Michael Brown | Principal U.S. Economist
michael.brown@visa.com

Ben Wright | U.S. Economist
bewright@visa.com

U.S. Consumer Monitor

May 2023

The pandemic may be over, but consumer spending shifts endure

Fig. 1: E-commerce share of retail sales
(SA, percent)

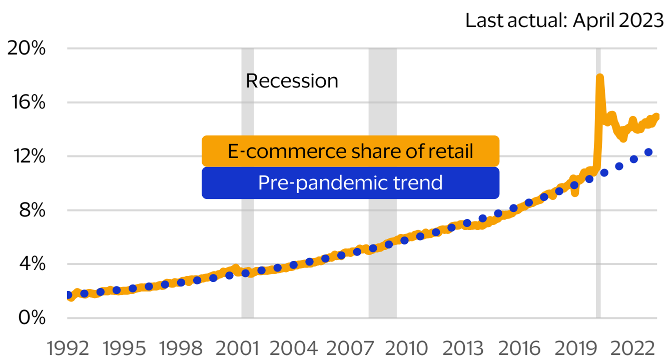


Fig. 2: Goods share of personal consumption expenditures
(SA, percent)

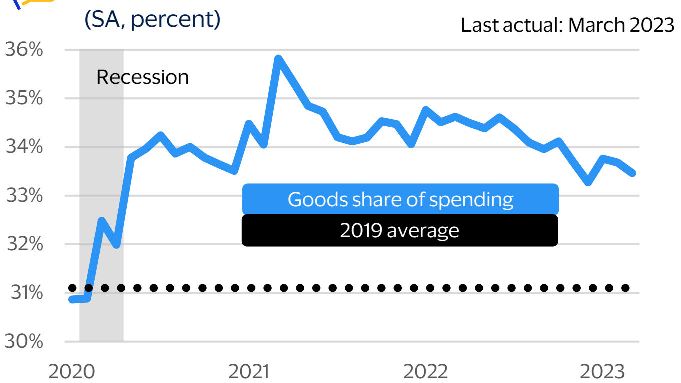
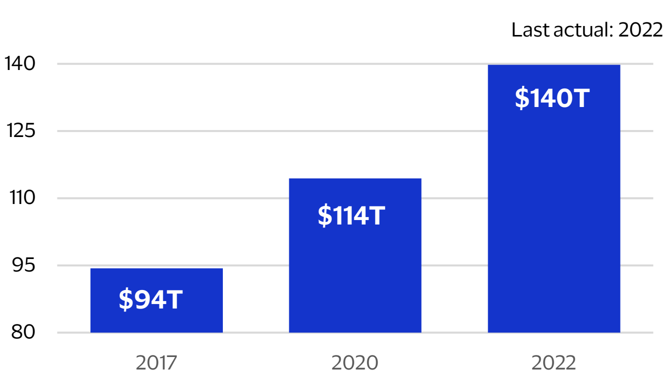


Fig. 3: Household net worth
(Trillions of dollars)



Consumers changed the way they shop and pay

The pandemic national emergency ended on May 11, 2023, closing the book on a challenging three-year period.[1] The coronavirus inflicted serious damage to the economy and public health, and while some of its effects have begun to fade, others could persist. In early 2020, when people were asked to stay home and merchants were ordered to limit visitors to their physical storefronts, online shopping really took off. E-commerce was already on a sharp upward trajectory, growing exponentially since its inception several decades ago. The lockdowns accelerated its adoption by consumers, pushing its share of overall retail sales as high as 18 percent.[2] After a brief reversion to trend, e-commerce momentum began to increase again, indicating a lasting shift in consumer behavior. At the same time, credit card usage expanded rapidly, displacing cash.[3] The transition to online shopping partly explains this trend, but consumers also began using credit cards more frequently for in-person transactions, with credit cards becoming the dominant form of payment for the first time on record.

Goods gained a larger share of the consumer budget

During the pandemic, when face-to-face services were largely unavailable, the typical budget shifted dramatically toward goods.[4] Furniture and recreation were early leaders, as people upsized their homes and filled the extra space with couches, exercise bikes and electronics. The work-from-home movement induced demand for office equipment, and city-dwellers who no longer had access to public transit purchased a large number of used cars. Even clothing sales shot up, as comfort took precedence over style. Lastly, groceries (a good) replaced restaurant meals (a service), shifting the consumer budget even further. Inflation was partially responsible for this broad-based change, as prices for goods increased more quickly than prices for services, but even after adjusting for inflation, consumers spent much more on physical items than before the pandemic. Budgets have partially reverted to their previous balance between goods and services, but the slow nature of this reversal suggests a structural shift has occurred.

Consumers became much more responsive to wealth

When consumers gain wealth, their spending typically increases. In 2017, for every additional dollar of wealth, consumers spent an extra 9 cents.[5] By 2022, this wealth effect had increased to 34 cents, giving wealth a much larger role in spending decisions. Why did the wealth effect increase so quickly? Because household net worth has exploded, the retiree population has expanded, and financial news reaches consumers faster than ever before. The wealth effect has a particularly strong influence on travel spending. When markets do well, travel spending increases sharply. When markets do poorly, travel suffers. In such an environment, understanding the wealth effect and following financial markets has become a critical aspect of business intelligence.

Sources

Fig. 1: Visa Business and Economic Insights and U.S. Department of Commerce
Fig. 2: Visa Business and Economic Insights and U.S. Department of Commerce
Fig. 3: Visa Business and Economic Insights and Federal Reserve Board

Footnotes

[1] Visa Business and Economic Insights and U.S. Department of Health and Human Services
[2] Visa Business and Economic Insights and U.S. Department of Commerce
[3] Visa Business and Economic Insights and Federal Reserve Bank of San Francisco
[4] Visa Business and Economic Insights and U.S. Department of Commerce
[5] Visa Business and Economic Insights, Federal Reserve Board, and U.S. Department of Commerce

Accessibility Notes

Fig. 1: Line chart showing e-commerce share of overall retail sales. The chart has a monthly line for e-commerce share of retail sales, and another line for the 1992-2019 trend. Both lines start in January 1992 and end in April 2023. E-commerce share of retail starts at 1.6 percent and increases exponentially, reaching 10.8 percent by December 2019. It increases quickly in early 2020, reaching 17.9 percent in April 2020. It then descends to 13.3 percent by July 2021 before increasing to 14.9 percent in April 2023. The trend line shows an exponential increase that closely follows e-commerce share of retail from January 1992 to December 2019. From early 2020 to early 2023, it falls far below e-commerce share of retail, reaching only 12.2 percent by April 2023.

Fig. 2: Line chart showing the share of personal consumption expenditures spent on goods. There is a line for the monthly share of personal consumption expenditures spent on goods, and another line for the 2019 average. The line for monthly share of spending on goods starts in January 2020 at 30.9 percent, rises to 35.8 percent by March 2021, and declines to 33.5 percent by March 2023. The line for the 2019 average shows a value of 31.1 percent.

Fig. 3: Bar chart showing household net worth. It has bars for net worth in 2017, 2020, and 2022. Household net worth begins in 2017 at $94 trillion, increases to $114 trillion in 2022, and increases again to $140 trillion in 2022.

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Visa Business and Economic Insights Staff

Wayne Best, Chief Economist	wbest@visa.com
Bruce Cundiff, Vice President, Consumer Insights	bcundiff@visa.com
Michael Brown, Principal U.S. Economist	michael.brown@visa.com
Adolfo Laurenti, Principal European Economist	laurenta@visa.com
Richard Lung, Principal Global Economist	rlung@visa.com
Glenn Maguire, Principal Asia Pacific Economist	gmaguire@visa.com
Mohamed Bardastani, Senior CEMEA Economist	mbardast@visa.com
Dulguun Batbold, Senior Global Economist	dbatbold@visa.com
Jennifer Doettling, Director, Content and Editorial	jdoettli@visa.com
Michael Nevski, Director, Consumer Insights	mnevski@visa.com
Ben Wright, U.S. Economist	bewright@visa.com
Travis Clark, U.S. Economist	wiclark@visa.com
Angelina Pascual, European Economist	anpascua@visa.com
Mariamawit Tadesse, Global Economist	mtadesse@visa.com
Woon Chian Ng, Asia Pacific Economist	woonng@visa.com
Juliana Tang, Project Coordinator	jultang@visa.com

For more information, please visit us at Visa.com/Economicinsights or VisaEconomicInsights@visa.com.