ECONOMIC FINDING

Spending and Savings of the Poor Growing Most Since April

Natalie Cox, Postdoctoral Fellow, Stanford Institute for Economic Policy Research; Arlene Wong, Assistant Professor of Economics at Princeton University; Diana Farrell, Founding President and CEO, JPMorgan Chase Institute; Peter Ganong, Assistant Professor, UChicago's Harris School of Public Policy; Fiona Greig, Managing Director and Director of Consumer Research, JPMorgan Chase Institute; Max Liebeskind, Research Associate, JPMorgan Chase Institute; Pascal Noel, Neubauer Family Assistant Professor of Finance, Chicago Booth; Joseph S. Vavra, Professor of Economics, Chicago Booth

Spending plunged for all households at the onset of the pandemic. After government stimulus, poorer households had more rapid spending and savings growth than richer households.

The authors use anonymized bank account information on millions of JPMorgan Chase customers to measure how spending and savings over the initial months of the pandemic vary with household-specific demographic characteristics, like pre-pandemic income and industry of employment. The authors find that most households cut spending dramatically in early March, with declines particularly concentrated in sectors sensitive to government shutdowns and increased health risk, like travel, restaurants, and entertainment. Richer households, who typically spend more in these categories, cut their spending slightly more than poorer households.

Starting in mid-April, after government stimulus checks and expanded unemployment benefits are put in place, spending by poor households recovers more rapidly than spending by rich households. At the same time, poor households also have the largest growth in liquid checking account balances. Thus, poorer households simultaneously have faster growth of spending and savings starting in mid-April, even though they face greater exposure to labor market disruptions and unemployment. This suggests an important role for government transfers in stabilizing income and spending during the initial stages of the pandemic, especially for low-income households. This in turn suggests that phasing out broad stimulus too quickly could potentially transform a supply-side recession driven by direct effects of the pandemic into a broader and more persistent recession caused by declines in income and aggregate demand.

Figure 1 • Year-over-Year Growth in Debit Card Spending, by Income Quartile