Consumer Spending and Savings behavior during COVID-19

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Two papers on consumer spending and savings

Initial Impacts of the Pandemic on Consumer Behavior: Evidence from Linked Income, Spending, and Savings Data (Natalie Cox, Peter Ganong, Pascal Noel, Joseph Vavra, Arlene Wong, Diana Farrell, and Fiona Greig)

- What is happening to spending and savings at the household level?
- How does the distribution of spending and saving evolve across the income spectrum, industries of employment?
- Which factors drive the joint movements in spending and savings? I.e., Shut-downs and health risks, income losses, government income supports

Consumption Effects of Unemployment Insurance during the COVID-19 Pandemic (Diana Farrell, Peter Ganong, Fiona Greig, Max Liebeskind, Pascal Noel, Joe Vavra)

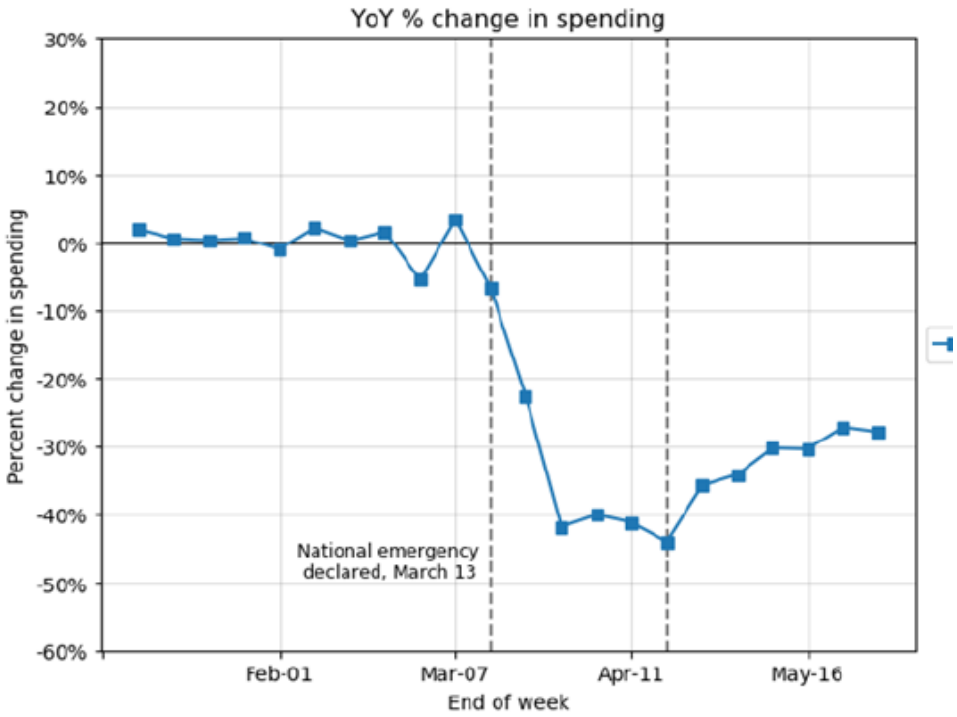
- What role are government income supports (Unemployment Insurance) playing for households and aggregate consumption?

Data used in this talk

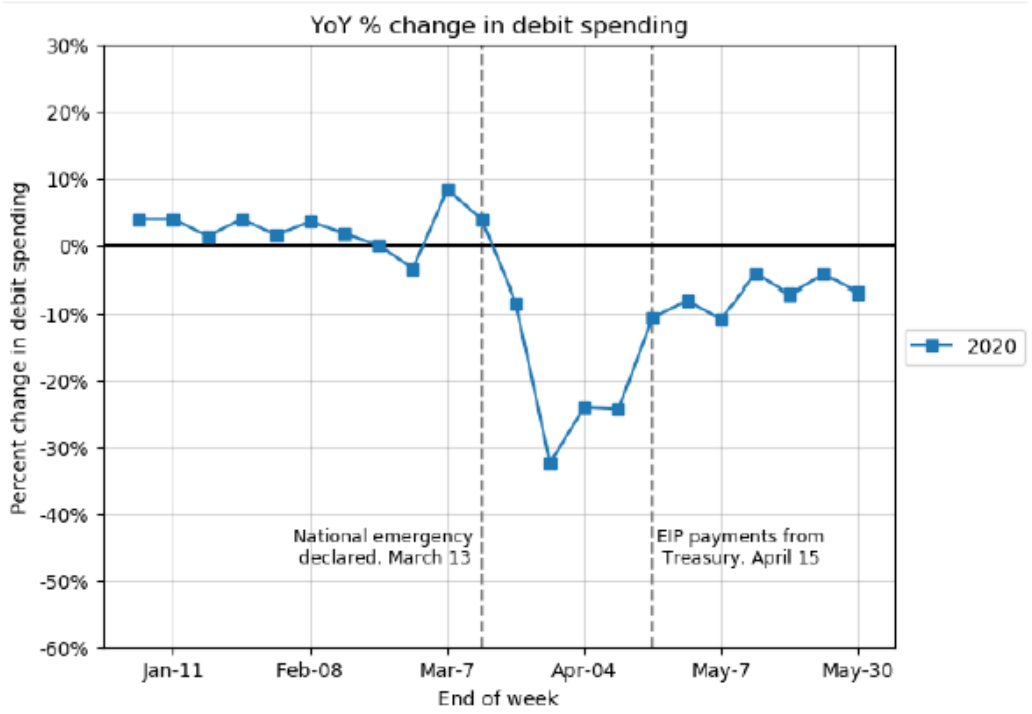
- JPMCI household-by-day bank account data for 8 million customers, including 73,000 UI recipients: Detailed credit and debit card spend, liquid asset balances, labor income and employer information from direct deposit inflows, and individual co-variates
- Key advantages of data:
  - Links household spending, income and savings and individual covariates
  - Large sample size, wide geographic coverage, spans income spectrum.

Finding 1: Credit and debit card spending dropped by 40% and 30% respectively in April

Credit Card Spending



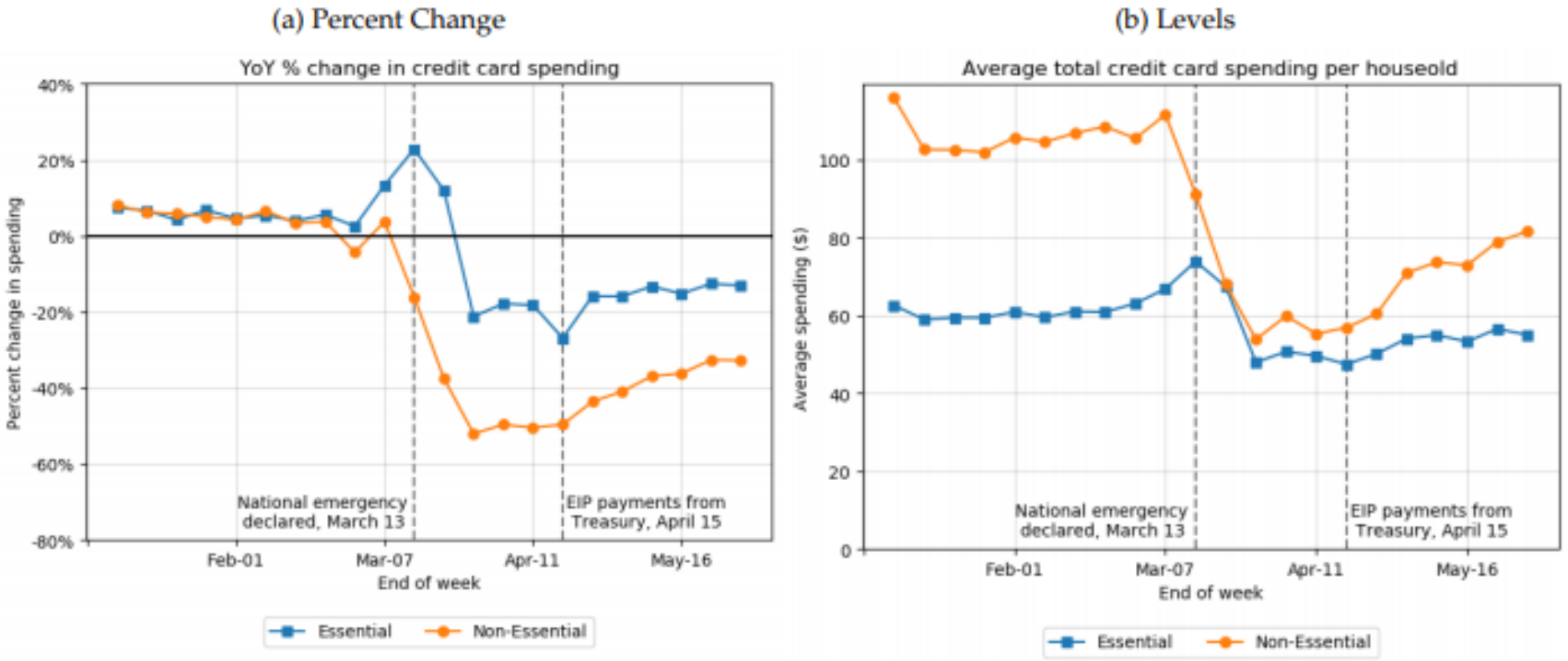
Debit Card Spending



- Large and pervasive initial declines in spending.
- Spending drop is 8X larger than what we normally see among people who lose a job and receive unemployment insurance
- Job loss alone cannot account for this large spending drop. Rather social distancing policies are playing a big role.

Finding 2: Spending on essentials initially spiked 20 percent before falling to below pre-pandemic levels, while spending on non-essentials declined by 50 percent.

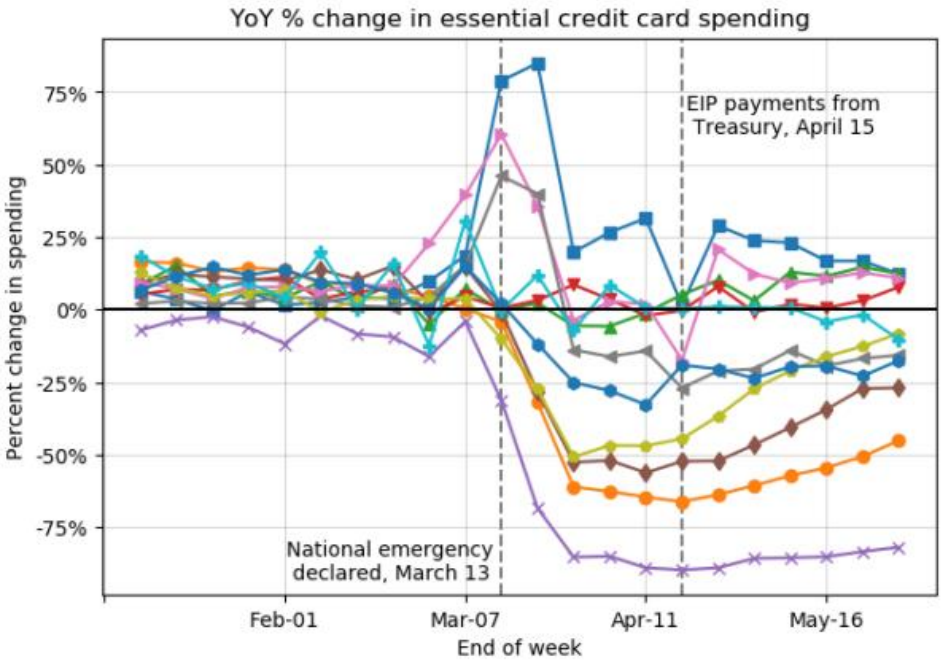
Credit card spending on “Essential” or “Non-essential” categories

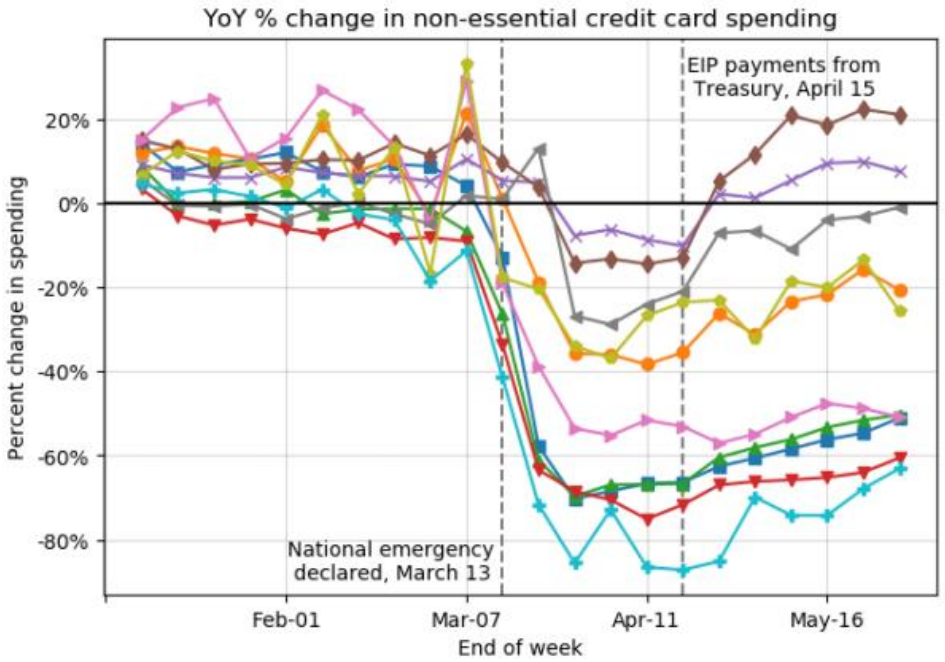


We use state social distancing orders that restricted non-essential goods and services to categorize spend. "Essential" categories include fuel, transit, cash, drug stores, discount stores, auto repair, groceries, telecom, utilities, insurance, and healthcare. "Non-essential" includes department stores, other retail, restaurants, entertainment, retail durables, home improvement, professional and personal services, and miscellaneous. Although flights, hotels, and rental cars are sometimes categorized as "essential" and not technically closed, we include them in the "non-essential" group because they are affected by stay-at-home restrictions on non-essential travel.

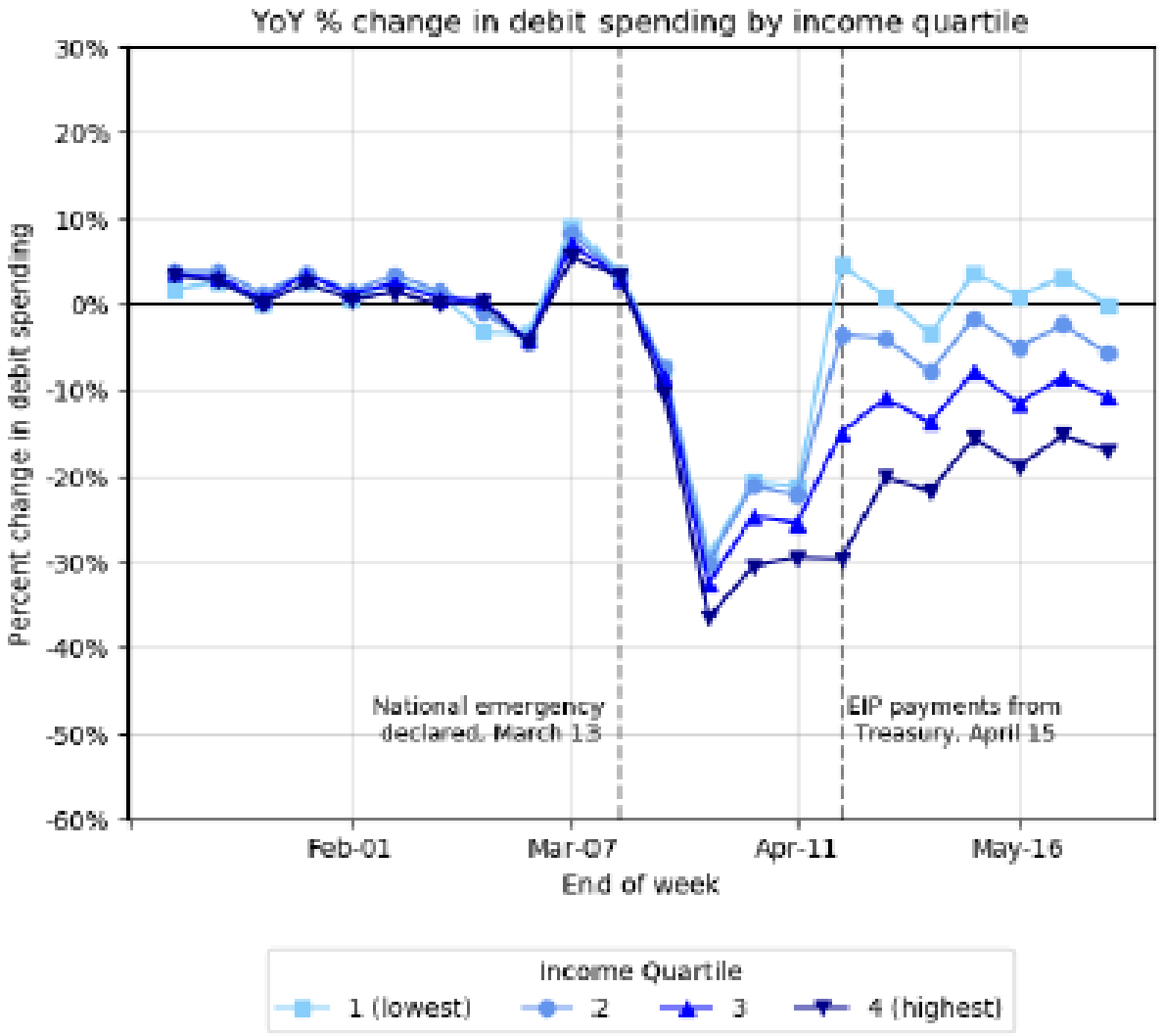
Even within essential categories, credit card spending on healthcare, fuel, and ground transportation dropped by more than 50%

Credit card spending growth across spending categories



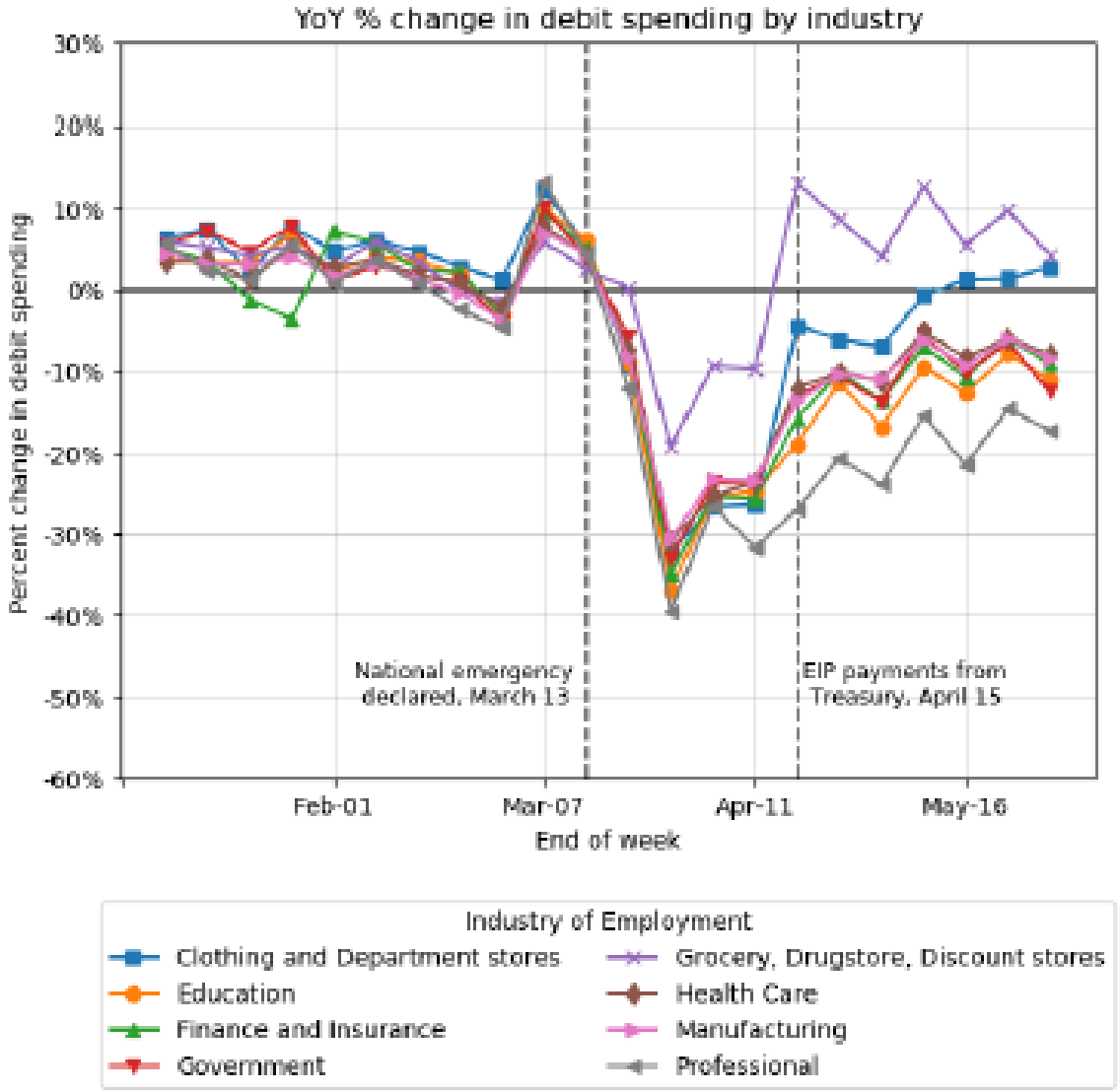


Finding 3: Spending recovered more quickly for low income families and families in lower-income sectors



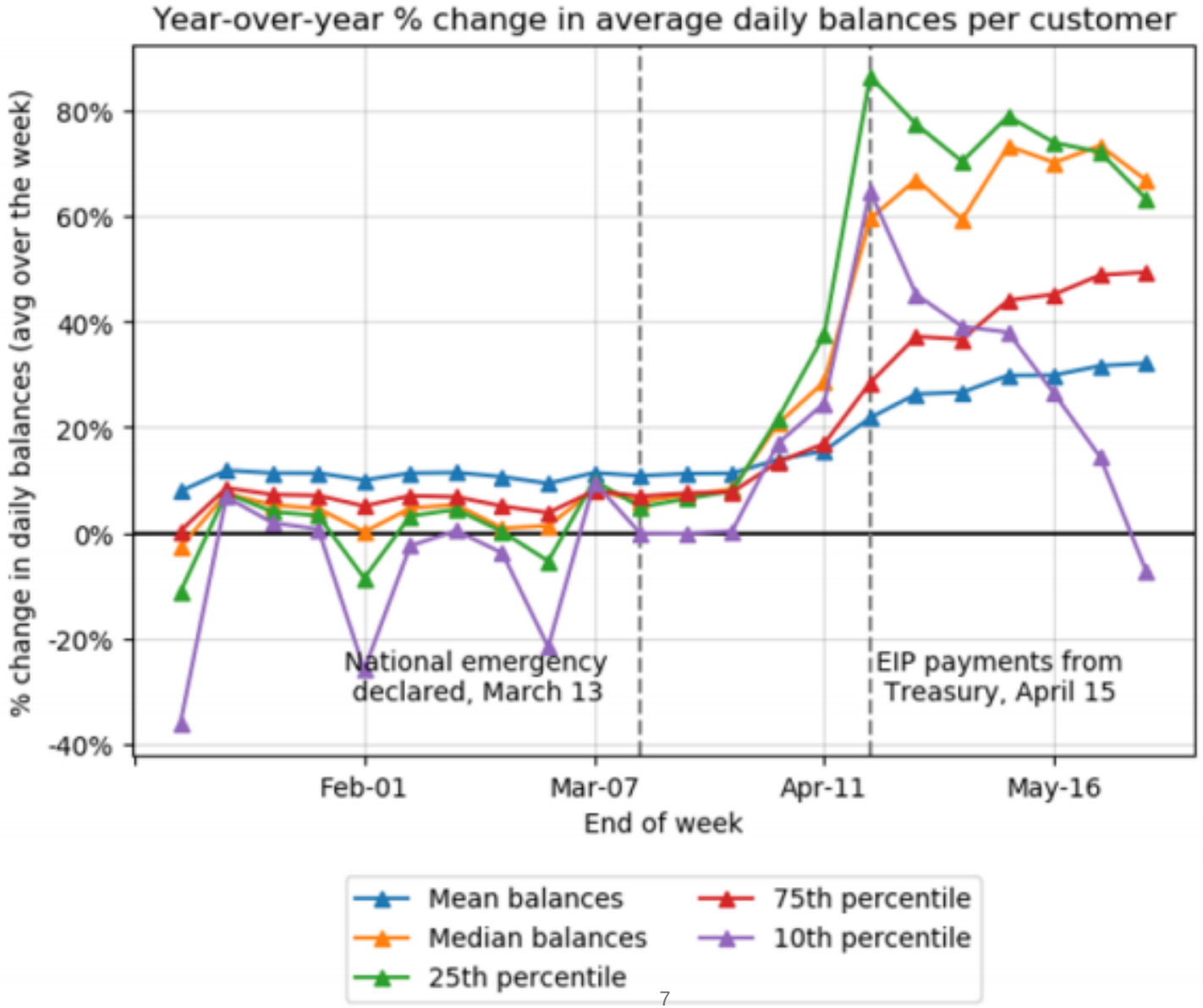
- Faster recovery in spending for lower income households.
- Similar patterns in lower-income sectors.

Finding 3: Spending recovered more quickly for low income families and families in lower-income sectors

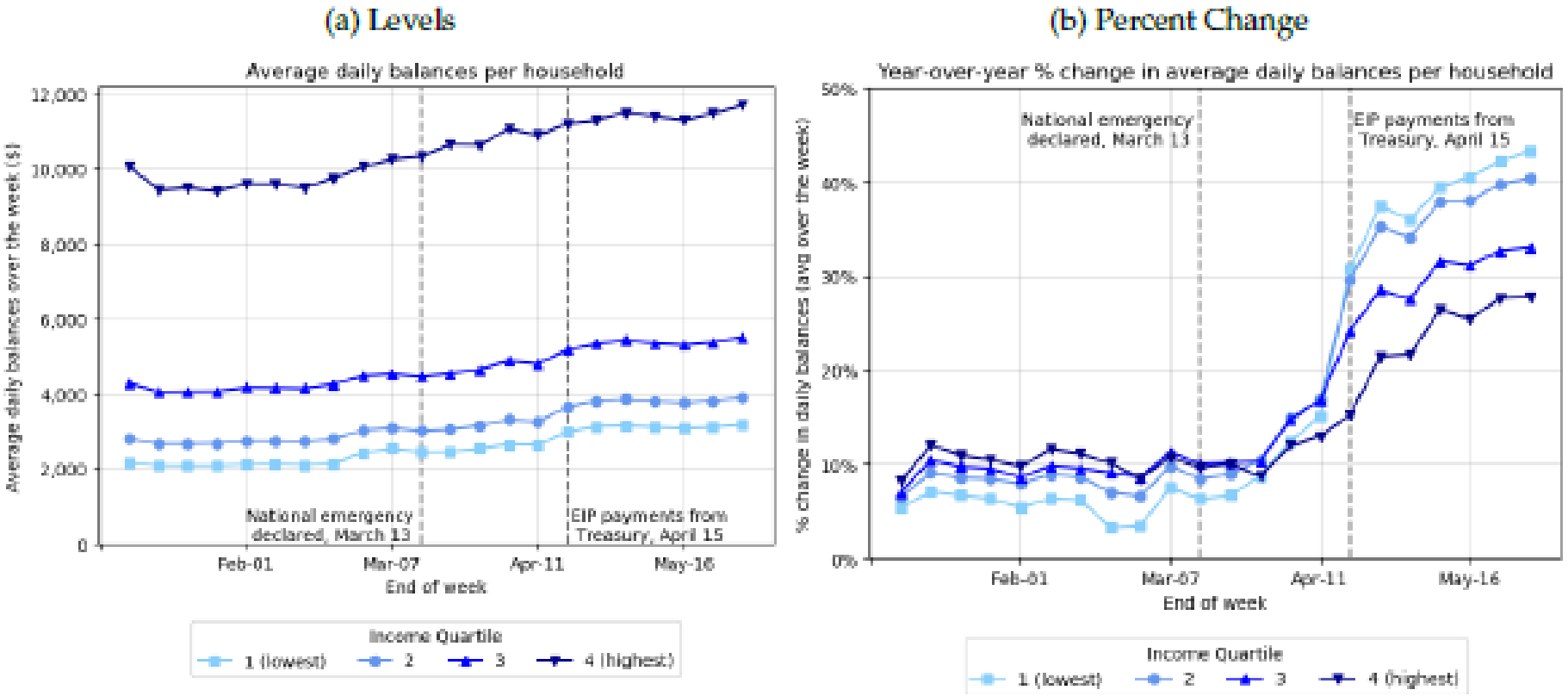


- Smaller spending decline, faster recovery for grocery sector workers.
- Larger spending decline, slower recoveries in higher-income sectors.

Finding 4: Liquid assets have increased by roughly 30%, even more initially for low-asset families

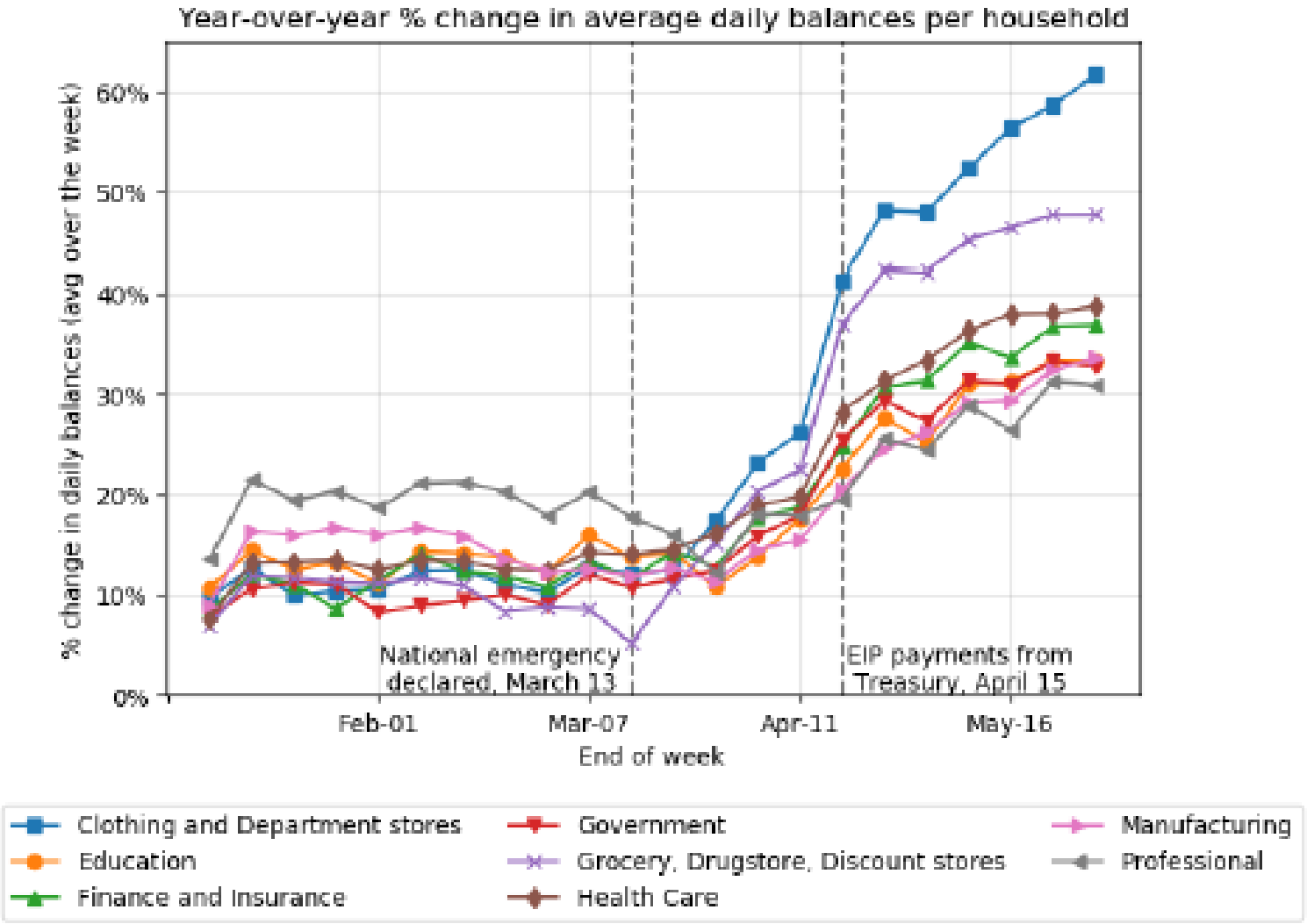


Finding 5: We see stronger growth in liquid assets among lower-income families and families in low income sectors



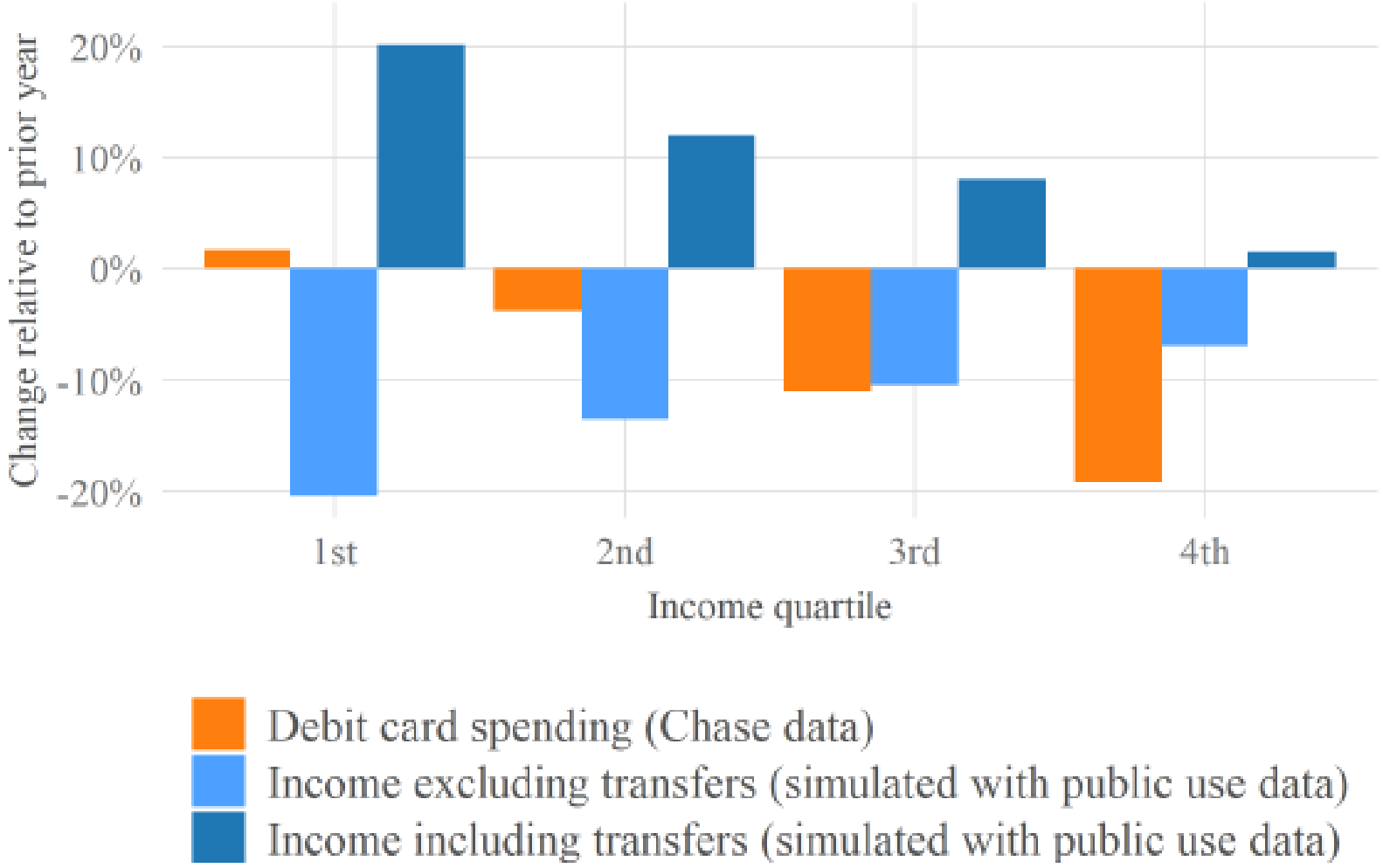
- Stronger growth for low income households implies reduced liquid wealth inequality.
- Divergent patterns by income emerge mid-April:
  - Spending recovers faster for lower income households.
  - Savings grows faster for lower income households.

Finding 5: We see stronger growth in liquid assets among lower-income families and families in low income sectors



Conclusion: Government income support is playing a central role in propping up the spending and liquid balances of low-income families.

Estimated changed in income and spending March-May 2020 relative to prior year



- Simulated income using statutory provisions of the CARES Act, information from the CPS and the unemployment insurance calculator in Ganong, Noel and Vavra (2020).

Economic Impact Payments and Unemployment Insurance have been the primary vehicles that delivered relief directly to families

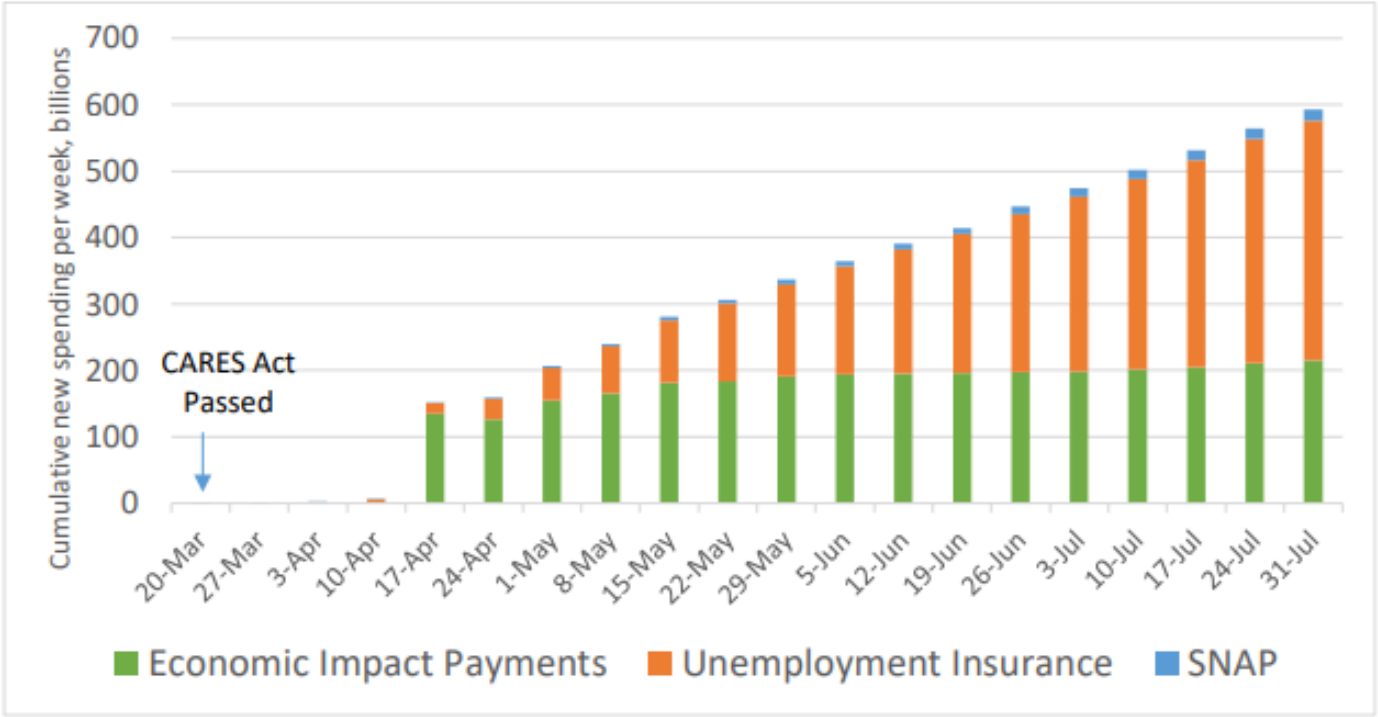
Economic Impact Payment:

- $1200 / $2400 plus $500 / child
- Mostly delivered by end of April

Unemployment Insurance:

- $600 federal supplement through July
- Expansion in eligibility and duration
- Delays in delivery resulted in

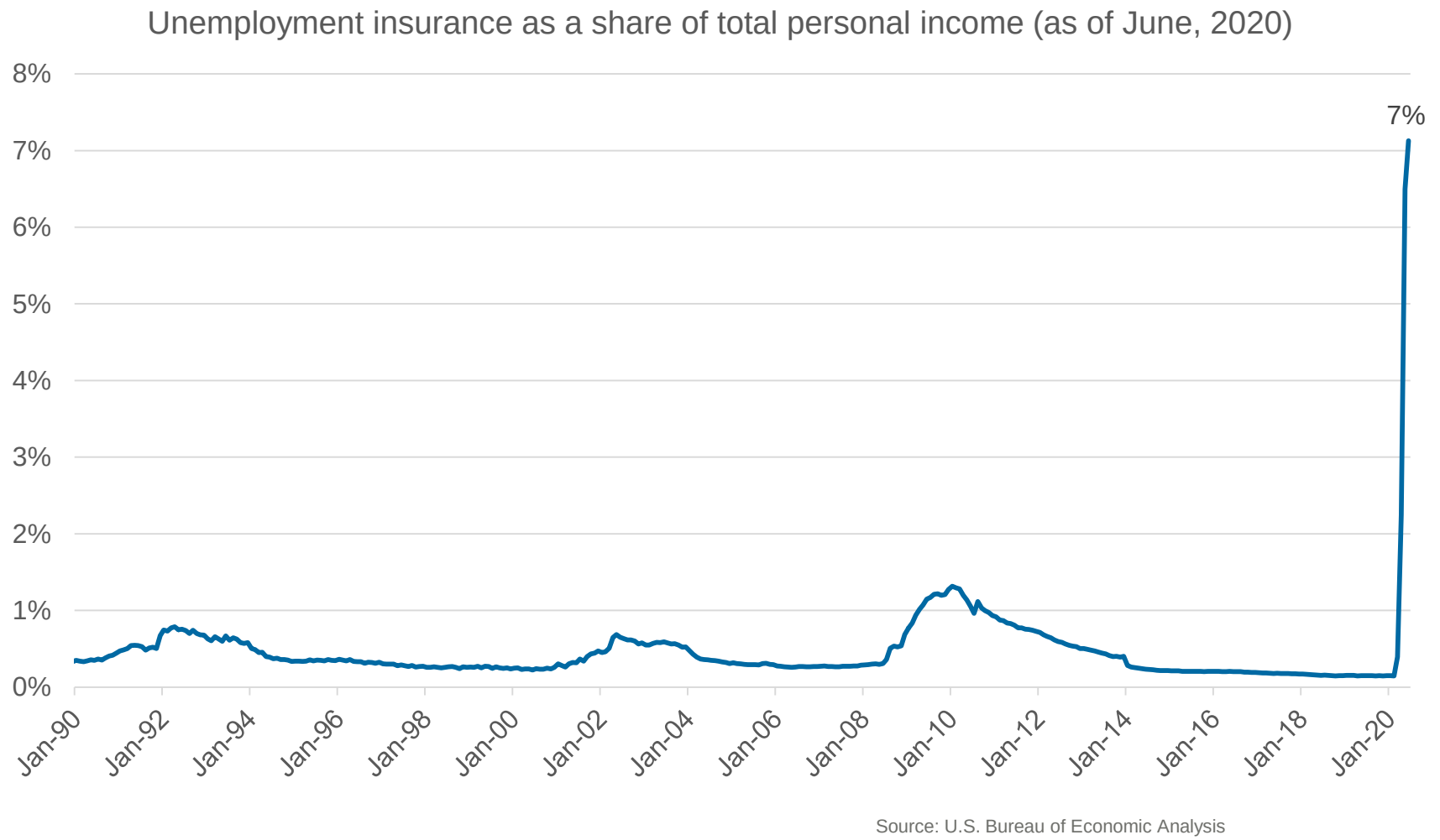
Appendix Figure 6. Cumulative New Spending on UI, Relief Rebates, and SNAP by Week (Billions of 2020$)



Notes: Authors' tabulations of Daily Treasury Statements through July 31 for SNAP, Unemployment Insurance Benefits, and IRS Tax Refunds to Individuals. We difference expenditures from the inflation-adjusted same-week payments in 2019 to net out the seasonality in payments and to separate Economic Impact Payments from usual tax refunds. We censor Economic Impact Payments at zero prior to the week of April 17.

Source: Bitler, Hoynes, Whitmore Schanzenbach, 2020

During the Covid-19 pandemic, unemployment insurance payments have accounted for a record-high share of total income.

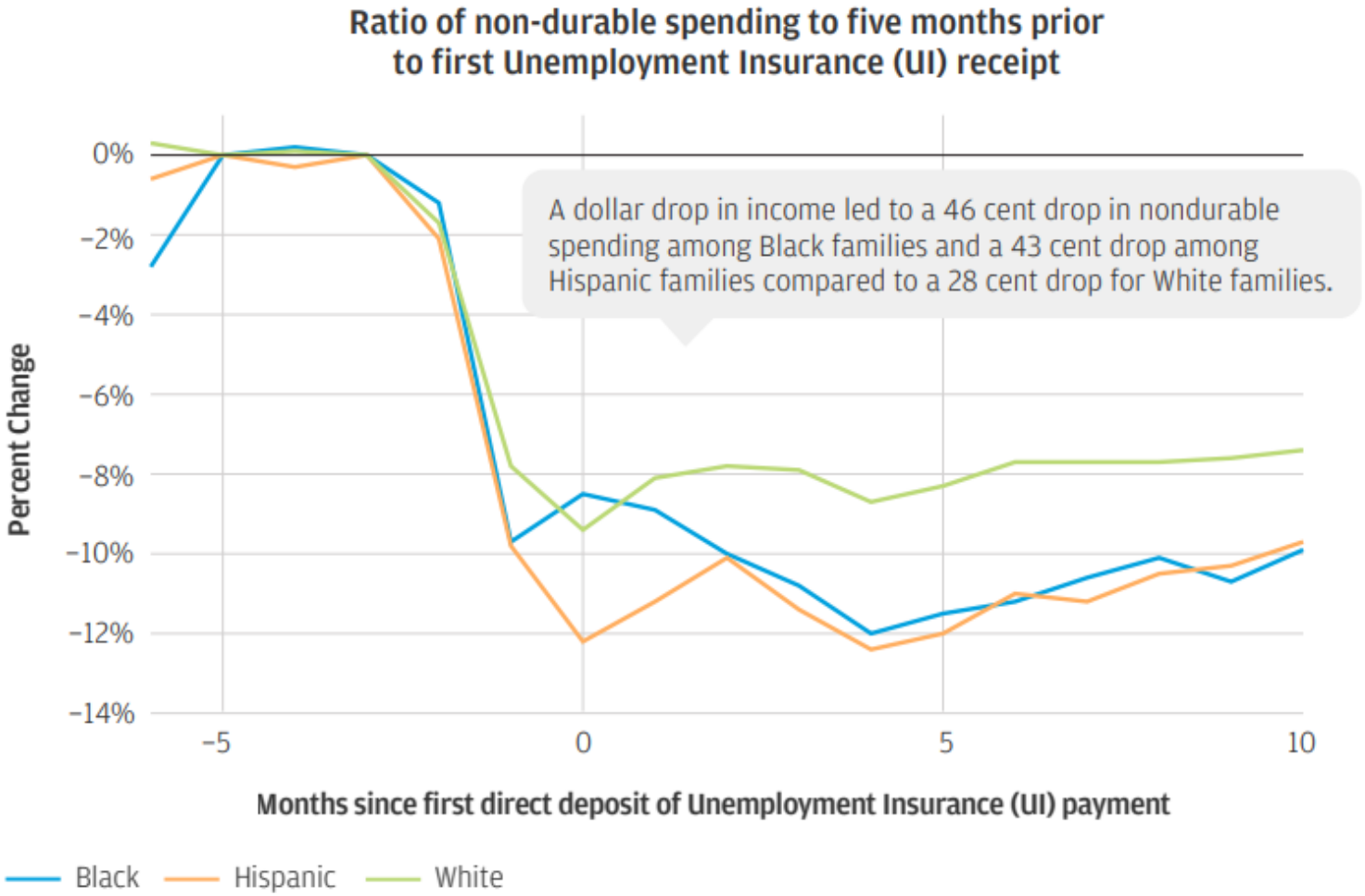


Source: U.S. Bureau of Economic Analysis

In separate research using **pre-pandemic data**, we found that Black and Hispanic families cut their spending more than White families after job loss.

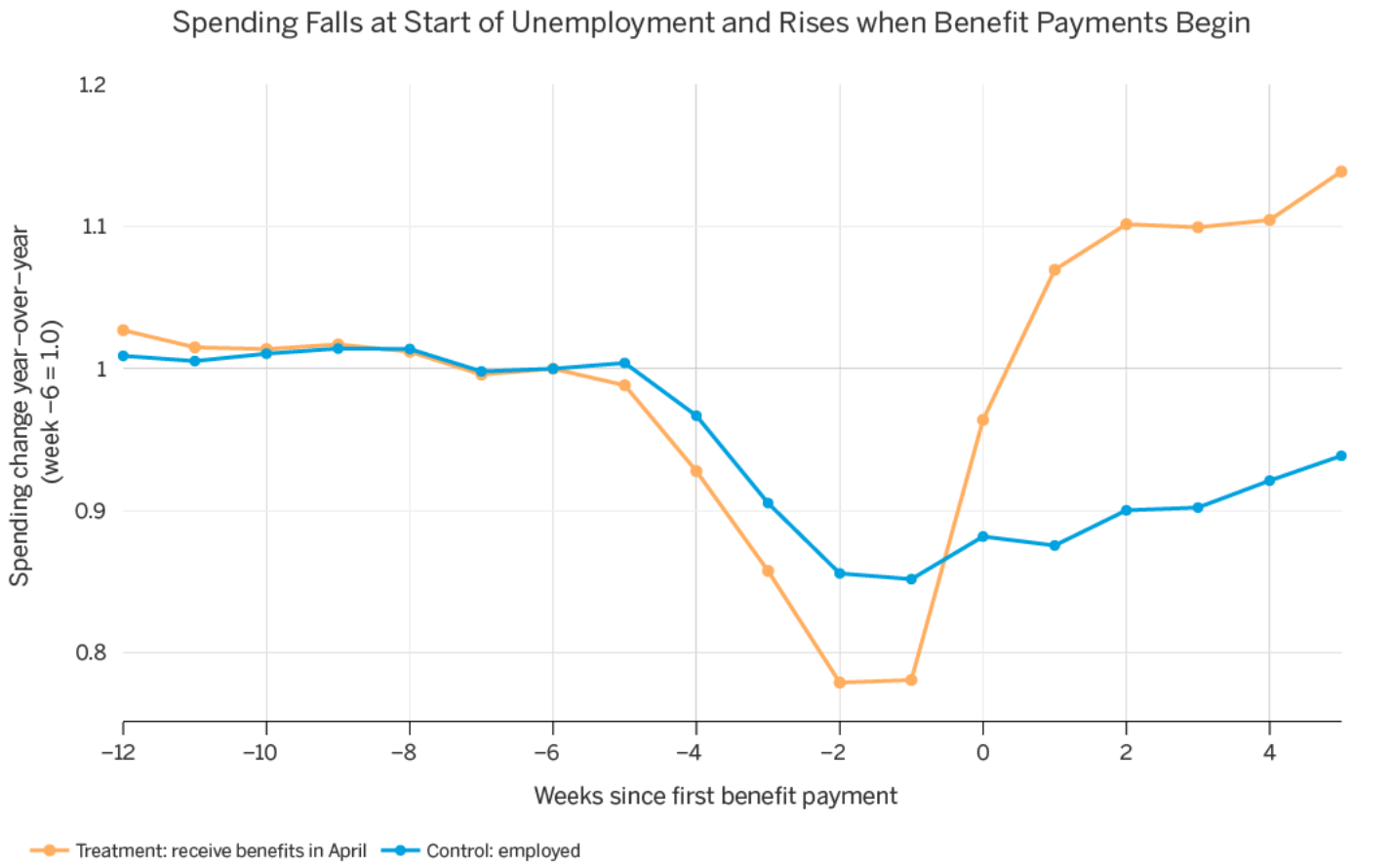
Normally, spending drops upon job loss even while worker is receiving UI.

What are the relative impacts of the $600 UI supplement across income groups, race and ethnicity?



During the Covid-19 pandemic, spending among the unemployed has declined prior to receiving unemployment insurance (UI).

Upon UI receipt, their spending has spiked and remained elevated relative to spending of the employed.



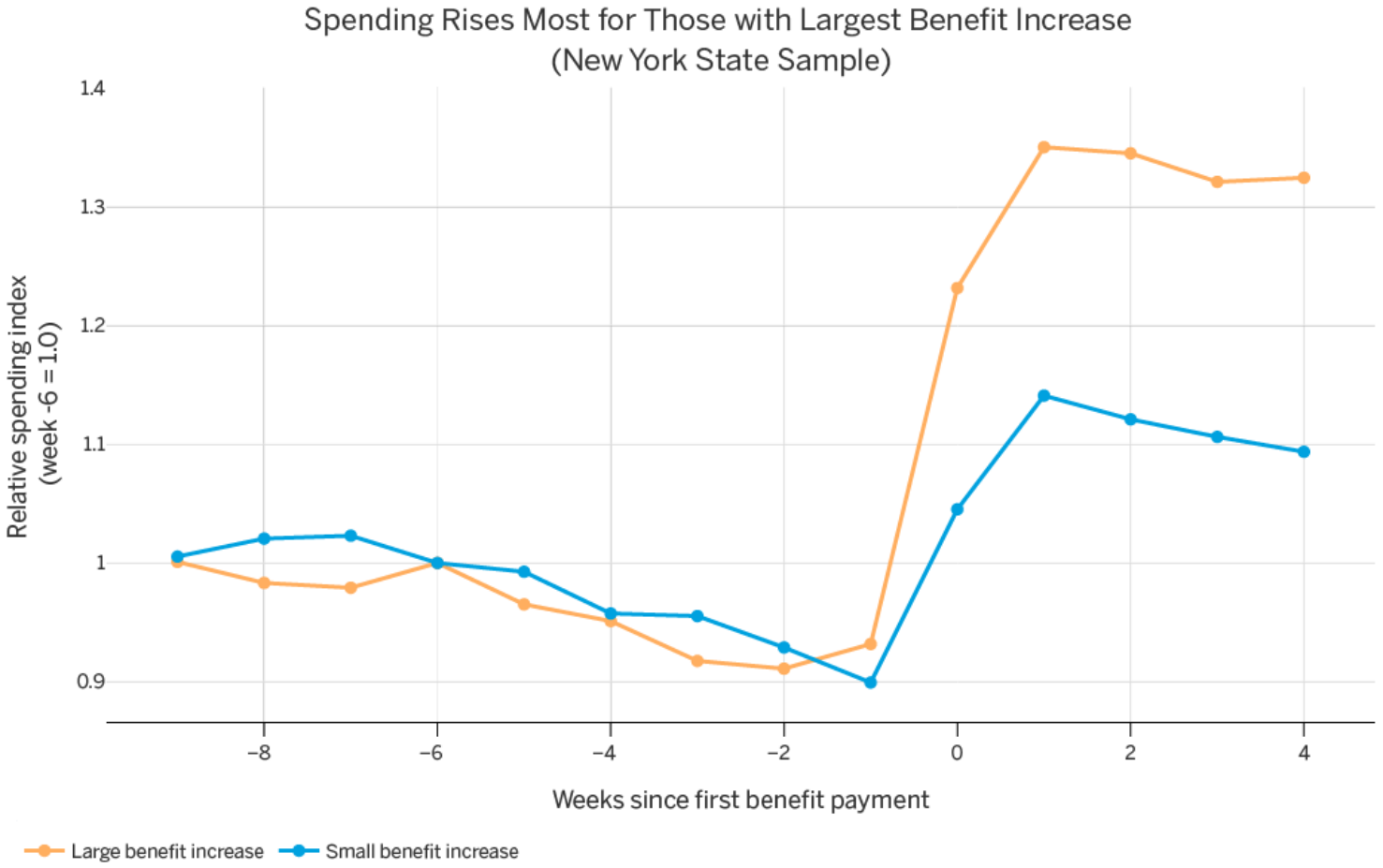
Note: This figure shows the change in spending year-over-year around the start of unemployment benefits. The x-axis shows the number of weeks since the first benefit payment. The treatment group, shown in orange, receives benefits beginning in April. The control group, shown in blue, is employed workers. See "Data and analytical approach" sectionfor details on how the control group is constructed. The y-axis is normalized to one at six weeks prior to the first benefit payment.

Source: JPMorgan Chase Institute

Note: on this slide and on slides 4 and 5, "spending" is in reality a measure of *total outflows* (including transfers) due to data limitations at the time of publication.

Spending increased most among UI recipients with lower pre-job loss incomes.

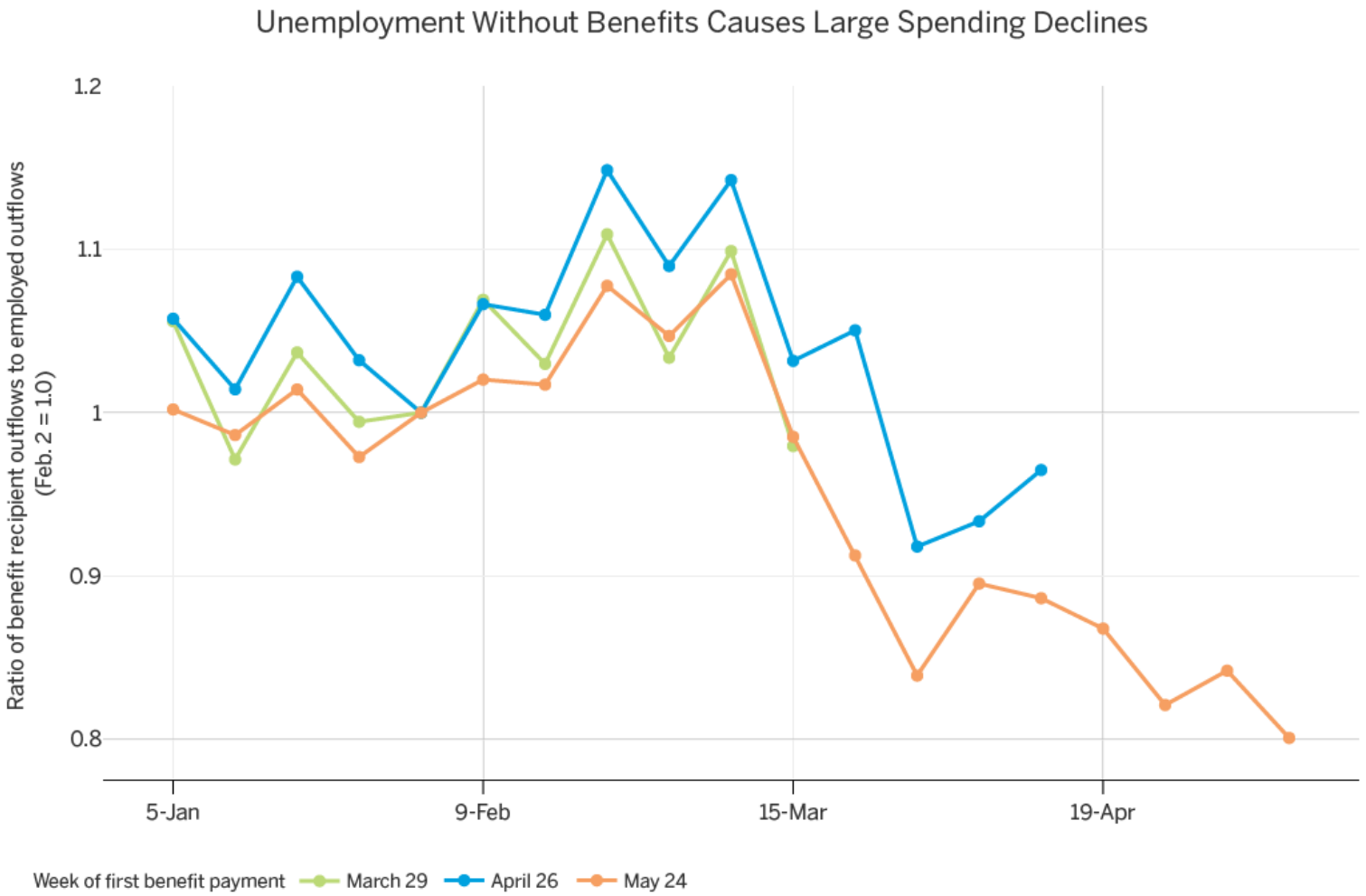
Low-income families experienced larger increases in income due to the $600-per-week Federal Pandemic Unemployment Compensation (FPUC) payments.



Note: This figure shows an index of the spending of unemployed workers relative to employed workers in New York, separately for those who saw a small benefit increase (eligible for the maximum regular UI benefit due to high wages) and those who saw a large benefit increase (eligible for less than the regular UI benefit due to lower wages). The x-axis shows the number of weeks since the first benefit payment. The y-axis is normalized to one at six weeks prior to the first benefit payment. The sample of unemployed workers consists of households that begin receiving benefits in late March, April, or May of 2020, and subsequently receive benefits in every week through the week of May 24.

Source: JPMorgan Chase Institute

Among the unemployed who experience a substantial delay in receiving benefits, spending falls by 20 percent.



Note: This figure shows an index of the spending of unemployed workers relative to employed workers for three separate cohorts of families who first received their benefits on March 29, April 26, or May 24 and experienced job loss in late March or early April ("definitive job losers sample"). The y-axis is normalized to one for the week beginning February 2. This figure analyzes a subsample of Figure 4 that receives their last paycheck by April 19.

Source: JPMorgan Chase Institute

Research implications

- **Aggregate spending** has rebounded, but is still below pre-pandemic levels
- **Government income support** partially drove spending recovery and savings growth
- Specifically, UI during the pandemic has *both* **insured households against the hardships of job loss**, allowing them to smooth consumption, *and* **stimulated aggregate demand** in the overall economy.
- **Targeting income supports to low-income families** is boosting their spending and savings disproportionately. Possibly also the most efficient way to boost aggregate demand given potential income gradient in marginal propensity to consume. (*More to come on this.*)
- **Phasing out stimulus too quickly** may transform supply-side recession into a broader recession due to declines in income and demand.