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FEATURE

A spring in consumers' steps

Americans prepare to get back to their spending ways

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ECONOMICS SPOTLIGHT

With the US economy slowly returning to prepandemic levels, consumer spending is likely to get a shot in the arm as consumers eagerly spend on activities that had screeched to a halt during the COVID-19 pandemic.

IN 2019, A year before COVID-19 changed our world, consumers in the United States spent close to US$10 trillion[1] on a swathe of services. Then, in 2020, faced with a formidable and unseen biological enemy that spread across the country through touch and aerosols, people withdrew indoors. Hitting the gym, grabbing a drink at the local pub, and hailing a cab—until then hallmarks of daily life—suddenly turned into a game of Russian roulette. As homes turned into offices and wider economic activity slowed, consumer spending suffered, and spending patterns suddenly changed. Travel, transportation, and restaurant spending were suddenly out of favor. Instead, people stockpiled food and other essentials, and spent more on home gyms, furnishings, and utilities.

This year, the despair of 2020 is giving way to hope. New virus cases have declined by 95% since the peak of January 8, while vaccinations have increased.[2] Vaccines are now available even for children aged 12 years and over.[3] It is likely that by the end of this year, the country will inch closer to what it was before the pandemic. With it, consumer spending and the wider economy will likely get stronger. Services are set for a strong rebound as people travel more, attend sporting events, go out shopping like they did in 2019, and return in troves to restaurants and pubs. Spending on durable goods is, however, expected to be moderate. After all, there's a limit to the amount of gym equipment and furnishings one can buy. Yet the future of consumer spending will also depend on the nature of postpandemic life. Remote and hybrid work—a mix of in-person and remote, for example—may induce permanent changes in the way Americans work, live, and spend.[4]

As homes turned into offices and wider economic activity slowed, consumer spending suffered, and spending patterns suddenly changed.

Consumer spending fell sharply in 2020 due to the pandemic

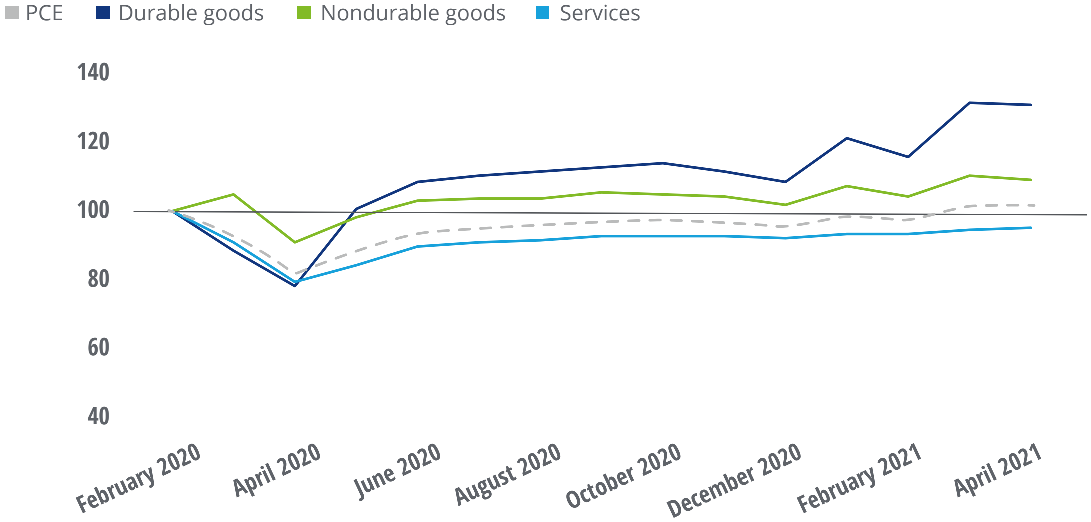
Fear of COVID-19, social distancing measures, and outright closures enforced locally at various times in 2020 resulted in a tangible shift in the amount and nature of consumer spending. Real personal consumption expenditure (PCE)[5] fell in 2020 as options for spending declined and the economic impact of the pandemic cut into people's wallets. Savings too increased last year as even employed people held back on spending amid economic and health-related uncertainty. According to Deloitte State of the Consumer Tracker, a global survey of consumers, concern about personal well-being and that of friends and family members was the highest in April 2020 and in the last quarter of the year when new virus cases increased sharply.[6] The personal savings rate ended 2020 at 14.2%, nearly double of what it was in December 2019.

With all these factors weighing on consumers, PCE contracted 3.9% last year compared to a 2.4% expansion in 2019. The pace of decline was the

FIGURE 1

Consumer spending was hit hard by the pandemic, although goods fared better than services

Index of real PCE and components (Feb 2020=100)



Note: The index is created from actual figures (seasonally adjusted annual rate) by rebasing February 2020 values to 100.
Sources: United States Department of Commerce (sourced through Haver Analytics); Deloitte Services LP economic analysis.

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FIGURE 2

The share of spending on goods in nominal PCE increased in 2020 at the expense of services

Shares in nominal PCE

Sources: United States Department of Commerce (sourced through Haver Analytics); Deloitte Services LP economic analysis.

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harshest in April 2020 (figure 1). And it is only in March this year that spending surpassed the prepandemic level of February 2020. Figure 1 also reveals that goods purchases benefitted during the pandemic, while services fell sharply. No wonder then, that, in 2020, the share of services in nominal PCE fell, while that of both durable and nondurable goods went up by nearly a percentage point each (figure 2).

Vacations went for a spin in 2020 while groceries and home gyms hogged the limelight

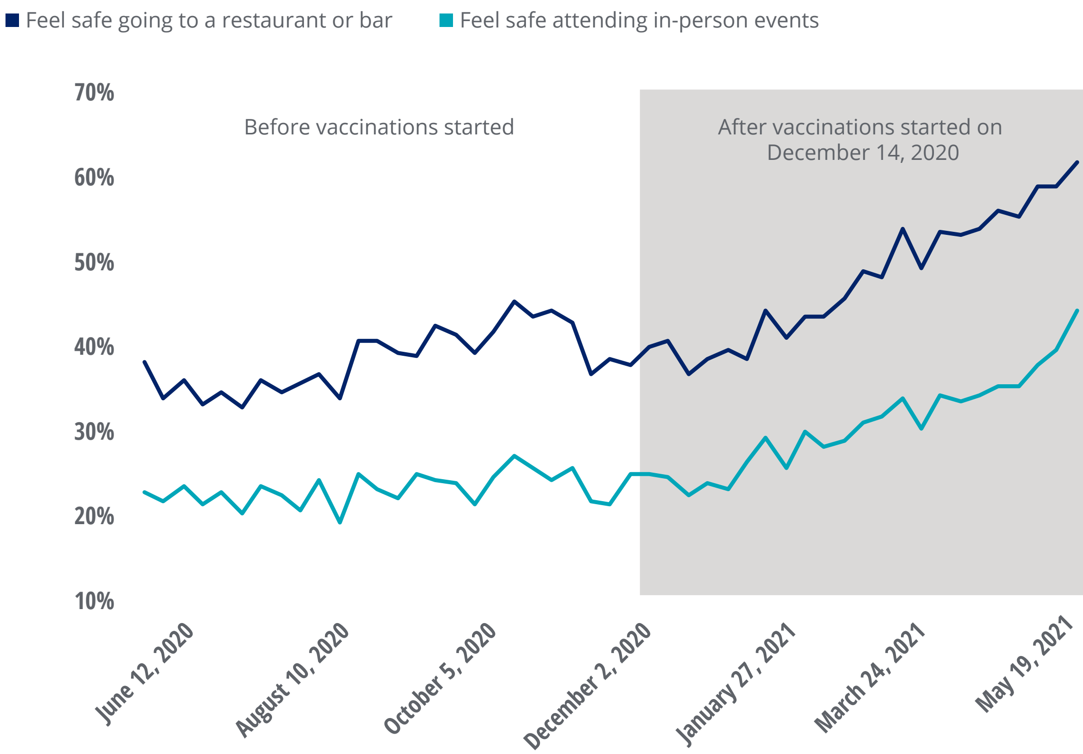
Fears of the virus and social distancing meant that consumers avoided places where the possibility of crowding or sharing space with those who are not part of their families is high. Deloitte's survey of consumers reveals that between April and May 2020, only 23% respondents[7] felt safe taking a flight while just 29% felt safe staying at a hotel. And although the figures increased slightly through the year, the rise wasn't much. The survey also reveals that most consumers remained wary of visiting food services places and attending in-person events (figure 3).

Consequently, certain forms of services spending suffered deeply. PCE on recreation services fell by 31.8% last year, while spending on food services and accommodation dipped 21.8%. People also avoided communal travel such as public transport, taxis, and airplanes—total ridership in public transportation fell by 50% in the first three quarters of 2020 compared to the same period a year before.[8] Consumer spending on transportation

FIGURE 3

For most of 2020, a majority of consumers avoided food services places and events, before they started returning in the first half of 2021

Share of respondents



Sources: Deloitte Global State of the Consumer Tracker; Deloitte Services LP economic analysis.

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FIGURE 4

PCE on recreational goods and vehicles surged in 2020 even as recreation services fell sharply

Growth in components of real PCE (%)

	2019	2020
Durable goods	**4.8**	**6.3**
Recreational goods and vehicles	13.1	18.0
Furnishings and durable household equipment	3.4	5.7
Motor vehicles and parts	-0.5	0.5
Other durable goods*	5.1	-1.3
Nondurable goods	**3.1**	**2.6**
Food and beverages	1.7	6.9
Clothing and footwear	3.8	-7.7
Gasoline and other energy goods	-0.5	-12.6
Other nondurable goods^	5.3	6.3
Services	**1.8**	**-7.3**
Financial services and insurance	2.1	1.3
Housing and utilities services	1.2	1.1
Recreation services	1.3	-31.8
Transportation services	1.6	-23.2
Food services and accommodation	1.2	-21.8
Health care services	2.7	-8.1
Other services~	4.0	-11.5

Notes: Includes jewelry and watches; therapeutic appliances and equipment; educational books; luggage and similar personal items; and telephone and related communication equipment.

^Includes pharmaceutical and other medicinal products; recreational items; household supplies; personal care products; tobacco; and magazines, newspapers, and stationery.

~Includes a wide gamut of services related to communication, education, professional services, personal care, social and religious activities, and household maintenance.

Sources: United States Department of Commerce (sourced through Haver Analytics); Deloitte Services LP economic analysis.

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therefore fell sharply last year (figure 4). Spending on housing and utilities services, however, maintained a steady growth as people preferred to stay indoors and many worked out of their home offices.

Among durable goods, the biggest surge in spending was on recreational goods and vehicles (18%) as people opted to set up their home gyms rather than step out for workouts. Figure 4 also reveals that the need to set up or augment home offices meant an increase in spending on furnishings and other durable household equipment in 2020. Within nondurable goods, spending on food and beverages grew by 6.9%, up from the previous year's 1.7% rise—the pandemic not only made people stock up on groceries but fewer visits to restaurants meant more cooking at home.

Winds of change as vaccinations rise

Vaccinations have changed the game over the last few months, turning anxiety that persisted in 2020 into a sizeable ray of hope. As of June 4, 41.4% of Americans are fully vaccinated, while another 9.7% have received their first of two doses of a vaccine. With vaccinations rising, daily virus cases and deaths due to COVID-19 have gone down, which, in turn, has reduced anxiety and concerns about health.[9] In Deloitte's latest survey in end-May, 48% of consumers were concerned about their health and well-being, one of the lowest figures since the survey started in April last year.

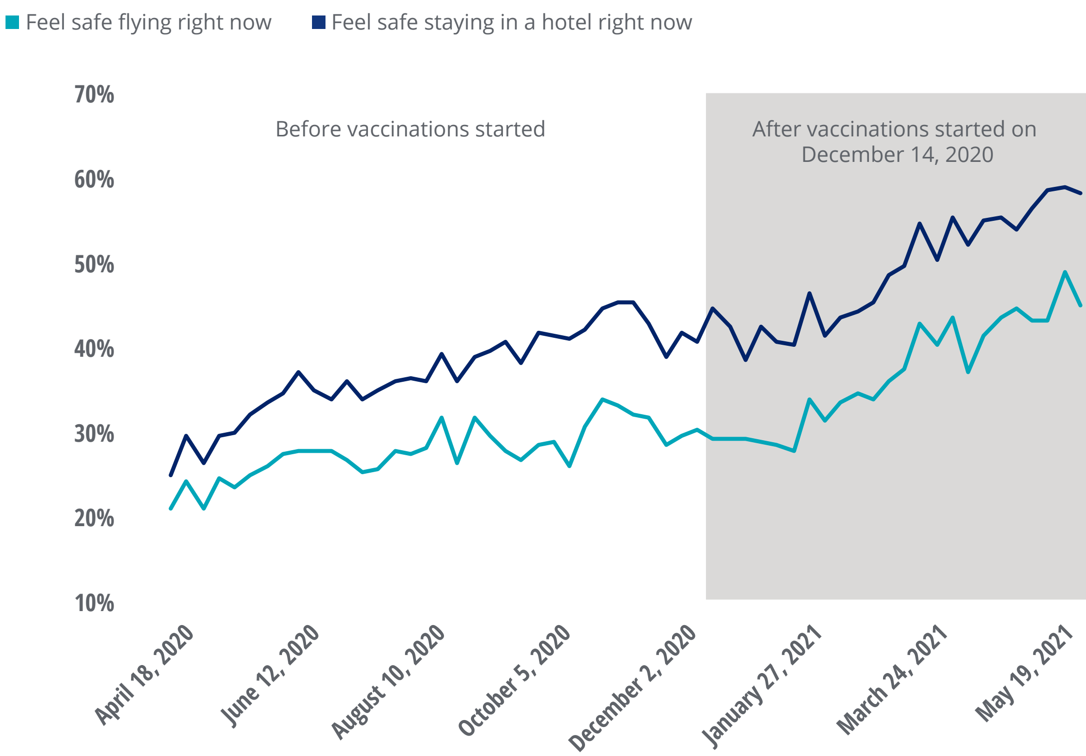
With lessening anxiety has come a change in mood: Americans are eager to get back to meeting each other, head to their favorite restaurants and pubs, go for vacations (figure 5), and return to their offices. For example, in Deloitte's latest survey, 68% of respondents said that they feel safe to return to their workplaces, the highest figure since the survey started.

Services spending has started to benefit as health-related concerns ease. In March, PCE on services grew year over year for the first time in 13 months and rose 19.3% in April, although part of the surge that month was due to a low base in 2020. Spending on services, however, is still 4.7% lower

FIGURE 5

People appear more comfortable taking flights and staying in hotels now than in 2020

Share of respondents



Sources: Deloitte Global State of the Consumer Tracker; Deloitte Services LP economic analysis.

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than what it was in February 2020 (before the pandemic) compared to strong growth in spending on durable goods (30.8%) and nondurable goods (9%) during this period.

Consumer spending set for strong growth during 2021–2022

With fears of the virus declining due to rising vaccinations, it is likely that the country could edge back to the prepandemic normal by the end of this year. As businesses offering consumer services ramp up after more than a year's struggle with the virus, labor market woes will ease further. Employment has been recovering after the staggering 14.3% drop in April 2020, with job gains averaging about 1% per month in the 13 months since then. With the economy expected to gather momentum, the labor market will continue to benefit as it tries to inch back toward prepandemic levels—employment in May was still 4.5% less than what it was in February 2020, a month before the pandemic hit. Many consumers may also have a large amount of savings to deploy as economic and health scenarios improve further. We calculate that consumers saved about US$1.6 trillion more than what they would have saved had there been no pandemic.

Consequently, as highlighted in Deloitte's latest *United States Economic Forecast*, PCE is likely to increase by 7.6% in 2021 and by 3.9% in 2022, a sharp change from the 3.9% contraction last year.[10]

- **Services will be back on the menu:** Leading the surge in consumer spending will be services as consumers flock back to their favorite pubs and restaurants, spend on travel and vacations, and enjoy sporting events as they did before the pandemic. It is likely that pent-up demand will also play a part as consumers deploy some of their savings to make up for all the travel and leisure activities they missed out on in 2020. As some workplaces open after more than a year-long hiatus, demand for transportation services will likely rise, although this is likely to face challenges from any hybrid work model where employees spend part of their work week in office and the rest remotely. Overall, services spending is likely to expand by 6.2% in 2021, with the momentum likely to accelerate from the latter half of the year into 2022 (figure 6).

- **There's only so much of gym equipment and furniture you can buy:** Durable goods, the mainstay of consumer spending in 2020, is likely to fall from favor over the next year as people shift spending to services. Also, unlike spending on a family vacation or going to a baseball game, there's a limit to the amount of durable goods a consumer can buy. Replacing one car with another every year or adding furniture at home frequently holds little sense. Similarly, spending on gym equipment will also likely ease. And as the threat of lockdowns declines and people also spend more on eating out, stockpiling groceries and essential household goods won't be the norm anymore. Consequently, growth in spending on both durable and nondurable goods are likely to ease this year and the next (figure 6). In fact, given the stockpile of durable goods accumulated through most of last year and part of 2021, spending on durable goods is forecasted to contract in 2022.

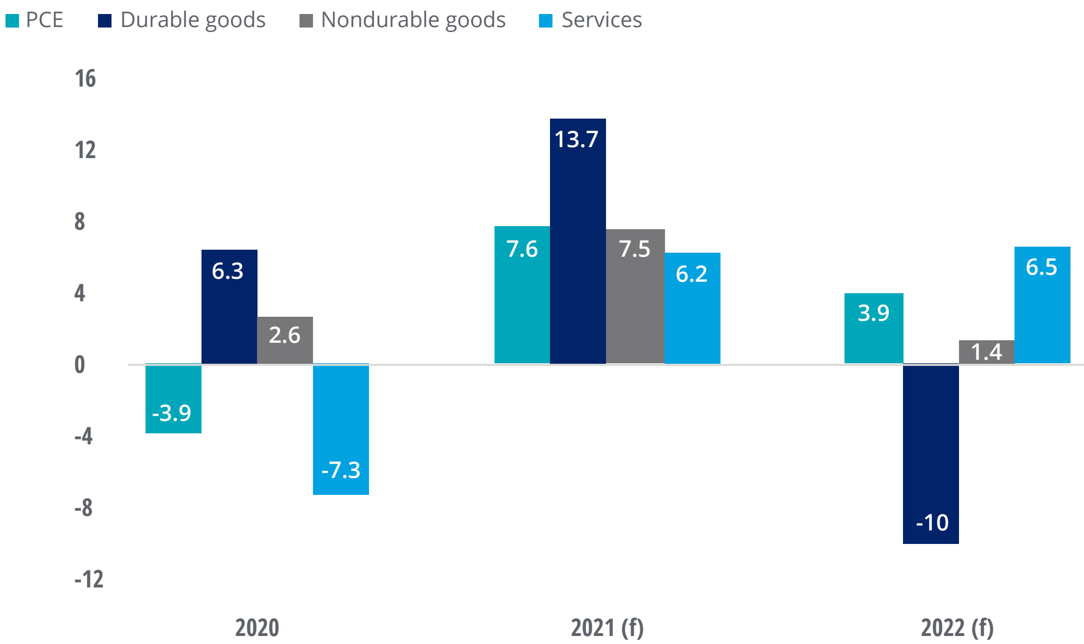
Headaches from headwinds?

Cheerful as the forecasts seem, especially relative to 2020, consumer spending faces key headwinds. First, the labor market is not yet out of the woods with employment far short of prepandemic levels. There were 7.1 million fewer people working in the economy in May this year compared to February 2020. And labor force participation at 61.6% is close to two percentage points lower than

FIGURE 6

Consumer spending is forecasted to grow by 7.6% in 2021 and by 3.9% in 2022

Annual growth in real PCE and components (%)



Notes: f denotes forecasts (for 2021 and 2022); forecasts are by Deloitte and are part of the baseline scenario.
Sources: United States Bureau of Economic Analysis (sourced through Haver Analytics); Deloitte Services LP economic analysis.

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prepandemic levels. Without these people coming back to the labor market and finding jobs, consumer spending growth may suffer over the medium to long term.

Second, low-income households will face challenges in ramping up spending given the pandemic's disproportionate impact on them.[11] As of May 2021, employment in low-wage occupations[12] was still 5.4% lower than that in February 2020, worse than the declines in medium-wage occupations (4.2%) and high-wage (2%) ones.[13] Low-income households are also less likely to have health insurance—especially after layoffs—and more likely to have health conditions that complicate recovery from infection.

Third, spending by retirees will come under pressure as retirement income falls due to low interest rates. Retirement savings, an indicator of future spending by retirees, has been hit due to the impact of the pandemic on labor markets and is unlikely to recover fast if the participation rate does not return to prepandemic levels soon. Even before the pandemic, fewer than four in 10 nonretired adults thought their retirement was on track, with one-quarter of nonretired adults saying they have no retirement savings.[14] And the great majority of Americans' balance sheets have not benefitted from the recent stock market boom.[15]

That the impact of the pandemic on people's incomes and finances is deep and continuing is evident from latest trends in Deloitte's consumer survey, which shows that the share of respondents attributing their anxiety to financial stress has been edging up since January. In fact, in the latest survey, 48% of respondents cited financial stress as the reason for greater anxiety in the survey week, higher than even the share of those who blamed COVID-19 (41%).

Some shifts in spending may stay for long

The post–COVID-19 world will have a lot in common with the one we lived in before the pandemic, but some things may change permanently.[16] This will likely impact consumer spending patterns over the medium to long term.

- The future of work may well turn out to be a mix of in-person, remote, and hybrid work. Such a change will likely nudge consumers to head more to single-family homes in the suburbs than multifamily units within the city. A shift to larger homes with adequate space for home offices will translate to higher spending on home office furnishings and home utility services compared to prepandemic levels.

- Life in the suburbs may also lead to a rise in car ownership due to mobility requirements. Also, people—even those living within a city—may prefer to have their own set of wheels as they may feel safer traveling alone rather than share space with people outside their households. Most consumers are therefore unlikely to engage as much in ride-sharing and mass transit than they did in 2019.

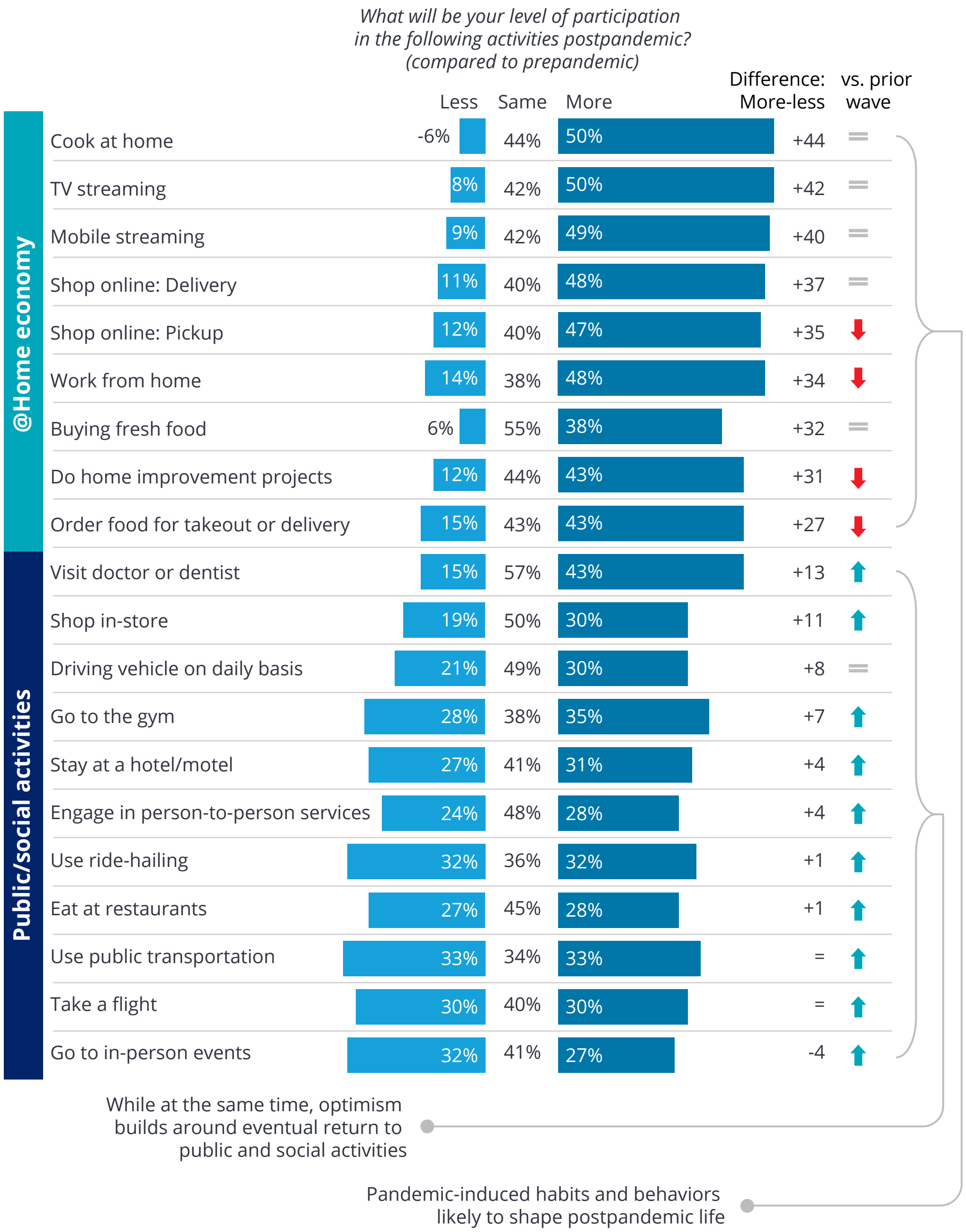
- A study of responses from Deloitte's consumer surveys over May 7–26 reveals that even as the health-related uncertainty over the pandemic eased, respondents who are more likely to engage in remote work in future appear more intent to cook at home, engage in online shopping, and enjoy streaming services compared to prepandemic levels (figure 7). Figure 7 also reveals that people are keen to travel more and eat out as the health scenario improves further.

- If financial inequality—exacerbated by the pandemic—doesn't go down over the next few years, the divergence in spending baskets between those at the top of the income and wealth ladders, and the ones at the bottom will only widen. Those at the bottom may find it even more difficult to spend on health care, insurance, retirement, and transport.

We can safely assume that such changes will have an impact on the amount, nature, and even mode of consumer spending. Changes to the way people work and live, for example, will ensure that demand for durable goods will remain healthy even three to four years from now. That's why we expect spending on durable goods to bounce back during 2023–2025 after a likely correction in 2022. Similarly, the switch to online purchases during the pandemic is likely to sustain even though most consumers feel safe to visit stores and restaurants now, as figure 7 shows.[17] However, it's hard to predict the extent of such changes and whether they will persist beyond this decade. Economists will be able to paint a clearer picture only when the nature of the postpandemic world becomes more evident.

FIGURE 7

Certain spending avenues and methods are set to change even after the pandemic ends



Notes: Wave 18.2: May 7–12, wave 18.3: May 14–19, wave 19: May 20–26; "Difference" refers to the percentage of respondents indicating more minus less activity postpandemic compared to prepandemic activity, N=3,000.

Sources: Deloitte Global State of the Consumer Tracker; Deloitte Services LP analysis.

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Endnotes

1 United States Department of Commerce sourced through Haver Analytics. Unless otherwise stated, all data is sourced through Haver Analytics.

2 United States Centers for Disease Control and Prevention, "COVID Data Tracker," accessed June 3, 2021. All data on coronavirus cases and vaccinations in the United States is taken from this source.

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5 Unless otherwise stated, all references to consumer spending mean real PCE.

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7 The figures quoted here are averages calculated from weekly surveys over the two months.

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11 Patricia Buckley and Akrur Barua, *COVID-19's impact on US income inequality: It's going to get worse before it gets better*, Deloitte Insights, July 23, 2020.

12 Ibid. Among 22 major occupations, the categorization of high-, medium-, and low-wage occupations is based on average and median wages.

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14 Board of Governors of the Federal Reserve System, *Economic well-being of US households in 2020*, May 2021, p. 71.

15 Steve Rosenthal and Theo Burke, *Who's left to tax? US taxation of corporations and their shareholders,* New York University School of Law, October 27, 2020.

16 Deloitte Insights, *The post-pandemic economy*.

17 Ibid; Deloitte, "Global State of the Consumer Tracker."

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