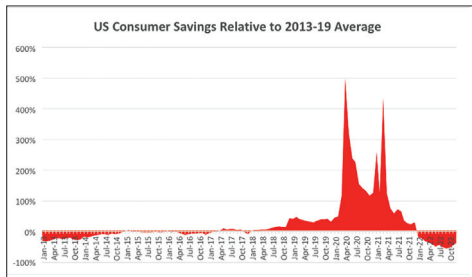


Why Has the Economy Been So Resilient?

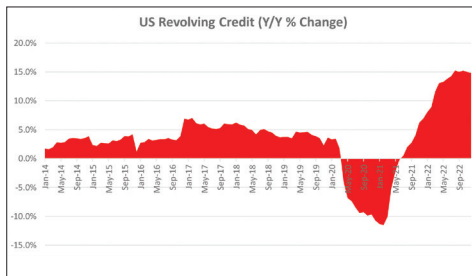
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Economists are predicting a recession in North America primarily due to higher interest rates, yet the economy continues to outperform expectations as evidenced by low unemployment rates and impressive jobs growth both in Canada and the US. A significant factor driving strength in the economy is consumers' ability to spend excess savings accumulated during the pandemic. As shown in the chart to the right, the US consumer dramatically increased their savings rate during the pandemic and this excess savings has provided a boost to consumer spending and the economy. The bad news is that savings rates have now turned negative relative to the 2013-19 average.



Source: NBF, Bureau of Economic Analysis

While consumer savings rates have turned negative, another troubling trend has emerged – a surge in revolving credit (credit card debt). As shown in the chart below, revolving credit dropped dramatically during COVID as people paid-off credit card debt with excess savings. However, credit card debt has exploded post COVID as consumers spend excess savings and use credit cards to maintain their lifestyle. The combination of these two datapoints paints a picture of a consumer that is increasingly unable to spend to support economic growth.



Source: NBF, US Federal Reserve

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