Visa Business and Economic Insights

Global Economic Insights

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Working from home upends urban spending

Temporary workplace closures have played a key role in slowing the spread of COVID-19, and saving lives around the world. Working from home (WFH) has also transformed many people's work habits and productivity, as well as their spending. Similar to retirement, WFH reduces spending in work-related categories such as apparel and restaurants. However, rather than shifting this displaced spending to other categories, teleworkers are largely saving it. As teleworkers are usually in professions that come with higher incomes, affluent households are not leading the recovery as they have previously.

As teleworkers become more thrifty, business failures and job losses rise in the retail and restaurant sectors, which account for a large share of urban employment. The spread of empty storefronts increases the risk that wealthier larger metro areas could be a drag on the recovery, rather than helping to fuel it. The only cure to stop such a downward vicious cycle from taking hold is getting the pandemic under control.

Key Takeaways

COVID-19's impact on consumer spending, similar to retirement, affects apparel and restaurants disproportionately

One out of four workers globally could be working from home

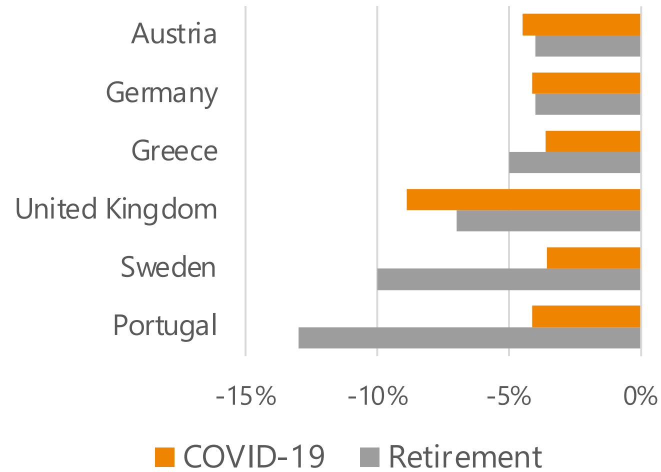
Large, wealthier areas are contributing less to the 2020 recovery

2020: The year of global early retirement?

Remote workers do not dress to impress or grab quick lunches to take back to their desks. As a result, similar to what happens with retirement, spending in retail and food service has dropped. In Europe, for example, the share of spending allocated to these categories (less autos and gasoline) has declined at a similar pace to when workers retire. For Sweden and Portugal, the COVID-19-related shift, relative to retirement, was less pronounced, but remains on par with regional peers.

Unlike retirement, COVID-19 has impacted work-related spending on a much larger scale. Researchers estimate that 5 to 53 percent of jobs in 85 countries around the world could be done remotely. Globally, as many as 1.1 billion workers (one out of four) could be working from home. Jobs that can be done remotely often come with higher salaries, which has a greater impact on spending. In the United States, for example, such employment may represent only 37 percent of jobs, but account for 46 percent of all wages earned.[1]

Similar to retirement behavior, COVID-19 reduces the share of household spending on apparel and restaurants (change as a share of total retail sales and food services, less autos and gasoline)



Impact of retirement compares employed to retired households and the impact of COVID-19 compares Jan-Feb 2020 to mid-May through July 2020. Sources: Eurostat, VisaNet.

[1]Jonathan Dingel & Brent Neiman, 2020. "How many jobs can be done at home?," Journal of Public Economics, vol. 189. Sources: IMF, Eurostat, VisaNet

Working from home has a greater impact on affluent spending

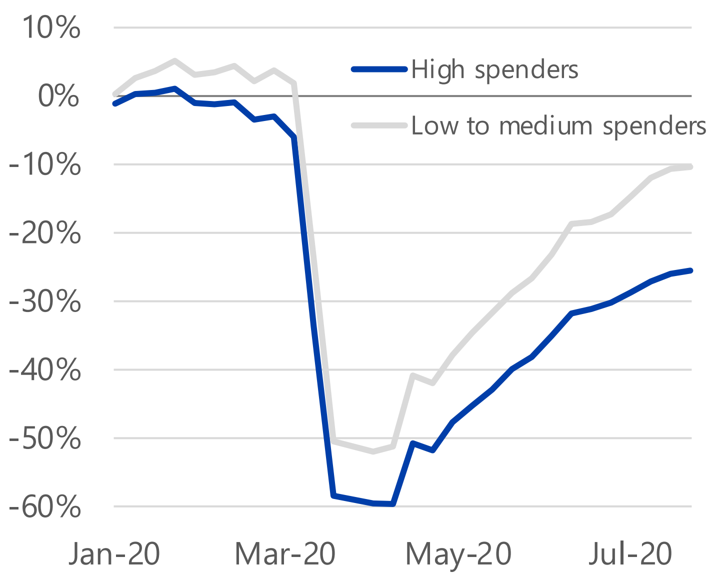
Data from the U.S.[2] indicates that as lockdowns have been lifted, continuing WFH arrangements have impacted consumer credit and debit card spending in two distinct ways. First, recoveries in overall card spending growth were weaker in U.S. areas where a greater share of workers could telework. In states within the top quintile of teleworkability, card spending declined twice as much as those within the bottom quintile. Second, a key driver of this outcome is the strong relationship between spending by high-income households and their ability to work from home, as opposed to lower- to middle-income households where the relationship is more tenuous.

Card spending growth has fared worse in states where more workers are telecommuting, while less-affluent households in these states generally tended to outperform more affluent households (Year-over-year change in spending on credit and debit cards, June-July 2020)

Source: Affinity Solutions

Displaced spending most likely is being saved

The more affluent are generally holding back on spending globally (YoY transaction growth in card spending by spending bands)



Source: Visa analysis of VisaNet data for 45 countries around the world

Visa's global data also support what the U.S. data revealed. While household income segmentation is not readily available for all countries, card spending levels can serve as a good proxy. In 45 countries, spending by the more affluent remains depressed.

The recovery in transaction growth by high-spending cardholders—those in the top quartile of spending in 2019—appears to have stalled during the summer of 2020. In contrast, low- to medium-spending cardholders have begun to close the gap in growth that emerged following the lockdowns.

Rising bank balances and savings rates in Europe and North America suggest that this reduced spending is largely being saved. Unlocking these savings and helping consumers to re-direct these funds to other areas could potentially be one avenue of speeding the recovery. In China, for example, there have been reports of "revenge" shopping, as households binged on luxury goods after lockdowns were lifted.

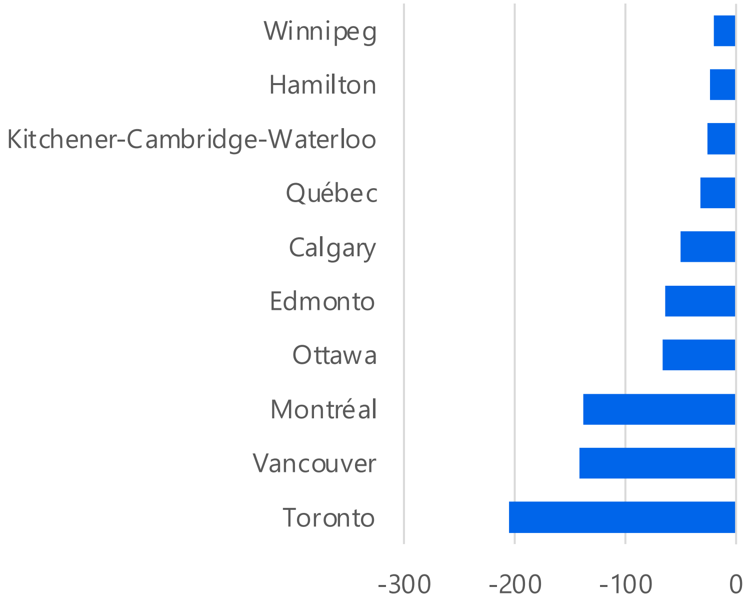
[2] "How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-Time Economic Tracker Based on Private Sector Data", by Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team. June 2020. Available at: https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

Loss of work-day sales adds hurdle to urban recoveries

Mandated closures, as well as fear of infection, anxious customers, and loss of tourism-related revenues, have all placed unprecedented stress on urban shops, restaurants, and cafes. While not necessarily the most significant factor, the loss of working-related spending as employees shelter at home could be a more enduring challenge.

Data from Canada underscores the disproportionate impact of this pandemic on those who are unable to work remotely. Canada has lost nearly 2 million jobs since February, and for every job lost by someone who can work from home, three jobs were lost by others who can not. Many of the lost sales and service jobs were concentrated in the largest metro areas in Canada (Toronto, Vancouver and Montreal) and in the retail and food services.

Sales and service-related job losses remain substantial across Canadian cities (change from February 2020 to June 2020 in thousands of jobs)



Source: Statistics Canada

What could emerge as a hurdle to the overall economic recovery is that the largest, wealthiest cities in a given economy could lag, rather than lead, the recovery. The missing spending by those in more affluent households who are working from home has knock-on effects for sales and service-related jobs.

Working from home lowers spending, especially in work-related categories, and can lead to increased job losses that dampen the recovery. However, forcing workers to return to the office amid an ongoing outbreak will not necessarily lead to a full recovery in spending either. As economic studies of the Spanish Flu of 1918 have shown, re-opening without the pandemic in check leads to increased worker absenteeism, lower productivity and decreased sales as fear of infection results in greater distancing, which dampens commerce.

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