Consumer Outlook: Continued Growth or Putting on the Brakes
by Charles B. Wendel

Last week, CNBC featured a story recounting Brian Moynihan's comments made while at Davos. The Bank of America CEO expressed strong optimism about consumer spending going forward. Other observers view the consumer differently and see warning signs for the economy. Based upon strong analytics, market knowledge, and careful segmentation, banks need to determine where and how they want to play in the consumer space over the next one-two years..

Moynihan's comments could not have been more positive about the continued strength of consumers performance:

- "Consumers are in good shape, not overleveraged."
- "What's going to slow them down? Nothing right now."
- "The Fed has this typically very difficult thing of getting them to slow down without slowing down too much…I believe they are going to be able to manage this flow, but it's going to be tricky."

Contrast his view with that of Jaime Dimon. In a speech to an investor group, he said: "You'd better brace yourself…"JPMorgan is bracing ourselves and we're going to be very conservative with our balance sheet." The CNBC report goes on:

> "You know, I said there's storm clouds but I'm going to change it … it's a hurricane," Dimon said Wednesday at a financial conference in New York. While conditions seem "fine" at the moment, nobody knows if the hurricane is "a minor one or Superstorm Sandy," he added.

As this point it's reasonable to remember the oft used phrase: "Nobody knows nothing" about the future. So, what banks need to do is assess both the macro and micro worlds and make a determination about the consumer that fits their particular institution.

At this point significant evidence exists pointing to increased concerns about the consumer's likely performance.

- On June 1st a *Bloomberg* article reported that one-third "of Americans earning at least $250,000 annually say they are living paycheck to paycheck…6% of households taking in nearly four times the median US salary devote nearly all of their income to household expenses."
- On the same day the *Wall Street Journa*l discussed issues with BNPL loans: "Buy now, pay later" companies promised a credit revolution that would change the way people pay for things. Rising delinquencies and a slowing economy are clouding that outlook."
- *ABC News* recently headlined a story, "US consumer confidence slips in May amid stubborn inflation" and quoted a Conference Board director stating, "Looking ahead,

expect surging prices and additional interest rate hikes to pose continued downside risks to consumer spending this year.

- In May a PYMNTS.com featured a headline: “Savings Cushion Dwindles for Lower Income Paycheck-to-Paycheck Economy.” The same website also reported on retail inventories rising: “Average retail inventories have been rising at a quick clip. Research from Citi says 11 of the 18 retailers they studied showed inventories rising by 10% more than sales in their first quarter results — the biggest gap since the pandemic began.”
- And USA Today chimed in with a headlined story, “Walmart, Target foreshadow more consumer stress and trouble ahead for economy and markets.”

While many of the external stories highlight doom and gloom, each bank needs to analyze its individual portfolio and act on what it finds. Clearly, different customer segments will perform differently during a downturn; so too will different geographies and product categories. For example, banks are already experiencing delinquency upticks in credit cards while the performance of Fintechs operating in th BNPL has taken a hit. To allow for loan growth, we see banks continuing to offer mortgages to people with complex histories while increasing the down payment percentage required.

Objective (not Pollyanna-ish) stress testing, scenario planning, and portfolio reviews are critical right now.

By objective we mean bringing in a group outside the bank who, ideally, will provide an independent and less self- interested perspective to analyzing where a bank stands today and what its likely future holds.

My guess (as good as yours but no better) tends more toward Jamie Dimon than Brian Moynihan. Banks need to prepare for the world that Dimon foresees while hoping Moynihan is right.
