Economic Currents

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board

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A note from our Chief Economist

Welcome to the inaugural issue of Economic Currents, Board's new quarterly perspective for leaders in retail, consumer packaged goods, and manufacturing.

We built this newsletter around a simple premise: the headlines about the U.S. consumer and the underlying data often tell two different stories, and the gap between them is exactly where planning mistakes get made. This quarter is a clean example. Consumer sentiment has softened again, this time compounded by the U.S.-Iran conflict and the energy-price and geopolitical uncertainty that comes with it. But our State of the Consumer Index, which weights hard data on jobs, household finances, and spending far more heavily than survey sentiment, remains well above its long-run average. Households, on the whole, are in better shape than they feel.

That does not mean the quarter is uneventful. Two threads run through this report that I'd encourage every planning team to sit with. First, the labor market is still the load-bearing wall under consumer spending, but the cracks — rising layoff exposure, thinning savings buffers — are becoming visible even if they have not yet spread. Second, and more important for how you allocate marketing and inventory dollars, the resilience we're describing is not evenly distributed. Higher-income households are carrying this outlook. Lower- and middle-income households are not.

My colleagues Boyd, Lucas, Matthew, and Maria walk through the data behind both threads below. I'll come back at the end with what I think it means for how you plan the second half of the year.

Michelle Green - *Chief Economist*

Consumer Resilience Persists as New Headwinds Emerge from the U.S.-Iran Conflict

Consumer fundamentals remain stronger than sentiment indicators suggest

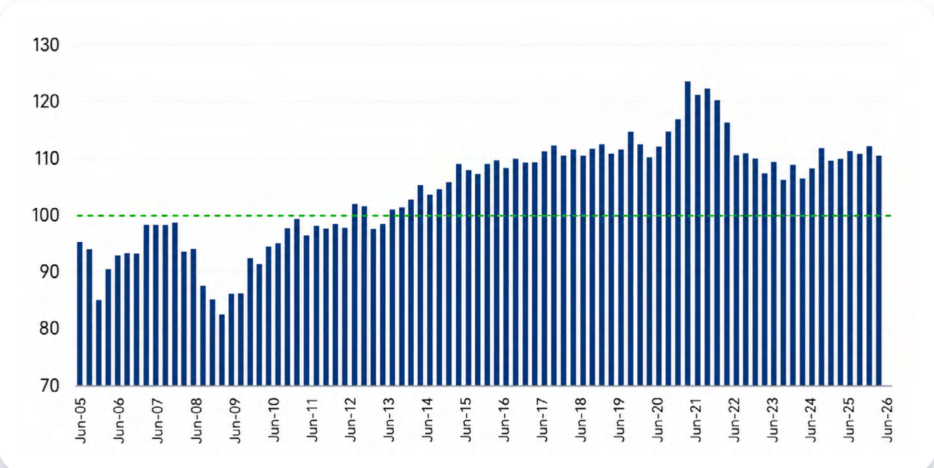
Geopolitical uncertainty is increasingly influencing consumer attitudes and behavior

Support from credit availability and household savings is gradually diminishing

Board's State of the Consumer Index, a dynamic factor composite of leading consumer indicators spanning the labor market, household finances, spending, and consumer sentiment, shows that U.S. households remain in better-than-average position. The second-quarter reading of 106 remains well above its long-run average, indicating that while consumer sentiment has weakened, underlying spending capacity remains intact.

The labor market, after years of post-pandemic expansion, continues to provide an important source of support. Nearly 7 million more individuals are employed today than before the pandemic. That said, this position of strength is balanced by some weakening in areas such as labor-market attachment, wages, and low household savings rates. Rising home prices and equity values have supported household balance sheets, offsetting some of the pressure from elevated prices and uncertainty tied to the U.S.-Iran conflict. Low-income consumers are slightly worse off than in the first quarter, but there is little evidence that overall consumer behavior is approaching a major inflection point. Although the index has softened from one quarter ago, current readings remain above the levels seen during the initial shock from the Russia-Ukraine conflict. Taken together, the data indicate that underlying consumer fundamentals remain resilient, even as sentiment has weakened significantly.

Figure 1. State of the Consumer Composite Index[1]



Source: Board

[1]The composite index is derived from a dynamic factor model estimated across leading consumer indicators covering labor, household finances, spending, and sentiment.

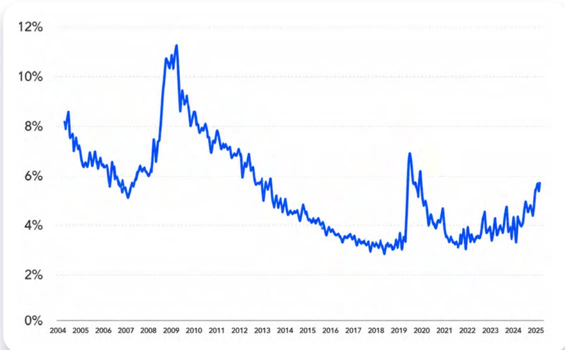
Consumers appear to be facing a mix of growing financial pressure and cautious resilience. The clearest headwinds are coming from energy-related costs, labor market concerns, and diminishing financial buffers. Approximately 27.1% of consumers report reducing dining out because of gas prices, up from 19.3% in December of 2025.

Layoff exposure is rising as well. The share of consumers reporting that someone in their family has been laid off has climbed to 5.2%, up from 4.0% three months ago and from 2.6% one year ago (Figure 3). This measure has increased 30% from the prior quarter and doubled, rising 100%, over the past year.

Figure 2. Gas Prices Impacting Dining Out, %

Source: Consumer Sentiment | Board

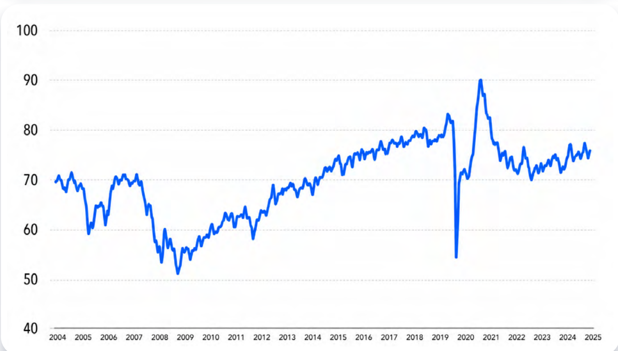
Figure 3. Someone in My Family Laid Off, Ratio



Source: Consumer Sentiment | Board

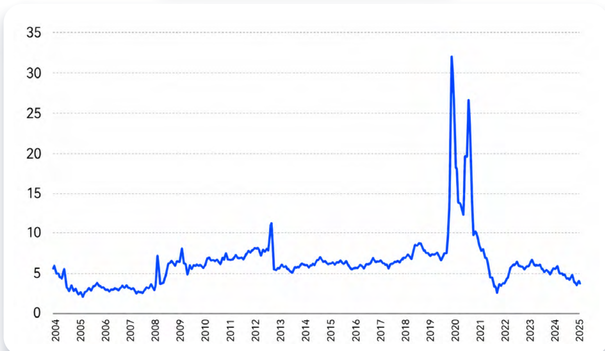
Consumers are also saving a smaller share of their income than they were one year ago. The personal saving rate currently stands at 3.25%, essentially unchanged from 3.20% three months ago but down from 4.60% one year ago, a decline of approximately 29% year-over-year. Together, these trends point to households becoming more sensitive to financial pressures while maintaining smaller savings cushions.

Figure 4. Consumer Sentiment - Discretionary Spending, Score



Source: Consumer Sentiment | Board

Figure 5. Personal Savings, %



Source: Bureau of Economic Analysis | Board

Despite these emerging pressures, consumers remain willing to spend. Consumer sentiment toward discretionary purchases remains relatively strong, indicating that households are becoming more selective rather than broadly retrenching. This distinction matters for retailers and CPG companies: demand is slowing at the margin but not collapsing.

Overall, the data suggest that willingness to spend remains a tailwind for consumption, but rising layoff concerns, increased sensitivity to gas prices, and a lower saving rate are emerging headwinds that could weigh on spending activity going forward.

Figure 6. Consumer Headwinds & Tailwinds[1]

		Quarterly Growth Rates			Yearly Growth Rates		
		Current	One Quarter Ago	One Year Ago	Current	One Quarter Ago	One Year Ago
Headwinds	Unemployment Rate	1.0%	-2.3%	1.6%	4.2%	4.8%	5.9%
	I am concerned about being Laid Off	5.3%	2.9%	3.7%	28.3%	26.4%	11.8%
	Plan to Decrease Spending	3.1%	0.5%	-1.8%	-7.1%	-11.6%	-3.2%
	Someone in the Family Laid Off	25.5%	-4.7%	12.4%	54.9%	38.7%	-2.8%
	Gas prices Impacting Dining Out	28.8%	1.9%	-4.8%	21.7%	-10.1%	-17.9%
Tailwinds	Discretionary Consumer Spending	-2.9%	2.4%	-0.7%	4.1%	6.5%	-0.8%
	Consumer Spending Staples	-1.2%	0.0%	-1.2%	2.0%	2.0%	-2.7%
	Personal Savings	-19.9%	-1.8%	-2.6%	-40.8%	-27.9%	-13.3%
	Consumer Credit	0.5%	1.7%	0.9%	2.3%	2.8%	0.4%

Source: Board

[1] The top tailwinds and headwinds are selected based on their contribution to the first dynamic factor.

Demographic Analysis

The demographic data reveal the most important trend in today's consumer environment: growing divergence across income groups. Low- and middle-income households continue to experience the largest declines in sentiment, reflecting greater exposure to affordability pressures and higher living costs.

These declines are more pronounced than those among higher-income households. For households earning $100,000 to $125,000, sentiment was down only 1.4% year-over-year in Q1 2026, suggesting that financial strain remains concentrated among consumers with less capacity to absorb higher living costs. While the broader consumer backdrop remains resilient, the income-level breakdown shows that affordability pressures, elevated prices, and limited financial buffers are weighing more heavily on lower- and middle-income households.

Figure 7. Real Consumer Spending & Inflation by Demographics

	Income			Race				Education		Age		Geography
	Bottom 40%	40% - 80%	Top 20%	Black	Hispanic	AAPI	White	No college	College	25 - 54 years	> 54 years	Rural
Inflation	3.9	3.8	3.8	3.4	4.1	3.9	4.6	4.1	3.4	3.6	3.8	4.1
FoodBev Spending	-3.1	-1.6	1.0	-4.1	-0.5	0.0	0.9	1.0	-2.5	-2.1	-1.1	-1.4
Retail Spending	-2.3	-1.2	0.1	-2.2	-0.6	-0.7	-1.1	0.3	-1.0	-1.3	0.0	-3.1
Gas Spending	-6.1	-6.7	-0.4	-4.0	-6.0	-3.2	-5.5	-1.5	-0.1	-3.4	-6.3	-10.2

Source: Board

With the added pinch from inflation, many groups are pulling back on spending. Real spending on gasoline for the bottom 80% of income earners fell over 6% from one year ago, compared to only a 0.4% drop from the highest 20% of earners. The pinch from higher gas prices and inflation is disproportionately affecting lower-income groups' spending on retail, food, and beverages. In the food and beverage category, only the top 20% are increasing spending in real terms; spending on food and beverage for the middle- and low-income groups is down 1.6% and 3.1% year-over-year, respectively.

What this means for your business

In the first half of the year, my advice to retail and CPG leaders hasn't changed in direction, but it has changed in urgency.

Plan for growth, not for a downturn — but plan for less of it.

Nothing in this quarter's data supports pulling forward a recession scenario. It does support trimming your growth assumptions at the margin and building more scenario flexibility into inventory and staffing plans than you needed a year ago, particularly around energy prices and any escalation tied to the Iran conflict.

Segment harder than you have been.

The single most actionable finding in this report is the widening gap between income cohorts. If your merchandising, pricing, and promotional calendars are still built around a single "average" consumer, you are increasingly planning for someone who doesn't exist. Higher-income households are still trading up in categories like travel and discretionary services; lower- and middle-income households are trading down, consolidating trips, and pulling back on dining out and food and beverage spending in real terms. Treat these as two different demand curves, not one curve with noise around it.

Lead with value, not just price.

Promotional intensity works best right now when it's targeted at the households actually under pressure, rather than blanket discounting that erodes margin on customers who don't need it.

Watch the labor market like a hawk, not a rearview mirror.

Employment remains the best predictor of spending in this data set, and it's also the indicator most exposed to geopolitical and energy shocks. A meaningful move in layoff rates or hours worked would be the clearest signal that the "resilient but uneven" story is shifting to something more concerning.

Build in optionality.

Energy prices and the Iran conflict are the two wildcards that could move this outlook in either direction within a single quarter. Inventory commitments, promotional calendars, and staffing plans should have contingency built in, not just contingency budgeted.

What we're watching next quarter: the pace of layoff-exposure growth, the trajectory of the personal saving rate, and whether the current bifurcation between income groups widens or begins to narrow. We'll update you in our Q4 edition — and as always, my team and I are glad to walk your leadership through what this means for your specific category and footprint.

Michelle Green - *Chief Economist*

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