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US Economics | North America

Impacts of OBBBA on Consumer Spending and Cohorts

We expect a slight boost to consumer spending in 2026 from the fiscal bill, but larger drags on spending in 2027 and beyond. Older and higher-income cohorts will benefit most, while spending cuts will negatively impact low-income consumers. We provide details on each new consumer provision.

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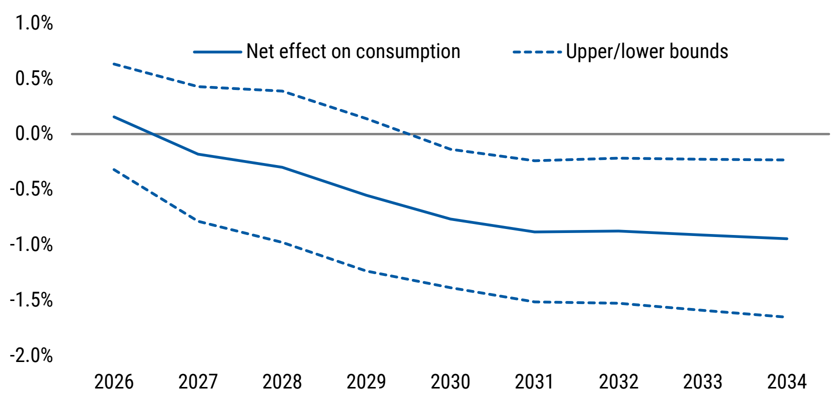
Key Takeaways

- We expect the consumer provisions of the bill to add ~15bp to spending in 2026, a relatively small impact compared to drags from trade and immigration policy.
- Later on, as tax cuts expire and spending cuts to Medicaid and other transfers grow, the bill drags on consumption.
- Deductions for seniors and an increase in the SALT cap should benefit older and high-income consumers, who are not as impacted by spending cuts.
- Cuts to SNAP, Medicaid, and student loans will negatively affect low- and middle-income consumers. Near-term, tax cuts provide an offset for middle-income.

Exhibit 1: We expect a small, ~15bp, boost to nominal spending in 2026 from the bill, but negative impacts in 2027 and beyond

OBBBA Consumer-Facing Provisions Impact on Consumer Spending



Note: Upper/lower bounds determined using different estimates of multipliers. Source: CBO, Morgan Stanley Research

Slight Boost to Spending in 2026, but Negative Impacts After

The One Big Beautiful Bill Act should add around 40bps to US GDP growth in 2026, but most of this boost comes from defense spending and the corporate side. On the consumer spending front, we see the potential for a small boost in 2026, around ~15bps to nominal spending. However, with tax cuts frontloaded and spending cuts backloaded, the bill is a drag on spending from 2027 on, which has a larger magnitude than the initial boost. Multipliers of the bill are also unfavorable, given spending cuts of transfers to low-income consumers will have larger effects.

As detailed below, we expect older and high-income individuals to benefit most from the bill, while low-income individuals will be negatively impacted. Meanwhile, the overall boost to consumption in 2026 is small relative to the drag on consumption from trade and immigration policy. This informs our view that growth in US economic activity will slow, but the more limited hit from these policy changes to upper income households means the economy can avoid a recession.

In the Overview of New Consumer Facing Provisions section, we lay out the details of each provision. While corporate tax changes could indirectly impact consumption as well, for the purposes of this note, we focus on the largest new individual provisions of the bill: deductions for tips and overtime, deductions for seniors, deductions for car loan interest, increase in the SALT cap, spending cuts to SNAP and Medicaid, changes to student loans, and removal of IRA tax credits (Exhibit 2).

Exhibit 2: Estimated costs/savings of OBBBA new consumer-facing provisions

$Bn	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Expansionary measures (cost, in $bn)										
Tips deduction	0	-10	-8	-8	-5	0	0	0	0	0
Overtime deduction	0	-33	-26	-23	-8	0	0	0	0	0
Enhanced deduction for seniors	-9	-23	-23	-23	-14	0	0	0	0	0
Car loan interest deduction	-2	-5	-8	-10	-5	0	0	0	0	0
SALT	-5	-34	-29	-30	-32	-17	5	0	0	0
Contractionary measures (savings, in $bn)										
Changes to Medicaid	1	25	65	88	116	133	153	164	180	198
Changes to Student Loans	150	14	15	15	15	15	15	16	16	16
Changes to SNAP	0	7	13	13	13	12	12	15	15	15
Repal of residential solar & EV tax credits	1	2	12	19	23	25	28	11	12	11

Note: CBO scoring on a "current policies" baseline and does not include total debt accumulation from extending provisions in the TCJA. ary measures cited as negative given the impact on the deficit. Source: CBO, Morgan Stanley Research.

Net Effects on Consumption

In order to determine the impact on spending, we need to consider the fiscal multipliers of each provision. Fiscal multipliers are typically a concept for GDP, defining how much GDP increases for every $1 of fiscal expansion. However, we can use multipliers here to estimate the impact to consumption given that most of the GDP impact from these provisions will be through consumption.

In general, spending cuts have larger multipliers than tax cuts because changes to spending typically have a more immediate and larger impact on demand. For example, consider transfer payments to low-income consumers, such as SNAP or Medicaid. Low-income consumers have higher marginal propensities to consume, so they are more likely to spend any incremental income quickly, which will then permeate through the economy.

On the tax cut side, the cohorts each provision is aimed at will determine the multipliers. Since the increase in the SALT cap will mostly benefit high-income consumers, who have a lower marginal propensity to consume, the multiplier there is smaller than that of the deductions for tips and overtime (Exhibit 3).

There are large ranges for each multiplier, reflecting the lack of precision in these estimates and the fact that multipliers are dependent on the cyclical position of the economy and the assumed response of monetary policy. We think using the midpoint is the right metric given the state of the business cycle and the stance of monetary policy. Given that the personal tax cuts in the bill are frontloaded and some of the spending cuts are backloaded, the net impact to consumption is positive in 2026. We estimate the bill could add 15bp to nominal personal consumption next year.

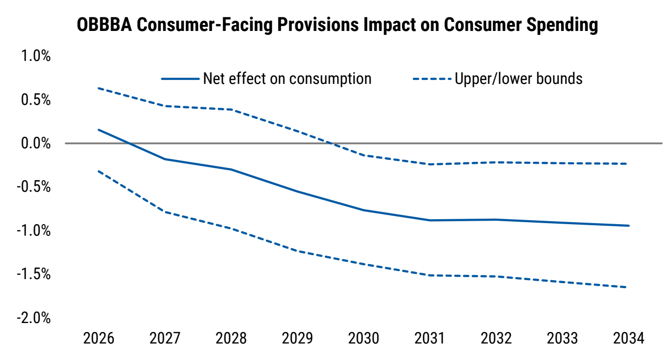
However, in every year from 2027 and beyond, the impact is negative, and with much larger magnitude. The drag becomes more extreme starting in 2029, once the tax cuts expire, but even in 2027 we estimate a drag of 18bp to nominal spending. Assuming the tax cuts roll off as currently written in the bill, the impact to consumption from 2030 on is negative even when using the most favorable multipliers (Exhibit 4).

Exhibit 3: Multipliers of consumer facing provisions

	Low	Midpoint	High
Expansionary measures			
Tips deduction	0.3	**0.9**	1.5
Overtime deduction	0.3	**0.9**	1.5
Enhanced deduction for seniors	0.3	**0.9**	1.5
Car loan interest deduction	0.3	**0.9**	1.5
SALT	0.2	**0.6**	1.0
Contractionary measures			
Changes to Medicaid	0.4	**1.3**	2.1
Changes to Student Loans	0.4	**1.3**	2.1
Changes to SNAP	0.4	**1.3**	2.1
Repeal or modification of clean energy provisions	0.1	**0.4**	0.6

Source: CBO, Morgan Stanley Research

Exhibit 4: Impact on consumer spending slightly positive in 2026, but negative with larger magnitude after



Note: Upper/lower bounds use the low and high multipliers from Exhibit 3, rather than the midpoints.
Source: CBO, Morgan Stanley Research

Cohort Impacts

These net results hide some of the larger impacts to certain cohorts, both positive and negative. Individuals over the age of 65 likely benefit most from the bill. These individuals, if within the income thresholds, will benefit from the senior deduction and by definition will not be affected by the work requirements for SNAP and Medicaid. They also are, in most cases, not impacted by changes to student loans, since individuals over 65 make up less than 10% of outstanding federal loans.

High-income consumers are also positively impacted, as they will not be affected by the cuts to transfer payments, and some of them will benefit from the increase in the SALT cap. While these individuals could be affected by limits to graduate student borrowing, they are not beneficiaries of the income-driven repayment plans that are being changed. These consumers also likely benefit indirectly from changes to corporate taxes, though that is not the focus of this note.

For middle-income consumers, the picture is not as clear. These individuals could benefit in the near-term from the new deductions on tips and overtime income. However, middle-income consumers, especially younger ones, are also the most exposed to the changes on the student loan front, which could result in higher monthly payments and more expensive borrowing on new loans. In the near term, the impact for this cohort could be net positive, but later on (in 2029 and beyond), the net impact will be negative as the tax cuts expire.

Finally, we think low-income consumers are most negatively impacted by the bill. Spending cuts will affect these individuals most. Third-party estimates suggest that ~10mn individuals could lose access to federal health insurance by 2034, while 2-3mn could lose access to SNAP benefits. Income from transfer payments makes up ~20% of income for the bottom 10% of earners, so any reduction here would be meaningful. Meanwhile, many of these consumers likely already do not pay federal income taxes, given the standard deduction and other credits, so they would not benefit much from the new deductions. The increase in the child tax credit will help on the margin, but it is small relative to most of the new spending and tax cuts. These changes are also beginning at a time when we expect low-income consumers to be most negatively impacted by higher inflation from tariffs.

Exhibit 5: Cohort impacts of new consumer-facing provisions

Provision	Relative Magnitude	Cohort Benefitted Most	Cohort Hurt Most	Years in effect
Changes to Medicaid	High		Low-income	2026 and beyond, greater impact later
Changes to Student Loans	High		Middle-income, younger	2026 and beyond, greater impact later
Changes to SNAP	High		Low-income	2026 and beyond, greater impact later
SALT	Medium	High-income, homeowners		2025 - 2029
Enhanced deduction for seniors	Medium	Older, middle-income		2025 - 2028
Overtime deduction	Medium	Middle-income		2025 - 2028
Repeal of residential solar & EV tax credits	Low		High-income, homeowners	2026 and beyond
Tips deduction	Low	Middle-income		2025 - 2028
Car loan interest deduction	Low	Middle-income		2025 - 2028

Note: Relative magnitude is based on the size of these provisions from 2025-2034 using the CBO's estimates of costs/savings, combined with CBO estimated multipliers. Source: CBO, Morgan Stanley Research

Small 2026 Impact Relative to Other Policy Changes

We expect real consumption growth to slow from 3.1% in 2024 (4Q/4Q) to 0.6% in 2025 and 0.7% in 2026, and nominal consumption to slow from 5.7% to 3.6% and 2.9%. This slowdown in consumption is largely driven by trade and immigration policy; slower immigration leads to less growth in labor market income, while tariffs act as a tax on consumption, weighing on consumer purchasing power. Overall, the potential 15bp boost to nominal consumption in 2026 from the bill is small compared to the negative impacts of these other changes.

As mentioned above, we used midpoint multipliers in our calculations to estimate the potential spending impacts. However, given we expect a considerable slowdown in the economy, and we view the probability of a downturn around 40%, it is possible the impacts could be larger. If our mild recession scenario occurs, then some of the spending cuts will be more impactful. For example, consider SNAP benefits, which are an automatic stabilizer. In downturns, the amount of individuals eligible for these benefits increases. As a result, the changes to working requirements for SNAP could affect even more individuals than we are factoring in. Similar concepts could apply to the income-driven repayment plans on the student loan front and to Medicaid. If we enter a downturn scenario, the net impact on spending could end up being flat to negative next year as well, closer to the lower bound in Exhibit 4 above.

Overview of New Consumer Facing Provisions

Tax Cuts Directly Impacting Consumers

Tips Deduction:

Details:

- Up to $25k deduction per person for qualifying tips received by workers in occupations that customarily receive tips (these "occupations" are expected to be more clearly defined by October).
- Phases out for higher-income consumers. Phase out begins for incomes above $150k for single filers and $300k for joint filers. Completely phased out for incomes greater than or equal to $450k for single filers and $550k for joint filers. (The deduction amount is reduced by $100 for every $1000 the taxpayer's modified adjusted gross income exceeds these $150k/$300k thresholds).
- Effective for tax years 2025 - 2028.

Cohorts Impacted:

- Tipped workers tend to be younger and lower income.

- According to Yale Budget Lab, more than a third of tipped workers in 2022 had incomes low enough that they already did not need to pay federal income taxes. Those low-income consumers therefore would not benefit from this.

Relative Magnitude:

- CBO cost estimate: $10bn in 2026, $31bn altogether.
- In 2023 there were 4mn workers in tipped occupations, or ~2.5% of all employment. Even for workers in the bottom quarter of hourly wages, only 5% were in tipped occupations.
- Behavioral changes, such as substitution into tipped employment and income, can impact the number of individuals who benefit and the cost.

Overtime Deduction:

Details:

- Up to $12.5k (single filers) or $25k (joint filers) deduction for qualifying overtime pay.
- Phases out for higher-income consumers. Phase out begins for incomes above $150k for single filers and $300k for joint filers. Completely phased out for incomes greater than or equal to $450k for single filers and $550k for joint filers. (The deduction amount is reduced by $100 for every $1000 the taxpayer's modified adjusted gross income exceeds these $150k/$300k thresholds.)

- Effective for tax years 2025-2028.

Cohorts Impacted:

- Similar to the tip deduction, many low-income workers already do not pay federal income taxes. Middle-income workers who get paid hourly will likely benefit most.

Relative Magnitude:

- CBO cost estimate: $33bn in 2026, $90bn total.
- Yale Budget Lab estimates 8% of hourly workers and 4% of salaried workers work qualified overtime on a regular basis.
- Behavioral incentives, similar to in the case of tips, on the part of employees or employers can affect total cost and impact.

Car Loan Interest Deduction:

Details:

- Up to $10k deduction in interest paid on auto loans. Vehicle must be new and final assembly must occur in the US.
- Phases out for higher-income consumers. Phase out begins for incomes above $100k for single filers and $200k for joint filers. Completely phased out for incomes greater than or equal to $150k for single filers and $250k for joint filers (The deduction amount is reduced by $200 for every $1000 the taxpayer's modified adjusted gross income exceeds these $100k/$200k thresholds.)
- Effective for tax years 2025-2028.

Cohorts Impacted:

- Middle-income consumers will likely benefit most, due to income phaseout and the relatively small share of new vehicle purchases accounted for by low-income consumers.

Relative Magnitude:

- CBO cost estimate: $5bn in 2026, $31bn total.
- According to JD Power, around 55% of vehicles sold recently had final assembly in the US.
- We expect small impact here: The top 20% income cohort in the most recent data accounted for almost 70% of motor vehicles and parts purchases (by $ amount), and likely an even greater share of *new* vehicle purchases. The income phaseout and restriction to assembly in US limit the overall benefit.

Senior Deduction:

Details:

- Individuals 65 years or older can claim $6k deduction per person.

- Phases out for higher-income consumers. Phase out begins for incomes above $75k for single filers and $150k for joint filers. Completely phased out for incomes greater than or equal to $175k single/$250k joint. (The deduction amount is reduced by 6% of the amount of income exceeding $75k/$150k.)
- Effective for tax years 2025 - 2028.

Cohorts Impacted:

- Older, middle-income consumers benefit most.

Relative Magnitude:

- CBO cost estimate: $23bn in 2026, $92bn total.
- Individuals over 65 make up about 18% of the US population.

SALT Cap Increase:

Details:

- Cap raised from $10k to $40k. Cap rises by an additional 1% annually each year until 2029.
- Phases out for high-income consumers. Phase out begins for incomes above $500k, with this threshold also increasing by 1% each year. Completely phased back to $10k previous cap for incomes of $600k or greater in first year. (Deduction amount is reduced by 30% of the amount of income above the $500k threshold.)
- Effective for tax years 2025-2029. Starting in 2030, cap returns to $10k for all.

Cohorts Impacted:

- Homeowners/high-income consumers in states with high property taxes (NY, NJ, California) benefit most. Others likely do not have enough due in state and local taxes to benefit.

Relative Magnitude:

- CBO cost estimate: $34bn in 2026, $142bn total.
- While still a relatively large change in the context of these provisions, the income limits lessen the impact significantly. Previous estimates show that a smaller increase in the SALT cap (to $15k for single filers, $30k for joint) with no income limits could have had more than 5x the impact.

Spending Cuts Directly Impacting Consumers

SNAP (see here for more detail):

Details:

- Work requirements: Beginning in 2026, work requirements will be expanded for able-bodied adults up to age 64 from the current 54, while limiting individual states' ability to waive these rules.

- Updates to the Thrifty Food Plan: Beginning in 2027, the USDA cannot adjust the calculation for SNAP benefits outside of adjustments made for inflation. Thrifty Food Plan reviews were scheduled to occur in 2027 and 2032. The last review in 2021 increased benefits by ~$15 per person per month.
- State cost-sharing also changes beginning in 2028, though we view that as less directly impactful to consumers.

Cohorts Impacted:

- Low-income consumers hurt most. In general, to qualify for SNAP a household must have a gross monthly income at or below 130% of the federal poverty level and net monthly income at or below 100% of the federal poverty level.
- For the bottom 10% of households, income from public assistance programs including SNAP benefits made up around 20% of before-tax income in recent years. For the second 10% it made up around 5%.

Relative Magnitude:

- CBO savings estimate (excluding state cost sharing provision): $7bn in 2026, $115bn total.
- In 2024, around 12% of the population, or 40mn people, received SNAP benefits. Estimates show 2-2.9mn individuals could lose benefits from work requirements, and changes to Thrifty Food Plan could affect the size of future benefits.

Medicaid:

*Details: *Note: there are many changes to Medicaid in the bill, but we highlight a handful we view as important for consumers*

- Work requirements: States must condition eligibility for individuals 19-64 on working or participating in qualifying activities at least 80 hours per month, with some exceptions for parents with children under 13, etc. States must implement this by end of 2026, or can get an exemption until end of 2028.
- Cost sharing: Requires states to impose cost sharing of up to $35 per service for expansion adults with incomes above the federal poverty level, with some services exempt. Some states already impose other cost sharing, which will likely remain as well. Effective Oct 1, 2028.
- Eligibility checks: Requires states to conduct eligibility requirement checks for expansion adults every 6m instead of 12m previously. Effective Dec 31, 2026.
- Immigrant eligibility: Restricts definition of qualified immigrants for Medicaid eligibility, now excluding groups such as refugees, individuals granted parole or asylum, and others. Effective Oct 1, 2026.
- Less retroactive coverage: Limits retroactive coverage to one month prior to application for expansion adults and two months for traditional enrollees, versus 90 days for all previously. Effective Jan 1, 2027.

Cohorts Impacted:

- Low-income consumers. Generally, individuals have been eligible for Medicaid if their income falls below 133% of the federal poverty level.

Relative Magnitude:

- CBO savings estimate (for all Medicaid changes): $25bn in 2026, $1.1tn total.
- Estimates from CBO and KKF show these, combined with the other Medicaid provisions in the bill, could result in over 10mn individuals losing access to federal health insurance.

Student loans:

Details:

- Grad PLUS loans are eliminated after July 2026 (previously allowed for borrowing with no cap). Parent PLUS loans are capped at $20k per year and $65k over a lifetime per dependent (previously had no cap)
- New income driven repayment plan: Repayment Assistance Program (RAP) was created. This new plan will allow borrowers to pay 1-10% of their adjusted gross income, but with a minimum payment of $10 per month. Balances can be forgiven after 30 years.
- Phase out of older income driven repayment plans: PAYE, ICR, and SAVE plans will be phased out. Current enrollees in PAYE or ICR have until July 2028 to switch to either the standard payment plan, IBR, or a new RAP plan. Borrowers with loans taken out before July 2026 can stay on the IBR plan. Borrowers with loans taken out after July 2026 will only have two options: the new RAP plan or the standard payment plan.
- Separate from the bill, interest will start to accrue for SAVE borrowers on August 1, and they will be encouraged to join a different plan.

Cohorts Impacted:

- Middle-income, younger consumers hold the largest shares of student loans (see here for more detail).

Relative Magnitude:

- CBO savings estimate: $14bn in 2026, $287bn total.
- Changes to repayment plans could result in increases in monthly payments for many borrowers. Over 10mn borrowers, or almost a third, are currently enrolled in either the SAVE, ICR, or PAYE plan.
- Elimination of Grad PLUS and limitations on Parent PLUS could have large impacts, dependent on the ability of private lenders to step in, and at what cost. Currently 1.8 million individuals have Grad PLUS loans, but with larger balances than other loan types, these make up 7% of all outstanding federal student loans. 3.6 million people have Parent PLUS loans, with these making up 7% as well.

IRA tax credit repeal:

Details:

- Residential solar tax credits (Section 25D in IRA) will be eliminated after this year. Previously, homeowners could claim 30% of the cost of installing qualifying solar panels. The Energy Efficient Home Improvement Credit, also 30%, will end this year as well. Foreign Entity of Concern restrictions begin next year for Section 48E, solar leases/PPAs. Changes to rules here could potentially impact the cost of solar leases.

- EV tax credits will be eliminated after Sept. 30, 2025. Previously, the credit was up to $7,500 on new electric vehicles and $4,000 on used electric vehicles.

Cohorts Impacted:

- Likely higher-income/higher credit score consumers and homeowners.

Relative Magnitude:

- CBO savings estimate (just for removal of resi solar credits): $2bn in 2026, $144bn total.
- We view demand for solar panels and electric vehicles as relatively elastic. Today, residential solar is a ~4.5GW market. Our colleagues believe without the tax credits, the residential solar market would be <1GW. This provision is different than the above cuts to consumer transfers. Rather than affecting consumer cashflows directly, it will likely depress demand for solar panels and electric vehicles.

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Total	3,726		831			1713	

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