OXFORD | HARRIMAN & COMPANY

# Oxford Harriman Market Commentary

August 22, 2023

**Oxford Harriman Offices**

Astoria, New York

Boston, Massachusetts

Chagrin Falls, Ohio

Cleveland, Ohio

Detroit, Michigan

Mentor, Ohio

Newport News, Virginia

Park Avenue, New York

Sarasota, Florida

Saratoga County, New York

Short Hills, New Jersey

Westlake, Ohio

Woodcliff Lake, New Jersey

www.oxfordharriman.com

**The U.S. consumer plays an important role in the economy, accounting for almost two-thirds of U.S. Gross Domestic Product (GDP). The US economy is currently at a critical juncture as consumer spending returns to normal after the pandemic, an unprecedented period where the consumer accumulated approximately $2 trillion in savings and stimulus funds. As consumers have now spent these funds, we are closely watching data to see how this impacts the economy.**

A datapoint we follow is the Johnson Redbook Index, which measures the percentage change in sales at stores that have been open for at least one year. This proxy for consumer spending is based on a sample of large U.S. retailers, including about 9,000 department, discount, and chain stores. This index experienced a sharp drop at the onset of the pandemic, followed by a 2021 spending spree fueled by stimulus checks, increased wages, and pent-up savings. However, consumer spending has steadily trended lower since July 2022, with the Johnson Redbook Index experiencing a relatively rare year-over-year decline in July 2023.

In the preceding two years, consumers tapped into the substantial surplus they had amassed during the pandemic, sustaining spending despite significant inflation. This stimulus-fueled cushioning effect shielded the economy from the Federal Reserve's interest rate hikes, which marked the quickest increase in rates in four decades. It appears the bottom 60 percent of income earners have exhausted their excess savings from the above-mentioned stimulus, and this reality is now making its way into the economy. Consumers are now dependent on their income to maintain their spending.

We will also be watching the resumption of student loan payments and the potential impact on consumer spending. Economists have predicted that the resumption of student loan payments may be equivalent to a pay cut of 4% to 5% of median household income before taxes.

Certainly, the financial health of the U.S. consumer will impact the U.S. economy. Outside of the U.S., we are also monitoring events in China, the world's second largest economy, in terms of GDP, after the U.S. Financial regulators there have urged Chinese banks to increase lending to support the country's economic recovery. Measures to adjust and optimize policies for home mortgages were discussed at a recent meeting. The government is also concerned about the deteriorating economic outlook and has been urging banks to boost lending. Despite recent pledges to support consumption and the private sector, there have been no major stimulus efforts. However, the People's Bank of China has reduced interest rates and emphasized the need for financial institutions to manage risks associated with local government debt. The government is also taking steps to clear off-balance sheet debt of local governments. Concerns about the Chinese real estate market have persisted for years, and recently a major property developer filed for bankruptcy.

***Thus far in August, the market has pulled back, perhaps as attention has shifted to these concerns. Perhaps the decline is due to rising interest rates.***

Most of the above discussed events have been known to investors for the past several months, but the stock market continued to push higher in June and July. Thus far in August, the market has pulled back, perhaps as attention has shifted to these concerns. Perhaps the decline is due to rising interest rates. As we wondered aloud in our commentary from the past few months as to how long the good times will last, the narrative has shifted and will most likely continue to do so. There is also a presidential election to confront next year. While short-term volatility (and the narrative provided to explain such changes) is likely to persist, we continue to keep a long-term, balanced approach to managing investment portfolios. As always, please contact us if you'd like to discuss this further.

Have a good week,

**Dennis P. Barba, Jr.**
CEO & Managing Partner

**Michael P. Finkelstein, CFA**
Partner

**Robert Frenkel, CFP®**
Chief Investment Officer

**Sources:**

www.cnbc.com

www.reuters.com

http://bloomberg.com