

# Spending Momentum Index

United States

September 10, 2021

## Spending momentum slows in August

Visa's U.S. Spending Momentum Index (SMI) fell 2.9 points in August to 109.6 (seasonally adjusted). The latest reading indicates spending momentum continues to expand at a healthy clip but not as rapidly as it had previously. This downshift was expected since a few factors that super-charged growth earlier in the year have faded. The initial release of pent-up demand that came with vaccination is now largely behind us. The expiration of enhanced jobless benefits and the end to the national moratorium on evictions removed other temporary boosts to spending.

Less expected was the speed of the Delta variant spread and its impact on the recovery. Nationally, the current wave of infections is beginning to rival last winter's spread, but vaccination should help to better insulate the economy this time around. At the end of August, in cities where per capita vaccination was above the national average of 52.6 percent, the growth in new cases was slower and hospitalization rates were lower on average. Spending momentum fell on average only 2.3 points in more vaccinated cities as opposed to 3.9 points in less vaccinated cities. With 133 million Americans (44 percent of the total) living in cities where vaccination rates are higher, the forward momentum of the overall recovery remains largely intact.<sup>1</sup>

### In This Issue

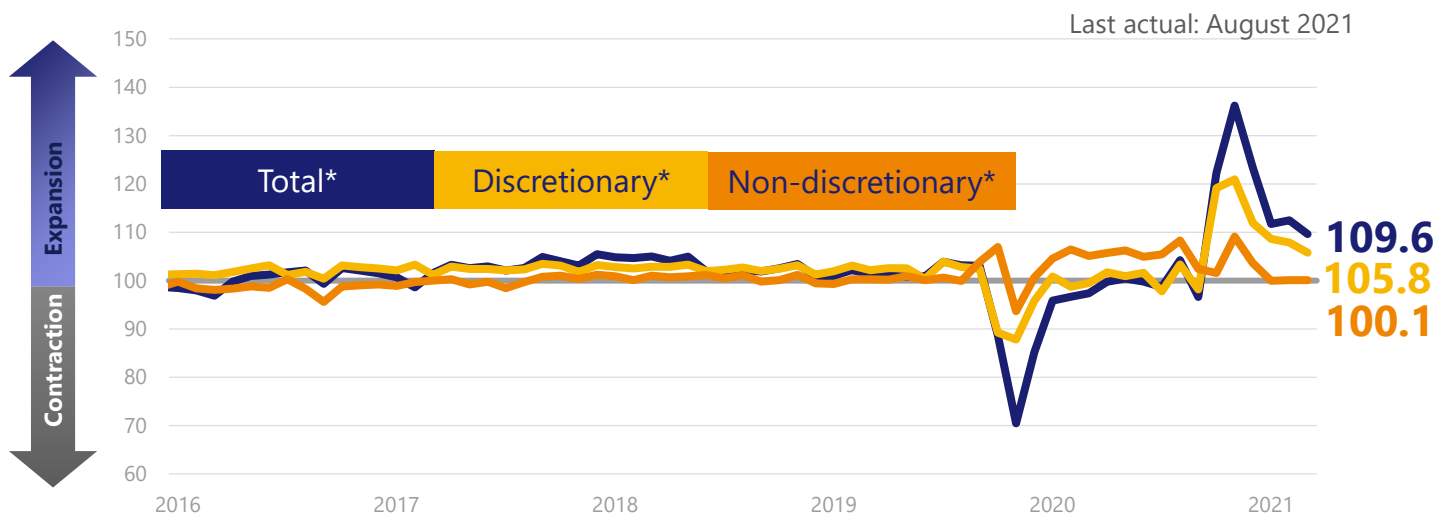
The recovery downshifts as temporary factors supporting spending fade

The Delta variant's spread accentuates the slowdown, especially in less vaccinated areas

A surge in new U.S. business openings should find support in an environment that remains favorable to expansion

## Spending Momentum Index

(Seasonally adjusted,\*  $\geq 100$  = expansion,  $< 100$  = contraction)



\*The discretionary and non-discretionary categories exclude restaurant and gas spending; both restaurant and gas are included in the total SMI. See additional definitions of spending categories on page 4. Source: Visa Business and Economic Insights. The Visa U.S. SMI measures the current month relative to the same month last year. Both national and regional readings of the index are based on year-over-year changes in consumer spending with Visa bankcards. Local markets are defined as a Combined Statistical Area.

<sup>1</sup>Visa Business and Economic Insights analysis of data from the U.S. Centers for Disease Control and Prevention, Community Profile Report.

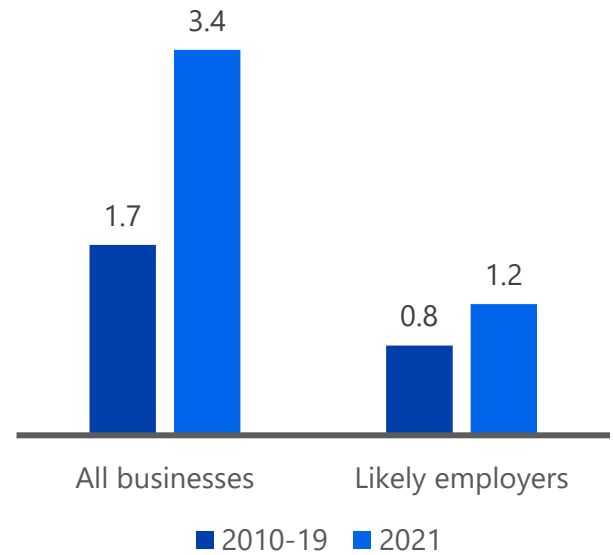
# New businesses in 2021 benefit from strong spending momentum

In the first seven months of 2021, potential entrepreneurs filed a record 3.4 million applications to form new businesses in the United States. This was double the annual average number of filings typically recorded prior to the pandemic.<sup>2</sup> Even more promising, nearly one third of new business applicants intended to employ staff, which should help to create new job opportunities for the 8 million Americans who remain unemployed.<sup>3</sup>

As these entrepreneurs begin to open their businesses, their success will depend in part on how strong the broader economy is. In this regard, the current reading of the national SMI at 109.6 suggests a favorable environment since more consumers are spending more today than they were in the prior year. This is certainly a better time to be expanding than at the end of last year, when the SMI was 98.7, indicating the reverse: most consumers were spending the same then or less.

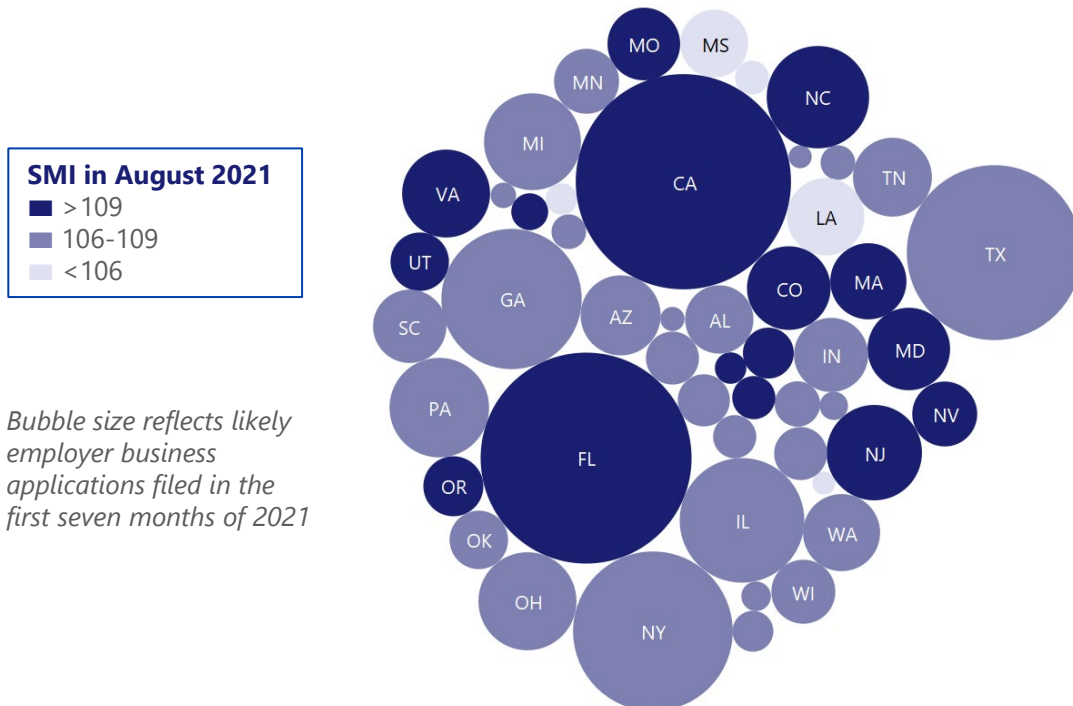
More important than national trends is what is happening at the local level, where prospects are even better. In 15 states (including California and Florida), spending momentum in August was above the national average, and these states account for 45 percent of all employer applications filed in the year through July. For the other 35 states (including Georgia, Texas and New York), their current SMIs still remain above their long-term averages, suggesting that consumer spending in these areas remains strong.

## A rise in entrepreneurship distinguishes this recovery (new business applications over the first seven months of the year)



Source: U.S. Census Bureau/Haver Analytics

## Nearly half of small businesses are forming in states where consumer spending remains strong



<sup>1</sup> U.S. Census Bureau, Business Formation Statistics/Haver Analytics <sup>2</sup> U.S. Bureau of Labor Statistics, Monthly Employment Report, September 2021

## Spending Categories

**Discretionary** (airlines, lodging, auto rental, appliance retail, computer retail, fashion retail, florist, general department store, home goods retail, leisure goods retail, luxury goods retail, repurposed goods retail, sporting goods retail, attractions & amusements, duty free, entertainment, gambling, marina services, sport & recreation, transportation, travel agencies, construction services, electric goods repair, home repair services, personal services, professional services, spa/beauty services, telecommunication, charity, direct marketing, education, membership clubs). **Non-discretionary** (medical/health services, pharmacy, food retail, supermarkets, postal/courier, utilities, education, membership clubs, tolls/fees, wholesale).

\*\*The discretionary and non-discretionary categories exclude restaurant and gas spending; both restaurant and gas are included in the total SMI.

## Methodology

The Visa U.S. Spending Momentum Index (SMI) measures the breadth of year-over-year change in household spending within an economy, including the share of households with increased spending compared with those where spending was stable or declined. The index is generated using proprietary techniques that extract economic signals from business-related noise inherent in VisaNet transaction data, such as portfolio flips, routing changes, or evolving acceptance across geographies or merchant segments. Regional and national aggregates are population-weighted averages.

The resulting sample data is then aggregated using a diffusion index framework in which index values are scored from 0 to 200. Values above 100 indicate broad-based net acceleration in economic momentum. Values below 100 indicate contraction on an annual basis.

## Disclaimer

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