Economic Commentary

QNB Economics
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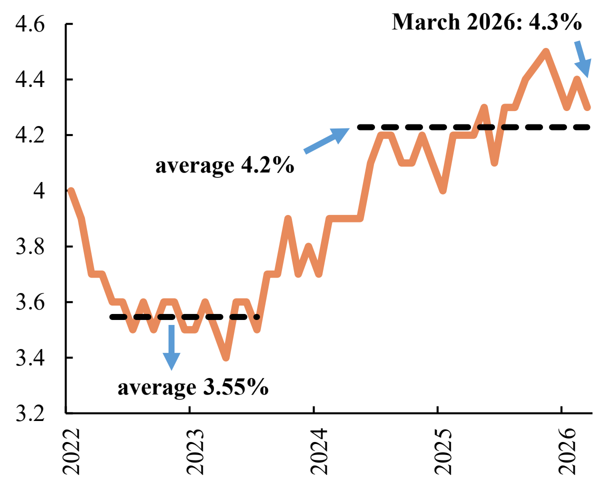
US consumer demand remains resilient amid rising headwinds

The US economy continues to display notable resilience against an increasingly complex and uncertain global backdrop. This comes despite several headwinds, including elevated uncertainty, persistent inflationary pressures, and the risk of higher-for-longer interest rates weighing on sentiment and purchasing power. Rising geopolitical tensions – including the ongoing conflict involving Iran and continual trade disputes – are fueling significant commodity price volatility and disruptions to global supply chains. Higher oil and shipping costs are feeding directly into transportation, energy, and goods prices, increasing input costs for firms and eroding households' real purchasing power. These developments are likely to weigh on consumption dynamics going forward, even as demand continues to be supported by strong fundamentals.

Against this backdrop, consumption – which accounts for close to 70% of US GDP – continues to expand at a moderate pace, remaining the main pillar of economic activity. While growth has normalized from the strong post-pandemic expansion, recent data still point to steady momentum in household spending. In particular, real personal consumption expenditures have grown at an annualized pace of around 2–3% in recent quarters, while retail sales volumes remain above their pre-pandemic trend. However, intensifying headwinds and building pressures on purchasing power will test the strength of consumer demand in the coming quarters. In this article, we discuss three key factors that sustain US consumer demand.

First, labor markets remain overall robust despite some moderation in job creation. The unemployment rate has slightly increased to around 4.3% from historical lows but remains within the range typically associated with a balanced labor market. At the same time, wage growth continues to outpace inflation, with real wages rising by around 1–2% year-on-year in recent months, reinforcing households' purchasing power. High-frequency indicators also point to continued resilience, with initial jobless claims remaining low by historical standards. As a result, consumption growth remains anchored in income fundamentals.

Unemployment Rate
(%, seasonally adjusted)



Source: US Bureau of Labor Statistics, QNB Economics

Second, household balance sheets remain a key pillar of consumption, reflecting elevated asset valuations. US households continue to benefit from high levels of net wealth, particularly through equity and housing markets, with total household net worth exceeding USD 180 trillion in recent quarters. Strong corporate earnings have reinforced these trends, helping push major US equity indices to record highs and boosting household wealth. Additionally, house prices have remained firm, reflecting tight supply conditions and continued demand. These factors generate positive wealth effects, encouraging spending—especially among higher-income households, which hold a disproportionate share of financial assets. As a result, balance sheet strength continues to provide an important buffer against rising costs and supports overall consumption dynamics.

Third, access to credit continues to sustain household spending, providing an additional buffer for consumption. Consumer credit outstanding remains elevated, with total credit exceeding USD 5 trillion, while credit card balances have surpassed USD 1 trillion in recent quarters. This expansion in borrowing has helped maintain consumption, particularly for more liquidity-constrained households. Credit flows have remained active across key segments, including credit cards and auto loans, reflecting continued demand for financing. At

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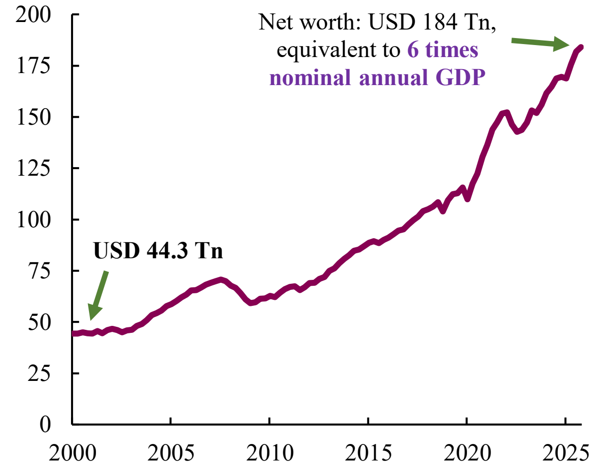
the same time, the broad availability of credit allows households to smooth consumption over time, even as cost pressures persist. As a result, credit remains a key channel sustaining the strength and continuity of US consumer demand.

All in all, US consumer demand continues to display notable resilience, underpinned by firm labor market conditions, strong household balance sheets, and continued access to credit. These factors have allowed consumption to remain the central driver of economic activity, even amid a challenging global backdrop. While headwinds from elevated uncertainty and rising costs are likely to test the strength of demand, the combination of income growth, wealth effects, and credit availability should continue to provide a solid foundation for household spending in the near term.

Net Worth of Households
(USD, Trillions, Tn)



Source: Federal Reserve System, QNB Economics

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