JULY 2020

# The state of discretionary spending:

## What shifting habits mean for financial institutions

Hero Digital Financial Services COVID-19 Consumer Survey

# What shifting habits mean for financial institutions

Consumer behavior and spending habits have changed significantly since the start of the pandemic—because of circumstance, necessity, or by choice. As states lift stay-at-home orders and businesses begin to re-open, the big question is: will consumer spending follow?

While everyone is eager to get the economy back on track, there are lasting concerns about financial stability, health, and safety that continue to hold some consumers back. Pandemic-related changes in spend and behavior will likely prove to be more permanent than most originally thought.

These potentially permanent changes to consumer spend behavior have major implications for financial institutions, highlighting the need to understand customers and rethink branch and digital offerings. This report covers changes in spend and future outlook that can be used to influence everything from operations to loyalty and rewards programs.

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**Study Overview**

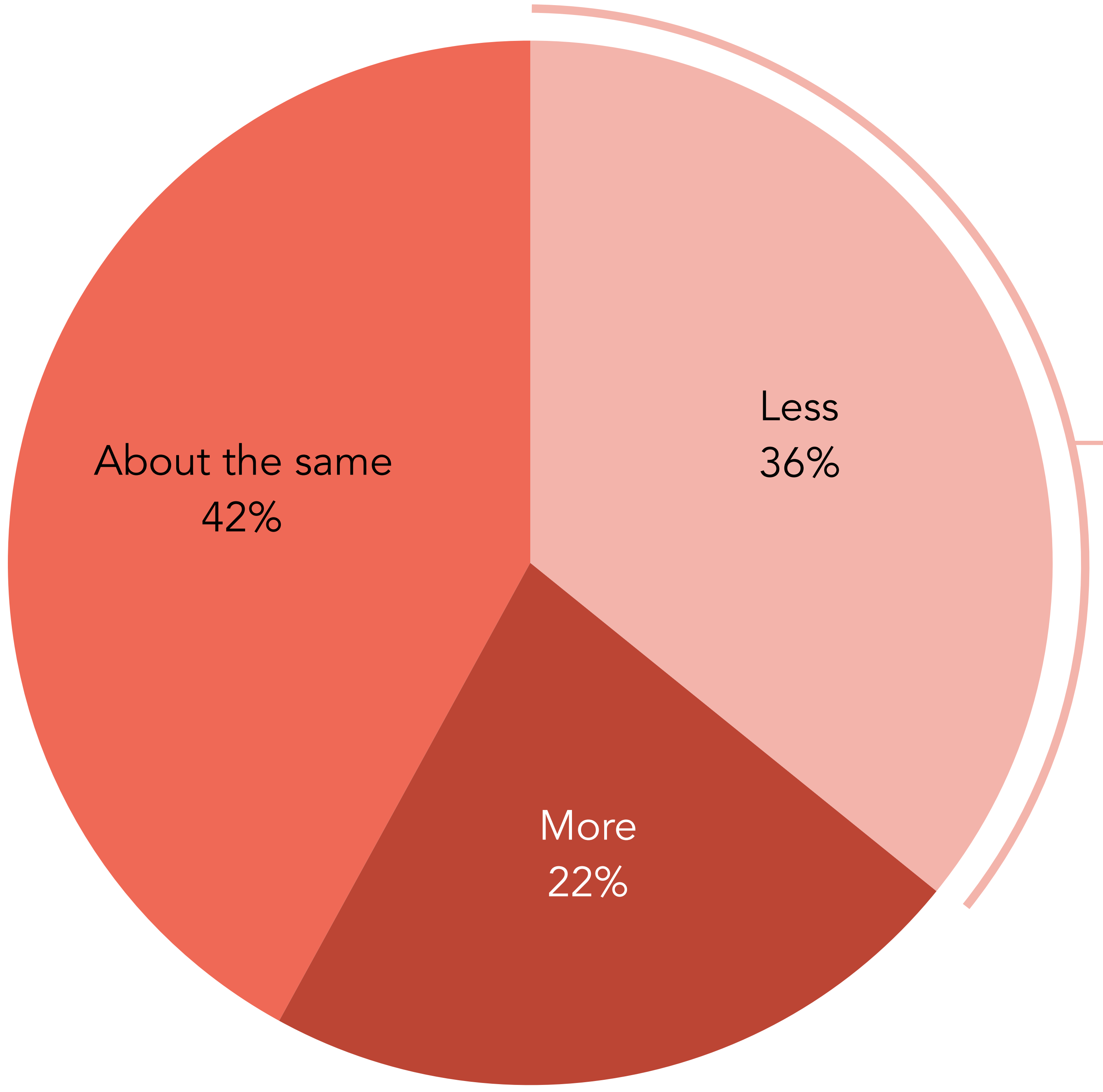
In May 2020, Hero Digital surveyed 1,600 people about their preferences for interacting with their financial institutions, their digital behaviors, and spending habits — and how these all may have changed as a result of COVID-19.

# The impact of the pandemic on spending

# Changes in overall discretionary spending

For many consumers the pandemic ushered in a paradigm shift that led to changes in their normal spending habits. These changes depend, in some part, on socioeconomic status. How much we have largely drives how we spend. But there are nuances into how and why people changed their financial behaviors.

Since the start of the pandemic I'm spending…




A third of respondents reported spending less than they were three months ago.

# Overall reasons for spending less

Although the idea of "savings" generally implies intentionally cutting back, during the pandemic, lack of opportunity may have played as much or more of a role in consumers' spend behaviors.

Reasons for spending less, by income (indexed to total)

| Household income | 73.5%<br>Eating more meals at home | 66.9%<br>Fewer social engagements | 60.2%<br>Not as many opportunities to spend | 61.5%<br>Being cautious about future savings | 32.8%<br>Change in employment or pay |
|---|---|---|---|---|---|
| **< $50k** | 88 | 77 | 86 | 103 | 127 |
| **$50k - $100k** | 100 | 100 | 100 | 106 | 96 |
| **$100k - $150k** | 110 | 115 | 107 | 90 | 81 |
| **> $150k** | 113 | 131 | 122 | 87 | 78 |

**Situational savings:** affluent consumers are more impacted by a loss of spending opportunity.

**Intentional savings:** Lower income consumers are more likely to be saving intentionally.

# Areas of increased spending

Affluent buyers may not have as much opportunity to spend on meals and travel but they are still shopping from the comfort of home, often on "non-necessary" items like home improvement, furniture, and grooming.

Areas of increased spending, by income (indexed to total)

| Household income | Local restaurants (36.0%) | Chain restaurants (27.0%) | Home improvement (26.4%) | Streaming services (24.4%) | Alcohol (16.3%) | Clothing or accessories (14.9%) | Furniture or home decor (11.5%) | Beauty or grooming (11.3%) |
|---|---|---|---|---|---|---|---|---|
| **< $50k** | 99 | 104 | 82 | 98 | 80 | 113 | 63 | 99 |
| **$50k - $100k** | 104 | 100 | 93 | 103 | 109 | 95 | 103 | 101 |
| **$100k - $150k** | 103 | 103 | 123 | 88 | 125 | 81 | 111 | 93 |
| **> $150k** | 84 | 86 | 132 | 113 | 84 | 113 | 165 | 111 |

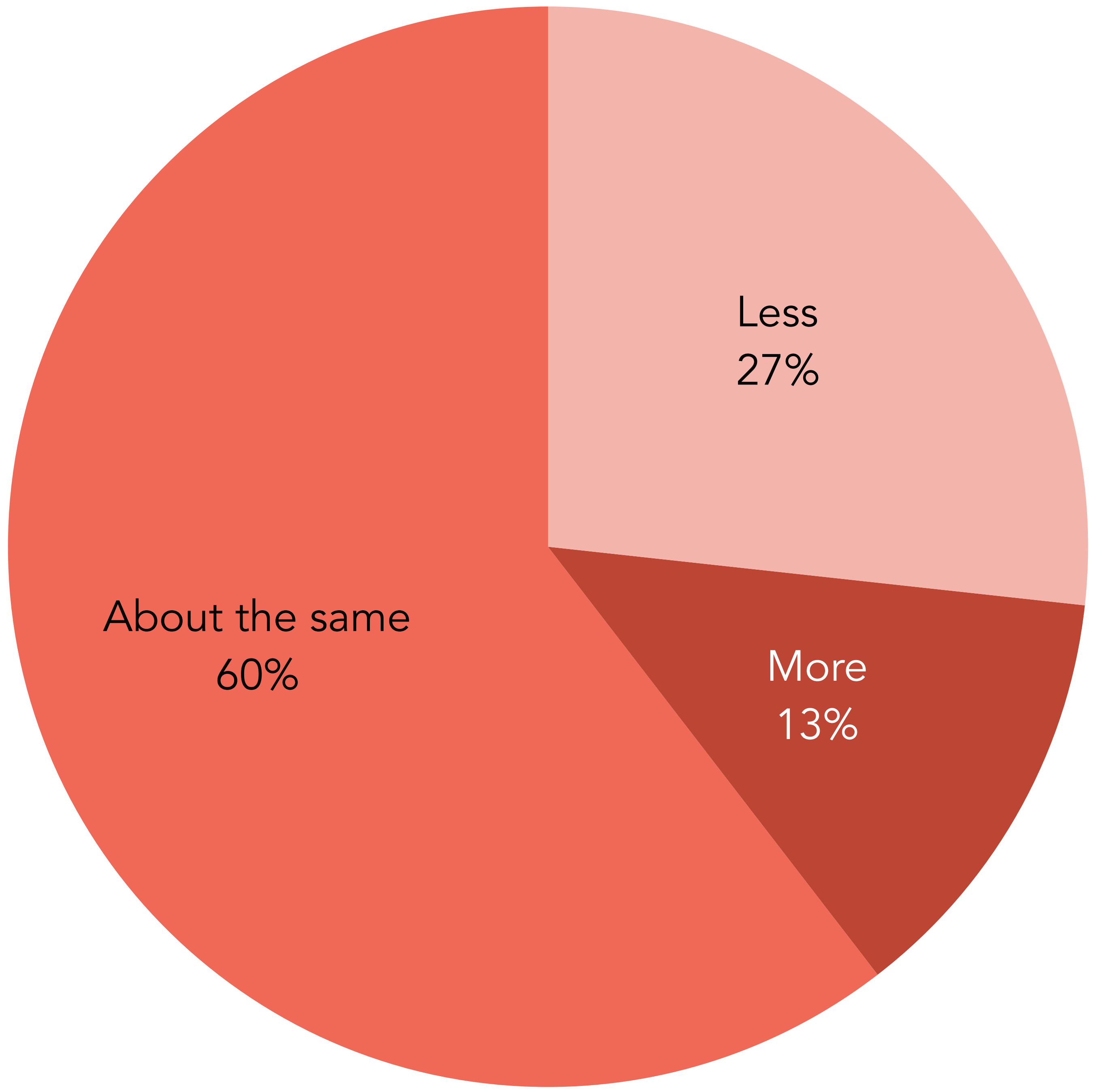
People with a HHI >$150k are **2.5x more likely** to report increased spending on home decor than the lowest income bracket.

# Lasting changes in consumer behavior

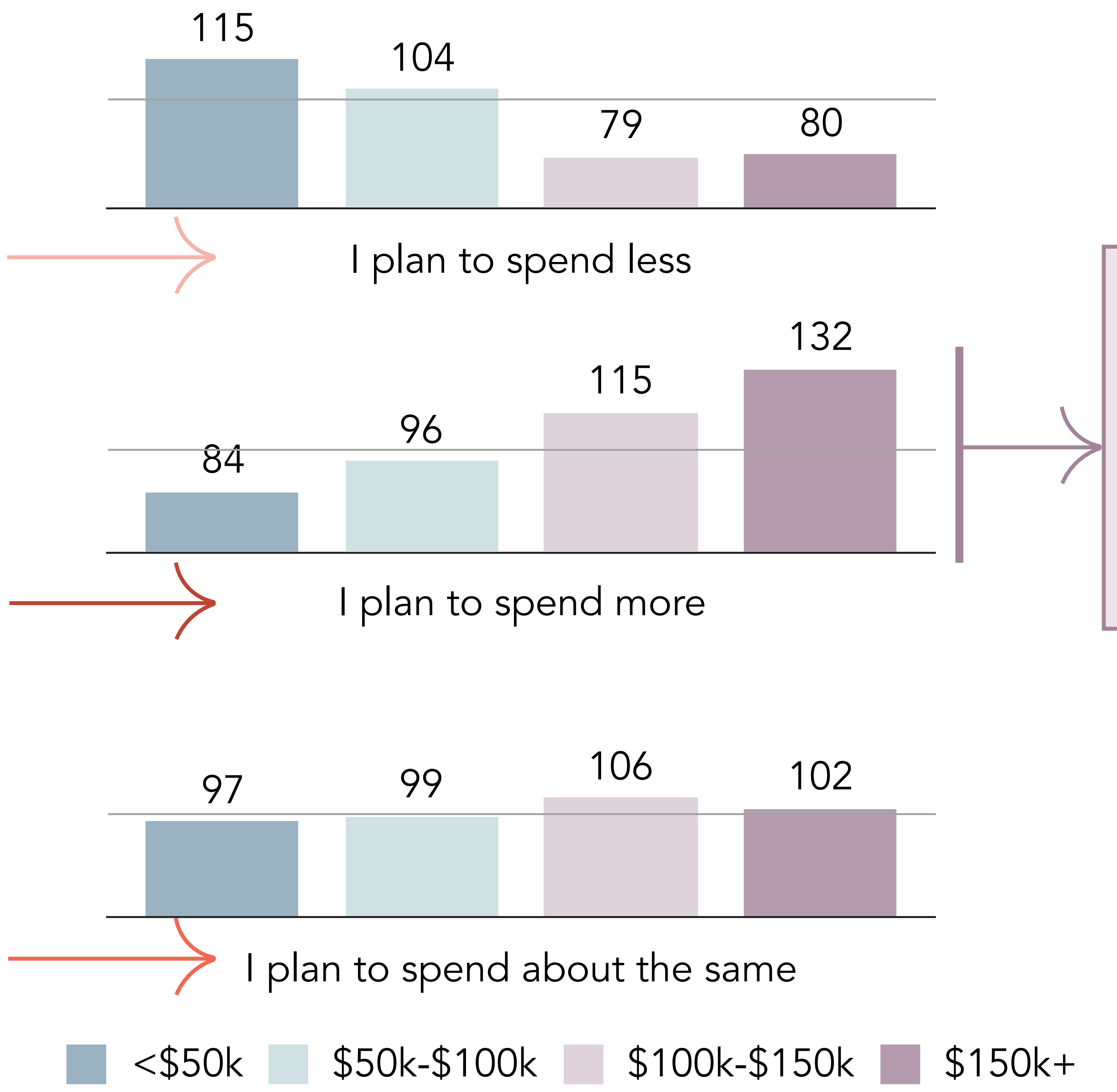
# Future discretionary spending plans

The majority of people say that they are planning to maintain their early pandemic spending, or even spend less than they have been. The behavior shifts caused by the pandemic are not a fleeting change.

In the next 6-12 months I plan to spend...




Anticipated spending, by income (indexed to total)

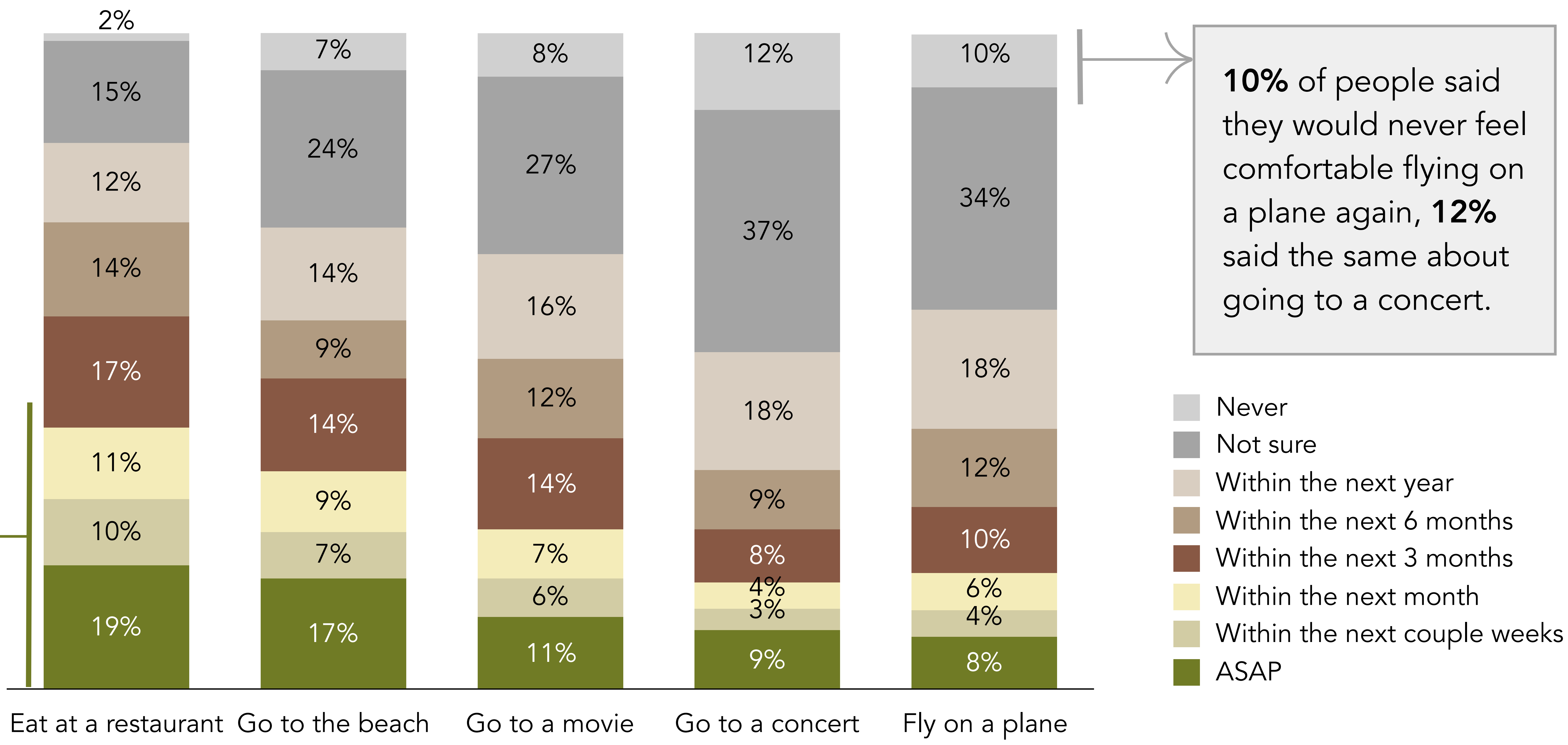



Income drives future spending plans — higher income individuals are **32% more likely** than average to say they will spend more.

# Overall comfort returning to “normal”

Even as the economy begins to open up, recovery still appears to be a ways off. For many people, returning to activities is uncertain and their pre-pandemic spending habits may forever be a thing of the past.

Willingness to resume activities, by timeframe



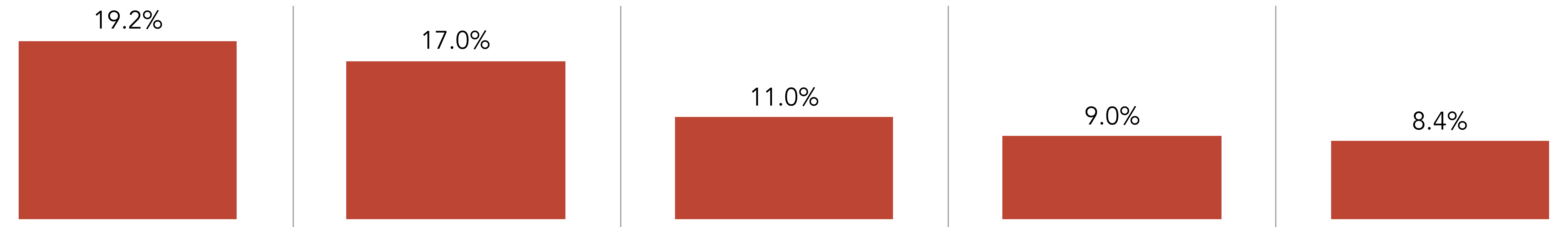

**40%** of people think they would be ready to eat at a restaurant again within a month.

**10%** of people said they would never feel comfortable flying on a plane again, **12%** said the same about going to a concert.

# Return to activities “ASAP”

For those planning to return to activities right away, comfort appears to be highly influenced by economic ability to do so.

Willingness to resume activities "asap", by income (indexed to total)




| **Household Income** | Eat at a restaurant | Go to the beach | Go to a movie | Go to a concert | Fly on a plane |
|---|---|---|---|---|---|
| **<$50k** | 97 | 96 | 96 | 96 | 88 |
| **$50k-$100k** | 94 | 94 | 98 | 94 | 95 |
| **$100k-$150k** | 110 | 113 | 102 | 114 | 114 |
| **$150k+** | 119 | 118 | 119 | 117 | 131 |

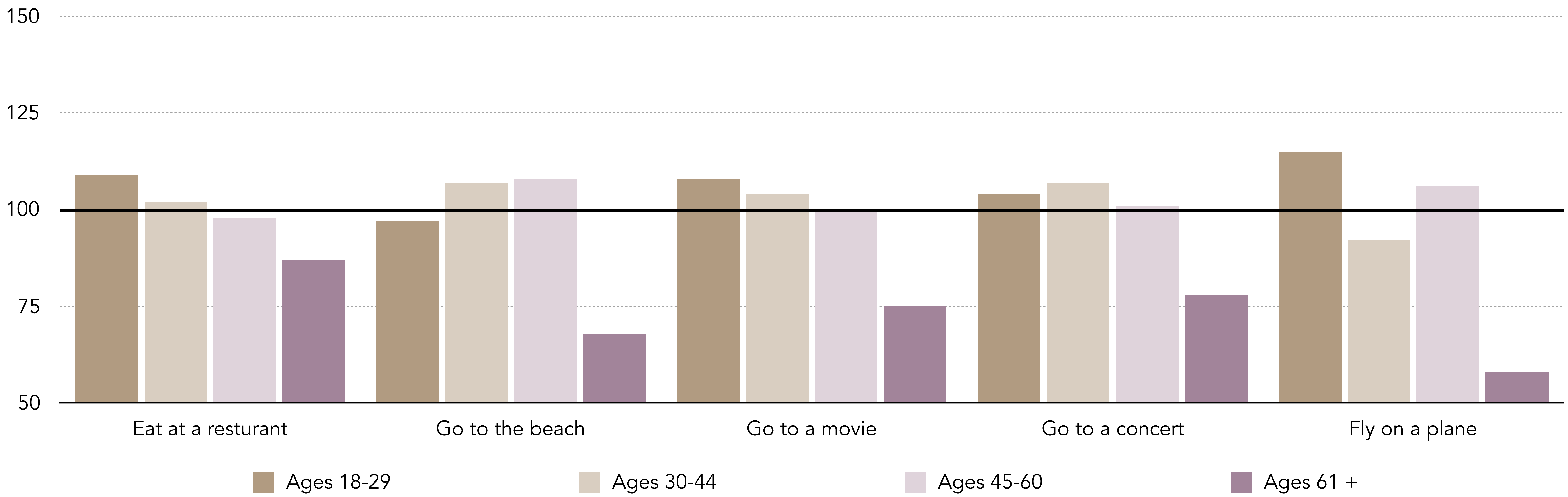
Higher income individuals are more likely to return to activities across the board.

# Additional variables that drive spending predictions

# Comfort drivers: age

Age clearly has an impact on comfort returning to normal. With older individuals being most at-risk, we can expect more caution from this group. Considering that people over 50 are 35% of the US population but represent 53% of consumer spending*, there will likely be shifts in where this spending happens.

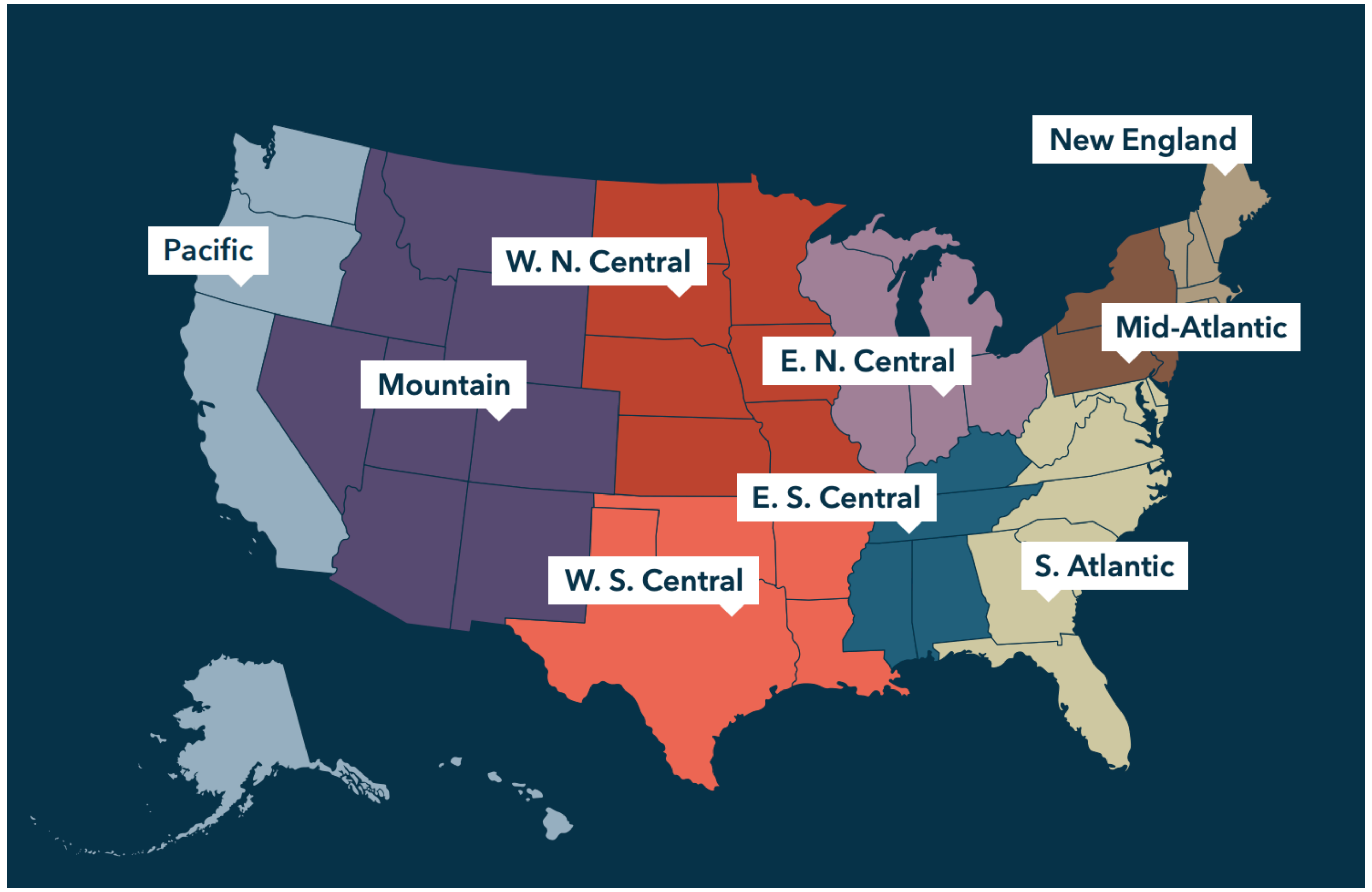
Comfort resuming to activity "asap", by age (indexed to total)



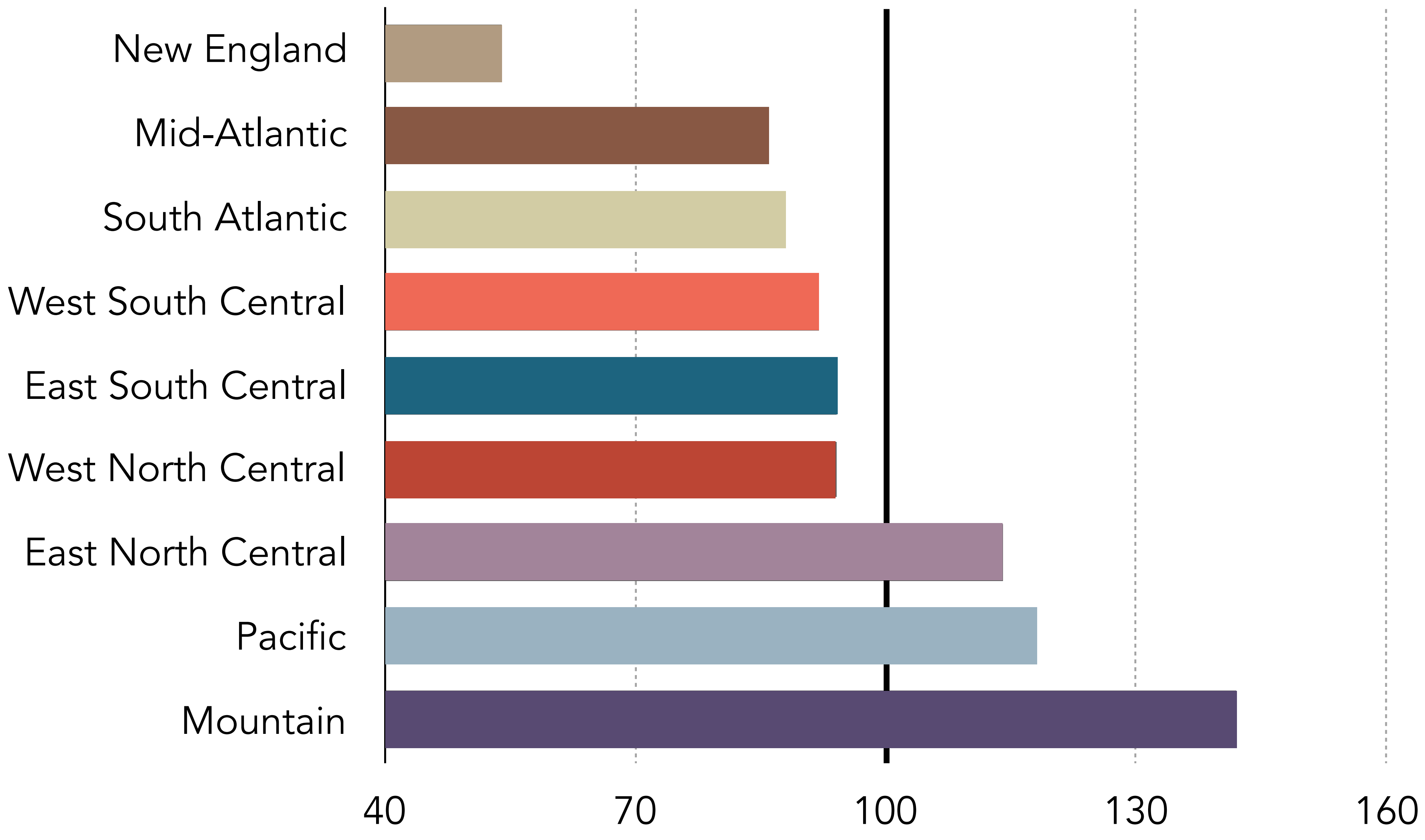

*AARP, 2016: https://www.aarp.org/content/dam/aarp/home-and-family/personal-technology/2016/09/2016-Longevity-Economy-AARP.pdf

# Comfort drivers: region

Location can also influence consumer outlook. Geographic regions, as determined by the US Census Bureau, also show some correlation between an overall readiness to resume social spending and a lower rate of infection, as of May 2020.



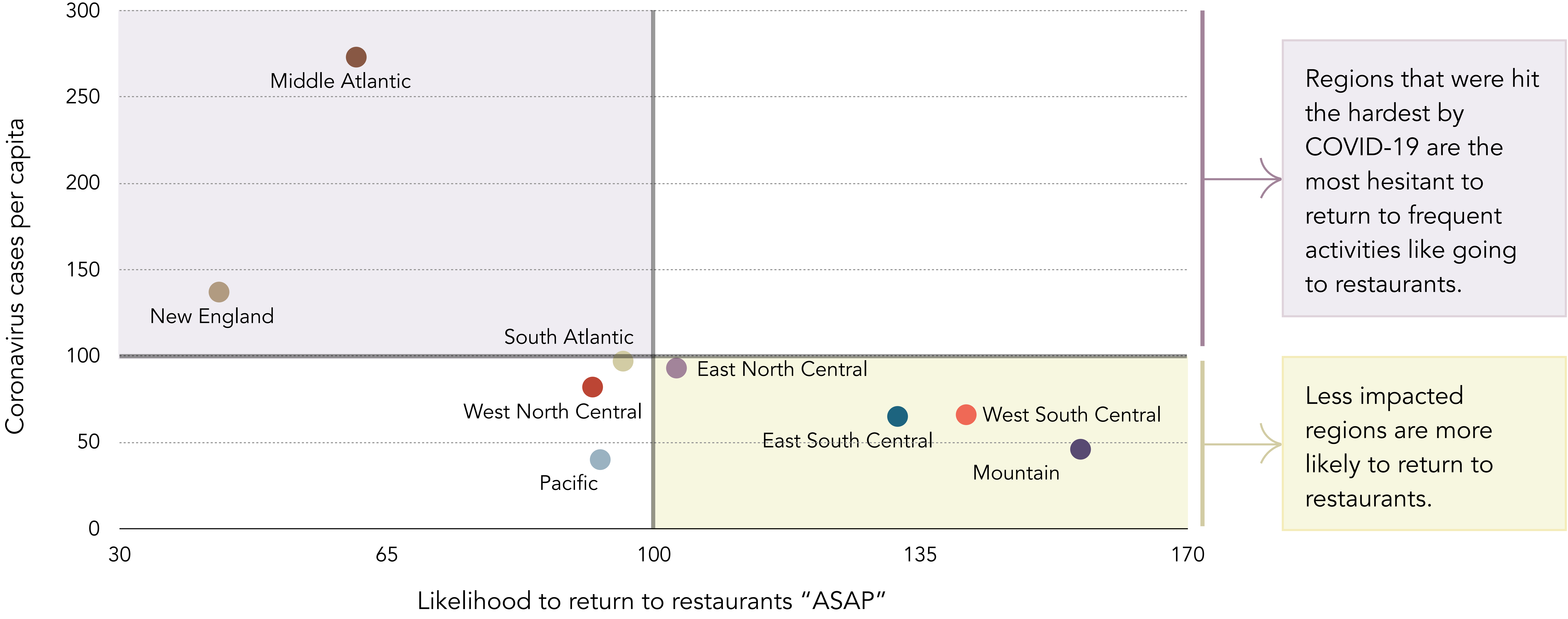

Comfort resuming discretionary spending, by region
(indexed to average of all activities)



# Comfort drivers: region, eating out

The extent of the impact that COVID-19 has had on a local community matters when it comes to returning to everyday pre-pandemic behaviors like eating at a restaurant. Generally, the harder hit an area, the longer it will be until people feel comfortable.

Likelihood to return to restaurants vs. COVID-19 prevalence, by region



# Key takeaways for financial services

| Insights | Implications for Financial Services |
|---|---|
| **When it comes to shifts in spend and behavior, the pandemic is a marathon, not a sprint.** This monumental — and extended — disruption to consumer habits will fundamentally change how people interact with businesses. | Financial institutions need to react with changes to their operations, building up digital capabilities, and focusing on the customer experience. Understand where your customers are in terms of "digital readiness" to plan branch and digital roadmaps. |
| **COVID-19 is (possibly permanently) changing what is valuable to consumers.** Early indicators are that it will be a while before customers are excited to do things they valued doing prior to the pandemic, like flying on a plane or going to a concert. | Economic and health concerns have changed how people want to spend their money, and how they want to be rewarded for doing so. This could have lasting implications for rewards structures on items like credit cards and loyalty programs. |
| **Reopening the U.S. economy is not a one-size-fits-all approach.** People pulled back on spending for different reasons (situation vs. necessity), and life and local situations have a significant impact on willingness to return to both spending and normal life. | Consider regional planning in terms of branch opening, offerings, and communication. Think about shifting from national shopping / spend offers and promotions to regional ones driven by readiness at the local level. |

To learn how Hero Digital can help you act on these insights to improve your business performance, contact us at business@herodigital.com

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