

# Are stock market valuations fuelling US consumption?

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*In 2025, consumption in the United States proved to be unexpectedly resilient against a backdrop of inflation and uncertainty. This dynamic was partly due to the increase in the prices of financial assets and their weight in household savings. While this unique situation may have contributed to the divergence between the United States and the euro area, it leaves US households exposed to a market correction.*

## **Why take an interest in consumption in the United States?**

As household consumption accounts for nearly 70% of US GDP, it is a key driver of global growth. Its dynamic has implications that reach beyond the United States, particularly for demand directed at Europe, and thus indirectly for the monetary policy stance in the euro area.

However, the macroeconomic environment in 2025 was impacted by several factors that should have affected US consumers: a historic rise in protectionism ([Berthou et al 2025](#)), significant uncertainties surrounding the Trump administration's economic policies, and high inflation. Nonetheless, despite these factors, consumption rose by 2.1% in 2025. So, is this situation built on robust fundamentals or is it due to more fragile mechanisms, notably linked to financial asset valuations?

To answer these questions, we need to analyse the determinants of US household consumption. Labour income and transfers (social benefits) are the main determinants, and they could have played a major role in the dynamic growth in US consumption with the recovery in economic activity and the provision of government support, particularly following the Covid crisis. Beyond income, low unemployment, stable credit conditions and savings accumulated during the Covid period could have cushioned the loss of purchasing power associated with inflation. However, these factors alone cannot fully explain the observed resilience.

Indeed, the recent period has also seen an exceptional rise in financial asset prices: from the beginning of 2023 to the end of 2025, the S&P 500 index soared by around 80% (see Chart 1). This dynamic has led to a significant growth in the net wealth of households, particularly for those with a substantial proportion of their assets invested – either directly or indirectly via pension funds – in stocks. This increased financial wealth has boosted consumption through several channels. First, it increases the resources that households perceive as available in the long term, even if they are not directly available now, which encourages them to consume more. Second, it improves their access to credit (through enhanced solvency) and reduces the need for

precautionary savings. Therefore, it is impossible to understand the recent trends in consumption without taking this close interaction between the financial markets and the real economy into account.

**Chart 1: S&P 500 stock market valuation**



*Source: London Stock Exchange Group (LSEG) Datastream. Most recent value: 31 December 2025.*

*Note: The index is shown as a percentage change relative to 1 January 2025.*

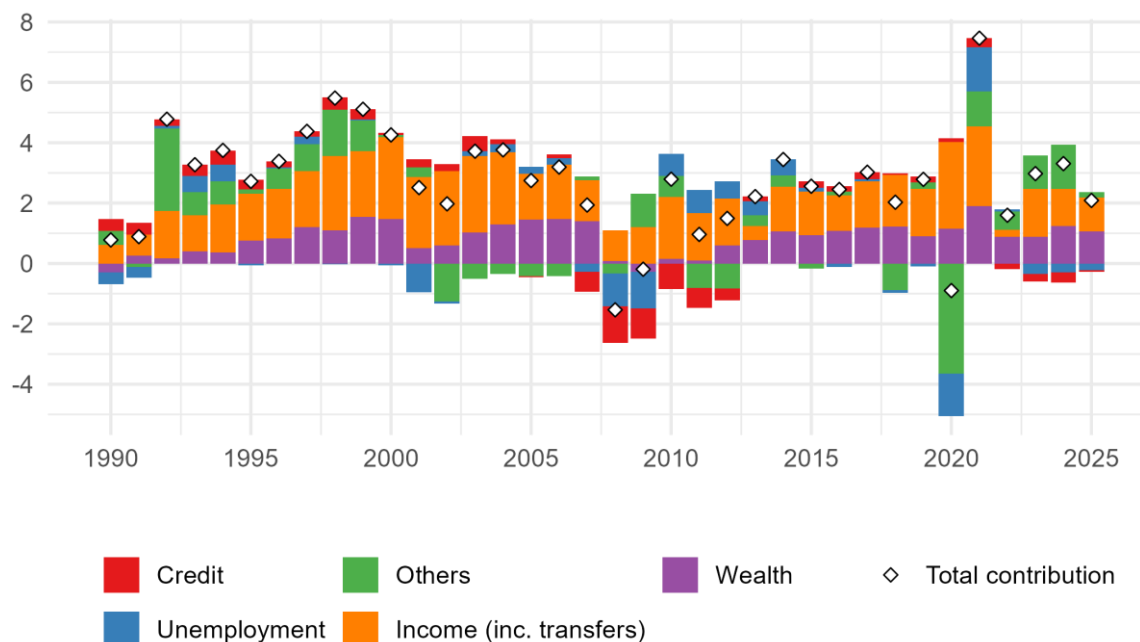
## **The increasing influence of wealth effects: a source of both dynamism and vulnerability**

To assess the role of each of these factors, we estimate a consumption equation using an Error Correction Model (ECM). The model links quarterly growth in real consumption to its short-term determinants: the growth in (i) gross disposable income excluding transfers; (ii) transfers; (iii) household credit; (iv) the market valuation of the S&P 500; and (v) changes in the unemployment rate. In contrast to other estimates, we find no significant short-term wealth effect for real estate prices when controlling for growth in credit. The model also incorporates a pull-back mechanism to correct any deviation from the long-term relationship between consumption, income and wealth. In this long-term equilibrium, we make a distinction between the wealth held by the bottom 80% of households by income and the wealth of the richest 20%. This distinction allows us to account for the heterogeneity in marginal propensities to consume ([Beach et al. 2025](#)). We estimate the model at a quarterly frequency for 1990 to 2019.

The model enables us to break down the role of each of these factors (see Chart 2). Income emerges as a significant and relatively stable source of growth throughout the period. Household wealth is also significant, but more volatile. In addition to these two principal factors, unemployment and credit also make particularly significant contributions during periods of crisis (notably during the 2008 financial crisis and

Covid). While the post-Covid catch-up had fuelled consumption growth since 2021, its role diminished in 2025. Thus, in 2025, rising household wealth is estimated to have accounted for around half of consumption growth.

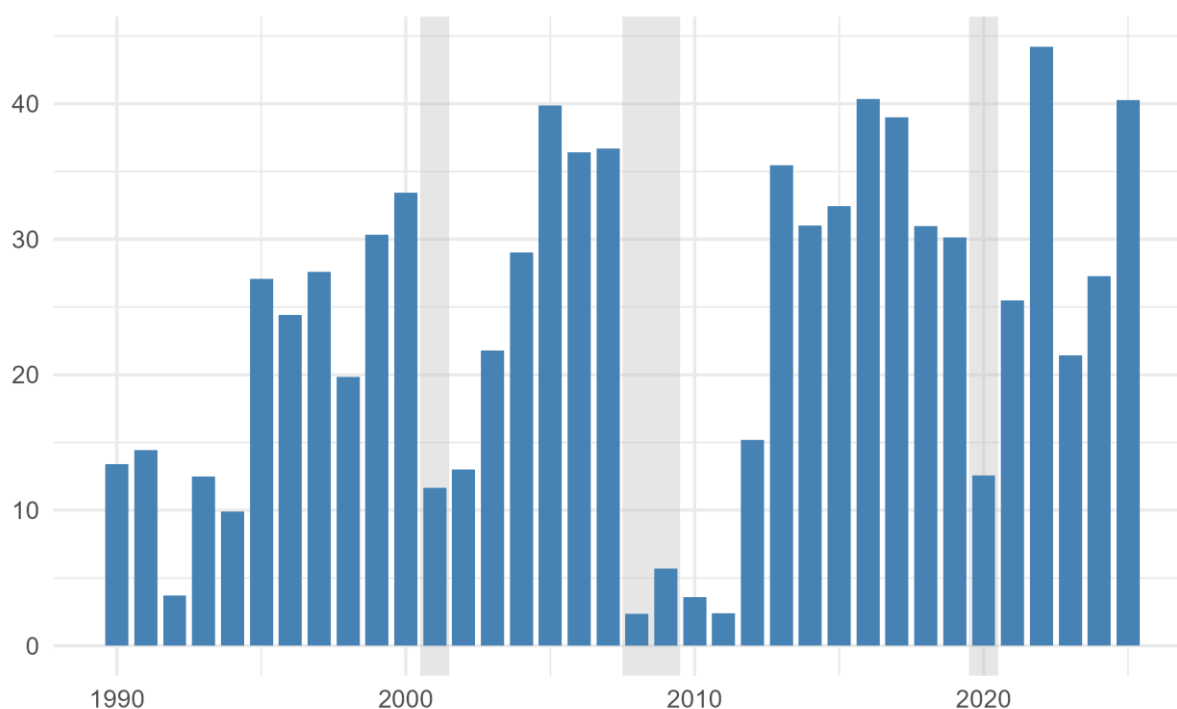
**Chart 2: Contribution of determinants to US consumption growth (%)**



Sources: *Financial Accounts of the United States, US Bureau of Labour Statistics, US Bureau of Economic Analysis, Distributional Financial Accounts, LSEG Datastream.*  
 Note: Banque de France calculations. "Others" refers to residuals and initial conditions.  
 Growth is expressed as an annualised quarterly average.

Based on this equation, our estimate of the contribution of wealth effects to consumption growth for 2025 is close to that observed just prior to the 2008 financial crisis, and fits into a more long-term upward trend (see Chart 3). The influence of wealth effects has increased since the beginning of the 1990s, reflecting greater asset price volatility as well as the financialisation of household assets ([Gaudio 2025](#)). Aggregate consumption is thus becoming increasingly sensitive to financial market fluctuations. While this mechanism has supported economic activity in the short term, it also represents a source of vulnerability. A sharp reversal in stock market valuations could quickly weigh on consumption, and be amplified by a contraction in credit and a deterioration in household confidence. Thus, the vigorous consumption seen in the United States today reflects an increasing correlation with financial cycles, and is therefore not without risks.

**Chart 3: Indicator of the contribution of the wealth effect to changes in consumption (%)**



*Sources: Financial Accounts of the United States, US Bureau of Labour Statistics, US Bureau of Economic Analysis, Distributional Financial Accounts, LSEG Datastream.*

*Note: The indicator is the ratio of the wealth effect to total contributions, in absolute terms, expressed in percent. The shaded areas indicate recessions as defined by the National Bureau of Economic Research.*

The situation in the United States stands in sharp contrast to the euro area, and France in particular: the link between the price of financial assets and consumption is weaker in France, where household wealth is, on average, less exposed to stock markets, while real estate and bank deposits play a more central role. For example, shares accounted for nearly 40% of gross household wealth in the United States in 2025 (see [Federal Reserve](#)), compared with only 15% in France (see [Trésor-Eco No. 378](#)). Furthermore, stock-based wealth in France is more generally unlisted (largely comprising professional assets), and is therefore less sensitive to stock market fluctuations. This difference in the structure of wealth has an influence on monetary policy transmission. In the United States, rising interest rates rapidly affect financial valuations, with direct impacts on consumption. In the euro area, the transmission is more indirect, primarily through credit and disposable income. This contributes to subdued consumption at present, while also making it potentially less volatile.