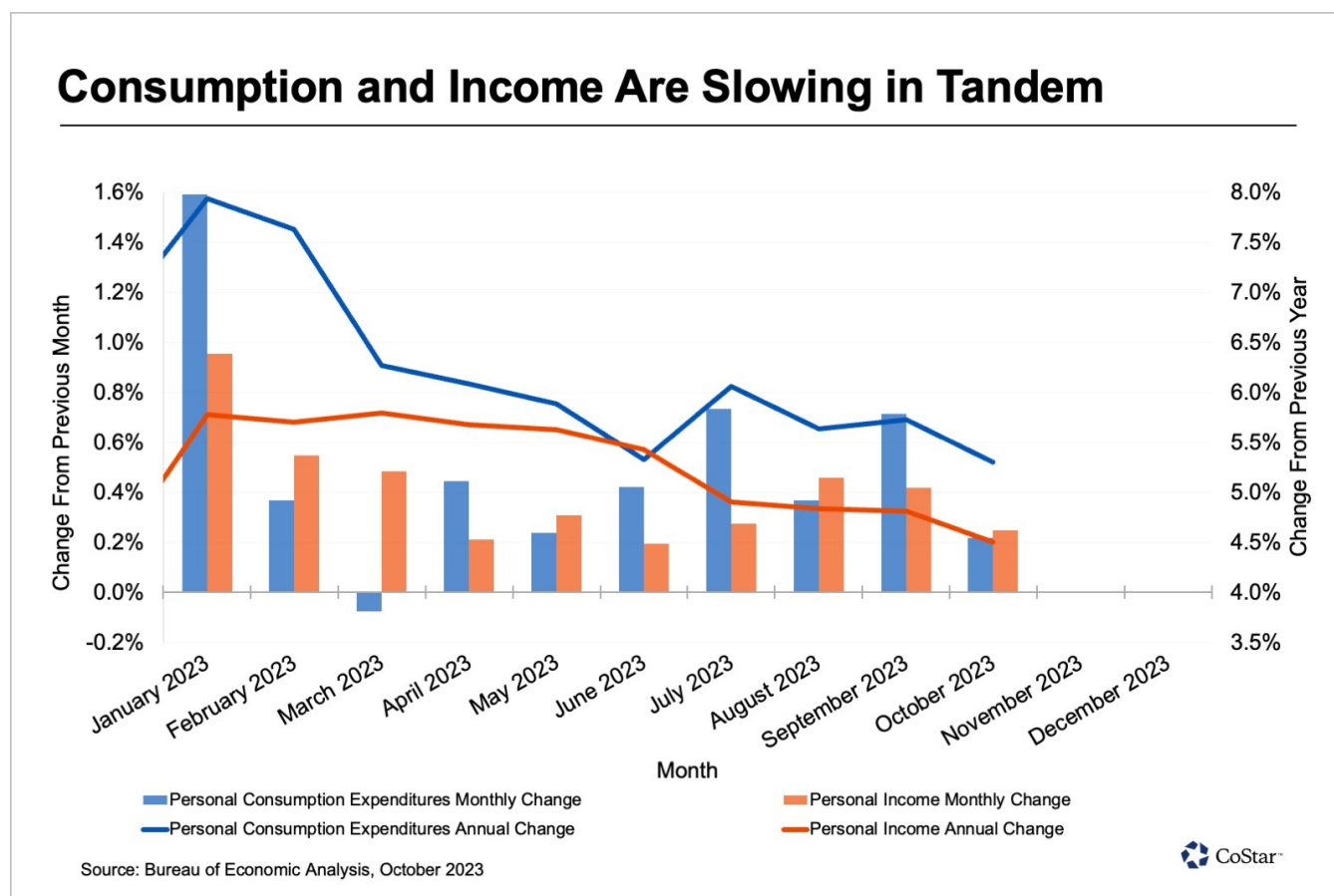
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We received further evidence last week that the economy was blistering hot in the third quarter of 2023 when the latest figure for real gross domestic product was revised higher from a 4.9% seasonally-adjusted annual rate estimated last month to 5.2%.

More economists are hoping they can rule out a recession in the fourth quarter based on such numbers. But to make that happen, consumers will need to maintain elevated spending levels, and cracks are starting to appear in their ability to carry the burden.

Indeed, the [Bureau of Economic Analysis \(BEA\)](#) reported that the upward revision to last month's estimate of economic growth was due to higher government spending and nonresidential investment that offset a downward revision in consumer spending. Growth in consumption expenditures slowed to 0.2% in October compared to 0.7% in September, and 5.3% on a year-over-year basis compared to 5.7% in the prior month.

October marked the slowest pace of growth in consumer spending since March on a month-over-month basis, and since February 2021 on a year-over-year basis.



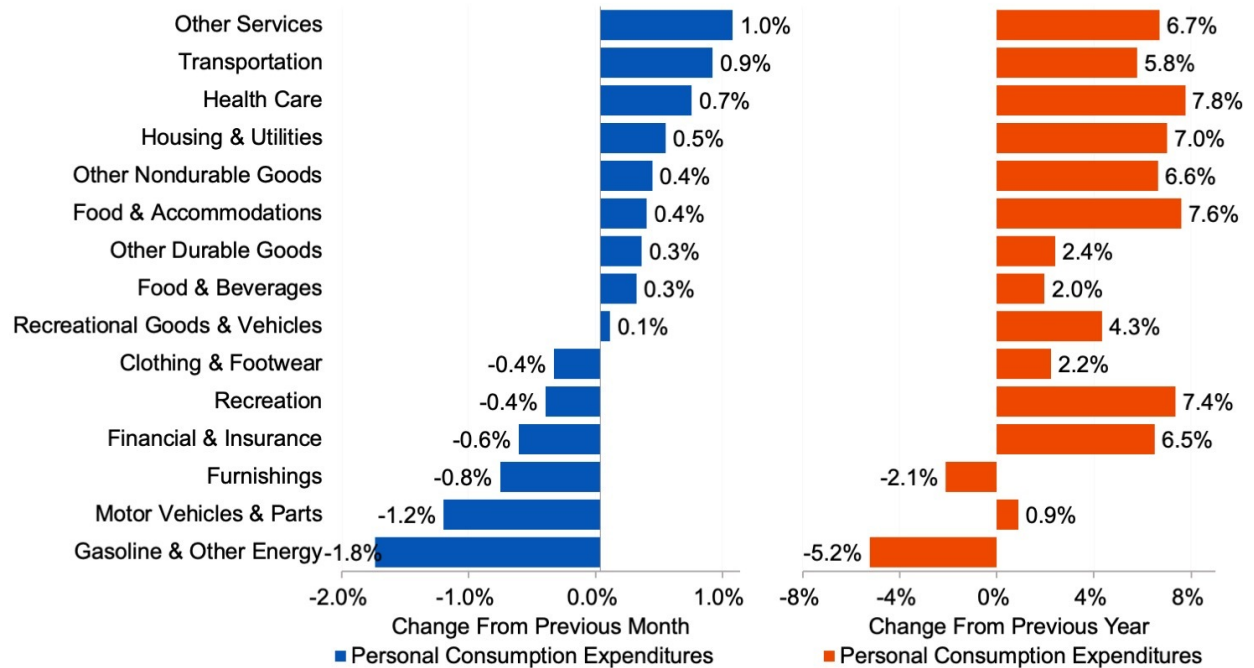
Falling energy prices contributed to slower growth in overall spending. Consumer expenditures on gasoline and other energy sources fell by 1.8% in October and were 5.2% lower than a year ago, the largest declines among the major categories during both periods.

However cost savings from falling energy prices did not give consumers a good enough reason to spend more on other items, as consumers spent less on several other

categories, including cars and car parts, furnishings, clothing, recreation services and financial services.

The savings rate inched higher, from 3.7% in September to 3.8% in October, but both figures are extremely low so there's not much slack there.

Spending Is Declining in Cyclical Categories



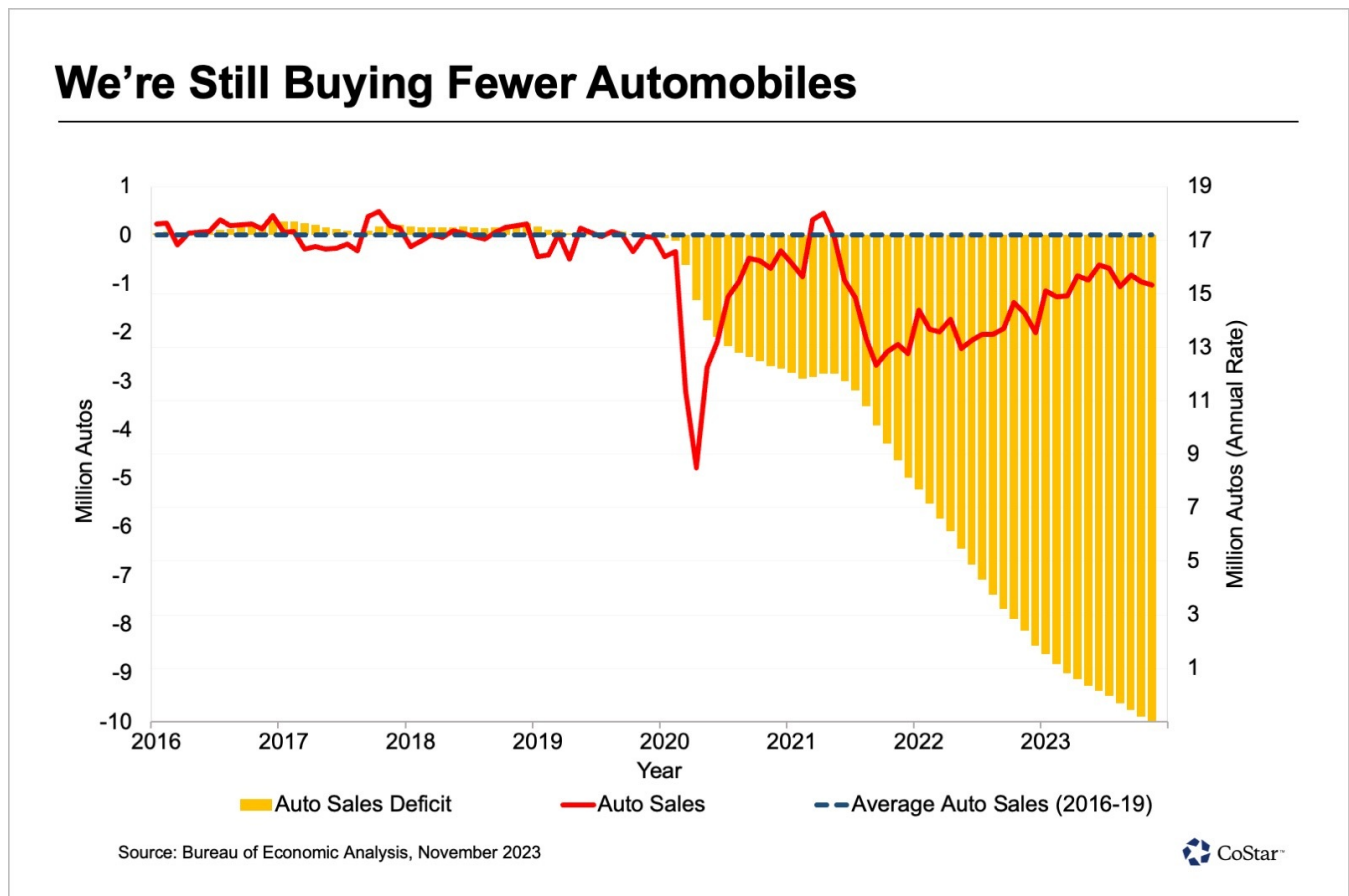
Source: U.S. Bureau of Economic Analysis, October 2023

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Automobile sales have been challenged since the start of the pandemic because of supply chain snags and a global shortage of semiconductors. They perked up a bit earlier in the year as these constraints started to ease, but have recently started to trend lower again.

November sales fell to an annualized rate of 15.3 million units from 15.2 million the month before. Prior to the pandemic, auto sales averaged 17 million units per year from 2016 to 2019. While some commuters are driving fewer miles due to hybrid work arrangements, automobiles will eventually need to be replaced.

Compared to pre-pandemic times, the deficit in auto sales has cumulatively reached 10 million units.



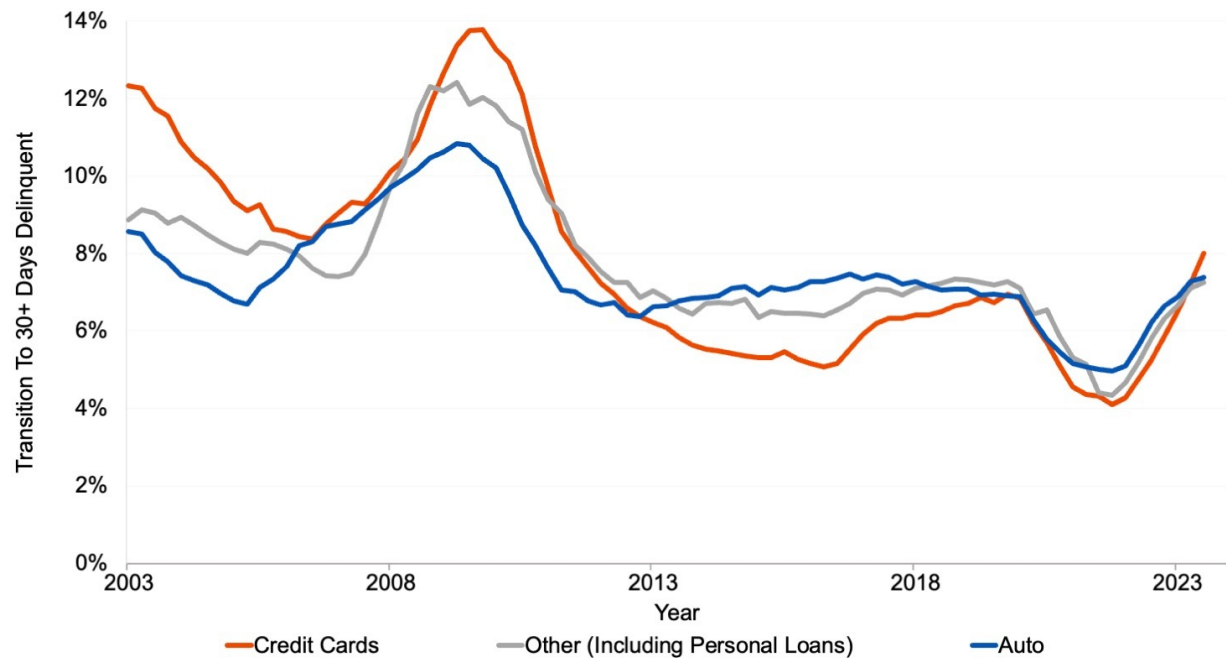
Households have also largely pulled back on spending on items to furnish their homes, which fell by 0.8% in October and was 2.1% lower than a year ago. This category is highly correlated to home sales, but these have reached rock bottom recently as mortgage rates rose to nosebleed levels.

Existing home sales in October were 14.6% lower than a year ago, according to the [National Association of Realtors](#). New home sales, while up 17.7% in October from a year ago, according to the [Census Bureau](#), account for a smaller proportion of overall home sales. Rising borrowing costs have not led to lower home prices, so households that are buying homes these days have smaller budgets for furnishing.

The health of the consumer finances is also continuing to deteriorate. Most households have spent any excess savings they accumulated during the pandemic and are starting to rely more on regular income — and debt, where interest rates have sharply risen.

Early delinquency rates are starting to show significant upward momentum, particularly for credit cards where early delinquency, at 8%, is at its highest rate since the third quarter of 2011, according to the [Federal Reserve Board of New York](#).

Early Delinquency Rates Rise Above Pre-Pandemic Levels

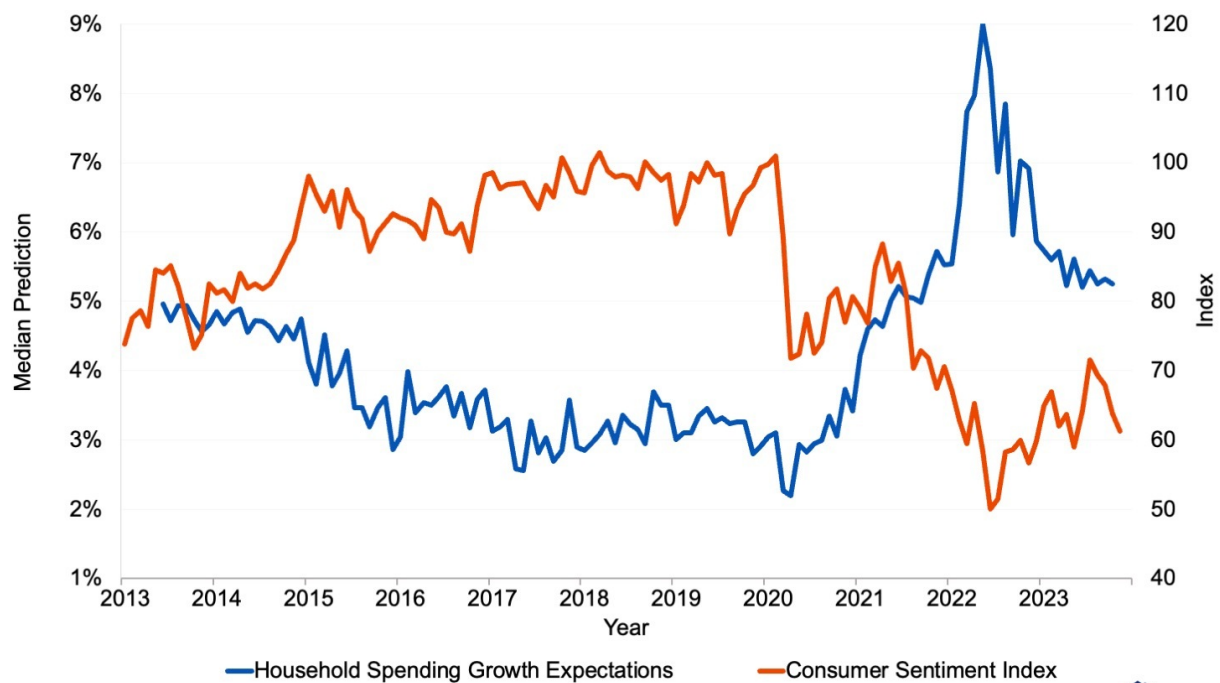


Source: Federal Reserve Bank of New York, Third Quarter of 2023.



Consumer sentiment is also showing signs of consumers being less than optimistic. The [University of Michigan Consumer Sentiment Index](#) declined for the fourth consecutive month in November. Meanwhile, households' expectations for spending growth over the next 12 months has been inching lower, reaching 5.3% in October according to the [New York Federal Reserve Board](#).

Households Are Not Seeing Better Days Ahead



What We're Watching

November's [jobs report](#) is set to be released this week. The labor market has been cooling, which is another reason for consumers to be more cautious. [Continuing claims](#) for unemployment insurance have been rising, meaning that those who have lost their jobs are having more difficulty finding new roles, especially as [job listings fell](#) to two-year lows in October. But this is all in line with what the Federal Reserve wants to see — a slowing labor market, cooling consumer spending and a gradual economic wind-down that won't raise the unemployment rate by much. Job done, for now.

CoStar Economy is produced weekly by [Christine Cooper](#), managing director and chief U.S. economist, and [Rafael De Anda](#), associate director of CoStar Market Analytics in Los Angeles.

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