Preparing for a Potential Downturn in Consumer Spending

industry update economy

Summary: Economists are predicting a downturn in consumer spending this year along with a slowing economy. We discuss strategies CFIs can use to prepare themselves and their small business customers for the impact.

The COVID-19 pandemic may be firmly in our collective rearview mirror, but the impact it has had on people's social lives seems to be long-lasting. A recent survey conducted for Newsweek found that 42% of people are less social than they were before the pandemic, while 37% of people believe their friends are less social. With many people having replaced in-person social interactions with social media platforms, it is unlikely that socialization will return to pre-pandemic levels anytime soon.

Socialization may not be the only thing that continues to decline in 2024. Despite low unemployment rates and what has been a fairly strong economy the past few years, economists predict that the post-pandemic spending spree will finally come to an end in 2024 and that consumer spending is poised to decline.

With a slowdown in consumer spending looming, community financial institutions (CFIs) should proactively prepare themselves and their small business customers alike for the impact such a downturn could have on both organizations' bottom lines.

Preparing for a Downturn

When the global pandemic brought organizations around the world to a halt, the effect was wide-ranging and immediate. The long-term impact of the pandemic, however, was substantially tapered by government assistance, the forbearance of student loan payments, and the additional savings that many individuals squirreled away while people were stuck at home and unable to participate in their normal day-to-day activities.

But as our lives resumed a sense of normalcy and people began actively spending again — in many cases, quite liberally, to make up for lost time — the pendulum swung in the other direction. Add to that inflation, particularly the soaring costs of gas and electricity in a world where extreme temperatures have become the norm, and the result has been a widespread spend-down of people's savings, as well as heightened concerns around what people are spending. Not without reason, at that.

According to J.P. Morgan, the average US household will have drained its excess liquidity by June 2024. In fact, credit card debt recently exceeded its pre-pandemic level for the first time since March 2020. Credit card debt has now surpassed $1T, up 25% since the period just before the shutdown. Data from the Fed showed an increase in credit card payment delinquencies of 90 days or more in the second quarter of 2023, while Fitch Ratings notes that the number of auto loans delinquent by 60 days or more recently hit a new record.

As a result, economists predict that consumers will start to rein in their spending in 2024. "The drop in consumption will hit spending on both goods and services," predicts Phil Powell, executive director of the Indiana Business Research Center.

Decreasing Loan Impact

To prepare for such a shift, CFIs should take preventative steps to minimize the impact that any significant pullback in consumer spending will have on their overall revenue, as well as that of their small business customers. With credit card delinquencies rising, it stands to reason that financial institutions may start to see the number of loan defaults inch up in the coming months.

Now is the time to review lending portfolios for signs of trouble, as well as stress test your institution's overall lending, in the event of widespread defaults. CFIs, in particular, should take a look at loans within sectors and industries that are particularly susceptible to pullback in discretionary spending, such as entertainment, retail, travel, and restaurants, among others.

Increasing Small Business Support

Beyond looking within, CFIs should also take steps to educate their small business customers on ways they can prepare themselves for a consumer spending downturn, particularly businesses that are still struggling financially following the pandemic.

Now is the time to remind small business clients about the value your organization provides them by highlighting financial advisory services and offering individualized reviews of such customers' financial situations. For CFIs, individual reviews can provide a clearer picture of ways they can expand their relationship with their small business customers, whether through additional lending or support services such as cash management tools or paycheck processing. For small businesses, the additional input and guidance can be critical to their survival.

If economists' predictions are true, 2024 could be a difficult year for CFIs and small businesses alike. With experts forecasting a downturn in consumer spending, coupled with ongoing fears of a recession, now is the time to review any areas that could be impacted should either — or both — of these things come to fruition. Taking a closer look at your business clients' situations can give clarity to both lenders and small businesses and help identify ways to minimize the impact of any significant downturn.

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ECONOMY & RATES

Rates As Of: 01/24/2024 11:15AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.45	0.05	0.05
6M	5.21	-0.05	-0.05
1Y	4.82	0.05	0.05
2Y	4.38	0.13	0.13
5Y	4.09	0.24	0.24
10Y	4.18	0.30	0.30
30Y	4.41	0.38	0.38

FF Market	FF Disc	IORB
5.33	5.50	5.40
SOFR	**Prime**	**OBFR**
5.31	8.50	5.31