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Grace Broadbent

Bank earnings show consumer confidence, but storm clouds haven't passed

Article

By the numbers: Major US credit card issuers highlighted a consumer borrowing resurgence in their Q2 2023 earnings.

- **Wells Fargo's** credit card point-of-sale (POS) volume reached **$30.1 billion** in Q2, up **16% year over year (YoY)**, versus 3% YoY growth last quarter.
- **JPMorgan Chase's** combined debit and credit card sales volume grew **7% YoY** to hit **$424.0 billion**, down from 10% last quarter.
- **Citi's** branded credit card volume jumped **8% YoY** to **$2.352 billion**, accelerating slightly from 7% in Q1.

But deposits continued their monthslong decline: Average deposits at Wells Fargo and JPMorgan fell 7% and 6%, respectively. Citi's deposits were flat, buoyed by a rise in institutional deposits.

Whispers of optimism: Rising card borrowing could be a sign of consumer confidence.

- Inflation is inching downward. The **consumer price index** rose 3% from a year ago, down a full percentage point from May and the lowest level since March 2021.
- And the job market reflects a healthy economy: The US added 209,000 jobs in June, per BLS, and the **unemployment rate sits at 3.6%**.
- **July consumer sentiment jumped 12.7%** month over month and **41.0% YoY**, per the University of Michigan Survey of Consumers—**the highest reading in nearly two years**.

What to watch out for: Despite positive signals from spending, we're not out of the woods yet.

- Consumer debt levels are at a record high, with **credit card debt hovering near $1 trillion.**
- And credit card interest rates are also higher than ever: The average rate is 24.52% as of July 10, according to Forbes Advisor.

The record debt paired with high interest rates could spell trouble for rising delinquencies.

- JPMorgan's 30+ day delinquency rate for card services was **1.70%** in Q2 2023, compared to 1.05% a year ago.
- And Wells Fargo's 30+ day delinquency rate was **2.26%** in Q2, up from 1.58% last year.

This slow growth rate isn't yet concerning for issuers, but if the economy worsens, it could lead to trouble down the road.

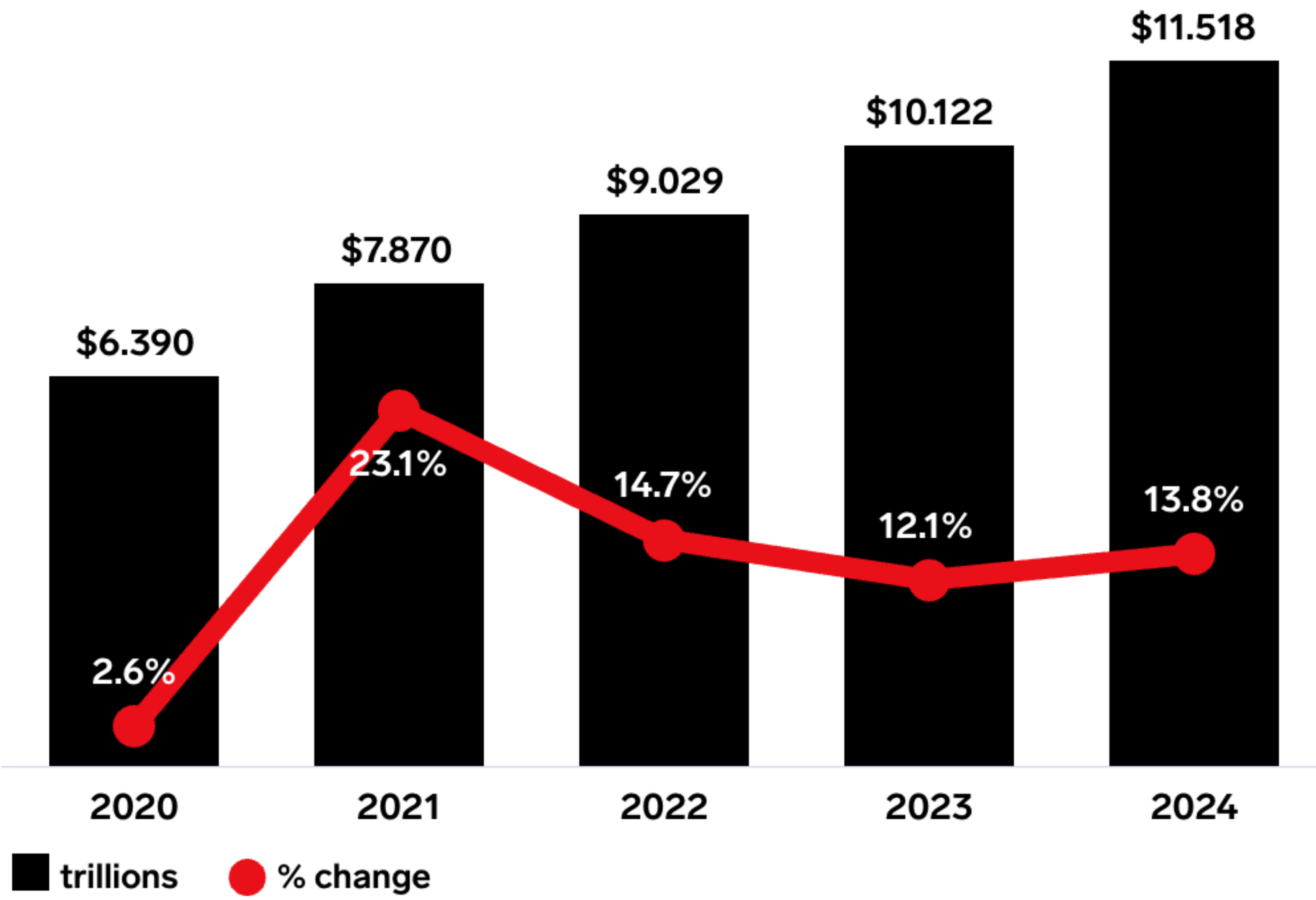
The big takeaway: While the US has thus far avoided a recession, very real threats could alter spending patterns and loan risks in the future.

A recession would put **more than** **$200 billion in credit card revenues at risk**, so issuers must take steps to ensure they can weather the potential storm.

Dig deeper: *For more on potential risks for issuers in the current economy, read our report* *Credit Card Risks in a Darkening Economy*.

Consumer Card Network Transaction Value

US, 2020-2024



Note: value dollar amount of purchases made via payment networks with consumer credit cards, debit cards, and prepaid debit cards; includes retail stored value cards, store cards, gift cards, reloadable cards, customer refund/incentive cards, FSA/HSA cards, mobile phone prepaid cards, and EBT (SNAP, WIC) cards; includes open and closed-loop cards; excludes transit cards and toll programs; consumer cards are issued to an individual for personal use, although they can and are sometimes used for business purposes; excludes returns, balance transfers, cash advances and other activity; American Express figures include cash advances and value of other payment products

Source: Insider Intelligence | eMarketer, November 2022

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