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Adriana Nunez

Stimulus payments may lead to a post-pandemic boom in spending and economic revival

Article

So far, the Federal Reserve and the IRS have disbursed more than 90 million coronavirus stimulus payments totaling more than $242 billion, per The Wall Street Journal. Most of the initial payments were sent out via direct deposit, and more payments are set to go out this week via prepaid debit cards and paper checks. Payment distribution could be faster this time around provided government agencies can smoothen some of the issues encountered during last year's rollouts, like depositing funds into incorrect bank accounts or mailing checks to old addresses.

Spending trends show that consumers are using their stimulus payments mostly to save money or pay down debt.

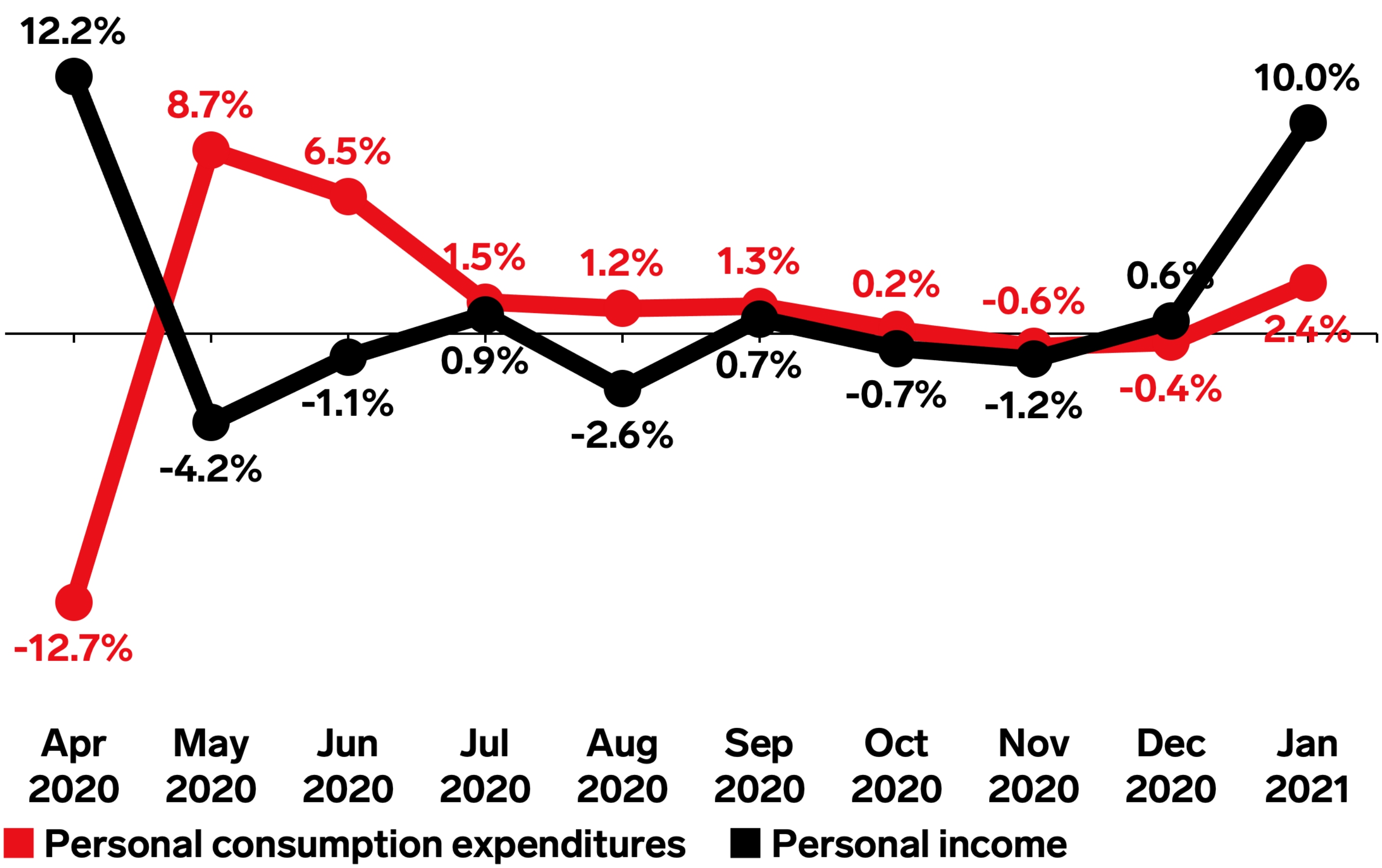
- **Some US consumers are saving payments to build a cash cushion.** Many consumers actually haven't had to rely on stimulus payments to get by. This may be because they either haven't been financially hurt by the crisis or because they've been able to lean on other forms of government assistance introduced within the last year, like expanded unemployment benefits. As a result, many people opted to save their stimulus payments: US households saved on average 36.4% of their first stimulus payment and intended to save 45% of their second payment, according to a survey by the New York Fed conducted last summer. This likely helped US households close out 2020 with a record $130.2 trillion in total wealth.
- **Others are putting the funds toward credit card and loan repayments.** The New York Fed survey also found that US households used 34.5% of their first stimulus payments to pay down debt and planned to use 31% of their second payments to do the same. Those direct payments are likely what let consumers pay down $83 billion worth of credit card debt in 2020, causing debt to hit its lowest point since 2017. Among households that used stimulus payments to pay off debt in 2020, 1 in 5 reported paying off high-interest payday loans, according to a survey by University of Michigan researchers Joel Slemrod and Matthew Shapiro cited by The Journal.

Both tactics might help support a post-pandemic boom in economic growth and consumer spending. Treasury Secretary Janet Yellen told members of Congress on Tuesday that stimulus payments will help the economy recover and estimated that President Biden's American Rescue Plan may help the labor market return to full employment by next year.

- **Consumers who saved their stimulus payments will come out of the pandemic with substantial cash reservoirs.** And as businesses reopen and warmer weather lets restaurants resume outdoor seating, consumers will be able to release pent-up demand and spend that extra cash.

- **And those who paid down debt are in a better position to spend more liberally than they might've been before.** Combined, these financial decisions should help revive consumer spending, offering good news for payment players that enable spending.

US Consumer Spending Metrics Monthly Growth



Note: These figures address month-to-month growth in current dollars.
Source: US Bureau of Economic Analysis, "Personal Income and Outlays, January 2021" February 26, 2021
Methodology: Data is from the February 2021 US Bureau of Economic Analysis report titled "Personal Income and Outlays, January 2021." Data tracks monthly US consumer income and spending.

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