Economic Headwinds for the Fourth Quarter - What You Need to Know

September 30, 2023 - Based on the economic news released this week, the U.S. economy is facing a complex mix of challenges, including rising inflation, consumer spending concerns, high consumer debt levels, and potential impacts on businesses and credit markets. These factors are contributing to uncertainty about the American economic outlook as we move closer to 2024. Here are some of the major factors the country is facing right now.

Tweet

(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];

s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();

(function() {
var po = document.createElement('script'); po.type = 'text/javascript'; po.async = true;
po.src = 'https://apis.google.com/js/plusone.js';
var s = document.getElementsByTagName('script')[0]; s.parentNode.insertBefore(po, s);
})();

Rising Gas Prices and Consumer Spending: Increasing gas prices are affecting consumers' spending habits, potentially leading to reduced discretionary spending. High gas prices often lead to less disposable income for households. Prices have risen nationwide and consumers who live in California are now facing prices that are in range of $7 per gallon.

Credit Card Delinquencies: The delinquency rate on credit cards has reached its highest level in over a decade, indicating financial stress for many consumers. This may be a result of increased living costs and inflation, and ultimately to increased rates of bankruptcy.

Low Consumer Confidence: Consumer confidence has declined to a four-month low due to concerns about inflation and the economic outlook. This decrease in confidence could lead to reduced consumer spending, which is a significant driver of the U.S. economy. This is especially problematic as these lower confidence levels are appearing as we enter the 4th quarter of the year - nearing the holiday season - which retailers rely on to make their numbers.

Debt Quality and Corporate Vulnerability: There is growing concern about the quality of consumer debt, which could pose risks to certain credit markets. Some consumer product companies have also accumulated high levels of debt, making them vulnerable to economic downturns.

Impact on Companies: Companies with heavy debt loads may face pressure if consumers reduce their spending. There is a divide between companies that can adapt to rising borrowing costs and those that cannot.

Subprime Auto Loans: Delinquency rates for subprime auto loans are at record levels, particularly among young people and lower-income households. This trend is emerging despite relatively low unemployment rates.

Default Cycle: Market participants are realizing that a long and drawn-out default cycle may be on the horizon as the impact of higher borrowing costs gradually affects the system.

Economic Growth: Economic growth remains positive but as we mentioned a couple of days ago, the federal government revised its projections down significantly this week and there are concerns about the pace of consumer spending. A significant revision downward in consumer spending growth indicates that Americans have been more cautious what they are spending their money on.

Business Investment: Business investment appears to be stronger than previously estimated, driven by spending on structures and long-term investments. This is one of the few bright spots in recent economic news.

Economic Headwinds: Several factors could potentially weigh on economic growth in the coming months, including the resumption of student loan payments, a government shutdown, labor strikes, and rising oil prices.

Based on the information above we can expect lower holiday spending and increased pressure and hiring and employment as the year ends. Consumers who want to shore up their financial positions should try to reduce their current debt and curtail their use of credit cards for unnecessary purchases.
by Jim Malmberg
Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.

Follow ACCESS