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Credit card applications reached pre-pandemic levels this year—but uncertainty could complicate matters for issuers

Article

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The data: In October, **26.5% of US consumers** said they applied for a credit card in the past 12 months—up from last October's **15.7%** of consumers who said the same, according to data from the New York Federal Reserve.

This is the highest number of applications since the pandemic started. It also supports a trend seen earlier this year: In March 2021, there were **nearly 6 million US credit card openings**, up from 4.54 million in March 2020, per Equifax.

How we got here: An aggressive customer acquisition push from card issuers earlier in the year contributed to the surge in applicants.

In the early months of the pandemic, many US consumers limited their credit card use for fear of accruing debt during a period of economic uncertainty—putting a dent in issuers' credit volume. To offset losses and encourage spending, many issuers—including **Amex** and **Chase**—added pandemic-related card perks like extra rewards on food delivery and streaming services.

They also implemented attractive sign-up bonuses to push new customers to cards: For example, Citi's Custom Cash card offers customers $200 cash back after spending $750 in purchases within their first 3 months, as well as a low introductory rate on purchases and balance transfers for 15 months.

The problem: The surge in credit card applicants doesn't guarantee higher profits for issuers.

- More credit card applications don't necessarily translate into more customers for issuers because not all applicants are approved—the New York Fed found **19.8% of applications** were rejected in the same 2021 research period (versus 21.3% in the same period last year). Lowering barriers for credit card applicants could help decrease the rejection rate, though a healthy threshold will be needed to limit subprime borrowers who may pose a higher risk of defaulting, unless issuers are actively expanding into this segment.
- And US consumers are paying down their credit card balances at a higher rate than before the pandemic. Balances are **$123 billion lower** than they were at the end of 2019, per the New York Fed. With consumers paying off their credit cards, efforts to encourage spending and revolving behavior with rewards could be less lucrative for issuers.

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The bottom line: Many issuers have reported higher card volume—especially toward the second half of the year—thanks in part to pandemic recovery and customer acquisition efforts. Take Wells Fargo: The issuer's **credit card point-of-sale volume** increased **24%** year over year (YoY) in Q3 2021. During the same period last year, the metric dropped 6% YoY.

But it's unclear whether consumer demand for credit cards and higher spending volume will continue due to pandemic uncertainty—the omicron variant and an ambiguous November job report roiled markets last week and renewed concerns of a dampened economic recovery.

Related content: *Check out our "Credit Cards in the 'Next Normal'" report to learn more about tactics issuers have used to sustain growth—and how this might change post-pandemic.*

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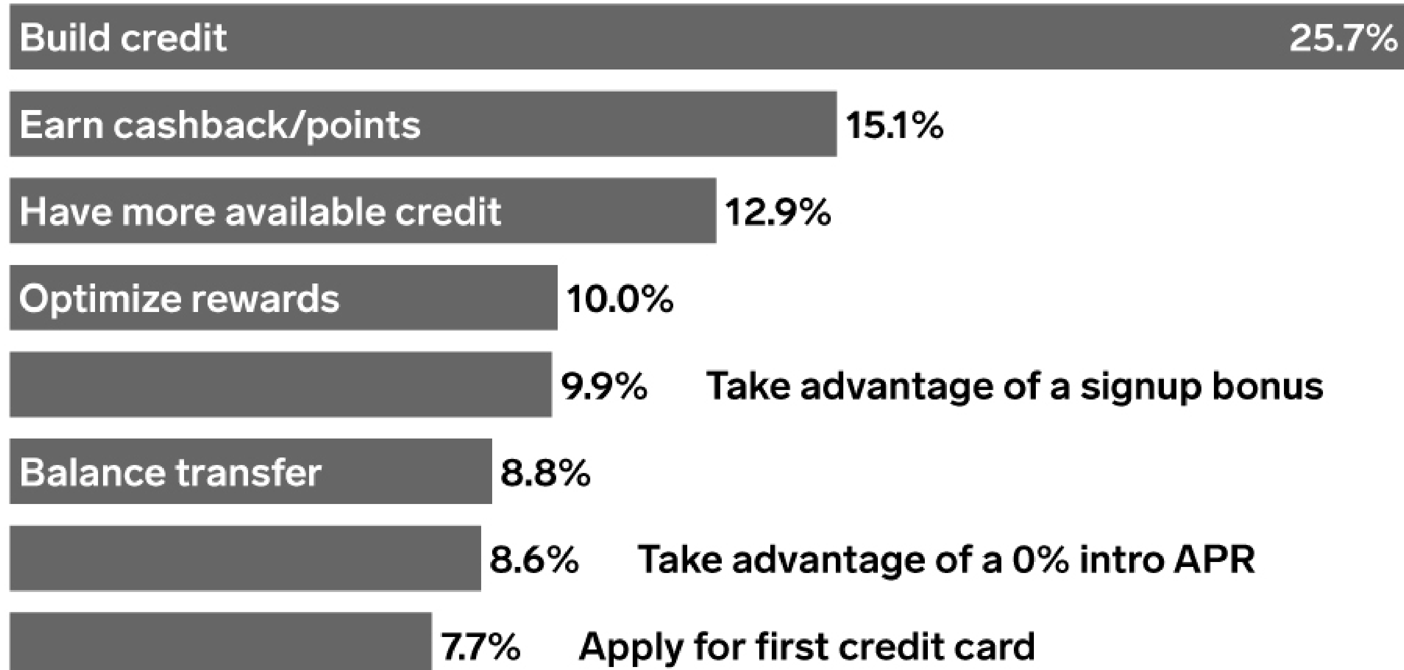
Reasons US Credit Card Users Open New Credit Cards, March 2021

% of respondents



Note: ages 18+; number may not add up to 100% due to rounding
Source: The Ascent by The Motley Fool survey conducted by Pollfish, July 12, 2021

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