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A potential recession threatens consumer credit card spending and loan risk

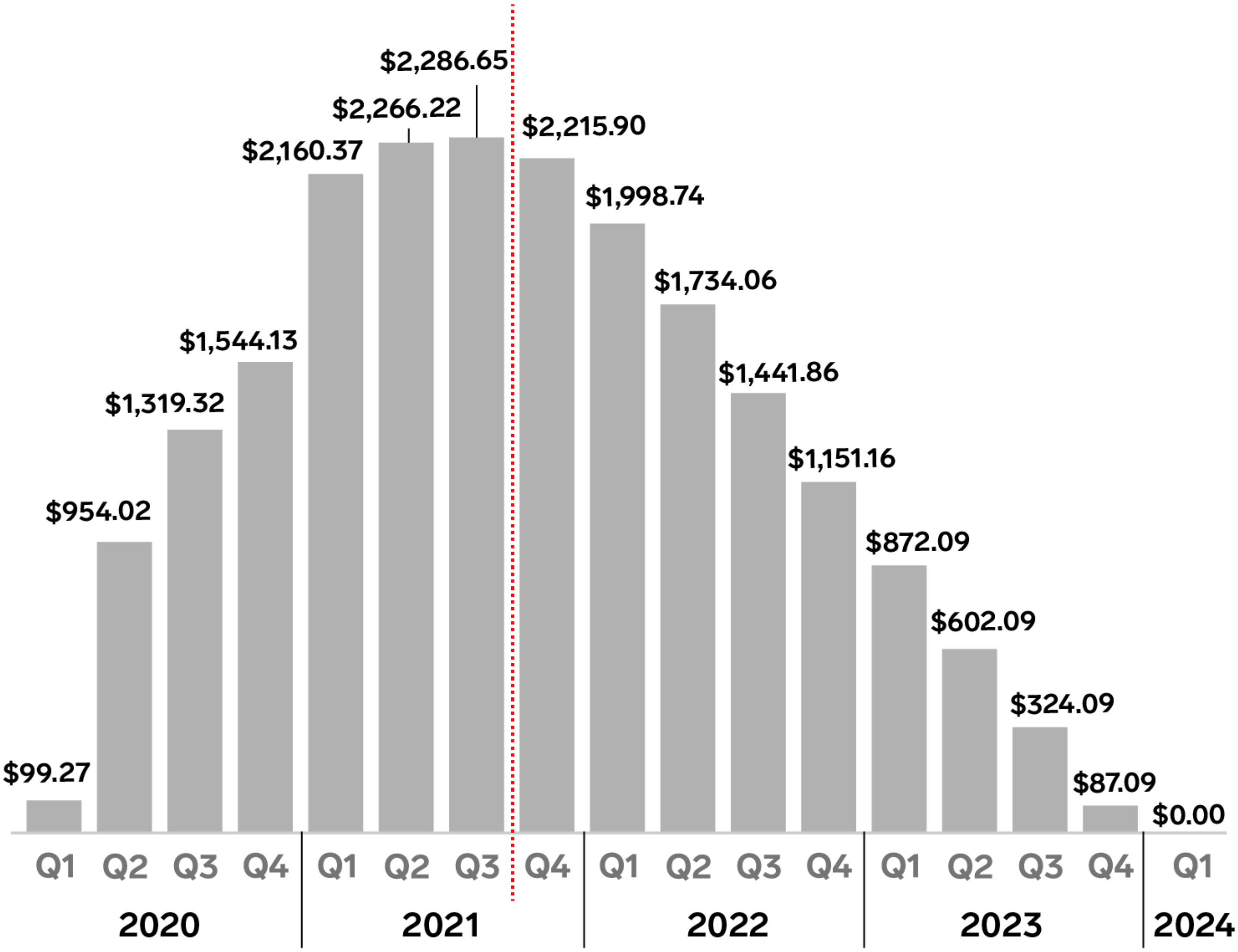
Article

A recession would put more than $200 billion in credit card issuer revenues at risk. Issuers must be fully prepared for weakened consumers hobbled by unemployment, depleted savings, and extra debt payments. And they should prepare for the toll that deteriorating credit card spending and loan risk could take on charge-off rates, merchant fee revenues, and interest income.

- **The threat of a recession is real.** In June 2023, the Federal Reserve Board said that tighter credit conditions would likely weigh on economic activity, hiring, and inflation. It also projected higher unemployment in 2023 and 2024. This could leave unemployed consumers unable to pay bills—and could chill spending among others keen to watch their pennies.
- **Consumer budgets could be further pressured once their pandemic savings stashes run dry.** US households saved $2.3 trillion in 2020 through summer 2021—much more than they would have without shutdowns, per an October 2022 article from the Fed. Since then, they have been spending it down. We estimate that this surplus could disappear by Q1 2024, crimping consumers' spending and increasing their credit risk.

Coronovirus Impact: US Consumer Savings Surplus Accumulation and Loss

billions, Q1 2020-Q1 2024



Note: figures represent savings accumulated by US households during 2020 through the summer of 2021, above and beyond what they would have saved if income and spending components had grown at recent, pre-pandemic trends; and the subsequent loss of those savings over time; figures for Q12020-Q2 2022 are from the Federal Reserve, other figures are analyst estimates
Source: Insider Intelligence based on data from the Federal Reserve Board, Oct 21, 2022

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- **Their budgets will also need to absorb bills no longer on a pandemic pause.** Student loan repayments will resume in October 2023, putting more than 25 million consumers back on the hook for an average of $236 per month, according to an April 2022 report from the Consumer Financial Protection Bureau (CFPB). This follows the fall 2022 start of pandemic disaster loan repayments for nearly 4 million small-business owners, affecting their profits and personal income.
- **The pandemic savings spend-down and resumption of payment responsibilities could push unemployment even higher.** In June 2023, the Fed's voting members forecast a median unemployment rate of 4.5% by 2024. But these wild cards could further reduce consumer demand for goods and services, pressuring employers to cut headcounts. That would drive the unemployment rate near the Fed's published upward boundary of 5.0%—or 2.2 million more consumers out of work than there were in May 2023.
- **These factors put credit card merchant fees, charge-offs, and interest income at risk.** Merchant fees and interest income contributed some $215.1 billion to consumer credit card issuer revenues in 2022—while charge-off expenses slice tens of billions from that pile.

To learn how these threats could influence credit card merchant fees, charge-offs, and interest income—and which issuers would be affected—read the full report.

Report by David Morris Jul 05, 2023

Credit Card Risks in a Darkening Economy