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Economic Data Round-Up: Consumer purchasing power under pressure

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- Consumer spending remains firm, supported by resilient retail activity. While spending has held up, part of the strength appears driven by price effects and higher-income households, masking weaker volume growth across the broader population. Slowing wage growth, flat real incomes, and deteriorating sentiment suggest households are likely going to spend more cautiously.
- Signs of strain are becoming more visible in household finances, with increasing reliance on revolving credit alongside rising delinquencies. This suggests consumption may be supported by borrowing rather than income, raising the risk of softer spending and a more fragile growth outlook ahead.
- The outlook for consumption remains conditional on firmer purchasing power, with improvement dependent on easing inflation and a more stable macro backdrop. Currently, we expect consumption to recover once disinflation becomes more established, real wage growth turns positive, and uncertainty subsides.

Consumers continue to drive economic growth

Heading into summer months, consumers have so far maintained spending. April retail and food services sales data continued to prove resilient consumer demand, coming in at 4.9% y/y, up from 4.2% in March (Chart 1). It is important to note however, that rising prices are the likely culprit for increased nominal receipts, particularly amid higher energy costs as a result of the conflict in the Middle East. Even excluding gasoline station sales, retail sales still rose to 3.7% y/y, suggesting no obvious signs of demand erosion.

Some of this lifting in the retail numbers appears driven by exogenous factors, likely concentrated among higher-income consumers. Particularly, consumers who received larger tax refunds this season were provided a temporary buffer against higher prices. Additionally, benefits from the stock market rally may have also contributed to more wealth-driven spending.

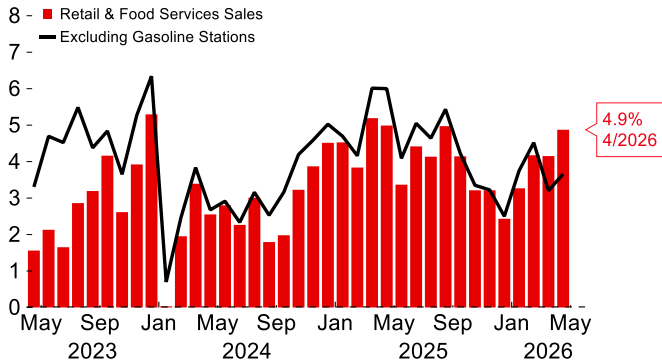
While consumers are seemingly withstanding recent inflationary pressures, this resilience appears to be more surface-level, as underlying spending trends point to momentum loss. In April, real personal consumption expenditures slowed to 0.1% m/m growth from 0.3% in March, bringing a stall to the year-over-year spending growth rate at 2.1% y/y (Chart 2).

Spending on durable goods has remained weak and in negative territory in recent months, likely reflecting softer demand for big-ticket purchases amid elevated financing costs and cautious consumer sentiment. Moreover, spending for services, which has overwhelmingly accounted for the bulk of consumption growth for the past two months, continued to edge down year-over-year. Considering that wealthy

households disproportionately drive consumption in the US¹, especially in “big-ticket” services such as travel, trends among this group will be key in determining consumption resilience going forward.

Chart 1: Retail sales remain firm

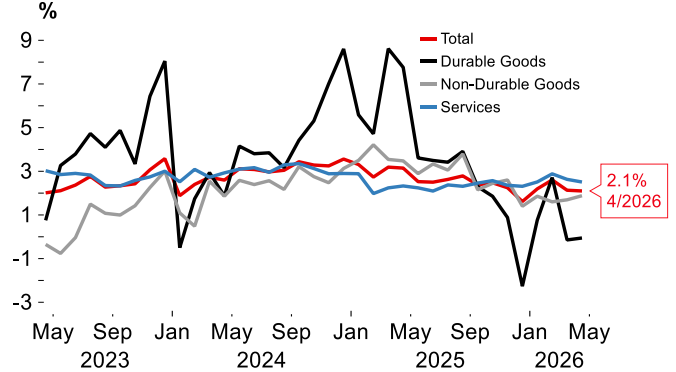
Retail sales, y/y%



Source: U.S. Census Bureau, MUFG Bank Economic Research Office

Chart 2: Real consumer spending has shown limited growth year-to-date, with durables spending remaining negative

Real personal consumption expenditures, y/y%



Source: U.S. Bureau of Economic Analysis (BEA), MUFG Bank Economic Research Office

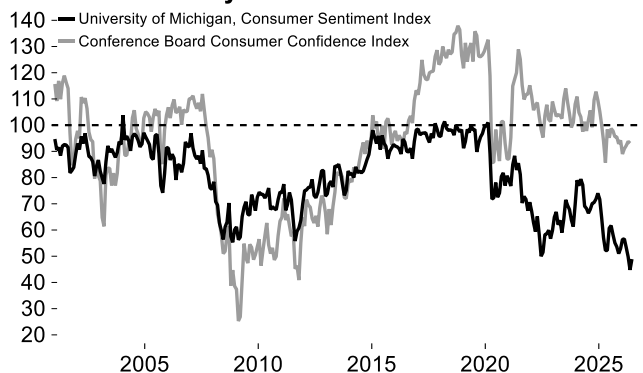
For households outside this top income cohort, the picture is more challenging. Consumer surveys, which reflect sentiment across a broad range of households, continued to deteriorate (Chart 3). The University of Michigan’s May reading of consumer sentiment hit another record low in May, with lower-income consumers and those without college degrees posting the steepest declines.

Likely contributing to this pessimism, consumers are facing the risk of greater financial strain amid high inflation, particularly lower-income households. Average hourly earnings continued to slow in May while CPI inflation surged to 4.2% y/y, turning real income growth negative (Chart 4).

As we expect inflation to remain elevated in the near-term², slower wage growth suggests incomes may no longer keep pace with the cost of living.

Chart 3: Consumer surveys continue to indicate depressed sentiment

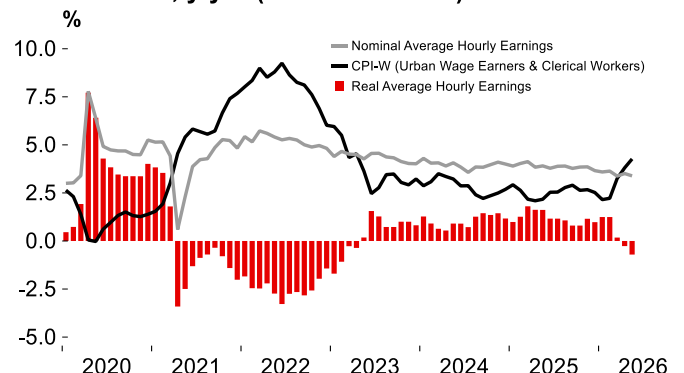
Consumer Surveys



Source: Conference Board, University of Michigan, MUFG Bank Economic Research Office

Chart 4: Real income growth was more negative in May

Real income, y/y% (CPI-W-deflated)



Source: U.S. Bureau of Labor Statistics (BLS), MUFG Bank Economic Research Office

¹ Bloomberg, “[Top 10% of Earners Drive a Growing Share of U.S. Consumer Spending](#),” Bloomberg News, September 16, 2025.

² MUFG, “[Global Economic Outlook – Q2 2026](#)”, June 8, 2026.

Consumer finances reveal potential strain

Last seen in 2022, real disposable income turned negative alongside a declining saving rate in April (Chart 5). The question then becomes whether this reflects consumer strain or spending confidence.

On one hand, declining disposable income and less savings could mean consumers may have started drawing down savings. Coupled with decelerating wage growth, consumers could be sustaining their spending by saving less or even relying on borrowing.

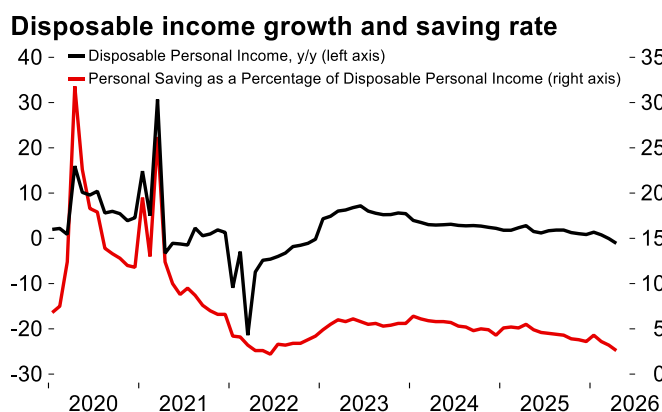
On the other hand, a declining saving rate may partly reflect an effect from high net worth. Labor market stability and stock market gains may have reduced the urgency to save for some consumers.

Nevertheless, recent credit data further suggests increasing pressure on household finances. Total consumer credit grew at a moderate 4.8% annualized pace, but the composition suggests a divergence (Chart 6). Nonrevolving credit, largely for long-term borrowing, slowed to 2.9%. Meanwhile, revolving credit, primarily credit card borrowing, accelerated to 10.4%, marking its fastest pace since late 2023. At the same time, credit card serious delinquencies (90 days or more) continued to rise to a 15-year high³.

Generally, higher revolving balances could reflect confidence in future income and consumption smoothing. However, when paired with softer longer-term credit growth, increasing delinquencies, and weaker income fundamentals, it may instead point to a growing reliance on short-term borrowing to sustain day-to-day consumption.

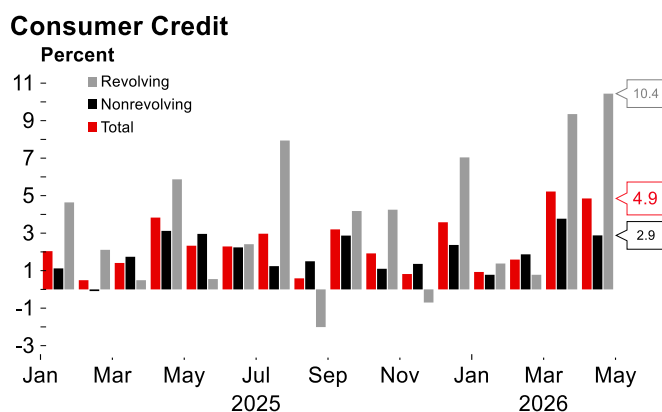
In other words, consumers may be putting more everyday expenses on their credit cards, not because they feel especially confident, but because rising prices are taking up more of their paycheck and their incomes are stretched thinner.

Chart 5: Disposable income and savings declined, pointing to reduced financial buffers



Source: U.S. Bureau of Economic Analysis (BEA), MUFG Bank Economic Research Office

Chart 6: Rising credit card use suggests potential stress



Source: Federal Reserve, MUFG Bank Economic Research Office

Bottom line is, softer consumption won't be a surprise

We currently expect personal consumption expenditures to moderate in Q2, before gradually recovering in the second half of 2026. In the near term, the labor market is likely to continue softening, while real income growth remains constrained amid elevated inflation linked to lagged tariff effects and developments in the Middle East.

As these pressures ease, consumption should find some support from improving employment and income conditions, alongside a gradual moderation in inflation. That

³ Federal Reserve Bank of New York, [Quarterly Report on Household Debt and Credit](#), Center for Microeconomic Data.

said, the strength of the recovery will depend on how quickly purchasing power improves and whether recent uncertainty, both geopolitical and policy-related, begins to fade.

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