

Economics

IN FOCUS

April 29, 2024

The goods life: How boomers and work-from-home changed American spending patterns

by Ali Jaffery ali.jaffery@cibc.com and Katherine Judge katherine.judge@cibc.com

Things are different now. Four years on from the pandemic, there is enough evidence that American spending patterns are not going to revert to pre-pandemic norms. The consumer strength seen in 2023 was enough proof for us that the long-awaited rotation from goods to services is not happening. The US economy has followed a higher trend for spending largely because consumer appetite for durable goods shifted into another gear. We argue that no small part of that shift came about from two key forces: an increased willingness to spend from a recent wave of wealthy retirees and a dramatic lifestyle change caused by work-from-home (WFH), which stabilized in 2023.

As more and more Americans remained at home post-pandemic, they were looking for ways to make their lives easier and more enjoyable. Many saved less so they could spend on expensive durable goods such as computers, sporting equipment, and cookware. More time for leisure and at home meant greater wear-and-tear on those items, so Americans were replacing, as well as trying out, more types of goods more often. Where that spending was tied to WFH, the bill could

have been footed by employers, making some investment appear as consumption.

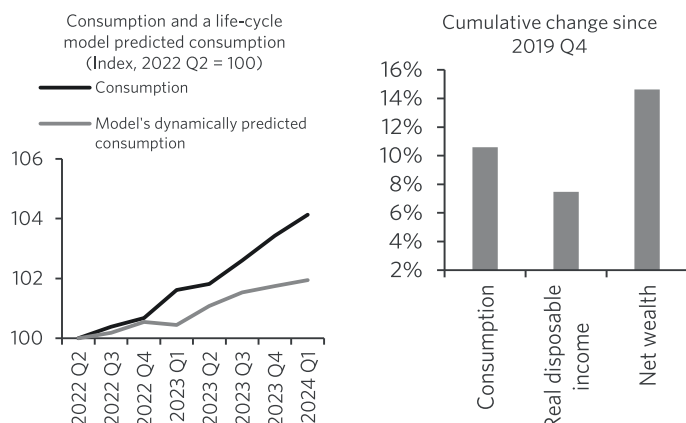
Low debt, a tight labor market, and long-dated mortgages that blunt interest rate hikes made those forces stronger in the US. But that also means there are some limits. Despite a change in consumer habits, consumption is not immune to a slowdown in growth, even if the trend level of goods remains above pre-pandemic norms. A higher-for-longer rate environment will increasingly impact businesses, and that will continue to curb wage growth and spending power. Consumers too, will run out of gas after filling up their houses with gadgets and having one too many streaming subscriptions, while wealthy retirees will eventually have to curtail their spending, as wealth is being drawn down rapidly for near-term consumption, and income tied to the stock market is no longer soaring. So we still expect consumption growth to slow modestly later this year and the Fed to have room to cut rates a couple of times. But in the here and now, a consumer more attached to goods does not make the Fed's job any easier.

A can-spend attitude

Our starting point is to see if we can explain consumption growth with a standard economic model based on income, wealth, and interest rates, inspired by one of the Fed's workhorse models (Chart 1, left). This approach does project a pickup since last summer, but falls 2% short of reality. What the model sees is a combination of solid income growth and the surge in housing and financial wealth pushing against the squeeze from higher interest rates, resulting in a slower pickup in spending (Chart 1, right).

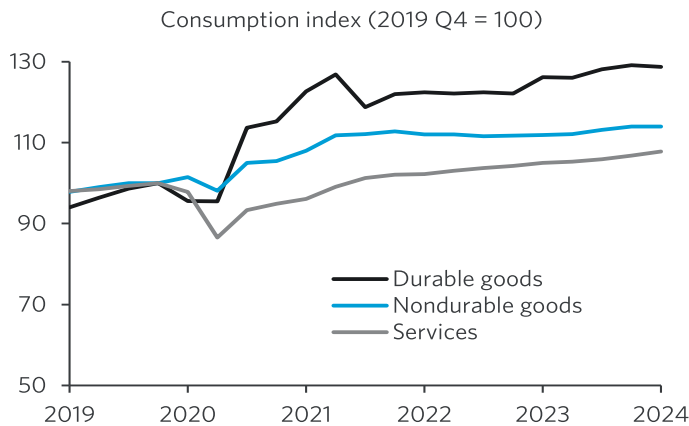
Including the decline in excess savings would only widen the model's miss. The surge in undocumented workers also isn't a major factor in the difference. Income metrics capture most of the income earned by those workers because they draw on wage and hours worked reported by establishments, rather than extrapolating from faulty population projections. There could be some understatement from self-employment income, but not enough to explain the upside we've seen in spending.

Chart 1: Models based on fundamentals cannot explain consumer strength (l), as spending has outpaced income (r)



Source: BEA, Federal Reserve, Aron et al (2012), CIBC calculations

Chart 2: Durable goods demand has exploded



Source: BEA, CIBC

The standard way of thinking about consumption behavior has fallen apart simply because attitudes have changed, which does not happen very often. Americans are choosing to spend more out of the income and wealth they have accumulated than they have historically. More importantly, they are changing the mix of what they spend on to support lifestyle changes (Chart 2).

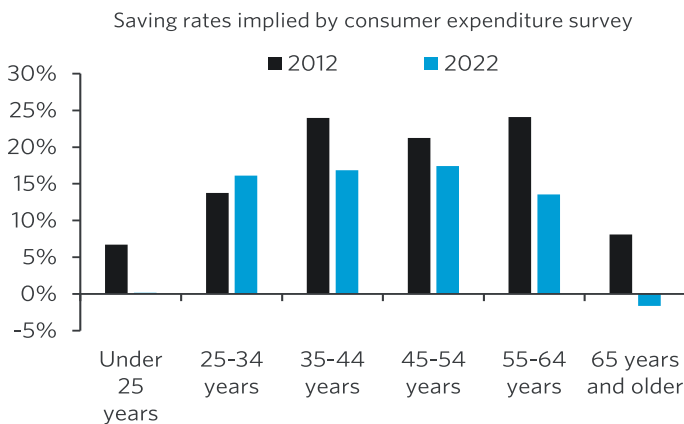
Spending on durable goods has exploded by 30% since 2019Q4 or 1% of GDP. And that is a remarkable feat because the strength of durable goods consumption has not only survived, but steamrolled over a long list of challengers: supply shocks, fading fiscal support, higher interest rates, student debt repayment and dwindling savings. Consumers clearly want to hold a higher stock of durable goods and are willing to save a bit less to do so.

Baby boomers learn what “YOLO” means

Despite the higher reward from saving due to high interest rates, Americans have opted to keep spending, with self-reported saving rates across age groups down sharply compared to a decade ago (Chart 3), and this is most acute for Baby Boomers (aged 60-78). Boomers collectively represent about one-fifth of the population, but account for an outsized roughly 50% of net worth. That’s particularly important now that the second generation of Baby Boomers is beginning to retire, as that group is substantially bigger than the first generation that reached retirement age in the aftermath of the financial crisis (Chart 4).

While millennials’ assets are overwhelmingly tilted towards real estate, Boomers are more concentrated in corporate equities/ mutual funds in comparison, and maintain a lower share than millennials in real estate in their portfolios, but have the added benefit of their mortgages being fully paid off. That makes financial market fluctuations more important for Boomers’ consumption decisions. And although Fed tightening weighed on asset values in 2022, optimism around Fed cuts and the economy avoiding a recession has kept financial conditions fairly loose. As a result, net worth per capita, adjusted for inflation, is back on an upward trajectory (Chart 5).

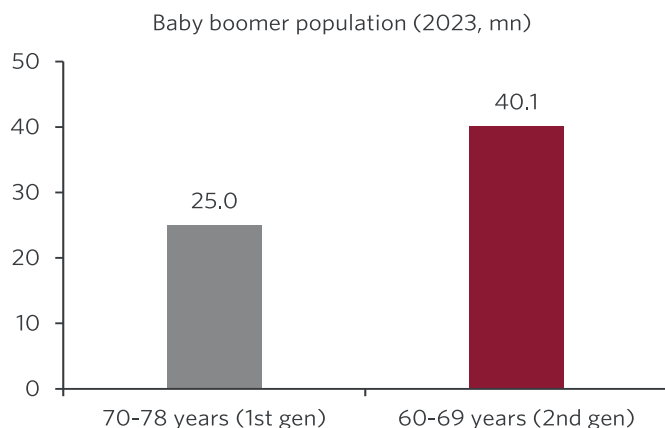
Chart 3: Older workers and retirees spending like there’s no tomorrow



Note: Saving rates implied by consumer expenditure survey do not aggregate to the saving rate reported in the national accounts.

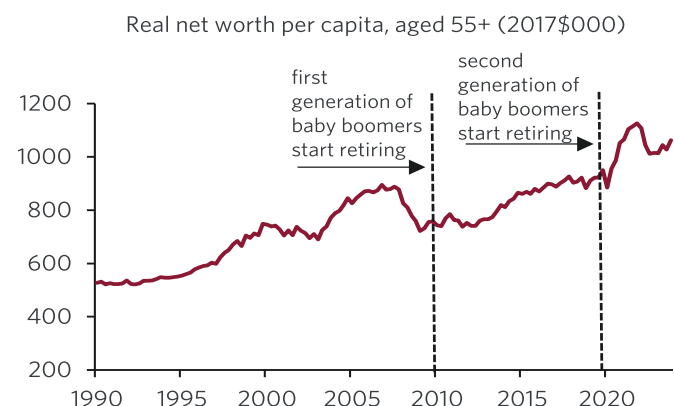
Source: BLS, CIBC

Chart 4: Second generation of baby boomers that are currently retiring is bigger than first generation



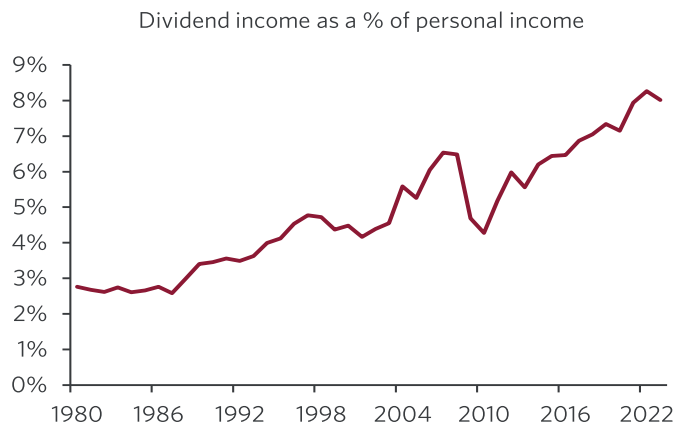
Source: Census Bureau, CIBC

Chart 5: Baby boomers’ wealth has soared in real per-capita terms



Source: Census Bureau, Federal Reserve, BEA, CIBC calculations

Chart 6: Dividend income has been the fastest growing part of income since 2010

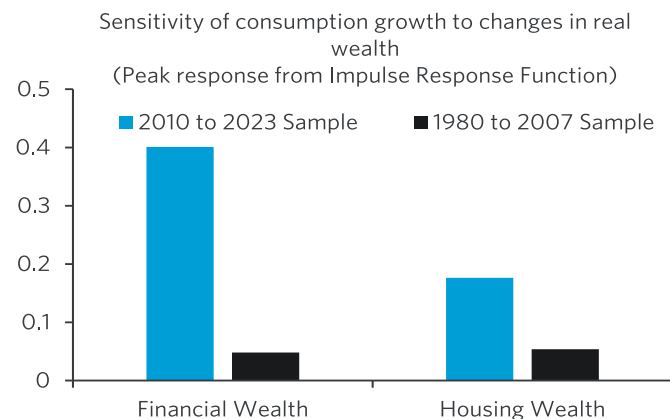


Source: BEA, CIBC

That has proved to be a much bigger tailwind for consumption than expected for two reasons. First, the buildup in large equity holdings since the financial crisis has resulted in a large stream of dividend income, as dividend income has been the fastest growing segment of overall personal income since 2010 (Chart 6). Second, the marginal propensity to spend out of real financial and housing wealth has likely increased substantially compared to prior to the financial crisis (Chart 7). This is suggested by our estimates from a structural vector autoregression over the pre- and post-financial crisis period, that shows changes in aggregate consumption in response to unanticipated changes in financial and housing wealth are orders of magnitude higher today. What's more, this impact also lasts much longer, as changes in wealth boost consumption growth for well over year in the post-financial crisis sample compared to just a few quarters in the pre-crisis sample.

Had we been able to estimate this specifically for Boomers, it is likely the results would suggest even greater spending out of wealth. Adding to that, Emmanuel Saez from Berkley and other researchers have found that wealth in the bottom 50% (which would comprise the middle and lower income Americans) has

Chart 7: Marginal propensity to consume out of real wealth is likely higher now

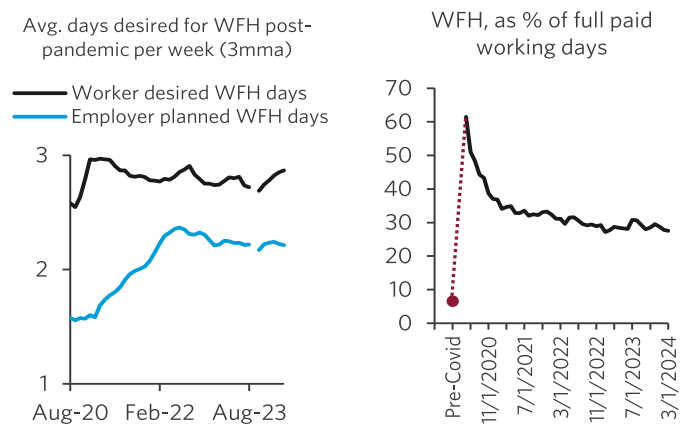


Note: Results based on a SVAR consisting of UST 2Y, wealth, and consumption with that Cholesky ordering. Wealth and consumption expressed in log differences.

Source: BEA, Federal Reserve, CIBC calculations

CIBC Capital Markets

Chart 8: Employer plans for WFH steadied at 2 days per week in 2023 (l) with about 30% of actual days worked from home (r)



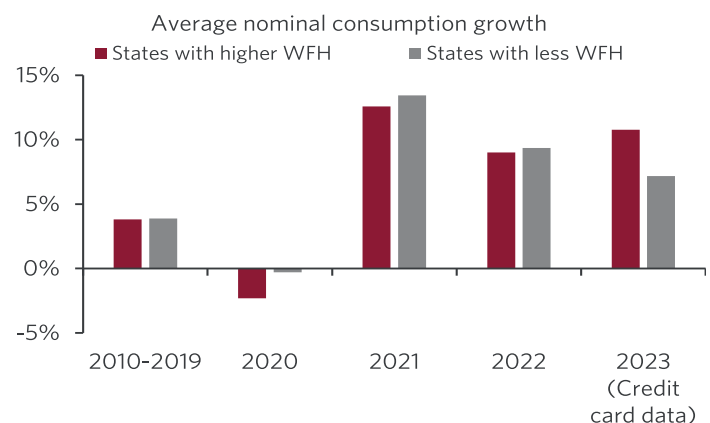
Source: Barrero et al (2024), CIBC

outpaced all other segments, increasing by a staggering four-fold since 2019Q4. So we have seen an unprecedented period of widespread wealth gains largely because of house price increases, and this is certainly affecting the wave of retiring Boomers, as some may be considering downsizing homes, and reaping the benefits of higher home prices when they sell.

WFH?!

2023 was an important year for WFH, because it's when businesses sorted out hybrid work at about 2 days per week (Chart 8, left). WFH has since steadied at that mark or about 30% of days worked (Chart 8, right). That stability sent an important signal to workers about what the future of their daily routine would look like, and in turn, may have affected their spending habits. Credit card data suggests consumption in states with higher WFH grew more in 2023 than those with less WFH, while in the past there have been far smaller discrepancies between these states using national accounts consumption data (Chart 9).

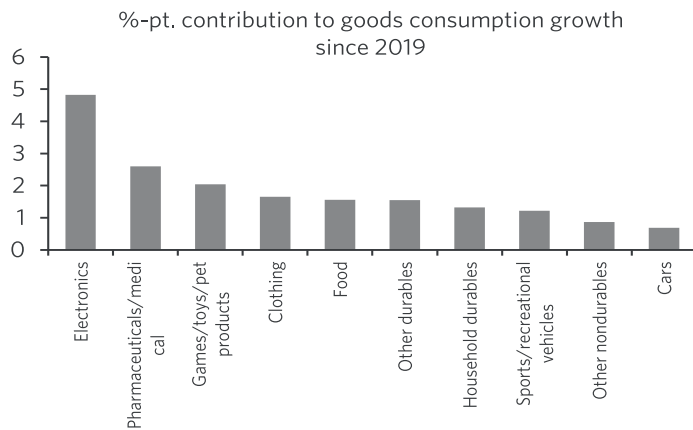
Chart 9: States with greater WFH may have driven stronger consumption in 2023



Note: States with higher WFH are those with an above median share of workers working 3-4 days per week.

Source: BEA, Opportunity Insights, Census Bureau, CIBC calculations

Chart 10: The surge consumption was driven by wide range of discretionary categories



Source: BEA, CIBC

Arguably, the main reason for this spending tied to WFH is the need to have the right set up to work. The fastest growing consumption category since the onset of the pandemic has been in electronics, which includes items such as software, computers, TVs, and smartphones, amongst other things (Chart 10). Consumption in this category has essentially not slowed down at all during the post-pandemic period and has contributed nearly 5%-pts of total goods growth since 2019. High rates of job switching during the pandemic may have accelerated this trend as well, as it is possible that some of this was paid for by employers and some equipment investment could be showing up as consumption (Chart 11). Those same employers could also be paying to replace over-used and worn down items.

But spending for leisure is also a significant part. Nick Bloom from Stanford and a host of other researchers have found WFH saves people at least a couple of hours per week, and their surveys show that most of that time goes into time with

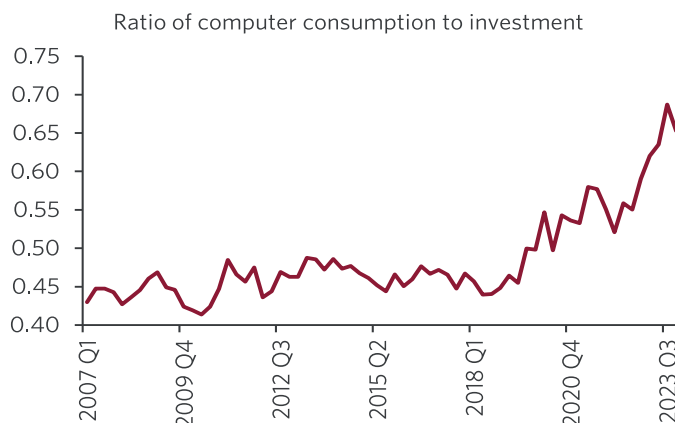
family or leisure. People are using that time to save on difficult commutes and enjoy life a bit more. There have been large and sustained increases in the consumption of toys, games, clothing, food, dishes, sporting equipment, and appliances.

No good life for the Fed

But even with Americans' voracious appetite for goods, the economy is not impervious to a slowdown. Firms, rather than households, face the brunt of rate hikes, and their adjustment to hiring and wages, although delayed in the face of strong consumer demand, will eventually give way to an easing economy. Slower growth will dampen asset prices and crimp the dividend incomes of the wealthy Boomers who have been spendthrift this cycle, and make companies less willing to dole out large stipends for employees to upgrade their home monitors. Workers will also find their homes filled to the brim with durable goods that are supposed to last over the long term.

Nonetheless, this still complicates life for the Fed. The chances of returning to the ultra-low goods inflation era that was seen over the post-financial crisis period seems lower. And durable goods demand has been less responsive to interest-rate changes since it is tied more closely to WFH. For permanently higher goods demand to not be inflationary, there needs to be an equivalent increase in the supply of those goods. So far, we have seen an incredibly impressive supply response to bring about that balance, and that makes us confident that we will be able to get through the rest of this cycle. But the new reality is that the US economy is more vulnerable to supply shocks than before than pandemic, and the Fed will have to adapt its tools to account for the shift in preferences of the consumer.

Chart 11: Some sales of computers being recorded as consumption may actually be investment



Source: BEA, CIBC

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice. This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2024 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.