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High prices, thin buffers: America's affordability crisis persists

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In Summary

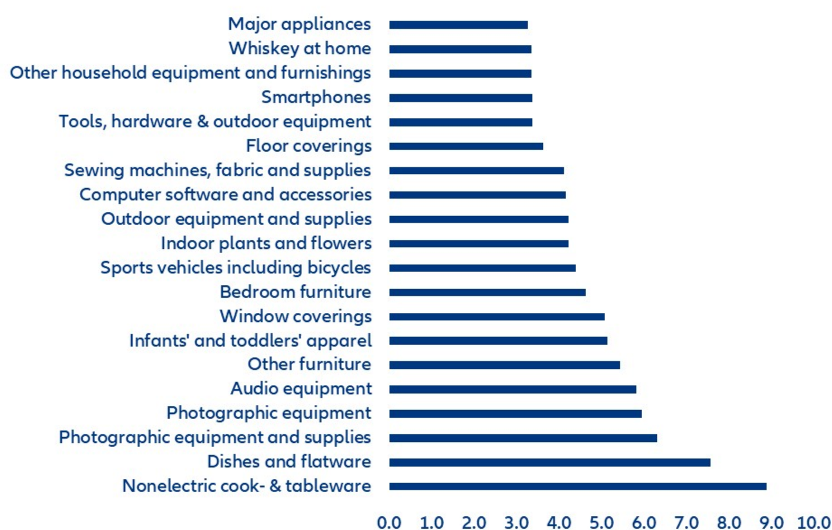
- **Despite signs of easing in services components, including rentals, US inflation has remained sticky, and low-income households in particular are feeling the pinch.** Headline prices have increased by +29% since January 2019, with a persistent +3pps inflation gap between low- and high-income households. The key issue is essentials such as housing (+34%), food (+34%) and electricity (+41%), which represent 64% of spending for low-income households vs 58% for high-income households. Roughly one in three low-income households spends about 95% of income on basic needs.
- **Only one-third of expected tariff-driven inflation is visible so far, set to add +1pp by Q1 2027. From a sector perspective, resilience masks fragility: retail spending is holding up, but food and healthcare are intensifying the distributional hit.** Goods CPI increased from -0.1% y/y (Jan 2025) to +1.4% y/y (Dec 2025), with tariffs adding about +0.3pp to headline inflation by end-2025 as mitigation strategies from exporting and importing firms were at play. But the peak impact of +1pp is still to come, expected in Q1 2027. The resilience of the domestic consumption (+4% in value last year) hides imbalances, notably across spending items (healthcare, apparel & food services preferred over electronics, footwear and home furnishing goods). We expect retail sales in volume to grow modestly this year at around +1% (and by +4% in value) as retailers are more likely to pass on more of the rise in tariffs to the final consumer. Meanwhile, healthcare services inflation has been around 3% since May 2024. Americans pay the most for healthcare services worldwide by far. Finally, absent improved affordability and travel sentiment, the US risks ceding global tourism market share as inbound visits are projected to fall by 6–8% in 2025, with major events offering only temporary relief.
- **The inflation burden is set to fall disproportionately on a highly K-shaped economy where leveraged middle-income households face shrinking real disposable incomes and lower wealth distribution effects.** Wealth and buffers are concentrated in the US: The top 1% of households own 31% of wealth and the bottom 50% just 2.5%. In addition, non-housing household debt has risen to about USD5trn, leaving lower- and middle-income households far more sensitive to inflation and rate dynamics. On the income side, real wages have risen by +6.6% since 2019 for the bottom quintile but only +2.6% for the middle class, highlighting a post-pandemic wage divide. What is more striking is that after taxes and transfers, middle-income households have seen real disposable income fall by up to -0.5% since 2019, while top earners gained nearly +2%, underscoring a tax-driven squeeze on the middle class. In this context, the US administration's measures to improve affordability are unlikely to effectively address the root causes of the crisis: Supply-side measures address the root problem but take time to materialize, while mortgage interventions can support demand faster but risk sustaining prices in a tight market. Credit-card rate caps may ease borrowing costs for some households but could also restrict credit access, especially for riskier borrowers. Taken together, this suggests that policy may shift how affordability pressures are distributed rather than decisively reducing them.

The inflation problem: tariffs, healthcare and food prices are straining households

The US affordability crisis is becoming a central focus ahead of the upcoming midterm elections. Since 2022, the US has been grappling with elevated inflation, which has increasingly strained households' sentiment, as evidenced by surveys like those from the Conference Board, which dipped to its lowest level since 2021 in January. Import tariffs have played a significant role in sustaining these price pressures, leading to public discontent. As the mid-term elections approach in November, the affordability crisis has become a prominent theme in political discourse. In response, President Trump has recently unveiled a series of measures aimed at tackling this issue, including capping interest rates on credit cards and implementing strategies to reduce mortgage costs (mortgage rates above 7%, from 3% in 2022) and bring down housing and drugs prices.

Sharp tariff hikes (from 2.5% in 2024 to 11% end-2025) have added to inflation pressure. US tariffs implemented from the start of 2025 – initially targeting China, Mexico and Canada, followed by ''Liberation Day'' and sectoral tariffs – are visibly being passed through to US consumer prices. Overall, the goods CPI index (most exposed to tariffs as services were not targeted) increased from -0.1% year-on-year (y/y) in January 2025 to +1.4% in December 2025. Non-electric cookware & tableware, dishes and flatware and photographic equipment have seen the fastest price increases. As of December 2025, we estimate that only about half of the additional tariff costs has been passed through onto consumer prices, pushing the tariff contribution to US headline inflation from 0pp to +0.3pp. This means the peak impact is still looming, likely in Q1 2027 (+1pp).

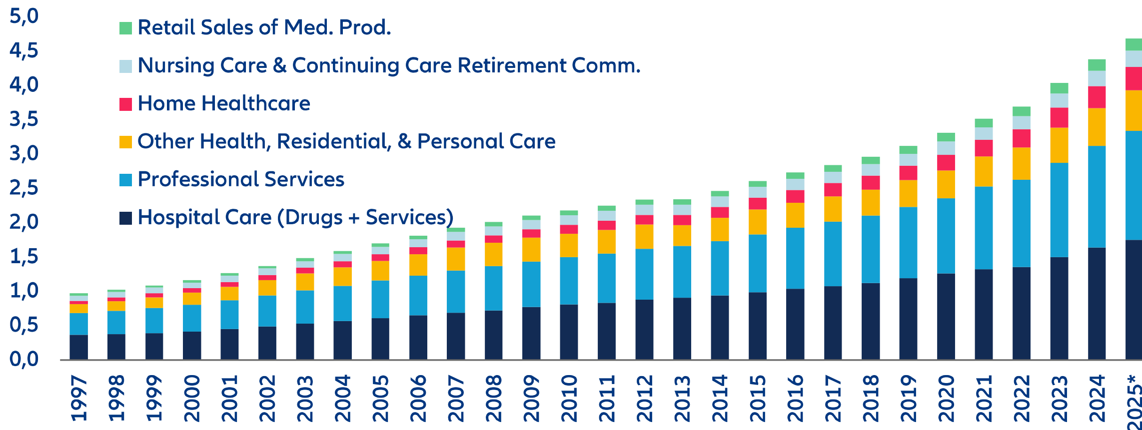
Figure 1: Top 20 goods with the fastest price increases in the CPI basket



Sources : Bureau of Labor Statistics, Allianz Research
Note: We look at the December y/y figure relative to the average of 2025 to assess the momentum of each category. Therefore some categories may exeprience low inflation, or even deflation, but increasingly less so (eg. smartphones).

Healthcare costs are also tightening America's wallet. US healthcare costs have grown exponentially over the past decades, rising from 5% of GDP in 1963 to 18% in 2024 (see Figure 2), of which 47% and 53% were paid by the public and private sectors, respectively in 2024. Last year, US NHE are estimated to reach USD5.7trn (+7% y/y), which translates into an estimated spending of around USD16,000 per capita, rising faster than inflation and GDP. This points to a structurally expensive system in need of reform: Americans pay the most for healthcare services worldwide by far.

Figure 2: US National Health Expenditures (NHE), biggest components, in USD trillion

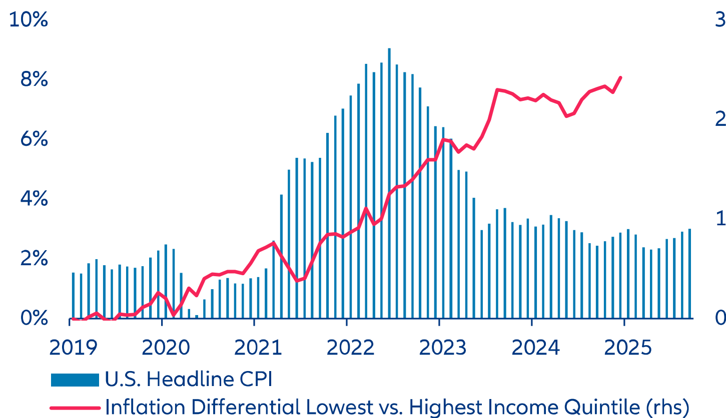


Source: Bloomberg, Allianz Research. 2025 data is not official

The affordability crisis has uneven effects across households

The recent inflation surge has been a key driver of the US affordability crisis and has had markedly uneven effects across households. Although headline inflation rates have recently moderated, price levels remain elevated relative to pre-pandemic norms, with a 29% cumulative increase in headline consumer prices since January 2019. Since headline inflation began to rise in 2021, lower-income households have consistently faced higher effective inflation than higher-income groups. As shown in Figure 3, this has resulted in a measurable inflation gap of roughly 3pps between the bottom and top of the income distribution since 2019. Hence, affordability will only improve if prices fall or incomes durably outpace the higher cost base – neither of which has broadly occurred for most households.

Figure 3: US inflation 2019–2025 and cumulative inflation gap between high- and low-income households



Sources : Bureau of Labor Statistics (BLS), Allianz Research

The inflation gap largely reflects differences in consumption patterns. Lower-income households experienced higher effective inflation than higher-income groups because essentials account for 64% of their consumption basket compared to 58% for higher-income households. These essentials have recorded some of the strongest price increases since 2019: Housing prices have jumped +34%, food +34% and electricity +41%. Food prices alone increased +3.1% y/y in December 2025, fueled by meat, dairy and grocery costs. Grocery prices in the US are more than 30% higher today than they were before the pandemic, and roughly one in three low-income households

spends close to 95% of income on basic needs. As essentials dominate their budgets, lower-income households experience inflation more directly and have limited room to adjust consumption when prices rise, resulting in a tangible cost-of-living squeeze.

Higher-income households are comparatively insulated as food costs represent a smaller share of total spending. They allocate a larger share to discretionary items and services (16% versus 12%), where price dynamics have been more moderate and substitution was more feasible. Wage growth in professional sectors has also generally outpaced headline food inflation. However, specific high-volatility items (e.g. premium cuts of meat, higher-end dining) can still see sharp price swings that influence demand patterns within segments of affluent consumers.

Wage income has been more dynamic for lower-income households… We look at real wage dynamics across income groups to gauge whether labor income – which forms the bulk of total disposable income for low- and medium-income households – has kept up with rising prices. We adjust nominal wages by the corresponding inflation rates for each income quintile. We find that real wage growth has been relatively strong for the lowest-income households since the pandemic, outpacing other groups (see Figure 5, left): They grew by +6.6% between 2019 and 2024, or from USD17,870 to USD19,050 in 2024 USD terms for a full-time worker. However, the wages of the "middle class" (3rd quintile) have struggled the most to keep pace with inflation, with real wages growing only by +2.6% (from USD36,612 to USD37,572). For the highest-income households, real wages have been moderate, rising by +3.1% (from USD91,881 to USD94,726).

…but total income, which encompasses capital income and net interest expenses, has barely grown for low-income households and the middle class. Taxes net of transfers have weighed on the middle class disproportionately. Real disposable income per household provides a broader measure than wages to assess the impact of the affordability crisis. The lowest-income households have seen their real post-tax disposable income grow by a meagre +0.4% between 2019 and 2024, to USD19,520 (Figure 5, right). Lower-middle-income households have even seen a -0.5% decline. At the other end of the spectrum, upper-middle income and the highest-income households have seen a rise of +1.2% and +1.8%, respectively. The tax and transfers system has somewhat cushioned the affordability crisis for the lowest-income households, since pre-taxes and transfers, their real disposable income shrunk by -0.4% (Table 1). However, the lower-middle class has been squeezed by higher taxes and/or lower transfers: The net tax to income ratio has increased by +0.7pp for both Q2 and Q3 brackets, pushing their post-tax income growth into negative territory for Q2, at -0.5%, and a meagre +0.2% for Q3. Conversely, net taxes as a share of income have grown much less for the two upper-income categories. This is consistent with analysis showing that tax cuts initiated in the 2017 Tax Cuts and Jobs Act have benefitted higher-income households disproportionately. Furthermore**,** these categories have recorded stronger improvements in pre-tax income, supported by capital income gains (dividends, rents, interest revenues etc.).

Table 1: Growth of wages (%), disposable income (%) and the tax/income ratio (pp) between 2019 and 2024 (all inflation-adjusted), by income quintile

	Q1	Q2	Q3	Q4	Q5
Real wage	+6.6	+3.7	+2.6	+3.1	+3.1
Pre-tax disp. income	-0.4	+0.2	+1.0	+1.6	+2.5
Post-tax disp. income	+0.4	-0.5	+0.2	+1.2	+1.8
Tax/income ratio (pp)	-0.8	+0.7	+0.7	+0.3	+0.4

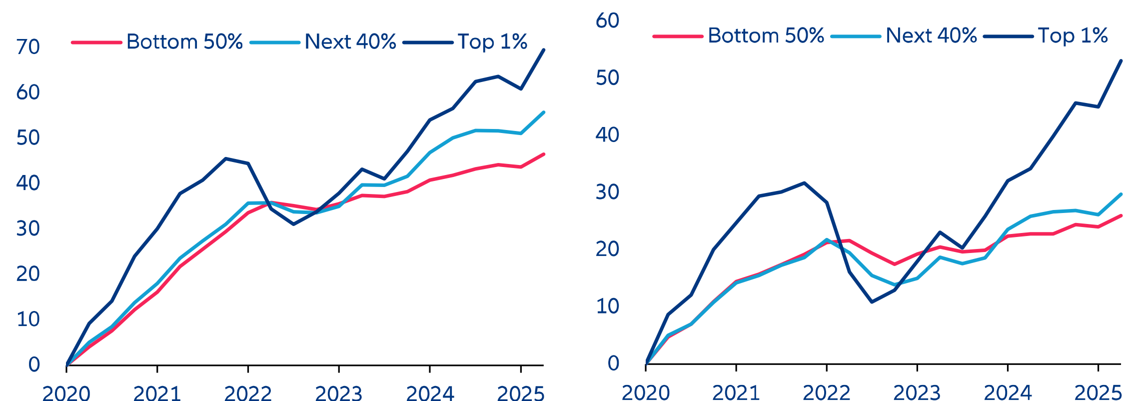
Sources: US Census Bureau, US Bureau of Labor Statistics (BLS), Allianz Research

The divergence between wage and real disposable income dynamics shows that affordability is increasingly shaped by household balance sheets. In 2025, the top 1% of households owned 31% of total US household wealth, while the bottom 50% together accounted for only 2.5%. Recent wealth developments have diverged markedly across the distribution, with wealth increases of about 70% since the pandemic for the top 1% of households compared with 47% for the bottom 50% (see Figure 6; left). This divergence becomes even more pronounced when looking at net wealth (see Figure 6; right): the bottom 50% and the next 40% of households have seen little net improvement in assets relative to liabilities since 2022, whereas the top 1% has recorded net asset growth that far

outpaces the rest. Rising asset prices have therefore strengthened the balance sheets of higher-income households while leaving others with more limited buffers behind.

Wealth supports affordability by providing capital income (interest, rents and dividends), financial buffers and access to cheaper credit, making affluent households less sensitive to inflation and interest-rate shocks. By contrast, households with little wealth rely more on labor income and costly borrowing. Households with stronger balance sheets are therefore better positioned to absorb price shocks, while those with limited assets remain more vulnerable to cost-of-living pressures and increasingly use credit to smooth consumption. This is evident in the fact that liabilities for the bottom 90% have risen almost as fast as their assets in recent years, limiting net wealth gains for most households.

Figures 4: Wealth gains (left) and growth in assets vs. liabilities (right) across the wealth distribution (in pp.)



Source: Allianz Research

As inflation has eased and interest rates have risen, the main affordability constraint for households has shifted from prices to financing conditions. Higher borrowing costs now weigh on mortgage affordability, auto loans and revolving credit, particularly for households already facing elevated essential costs and limited savings. Lower- and middle-income households rely more heavily on credit to cope with higher living expenses, pushing non-housing household debt to record levels of around USD5trn in 2025, largely driven by credit-card borrowing. By contrast, higher-income households are less dependent on consumer credit and can use leverage primarily to support asset accumulation.

Taken together, the divergence in wage dynamics and balance-sheet positions gives the US economy an increasingly K-shaped profile. Households at the top benefit from asset-price appreciation and stronger financial buffers, making them the main drivers of consumption growth. However, most lower- and middle-income households benefit less from rising asset prices but face tighter financial constraints and higher sensitivity to both prices and interest rates. This growing divergence helps explain why aggregate economic indicators can remain solid even as affordability concerns persist across a large share of households.

Measures to address the affordability crisis are likely insufficient

Measures taken to improve affordability are unlikely to effectively address the root causes of the crisis, and may even have unintended negative consequences[1]. Supply-side measures address the root problem but take time to materialize, while mortgage interventions can support demand faster but risk sustaining prices in a tight market. Credit-card rate caps may ease borrowing costs for some households but could also restrict credit access, especially for riskier borrowers. Taken together, this suggests that policy may shift how affordability pressures are distributed rather than decisively reducing them (Table 2).

[1] *For more details on housing policy effects, see our report Eyes back on the Fed (and on interventionist financial policies).*

Table 2: Selection of recently proposed affordability policies in the US

Policy	Description	Assessment
Improving mortgage affordability	The Trump administration directed government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac to purchase up to USD200bn of agency mortgage bonds to reduce mortgage rates.	Mortgage interventions offer faster transmission but risk reflating prices and skewing benefits toward incumbents. Agency MBS purchases and down-payment facilitation (e.g., 401(k)/529 access) can boost activity quickly, but are fundamentally demand-supportive in a supply-tight market, raising the risk that affordability gains show up in volumes and sentiment rather than lower price-to-income ratios.
Raising housing supply	Supply-side housing policies include converting unused federal land for housing and promoting increased construction by homebuilders to expand supply.	Supply-side initiatives are the most structurally aligned, but unlikely to deliver near-term relief. Converting unused federal land could expand long-run land availability, but practical delivery is constrained. Pressuring builders to build more is directionally constructive, yet builder margins have been squeezed by incentives and elevated costs, limiting willingness to scale without clearer visibility on achievable prices and absorption.
Restricting institutional investors' access to the housing market	President Trump proposed a ban on large institutional investors purchasing single-family homes and indicated that he would pursue legislation to codify the measure.	Institutional purchase restrictions are headline-grabbing but the impact is limited. Institutional ownership remains small relative to the overall single-family stock, and large SFR platforms have already shifted away from acquisitions toward build-to-rent. The most durable market consequence is therefore likely higher policy-risk premia.
Capping credit-card interest rates	The White House imposes a one-year cap of 10% on all credit-card interest rates.	A binding cap at that level would likely compress lenders' ability to price for credit risk, especially for subprime borrowers. As a result, credit availability could tighten, potentially pushing some consumers toward alternative and often more expensive forms of borrowing.

Source : Allianz Research

The healthcare sector has faced increased scrutiny under both Trump's administrations, with the biggest changes now coming into effect after the One Big Beautiful Bill was signed, introducing one of the most consequential policy shifts in US healthcare in decades. The legislation combines sweeping tax reforms with major structural changes to federal health programs, principally Medicaid[2], the Affordable Care Act (ACA[3]) marketplaces and to a lesser extent Medicare, with an overall intent to reduce federal spending, increase program integrity and grant states more flexibility in administering health coverage. Overall, the reforms reduce federal healthcare spending while increasing financial exposure for beneficiaries, with the largest affordability impact concentrated among low-income households. For low-income households (30%[4] of Americans), even modest increases in premiums or copayments can represent meaningful portions of income, materially reducing disposable income and further increasing financial vulnerability. This is especially acute for households near the poverty line or with chronic health conditions requiring frequent care.

[2] *Medicaid is the US public health-insurance program that provides free or low-cost coverage to low-income individuals, families, children, seniors and people with disabilities. It is jointly funded by federal and state governments, and eligibility rules and benefits vary by state.*

[3] *ACA is the US health-reform law that expands access to insurance through Marketplace plans, income-based subsidies and consumer protections such as guaranteed coverage for pre-existing conditions. It aims to reduce the uninsured rate by strengthening private insurance markets and expanding Medicaid eligibility in participating states.*

[4] *Low-income households: those earning less than USD50,000 to USD60,000 per year*

Medicaid, the primary public health insurance program for low-income Americans (covering roughly 72mn individuals), has become a central target of the administration's healthcare reform agenda. Proposed changes (see Table 3) would significantly reduce federal support for the program over the coming decade, primarily through tighter eligibility rules and lower federal matching contributions to states. Under these reforms, federal Medicaid spending is projected to decline by several hundred billion dollars over ten years, with some estimates ranging from approximately USD800bn to USD1trn. The reductions would be achieved through a combination of more frequent eligibility redeterminations (every six months rather than annually), restrictions on enrollment and structural changes to federal matching funds. In addition, the reforms would expand beneficiary cost-sharing requirements, including copayments that could reach up to USD35 per physician visit in certain cases. Taken together, these measures are expected to reduce enrollment and shift a greater share of healthcare costs onto low-income beneficiaries and state governments, with important implications for access to care and affordability among the most economically vulnerable populations.

Table 3: Changes to come in the various pillars of the American health sector

Program	Main changes	Timing	Financial impact	People affected
Medicaid	Tighter eligibility, more frequent redeterminations, reduced federal support, higher cost-sharing	Phased in over next decade	USD800bn–1trn federal spending reduction (10y); higher state and beneficiary costs	~72m enrollees, with expected enrollment declines
Medicare	Slower payment growth, adjustments to Medicare advantage, potential higher cost-sharing	Gradual, multi-year	Spending growth moderated; limited direct cuts but higher out-of-pocket for some	~65m beneficiaries
ACA (Obamacare)	Reduced subsidies, stricter eligibility checks, plan generosity changes	Near-to mid-term	Lower federal subsidies; higher premiums and cost-sharing	~23m insured, mainly low-/middle-income

Sources: Allianz Research

The bill also affects how ACA (also known as Obamacare) marketplace subsidies work. The expiration of enhanced premium tax credits that made ACA plans more affordable for millions, and the reduction in eligibility for tax credits and more restrictive enrollment mechanics, will hit the market. Indeed, ACA became a critical affordability mechanism for middle-income households during the inflationary period (2022-2023). Thus, ACA marketplace enrollment more than doubled between 2020 and 2025, rising from 11.4mn people to a record 24.3mn last year. This increase was boosted by Biden's enhanced premium subsidies introduced under the American Rescue Plan (2021) and the Inflation Reduction Act (2022). These subsidies significantly reduced out-of-pocket premiums and made Marketplace coverage more attractive across income groups. With the expiration of enhanced subsidies on 31 December 2025, ACA enrollment fell to 22.8mn for 2026, down about 1.5mn from the prior year. After the subsidies lapsed at the end of 2025, premiums jumped dramatically for 2026 enrollment.

Beyond affordability, the insurance market will also feel the impacts. Between 8-16mn Americans could become uninsured by the early 2030s as a direct result of Medicaid and marketplace reforms. An increase in the uninsured population reduces preventive care use, increases delayed treatment and shifts costs onto hospitals and providers who must provide emergency care under federal law. This can destabilize insurance markets, particularly if healthier individuals forgo coverage because of higher premiums.

Finally, higher food prices are not necessarily a benefit for the agrifood sector, where inflationary dynamics increase cost pressures. Farm input expenditures remained historically elevated in 2025, with total production costs near record levels despite a modest nominal rise of below 1% versus 2024, and real cost pressures still biting on margins. High input costs – including feed, fertilizer, energy and machinery parts – continue to weigh on operating costs even as certain categories like feed begin to ease. Elevated interest rates have also increased the cost of credit

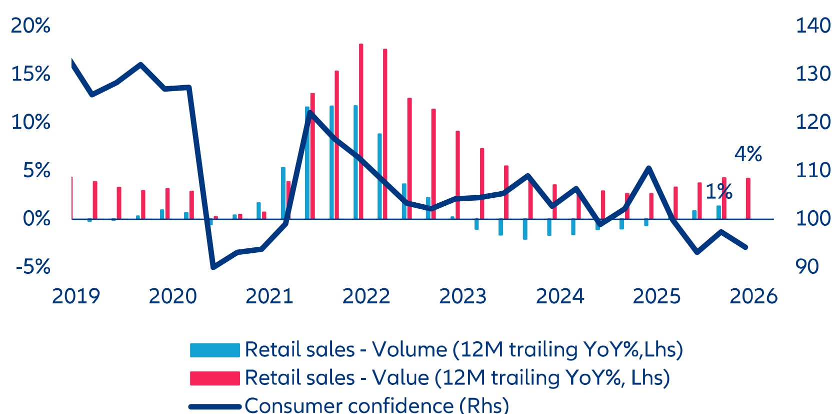
for capital investment and cash-flow management, further compressing net returns for producers and agribusinesses. Persistently sticky food components contributed to the cautious Fed stance. Fed policy indirectly affects the agrifood sector by influencing borrowing costs, commodity price expectations and exchange rates – all of which feed into input costs and export competitiveness.

Sector arbitrage under affordability strain

The affordability squeeze is having a diverse effect on sectors as consumers choose between essential and non-essential goods, premium and non-premium goods and even health and leisure spending. This trend is likely to continue in 2026 against the backdrop of rapid changes in the US economy. Companies are battling inflated production costs due to higher tariffs, alongside a shrinking welfare state, the volatility of credit rates and geopolitical risks. In this context, each sector has to find the right balance to secure market share (volume/revenue) without writing off earnings (value/margin).

Despite tariff concerns, consumer spending proved resilient last year, up +1% in volume (as of Q3) and +4% in value (as of November) even as confidence weakened amid trade volatility. Early-2025 purchases were abnormally front-loaded ahead of tariff announcements (roughly +2% in volume and +5% in value), enhancing Q1 activity; momentum cooled after that but did not collapse, helped by the announcement of major trade deals with Europe, Japan, South Korea and China. Macro tailwinds (i.e. job-market strength, easing inflation mid-year and low interest costs relative to recent history) also supported spending. Yet sentiment has since deteriorated to multi-year lows, and higher inflation expectations amid labor-market worries cloud the outlook. The recent resilience has not eliminated risk down the road.

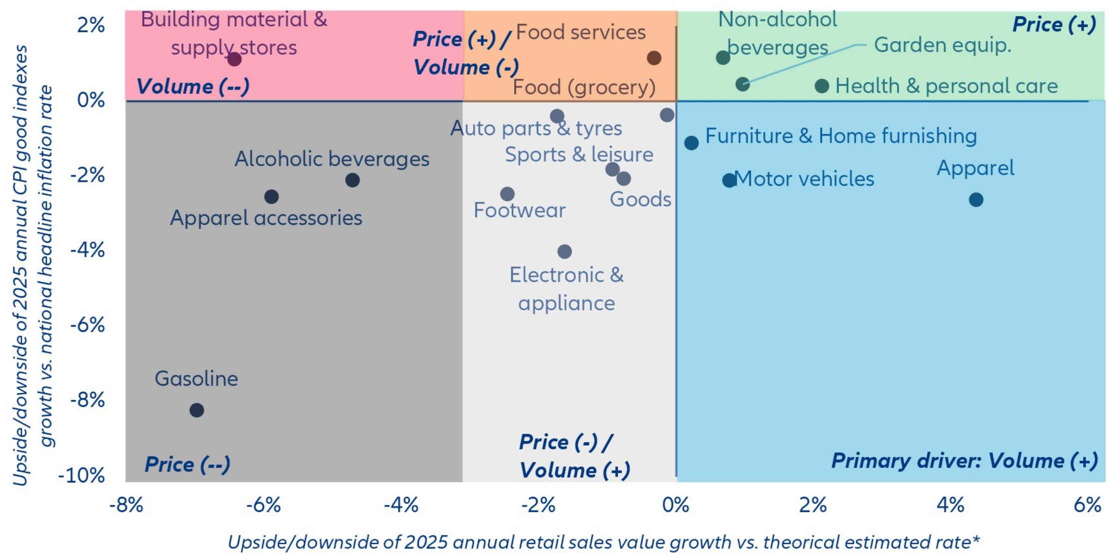
Figure 5: 12-month trailing growth of retail sales (in volume and value) vs. consumer confidence index



Sources : US Census bureau, OECD, Conference Board, Allianz Research

Tariffs have not been the single driver of retail performance: heterogeneous profile among goods. In 2025 the heterogeneous performance across US retail sales reflected differing dynamics between price and volume drivers across goods categories, with many segments lagging behind the broader benchmark. Data show gasoline sales falling sharply – driven by lower pump prices and a shift toward hybrid/EV vehicles – while consumer electronics and appliances saw weak demand and price pressure as buyers delayed upgrades amid mixed innovation signals (no killer products amid new AI-labeled generation). Official US retail figures underscore these mixed trends, with gasoline stations and electronics & appliance categories underperforming compared with stronger areas such as health & personal care and autos. Apparel, accessories and footwear underperformed as well, notably the luxury category, where consumers are increasingly turning towards the second-hand market. The alcohol beverage and outwear equipment categories also saw strong sales. The uneven pricing response to tariff pressures has also played a role: some industries have refrained from passing higher costs to consumers to preserve demand, particularly in apparel and other price-sensitive categories, which has supported volume but squeezed margins. At the same time, surveys and industry reports suggest that, where tariffs and input cost pressures persist, firms may eventually need to shift costs onto consumers to protect profitability, reinforcing the divergent price/volume dynamics across sectors.

Figure 6: Upside/downside of retail sales and price growth rate in 2025 relative to theorical/national rate (sales/selling price), per product category breakdown

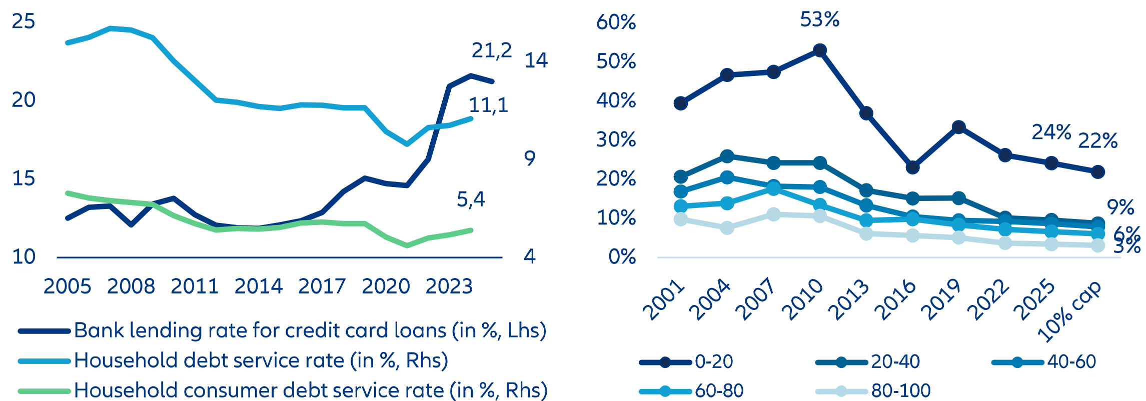


Sources : US Census bureau, Allianz Research

Price effects to drive 2026 performance of retail sales. Our outlook for the US economy sees +2.5% GDP growth in 2026, inflation near 2.5%, contained labor-market deterioration and the Fed rate cut cycle to be done by mid-2025. In this context, we forecast retail sales growth of around +4% in 2026 before it cools to +2% in 2027. Nominal growth should be mostly price-driven, with volumes still positive at around +1%. From a segment perspective, we expect outperformance in electronics (replacement cycles linked to rapid AI-driven obsolescence), personal care, food, catering and cultural and sports events, while textiles, DIY, furniture, outdoor equipment and autos will likely lag. A supportive macro backdrop should allow consumers to absorb moderate mark-ups, but with rising selectivity and sharper "value for money" arbitrage, reinforcing a K-shaped consumption pattern.

Credit card cap: no relief on consumer finance. Over the past five years, credit card debt has grown at an average annual rate of 9%, a sharp increase compared to the 6% trend observed from 2014 to 2019. Despite several central bank rate cuts, credit-card interest rates have remained stubbornly high – hovering above 20% since the inflation surge of 2022 – making borrowing increasingly expensive. This cost weighs especially heavily on low-income households, where the combined burden of principal and interest payments now exceeds a quarter of disposable income. By the end of 2025, the overall cost of servicing debt reached 11% of disposable income, with consumer-related debt alone accounting for 5%. Imposing a cap on interest rates would provide much-needed relief for American families, especially low-to-mid income segments but it could also inversely generate some unintended side effects, notably tightening credit standards and accessibility.

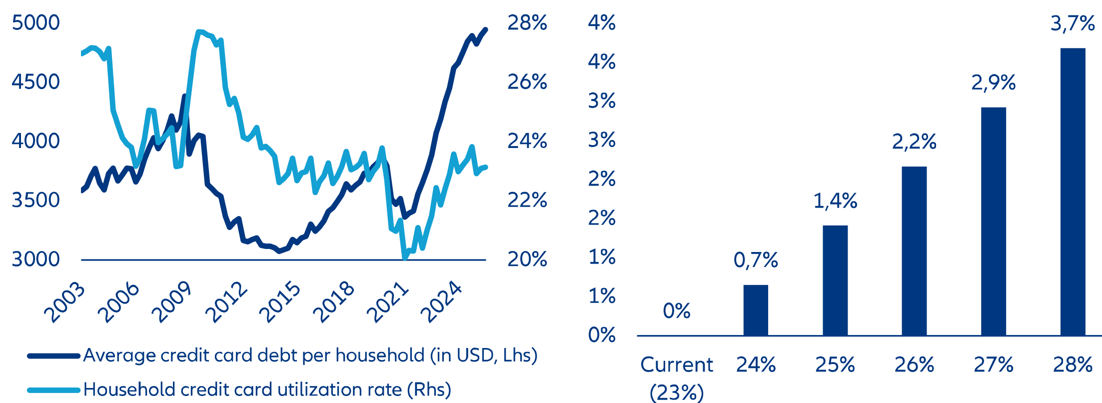
Figures 7: US commercial bank lending rate for new credit card loans vs. US household debt service rates / Weight of credit card balance and annual interest relative to annual after-tax income per quintile breakdown



Sources : Fed of New York, US Census bureau, Allianz Research

In theory, we could see up to 3-4% boost for spending in case of more effective credit line, but in practice, a credit crunch is more likely than anything else as banks are not expected to lend at a capped rate of 10%. Credit-card utilization is nearly -5pps below its 2010 peak. Households now hold almost three credit accounts on average, up from about two pre-Covid. Our estimates suggest that if utilization rises significantly (to 28% from 23% actually), retail sales excluding autos could get a 3–4% boost. However, this boost could be more than compensated by the higher transaction volumes and fee revenues by banks to offset lost interest income.

Figure 8: Credit card utilization rate vs national average individual credit balance amount / Simulation of impacts on retail sales annual growth based on credit card utilization rate



Sources : US federal reserve, US Census bureau, Allianz Research

Banks warn against opposite effects as the Goldilocks period in the market might suddenly come to an end. A binding cap could erase up to half of credit-card earnings, while households are more indebted than ever (average credit balance of around USD5,000 per adult) and delinquencies are rising, especially for low-income borrowers. A cap would push the lending-to-charge-off ratio to its lowest since 2011, forcing banks to tighten underwriting and shed riskier accounts[5]. That could end the "Goldilocks" period for bank stocks that followed higher rates in 2022–23, during which they outperformed by roughly 40% since late 2023, and could create capital-market stress.

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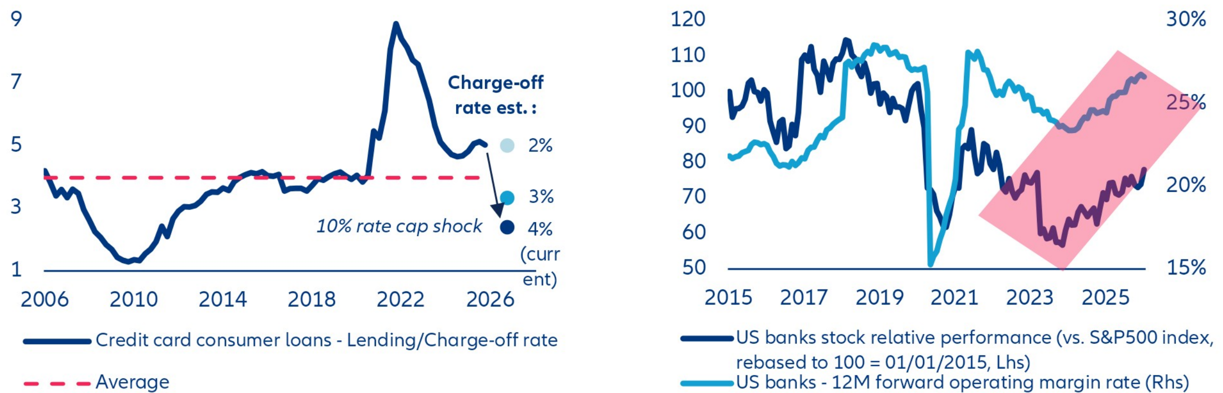
[5] *In our former paper Eyes on the Fed (23 January 2026), we estimate that a credit card cap will free up 15bn of lending capacity allocated to credit card.*

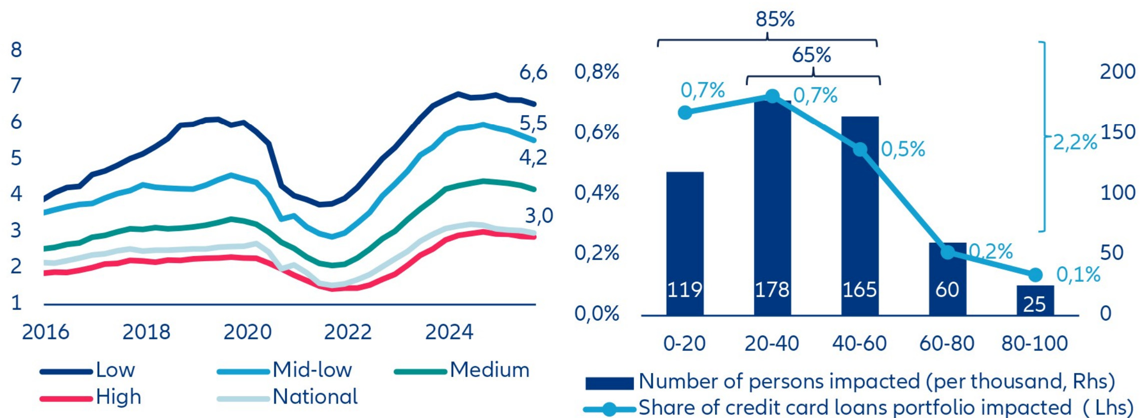
Figure 9: US domestic bank lending to charge-off ratio on consumer credit card loans / Distribution of credit card loans and average credit balance per income quintile breakdown



Sources: Fed of New York, US Federal reserve, US Census bureau, Allianz Research

Middle-class households to suffer the most for highest bank selectivity. Using the Fed's 2022 Survey of Consumer Finances and recent trends, we estimate around 50% of accounts with balances sit in the third and fourth quintiles, with just over 20% in the second quintile. If banks must cut to target roughly 2% of delinquency in their portfolio to push charge-offs from 4% to 2%, most reductions could fall on the first three quintiles (85% of volume), with 65% concentrated in the lower- and mid-income segments (second and third quintiles). Younger and lower-income borrowers – who already face higher rejection rates – would be squeezed most, given thinner credit histories and higher default risk.

Figure 10: Average delinquency rate for credit card per income quartile / Share of consumer credit card portfolio per income quintile to be cut to reach a delinquency rate at 2%



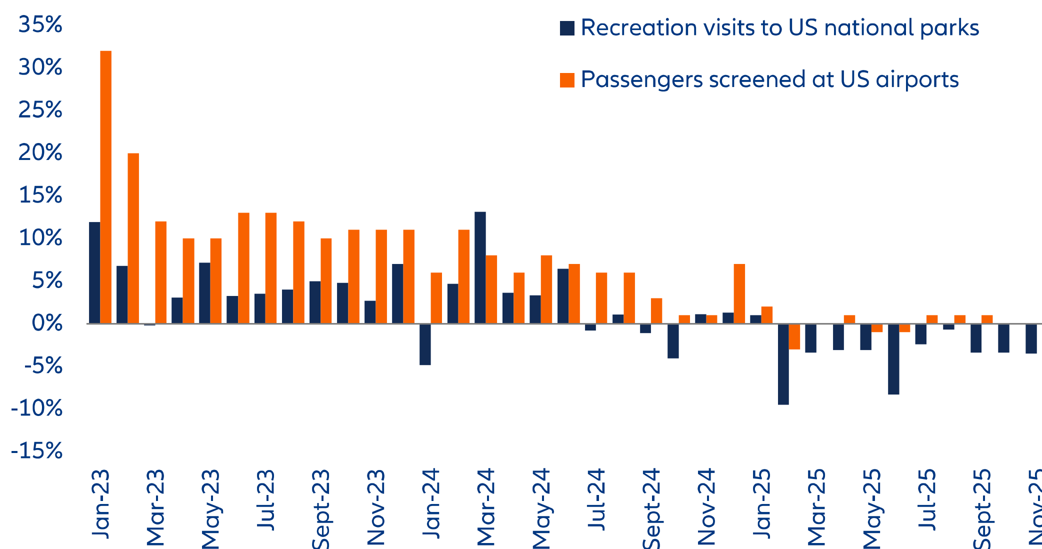
Sources: Fed of New York, US Federal reserve, US Census bureau, Allianz Research

The US tourism sector has shown notable signs of strain in recent months, driven in part by broader inflationary pressures and declining disposable income that have dampened both domestic and international travel demand. While domestic leisure travel has remained a relatively resilient component of the industry , supported by Americans choosing more affordable local destinations, international inbound tourism has experienced a marked downturn. For 2025, estimates indicate that inbound visits are expected to fall by around 6–8% compared with 2024, with international travel spending projected to shrink by several billion dollars and to sit well below pre-pandemic peaks. These trends reflect a combination of elevated travel costs, adverse currency effects and perceptions of US border and immigration policies that have dampened enthusiasm among overseas tourists. As a result, key source markets such as Canada, the UK, Germany and others have recorded declining visitor numbers, exerting pressure on tourism-dependent businesses and destinations across the country. This is reflected in a noticeable decrease in

the number of people screened at US airports and in the deteriorated demand for visiting the country's parks (see Figure 11).

Looking ahead to 2026 and beyond, the outlook for US tourism remains uneven. A rebound in international travel is anticipated as major global events (most notably the FIFA World Cup hosted in North America) and other high-profile attractions like America's Semi quincentennial celebrations and, later, the 2028 Los Angeles Olympics are expected to draw significant interest and spending. However, underlying negative travel sentiment, driven by affordability constraints, a volatile US dollar and policy-linked perceptions of the country, could continue to temper long-term growth and slow the recovery of international visitor numbers. Unless travel costs become relatively more affordable and diplomatic or border policy concerns are addressed, the US risks ceding global market share to more broadly welcoming destinations. Such dynamics suggest that while marquee events will provide episodic boosts, sustained tourism growth may hinge on broader economic conditions and strategic policy shifts that enhance confidence and affordability for both international and domestic travelers alike.

Figure 11: US travel indicators, % y/y



Source: US National Travel and Tourism Office (NTTO), Allianz Research

These assessments are, as always, subject to the disclaimer provided below.

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The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed
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(v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures,
and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

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