

Stimulus Spending

You've probably seen the debate over the second round of stimulus checks that are being delayed now due to a certain amount of squabbling in Congress. Some economists say that this next payment will be an important lifeline to many families, and that the checks will stimulate the economy. Others have said that the money is simply put in the bank and never gets to the economy at all.

Who's right?

It turns out the U.S. Census Bureau's Household Pulse Survey for June 11-16 includes actual data on how the CARES Act \$1,200 (\$2,400 to married couples; an extra \$500 per child) checks were spent, collecting 73,472 total responses and extrapolating across the entire population of 160 million recipients. The government agency estimates that 59.35% of households used the stimulus check to pay expenses, and another 13.32% used it to pay off debt. Only 11.98% said they have or would use the money to add to their savings. So the first thing that tells us is that the stimulus checks were, to at least some extent, a lifeline to 88% of households, and superfluous to about 10% of wealthier recipients.

Of those 127.8 million households (projected) who used the check mostly for expenses, 52.3 million spent at least a portion on rent, and another 40.6 million spent a portion on a mortgage payment. 91.3 million spent at least part of their check on utilities. 23.3 million spent some of their stimulus funds to pay down credit card or other debt, including student loans. The conclusion: many Americans used the government money simply to keep a roof over their heads.

When asked about other expenditures that might have stimulated the economy, the survey found that 55.72% of households spent some of the payment on food, 14.16% on clothing, 39.5% on household supplies or personal care products, and just 5.52% on household items. The survey found that, in aggregate, 70.81% of households that make less than \$75,000 a year spent their check mostly on expenses.

Another survey, conducted by economic professors at the Columbia Business School and the University of Chicago's Booth School of Business, looked at real-time spending data from a nonprofit that helps people create budgets via an app. They found that those in the lowest income group, who earned less than \$1,000 per month, spent about 40% of their checks in the first ten days. Those who earned more than \$5,000 a month, meanwhile, spent closer to 20% of the check in that brief period.

The group's report found that most of the money was spent on food, household items, bill payments and rent—but interestingly, compared with past stimulus payments, recipients spent about three times as much on food, including restaurant takeout delivery. Meanwhile, people receiving stimulus checks were much less likely to spend on durable goods like electronics, furniture or cars. The conclusion is the same: the “stimulus” appears to have been more of a lifeline than a boost to U.S. consumer expenditures. The researchers concluded that the increase in unemployment insurance might have had a larger effect on consumer spending per dollar than the stimulus.

Sources:

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- <https://www.marketwatch.com/story/the-no-1-thing-americans-are-spending-their-stimulus-checks-on-even-more-than-splurging-in-costco-walmart-and-target-2020-05-23>

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1. Preserving their wealth
2. Mitigating taxes
3. Taking care of their heirs
4. Ensuring their assets are not unjustly taken
5. Charitable giving.



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