



## What Does The Shift In Consumer Spending Mean For CFIs?

profitability pandemic

**Summary:** Despite consumer confidence remaining subdued, consumer spending is up 8.1% in 2021 and is forecasted to grow by 3% in 2022. Recently, there has been a shift in consumer spending from durable goods to services, which could lead to strong growth among these business customer segments for community financial institutions. We provide three strategies to strengthen relationships with those customers through the recovery.

The first bicycle, the “swiftwalker”, was developed by German inventor Karl von Drais. It hit the road in 1817, with a wooden beam for a frame yet no pedals. As the name suggests, riders “walked” the bike and simply picked up their feet when traveling downhill.

Bikes have come a long way since then and they have seen a huge resurgence during the pandemic. According to the NPD Group, bike sales increased by 121% in March 2020 alone. However, consumer spending has now shifted to reflect the interest in more social pastimes. Since consumer spending has a big effect on business activity, we bring you up to speed on this important topic.

### A mixed picture

Consumer confidence tumbled about 6% from October to November. The University of Michigan’s [consumer sentiment index dropped in early November to 67.4](#), its lowest value since 2011. The expectation was that it would rise to 72.4. Unsurprisingly, the reason for the drop largely swirled around inflation.

With inflation and a tight labor market, wages have been pushed up. Reuters reported [that wages and salaries surged by 1.5% in Q3](#), after rising by 0.9% in Q2. Wages increased 4.2% YoY. Benefits also increased by 0.9% in Q3, after a 0.4% increase in Q2. With higher wages, people seem to be spending more.

In fact, [Deloitte expects consumer spending to increase 8.1% for this year](#) and forecasts 3% overall consumer spending growth in 2022. This forecast relies on the continued labor market recovery and reduced consumer anxiety, as further progress is made in getting COVID under control.

### Consumer spending shifting from durable goods to services

Just like the bike segment, the wider durable goods sector benefited greatly from consumer spending during the pandemic — with an increase of nearly 8% in 2020 and more than 20% in 2021. But, there are only so many bikes, cars, or pieces of furniture that someone can buy. This is why durable goods spending is expected to decline in 2022 and shift to services.

Overall, Deloitte forecasts consumer spending on services will up by 5.8% in 2021 and remain strong well into 2022. Leading the recovery are food services/lodging spending with 21.9% growth and recreational services with an increase of 13.7%. These days, people want to eat out, make up for lost gatherings, and finally watch live sporting events and music.

Aside from anticipating greater demand for banking services from businesses in these service sectors, here are **three strategies community financial institutions (CFIs) can use to support their customers' recovery**.

- 1. Provide personalized business advice.** As their prospects improve, business customers will be turning to you as a trusted partner, which understands their unique needs. CFIs provide holistic business advice as well as personalized financial expertise. Talking to your customers is only the first step. [Modeling the customer relationship](#) with your institution provides you with the analysis to best support them with the services that address their specific needs. It may help you better understand why they have an unused line of credit or if there are other services you can provide to help them.
- 2. Help customers with efficiencies.** Many small businesses have suffered personnel losses and face an increased administrative burden. CFIs can offer ways to make businesses more efficient. Ensuring they have digital access and robust financial tools to help manage cash flow is an important way to do this. Many small businesses say cash flow management is their biggest challenge.
- 3. Prepare customers for the next challenge.** The pandemic threw many businesses into a high level of uncertainty, yet lessons can be learned. CFIs can help their customers think through scenario planning and tailored contingency plans by offering a line of credit, for example. Knowing that they can count on you today and tomorrow can create a high level of loyalty.

The pandemic has shifted many business owners' expectations and consumer spending is providing hope for several of them. CFIs are uniquely positioned to provide the expertise and support needed, as we continue down the path of recovery out of the pandemic.

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## ECONOMY & RATES

Rates As Of: 12/08/2021 06:09AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.06	0.01	-0.03
6M	0.15	0.05	0.06
1Y	0.31	0.06	0.20
2Y	0.70	0.14	0.58
5Y	1.26	0.10	0.90
10Y	1.48	0.03	0.56
30Y	1.81	0.01	0.16
FF Market	FF Disc	LOBB	
0.08	0.25	0.15	
SOFR	Prime	QBER	
0.05	3.25	0.07	

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