Visa Business and Economic Insights

U.S. Monthly Consumer Monitor

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Consumer challenges continue to mount

Fig. 1: Retail and food service sales

(SA, percent change since March 2022)

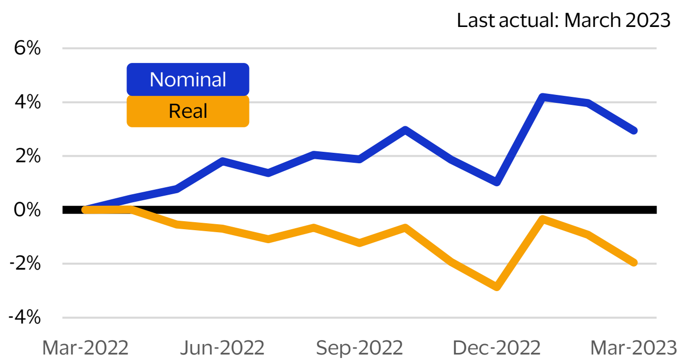


Fig. 2: Asset values and household net worth

(Year-over-year percent change)

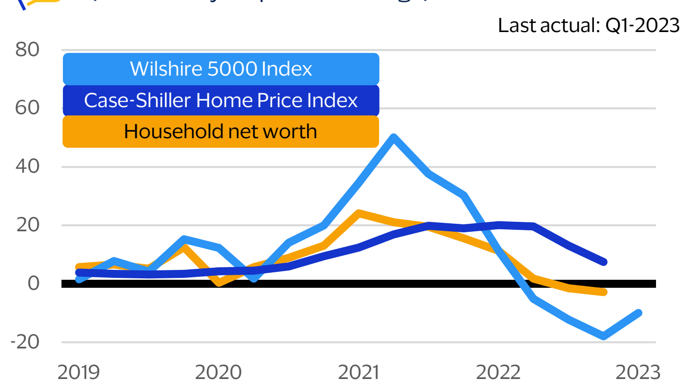
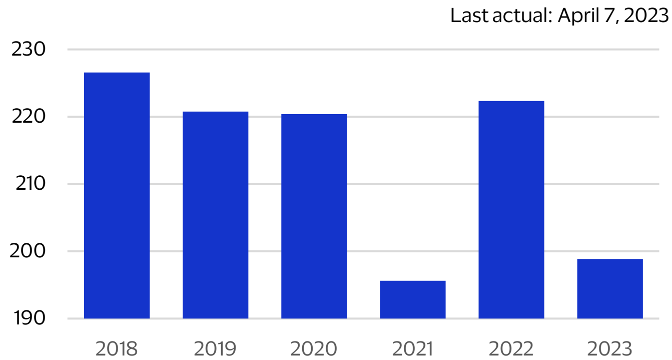


Fig. 3: Cumulative tax returns through early April

(Billions of dollars)



Retail sales slumped in March

Retail and food service sales declined last month amid signs of a broad-based softening in consumer activity.[1] Over the last year, nominal sales went up by approximately 3 percent, but this increase is entirely the result of inflation. Aside from recent turbulence, real inflation-adjusted sales have nosedived for the last 12 months and could be due for a hard landing. The drawdown in real sales broadly tracks an unrelenting rise in interest rates, a decline in consumer confidence, a slowdown in wage growth and a contraction in household net worth.[2] In March, consumers spent less at a wide array of merchant types, including gas stations, general merchandise stores, clothing stores and auto dealers. The weather was likely also a factor, as parts of the Midwest and virtually everywhere between the Rockies and the Pacific Ocean were unseasonably cold.[3] Weather aside, recent data clearly show weaker consumer activity.

Wealth is an underappreciated driver of spending

Household wealth has a large impact on consumer spending, yet it often goes unnoticed by economists and consumer analysts. Over the past year, household net worth has declined in conjunction with asset price fluctuations, and consumers have likely responded by adjusting their spending habits.[4] Wealth influences spending through a few channels, but the gist is that when consumers feel less wealthy, they choose to spend less. Household net worth exploded during the COVID era as home prices increased and the stock market boomed, serving as an underappreciated catalyst for the spending binge that ensued. Now, the reverse is under way, with higher interest rates and mounting recession fears leading to a 20 percent decline in the Wilshire 5000 Index, the broadest measure of U.S. stock market performance. Owner-occupied housing represents the single largest store of wealth for a wide swath of the population, and home values are on a clear downward trajectory. If household net worth continues to shrink, it will only compound the challenges posed by slower wage growth.

The January income boost could be fully unwound

In January, Social Security recipients received an 8.7 percent monthly benefit increase, among the largest in the program's history (increases were only greater in 1979, 1980 and 1981).[5] This resulted in an extra $9 billion in income across 70 million recipients, providing a short-term boost to consumer spending. But more changes are coming to government programs, and they will likely cancel out the entire Social Security raise. Supplemental Nutrition Assistance Program (SNAP) benefits were cut for millions of recipients in March, reducing personal income by an estimated $7.5 billion.[6] Beginning this month, up to 15 million Medicaid participants will lose their healthcare benefits, totaling up to $130 billion over the coming months and years.[7] Lastly, as of April 7, 2023, processed tax returns were down $23 billion from last year.[8] All told, consumers who rely on federal funding could face challenges this year.

Sources

Fig. 1: Visa Business and Economic Insights and U.S. Department of Commerce
Fig. 2: Visa Business and Economic Insights, Federal Reserve Board, Wilshire, and S&P Global
Fig. 3: Visa Business and Economic Insights and U.S. Department of the Treasury

Footnotes

[1] Visa Business and Economic Insights and U.S. Department of Commerce
[2] Visa Business and Economic Insights, Federal Reserve Board, Conference Board, and U.S. Department of Labor
[3] Visa Business and Economic Insights and U.S. Department of Commerce
[4] Visa Business and Economic Insights, Federal Reserve Board, Wilshire, and S&P Global
[5] Visa Business and Economic Insights, U.S. Dept. of Health and Human Services, and U.S. Dept. of Commerce
[6] Visa Business and Economic Insights, U.S. Department of Agriculture, and U.S. Department of Commerce
[7] Visa Business and Economic Insights, U.S. Dept. of Health and Human Services, and U.S. Dept. of Commerce
[8] Visa Business and Economic Insights and U.S. Department of the Treasury

Accessibility Notes

Fig. 1: Line chart showing the seasonally-adjusted percent change in retail sales between March 2022 and March 2023. The chart has a line for nominal sales, which increased steadily until October 2022 when it recorded a 3.0 percent increase from March 2022. It declined through December 2022, falling to 1.0 percent. It then increased sharply in January 2023, reaching 4.2 percent before declining to 2.9 percent by March 2023. The chart also has a line for real retail sales, which declined steadily to -2.9 percent by December 2022, rose to -0.3 percent in January 2023, then declined again to -1.9 percent by March 2023.

Fig. 2: Line chart showing the year-over-year percent change in household net worth and select asset valuations. There is a line for household net worth that starts at 5.6 percent in 2019-Q1, rises to 24.1 percent by 2021-Q1, and declines to -2.9 percent by 2022-Q4. Another line for the Wilshire 5000 Index starts at 1.5 percent in 2019-Q1, rises to 50.1 percent in 2021-Q2, then declines to -10.0 percent by 2023-Q1. Another line for the Case-Shiller Home Price Index starts in 2019-Q1 at 3.9 percent, rises to 20.1 percent by 2022-Q1, and declines to 7.4 percent by 2022-Q4.

Fig. 3: Bar chart showing processed tax returns through early April for each year between 2018 and 2023. For 2018, 2019, and 2020, processed tax returns totaled between $220 billion and $227 billion. In 2021 they fell to $195.6 billion. In 2022 they rose to $222.3 billion. In 2023 they declined to $198.9 billion.

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