Visa Business and Economic Insights

American Mood Trend

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Waiting is the hardest part: confidence likely to remain low until vaccines are widely available

Consumers' assessment of the present and future diverged in January, with expectations for the remainder of 2021 improving at the same time confidence in the present situation remained low. Future expectations gave the overall index a slight boost, from 87.1 to 89.3. The expectations index improved from 87.0 in December to 92.5 in January, but remains within its relatively narrow pandemic-period band. The Present Situation Index had reached a pandemic-period high of 105.9 in November, but has declined in both months since, to 87.2 in December and 84.4 in January.

Health concerns and the economy likely account for the index divergence. The perceived difficulty in finding jobs and the negative assessment of overall business conditions clouded consumers' measurement of the present. While they also have yet to see the societal impact of vaccinations, this should improve as vaccine distribution ramps up in the coming months. Extensions of the eviction moratorium, the potential for additional stimulus funds, and the wider reopening of businesses expected to start shortly will all influence consumers' view of the future.

Optimism for the future improved, but confidence in the present remains an uphill battle.

Assessment of health and economic measures still skew toward the future.

Most affluent consumers were much less confident in January than in anytime during the pandemic.

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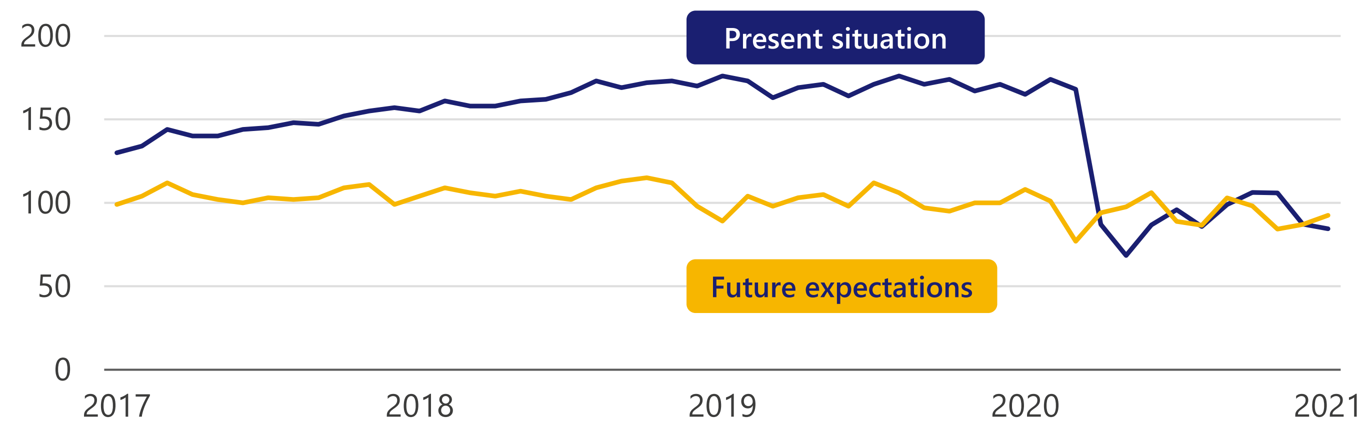
Diverging confidence measures hit labor and business sentiment

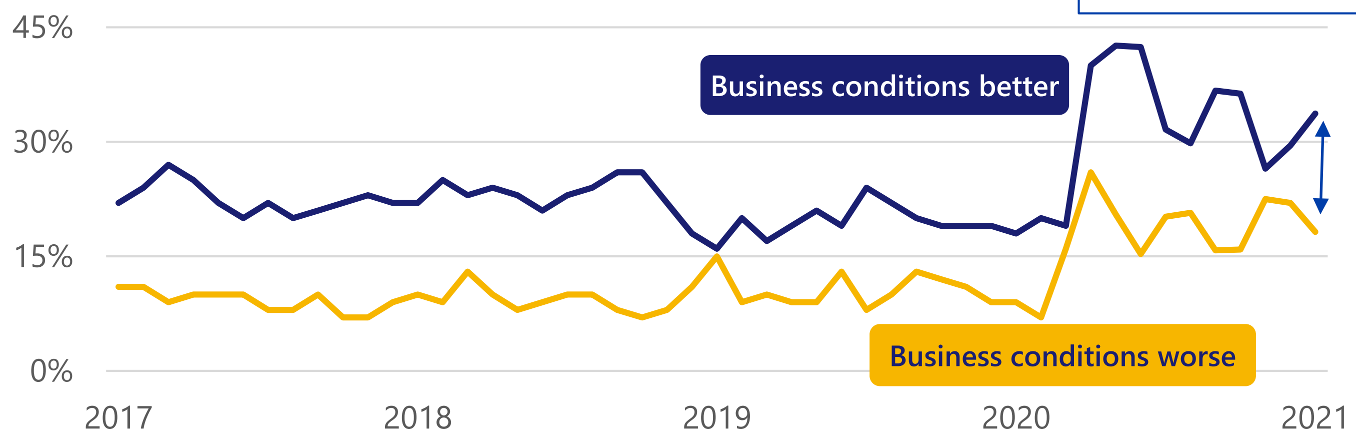
Consumer confidence – present situation and expectations*



*January survey interviews conducted through January 14, 2021

Business conditions – next six months

Differential for business condition expectations has improved nearly four-fold since November



Source: Conference Board

Consumer assessment of the labor market took a slight hit in January. More consumers cite jobs as hard to find than plentiful, by 3.2 percent—the widest difference in several months, with each measure heading in the wrong direction. The percentage of consumers who believe jobs are plentiful dropped from over 26 percent in November to 21 percent in December and 20.6 percent in January.

Lockdowns continued to impact consumers' views of business conditions into January, with 27 percent *more* consumers viewing present business conditions as bad than good. Fewer than 16 percent see business conditions as good, surpassing an eight-year low reached in December. Conversely and more negatively, 42.8 percent of consumers see present business conditions as bad, a further increase of 3.1 percent after increasing roughly five percentage points from November to December.

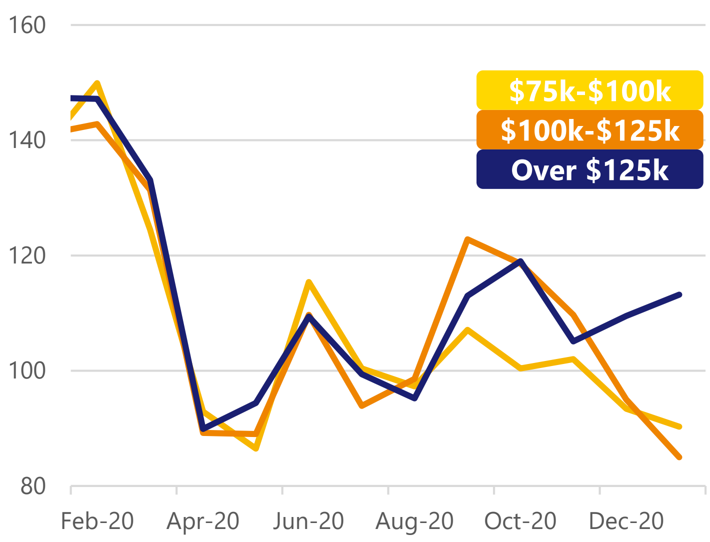
As with the overall index, the dichotomy between present and future also shows in business condition sentiment. The future is much more optimistic, with 33.7 percent of consumers expecting an improvement over the next six months, compared to 18.1 percent feeling business conditions will worsen. The differential, which had been narrowing toward the end of 2020, has improved roughly four-fold to a positive 16 percent, up from a differential of only four percent as recently as November.

Spending and economic recovery depend on affluent consumers

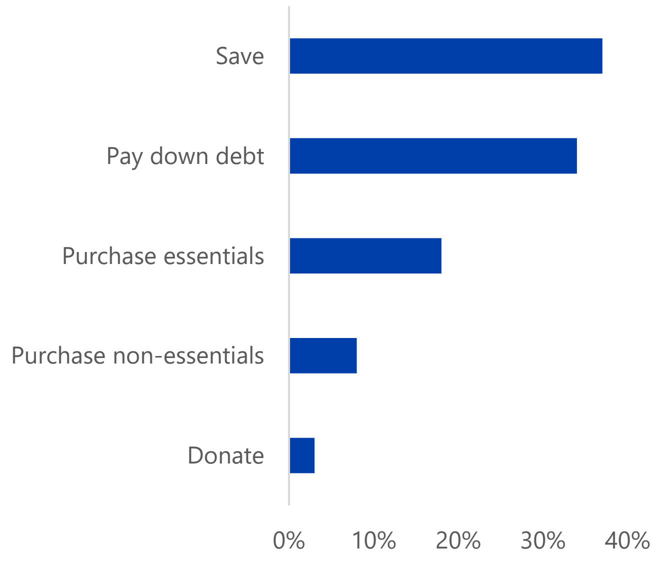
Most forecasts signal a strong rebound in spending during the second half of 2021, with affluent consumers expected to lead this rebound given their pent-up demand, accumulated savings, and inability to spend to their potential throughout 2020. The mood among different groups of affluent consumers has followed a similar path throughout the pandemic, but took different trajectories in January. Confidence among affluent consumers with annual household income (HHI) above $125,000 per year rebounded, boding well for a spending boost among these consumers in the immediate post-lockdown period. However, confidence among mass affluent groups with annual HHI between $75,000 and $100,000 faltered. Confidence among consumers with HHI between $100,000 and $125,000 also dropped by 10 points to a nearly eight-year low. This divergence at a more granular income level will be key to better understanding the expected spending trends throughout 2021.

Rebounds in spending to date have been stronger with lower-income consumers for several reasons: a higher percentage of those consumers likely received stimulus payments and a higher portion of their budgets were generally devoted to non-discretionary goods—things that consumers bought in 2020. Higher-income consumers' budgets skew towards discretionary goods—things consumers *weren't* buying in 2020, such as travel and other services that weren't readily available. Consumers were primarily saving and paying down debt with their first stimulus checks received in the middle of 2020. Given the similarities in the health and employment situation in early 2021, these patterns will likely repeat with any forthcoming stimulus. Consumers view extensions in eviction moratoriums and student debt deferrals positively, and hope for the same with mortgage forbearances. However, all these policies leave a cloudy picture of spending in the second half of 2021, right when the economy is expected to pick up.

Consumer confidence by income improved for affluent, but not mass affluent



What did consumers do with stimulus payments?



Sources: Visa Business and Economic Insights, Conference Board; New York Fed Survey of Consumer Finance, June 2020.

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