

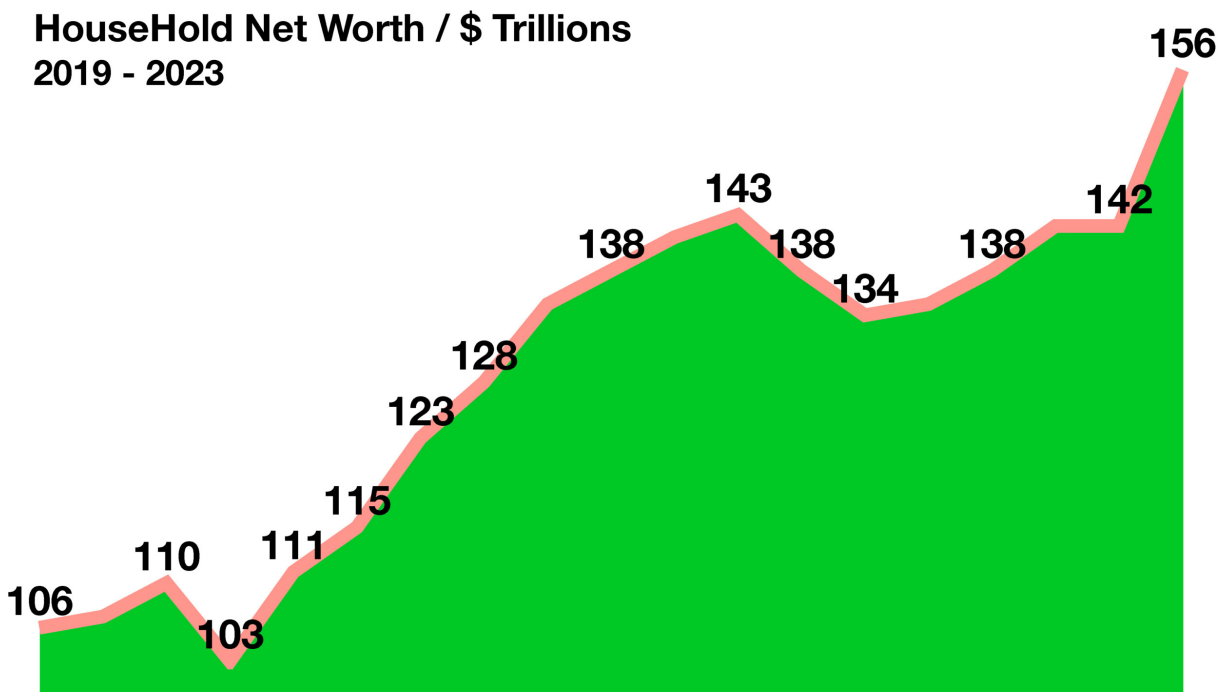
## It's The Wealth Effect That Keeps Everyone Spending - Consumer Economics

Even as inflation and higher rates have been an ongoing hinderance, consumers remain resilient and continue to spend. The reasoning behind the confidence and tenacity of consumers is believed to be what is known as wealth effect, which is the change in spending that accompanies a change in perceived wealth.

An increase in the wealth effect has been a result of the increase in real estate and equity values, which has created a sense of wealth thus prompting consumers to spend more. Real estate and equities have pushed the level of household net worth up an astonishing \$11.6 trillion over the past year, encouraging consumers to spend more out of current income. Some analysts and economist relate this scenario to what occurred in the late 1990s.

Economists view wealth effect as more of a psychological phenomenon where an increase in home and stock values are perceived as a justification to spend more as though it was an increase in income. In actuality, the increase in asset values may not be sustainable and may even result in a devaluation, erasing confidence and spending motivation for consumers.

Source: Federal Reserve Bank of St. Louis



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