THE CONSUMER REPORT

By Tracy Pamperl, research team leader

Households are about to experience the biggest hit to disposable income in a long time. Rising inflation, continued supply chain constraints and now the Russia-Ukraine war have piled on seemingly all at once. The swelling piggybanks from stashing away cash during the pandemic may not last long under these conditions. Here is our outlook for the consumer, broken down by region because we see each having similar, but varied hurdles to overcome in the months ahead.

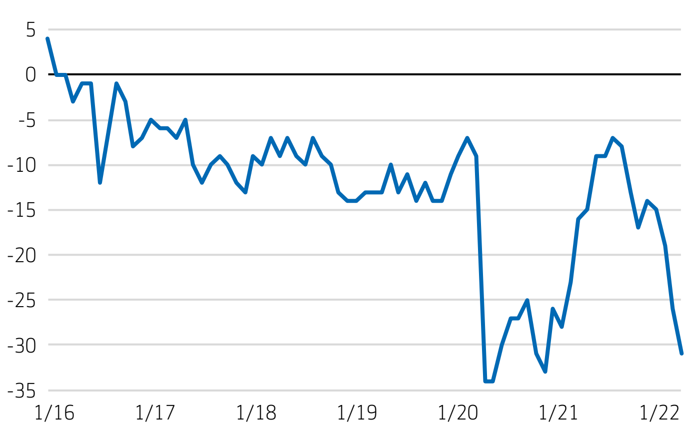
The UK consumer

UK consumers are likely going to be squeezed to an extent that is quite unprecedented in recent years. Energy prices are having a significant effect on UK consumers, as well as spiking food prices. The UK government's recent energy cap rise is projected to cause the typical domestic energy bill to rise by £700 per year to £2000. On top of this, some recent estimates suggest that implications of the Russia-Ukraine war could add another £1000 a year to the typical UK family energy bill.

Unlike the US and EU counterparts, tax hikes in April will likely add further pain. The new health and social care levy will cost the average taxpayer an extra £180 per year with a higher income taxpayers spending an extra £700 or more.

Our outlook for the UK consumer is not as bleak as headlines would suggest. Unemployment has fallen to pre-pandemic levels and employment is growing. Wages are rising, although likely not enough to fully offset inflation. Savings remain at historically high levels and house prices are holding up well despite the removal of tax incentives. However, rising prices and taxes are considerable hurdles to overcome and could require consumers to drawdown on excess savings or increase borrowing to maintain current expenditure levels (exhibit 1).

Exhibit 1: GfK Consumer Confidence Index



Source: Bloomberg. As of March 31, 2022.

The European consumer

The European consumer faces a sharp rise in living costs due to the rise in energy and food prices. Many European governments have stepped in to partially offset the higher energy prices to protect consumers (exhibit 2). Despite this, higher energy bills are likely to result in some cutting in discretionary spending. Luckily there are some positive factors, which might offset part of the negative impact. Employment in the Eurozone is high, and the labor market is tight. Savings are still elevated due to lower spending over the last two years.

Exhibit 2: EU government assistance has helped consumers weather rising prices

						
Lowered taxes	√		√	√	√	√
Price regulation (retail or wholesale)		√		√		√
Transfer to vulnerable groups		√	√	√	√	√

Sources: Bruegel, ING Research.

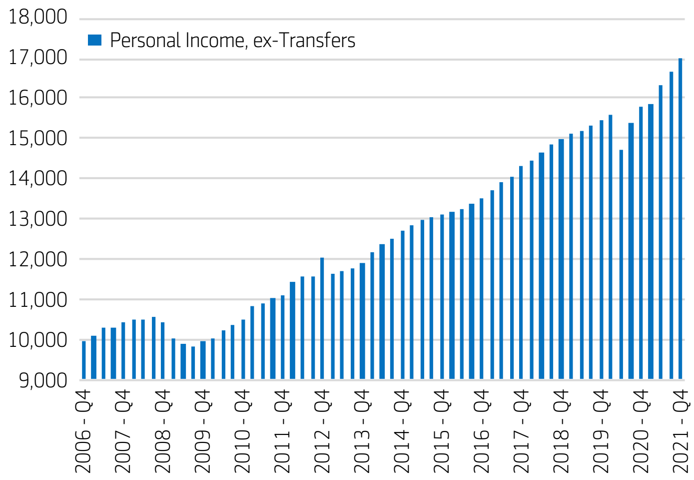
We believe inflation will remain elevated for a longer period due to commodity prices moving much higher in recent weeks—notably in energy. Wage growth is relatively low (lower than in the US) and real wage growth is negative. High commodity prices, especially gas, are a major headwind to consumers' purchasing power and business input costs. This is likely to weigh on growth going forward. The magnitude of which depends on how long energy prices remain at elevated levels and/or how much further it rises. However, the adverse effects are partially reduced by government support and high savings levels.

The US consumer

We believe the US consumer remains in a strong position. We have seen an ongoing increase in personal income and household wealth over the last several years (exhibits 3 and 4). Although energy prices are also rising in the US, gas and fuel has become an increasingly smaller portion of total consumption. Therefore, when energy prices rise, it affects the US consumer but more like an additional tax rather than a notable hardship. Lower-income consumers, while benefiting from the largest pay increase among the income brackets in 2021, will likely pay the price for the increasing costs as they have less discretionary income and savings.

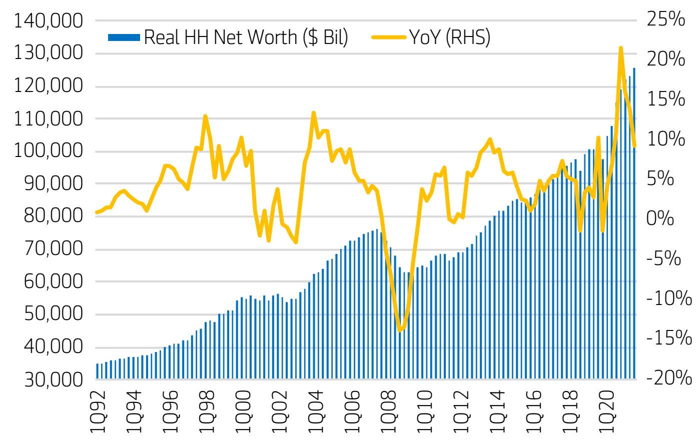
Rising interest rates paired with higher prices on essential goods and services will reduce affordability and negatively impact purchasing power. This could temper demand for more discretionary purchases. We will continue to monitor employment trends, personal income and savings, and consumer sentiment, as well as for a rise in borrowings and delinquencies.

Exhibit 3: Personal income ex-transfer (USD) payments



Source: BEA, Haver. As of December 31, 2021.

Exhibit 4: Accumulation of real household net worth



Sources: BEA, HAVER. As of December 31, 2021.

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