Macro Vision

May 7, 2026

Why did consumption decouple from income?

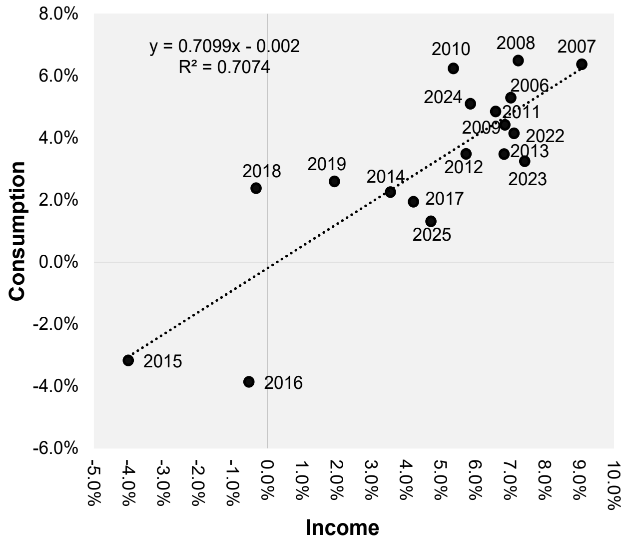
- In 2025, household consumption fell short of income: the restricted Gross National Disposable Income of Households (GNDIH) grew 4.7%, while spending on goods and services advanced only 1.3%.
- As a reaction to monetary policy, financial conditions became an additional drag on consumption growth in 2025: the slowdown in credit origination to individuals and the rise in the debt service-to-income ratio (DSIR) weighed on spending. By stripping out interest and principal payments, we can explain a significant share of the recent gap between income and consumption.
- Econometric evidence reinforces the importance of the credit channel: an exogenous 1 p.p. decline in credit origination reduces consumption by approximately 0.8 p.p. We limited this analysis to the dynamics of payroll-deducted loans, non-payroll personal loans, and auto loans (hereafter referred to as "core individual lending"), which respond more clearly to macroeconomic trends, particularly interest rates.
- For 2026, we project consumption growth of 1.4%, reflecting still-restrictive monetary conditions, but partially offset by a more favorable income outlook (growth of 3.6% this year), which supports consumption not only through the direct channel but also indirectly, by helping contain delinquency rates.

In 2025, the weaker performance of household consumption relative to the strong growth in disposable income stood out. Over the year, while disposable income[1] advanced 4.7% compared to 2024, household spending on goods and services rose only 1.3%.

A simple correlation indicates that, on average, the elasticity of consumption growth to income growth is approximately 70%. Throughout the historical series, there were few years in which consumption deviated significantly from the level implied by income, with the most notable recent cases being 2023 and 2025. From another perspective, by directly analyzing the gap between income and consumption (i.e., the share of income that does not convert into consumption in the period), this gap fluctuated during the pandemic, widened in 2023, remained virtually stable in 2024, and widened again in 2025.

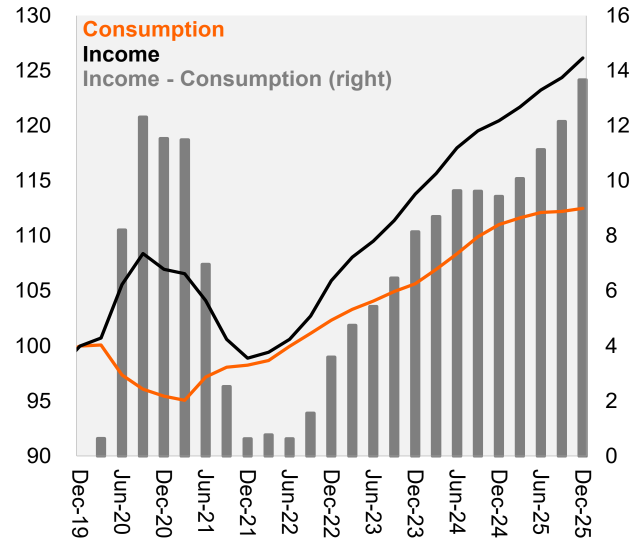
[1] Restricted Households' Gross National Disposable Income (GNDIH), as published by the Central Bank of Brazil (BCB).

Household Consumption vs Income (YoY; 2006–2025*)



*ex 2020 and 2021
Source: Itaú, IBGE e BCB

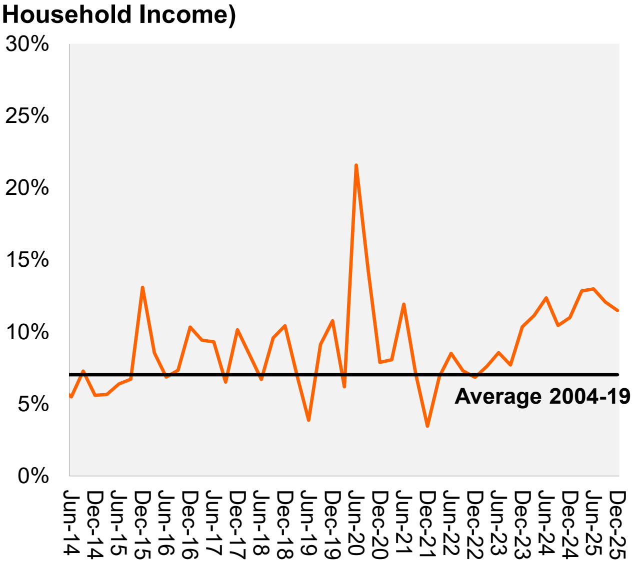
Household Consumption vs Income (2019=100; 4Q Average)



Source: Itaú, IBGE and BCB

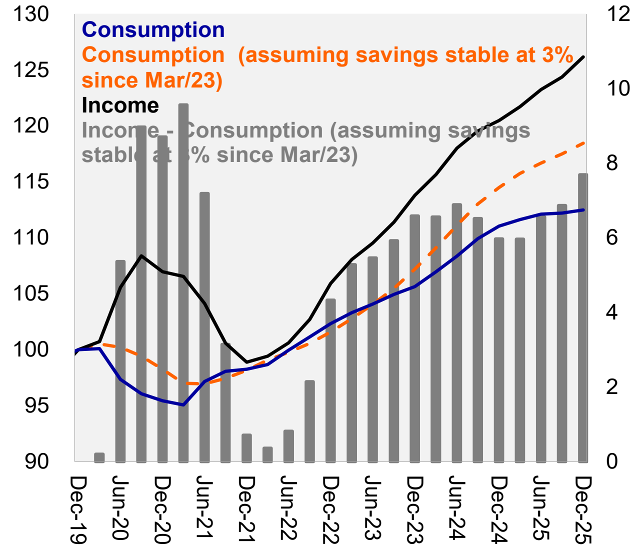
The dynamics of consumption are not explained exclusively by current income: other variables also exert a relevant influence. During periods of heightened uncertainty, household spending tends to decelerate, whether due to domestic factors, such as the deterioration of public finances, or external shocks, such as those experienced during the pandemic. As shown in the chart below, the savings rate increased during the pandemic period, followed by fluctuations in subsequent quarters. In 2023, the rate rose more sharply again, remaining close to 5.0% over the past two years — above the historical average of 3%.

Household Savings (% of Restricted Gross Disposable Household Income)



Source: Itaú, IBGE e BCB

Household Consumption vs Income (2019=100; 4Q Average)

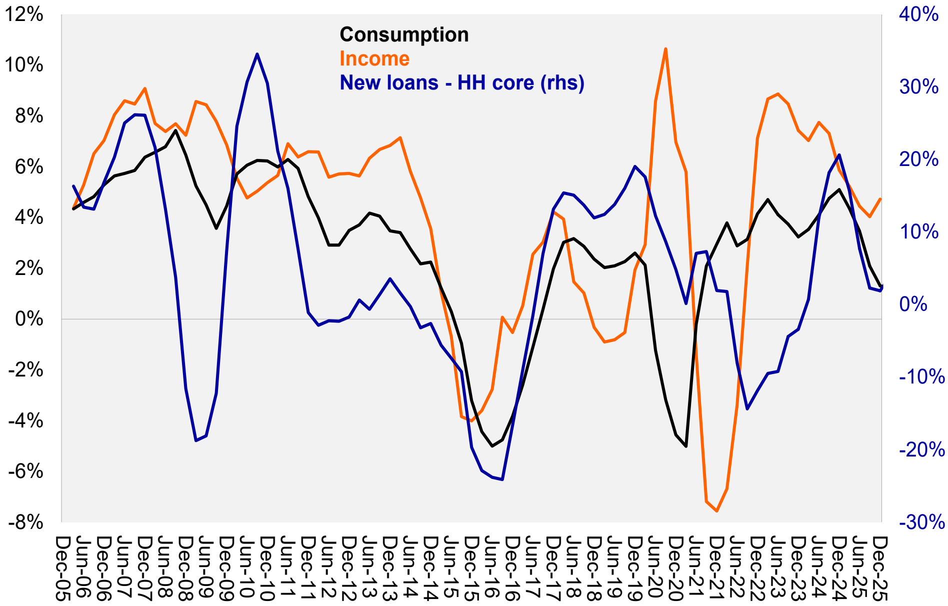


Source: Itaú, IBGE e BCB

Even assuming that, from 2023 onward, the savings rate had remained constant at 3% (the historical average between 2004 and 2019), we would still observe a widening gap between income and consumption. An analysis of the reasons why the savings rate has remained above its historical average — changes in the consumption behavior of a segment of the population, expenditures not captured by consumption statistics, among other hypotheses — falls outside the scope of this study. Nonetheless, the charts suggest that other factors are contributing to this gap.

Credit conditions for individuals may also be relevant in explaining the weaker dynamism of household consumption. The chart below indicates that, although consumption on average exhibits a stronger correlation with income than with credit, in periods when income and credit evolve in a decoupled fashion — such as in 2011–2014, when credit was less dynamic — a more moderate expansion of consumption prevailed. This pattern suggests that, when income growth is not accompanied by compatible credit conditions, consumption responds in a more restrained manner, reflecting financial constraints, higher borrowing costs, and greater selectivity in loan uptake — underscoring this monetary policy transmission channel.

Household Consumption vs Income and Core Household Credit (4Q Cumulative)



Source: Itaú, IBGE e BCB

This dynamic suggests that the weakness in consumption observed in recent quarters may be related, at least partially, to the deterioration of credit conditions. In this context, two main channels stand out: (i) the slowdown in credit origination to individuals recorded last year, which reduced households' purchasing power, with a more pronounced impact on credit-sensitive items; and (ii) the rise in income committed to interest payments and principal amortization, compressing the share of disposable income allocated to current consumption.

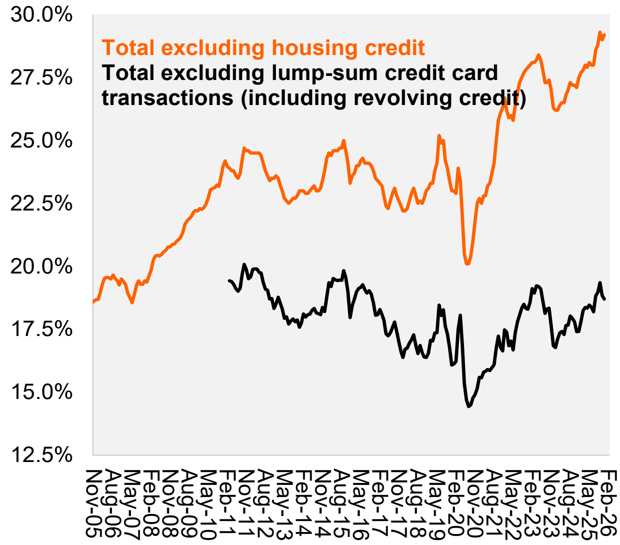
This study aims to investigate the effects of a more restrictive credit environment on household consumption in recent quarters and to assess the implications of this diagnosis for our projections, particularly in the context of calibrating the monetary easing cycle.

(i) Slowdown in core individual lending[2]

In 2025, credit origination to individuals decelerated, shifting from growth of 20.6% in 2024 to 1.8%, in line with the tightening monetary environment. Throughout the period, however, performance was heterogeneous across products: private-sector payroll-deducted loans gained traction (reflecting regulatory and operational changes aimed at broadening competition and credit access), closing the year with growth of 168.9% (versus 0.7% the previous year). Non-payroll personal loans showed resilience, ending the year with growth of 9.3% (vs. 27% in 2024). Auto loans, in turn, advanced only 0.6%.

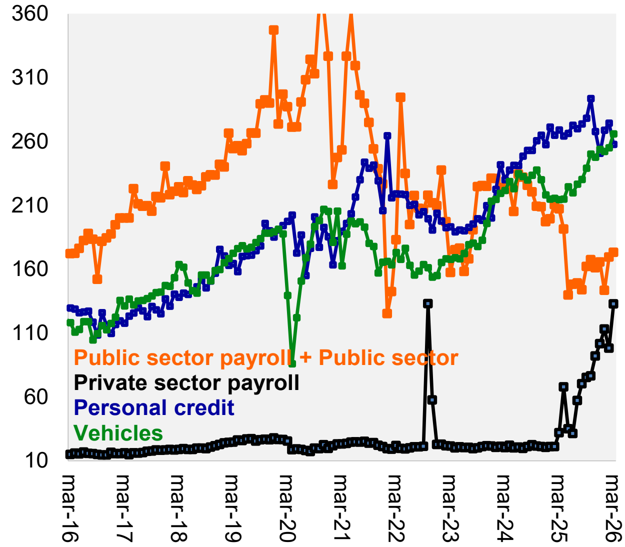
[2] Core Household Credit: Payroll-deducted loans, non-payroll personal loans, and auto loans.

New loans – Household core
Annualized, sa (BRL billion)



Source: BCB

New loans – Household core (by product)
Annualized, sa (BRL billion)



Source: BCB

This credit market dynamic has been weighing on goods consumption, particularly items more sensitive to monetary conditions. Since 2025, a clear divergence has emerged across different consumption categories: more credit-dependent items have been persistently underperforming relative to those whose demand responds more directly to income developments.

This pattern is evident in the IDAT-Activity index[3]. Categories associated with food, fuel, pharmaceuticals, apparel, and services have shown relatively more robust performance, while durable and semi-durable goods — typically more credit-sensitive — have exhibited weaker results.

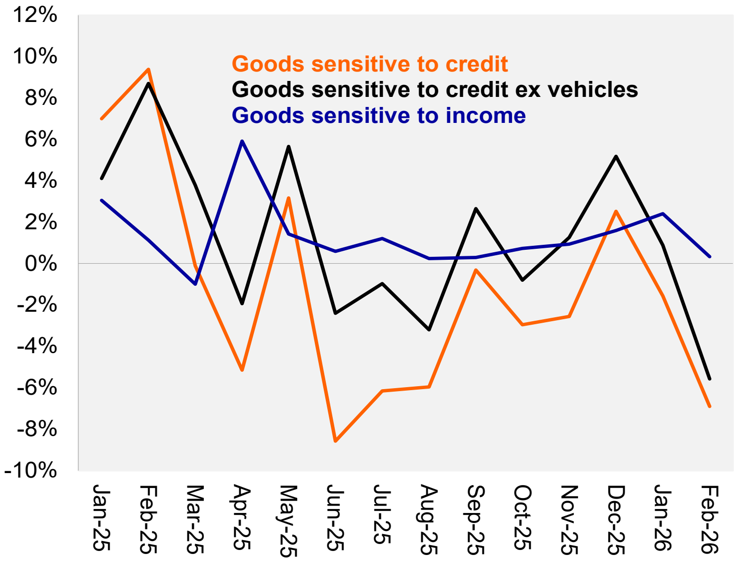
IDAT Heatmap (YoY, nsa)											
Breakdown	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	3Q25	4Q25	1Q26
IDAT-Activity	-0.9%	-0.6%	-1.3%	1.0%	-0.2%	-3.3%	0.6%	0.5%	**-0.9%**	**-0.3%**	**-0.5%**
IDAT-Services	-2.2%	-0.6%	-1.4%	-1.4%	-1.3%	-3.8%	-2.6%	1.9%	**-0.5%**	**-1.2%**	**-1.5%**
IDAT-Goods	0.3%	-0.5%	-1.2%	3.5%	1.1%	-2.7%	4.1%	-0.9%	**-1.3%**	**0.7%**	**0.4%**
IDAT-Goods sensitive to income	2.8%	3.0%	3.0%	2.9%	3.5%	-1.6%	3.9%	0.1%	**2.5%**	**3.0%**	**1.5%**
IDAT-Goods sensitive to credit	-2.4%	-6.2%	-7.4%	2.1%	-6.1%	-9.2%	9.2%	-1.2%	**-6.6%**	**-3.9%**	**-1.8%**
IDAT-Goods sensitive to credit ex vehicles	-6.6%	-7.9%	-6.8%	-4.7%	-7.0%	-12.7%	1.7%	-2.3%	**-9.2%**	**-6.5%**	**-5.1%**

*Considering data up to Apr 14

IBGE data also reinforce this dichotomy between the performance of more income-sensitive goods and more credit-dependent ones[4]. The chart below shows that, while the annual growth of income-sensitive goods remained relatively resilient throughout the year, credit-sensitive goods decelerated more sharply.

[3] The sharp fluctuations observed in February and March are due to the moving Carnival holiday effect in the year-over-year comparison: Carnival took place in March 2025 and in February 2026.
[4] Credit-sensitive goods: furniture and household appliances, vehicles, motorcycles, auto parts and accessories, construction materials, and office equipment and supplies.
Income-sensitive goods: fuels, supermarkets, apparel and footwear, pharmacies, books/newspapers/magazines, and stationery.

Monthly Retail Trade Survey (YoY)

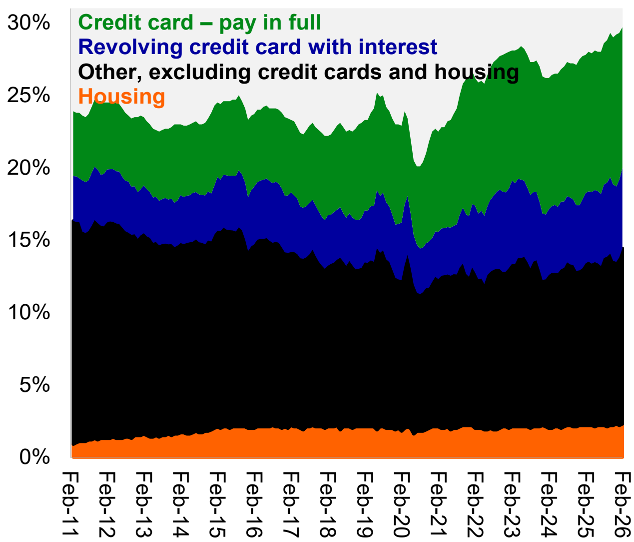


Source: Itaú, IBGE e BCB

(ii) Rise in income committed to interest payments and amortization

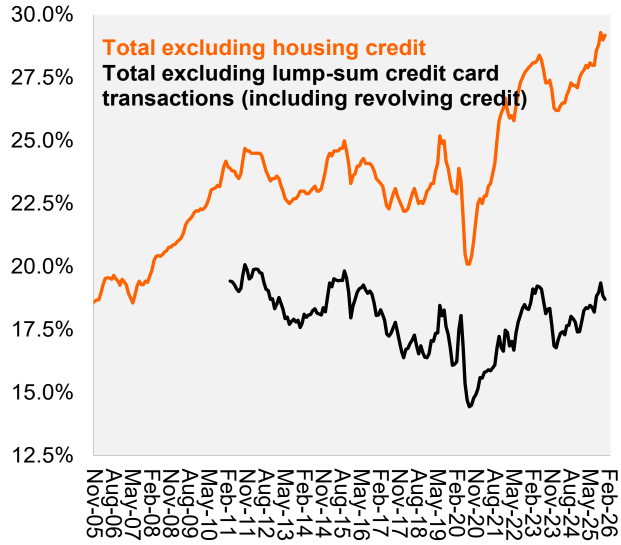
The household debt service-to-income ratio reached a record high of 29.7% in February 2026, a level significantly above previous cycles, fueling concerns over a potential acceleration in delinquency rates and weakening consumption. A more granular reading of the metric, however, points to a less adverse picture. By excluding interest-free installment credit card payments — whose sharp recent growth is largely related to the increase in financial inclusion and which, in many cases, functions as a means of payment rather than representing effective indebtedness — the income commitment stands closer to 20%: a still-elevated level, yet marginally below the peak observed in October 2011 (20.1%).

Income commitment has increased in recent years, driven by interest-free installment credit card purchases[5]



Source: BCB, Itaú

Excluding interest-free installment credit card purchases, income commitment is lower than in 2012, despite the recent increase



Source: BCB

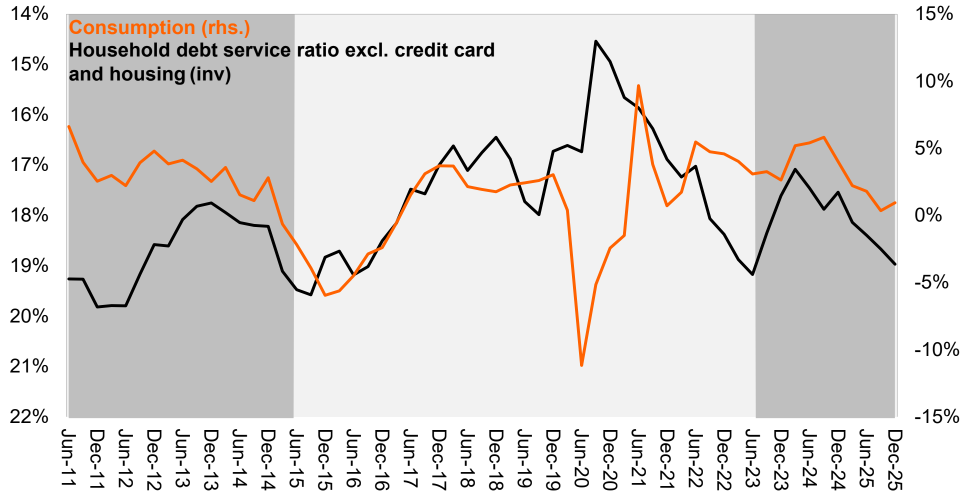
The income commitment excluding housing credit — which substitutes for rental expenses — and interest-free installment credit card payments shows a stronger correlation with household consumption in

[5] The Central Bank of Brazil (BCB) discloses income commitment only for the total and total excluding housing breakdowns. The product-level data shown in the chart correspond to an estimated proxy constructed by us based on

econometric models and, empirically, delivers better performance (see appendix). In simple specifications for projecting the monthly change in consumption, the income commitment excluding only housing credit has a coefficient of -0.13 and is not statistically significant at the 10% level. The metric that also excludes interest-free installment credit card payments, in turn, has a coefficient of -0.24 and is significant at the 1% level.

It is worth noting, of course, that the labor market also influences consumption behavior. Historical evidence suggests that the main positive deviations of consumption relative to the level implied by the income commitment tend to occur precisely during periods of a tight labor market (a proxy for this would be unemployment below 8%). As this is the current scenario, the effect of an elevated income commitment on consumption appears to be more limited than this metric might suggest in a different context.

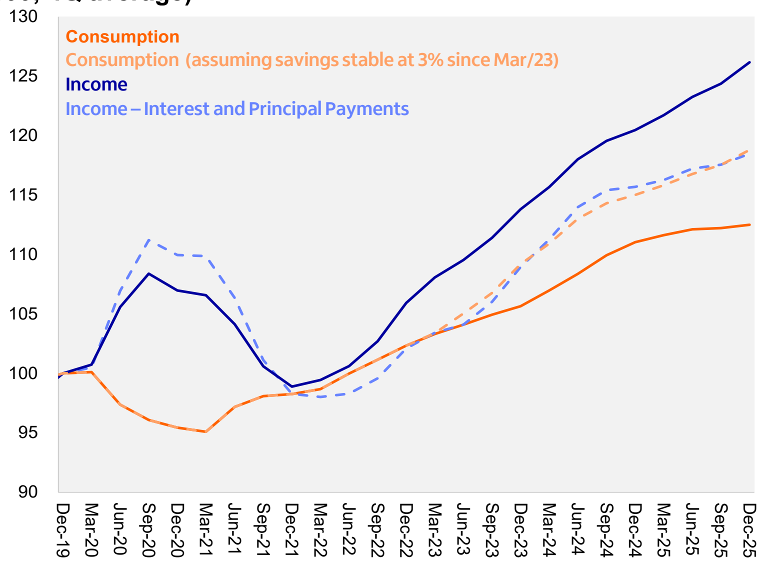
Consumption vs Income Commitment



Source: Itaú, IBGE e BCB

By stripping out interest payments and principal amortization from household income, we can explain a significant share of the gap observed between consumption growth and household income growth in recent quarters.

Consumption vs Gross Disposable Household Income (2019 = 100; 4Q average)



Source: Itaú, IBGE e BCB

BCB-published data, following the same methodology. The sum of the estimated product-level income commitments closely matches the aggregate reported by the BCB.

Monetary policy and the credit channel: household consumption responses

In its latest RPM, the BCB presented a box[6] that, in summary, points to a (causal and intuitive) negative relationship between interest rates and credit origination in longer-term segments, particularly what we refer to as core individual lending.

Taking this analysis one step further, we apply a similar approach to assess the average impact of core individual lending origination on household consumption. Specifically, we estimate the following equations:

$$\sum_{j=0}^{h}(consuption_{t+j} - consuption_{t-1}) = \alpha_h + m_h\left[\sum_{j=0}^{h}(Core\ households_{t+j} - Core\ households_{t-1})\right] + \gamma_h x_t + \varepsilon_{t+h},$$

where consumption and core PF are expressed in seasonally adjusted logs, and x_t denotes the set of control variables (lags of credit origination and consumption, the unemployment rate, the Selic rate, the Central Bank activity index (IBC-Br), as well as a dummy for the pandemic period).

To mitigate potential endogeneity concerns, we adopt the same strategy used in the BCB's box, estimating the equations by two-stage least squares (2SLS) and using the monetary policy surprise as an instrument for credit origination. The surprise is defined as the Selic forecast error among respondents to the Focus survey on the eve of each Copom meeting.

The results suggest that the ongoing credit slowdown has a negative impact on household consumption. At the 5% significance level, the peak effect occurs around six months after the shock: a 1 p.p. decline in credit origination to individuals translates into an impact of approximately 0.8 p.p. on household consumption.

Table: Results 2SLS -
Dependent variable: Δ log (Consumption)

Horizon	Δ log(credit)
1	1.022
	(-0.806)
2	0.763**
	(-0.364)
3	1.018
	(-0.795)
4	0.857
	(-0.548)
Average	0.732***
	(-0.262)

Data: 2011Q1 to 2025Q4

Notes: Standard errors in parentheses. ***, ** and * denote statistical significance at the 1%, 5% and 10% levels, respectively

Household Consumption Outlook for 2026

We project household consumption growth of 1.4% this year. The implicit scenario remains one in which consumption, once again, is expected to grow below income, reflecting still-restrictive monetary conditions and the typical lags in the credit channel.

The outlook for household income remains favorable. For 2026, we estimate real growth of 3.6%, still elevated, although slightly below the level observed in 2025 (4.7%). This robust trajectory reflects the resilience of

[6] The box exercise consists of analyzing the responses of bank loan origination to changes in the Selic rate using cumulative multipliers (Jordà and Taylor, 2025), estimated through the local projections method (Jordà, 2005).

the labor market, as well as the maintenance in real terms of income transfer programs. Taken together, these factors help sustain both households' consumption capacity and debt servicing, even in a more restrictive credit environment.

The favorable trajectory of income and transfers has played a key role in containing delinquency. Counterfactual exercises illustrate the magnitude of this effect: had the wage bill grown only in line with its historical average of 1.5% per year, household delinquency would currently be around 0.9 percentage points higher. Similarly, if social benefits had remained flat in real terms since 2019, the delinquency indicator would be approximately 0.8 p.p. above its current level.

Credit quality indicators for individuals remain on a stable trajectory. Both short-term arrears and delinquency — measured so as to exclude the effects of Resolution No. 4,966[7] — show no meaningful signs of deterioration. In addition, core individual lending rates appear to have already passed their peak and, even under the prospect of a smaller monetary easing cycle, interest rates are expected to decline.

Conclusion

We project household consumption growth of 1.4% in 2026, supported by the favorable income outlook, which is expected to offset less supportive credit conditions. Despite the elevated level of debt service-to-income ratio, once installment credit card payments are excluded and controlling for the degree of labor market tightness, the models point to consumption growth consistent with our scenario. Thus, in the absence of further deterioration in the credit and/or labor market, we do not see a downside bias to our consumption growth forecast this year.

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Appendix:

The table below indicates that, in simple specifications for projecting monthly consumption growth, the DSIR excluding only housing credit has a coefficient of -0.13 and is not statistically significant at the 10% level. The metric that also excludes installment credit card payments, in turn, has a beta of -0.24 and is significant at the 1% level.

[7] CMN Resolution No. 4,966 changed the delinquency statistics reported by the Central Bank of Brazil (BCB) starting in January 2025. The past-due window for payments considered delinquent, previously set at 90 to 360 days, was replaced by a flexible maximum term, according to the definition chosen by each institution. This change mechanically leads to an increase in delinquency, as it starts to include arrears beyond 360 days. In the latest Monetary Policy Report, released in March, the BCB estimates delinquency curves excluding the effects of the resolution and arrives at results consistent with our statement that there are no relevant signs of deterioration in core household (PF) delinquency.

Table: Results OLS -
Dependent variable: Δ log (Consumption)

Variable	(1)	(2)
dlog(Core_PF)	0.07**	0.10***
dlog(Savings)	-0.02***	-0.03***
dlog(unemployment)	-0.16***	-0.14***
dlog(IC_ex credit cards)	-0.24***	
dlog(IC ex housing)		-0.13
@quarter=1	-0.05***	0.06***
@quarter=2	0	0
@quarter=3	0.03***	0.03***
@quarter=4	0.03***	0.03***
R	0.87	0.85

Data: 2011Q3 to 2025Q4

Notes: Standard errors in parentheses. ***, ** and * denote statistical significance at the 1%, 5% and 10% levels, respectively

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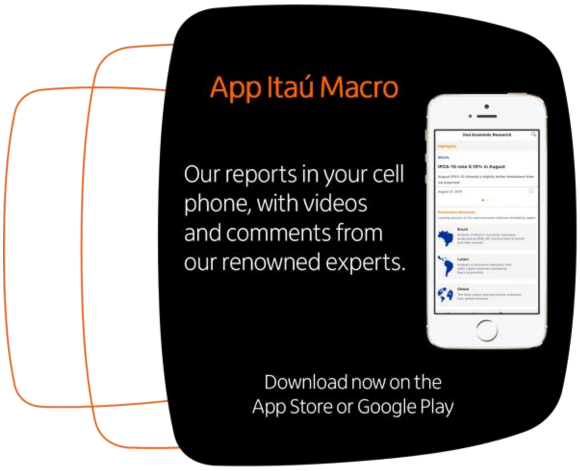

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