THEMATIC RESEARCH · US CONSUMER

The US Consumer at the Limit

Sentiment sits near record lows, gasoline costs more than $4 a gallon, real wages are falling and job growth has stalled. Yet retailers forecast a first trillion-dollar holiday season. This report examines what is holding spending up, who is carrying it and where it could crack.

Global Markets Research · Macro Desk Prepared by ANDRA MARKETS

~4.7%

Coverage summary. The University of Michigan's final October reading came in at 48.0, the second-lowest on record, with current conditions falling to 46.7 from 50.9 and one-year inflation expectations rising to 4.7%. The Conference Board's measure rebounded to 91.7, its strongest monthly gain since March 2021, as gasoline eased from September. Underneath the surveys the fundamentals are softer: payrolls rose only 29,000 in September, unemployment edged up to 4.2% and average hourly earnings grew 3.0% against inflation of 3.7%. Even so, the National Retail Federation expects holiday sales to grow 4.2% to $1.013 trillion. The question for the next two months is how long a split consumer can keep spending.

mood ≠ spending

feel bad, earn less in real terms

MICHIGAN SENTIMENT	REAL WAGE GROWTH	PAYROLLS, SEP	NRF HOLIDAY FORECAST
48.0	**−0.7%**	**+29k**	**+4.2%**
Oct final; record low 44.8 in May	*AHE 3.0% vs CPI 3.7%†*	*84k expected; UR 4.2%*	*to $1.013 trillion*

Exhibit A. The consumer dashboard

Indicator	Latest	Previous	Comment
Michigan sentiment	48.0	48.1 (Sep)	second-lowest on record
Michigan current conditions	46.7	50.9	sharp fall
Michigan 1-yr inflation expectations	4.7%	4.6%	5-10 yr: 3.5%
Conference Board confidence	91.7	84.2 (Sep, revised)	highest since June
Conference Board 12-month inflation expectations	5.8%	n.a.	eased but elevated
CPI, September	3.7% y/y	+0.6% m/m	energy +20.4%
Average hourly earnings	3.0% y/y	n.a.	real wages negative†
Nonfarm payrolls, Sep	+29k	+133k (Aug, revised)	July revised to −10k
Unemployment rate	4.2%	4.1%	U-6 near 8%
Gasoline ($/gal)	4.28	3.05 a year ago	peak $4.56 in May
Credit card balances	$1.263T	$1.209T a year ago	near the $1.28T record

prices, not jobs, hurt so far

Sources: University of Michigan via TheStreet and Bloomberg; Conference Board via TheStreet, Reuters and Brisk Markets; BLS via CNBC, Yahoo Finance and Trading Economics; AAA (Andra Markets 2026-66; Shopifreaks); New York Fed. †Andra Markets calculation.

1.0 Executive Summary

Key takeaways

~$4.6

Energy is doing the damage. Michigan attributed the spring collapse in sentiment to Hormuz-driven gasoline prices, which peaked at $4.56 a gallon in May, the highest since July 2022. Lower-income households, for whom fuel is a larger share of the budget, move most when pump prices change.

gas is a regressive tax

real pay is falling

Real incomes are now shrinking. Average hourly earnings rose 3.0% over the year to September while consumer prices rose 3.7%. By our calculation real hourly pay is falling by about 0.7%, which leaves savings and credit to fill the gap.

~3%

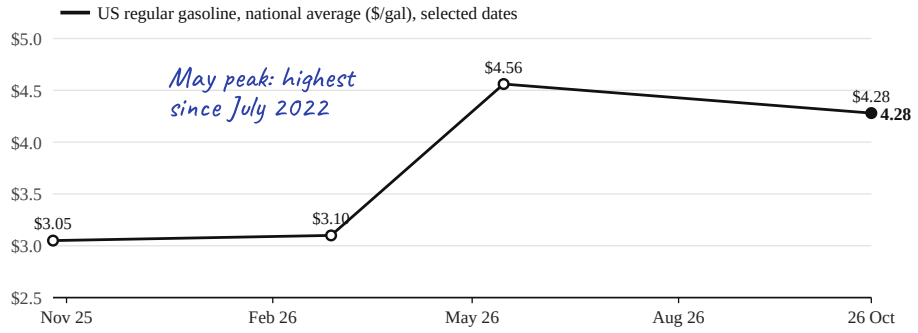
The labour market has stalled. Payrolls rose 29,000 in September against a forecast of 84,000, July was revised to a loss and the twelve-month average has fallen to 45,000, below the 50,000 to 80,000 economists estimate is needed to absorb labour-force growth.

The split is by income. Executives at McDonald's, Kraft Heinz, Procter & Gamble and Albertsons describe the same pattern: higher-income customers spend normally, lower-income ones trade down, buy smaller packs and visit less often.

Retail is still growing. NRF's September Retail Monitor showed twelve straight months of growth, and the trade group argues that confidence is a poor predictor of spending. About half of its 4.2% holiday forecast is price, so real growth is roughly 2%, carried by wealthier households.

Our reading. The consumer is not breaking, but the cushions are thinning: falling real wages, a weak jobs print, card balances near records and a Fed that held rates at 3.75% to 4% on 28 October with two officials voting for a hike, leaving December open. A further oil spike or a turn in hiring would expose the lower half of the distribution first.

Exhibit 1. US gasoline prices at selected dates ($ per gallon)



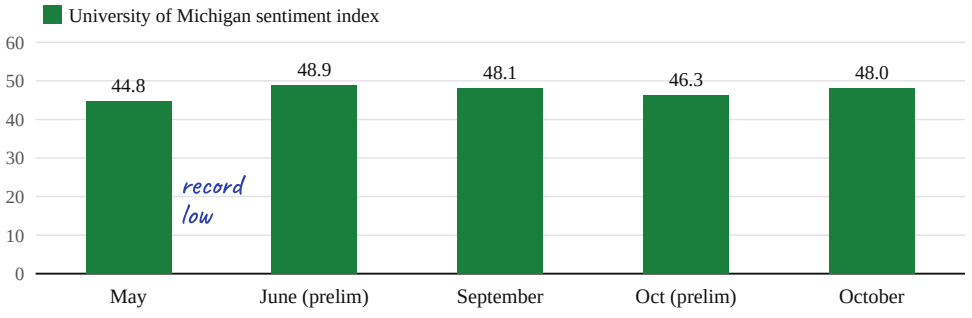
Sources: AAA via Andra Markets 2026-66 and Shopifreaks; pre-war level approximated by the late-February average. Selected dates only.

2.0 Sentiment

Two surveys, one message

Michigan sentiment collapsed in the spring as the war pushed fuel prices up, reaching a record low of 44.8 in May. It recovered briefly in June when gasoline eased, then slipped again. The October final reading was revised up from a preliminary 46.3 and beat every forecast in Bloomberg's survey, but the detail is weaker than the headline: current conditions fell sharply while expectations improved to 48.8, the highest since August. The Conference Board index, which leans more on the labour market, rose 7.5 points to 91.7, helped by lower pump prices; its economists noted that write-in comments about prices, groceries and fuel increased, and that the election ranked below prices and inflation as a concern.

Exhibit 2. University of Michigan consumer sentiment, 2026



Sources: University of Michigan via Investinglive (May), Hirunews/Reuters (June preliminary), Admiral Markets (September), Bloomberg (October preliminary) and TheStreet (October final).

3.0 Inflation and Real Incomes

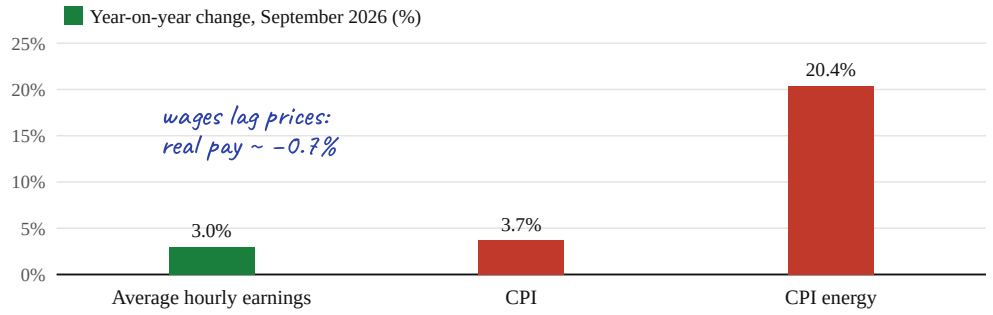
Prices are winning

~4.6%

Expectations matter for policy as much as the mood itself. Michigan's one-year measure has stayed between 4.6% and 4.8% since May and the long-run measure has drifted back up to 3.5%; the Conference Board's twelve-month expectation is 5.8%. Actual inflation is not far behind: the CPI rose 0.6% in September alone and 3.7% over the year, with energy up 20.4%. Wages have not kept pace. Average hourly earnings rose 3.0% over the year, and the average workweek held at 34.4 hours.

5.8% on the Conference Board

Exhibit 3. Wages vs prices, September 2026 (% y/y)



the gap that matters

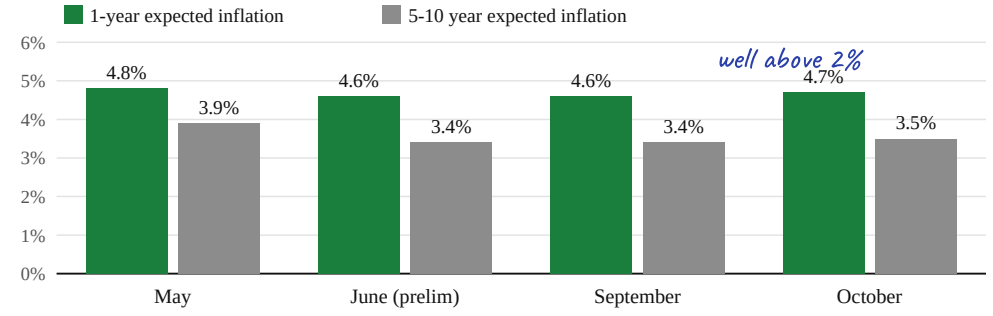
Sources: BLS via Yahoo Finance and Trading Economics; BLS CPI, 14 Oct 2026. Real wage estimate is an Andra Markets calculation.

Exhibit 4. US CPI inflation since 2019 (% year on year)



Source: BLS CPI-U all items via public CPI dataset to August 2026; September from BLS release of 14 October 2026; Andra Markets calculations.

Exhibit 5. Consumers' inflation expectations, 2026 (%)



Source: University of Michigan Surveys of Consumers via Reuters/Hirunews, TheStreet and Bloomberg. June figures are preliminary.

4.0 The Labour Market

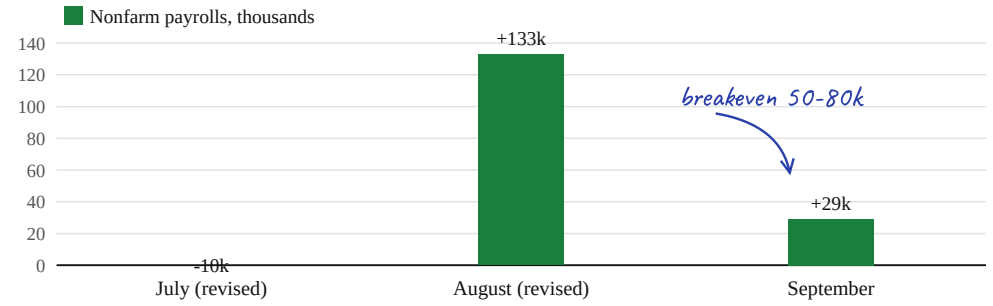
The cushion is getting thinner

~4.2%

So far households have been hit through prices rather than jobs, but that is changing. September payrolls rose 29,000, far below the 84,000 consensus, and revisions cut 60,000 from the two previous months, turning July into a loss of 10,000. The unemployment rate rose to 4.2%, partly because more people started looking for work; retirements and tighter immigration enforcement are keeping it low by shrinking labour supply. Financial activities have shed 129,000 jobs since May 2025, while health care continues to add. The broader U-6 measure is close to 8%. The October report is due on 6 November.

U-6 near 8%

Exhibit 6. Monthly change in nonfarm payrolls (thousands)



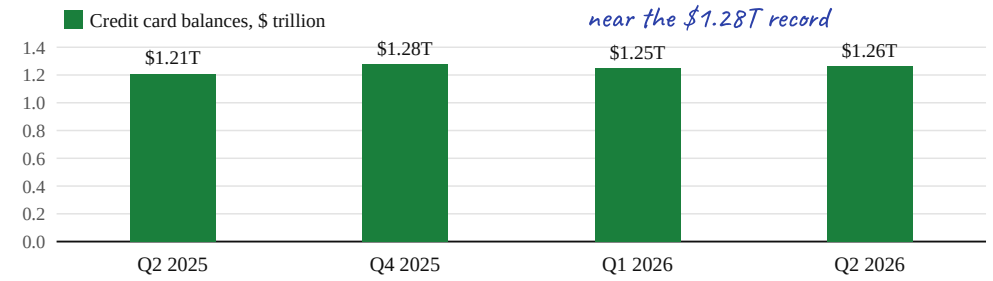
Sources: BLS via CNBC, Yahoo Finance and Kalkine, 2 Oct 2026. Breakeven range is the economists' estimate cited by Kalkine.

5.0 Credit and Savings

Borrowing to fill the gap

Credit card balances rose $21 billion in the second quarter to $1.263 trillion, up $54 billion from a year earlier and just below the $1.28 trillion record set at the end of 2025, according to the New York Fed. Auto loans reached a record $1.71 trillion. The share of card balances more than 90 days delinquent rose to 12.9% from 12.2% a year earlier, a level last seen around the Great Recession, although the New York Fed argues that much of the rise reflects stale, charged-off debt that lenders report for longer, and that the flow into new delinquency has been broadly stable for two years. Bloomberg reported that the saving rate fell in March to its lowest in three years.

Exhibit 7. US credit card balances ($ trillion)



Source: New York Fed Quarterly Report on Household Debt and Credit; Q2 2025 derived from the reported $54B annual increase.

6.0 What Companies Are Saying

The K-shaped consumer in their own words

Earnings calls this year have told a consistent story. McDonald's chief executive Chris Kempczinski said elevated gasoline prices disproportionately hurt low-income consumers and that the pressure would continue, while higher-income customers keep spending. Kraft Heinz's chief executive said some consumers are running out of money at the end of the month. Whirlpool's chief executive compared a 15% hit to industry demand to the global financial crisis. Procter & Gamble's finance chief said more pressured consumers are buying smaller pack sizes, and Albertsons reported trade-down to cheaper proteins. Fast food, which skews towards lower incomes, has been hit first.

Exhibit B. Corporate commentary on the consumer, 2026

Company	Comment (paraphrased)	When
McDonald's	gas prices hit low-income customers hardest; higher-income spending resilient	Q1 call, May
Kraft Heinz	some households run out of money at month-end	May
Whirlpool	~15% hit to industry demand, likened to the GFC	May
Procter & Gamble	pressured consumers buy smaller packs; affluent unaffected	Q4 call, July
Albertsons	trade-down to value packs and cheaper proteins	July
Domino's	orders fell as gas prices spiked; more discounts	April

Sources: The Consumer Daily; Shopifreaks; PYMNTS; Marketplace; 24/7 Wall St. Comments are paraphrased.

7.0 The Holiday Season

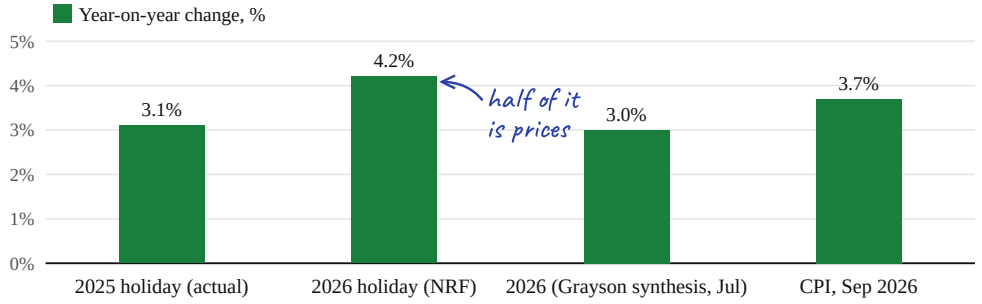
A trillion dollars, half of it price

NRF missed last year

NRF forecasts November and December sales of $1.013 trillion, up 4.2% from $972 billion, the fastest pace since 2021 and the first season above a trillion. Its chief economist, Mark Mathews, said nearly half of that growth should be real and the rest price, with diesel and memory-chip costs pushing up categories such as electronics. Holiday sales account for about 19% of annual retail sales. NRF's record is a caution: last year it forecast 3.7% to 4.2% and sales grew 3.1%. A synthesis of industry outlooks published in July by The Grayson Company pointed to 2.5% to 3.5%. NRF also expects muted seasonal hiring, which it links to fuel prices, inflation, rates and consumer debt.

~$1.0T

Exhibit 8. Holiday sales growth vs inflation (%)



4.2 vs 3.7

Sources: National Retail Federation, 15 Oct 2026; The Grayson Company, July 2026 (midpoint of 2.5-3.5%); BLS, 14 Oct 2026. Holiday sales exclude autos, gasoline stations and restaurants.

7.5 The Fed's Dilemma

Hold now, hike later?

~3.8%

The Federal Reserve kept the federal funds range at 3.75% to 4% on 28 October in a 10-2 vote, with Cleveland Fed President Beth Hammack and Governor Lisa Cook voting for a 25 basis-point hike. The statement repeated that inflation remains elevated and that more information will help determine the policy stance; Chair Kevin Warsh declined to give forward guidance and called the coming weeks data-rich. The next decision, with new projections, is on 9 December. For households this means borrowing costs stay high into the holidays: mortgage rates are close to ~7% and card rates are near records. A weak October jobs report on 6 November would strengthen the case for waiting; a hot CPI print would do the opposite.

10-2, 2 for a hike

8.0 Scenarios

Into the new year

Exhibit C. Andra Markets scenarios for US consumption to Q1 2027

Scenario	Conditions	Consumer outcome	Signals
Muddle through	gasoline stays near $4, hiring slow but positive	holiday ~3-4% nominal; K-shape persists	payrolls 50-100k; Michigan ~45-50
Relief	oil eases on Gulf de-escalation	sentiment rebounds; real wages turn positive	gasoline below $3.75
Squeeze	new oil spike plus Fed hike, payrolls turn negative	spending falls in real terms; delinquencies rise	negative payrolls; card flow rate up

Andra Markets scenarios; judgemental.

9.0 What We Are Watching

Dates and indicators

Exhibit D. Calendar

Date	Event	Why it matters
6 November	October jobs report	whether hiring turns negative
Mid-November	October CPI and retail sales	first read of the season
Mid-November	Michigan preliminary November	sentiment and expectations
27 November	Black Friday	first hard test of NRF's forecast
9 December	Fed decision with projections	two officials already voted for a hike
Daily	AAA gasoline prices	the most direct pressure on budgets

Andra Markets selection; jobs date per Trading Economics calendar; other dates indicative.

reading: consumers feel the squeeze but keep spending. gasoline and jobs decide the season

Methodology and Source Notes

Method. This report uses survey data from the University of Michigan and the Conference Board, labour and price data from the BLS, household credit data from the New York Fed, retail forecasts from the National Retail Federation and company commentary from earnings calls, as reported by the press up to 29 October 2026. Real wage growth is a simple difference between wage and price inflation. Scenarios are judgemental. Handwritten notes and highlights are informal commentary by the desk. This note is analysis, not investment advice.

Principal sources. University of Michigan Surveys of Consumers; The Conference Board; BLS; New York Fed; National Retail Federation; The Grayson Company; AAA; TheStreet; Bloomberg; Reuters; CNBC; Yahoo Finance; Trading Economics; Kalkine; eMarketer; Retail Dive; The Consumer Daily; PYMNTS; Marketplace; DeFi Rate; Andra Markets 2026-66.

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