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Global Credit Weekly:

'Mixed signals' from the U.S. consumer

BlackRock

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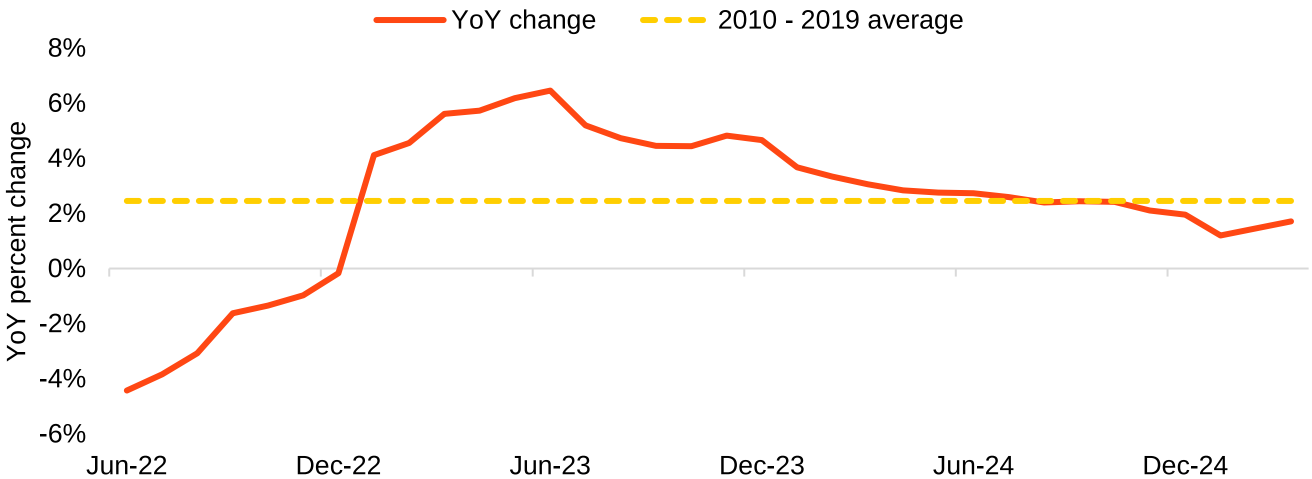
Key takeaways

- Many market participants have commented on perceived mixed signals related to the financial strength of the U.S. consumer. While sentiment data remains decidedly downbeat, some key economic indicators have yet to show material deterioration. And company commentary also points to a somewhat inconsistent view: some consumer-facing firms have reflected weakness in consumer spending patterns, while others have characterized a more constructive backdrop.
- Rather than viewing these 'mixed signals' as inconsistencies, we instead believe they reflect the dispersion which has become a defining characteristic of other asset classes that we track (i.e., liquid credit, private credit, commercial real estate). Indeed, U.S. consumers' spending patterns have long been bifurcated. And while the distinction between income cohorts is not a new concept, we believe the characteristics of the current backdrop (i.e., elevated interest rates and absolute price levels), result in greater differentiation between cohorts vs. prior cycles.
- In this *Global Credit Weekly*, we once again take stock of a variety of indicators related to U.S. consumers' financial strength. In short, labor market statistics and real personal disposable income growth have moderated but remain supportive. Consumer delinquencies marched higher in aggregate in 1Q2025, albeit with dispersion across loan types – continuing a trend that has been in place since early 2023. Data from Bloomberg Second Measure also highlights shifts in consumer spending patterns, which has implications at the sector level. Given the U.S. consumers' significant contribution to GDP, we remain highly focused on the 'feedback loop' between company margins, the layoff rate, consumer spending, and overall economic activity.
- In our review of recent company level commentary, we found references to a range of different operational "levers" which management teams can use to change course as the macro backdrop evolves. We continue to view financial flexibility as a key competitive advantage in the current environment – especially for firms that may look to take a more proactive approach to pursuing strategic acquisitions in the current environment.

Exhibit 1: Real disposable personal income growth has moderated for U.S. consumers
Year-over-year (YoY) change in real disposable personal income (seasonally adjusted annual rate, and based on chained 2017 dollars), and average YoY change from 2010 - 2019



Source: Bureau of Economic Analysis, FRED, BlackRock. As of March 2025 (most recent available).

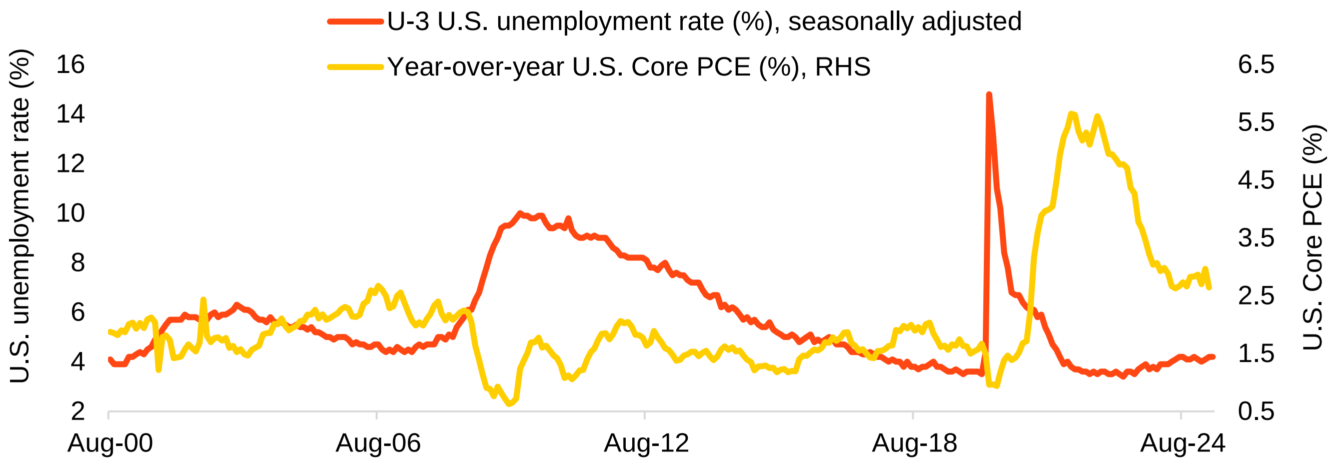
U.S. consumers' financial strength: dispersion, not mixed signals

Many market participants have commented on perceived mixed signals related to the financial strength of the U.S. consumer. While sentiment data remains decidedly downbeat, some key economic indicators have yet to show material deterioration. And company commentary also paints a somewhat inconsistent view: some consumer-facing firms have reflected weakness in consumer spending patterns, while others have characterized a more constructive backdrop.

Rather than viewing these 'mixed signals' as inconsistencies, we simply view them as reflective of the dispersion which has become a defining characteristic of other asset classes that we track (i.e., liquid credit, private credit, commercial real estate). Indeed, U.S. consumers' spending patterns have long been bifurcated. And while the distinction between income cohorts is not a new concept, we believe the characteristics of the current backdrop (i.e., elevated interest rates and absolute price levels), result in a greater differentiation between cohorts vs. prior cycles.

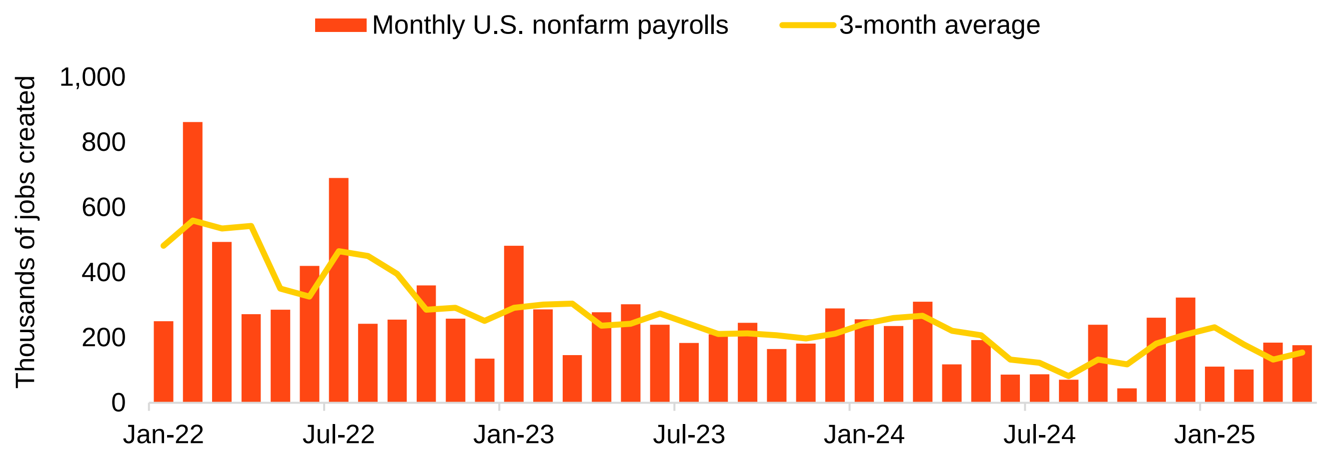
In this *Global Credit Weekly*, we once again take stock of a variety of indicators related to U.S. consumers' financial strength. We start with the labor market. The unemployment rate (4.2%) remains modest by historical standards (Exhibit 2), and monthly nonfarm payrolls continue to show resilience, although they have moderated relative to 2022 levels (Exhibit 3). For context, in the March 2025 Summary of Economic Projections, the Federal Reserve median unemployment rate projection was 4.4% for 4Q2025.

Exhibit 2: The U.S. unemployment rate remains contained by historical standards...
U-3 U.S. unemployment rate (%) seasonally adjusted, and year-over-year U.S. Core PCE inflation (%) seasonally adjusted, RHS



Source: Bureau of Labor Statistics, Bureau of Economic Analysis, BlackRock. Captures data through April 30, 2025 (Unemployment) and March 31, 2025 (PCE), most recent available as of May 21, 2025.

Exhibit 3: ...and the pace of job creation is still positive
Monthly change in U.S. nonfarm payrolls and the three-month moving average pace of job creation



Source: Bloomberg, Bureau of Labor Statistics, BlackRock. Captures data through April 30, 2025 (most recent available as of May 21, 2025).

U.S. consumers' spending power and allocations

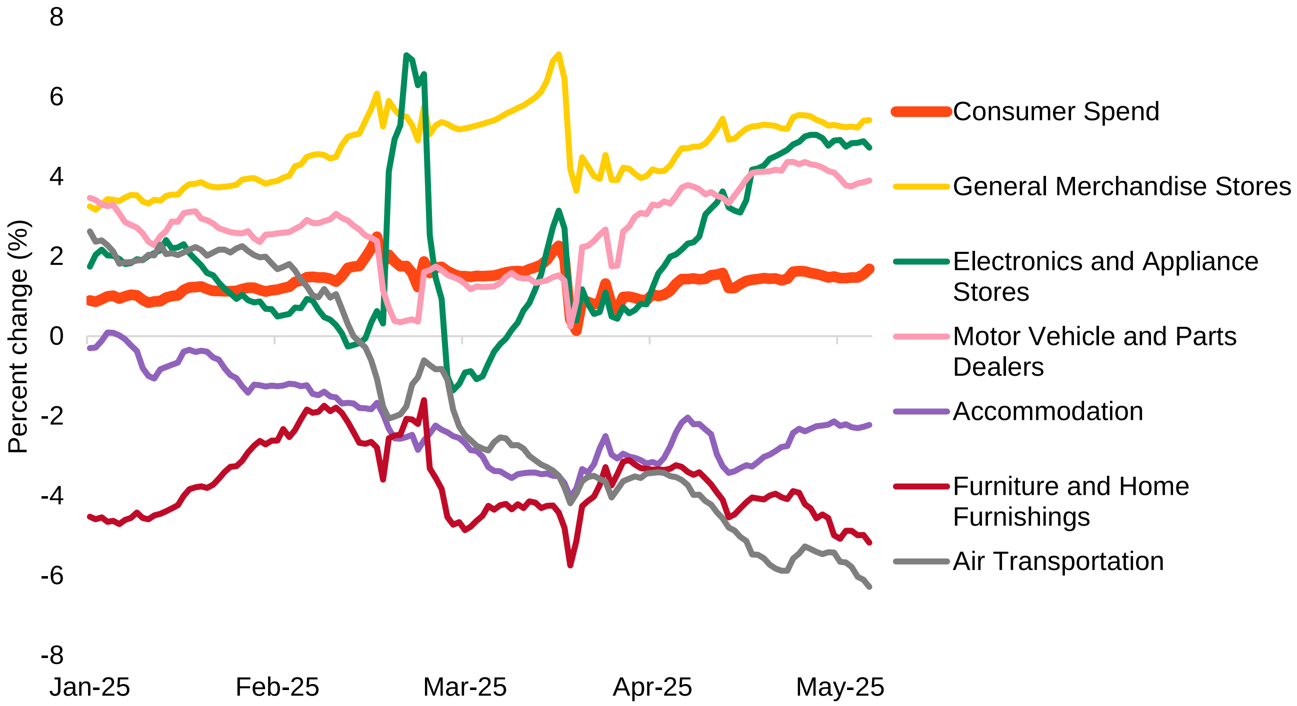
In addition to labor market strength, real personal disposable income growth (Exhibit 1) and the wealth effect have supported resilience in U.S. consumers' spending over the past several quarters. In recent months, however, real personal disposable income growth has moderated, falling below the 2010-2019 average. While still positive, we expect this may dampen consumers' ability (or willingness) to spend, at least relative to recent history.

That said, the topic of 'consumer spending' is nuanced and cannot be painted with a broad brush. Indeed, data from Bloomberg Second Measure highlights the dispersion across consumer spending categories. Exhibit 4 demonstrates the year-over-year (YoY) percent change in U.S. consumer spend for select sectors, based on trailing 91-day data. For this chart, we isolated six sectors, including those with the three largest (i.e., most positive) YoY change and those with the three smallest (i.e., most negative) YoY change as of May 14, 2025.

To start, "Electronics and Appliance Stores" and "Motor Vehicle and Parts Dealers" were two categories with the highest YoY growth, suggesting consumers may have sought to purchase related goods before well-telegraphed trade policy shifts became effective. That said, the potential 'pull-forward' nature of this spending suggests that this shift may not be enduring, over the long-term. Meanwhile, the growth of spending at "General Merchandise Stores," which includes large, diversified retailers, and the decline of travel-related categories, suggests consumers may have also shifted to favor non-discretionary spending this year. This adjustment in spending is most likely the result of moderating disposable income and uncertainty related to the macroeconomic backdrop, in our view.

For corporate credit, such shifts in spending patterns are likely to result in additional dispersion across and within sectors in corporate credit. And should aggregate consumer spending slow further, we would expect a more notable rebuild of risk premia in (wider) corporate spreads, given the importance of U.S. consumer spending to overall economic activity. We are closely monitoring the 'feedback loop' between corporate margins, the layoff rate, consumer spending, and overall economic activity.

Exhibit 4: Changes in U.S. consumer spending patterns across sectors highlight dispersion
Year-over-year percent change in U.S. consumer spend across select sectors, and for aggregate consumer spend, for the trailing 91 days, not seasonally adjusted



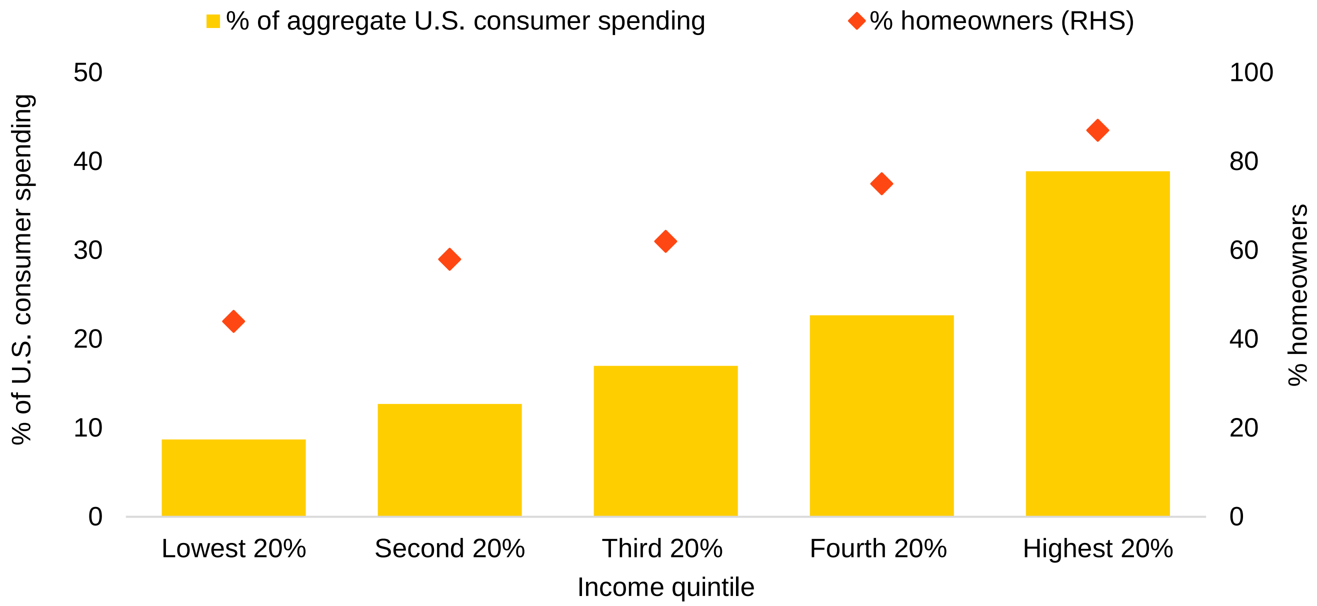
Source: Bloomberg Second Measure, BlackRock. As of May 14, 2025 (most recent available as of May 21, 2025). Select sectors include those with the largest absolute YoY percent change (three positive, three negative), as of May 14, 2025. Excludes 10 other categories which are captured in aggregate "consumer spend" segment.

Corporate earnings calls also underscore dispersion

An analysis of more than 30 recent earnings calls across consumer-exposed sectors offers some additional granularity on consumers' spending priorities. Below, we detail notable takeaways:

- **Bifurcated, and value-seeking…**Commentary about the strength of the consumer varied materially across businesses, with some noting resilience and others, weakness. In some cases, businesses underscored dispersion across their customer base, which has been a theme amongst U.S. consumers for quite some time. Older, affluent homeowners were less impacted by macroeconomic uncertainty vs. other demographics (younger renters with debt, for example) which are still encountering affordability headwinds. Many companies emphasized that most consumers are value-seeking, however.
- **…but still willing to spend.** Large-ticket discretionary items (which often require financing) were commonly cited as weak areas. Unsurprisingly, some firms also noted that home purchases have been delayed. That said, other firms noted that choiceful consumers *were* willing to make these purchases for the right category (health and wellness was mentioned), product, brand, or even speed of delivery. Shifting in the overall spending 'basket' was also referenced, as consumers spend more on necessities (including food) vs. discretionary items.
- **Prioritizing agility in the face of macro uncertainty:** Management teams are placing a premium on operational flexibility in the current environment. Many businesses noted that they have different operational "levers" to pull within their business, to change course as the macro backdrop evolves. For example, many noted that they are proactively downsizing inventories, adjusting product mix, shifting sourcing activities, limiting business investments, or streamlining expenses, in response to uncertainty. That said, some highlighted their ability to flex these strategic decisions, should economic growth and consumer demand prove resilient.
- **Opportunity ahead:** Many management teams noted confidence in their ability to navigate the uncertain environment ahead, and even felt this environment presented an *opportunity for expansion*. For example, some noted that previous periods of macroeconomic challenges presented an opportunity for brands to differentiate themselves, gaining market share and growing their retail footprint. Some guided that strong brand equity would be an advantage through this period. And as we have noted previously, the historical patterns in certain 'cash rich' sectors suggest market dislocations often yield some large strategic M&A transactions.

Exhibit 5: The top 40% of consumers (by income cohort) represent 62% of spending
U.S. annual aggregate expenditures by consumer income quintile, and the share of consumers in each cohort that are homeowners (RHS)



Source: BlackRock, U.S. Bureau of Labor Statistics Consumer Expenditure Survey (September 2024).

Delinquencies continue to grow

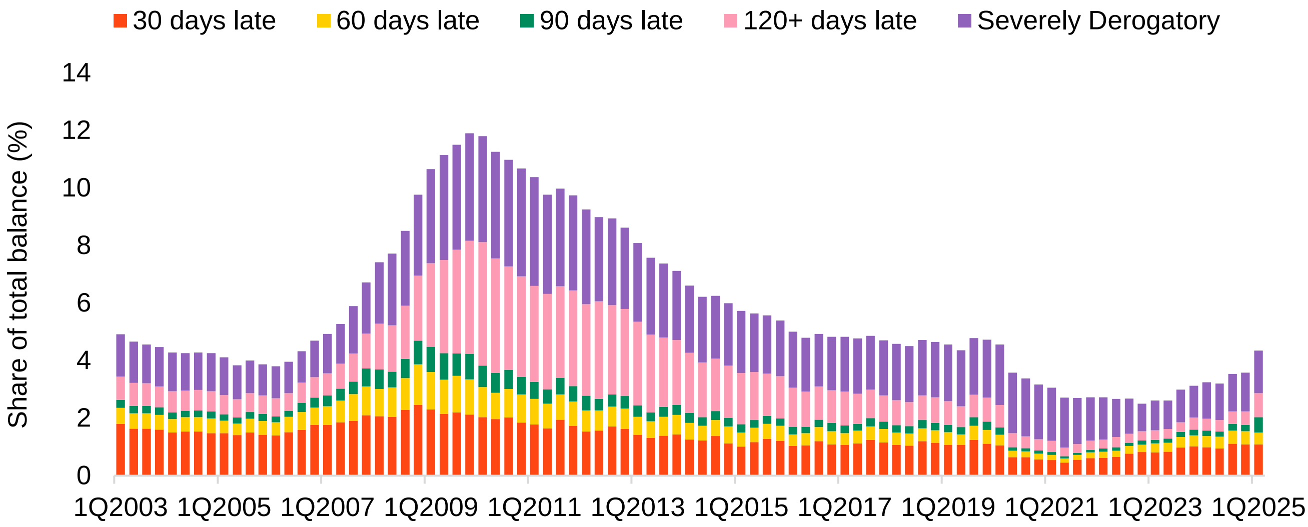
U.S. consumer delinquencies marched higher in the first quarter, continuing a trend that's been in place since early 2023. The share of total delinquent balances reached its highest level since 1Q2020 but remains considerably below the longer-term average (dating back to 1Q2003; Exhibit 6).

While delinquencies increased across all loan types (Exhibit 7) during the quarter, a resumption in student loan delinquencies was a notable contributor to the quarter-over-quarter change in delinquent balances. We detail student loan delinquencies on the following page.

There continues to be meaningful dispersion in delinquency levels across loan types. For example, credit card and "other" loan types (which include consumer finance and retail loans) reached highs not seen since the early 2010s. By contrast, home-related delinquencies (including mortgage and HELOC loans) still hovered near zero, likely supported by elevated home values and accumulated levels of home equity due to price appreciation (i.e., an asset that homeowners will likely want to protect).

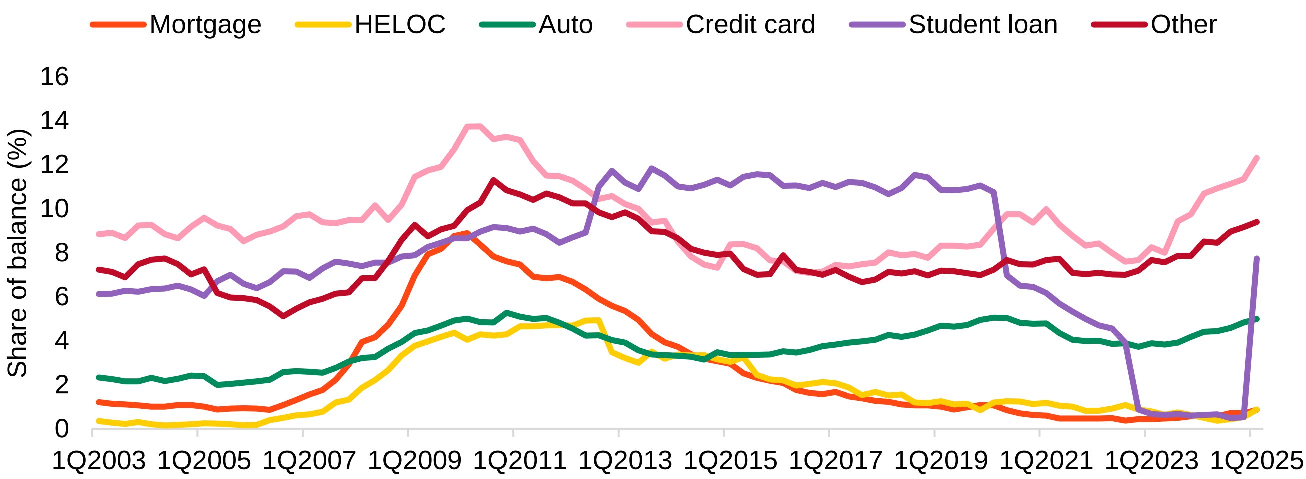
The continued growth in consumer delinquencies warrants watching, in our view, especially should a more challenging growth-inflation mix prevail. In the meantime, this should contribute to ongoing dispersion – and potential enhanced selectivity – in consumer spending patterns.

Exhibit 6: Delinquent balances grew in 1Q2025, as student loans were re-incorporated
Delinquent balance as a share of total U.S. consumer debt



Source: New York Fed Consumer Credit Panel/Equifax. As of 1Q2025.

Exhibit 7: Dispersion in delinquencies by loan types
Share of balance 90+ days delinquent by loan type



Source: New York Fed Consumer Credit Panel/Equifax, BlackRock. As of 1Q2025. The Other category includes Consumer Finance (sales financing, personal loans) and Retail (clothing, grocery, department stores, home furnishings, gas etc.) loans.

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A resumption in student loan delinquencies

Student loan payments were paused following the onset of the COVID-19 pandemic in 2020, bringing recorded student loan-related delinquencies below 1%. In late 2023, however, student loan payments resumed. Following the one-year "on ramp," which ended on September 30, 2024, delinquencies began appearing on credit reports during 1Q2025 (again, Exhibit 7).

Data from the NY Federal Reserve (NY Fed) indicates the mix of student loan borrowers by their repayment status. A substantial portion of borrowers, 42% as of 1Q2025, are not currently in a repayment phase and, therefore, cannot become delinquent. Excluding this cohort allows us to isolate payment activity for those who had payments due. Among those with payments due, the share of student loan borrowers past due in 1Q2025 was 24%, generally consistent with the 22% in 1Q2020.

A separate May 2025 analysis by TransUnion details how delinquency trends have varied across rating cohorts (e.g., subprime, prime) and paints a somewhat more concerning picture regarding deterioration vs. 2020. As of February 2025, the share of borrowers who were seriously delinquent (90+ days past due) on a student loan exceeded levels in February 2020 across all consumer credit rating cohorts (Exhibit 8).

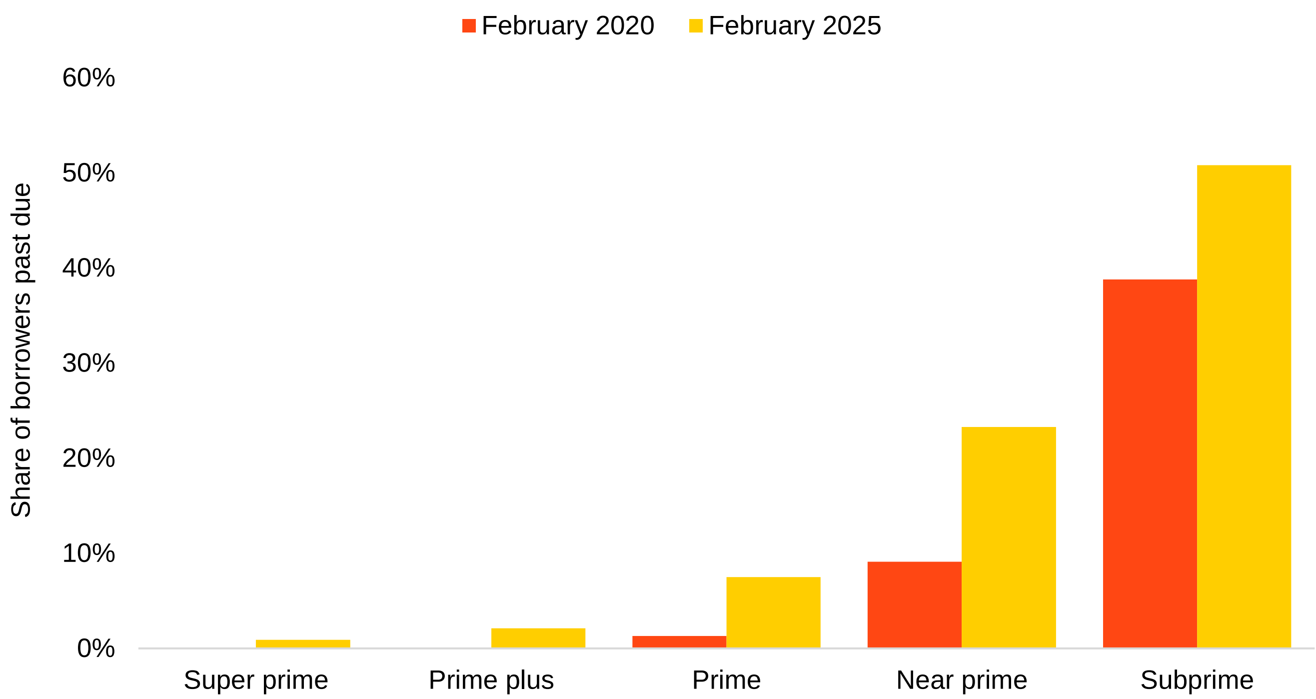
We view the sharp increases across cohorts in Exhibit 8 as notable. This was especially true at the prime and near prime levels, where the share of borrowers past due more than doubled. One potential driver of this deterioration may be related to the upward credit score migration that occurred following the onset of the pandemic in 2020.

Data from TransUnion and the NY Fed both demonstrate that delinquent student loan borrowers across rating categories saw a hit to their credit scores. For example, per the NY Fed, more than 2.2 million newly delinquent borrowers experienced a credit score drop of more than 100 points.

This resumption, coupled with the reinstatement of collections efforts on defaulted loans, may impact the U.S. consumer in a few ways. First, for borrowers with limited financial flexibility, resuming student loan payments will likely result in less disposable income and may make it more challenging to stay current on other existing debts. For borrowers who are newly delinquent, credit score impacts may limit access to new credit lines or increase borrowing fees.

Exhibit 8: The share of borrowers past due increased across all rating cohorts

Share of borrowers past due by rating cohort in February 2020 and February 2025



Source: TransUnion, BlackRock. Data is as of February 2025. Rating cohort categorizations are based on borrower credit scores as of December 2024.

Unless otherwise stated, all reference to $ are in USD.

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