The Impacts of COVID-19 on Income and Consumption

JPMorgan Chase Institute

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Overview

Using de-identified administrative banking data, the JPMorgan Chase Institute has studied how families' incomes, spending, and savings have changed during the pandemic.

Credit Card Consumption: What are the impacts of COVID-19 on families' spending behaviors?

- We examine **credit card spending data through April 11, 2020** for a sample of 8 million families who have been active users of their credit card since January 2018. For a subset of our analyses, we join with checking account data, which allow us to segment our population by pre-COVID income and industry of employment.

Checking Account Balances: How have families' liquid balances been impacted during the pandemic?

- We analyze trends in daily personal **checking account balances between January 2019 and October 2020**. The data asset follows 1.8 million families across the U.S., applying minimum income and activity filters to focus on families whose Chase checking account is likely to be their primary checking account.

Unemployment Insurance (UI): How have changes in UI policy impacted the spending and savings of the unemployed?

- We examine labor and unemployment insurance inflows, spending, and savings through August 2020 among a sample of approximately 60,000 unemployment insurance recipients.

- Key advantages of the data:
  - Links household spending, income and savings and individual covariates
  - Large sample size, wide geographic coverage, spans income spectrum

- Key disadvantages of the data:
  - Limited to Chase customers, who tend to be younger than the general population, and are less likely to be very low-income or very high-income.
  - We only observe unemployment insurance direct-deposited to a bank account. However, a large share of the unemployed receive UI via prepaid debit card, not by direct deposit.

We will present findings in three areas: trends in credit card consumption, the path of families' checking account balances, and the impact of unemployment insurance.

Credit Card Consumption

- Average household credit card spending had fallen by 40 percent year-over-year by the end of March 2020
- Spending on essentials initially spiked 20 percent before falling below pre-pandemic levels, while spending on non-essentials declined by 50 percent and accounted for nearly all of the total spending decline
- Spending dropped substantially for households across the entire income distribution, with slightly larger drops for higher-income households

Checking Account Balances

- The median checking account balance increased by 65 percent after the arrival of the Economic Impact Payments in April 2020 and has fallen continuously since May, losing half of the initial balance gains
- Compared to high-income families, low-income households experienced the largest year-over-year percent increase in median balances in April but the largest decrease in balances since then

Unemployment Insurance (UI)

- The $600 weekly UI supplement paid from April through the end of July changed the experience of unemployment. Our data show that during the pandemic—in contrast to normal times—the spending of the unemployed increased upon receipt of unemployment insurance. Furthermore, the unemployed increased their liquid savings.
- We also find that spending of the unemployed declined by 14 percent when the $600 supplement expired. Their liquid savings declined at the same time.

Topic 1: Trends in credit card consumption

Average household credit card spending had fallen by 40 percent year-over-year by the end of March 2020

Figure 1: Average weekly household credit card spending had fallen by 40 percent year-over-year by the end of March 2020

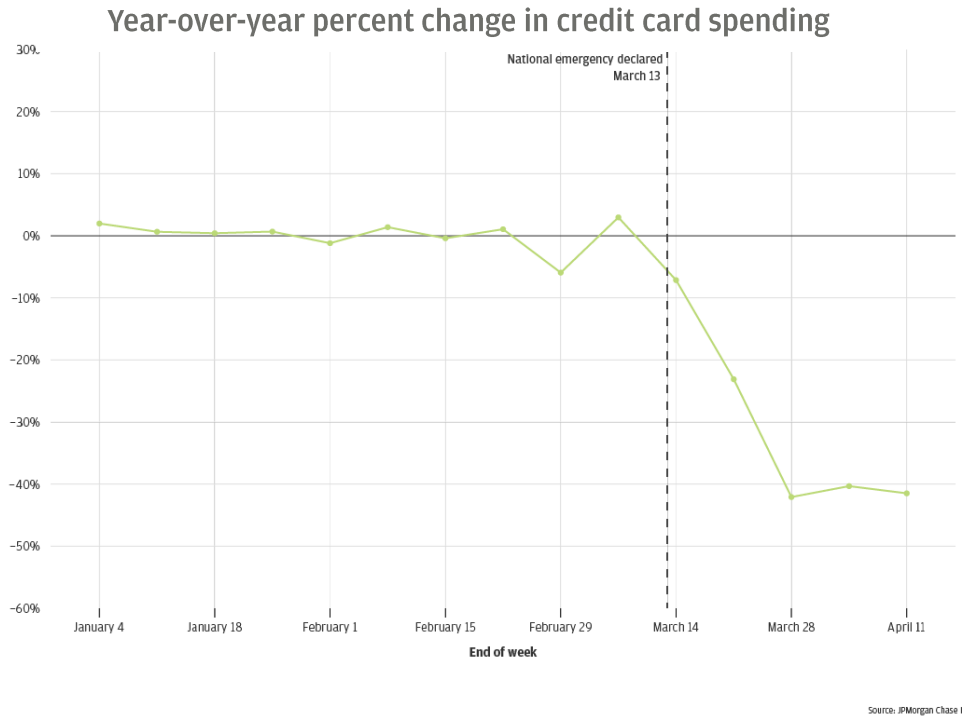
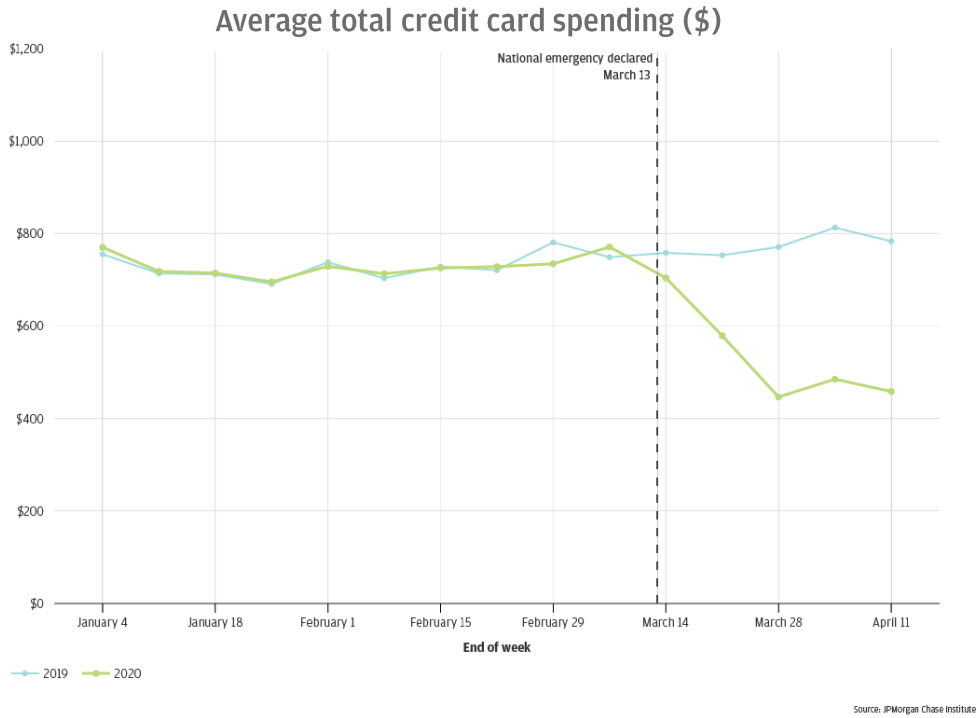


Figure 2: Average weekly credit card spending per household was more than $300 lower in April 2020 compared to April 2019



Key dates

- Feb 6: First coronavirus related death in the U.S.
- March 13: National emergency was declared
- March 29: The number of cumulative new cases passed 100,000
- April 7: Stay at home policies were in effect in 45 States and DC and PR.

Spending on essentials initially spiked 20 percent before falling to below pre-pandemic levels, while spending on non-essentials declined by 50 percent, accounting for most of the total spending decline

Figure 4: Spending in non-essential categories dropped by roughly 50 percent year-over-year compared to 20 percent for essential categories

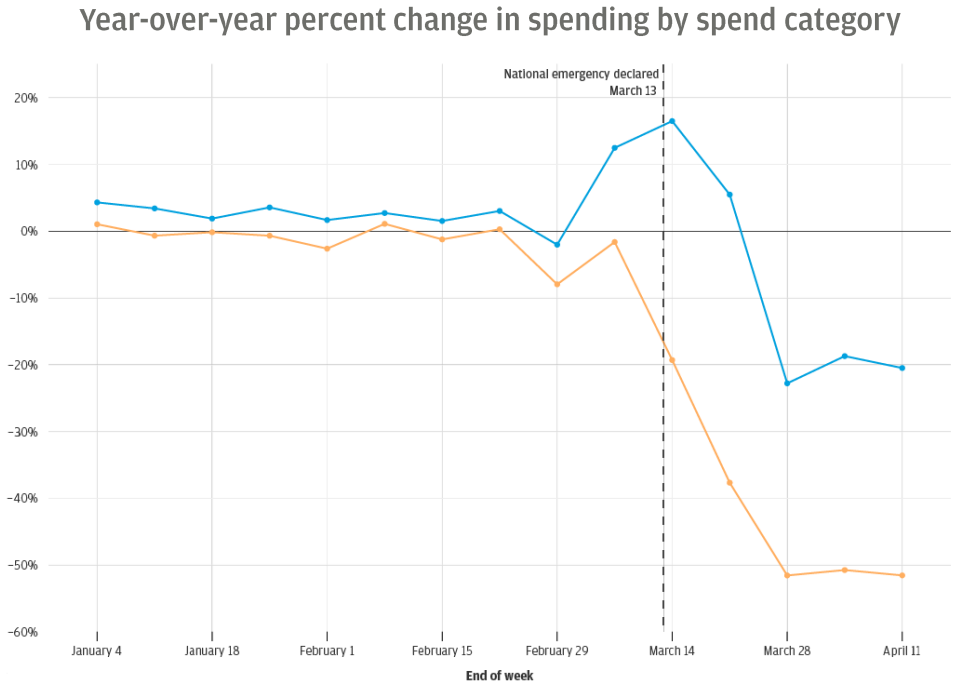
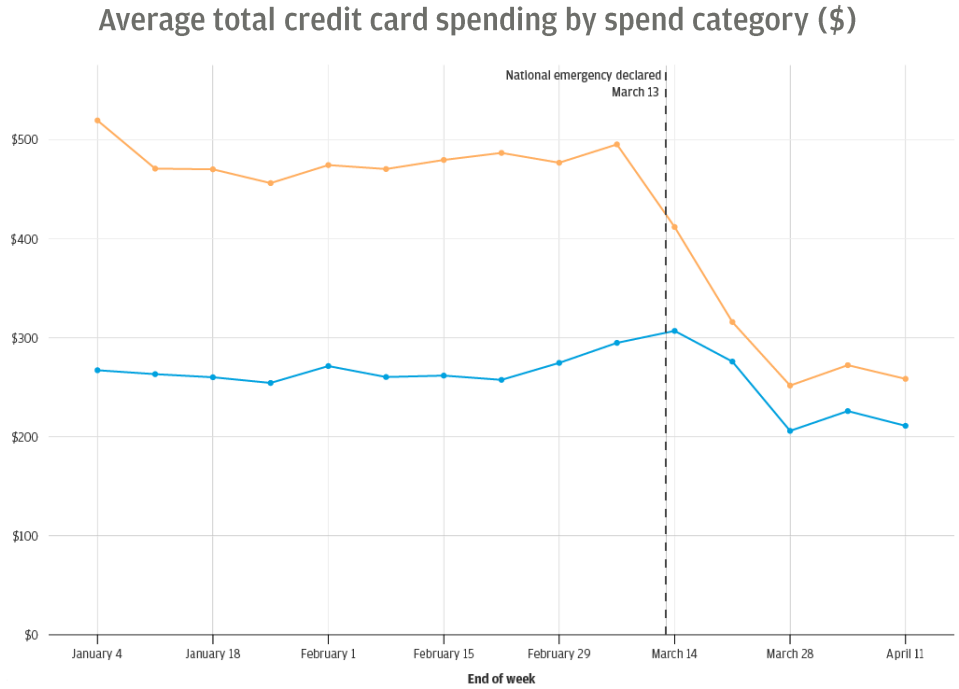


Figure 5: Average weekly household spending on non-essential categories dropped by roughly $200



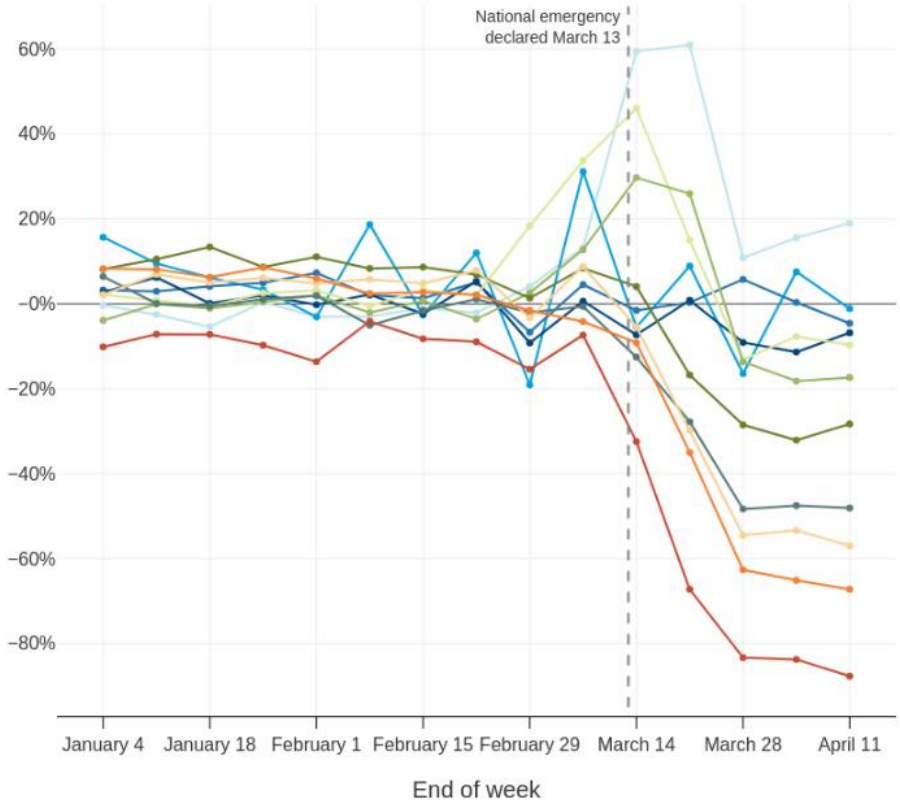
Essential Non-essential

Note: 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.

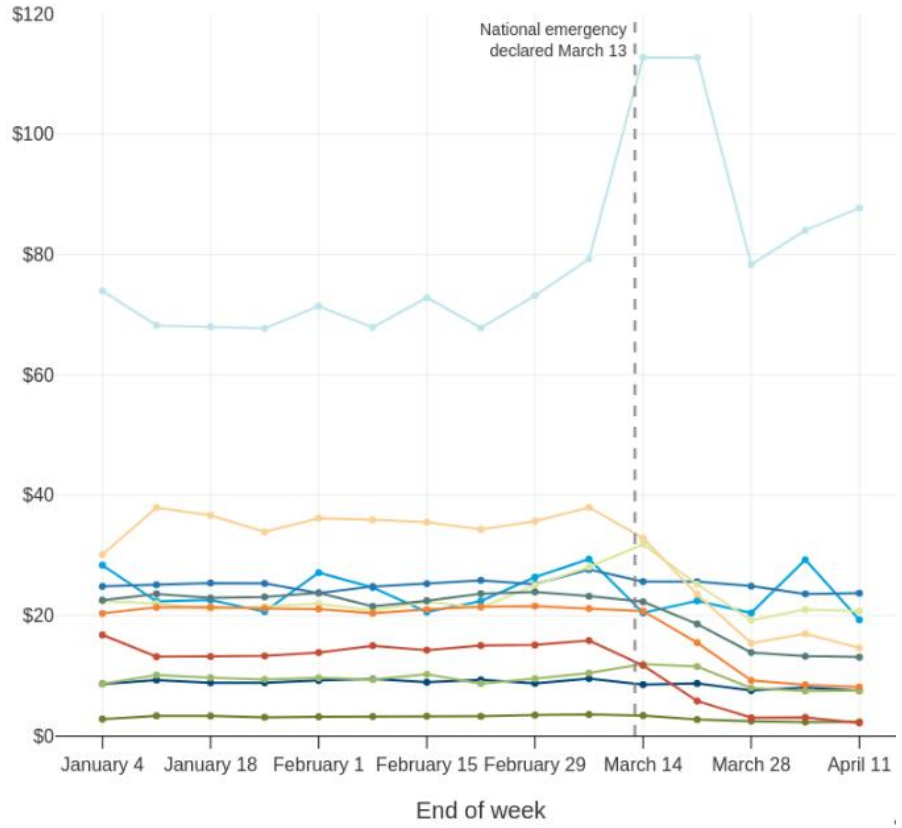
Source: JPMorgan Chase Institute

Large drops in spending on healthcare and transportation contribute significantly to the 20 percent decline in “essential” spending.

Year-over-year percent change in spending by essential sub-category

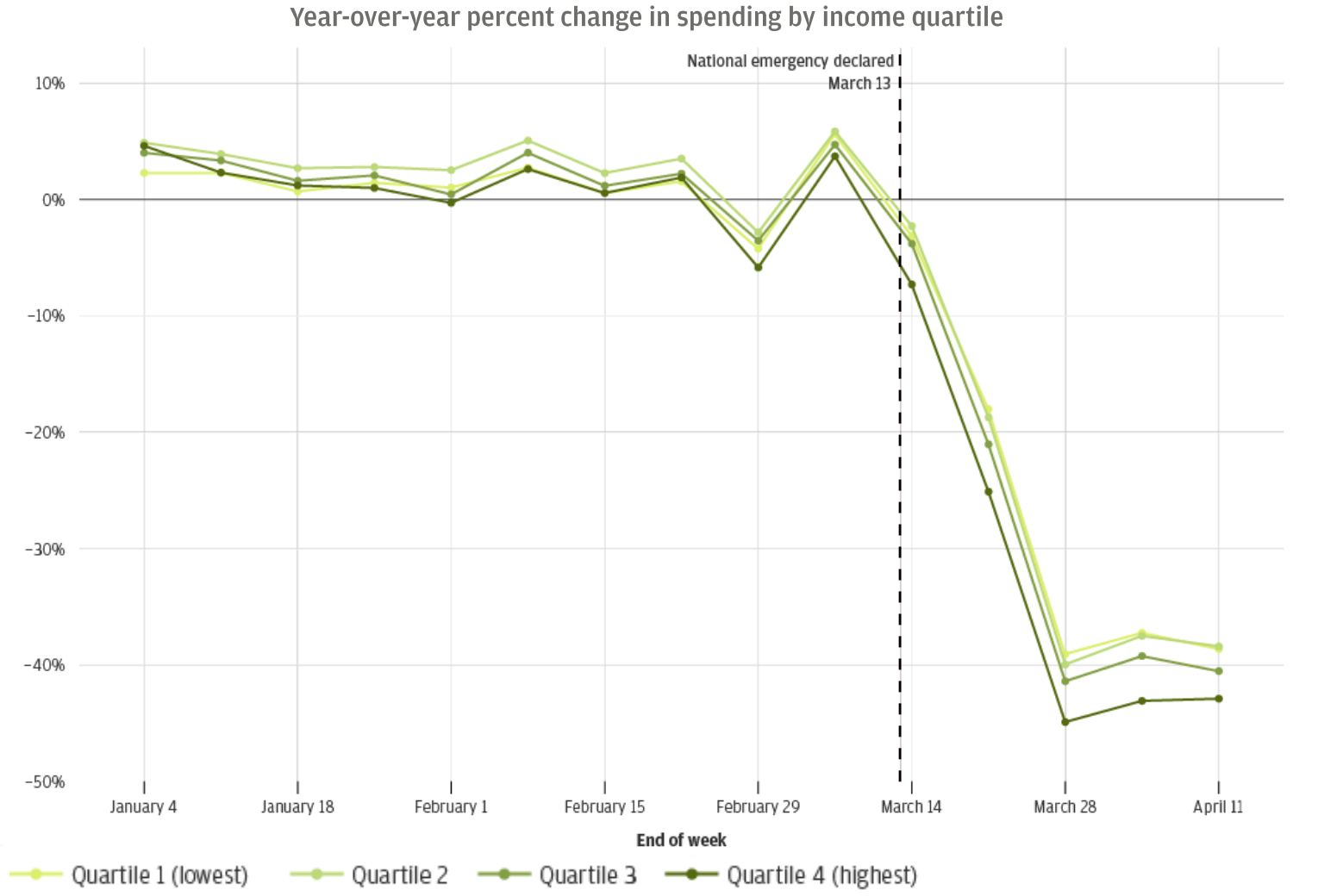


Average dollar change in spending by essential sub-category



Finding 3: Spending dropped substantially for households across the entire income distribution, with slightly larger drops for higher-income households

Figure 7: Year-over-year reductions in aggregate spending are slightly larger for households in the upper portion of the income distribution.

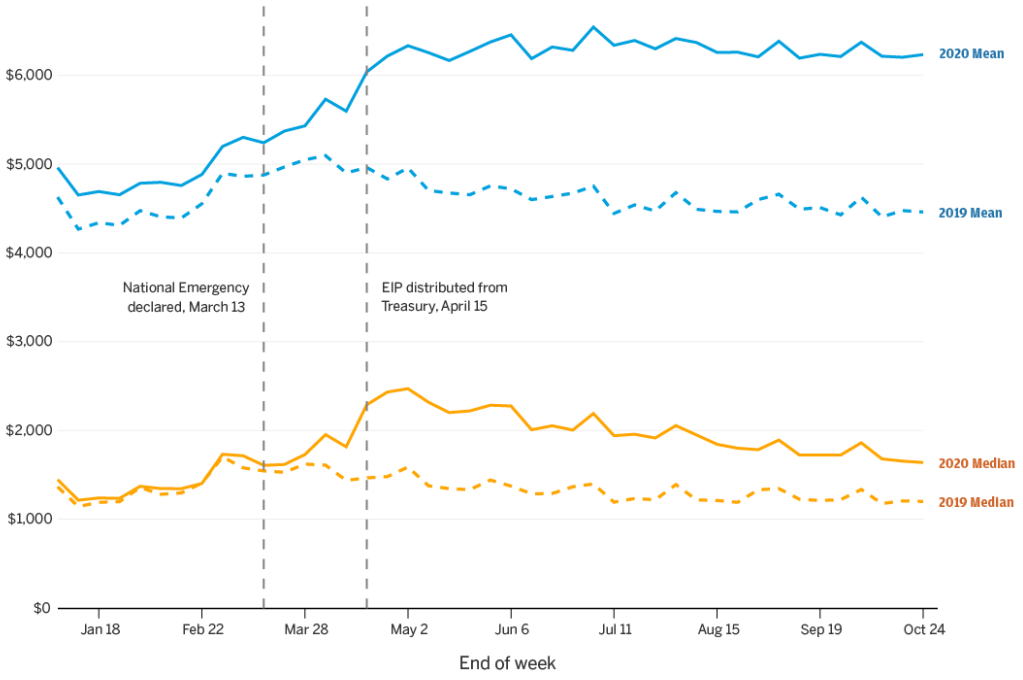


Note: Income quartiles are defined as follows: Quartile 1: less than $39,200; Quartile 2: $39,200 - $58,900; Quartile 3: $58,900- $91,800; Quartile 4: greater than $91,800.

Topic 2: Trends in household checking account balances

The median checking account balance increased by 65 percent after the arrival of the Economic Impact Payments in April 2020 and has fallen continuously since May, losing half of the initial balance gains

Mean and median household checking account balance levels in 2020 and 2019

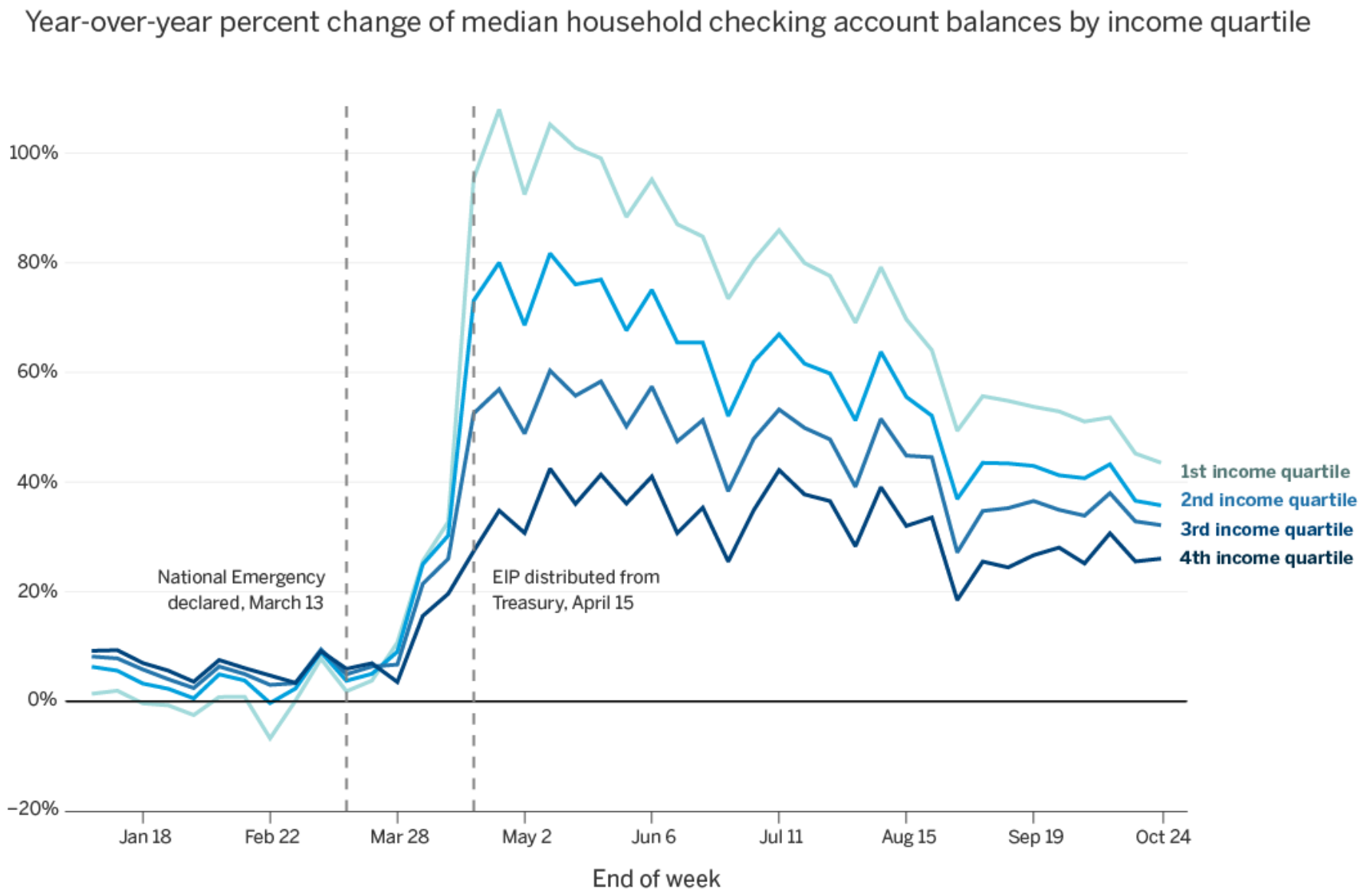


Source: JPMorgan Chase Institute

Year-over-year percent change of mean and median household checking account balances

Source: JPMorgan Chase Institute

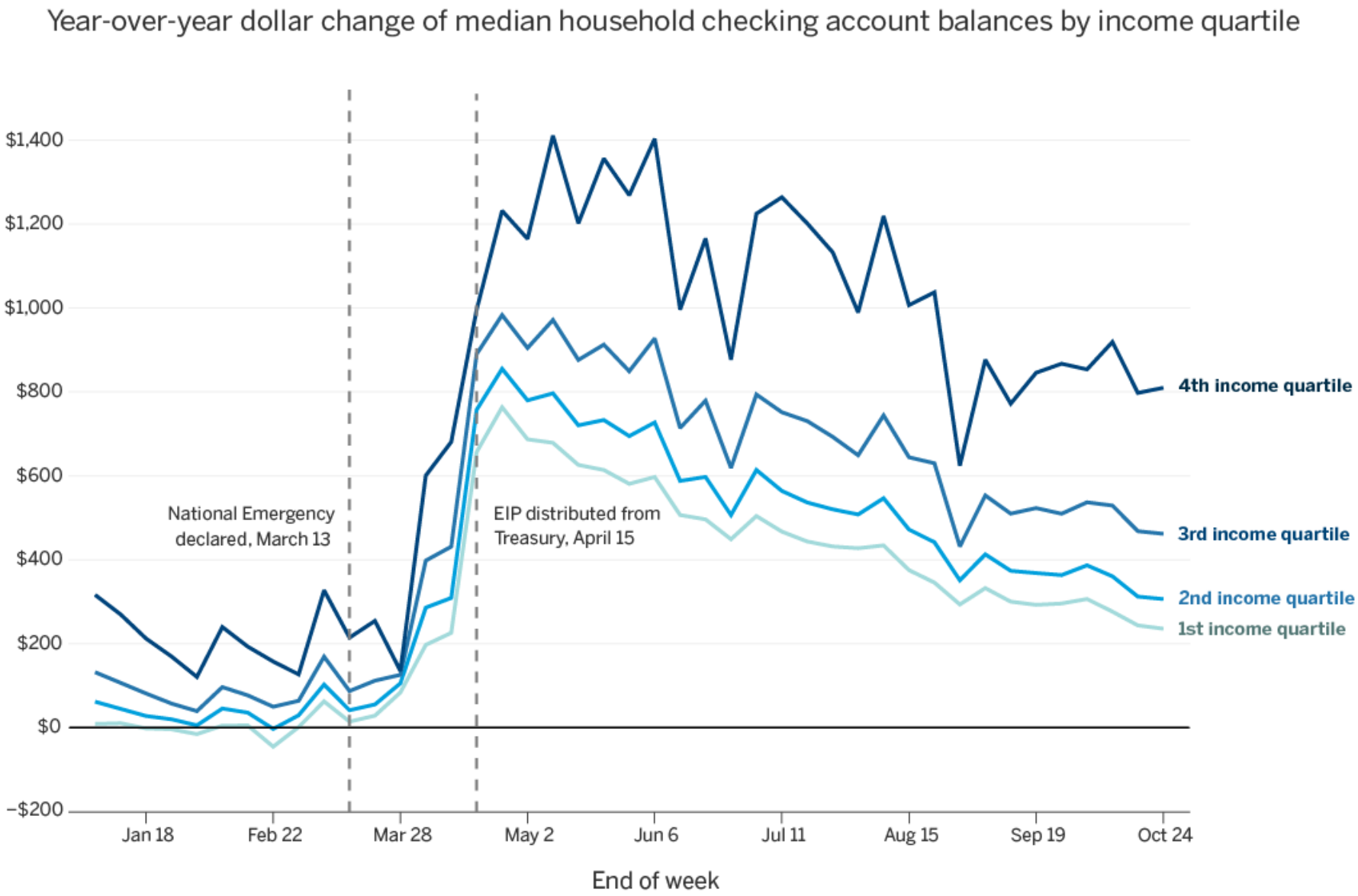
Compared to high-income families, low-income households experienced the largest year-over-year percent increase in median balances in April but the largest decrease in balances since then



Note: This chart shows year-over-year change in median checking account balances by income quartile. We assign households into income quartiles based on their total labor income from 2019. Households in quartile 1 earned between $12,000 and $30,267 in labor income; quartile 2 households earned $30,268 to $44,905; quartile 3 households earned $44,906 to $68,795; and quartile 4 households earned more than $68,795

Source: JPMorgan Chase Institute

In dollar terms, these trends translate into larger balance increases for higher-income families, with low-income families likely to deplete their account balance gains sooner than their high-earning counterparts



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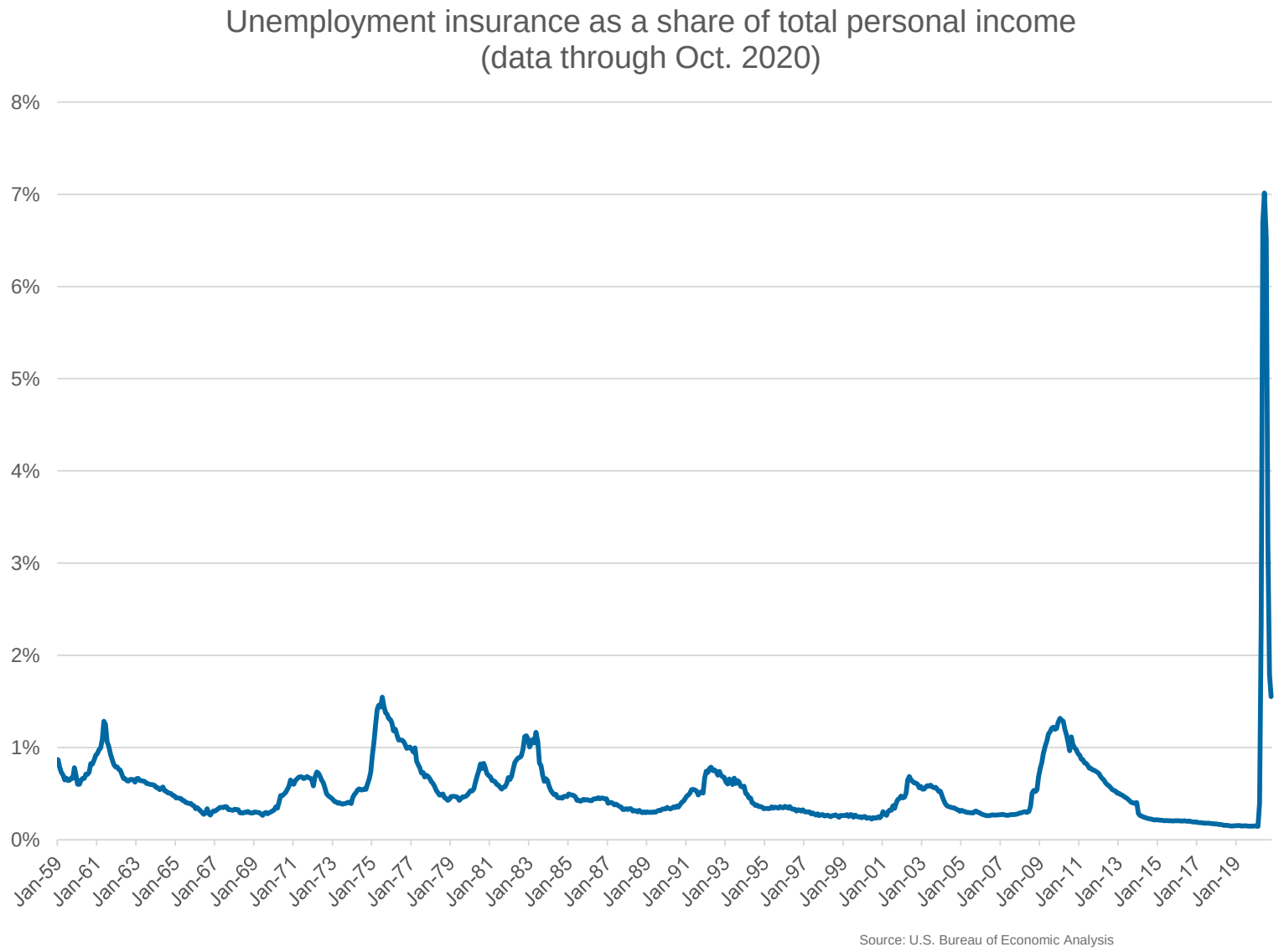
Source: JPMorgan Chase Institute

Topic 3: Impacts of unemployment insurance

Unemployment Insurance (UI) payments have accounted for a record-high share of total income during COVID-19.

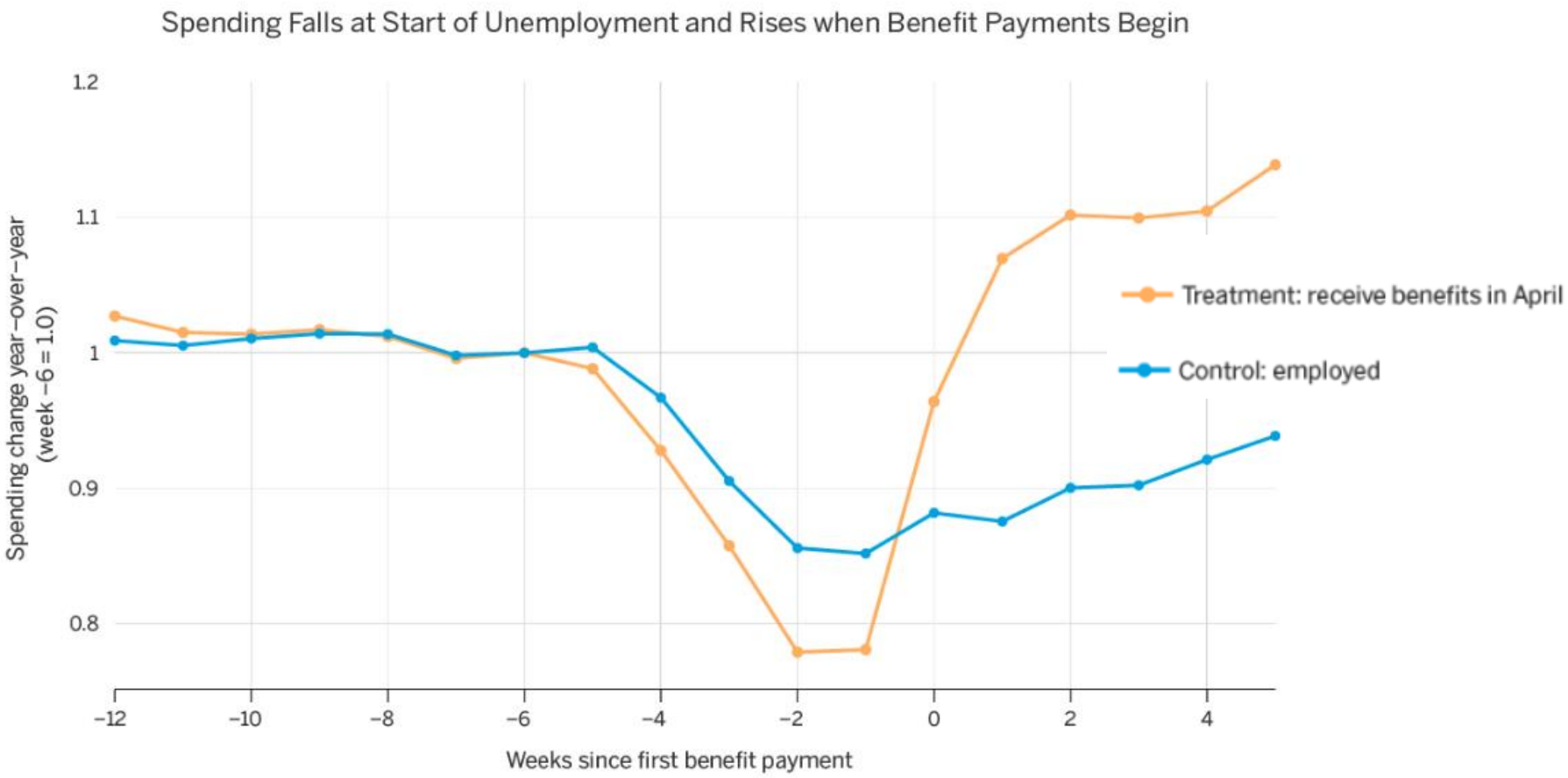
Unemployment Insurance increase due to:

- Historically high unemployment rates
- Federal Pandemic Unemployment Compensation (FPUC): $600 federal supplement through end of July
- Pandemic Unemployment Assistance (PUA): Expanded eligibility to self employed and contingent workers
- Largest payouts in May, June, July



Source: U.S. Bureau of Economic Analysis

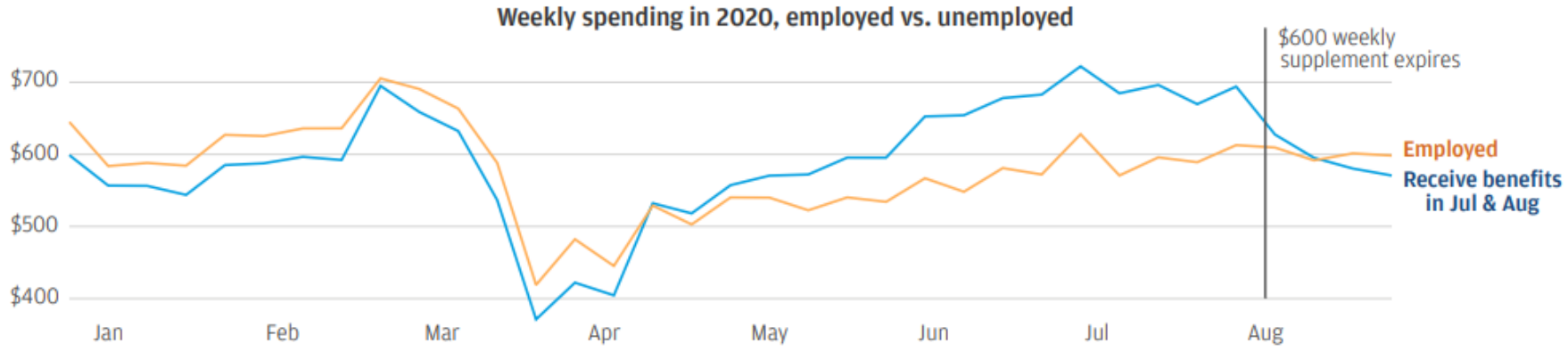
Among households that began receiving UI in April, spending *rose* by about 10 percent year-on-year, whereas spending of the employed declined.

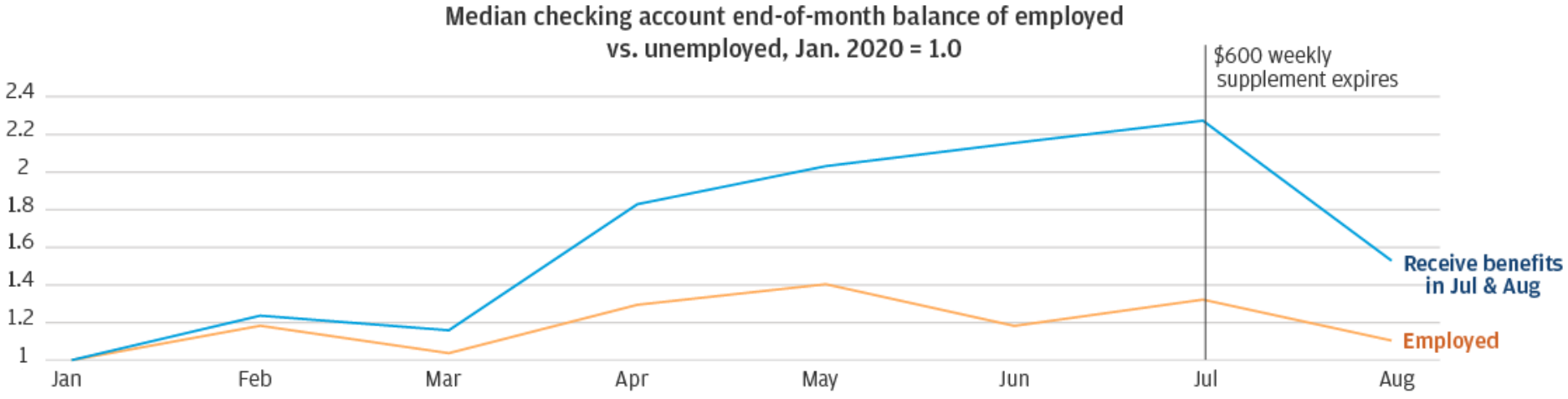


Note: This figure shows the change in spending year-over-year around the start of unemployment benefits. The x-axis shows the number of weeks since the first benefit payment. The treatment group, shown in orange, receives benefits beginning in April. The control group, shown in blue, is employed workers. 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

When the $600 UI supplement expired in August, spending of the unemployed declined by 14 percent. At the same time, checking account balances also decreased.





Source: JPMorgan Chase Institute

Conclusions and implications

- **Consumption at the outset of the pandemic**: as of the second week of April, the 40 percent drop in consumer spending appeared to be driven to a greater extent by the pandemic and social distancing policies implemented across the country to prevent its spread and to a lesser extent by the initial round of income losses.
- **The CARES Act resulted in elevated cash balances for families for much of 2020.** As of October 2020, household checking account balances were still 40 percent higher than the same time last year; this means that families haven't spent down all benefits yet.
- **As of October, median balances were falling, especially for low-income families.** This suggests that the median family is spending down the cash buffer they accumulated during COVID-19. Additional government support may reverse this trend, at least temporarily.
- **Unemployment Insurance** 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.
- **The spending of the unemployed appears highly sensitive to changes in unemployment insurance.** We observe a rise in unemployed individuals' spending at the onset of the $600 UI supplement in April, and a drop-off in spending when the supplement expired at the end of July.