

# Global Economic Insights

June 2021

## Vaccinations unlock a potential spending boom

Early evidence, leveraging the Visa U.S. Spending Momentum Index (SMI),<sup>1</sup> shows vaccination programs can unleash spending booms, even well before herd-immunity has been reached. Each shot helps clear the path for spending to accelerate, especially among consumers who until recently have remained sheltered.

Expanding beyond the U.S. experience, the potential for consumers worldwide to join the recovery presents a key opportunity. More than one billion people in the world, or one in eight, will soon have received at least one coronavirus vaccine dose at the current pace of inoculation.<sup>2</sup> Countries with higher vaccination rates have seen a swifter return of consumers to more social forms of consumption, such as restaurants.

## Pandemic-induced geographic gaps are closing

**Pronounced geographic unevenness** distinguished the current economic downturn from prior recessions. Large metro areas, which typically fare well, dragged overall economic and consumer spending growth down as millions retreated to their homes. Vaccination was held as the key to removing the restraints, both voluntary and mandated, on spending by these households.

**Vaccination has helped heal gaps opened by the pandemic. This paves the way for a more even recovery,** according to U.S. county-level analysis using the SMI economic indicator to gauge upturns and downturns in spending based on the breadth of the spending momentum supporting these trends.

**Vaccination as low as 30 percent of the total population appear to unlock previously restrained households,** which shows that herd immunity is not needed to restore communities to economic health. Fifty-two percent of U.S. consumers spent more in May of this year than they did in 2019, according to the SMI. In contrast, very few Americans were vaccinated in January, and most consumers were still spending less than they did a year earlier.

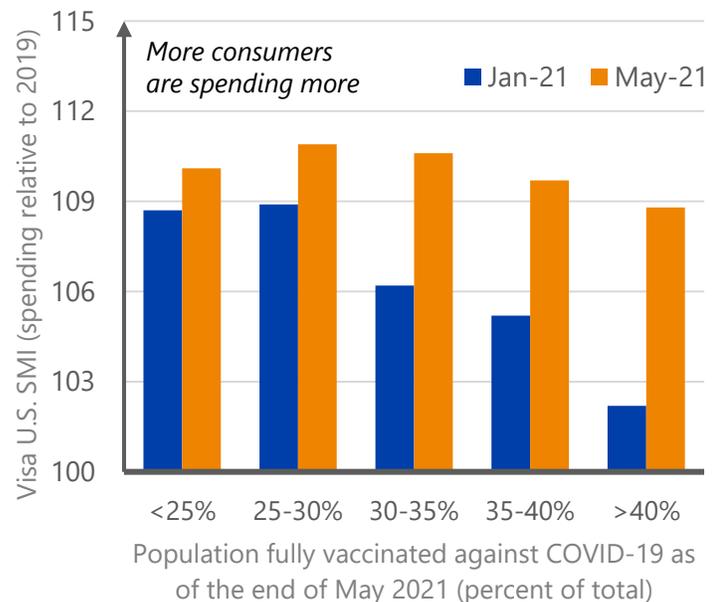
### In This Issue

**Receding epidemic is ushering mass return of previously cautious consumers**

**Vaccinations accelerated and evened regional disparities in U.S. spending recovery**

**Dining out is staging a global comeback, reflecting a shift in consumption back from goods to services with economic reopening**

### Consumer spending momentum has bounced back faster in U.S. counties where a greater share of the population is vaccinated



Source: Visa Business and Economic Insights, Centers for Disease Control and Prevention (CDC), Texas Department of Health Services, VisaNet.



# More balanced growth fosters a more sustainable and enduring recovery

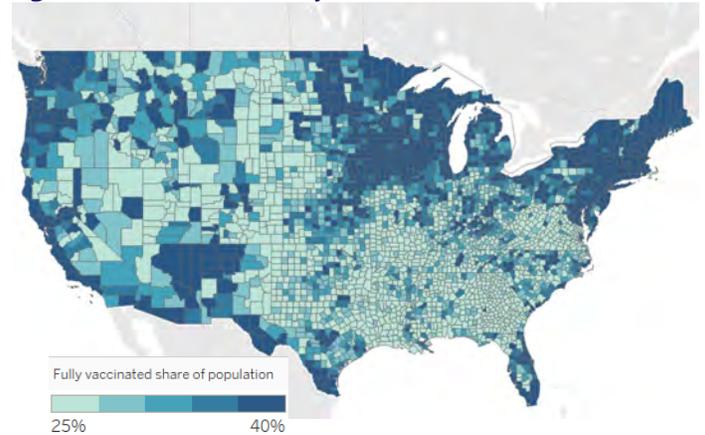
**At first glance, the data suggests that vaccination does not really add much** in terms of spending momentum. After all, those counties that were least vaccinated had stronger spending momentum, both in January and in April, than their counterparts with higher vaccination rates. But this simple reading of the data misses two important points.

**First, the gains between May and January in spending momentum were five times stronger<sup>3</sup>** in U.S. counties where over 40 percent of the population was fully vaccinated than those with less than a 25 percent vaccination rate at the end of May 2021. Vaccination has advanced faster in large urban counties in California, New York and New Jersey—where spending momentum was weaker for most of 2020. In contrast, rural counties in Georgia, Virginia and Texas have been slower to vaccinate and their spending momentum gains have been more modest. In short, the outsized gains in vaccinated regions are currently driving the national recovery more than the less vaccinated areas are.

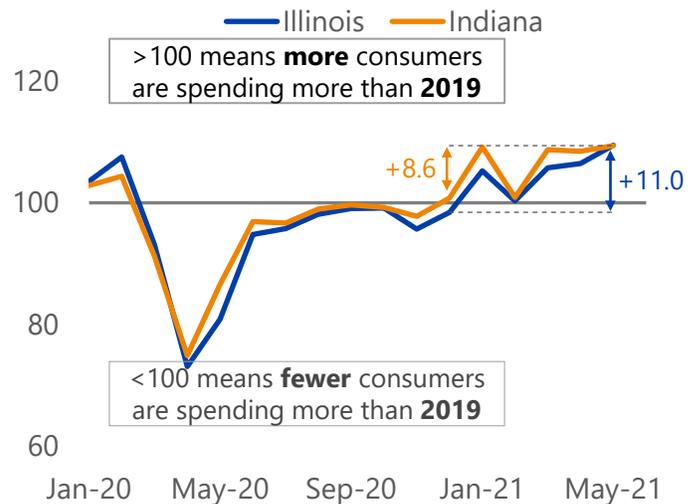
**Second, vaccination clearly has helped speed the economic recovery, once state-level differences are taken into account.<sup>4</sup>** Illinois and Indiana help to illustrate this point. SMI readings for the neighboring states were close to the national average in May. State-level results in May would suggest Illinois—where a larger share of population was fully vaccinated than Indiana (40 percent versus 36 percent)—had not seen any benefit. However, this view does not control for the fact that Indiana’s policies were less restrictive and consumer spending was thus not as affected prior to the vaccine rollout. According to the SMI readings at a county level within states, there is a strong positive correlation in the economic recovery to vaccination rates. Even within Indiana, counties that were able to achieve higher vaccination rates accelerated in spending growth relative to pre-pandemic 2019.

**With every 10 percentage-point increase in fully vaccinated people as a share of the total, county-level SMIs rose by 1.4, controlling for state-level differences.** This suggests that vaccination rates may have contributed up to 4 percentage points to nominal personal consumption expenditure growth nationally, with a more pronounced affect on spending at restaurants and gasoline stations.

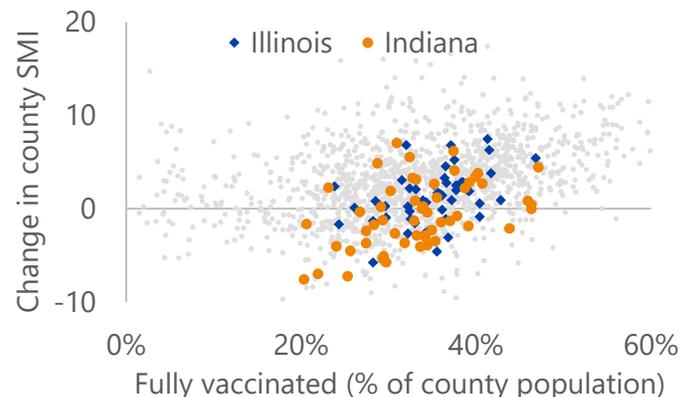
**U.S. counties by share of population fully vaccinated against COVID-19 (May 2021)**



**SMI by state (relative to same month in 2019)**



**Vaccination rates and SMI by county (Relative to same month in 2019, May 2021)**



Sources: Visa Business and Economic Insights, Centers for Disease Control and Prevention (CDC), Texas Department of Health Services, VisaNet

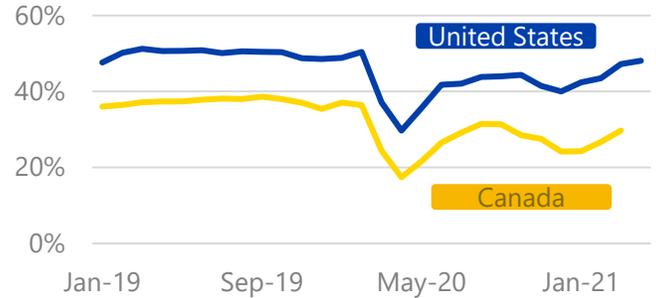


# A return to dining out shows the global benefits of vaccinations

**Across countries, the benefits of vaccination are especially noteworthy when it comes to restaurant sales.** Social distancing, whether voluntary or mandated, took a heavy toll on restaurants in 2020, as consumers shifted from eating out to eating in. During the peak lockdown period last year in the U.S. and Canada, the mix of consumers' spending on food shifted 20 percentage points away from restaurant dining to purchasing food from groceries.

As the U.S. was further ahead for much of this year in vaccination, restaurant spending has bounced back faster to its pre-pandemic share of total food spending, whereas it's only starting to recover in Canada.

**Restaurant sales return once the pandemic is under control (food service sales as a share of total food spending)**

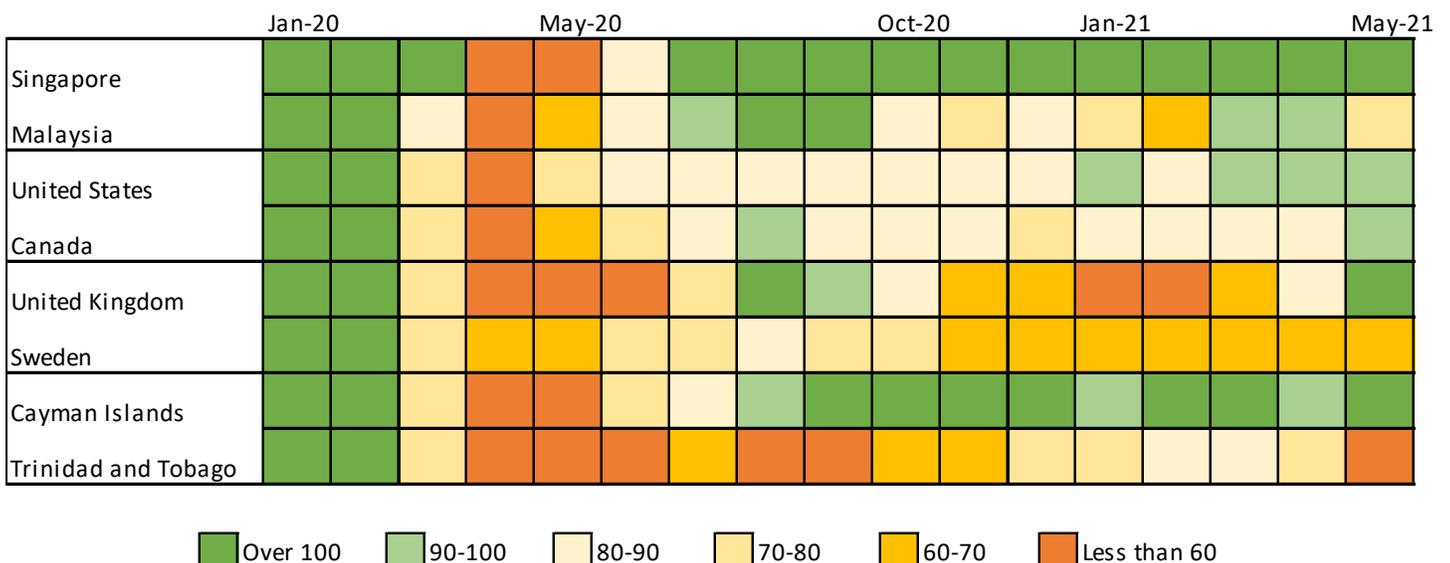


Sources: U.S. Census, Statistics Canada, Haver Analytics

**Beyond North America, pairings of countries by region based on the status of their vaccination campaigns paints a similar picture.** The United States, Singapore, United Kingdom and Cayman Islands all had fully vaccinated at least 30 percent of their respective populations by the end of May 2021. On average, their vaccination rates were 35 percentage points higher than that of their regional counterparts (Canada, Malaysia, Sweden and Trinidad and Tobago, respectively).

Those countries in each pair that are further ahead in vaccinations have seen a stronger and swifter return of restaurant sales back to their pre-pandemic levels, as measured by the relative speed by which consumers have returned to their pre-pandemic habits of eating out. For example, Singaporean cardholders are now visiting restaurants at a higher frequency than they were in 2019, the last normal year of spending. In contrast, Malaysian Visa cardholders' visits to restaurants remain relatively depressed, with the frequency of restaurant visits per consumer at 20-30 percent below their levels in 2019.

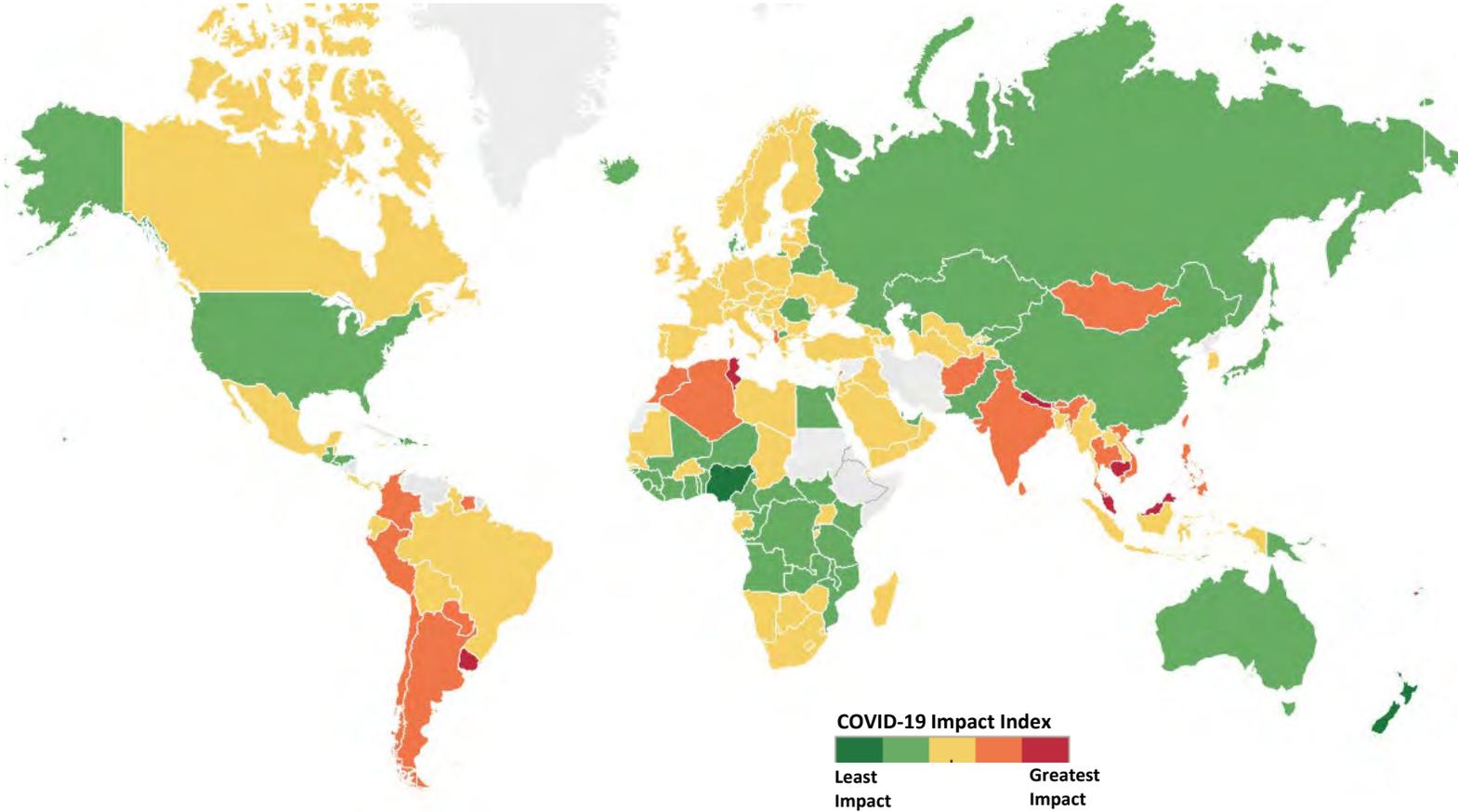
## Restaurant transactions per consumer (indexed 2019=100)



Source: Visa Business and Economic Insights analysis of VisaNet data

# Economic impact of COVID-19

(As of 04 June 2021)



- In May, the global economy continued its uneven recovery from the damage inflicted by the COVID-19 epidemic. Economic re-openings enabled by successful vaccination campaigns in one part of the world were tempered by the spread of more contagious variants delaying lifting of restrictions in another.
- Advanced economies in North America and Europe experienced more broad-based and sustained recoveries due to higher rates of vaccination. Meanwhile, surging case counts in South America and Southeast Asia contributed to a deterioration in economic impact scores across these regions.
- Despite setbacks, key recovery metrics improved for a majority of countries around the world. A revival in consumer activity, in particular, led the advance, with both mobility and transaction-based indicators showing strong recovery.

The **Visa COVID-19 Economic Impact Index** tracks how the pandemic has affected economic activity across the globe through 12 key indicators: COVID-19 confirmed cases, COVID-19 death rates, airline transactions, cross-border lodging transactions, discretionary spend, discretionary transactions, restaurant spend, restaurant transactions, Google COVID-19 community mobility, consumer confidence, Purchasing Managers' Index (PMI) and leading economic indicators.



# Notes

1. Visa's U.S. SMI is based on a sample of aggregated, depersonalized VisaNet data. Visa adjusts this data through proprietary methods to exclude factors that do not reflect spending momentum. The resulting sample data is then aggregated using a diffusion index framework where index values are scored from 0 to 200. When the Visa SMI rises above 100, the consumer spending momentum is strengthening and when it falls below 100, the spending momentum is weakening as fewer consumers are spending more relative to the previous year. The index is adjusted for day of week, month, holidays, and broad annual trends, and these seasonal adjustments are subject to revision each year. The Visa SMI does not take into account the volume of payments nor does it rely on all Visa-branded credentials, and therefore does not reflect Visa operational or financial performance. It is intended for informational purposes only and is offered on an "as is" basis without any warranties of any kind, express or implied. Each SMI report is as of the publication date.
2. Oxford University/Haver Analytics
3. To provide a clearer signal on changes in consumer spending momentum, this analysis scores consumers based on their spending levels in 2021 relative to 2019 as opposed to our standard practice of using the prior year as a base. This ensures spending momentum is measured relative to the last year before the volatility in spending that accompanied the pandemic.
4. Analysis leverages state-level fixed-effects regression analysis of U.S. counties.

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