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Retail Sales Growth on Ice As Household Debt Picture Improves

Cold weather conveniently explains an anemic First Quarter GDP print (growth nearly flat-lining at +0.1%), but it's not the only explanation. The fact is that retail sales growth, though positive, has been trending downward since 2011.

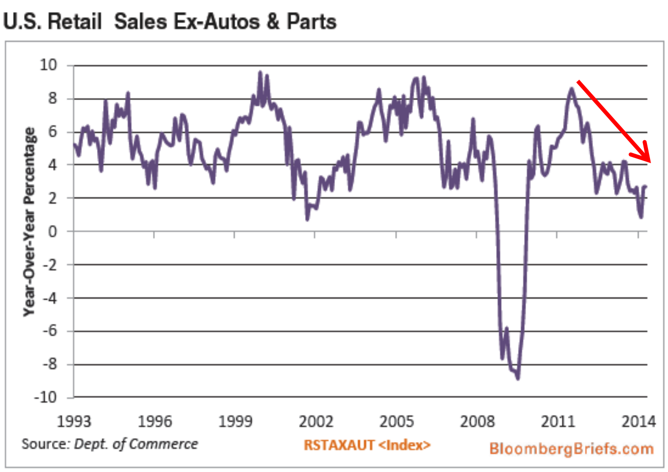

Chart Source: Bloomberg

Notwithstanding the Federal Reserve's beloved notion of a "wealth effect" whereby pumped up asset prices are supposed to convince Americans that it's ok to spend more than their income can support, Main Street USA still hasn't made it past the velvet rope to gain admission to Wall Street's rollicking party of the last few years, and remains unable or unwilling to pump up its spending. Our second chart (above right) helps explain why.

Spending is, of course, the flip side of saving. At first glance it's troubling to see that the declining growth rate in retail sales has coincided with a declining personal savings rate (see red arrow, lower line in chart above right). Unless borrowed, money spent or money saved both require money earned, and wage growth likewise has been trending downward since early 2011. There is some good news hidden here, however.

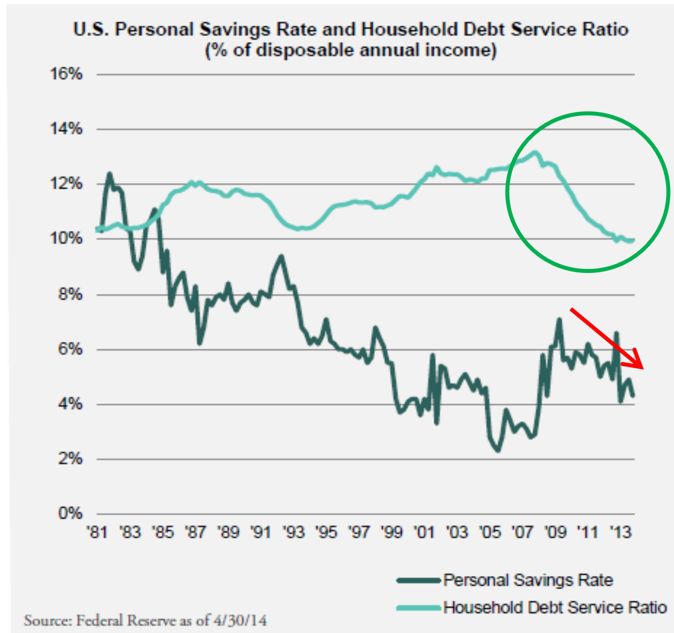

Chart Source: Eaton Vance

Look at the upper line in this second chart (green circle). It shows the U.S. Household Debt Service Ratio (DSR), the proportion of disposable income that goes toward borrowing. After topping out at an all-time high in the Fourth Quarter of 2007 just before the onset of the last recession and the financial crisis, the DSR is down almost 25%. It has made lows not seen since the first Reagan administration. I emphasize: this is a good thing.

Americans have been cleaning up their personal finances such that household debt which topped out at 96% of GDP during the financial crisis is now down to 77% of GDP. By keeping a lid on interest rates, the Fed has helped borrowers immensely, as anyone who has refinanced a loan in the last few years can attest. By borrowing less and paying less to borrow, people are chipping away at their debt loads.

Personal fiscal fitness doesn't look or feel much like prosperity at first, but it's a prerequisite for prosperity. At the household level at least, we're on our way there, however slow and fitfully.