Chart of the Week

August 3, 2023

When the Bill Comes Due

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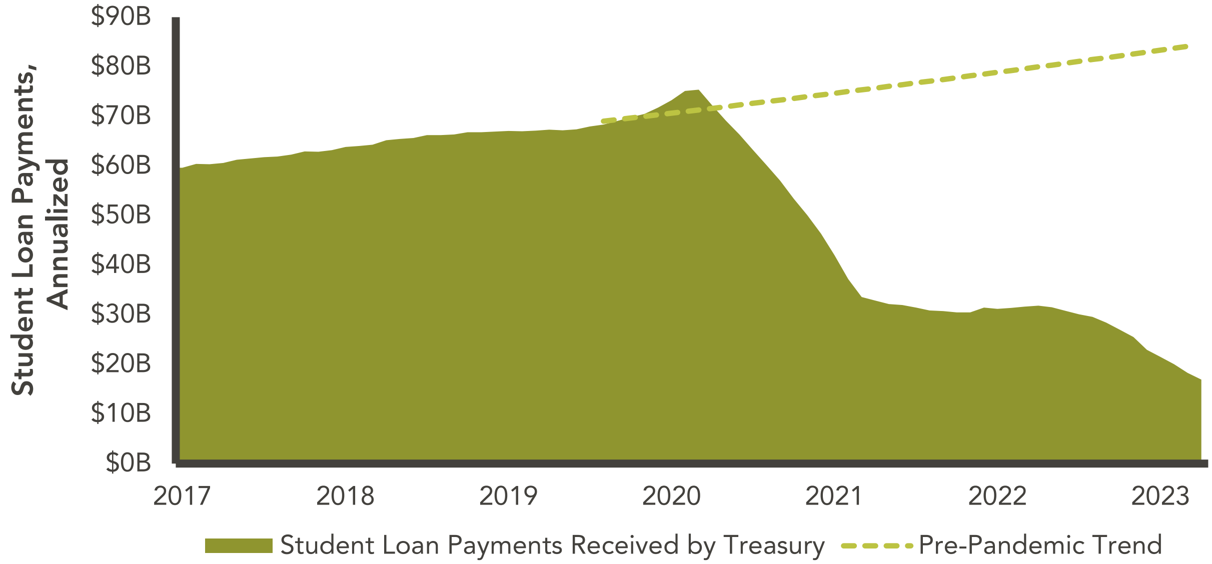
Robust consumer spending, which has bolstered the U.S. economy this year, may by impacted by the resumption of student loan payments



Source: Goldman Sachs, The New York Times as of April 2023

The U.S. economy has proved more resilient than expected this year, buoyed by ongoing consumer strength. Labor market dynamics and pandemic-era savings have allowed consumers to continue to spend despite higher costs. Those excess savings, however, are projected to be fully depleted by the fourth quarter. On top of that, millions of Americans will soon have another monthly charge to factor into budgets, as student loan payments are set to resume in October for the first time in years.

Collectively, U.S. consumers owe $1.6 trillion in education debt, with monthly payments averaging $200–$300. The CARES Act put student loan payments on hold in 2020, saving consumers approximately $185 billion over the last three years.[1] Moreover, the pause in payments brought delinquency rates to historic lows, which helped improve borrowers' credit scores, enabling them to take on additional debt. As a result, some consumers are now facing greater obligations that may detract from spending on goods and services. Apollo Global Management estimates that student loan payments alone could reduce consumer spending — which makes up two-thirds of U.S. GDP — by more than $100 billion per year. Whether the U.S. tips into recession remains to be seen, but evolving dynamics like the depletion of excess savings and the resumption of student loan payments could change current trajectories. We will continue to watch these factors and their impact on the macroeconomic outlook closely.

[1] Goldman Sachs via The New York Times, _Student Loan Pause is Ending, With Consequences for Economy_

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