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Banks' card growth slowed in Q1 2023 even as debt reached record high

Article

The data: Major US credit card issuers rolled out their first earnings of 2023 with mixed results as inflation continues to weigh on consumer spending.

- **JPMorgan Chase's** combined debit and credit **card sales volume grew 10%** year over year (YoY) in Q1, down from 29% during the same period last year.
- **Wells Fargo's** credit card point-of-sale (POS) **volume grew 3%** YoY, a dramatic contraction from the 33% growth it posted a year ago.
- **Citi's** branded **credit card volume grew 7%** YoY, compared with 24% the same period a year ago.

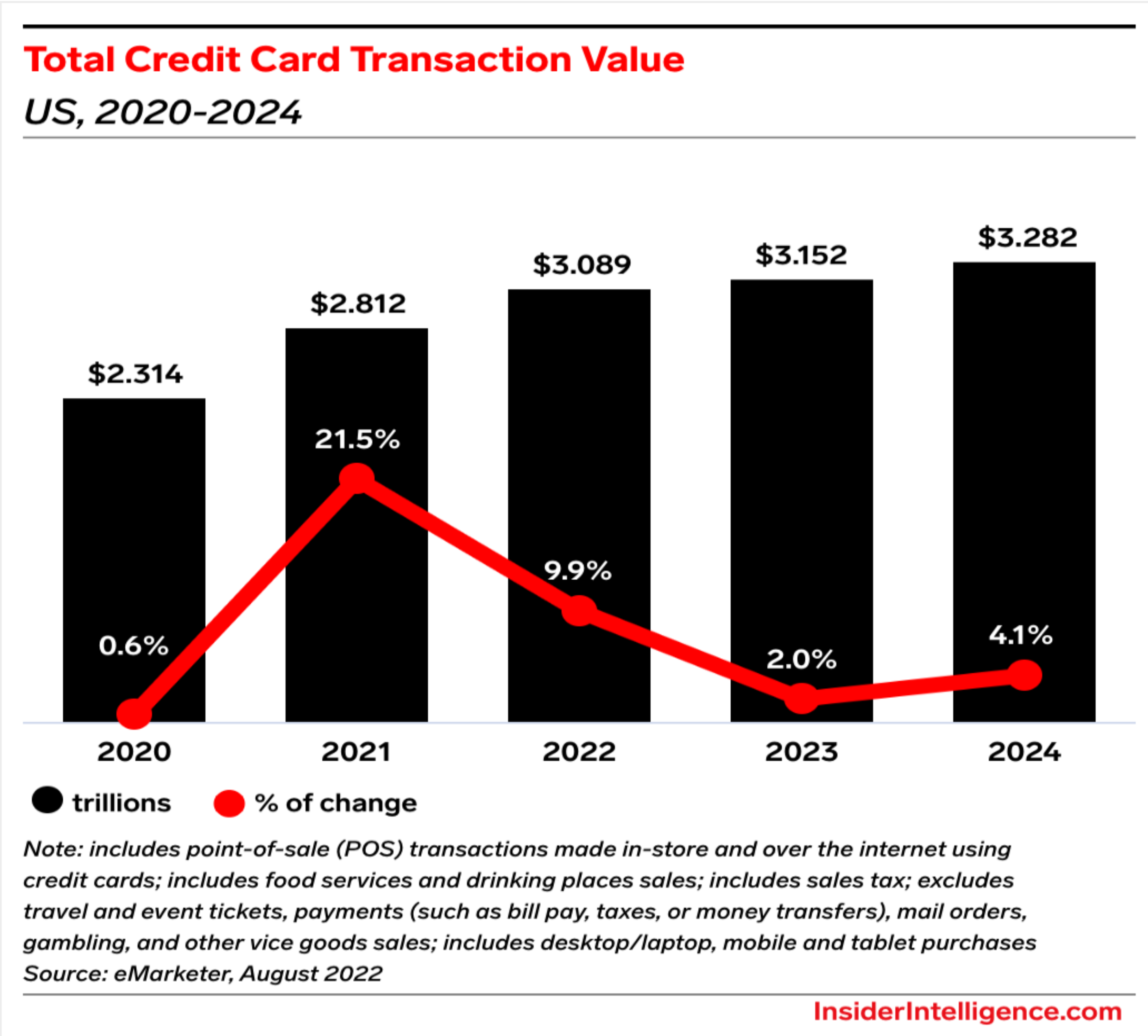
Behind the numbers: Inflation's slow descent downward is still straining consumers' budgets.

- The Consumer Price Index (CPI) **slowed to 5.0% annually** in March, down from 6.0% in February.
- But it's been an uneven decline—essentials like rent prices are showing signs of ticking back up, and **core inflation actually jumped to 5.6%** last month.
- Even though **almost three-quarters of consumers say they've cut back** on nonessential retail purchases, per a PYMNTS report, they're still spending more on a dollar-for-dollar basis than they were last year.
- And consumers expect inflation will last well into 2024: 70% of grocery shoppers and 67% of retail customers **expect significant price increases** in the next 12 months, per PYMNTS.

The bigger picture: Card volume growth may have been laggard in Q1, but that didn't stop consumers from falling into record debt.

- Consumers paid off a record $83 billion in credit card debt in 2020 thanks to federal relief and a slowdown in consumer spending.
- But since 2021, consumers have backslid. **Consumer debt hit a record $4.82 trillion in February**, a 5% YoY increase, according to a report from the Federal Reserve.
- And the average **interest rate for credit cards is near 21%—**the highest rate since the Fed began tracking this figure three decades ago—making it more expensive for consumers to pay back this debt.
- Lower-income consumers are likely to be hit hardest by inflation because their budgets are already mostly limited to necessities. This is leading them to put more essential spending on credit cards, accruing more debt, which is only amplified by record-high credit card interest rates.

As these risks persist, banks must prepare for an increase in delinquencies: Some have already set aside cash for this purpose. Issuers are also looking to cut costs by devaluing rewards programs, which are becoming too expensive and not worthwhile for some banks. And most banks are tightening lending standards in the wake of SVB's collapse, which may make it harder for consumers to get future credit.



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