Visa Business and Economic Insights

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Will the affluent drive consumer spending growth again?

Historically, the affluent consumer[1] had an outsized influence on aggregate consumer spending.

As of 2019, the affluent segment made up 27 percent of the consumer base but accounted for 47 percent of total consumer spending. The pandemic adversely effected this key demographic disproportionally as core spending categories among the affluent on international travel, hotels and dining out ground to a halt. As virus fears have slowly begun to subside, the affluent segment will likely once again become key to driving future consumer spending growth.

- As of 2020, 67 percent of affluent consumers were baby boomers or Gen Xers.
- Higher-income households were the last to return to their pre-pandemic spending level as they reduced spending on categories such as travel and dining out.
- The affluent segment's confidence was more sensitive to surges in COVID cases but this trend has subsided after the introduction of vaccines.
- Affluent households have experienced robust gains in net worth and wages, which help enable greater spending.
- The affluent segment also accounted for the bulk of the run-up in savings that occurred during the pandemic.
- We estimate the pent-up demand among the affluent to be north of a quarter-trillion dollars. Hard-hit categories of travel and dining out should benefit the most.

Key Points:

- Gen X is now the largest generation within the affluent segment
- Affluent spending was among the last to recover
- The rebound in pent-up affluent demand is important for the bankcard space

Affluent consumers play an outsized role in aggregate consumer spending

Fig. 1: Income share of consumers and spending (2019, percent)

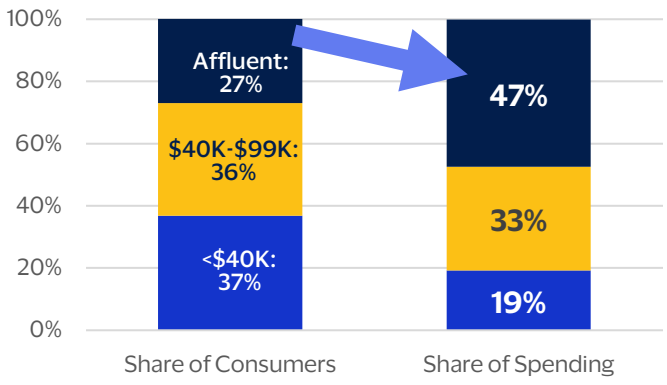
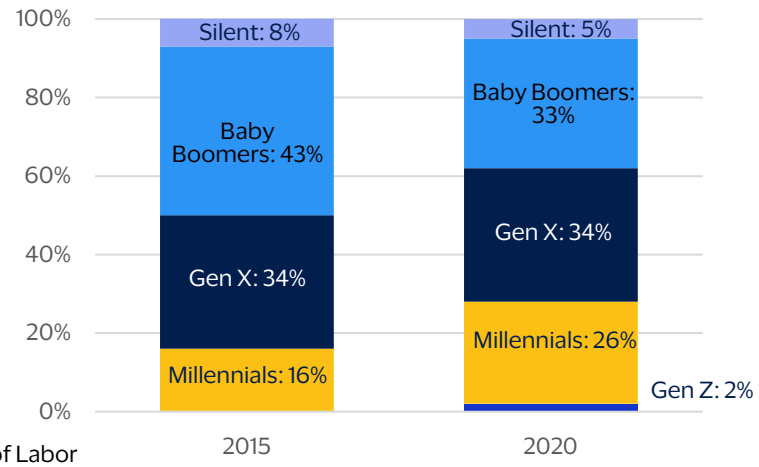


Fig. 2: Share of affluent households by age cohort (percent)



Sources: Visa Business and Economic Insights and U.S. Department of Labor

[1] For the purposes of our analysis we define the affluent segment as those making more than $100,000 per year which as of 2020 represented the top 34 percent of income earning households.

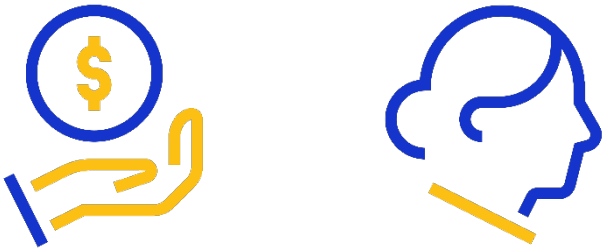
The influence of the affluent

The affluent segment has evolved over time as the population of the U.S. has aged. Back in 2015, more than half of affluent households were made up of baby boomers and the silent generation.

Fast forward to today, the share of baby boomers and silent generation has declined while Gen X now accounts for the largest generation within the affluent segment. The millennial share has also grown considerably in the past five years and now accounts for 26 percent of the affluent segment.

So what does the typical affluent household look like in the U.S.? According to data from the U.S. Department of Labor, the average age of the affluent consumer was 48 with an average income of $185,924 as of 2020. Back in 2019, this segment spent, on average, $110,059 per year. In aggregate, the affluent segment accounted for 47 percent of total consumer spending in 2019. The segment is also influential in credit card spending as well. As of 2019, the affluent segment accounted for 84 percent of the contribution to consumer credit sales volume growth.

The affluent consumer



$110,059 → $185,924

Average Annual Spending (per consumer as of 2019)

Average Income (per consumer as of 2020)

Average Age: 48

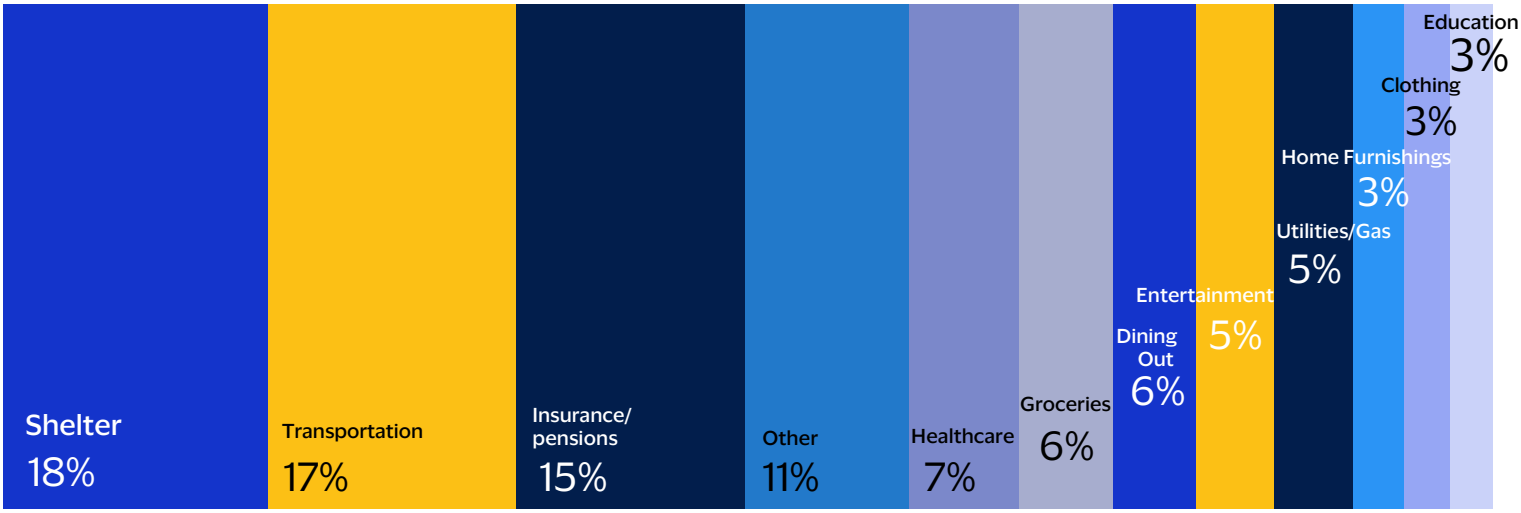
Analysis of credit and debit transaction data from Opportunity Insights for consumer spending by income level shows spending for higher-income households was the last to return to its pre-pandemic level in February 2021. That was six months after the recovery in middle-income spending and eight months after the recovery in lower-income household spending.[2]

Among the core reasons for the lagged affluent spending recovery was the way in which the affluent spent relative to other groups. In particular, the affluent segment spent the most on shelter, transportation and insurance and pensions, which combined accounted for half of the average affluent household's spending. In particular, the affluent allocated a greater share of spending towards transportation, including air travel. In addition, relative to non-affluent households, affluent households allocated a smaller share of overall spending towards food at home and a slightly greater share towards dining out. Entertainment was also another key category where the affluent allocated a greater share of spending than non-affluent households.

Affluent households' greater share of spending on these categories—which were disproportionally impacted by pandemic concerns and restrictions—was a key factor delaying the affluent spending recovery.

Fig. 3: How does the affluent spend? (percent, share of total spending)

Last actual: 2019



Sources: Visa Business and Economic Insights and U.S. Department of Labor

[2] Opportunity Insights and Affinity Solutions. (2022). https://www.tracktherecovery.org/.

The affluent potential

While affluent spending was among the last to recover, it is likely that the pent-up affluent demand will materialize in the coming months. For starters, wage growth among the affluent is increasing at a faster rate than overall wage growth. In addition, the stockpile of savings that was widely talked about during the pandemic occurred mostly among the affluent segment of the population as its consumption slowed dramatically (Figure 5).

Fig. 4: Wage growth by income band
(Hourly, 12-MMA)

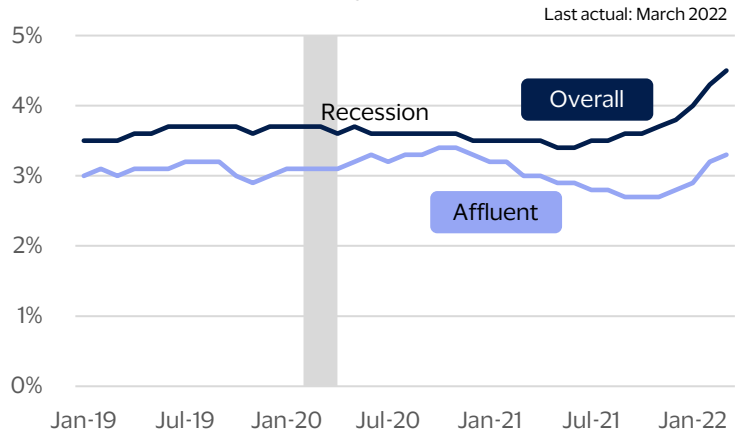
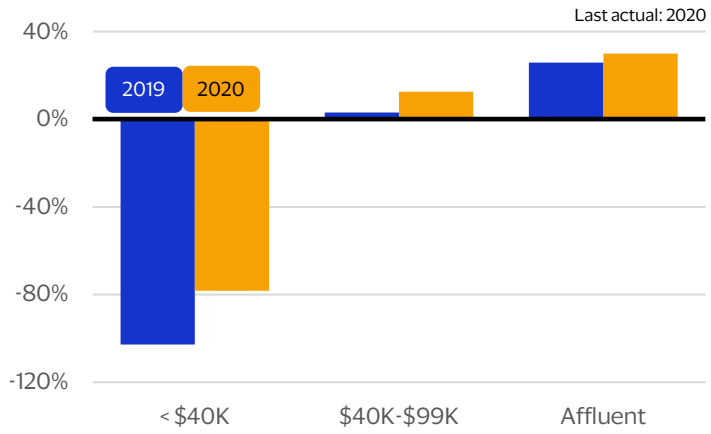


Fig. 5: Estimated saving rate by income
(Percent)



Sources: Visa Business and Economic Insights, Federal Reserve Bank of Atlanta and U.S. Department of Labor

In addition to affluent consumers' disproportional allocation of spending towards insurance and pensions (saving for retirement) mentioned earlier, they also have the potential to experience a greater "wealth-effect" given their exposure to equity markets and other investment returns. Trends through the middle of last year show that the net worth of affluent households (the value of their assets less liabilities) grew much faster relative to non-affluent households.

Fig. 6: Growth in household net worth by income
(SA, YoY percent change)

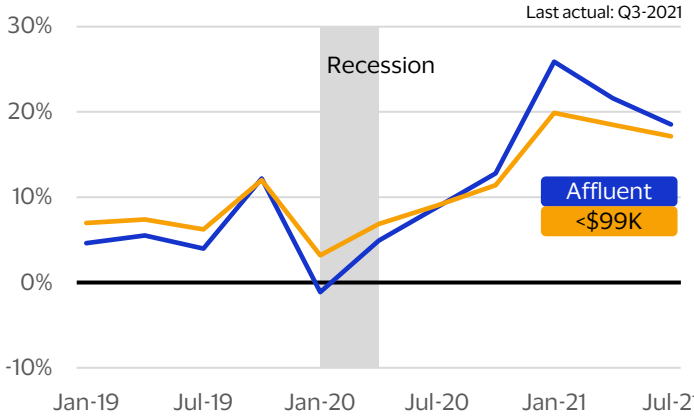
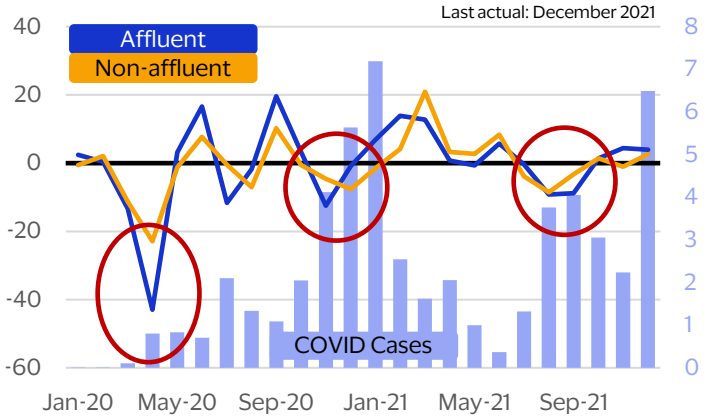


Fig. 7: New COVID cases vs. Consumer Confidence Index (MoM change, index points, millions of cases)



Sources: Visa Business and Economic Insights, Federal Reserve Board, Conference Board and John Hopkins University

Even with the tailwinds of such strong income and wealth effects to affluent spending growth, there is evidence to suggest that affluent consumer confidence in the past fell more when COVID case counts surged (Figure 7). Interestingly, after each subsequent wave of virus outbreaks post vaccine rollout, we see a smaller and smaller negative impact to affluent consumer confidence. This is also consistent with additional related research from our colleagues Richard Lung and Dulguun Batbold which found that the impact to consumer spending momentum after each wave of COVID cases has diminished over time.[3]

[3] Lung, R. and Batbold, D. (Jan. 2022). Global Economic Insight: Finding certainty through data in 2022. Visa Business and Economic Insights. https://usa.visa.com/partner-with-us/visa-consulting-analytics/finding-certainty-through-data-in-2022.html

Measuring the pent-up spending of the affluent

The question remains, just how much pent-up demand exists among the affluent segment? Measuring the decline in spending among the affluent from 2019 to 2020 helps to unpack this.

The question remains, just how much pent-up demand exists among the affluent segment? Measuring the decline in spending among the affluent from 2019 to 2020 helps to unpack this. Spending on transportation (air travel) fell 68 percent while dining out dropped 35 percent among the affluent segment (Figure 8). Entertainment spending also declined 9 percent on a year-over-year (YoY) basis.

While the pullback in spending during the pandemic was sizable, the good news is that affluent consumers are expected to spend significantly more over the next 12 months on those hard-hit categories. As of the December 2021, New York Fed Survey of Consumer Expectations-Household Spending Survey, the affluent was expected to increase its spending by 5 percent on food and transportation and 4 percent on recreation. More importantly, there has been a consistent upward trend in affluent expectations to spend across all four key categories, suggesting sizable pent-up demand (Figure 9). While higher prices for these categories may be playing a role in the increased spending expectations, the upward trends are likely more indicative of a greater desire to spend on these goods and services than pure inflation effects. Evidence to support this is found in the New York Fed's December Survey of Consumer Expectations, which showed roughly stable inflation expectations one year ahead among the affluent segment.[4]

One of the challenges resome categories of spending do not lend themselves to a lated to the affluent spending rebound is that rapid recovery or surge of pent-up demand. For example, affluent consumers are not going to suddenly choose to go out to dinner or the theater twice in one night to make up for not going out as much over the last two years. Rather, we expect the pent-up affluent demand story to play out over time.

Fig. 8: Change in affluent spending from 2019-2020 (YoY percent change)

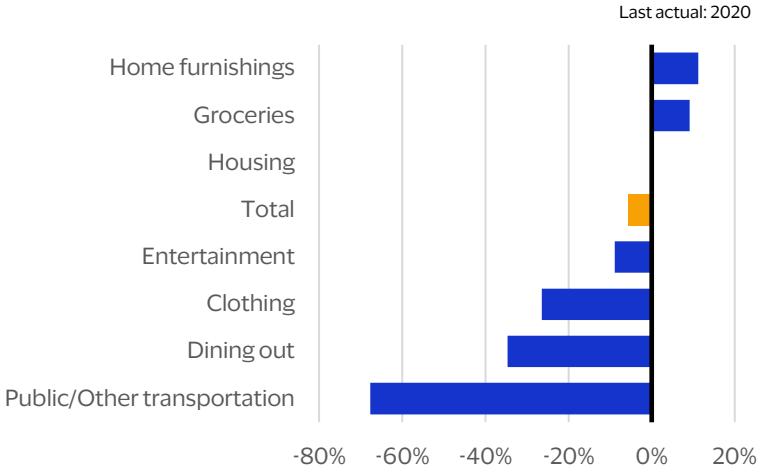
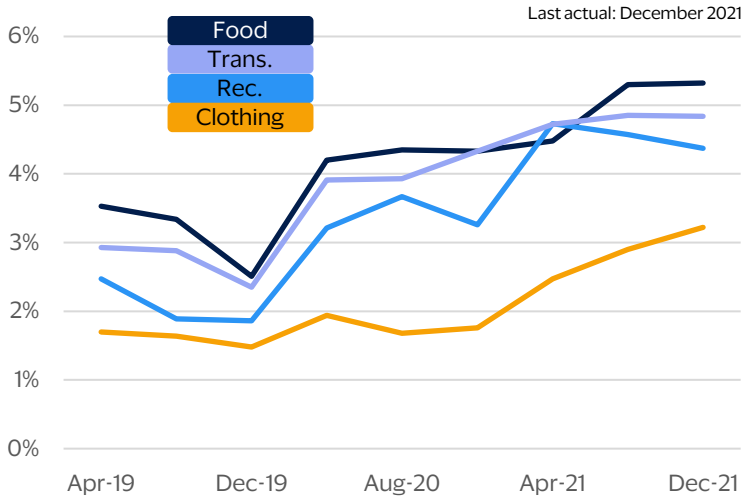


Fig. 9: Median expected change in affluent spending over the next 12 months (Percent)



Sources: Visa Business and Economic Insights, U.S. Department of Labor and Federal Reserve Bank of New York

[4] Inflation Expectations Fall at the One- and Three-Year Horizons; House Price Expectations Increase (Feb. 14, 2022). Survey of Consumer Expectations. Federal Reserve Bank of New York. https://www.newyorkfed.org/microeconomics/sce - /inflexp-10

In order to measure the potential pent-up demand of the affluent segment, it is useful to understand what affluent spending would have looked like had the pandemic and recession not occurred. Applying the affluent's share of total consumer spending to aggregate nominal consumer spending for the years 2015 through 2020 yields a trend line of affluent spending since 2015 and establishes a baseline measure of affluent spending. We compared this trend affluent spending baseline with the actual nominal consumer spending (adjusted for the affluent share of spending) to produce a back-of-the-envelope calculation for the hit to affluent spending from the pandemic and the aggregate amount that has yet to be recovered. We estimate that affluent spending dropped by a cumulative $450 billion as a result of the pandemic (Figure 10). Through the end of 2021, $189 billion has been recovered, leaving an estimated $257 billion in pent-up affluent consumer spending demand.

Fig. 10: Affluent spending vs. trend since 2015
(SAAR, billions of dollars)

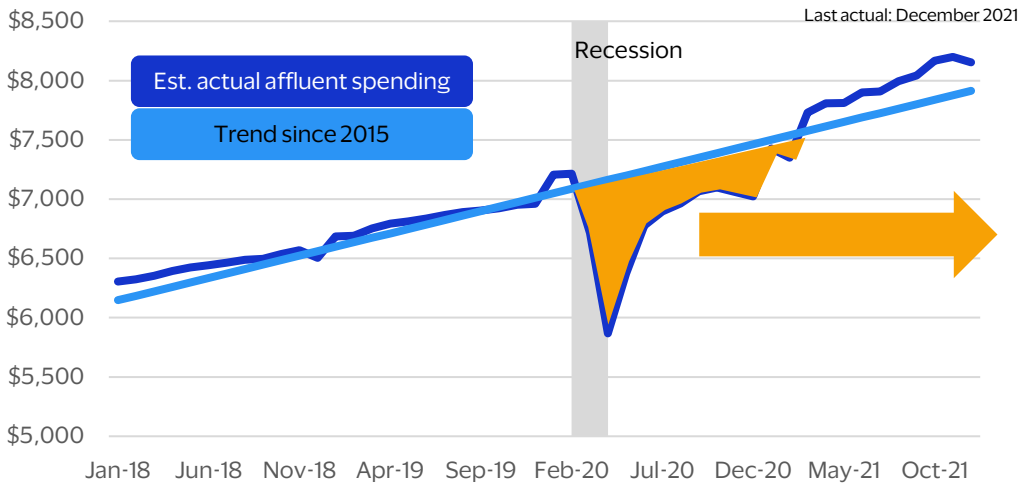
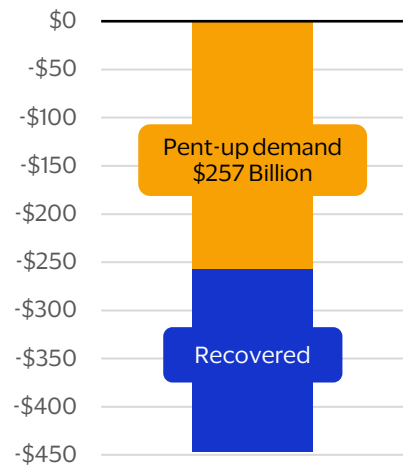


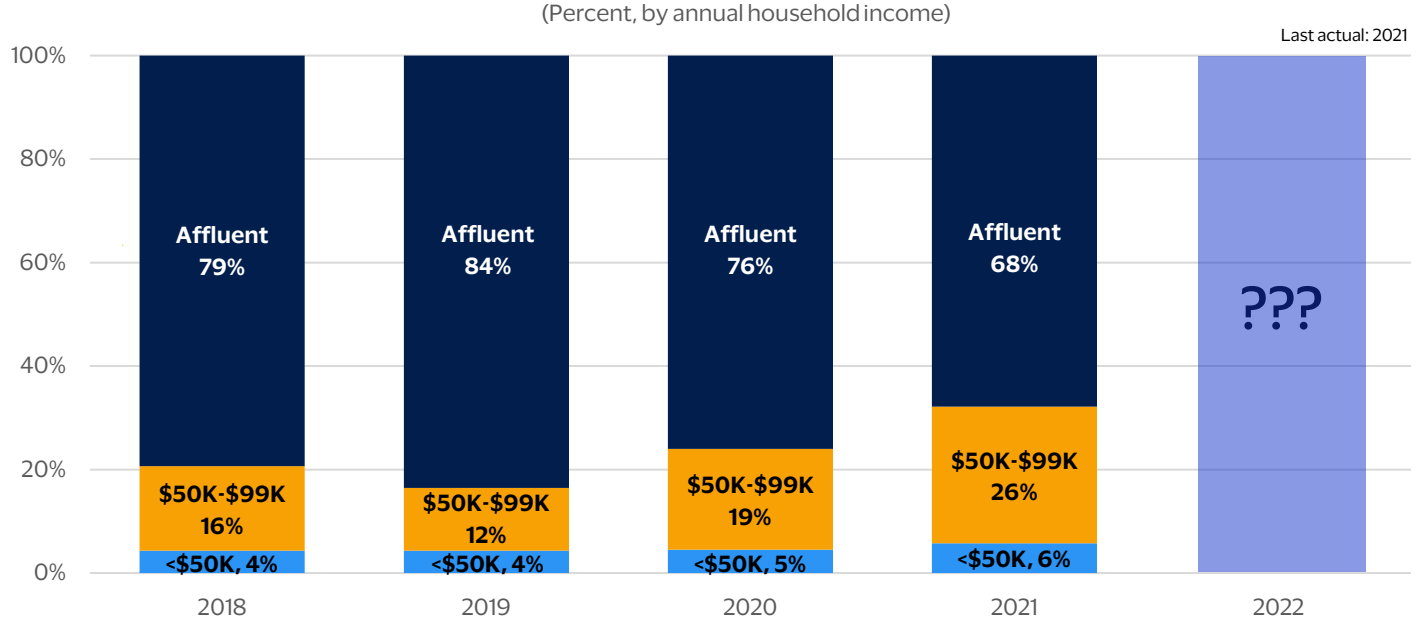
Fig. 11: Est. pent up affluent demand (billions of dollars)



Sources: Visa Business and Economic Insights, U.S. Department of Labor and U.S. Department of Commerce

The rebound in pent-up affluent demand is not just important for aggregate consumer spending, but also for the bankcard space as well. Before the pandemic, affluent households contributed around 80 percent to consumer credit sales volume growth. With the onset of the pandemic, their contribution to growth fell in both 2020 and again in 2021, reaching a low of 68 percent. While it is unclear what will unfold this year, this important segment will likely resume its outsized influence on the bankcard space once again.

Fig. 12: Share of contribution to consumer credit sales volume growth
(Percent, by annual household income)



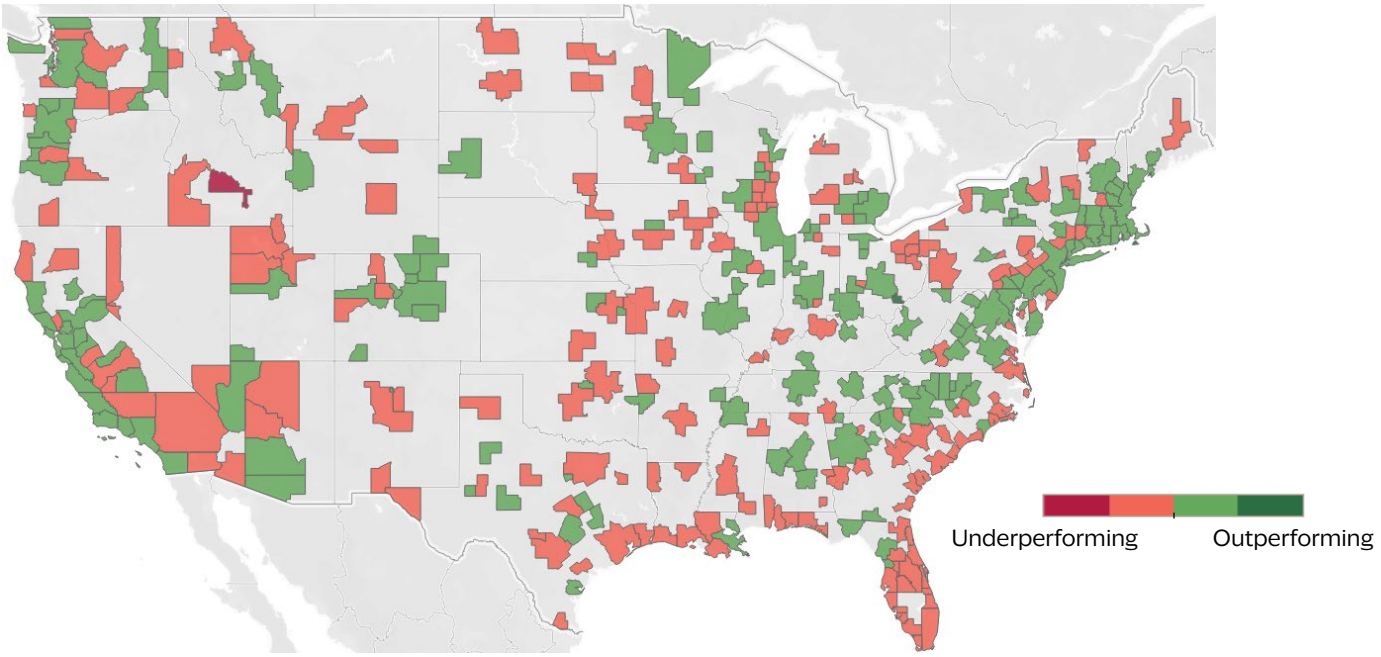
Sources: Visa Business and Economic Insights and TransUnion

Where is the affluent rebound today?

One of the many Visa tools for near real-time economic analysis is the Visa Spending Momentum Index (SMI), measures the inclusiveness of spending growth on a year-over-year basis.

Recently, the Visa Business and Economic Insights team began producing an enhanced version of the SMI that looks at trends across a number of demographic attributes, including income. The heatmap below shows where affluent consumer spending accelerated the most as of March relative the national affluent SMI reading. In general, affluent consumers are returning faster in the larger metro areas relative to other parts of the U.S. The trend is likely to persist as these areas were harder hit during the pandemic and benefit from above-average concentrations of affluent consumers. The red areas of the country are still experiencing a recovery in affluent spend but at a slower pace than the national reading.

Fig. 13: Affluent Spending Momentum Index
(Metro spending momentum relative to the national affluent SMI index)



Source: Visa Business and Economic Insights and VisaNet

Affluent to help drive spending growth

We expect nominal consumer spending to rise 8.7 percent this year, with a large portion of that growth stemming from inflation.

Real (inflation-adjusted) consumer spending is likely to rise a more modest 3.0 percent this year after last year's stimulus-fueled 7.9 percent real spending growth. Several key trends are expected to unfold over the second half of this year, in part as a result of the affluent segment's pull on overall spending. Given that affluent consumers tend to have a lower sensitivity to higher inflation, they will likely be a key support to growth as the year progresses. In particular, the affluent will accelerate spending on hard-hit categories such as travel and dining out. This shift in affluent spend is also likely to help pivot aggregate consumer spending away from goods—which have dominated spending over the last couple of years—back to greater services spending. Looking ahead to the next phase of the economic expansion, affluent consumers should regain their influence and present new opportunities for spending growth.

Forward Looking Statements

This report may contain forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Art of 1995. These statements are generally identified by words such as "outlook", "forecast", "projected", "could", "expects", "will" and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statement we make about Visa's business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Expect as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise

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Accessibility notes

Fig. 1: A segmented bar chart comparing the income share of consumers relative to their spending in 2019. 37% of all consumers made less than $40,000 and accounted for 19% of overall spending; 36% of consumers earned between $40,000 and $99,000 per year and accounted for 33% of spending; and 27% of consumers made more than $100,000 per year and accounted for 47% of total consumer spending.

Fig. 2: A segmented bar chart showing the share of affluent households by age cohort in 2015 and 2020. In 2015, 16% of all affluent households were millennials, 34% were Gen Xers, 43% were baby boomers, and 8 percent were from the silent generation. In 2020, 26% of affluent households were millennials, 34% were Gen Xers, 33% were baby boomers, 2% were Gen Zers, and 5 percent were from the silent generation.

Fig. 3: A horizontal segmented bar chart displaying the share of total affluent household spending by category in 2019. Shelter comprised 18 percent; transportation, 17%; insurance/pensions, 15%; other categories not listed, 11%; healthcare, 7%; groceries, 6%; dining out, 6%; entertainment, 5%; utilities/gas, 5%; home furnishings, 3%; clothing, 3%; and education, 3%.

Fig. 4: A line graph comparing wage growth among the affluent to overall wage growth on a 12-month moving average from January 2019 to March 2022. Hourly wages for the top 25% of households grew at a rate of 3% in Jan-2019, peaked at 3.4% growth in Oct-2020, fell to a low of 2.7% growth in Sep-2021, and reached 3.3% in Mar-2022. Overall household hourly wages grew at a rate of 3.5% in Jan-2019, fell to a low of 3.4% in May-2021, and rose to a high of 4.5% growth in Mar-2022.

Fig. 5: A vertical bar graph showing the estimated rate of savings by income group in 2019 and 2020. In 2019, the average savings rate of households earning less than $40,000 annually was -102.8%; households earning between $40,000 and $99,000 a year saved 3.1%; and affluent households saved 25.8%. In 2020, the average savings rate of households earning less than $40,000 annually was -78.3%; households earning between $40,000 and $99,000 a year saved 12.5%; and affluent households saved 29.9%.

Fig. 6: A line graph comparing year-over-year growth in household net worth by income group from Jan-2019 to Jul-2021. The net worth of households earning less than $99,000 grew at a rate of 7% year-over-year in Jan-2019, falling to a low of 3.2% in January 2020, reaching a high of 19.8% in Jan-2021 and dropping slightly to 17.2% year-over-year growth in Jul-2021. Affluent household net worth grew by 4.6 percent in Jan-2019, falling to a low of -1.1% in Jan-2020, reaching a high of 25.8% in Jan-2021, and dropping slightly to 18.5% year-over-year growth in Jul-2021.

Fig. 7: A bar graph of new COVID case counts from Jan-2020 to Sep-2021 overlaid with a line chart showing consumer confidence for affluent vs. non-affluent households. Beginning in Jan-2020 when there were only eight new COVID cases, affluent consumer confidence was still in positive territory, up 2.4 index points, while non-affluent consumer confidence fell only slightly, down .5 index points. However, when new COVID cases surged from 104,937 in Mar-2020 to 805,808 in Apr-2020, consumer confidence plunged 42.9 index points for affluent households and 22.9 for non-affluent households. A second surge to 4.1 million COVID cases precipitated a smaller dip, with consumer confidence dropping 12.5 points for affluent consumers in Nov-2020 and 7.6 points for non-affluent consumers in Dec-2020. In Aug-2021, when new case counts surged from 1.3 million to 3.7 million, consumer confidence dropped 9.2 index points for affluent households and 8.5 points for non-affluent households. In Dec-2021, new monthly case counts reached their second-highest level at 6.5 million, but consumer confidence stayed in positive territory for both the affluent and non-affluent, up 3.9 and 2.6 index points, respectively.

Accessibility notes (cont.)

Fig. 8: A horizontal bar graph showing the change in affluent spending by category from 2019 to 2020. Home furnishings spending rose by 11.2 percent, groceries by 9.1%, and housing by 0.4%. Entertainment spending decreased by 8.9%; clothing by 26.4%, dining out by 34.7% and transportation by -67.7%. The total change over all spending categories was -5.5%.

Fig. 9: A line graph showing the median expected change in affluent spending over the next 12 months on four key categories from Apr-2019 to Dec-2021, with the expected change in food spending up 3.5% in Apr-2019, dropping to a low of 2.5% in Apr-2020 and reaching a high of 5.3% in Dec-2021; transportation was at 2.9% in Apr-2019, reaching a low of 2.3% in Dec-2019, a high of 4.8% in Aug-2021, and maintaining that expected growth rate in Dec-2021; recreation was at 2.5% in Apr-2019, falling to a low of 1.8% in Dec-2019, reaching a high of 4.7% in Apr-2021, and ending 2021 at 4.4%; clothing started at 1.7% in Apr-2019, dropped to a low of 1.5% in Dec-2019, and rose to a high of 3.2% in Dec-2021.

Fig. 10: A line graph comparing estimated actual affluent spending 2018-2021 to the trend line of affluent spending since 2015. Actual affluent spending, starting at $6.31 trillion vs. $6.15 trillion trend in Jan-2018, remained largely in line with the expected trend until March 2020, when spending dropped to $6.72 tril. (vs. $7.12 tril. for the trend) from $7.22 tril. in Feb-2020. Actual affluent spending began to exceed the trend line in March 2021, when it rose to $7.73 tril. vs. $7.58 tril. for the trend. The gap between the estimated actual affluent spending line and the trend line from March 2020 through March 2021 indicates that affluent spending fell by $450 billion during that period.

Fig.11: A segmented bar graph displaying an estimated pent-up affluent spending demand of $257 billion and an already recovered $189.3 billion in spending, out of a total $450 billion cumulative spending drop.

Fig. 12: A segmented bar graph displaying the share of contribution by annual household income to consumer credit sales volume growth from 2018 to 2021. In 2018, affluent household spending contributed 79% to consumer credit sales volume growth; households earning between $50,000 and $99,000 contributed 16%; and households earning less than $50,000 contributed 4%. In 2019, affluent household spending contributed 84% to consumer credit sales volume growth; households earning between $50,000 and $99,000 contributed 12%; and households earning less than $50,000 contributed 4%. In 2020, affluent household spending contributed 76% to consumer credit sales volume growth; households earning between $50,000 and $99,000 contributed 19%; and households earning less than $50,000 contributed 5%. In 2021, affluent household spending contributed 68% to consumer credit sales volume growth; households earning between $50,000 and $99,000 contributed 26%; and households earning less than $50,000 contributed 6%. The final bar in the graph shows a question mark for 2022.

Fig. 13: A heatmap of the contiguous U.S. showing metro spending momentum relative to the national affluent Spending Momentum Index (SMI). Spending in many of the large metro areas, especially in the Northeast and West, is recovering in line with the national SMI, while metro areas in the Midwest and South are underperforming compared to the national index.