

US Equity Strategy

How will consumers spend in the reopening? UBS Evidence Lab inside

Equity Strategy

Americas

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UBS Evidence lab: survey of US consumer on spending intentions

To get a better sense of spending potential, particularly across categories and demographics, we leverage the first wave of the US Covid-19 Vaccine Consumer PulseCheck ([> Access Dataset](#)). UBS Evidence Lab conducted an online survey of 1,000 consumers across the US from March 2nd to 4th. Respondents were asked "how would you expect your spending on each of the below categories to change after businesses and restrictions start to return to normal".

Survey results support UBS forecasts for consumption rebound

The overwhelming majority of respondents expect to increase spending (52%), with 32% expecting to increasing expenditures by over 10%. On the other side, 16% of respondents plan to decrease spending as conditions return to normal. On an income weighted basis, the survey results point to a large >7% jump in total spending, which supports UBS economists' forecast for very strong consumption growth in 2021 ([link](#)).

Higher income consumers to drive spending increase

Those earning over \$80k annually expect to increase their spending by over 8%, compared to a 3.4% rise for those earning less than \$30k and a 5.2% increase for middle income. The relationship between income and planned spending increases is consistent across detailed income brackets as well. The survey results support our view that higher income households are key to driving the recovery in consumption, as their spending was consistently ~10% below pre-COVID levels since last spring - compared to ~5% below for middle income and in line for lower income households ([link](#)).

Category spend expectations more "sticky" than expected?

Of the 17 categories asked about in the survey, groceries and HH products ranked top in terms of expected growth, followed by gasoline/other energy. Housing related/home improvement was 3rd, followed by health procedures and technology products. Vacation/travel ranked 6th while restaurants/bars was 9th and events/entertainment/leisure was 2nd to last, which is surprising given how wallet share for these categories is relatively depressed. This could be due to pockets of elevated consumer pessimism around the timing of a return to normalcy. A higher share of respondents (>20%) expect to decrease spending on travel, restaurants and events, with an even greater proportion of those earning above \$90k planning a decline (>25%). Respondents from the South, where restrictions were less extreme, expect to increase total spending by less than other regions and have a higher propensity to reduce spending on travel and leisure.

Reopening theme: stay the course but broaden out and move up in quality

The survey results suggest that consumption habits may be stickier than many anticipate and may take time to normalize. Only time will tell how COVID changed behaviors on a sustained basis. The massive and growing capacity for US consumers to spend keeps us positive the reopening theme ([link](#)), but the survey is a reminder that many aspects are still uncertain (i.e. increase in gas spend a sign of more local travel?). The relatively muted expectations for COVID-hit areas in the survey would support having broader exposure to the inflection in consumption, and not overly concentrated in hard hit industries. Our work shows that the low quality rally is very far along ([link](#)). Thus we would look to move up the quality spectrum for the reopening theme as well given uncertainty remains.

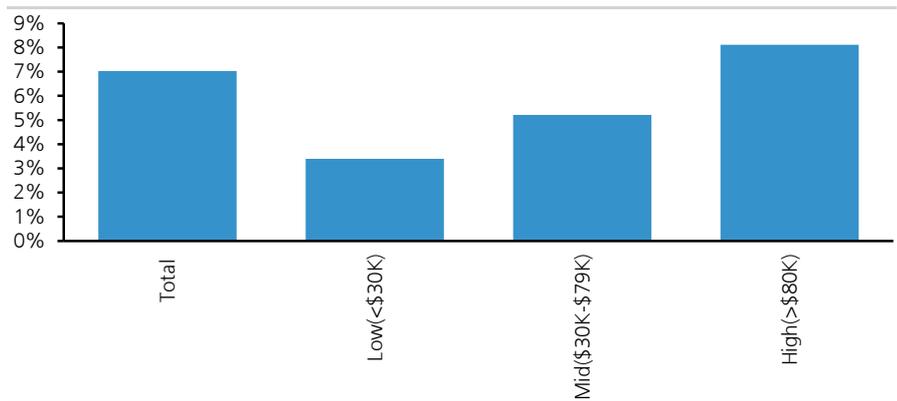
Higher income consumers to drive spending increase

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Consumers were asked "how would you expect your spending on each of the below categories to change after businesses and restrictions start to return to normal". As laid out in Figure 4, the answers were increase >20%, increase 11-20%, increase 1-10%, no change, decrease 1-10%, decrease 11-20% and decrease more than 20%. For purposes of our analysis, we focus on income weighted spending intentions to get a better sense of spending potential.

The survey results support our view that higher income households are key to driving the recovery in consumption, as their spending was consistently ~10% below pre-COVID levels ([link](#)). Figure 1 shows that those earning over \$80k annually expect to increase their spending by over 8%, compared to a 3.4% increase for those earning less than \$30k and a 5.2% jump for middle income. Figure 2 shows the expected increase in spending across more detailed income brackets.

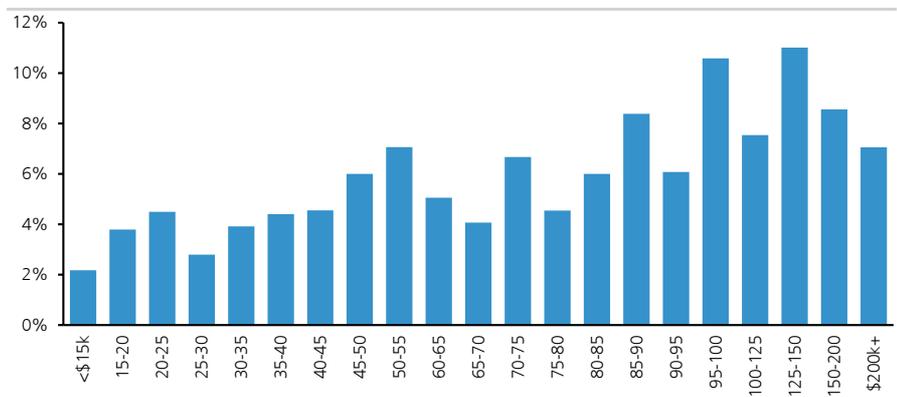
Figure 1: Implied spending increase by broad income cohort based on survey responses



Total spending across income cohorts is expected to increase by 7% with high income (>80k) spending expected to grow 8.1%, mid (\$30-70k) to grow 5.2%, and low (<\$30k) to grow 3.4%.

Source : UBS Evidence lab (> [Access Dataset](#)), UBS

Figure 2: Implied total spending increase by income bracket based on survey responses



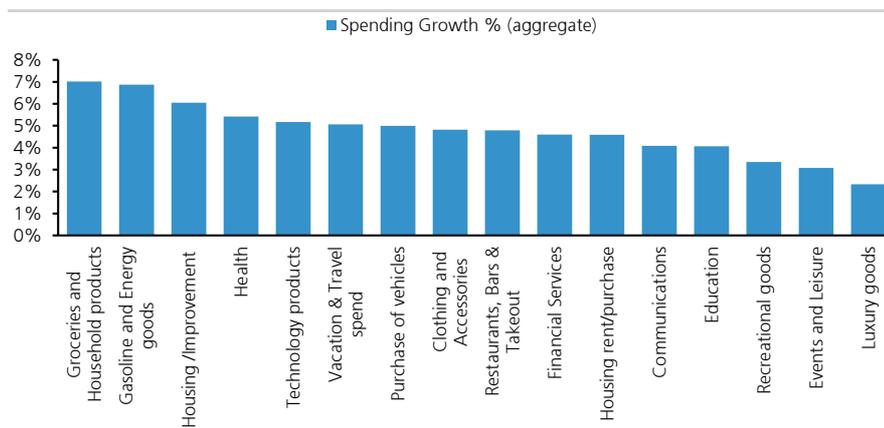
Higher income consumers are expecting to increase spending significantly from current levels, much more so than middle and lower income households.

Source : UBS Evidence lab (> [Access Dataset](#)), UBS

Where do consumers expect to increase spending most?

The UBS Evidence Lab survey asked respondents about their spending intentions for 17 categories, as shown in Figure 3 below. We weight the expected increase/(decrease) in spending by respective household income to get a better view of relative upside across categories on a total nominal basis. Groceries & HH products ranked first, followed by Gasoline. Home Improvement, Health Procedures and Tech Products were in the next grouping. Vacation & Travel spend ranked 6th, which is somewhat surprising given how much that type of spending dropped. Similarly, Events and Leisure activities ranked 2nd lowest with only Luxury Goods spending lower in terms of priorities. Looking a layer deeper, there was a notable % of respondents at 20%+ who said they intend to decrease spending on COVID hit areas such as Travel, Restaurants and Events (Figure 4).

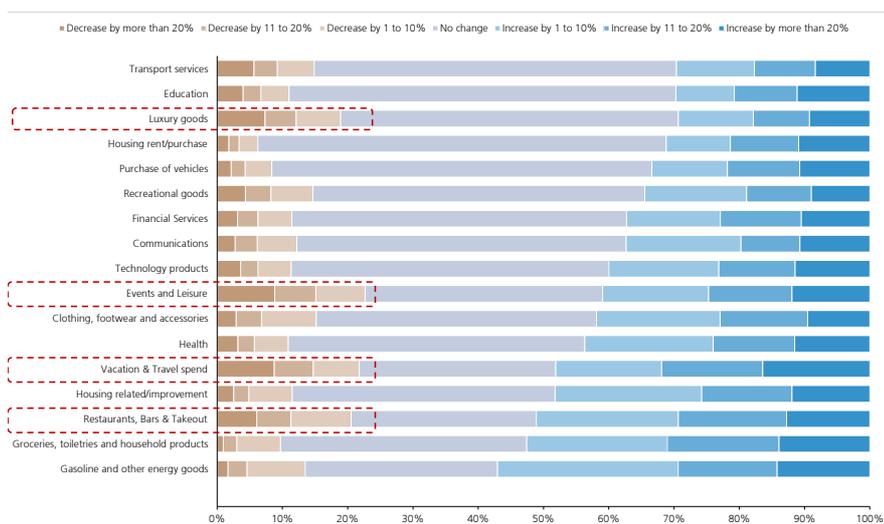
Figure 3: Implied category spending increase based on survey responses



Source : UBS Evidence lab (> [Access Dataset](#)), UBS

Surprisingly, Groceries and HH products ranks as the top spending category, which may suggest spending patterns may be stickier near term than previously expected.

Figure 4: Spending intentions by category "How would you expect your spending on each of the below categories to change after businesses and restrictions start to return to normal?"

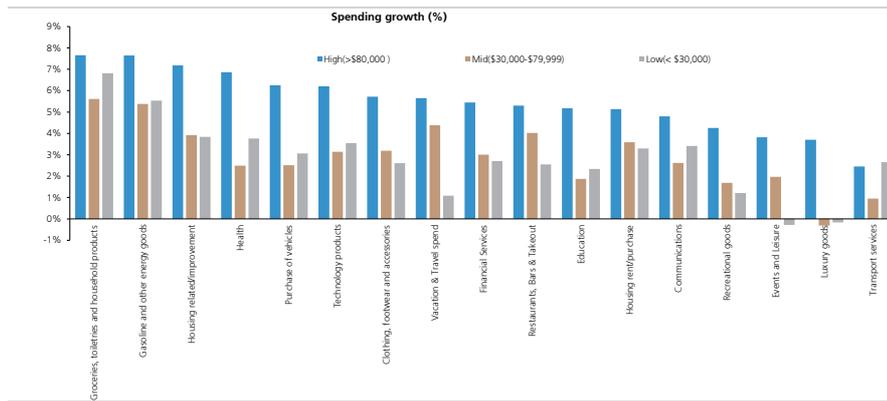


Source : UBS Evidence lab (> [Access Dataset](#)), UBS

56% of respondents expect to increase spending on Gasoline and other energy, while 52% expect to increase spending on Groceries and other HH products.

Surprisingly, about 20% of respondents expect to decrease spending on Restaurants/Bars, Vacation/Travel and Events/Leisure.

Figure 5: Spending category growth intentions by income cohort



Higher income households consistently showed greater spending growth intentions across categories, with a higher degree of differentiation across middle and lower income earners.

Source : UBS Evidence lab ([> Access Dataset](#)), UBS

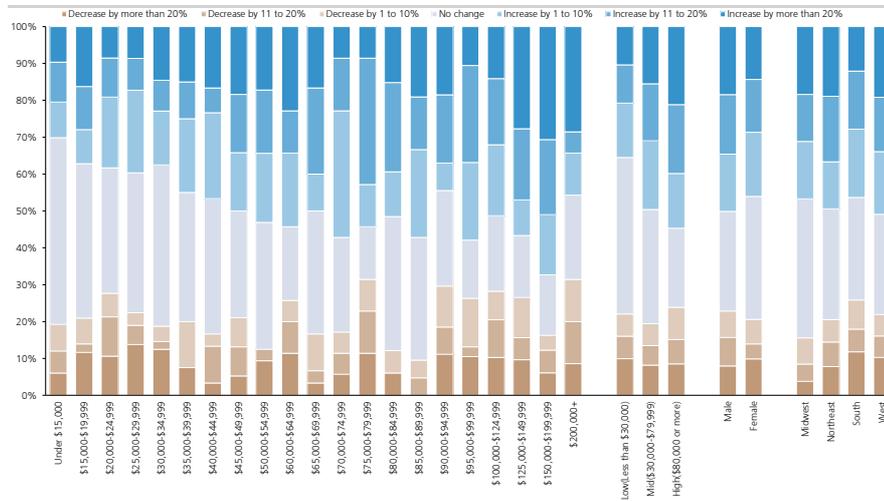
Figure 6: Survey wording for categories versus shortened category labels

Label	Question Wording
Total spending	Total spending
Housing rent/purchase	Housing (rent/mortgage, including new home purchase or moving)
Housing related/improvement	Housing related/improvement (such as furnishings, appliances, home goods, tools)
Purchase of vehicles	Purchase of vehicles (new or used)
Gasoline and other energy goods	Gasoline and other energy goods
Transport services	Transport services (train, taxi/rideshare, or bus fares)
Groceries, toiletries and household products	Groceries, toiletries and household products
Clothing, footwear and accessories	Clothing, footwear and accessories
Technology products	Technology products (such as computers, phones, TV/audio)
Luxury goods	Luxury goods (such as jewellery, watches, shoes/clothes, luggage)
Recreational goods	Recreational goods (such as games/toys, bikes, motorcycles, boats, sports equip)
Health	Health (procedures, outpatient services, dental, health insurance, drugs, equip)
Vacation & Travel spend	Vacation & Travel spend (accommodation, air fare, packaged holidays)
Restaurants, Bars & Takeout	Restaurants, Bars & Takeout
Events and Leisure	Events and Leisure (gambling, amusement parks, sports, concerts, movies, theatre)
Financial Services	Financial Services (investing, insurance, savings)
Education	Education (such as nursery, childcare, college, courses)
Communications	Communications (including phone/cable bills, streaming, gaming, other services)

Source : UBS Evidence lab ([> Access Dataset](#)), UBS

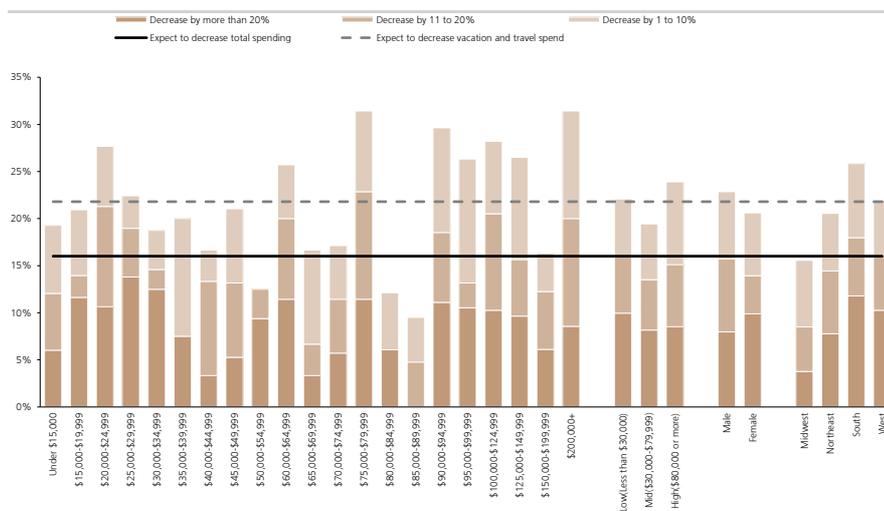
Vacation and travel spending expectations

Figure 7: Vacation and travel spending expectations by demographic



Source : UBS Evidence lab ([Access Dataset](#)), UBS

Figure 8: Share of respondents expecting a decline in vacation and travel spending across demographics - compared to total spending expectations



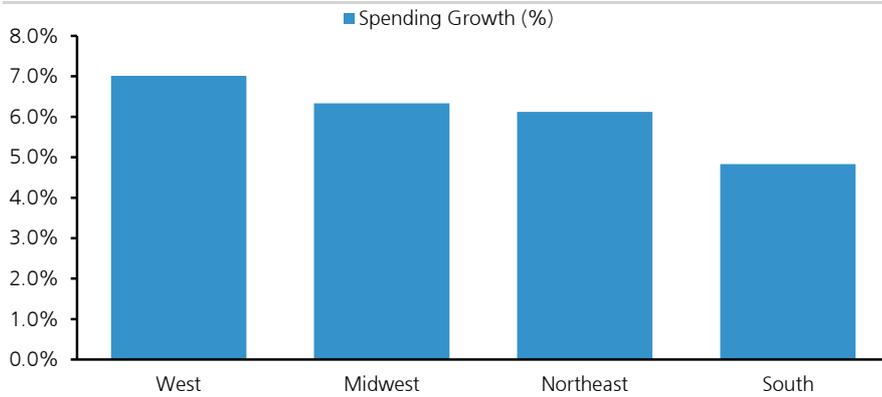
Source : UBS Evidence lab ([Access Dataset](#)), UBS

We find that a notably higher share of respondents (>20%) actually expect to decrease spending on vacation/travel vs ~16% expecting to decrease total spending.

The expected decline in vacation and travel spend is concentrated in higher income cohorts (\$90k+), those cohorts which travel the most.

Spending differences across regions and gender

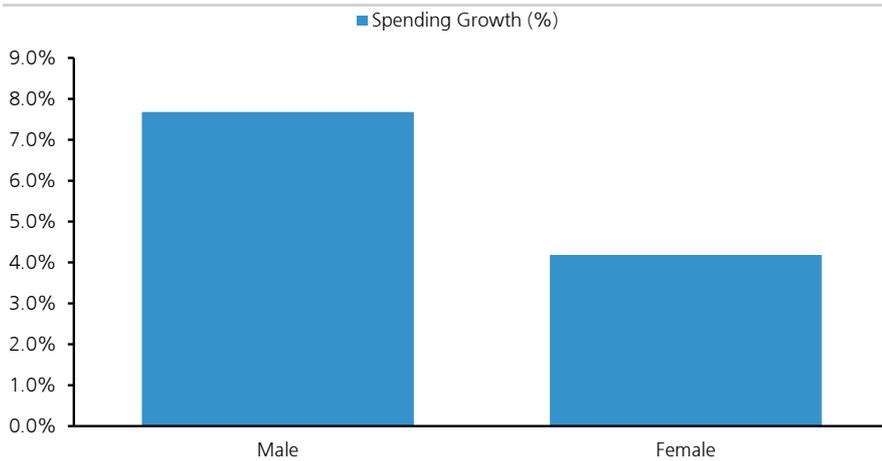
Figure 9: Region - implied spending increase based on survey responses



Source : UBS Evidence lab ([> Access Dataset](#)), UBS

Those respondents in Southern states expect to increase spending by ~2pp less than the broader sample.

Figure 10: Gender - implied spending increase based on survey responses



Source : UBS Evidence lab ([> Access Dataset](#)), UBS

Male respondents expect to increase spending by much more than female respondents.

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