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Consumers' outlook dims, reliance on credit increases

Article

The data: Consumers are once again adopting a bleak outlook on their economic futures.

- After hitting the lowest levels since the pandemic in December, the share of consumers **who think they will be financially worse off** a year from now jumped to 27.4%, per the New York Fed—the weakest outlook since November 2023.

- The average probability of falling into delinquency rose to 14.6%, the highest since 2020.

Debt fears, revisited: There are new signs that consumers may be relying more often on their cards to make ends meet—which could turn into an unsustainable reliance on debt.

- Revolving credit rose a strong 8.2% annualized in January, per the Federal Reserve. On an annualized basis, total outstanding revolving debt rose by $9 billion from December to January.
- But consumer spending for January fell $30.7 billion, down .02%, per the Bureau of Economic Analysis.

Despite their delinquency fears, however, only .74% of outstanding balances are 30-59 days delinquent, per VantageScore's Credit Gauge. 30+, 60+, and 90+ day delinquencies have been largely flat for the last two years.

Our take: We're in a new era of economic uncertainty. The bottom is far from falling out for consumers, but 2025 could shape up to be a challenging year for issuers.

- Consumers are retrenching as on-again, off-again tariffs and widespread government layoffs chip away at demand.
- And interest rates remain stuck near record highs, weighing heavily on consumers trying to pay off their debt.
- Interest rates are also throttling demand for new cards, which fell 9.4% in Q4, per the Federal Reserve's Senior Loan Officer Survey.

Issuers trying to grow their credit card portfolios this year will need to rely on rewards tailored to everyday spend categories like groceries as consumers pull back on nonessentials. They can also offer welcome bonuses like 0% APRs on balance transfers and in-app budgeting tools to help cardholders feel like they have their financial houses in order.