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Fitch: Recession Expected 2Q23, Strength of U.S. Consumer Will Mitigate Severity

Fitch Ratings-New York-18 October 2022: Robust U.S. consumer finances will help cushion the impact of a likely recession starting in second-quarter 2023 (2Q23), according to Fitch Ratings.

“Fitch expects the U.S. economy to enter genuine recession territory — albeit relatively mild by historical standards — in 2Q23. The projected recession is quite similar to that of 1990–1991, which followed similarly rapid Fed tightening in 1989–1990. Nevertheless, downside risks stem from nonfinancial debt-to-GDP ratios, which are much higher now than in the 1990s,” said Olu Sonola, head of U.S. regional economics.

Household debt service and leverage continue to be relatively low compared with historical standards. Delinquencies across all household liabilities have also remained muted, in contrast to the elevated risks associated with consumer liabilities entering the Great Recession.

Excluding government transfers, real household income is 1% higher as of August 2022 yoy, with the growth underpinned by 1% growth in real labor income.

The aggregate household balance sheet is resilient despite the recent equity market correction, with real estate wealth offsetting some losses in equity holdings.

Estimated excess savings remain high at $1.5 trillion in July 2022, down from the $2.2 trillion peak in August 2021.

Any weakness in consumer sentiment appears to be more tied to gasoline prices than consumer spending.

The latest U.S. unemployment rate of 3.5 percent is the same as pre-pandemic levels — a 50-year low.
The demand and supply imbalance is very significant, equal to approximately 2.4 percent of the labor force.

For more information, a special report titled “U.S. Consumer Health Monitor — 4Q22” is available at www.fitchratings.com.