Consumer spending outlook shows signs of acceleration: Highlights from VotC: Macroeconomic Outlook

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Introduction

The consumer spending outlook is poised to break into positive territory in a big way, according to our latest VotC: Macroeconomic Outlook, Consumer Spending and OTT Streaming survey, which focuses on consumer plans for the next 90 days. Consumer spending, expectations for the direction of the economy and job confidence are all showing positive trajectories as we head into the summer. Spending is up across a variety of categories as consumers look forward to some degree of a return to normalcy.

The 451 Take

Spending plans for the summer months are surging as consumers are rapidly trying to put the pandemic behind them. Ongoing vaccinations, lifting of mask mandates and warmer weather across the country have buoyed consumer spirits, helping to motivate them to open their wallets in the coming months and gain back some semblance of a normal summer after the pandemic cancelled most everyone's plans last year. At the same time, the job market is gaining stability as less respondents are worried about losing their jobs. Job security is one of the most important pillars with which to build a strong consumer economy. Getting back to normal will be a bit uneven as lingering health concerns will likely slow the recovery in some areas of the economy as consumers prioritize getting back to the places they are most comfortable with. That being said, there is enough of a groundswell of pent-up demand to lift most of the spending categories we follow to one degree or another. One note of caution: All of this positivity hinges on a continued successful vaccine rollout and reopening of the economy. Should either of those suffer any significant setbacks, or a new surge in coronavirus cases occur, it could have negative effects on the consumer outlook.

Summary of Findings

Leading Indicator

Consumer next-90-day spending is head and shoulders above last year. The survey asked respondents how their spending plans for the next 90 days compared to the previous 90 days. We find that 37% of respondents say they expect to spend more compared to only 11% saying less, an astounding net +92 improvement compared to our Q2 2020 survey. Furthermore, the number of respondents saying they plan to spend more is six times better than our reading from last year, which was also the bottom for consumer spending brought on by coronavirus pandemic closures and restrictions.

Consumer spending outlook shows signs of accelerating. Our benchmark metric asks respondents how their spending plans for the next 90 days compare to their spending at the same time last year. The survey finds half (50%) of respondents plan to spend more while 11% plan to spend less. Not only is this a tremendous 43-point improvement in respondents saying they plan to spend more compared to the dismal results of Q2 2020, it's also a welcome 64-point reduction in respondents planning to spend less. These results are unheard of in the history of our survey and point to consumer spending taking big strides forward in the coming months as vaccinations continue and activity restrictions are reduced and eliminated.

Job market continues positive trajectory. Since the bottoming of job confidence in Q2 2020, our surveys have shown a consistent upswing over the intervening quarters. Like with spending plans, job confidence shows a bit of acceleration as 31% of respondents now say they don't worry at all about someone in their family losing their job, compared with 16% saying they worry a great deal or quite a bit. At net +15, it's up 13 points compared to Q1 and the best quarter-to-quarter improvement since the initial snapback in Q3 2020. It's no coincidence that we're seeing corresponding improvements in spending and jobs. The two are intricately intertwined and our surveys have always shown that sturdy job confidence is a critical piece of maintaining normal consumer spending levels.

Consumer expectations for the economy brighten. The survey is also picking up a big jump in consumer expectations for the overall direction of the economy, with almost two-thirds (63%) of respondents saying they expect it to improve over the next 90 days and only 13% saying it will worsen. Not only is this a 50-point improvement in respondents saying they expect the economy to improve compared to Q2 2020, it's also a much-needed 67-point reduction in respondents saying they expect it to worsen. A positive outlook for the economy is another crucial piece that helps motivate consumers to open up their wallets and spend.

As coronavirus fears subside, worries over inflation increase. Over the last few quarters, our surveys have tracked a lessening impact of the coronavirus on consumer spending plans with the current results registering less than a quarter (23%) of respondents saying coronavirus is the greatest macroeconomic threat to their personal finances. This is more than half the level we saw in Q1, when 52% identified coronavirus. Aid packages and stimulus payments, as well as vaccines and rolled-back restrictions, have aided many US consumers in putting the worst of the pandemic behind them. The one downside to this is inflation: Consumer fears over inflation, largely due to government spending to fight the pandemic, has more than doubled since Q1, going from 18% to 43% currently. While fears over inflation are largely perception, as opposed to a tangible threat like coronavirus, it can still impact the willingness of consumers to spend freely. It's likely that inflation will not have the same negative impact on spending as the pandemic, but it's important to monitor over the coming months nonetheless.

Population Representative

Consumers are signaling an uneven return to normal spending. We asked respondents how quickly their spending would return to normal after coronavirus-related restrictions are lifted in their area. The survey shows across-the-board improvements across all types of spending, compared to Q3 2020 when we first asked these questions in the aftermath of nationwide shutdowns. In-store retail shopping (71%) has the most respondents saying they would return immediately or within three months, follow by dine-in restaurants (62%) and personal services (60%) like hair salons. Lagging behind are air travel (30%), on-site fitness (31%) and professional sporting events (25%). Even all the way back in our Q3 2020 survey, in-store retail shopping, personal services and dine-in restaurants were the places consumers were most eager to get back to once restrictions were lifted.

Health concerns are easing, but financial concerns linger. For all respondents who say their spending would not immediately return, we ask them to tell us why. Across the board, health concerns are the top reasons for spending hesitancy, but those levels have decreased noticeably compared to the Q3 2020 survey. Yet, while health concerns gradually subside, the survey shows an across-the-board increase in the number of respondents citing financial concerns. With that said, the average decrease in health concerns is about 14 points, while the average increase in financial concerns is only about six points. This is one area of caution in otherwise positive findings this quarter. If financial concerns continue to linger, even as concerns over the coronavirus subside, they have the potential to prolong the amount of time it will take for consumers to return to normal spending across all categories.

There is an uptick in spending across majority of spending categories. In addition to tracking the rate at which consumer spending returns to normal, the survey also gives us insights into where consumers plan to spend in the coming months. We asked respondents which categories they plan to spend more or less on over the next 90 days. Of the 19 categories we cover, 15 are showing improvement compared to the Q3 2020 survey. Travel/vacation (change in net score +24) and restaurants (+23) are showing the most improvement as pandemic-related restrictions subside and households become more mobile. It's no coincidence that the increase in these spending categories matches the areas where consumers expect to return to normal spending the fastest. Conversely, groceries (-9) are showing the largest decrease compared to Q3 2020, but this is understandable considering the corresponding increase in restaurants. With that said, the fact that groceries show a smaller decrease than restaurants show increase is a sign that while households are getting back to dining at restaurants, it's still only a partial shift away from spending on groceries.

ESG

Cost is the biggest barrier to adoption of environmentally friendly technology. Just under half of respondents (46%) say they are likely to purchase a piece of environmentally friendly tech like smart home devices, home battery, solar panels or electric vehicles within the next three years. The primary reasons for these purchases include reducing energy costs, environmental benefits and energy independence. Among those who are unlikely to purchase these types of technology, they overwhelmingly say it's because they're too expensive (46%). This has been an ongoing struggle throughout the push to switch to renewable energy and better energy management. There are millions of Americans who would switch over to these environmentally friendly technologies if they were more affordable. For many, the amount of money needed on the front-end makes this switch a no-go regardless of the long-term benefits they will bring.

Privacy/data protection is the top ESG concern among consumers. We asked respondents a series of questions to gauge the importance of different aspects of ESG when choosing which brands to make purchases from. We find privacy and data protection (50% very important), health, safety and labor standard (40%) and energy efficiency (40%) are most important. Consumers seem to be more concerned with areas that can affect the directly as consumers, not necessarily as individuals, whereas bigger societal concerns like diversity, fair wages, human rights and carbon footprints are likely important to them as individuals, but do not have the same level of impact on which companies they choose to do business with.