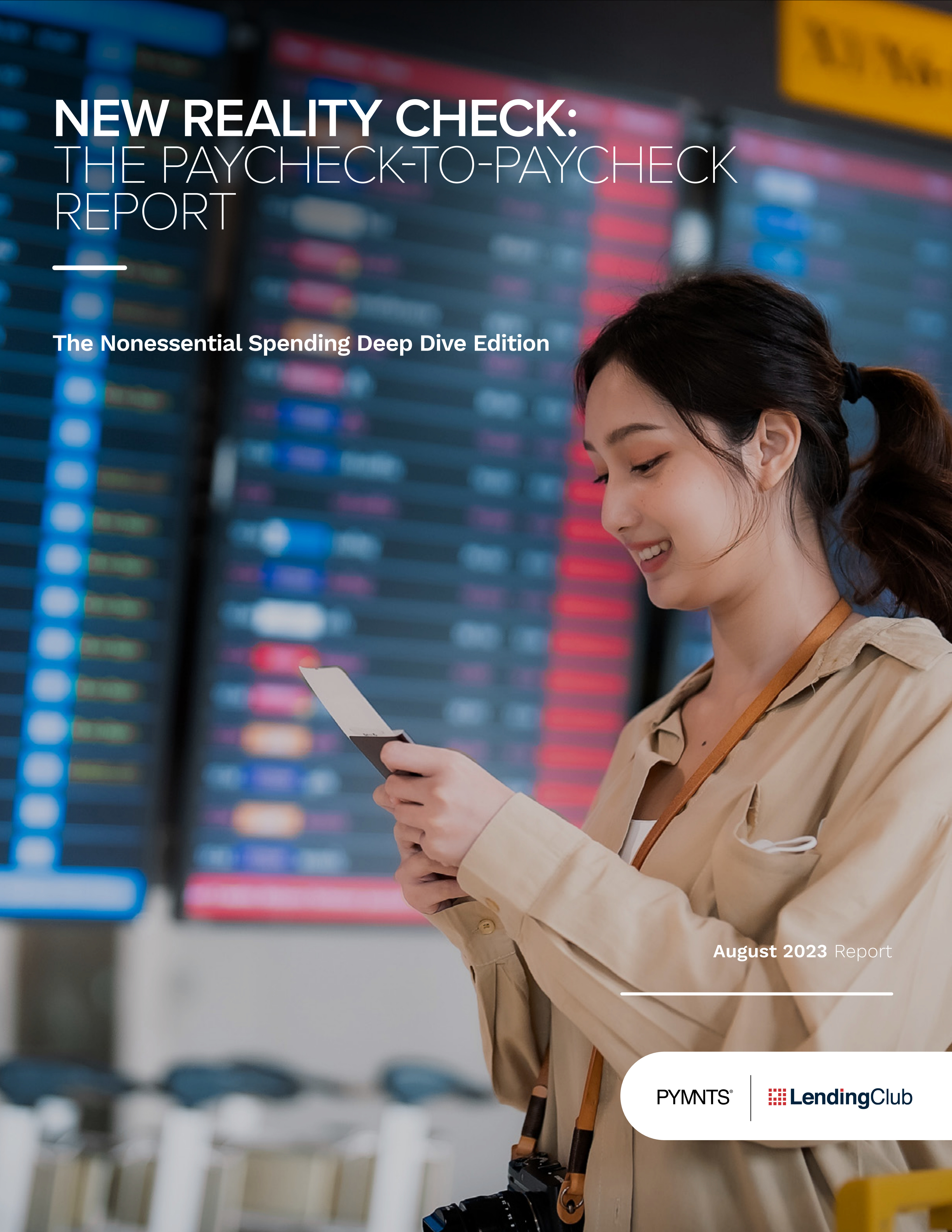
NEW REALITY CHECK: THE PAYCHECK-TO-PAYCHECK REPORT

The Nonessential Spending Deep Dive Edition



August 2023 Report

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NEW REALITY CHECK: THE PAYCHECK-TO-PAYCHECK REPORT

The Nonessential Spending Deep Dive Edition

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New Reality Check: The Paycheck-to-Paycheck Report — The Nonessential Spending Deep Dive Edition was produced in collaboration with LendingClub, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

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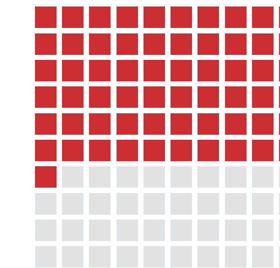
WHAT'S **AT STAKE**

Inflationary pressures have yet to abate fully, making it necessary for many United States consumers to adjust their lifestyles to live within their means. This is true even as inflation rates have dropped from 9.1% in July 2022 to 3.2% as of July 2023, according to the Bureau of Labor Statistics' Consumer Price Index.[1] Unsurprisingly, how consumers manage essential and nonessential spending is now a crucial gauge of financial standing. Even as consumers work hard to manage budgets and put aside savings, 61% lived paycheck to paycheck as of July 2023, with 21% struggling to pay monthly bills.

PYMNTS' research finds that according to 21% of paycheck-to-paycheck consumers, nonessential spending is one reason for their financial lifestyle, with 10% saying it is their top reason for living paycheck to paycheck. Even so, two-thirds of paycheck-to-paycheck consumers say they include discretionary items when grocery or retail shopping at least some of the time. This factor is significant: Consumers, despite financial challenges and tighter budgets, indulge in nonessential spending when possible. Yet, we also find that financial lifestyle is not a strong differentiator in spending across most service categories, suggesting consumers tend to pare down spending in similar categories when their financial situation worsens. There is variation by financial lifestyle in which services consumers consider indulgent, however.



61% of consumers lived **paycheck to paycheck** as of July 2023.

These are just some of the findings detailed in this edition of New Reality Check: The Paycheck-to-Paycheck Report, a PYMNTS and LendingClub collaboration. The Nonessential Spending Deep Dive Edition examines the impact of nonessential spending on consumers' ability to manage expenses and put aside savings. The series draws on insights from a survey of 3,443 U.S. consumers conducted from July 5 to July 20, as well as an analysis of other economic data.[2,3,4]

This is what we learned.

[1] Author unknown. Consumer Price Index. U.S. Bureau of Labor Statistics. 2023. https://www.bls.gov/cpi/. Accessed August 2023.

[2] Author unknown. Consumer Credit - G.19. Board of Governors of the Federal Reserve System. 2023. https://www.federalreserve.gov/releases/g19/current/. Accessed August 2023.

[3] Author unknown. Current Employment Statistics - CES (National). U.S. Bureau of Labor Statistics. 2023. https://www.bls.gov/ces/. Accessed August 2023.

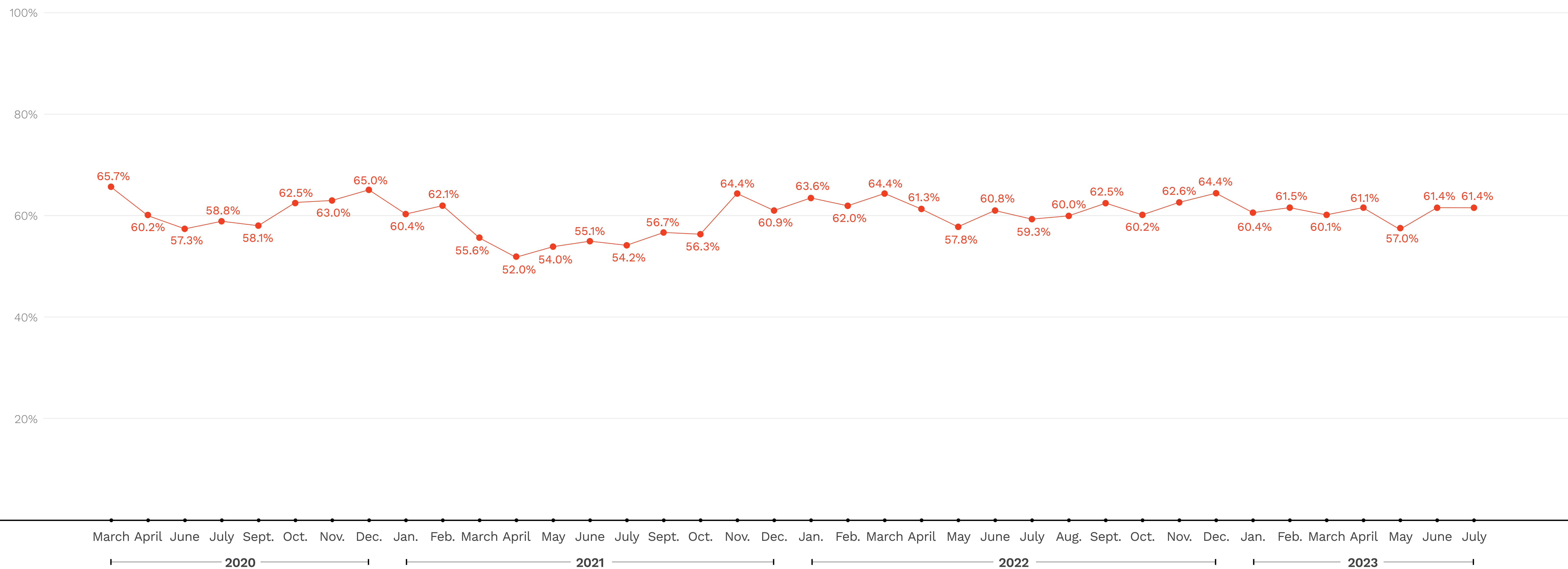
[4] Author unknown. Consumer Price Index Summary. U.S. Bureau of Labor Statistics. 2023. https://www.bls.gov/news.release/cpi.nr0.htm. Accessed August 2023.

FIGURE 1:

Consumers living paycheck to paycheck

Share of U.S. consumers living paycheck to paycheck, over time

Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,443: Whole sample, fielded July 5, 2023 – July 20, 2023



01

SMALL INCREASES

In July 2023, 61% of U.S. consumers lived paycheck to paycheck, up 2 percentage points from July 2022. Those struggling to pay bills also increased 2 percentage points over the same period.

21%

Share of U.S. consumers as of July 2023 who lived paycheck to paycheck and had issues paying bills

02

NONESSENTIAL SPEND

Just 2 in 10 paycheck-to-paycheck consumers mention nonessential spending as a reason for their financial standing, yet two-thirds say they at least sometimes include discretionary items when grocery or retail shopping.

21%

Share of paycheck-to-paycheck consumers who cite nonessential spending as one of the reasons for their financial lifestyle

03

LESS SPLURGING

Financial distress is not a strong differentiator in who spends on such services as leisure or travel and personal services, signaling that when budgets tighten, all consumers are likely to reduce spending in these categories, not just those living paycheck to paycheck.

43%

Share of paycheck-to-paycheck consumers struggling to pay bills who have spent on leisure or travel services in the last 30 days

04

INDULGENT SPENDERS

Consumers generally engage in more indulgent spending when they have more savings, but this is less true among younger consumers.

36%

Share of Generation Z consumers who describe spending as indulgent for at least three product or service categories

PYMNTS IN DEPTH

Consumers across financial lifestyles have found ways to manage their cash flows, but many still spend on leisure and travel, restaurants, or personal services.

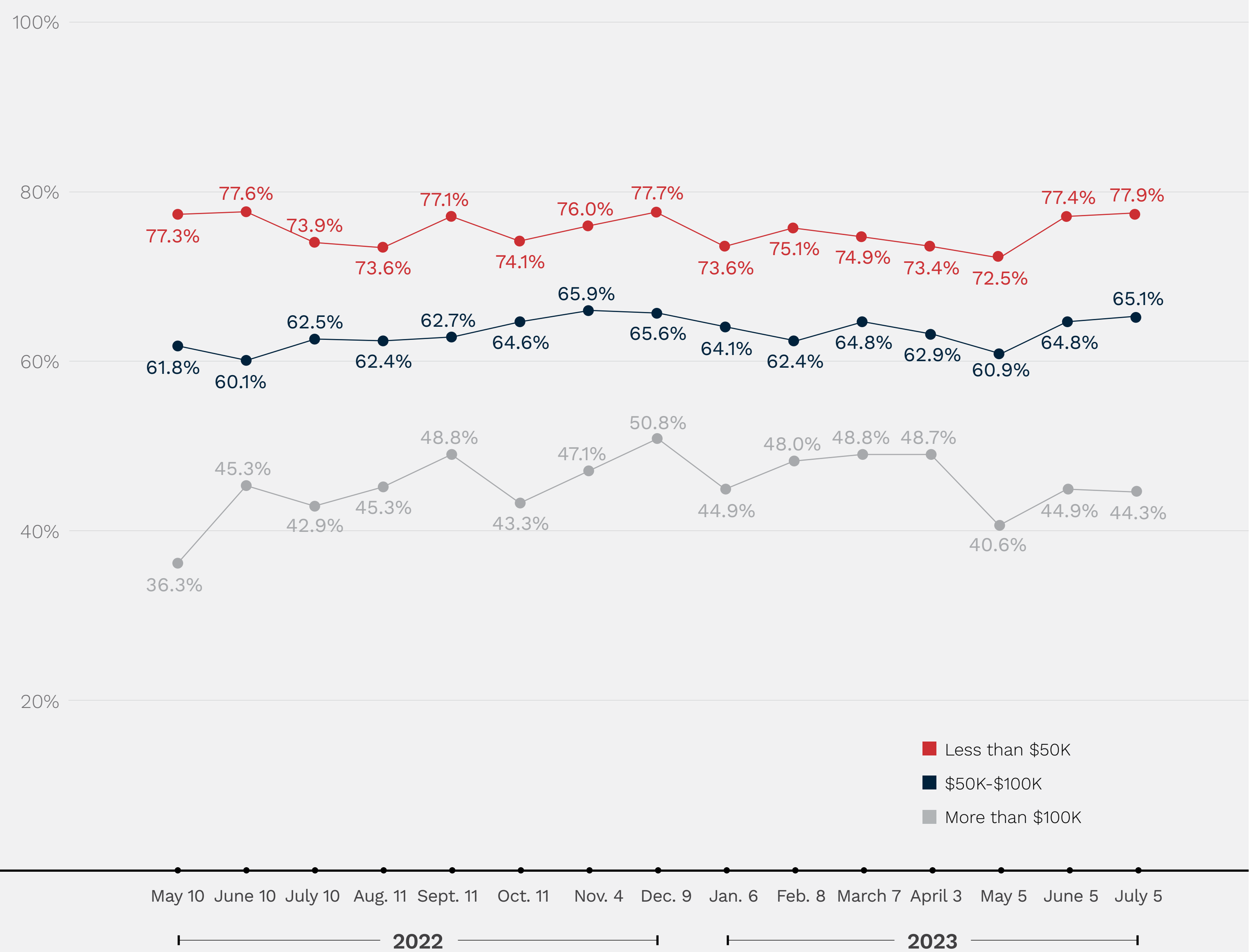
In July 2023, 61% of U.S. consumers lived paycheck to paycheck, up 2 percentage points from July 2022. Those struggling to pay bills also increased 2 percentage points over the same period.

The share of consumers living paycheck to paycheck remains unchanged compared to June 2023, but has increased 2 percentage points since July 2022. More consumers of all income brackets report living paycheck to paycheck in July 2023 than last year. The share of low-income consumers — those earning less than $50,000 annually — living paycheck to paycheck increased the most, rising from 74% in July 2022 to 78% in July 2023. Among consumers earning between $50,000 to $100,000 annually, 65% lived paycheck to paycheck as of July 2023, compared to 63% in July 2022. Meanwhile, the share of high-income consumers — those earning more than $100,000 annually — living paycheck to paycheck increased the least, just 1 percentage point from 43% in July 2022 to 44% this year.

FIGURE 2:

Consumers in different income brackets who live paycheck to paycheck

Share of U.S. consumers living paycheck to paycheck, by annual income

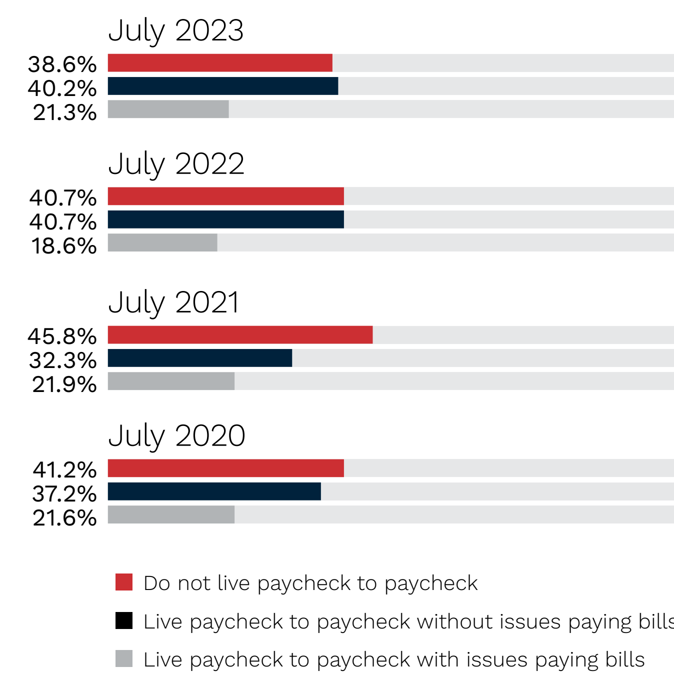


Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,443: Whole sample, fielded July 5, 2023 – July 20, 2023

FIGURE 3:

Consumers' financial lifestyles

Share of consumers with different financial lifestyles, over time



Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,443: Whole sample, fielded July 5, 2023 – July 20, 2023

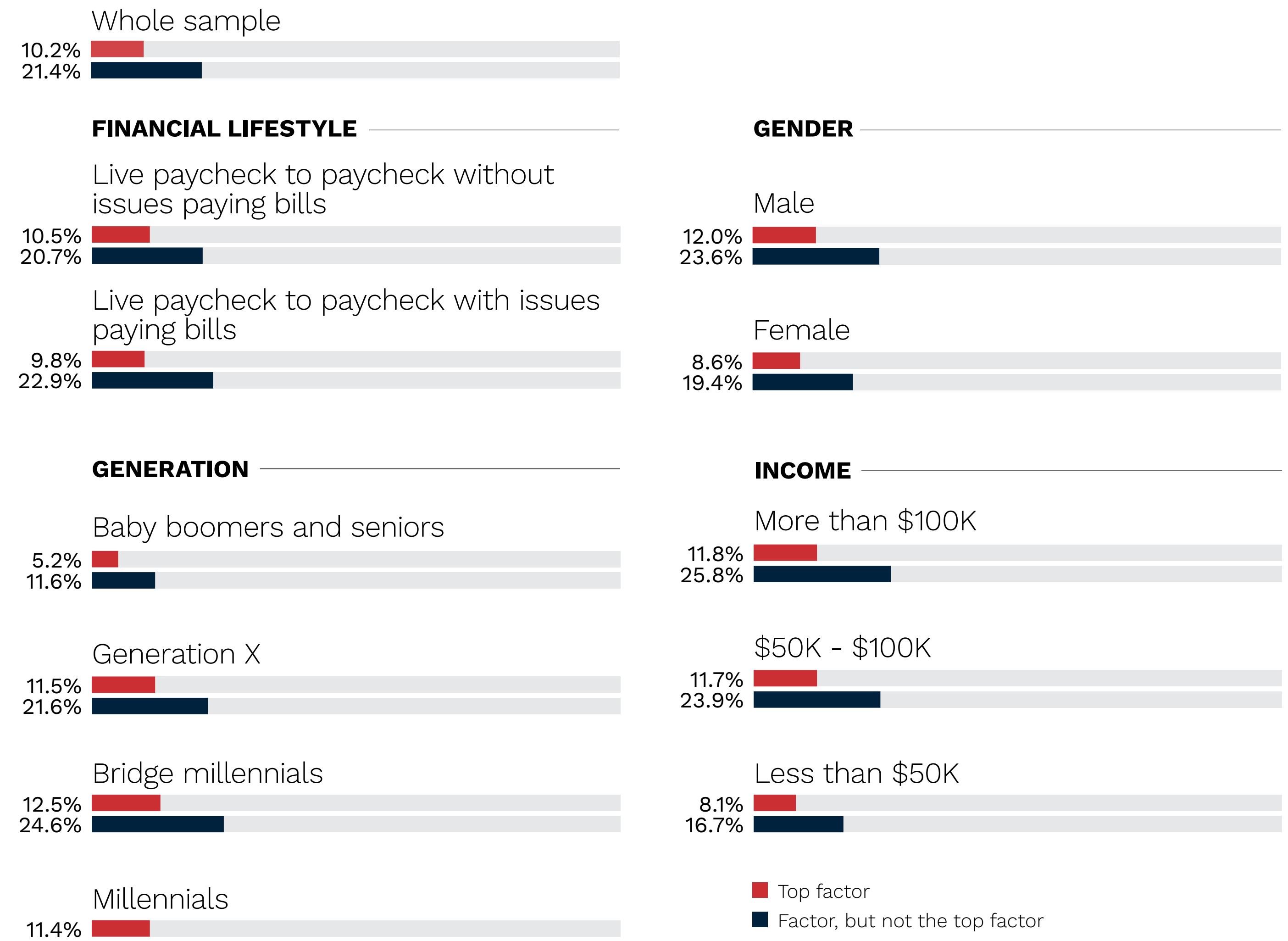
The share of struggling paycheck-to-paycheck consumers also saw a 2 percentage point year-over-year increase. As of July 2023, 21% of consumers lived paycheck to paycheck and had issues paying bills. This share increased from 19% one year ago but is virtually flat compared to July 2021 and July 2020. The share of consumers living paycheck to paycheck without issues paying monthly bills is 40%, a 1 percentage point decrease compared to last year. Meanwhile, 34% of low-income consumers struggle to pay bills, an increase from 31% one year ago. Among high-income consumers, 13% struggle to pay monthly bills, up sharply from 8.8% in July 2022. These apparent shifts in the financial situations of U.S. households indicate that U.S. consumers still face inflationary pressures. As a result, they must find additional ways to manage spending and live within their means.

Just 2 in 10 paycheck-to-paycheck consumers mention nonessential spending as a reason for their financial standing. Yet, two-thirds say they at least sometimes include discretionary items when grocery or retail shopping.

PYMNTS' research finds that 10% of all paycheck-to-paycheck consumers — or 16 million U.S. consumers — cite nonessential spending as the top reason they live paycheck to paycheck. Twenty-one percent of paycheck-to-paycheck consumers cite nonessential spending as one reason — but not the top reason — for their financial lifestyle. This means that 6.2% of the U.S. adult population can be considered "discretional" paycheck-to-paycheck consumers, while 13% of U.S. consumers live paycheck to paycheck only partly because of nonessential spending.[5]

FIGURE 4:

The impact of nonessential spending
Share of consumers citing nonessential spending as a reason for living paycheck to paycheck, by demographic



Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 2,251: Respondents living paycheck to paycheck, fielded July 5, 2023 – July 20, 2023

[5] Our study found that 62% of all adult consumers live paycheck to paycheck. This means that the 21% of that subset who named nonessential spending as a reason for their financial lifestyle is equivalent to 13% of the total adult population saying the same, and the 10% who named nonessential spending as their top reason is equivalent to 6.2% of the total adult population saying the same.

The likelihood of citing nonessential spending as a reason for living paycheck to paycheck decreases with age. Just 12% of baby boomers and seniors living paycheck to paycheck say nonessential spending influences their financial lifestyle, while 29% of Generation Z consumers say the same. At 26%, high-income consumers — those annually earning more than $100,000 — are the income bracket most likely to cite nonessential spending as a reason they live paycheck to paycheck, compared to 17% of low-income consumers.

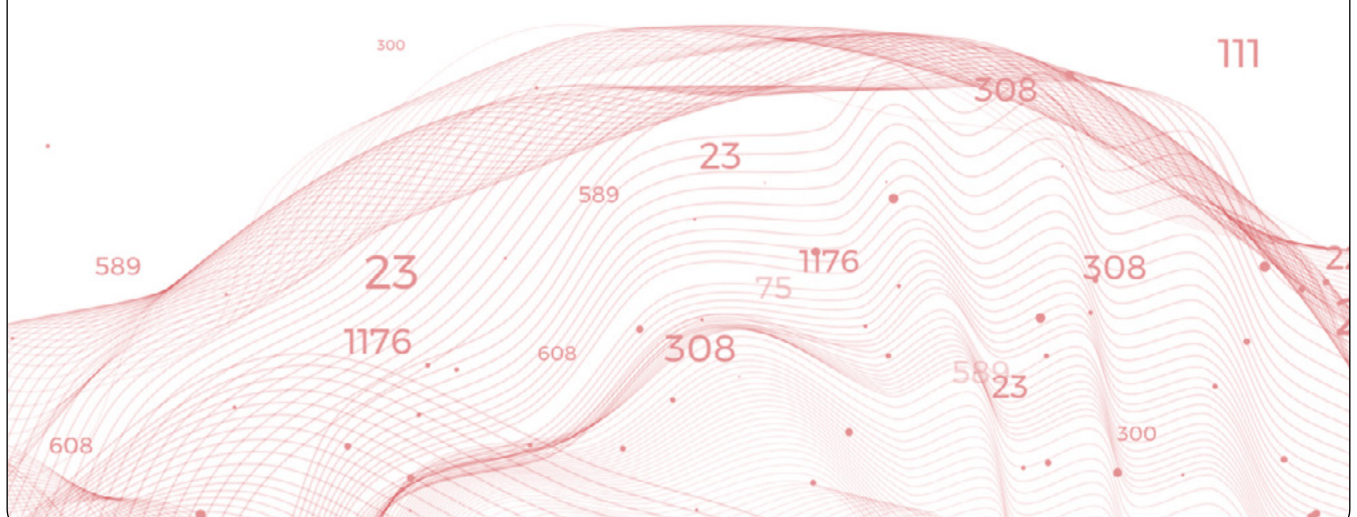


FIGURE 5:

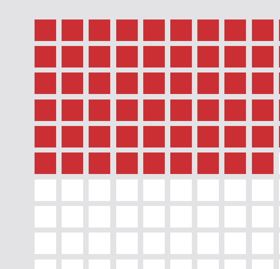
Splurging on "nice-to-have" items

Share of consumers who buy "nice-to-have" items at least sometimes, by financial lifestyle

	Retail	Grocery
WHOLE SAMPLE	**70.1%**	**74.3%**
• Do not live paycheck to paycheck	78.3%	84.8%
• Live paycheck to paycheck without issues paying bills	68.6%	72.4%
• Live paycheck to paycheck with issues paying bills	58.1%	59.1%

Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,443: Whole sample,
fielded July 5, 2023 – July 20, 2023

59%



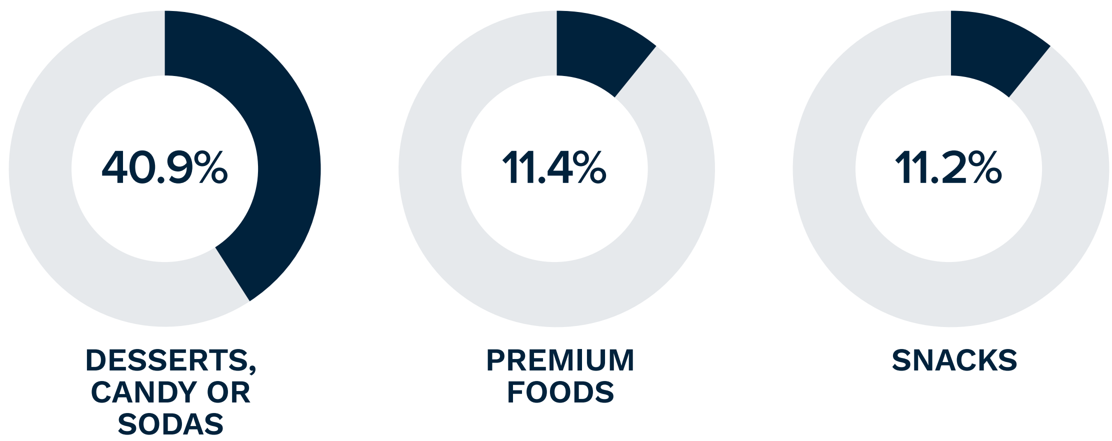
Share of consumers living paycheck to paycheck with issues paying bills who buy **"nice-to-have" grocery items** at least sometimes

Our data also finds that 74% of consumers report including nonessential items in their grocery carts at least some of the time, and 70% say the same for retail shopping. At 85% for grocery and 78% for retail, consumers not living paycheck to paycheck spend on nonessentials more frequently. Meanwhile, 72% of consumers living paycheck to paycheck without issues paying their bills say they buy “nice-to-have” grocery items at least sometimes, and 69% say the same for “nice-to-have” retail items. Among paycheck-to-paycheck consumers struggling to pay bills, nearly 60% say they at least sometimes buy grocery or retail items that are not essential.

Four in 10 grocery shoppers cited desserts, candy or sodas as their latest grocery splurge. At 11% each, premium goods — such as imported foods or seafood — and snacks follow, but at a distance. Clothing is the top nongrocery splurge, at 36%, followed by health and beauty products, at 19%. Nonessential purchases vary little in category across financial lifestyles, but consumers not living paycheck to paycheck are likelier to splurge on premium foods.

FIGURE 6A:

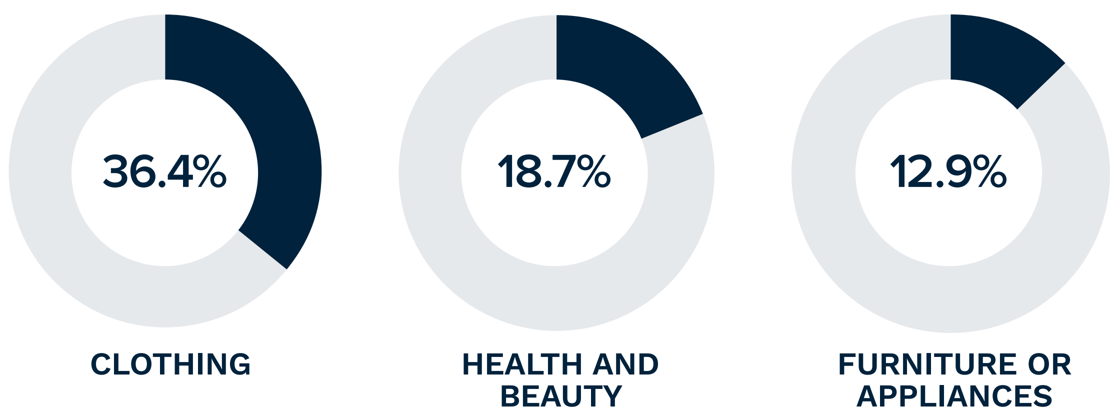
Top “nice-to-have” items
Share of consumers mentioning select items as their most recent splurge at a grocery store



Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 2,555: Respondents who shared the most recent “nice-to-have” grocery item they bought, fielded July 5, 2023 – July 20, 2023

FIGURE 6B:

Top “nice-to-have” items
Share of consumers mentioning select items as their most recent splurge at a retail store



Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 2,565: Respondents who shared the most recent “nice-to-have” retail item they bought, fielded July 5, 2023 – July 20, 2023

Financial distress is not a strong differentiator in who spends on such services as leisure or travel and personal services, signaling that when budgets tighten, all consumers are likely to reduce spending in these categories, not just those living paycheck to paycheck.

PYMNTS' research finds that spending on services shows more differentiation across generations than across financial lifestyle.[6] Younger consumers are more likely to spend on a broader range of service categories than their older counterparts. Approximately 61% of bridge millennials, millennials and Gen Z consumers report spending on leisure or travel in the last 30 days, for example.

[6] Our analysis groups related activities into categories. Leisure or travel services include airfare, lodging, live events and other related expenses. Personal services include beauty, personal training and hobbies. Household digital services include home internet, streaming, subscriptions and other related expenses.

FIGURE 7A:

Consumer spend on services
Share of consumers who spent on select services in the last 30 days, by generation

	Generation Z	Millennials	Bridge millennials	Generation X	Baby boomers and seniors
• Leisure or travel services	61.0%	61.2%	61.3%	48.7%	29.9%
• Personal services	69.7%	65.3%	64.2%	51.6%	39.5%
• Bars and restaurants	92.5%	92.3%	92.6%	88.4%	81.3%
• Retail products	94.6%	92.7%	91.2%	86.9%	78.4%
• Household digital services	90.0%	97.0%	96.2%	94.6%	95.4%

Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,443: Whole sample, fielded July 5, 2023 – July 20, 2023

FIGURE 7B:

Consumer spend on services
Share of consumers who spent on select categories in the last 30 days, by financial lifestyle

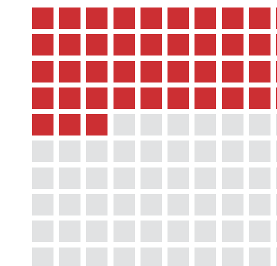
	Live paycheck to paycheck with issues paying bills	Live paycheck to paycheck without issues paying bills	Do not live paycheck to paycheck
• Leisure or travel services	42.5%	49.5%	49.2%
• Personal services	45.9%	55.2%	57.5%
• Bars and restaurants	82.6%	88.5%	89.9%
• Retail products	84.2%	89.4%	85.9%
• Household digital services	93.4%	96.3%	94.3%

Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,443: Whole sample, fielded July 5, 2023 – July 20, 2023

In contrast, 49% of Generation X consumers and only 30% of baby boomers and seniors spent on leisure or travel in the 30 days prior to being surveyed. Gen X and baby boomers and seniors are also less likely to have spent on leisure or travel, personal services, restaurant meals and retail items.

Surprisingly, our data also shows that engagement with most services shows little difference across financial lifestyles. For instance, among consumers living paycheck to paycheck and struggling to pay bills, 43% engage with leisure or travel services — that is in close range to the 50% of those living paycheck to paycheck without difficulty who engage with those same services. Those not living paycheck to paycheck, at 58%, engage with personal services somewhat more than paycheck-to-paycheck consumers with issues paying bills, at 46%, and those paycheck-to-paycheck consumers who live without difficulty, at 55%. Whether living paycheck to paycheck or not, consumers remain engaged with dining out, retail purchases and household digital services. This lack of differentiation suggests that when consumers need to adjust their budgets, they tend to reduce their spending in the same service categories.

43%



Share of consumers living paycheck to paycheck with issues paying bills who **engage with leisure or travel services**

Consumers generally engage in more indulgent spending when they have more savings, but this is less true for younger consumers.

Our study finds that consumers generally indulge in nonessential spending when they have higher savings balances. Consumers engaging in indulgent spending in at least three of the 30 proposed product and service categories have savings balances 26% higher on average than those who do not engage in indulgent spending. Indulgent consumers hold an average savings of $14,058, while non-indulgent consumers have average savings of $11,178. This detail is seen even more among baby boomers and seniors, with the 18% who engage in indulgent spending having average savings 47% higher than those baby boomers and seniors who do not engage in such indulgent spending. These splurging baby boomers and seniors hold savings of $21,014 on average, while non-splurging baby boomers and seniors have savings

FIGURE 8:

Consumers with higher savings indulge more

Average consumer savings, by demographic and consumer persona[7]

	Indulgent	Non-indulgent
WHOLE SAMPLE	$14,058	$11,178
FINANCIAL LIFESTYLE		
• Do not live paycheck to paycheck	$22,214	$20,322
• Live paycheck to paycheck	$7,707	$5,940
GENERATION		
• Baby boomers and seniors	$21,014	$14,320
• Generation X	$14,727	$10,390
• Bridge millennials	$13,507	$9,854
• Millennials	$12,120	$9,109
• Generation Z	$8,663	$7,897
GENDER		
• Male	$14,304	$11,355
• Female	$13,839	$11,002
INCOME		
• More than $100K	$19,058	$16,755
• $50K-$100K	$10,171	$9,990
• Less than $50K	$7,558	$7,045

Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,384: Respondents who bought nonessential grocery or retail items in the last 30 days, fielded July 5, 2023 – July 20, 2023

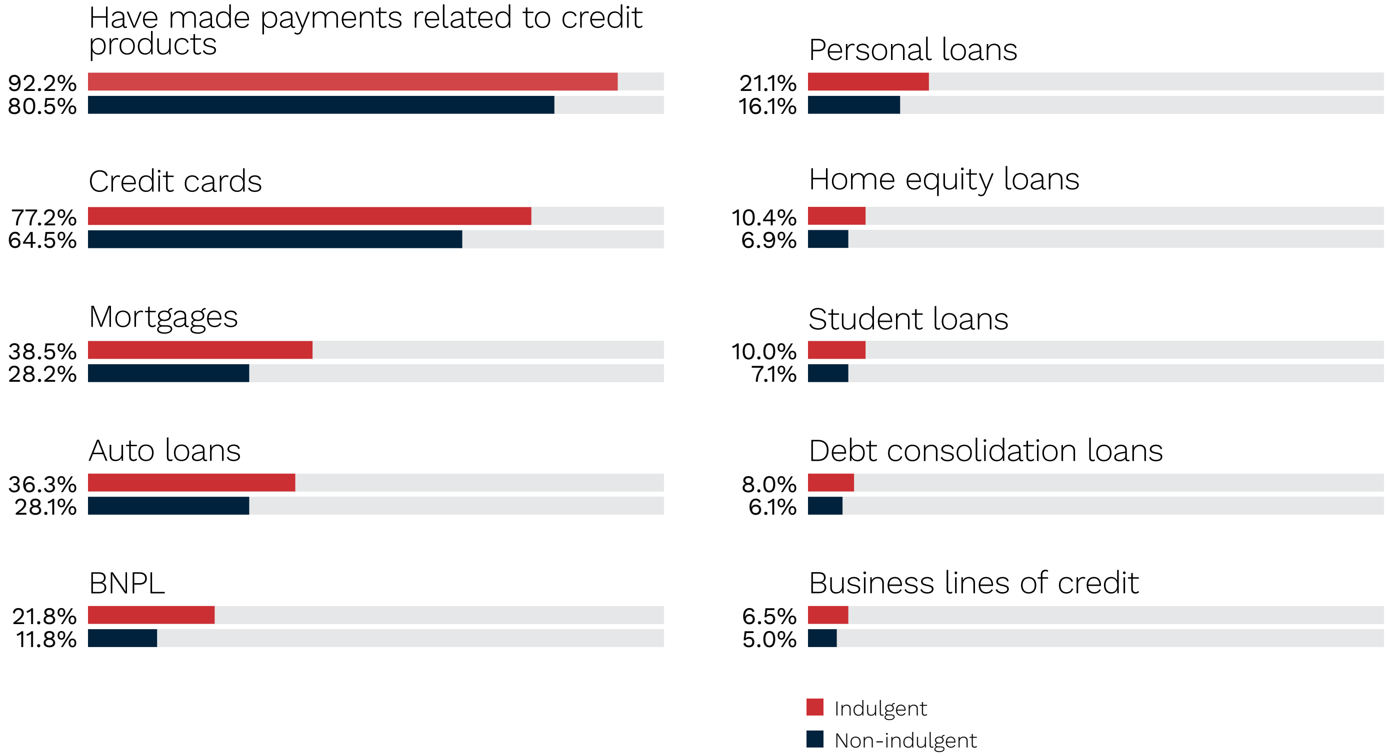
[7] Consumers who made nonessential purchases in at least three different product categories qualify as "indulgent consumers" for our analysis.

of $14,320 on average. In contrast, 36% of Gen Z consumers say they engage in indulgent spending and those who indulge have similar average savings as Gen Z consumers who do not engage in indulgent spending. Among paycheck-to-paycheck consumers, just one-quarter spend on “nice-to-have” items, with those who indulge reporting slightly more savings than those who do not.

Shoppers who say they engage in indulgent spending are also more likely to say they made payments related to credit cards, personal loans and buy now, pay later (BNPL) plans in the 30 days prior to the survey. Overall credit product usage is 11 percentage points higher for consumers who cite indulgent spending in three or more categories than those who do not cite such spending. Credit card usage among indulgent shoppers is 20% higher than among those who do not engage in nonessential spending. BNPL usage is 85% higher: 22% among indulgent consumers versus 12% among those who do not indulge. While 21% of indulgent shoppers use personal loans, just 16% of non-indulgent consumers do so. Higher credit usage among indulgent spenders suggests that credit usage on nonessential categories, such as clothing or travel, is more common than on essentials, such as groceries or household supplies.

FIGURE 9:

Indulgent consumers use credit more often
Share of consumers who made payments on select credit products in the last three months, by consumer persona



Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N = 3,443: Whole sample, fielded July 5, 2023 – July 20, 2023

DATA FOCUS

Financial lifestyle can determine what types of services consumers choose to splurge on.

Streaming subscriptions and quick-service restaurants (QSRs) are two categories in which struggling consumers allow themselves to spend more. Airfare and personal training are top categories among those not living paycheck to paycheck.

While most service categories reveal few differences in engagement across financial lifestyles overall, our study finds a correlation between financial standing and what specific services consumers allow themselves to indulge in. For instance, 37% of consumers not living paycheck to paycheck who spent money dining out at table-service restaurants say they overspent, compared to approximately 30% of paycheck-to-paycheck consumers.

The opposite occurs with spending at QSRs. Paycheck-to-paycheck QSR diners are more likely to cite indulgent spending than those not living paycheck to paycheck, at 27% and 20%, respectively. Streaming services represent another area where financially struggling consumers cite somewhat indulgent spending. At 29%, they are more likely to cite streaming services as an indulgence than the 21% of those living paycheck to paycheck without difficulty who cite streaming services as an indulgence.

Meanwhile, at 40%, consumers not living paycheck to paycheck are nearly twice as likely to say they overspent on airfare in the last 30 days than consumers living paycheck to paycheck with issues paying their bills, at 24%. Thirty-four percent of consumers not living paycheck to paycheck think the same about their expenses on personal training, compared to just 20% of paycheck-to-paycheck consumers.

The prevalence of price in shoppers' buying decisions determines this variation in splurging choices. Just 20% of consumers not living paycheck to paycheck consider price their top priority, compared to 62% who live paycheck to paycheck with issues paying their bills. Meanwhile, 41% of consumers living paycheck to paycheck without issues paying their bills mentioned price as their top determination for spending.

FIGURE 10:

How consumers with different financial lifestyles indulge

Share of shoppers who say their spending has been indulgent in select categories in the last 30 days, by financial lifestyle

	Whole sample	Live paycheck to paycheck with issues paying bills	Live paycheck to paycheck without issues paying bills	Do not live paycheck to paycheck
• Food from a table-service restaurant	34.4%	29.3%	32.7%	37.4%
• Airfare	30.9%	24.0%	18.5%	40.4%
• Personal or group physical training	25.7%	20.2%	20.2%	33.6%
• Food from a QSR	24.3%	27.0%	27.0%	19.9%
• Streaming subscriptions	25.1%	29.0%	20.6%	27.6%

Source: PYMNTS
New Reality Check: The Paycheck-to-Paycheck Report, August 2023
N varies based on type of nonessential spending, fielded July 5, 2023 – July 20, 2023

ACTIONABLE **INSIGHTS**

01

The share of U.S. consumers living paycheck to paycheck, including those struggling to pay their monthly bills, has increased 2 percentage points compared to July 2022. More consumers in all income brackets were living paycheck to paycheck in July 2023 than last year, and the share among low-income consumers increased the most. This indicates that consumers are still feeling the weight of rising costs of living and remain tasked with managing and adjusting their cash flows to put aside savings.

02

With ongoing inflation requiring consumers to tighten their belts, nonessential spending can mean the difference between living paycheck to paycheck or not — especially as two-thirds of paycheck-to-paycheck consumers say they splurge on unnecessary items when grocery or retail shopping. Struggling consumers need to continue to find ways to manage their budgets to make ends meet in today's financial environment.

03

Interestingly, spending on leisure or travel and personal services does not correlate with financial distress, suggesting that all consumers in the face of rising prices are refraining from making such purchases. There is a correlation, however, between financial lifestyle and which services consumers allow themselves to splurge on. Struggling consumers splurge on streaming services and dining out at QSRs, while those not living paycheck indulge in airfare and personal training — a difference that clearly reflects these consumers' diverse financial standings.

04

Consumers who engage in indulgent spending on various products and services tend to have access to more financial resources, whether in the form of higher savings or more credit. Yet this seems less accurate among younger consumers and those living paycheck to paycheck. Even as their financial resources remain limited, many younger consumers are more apt to indulge in unnecessary spending, impacting their future financial security and standing.

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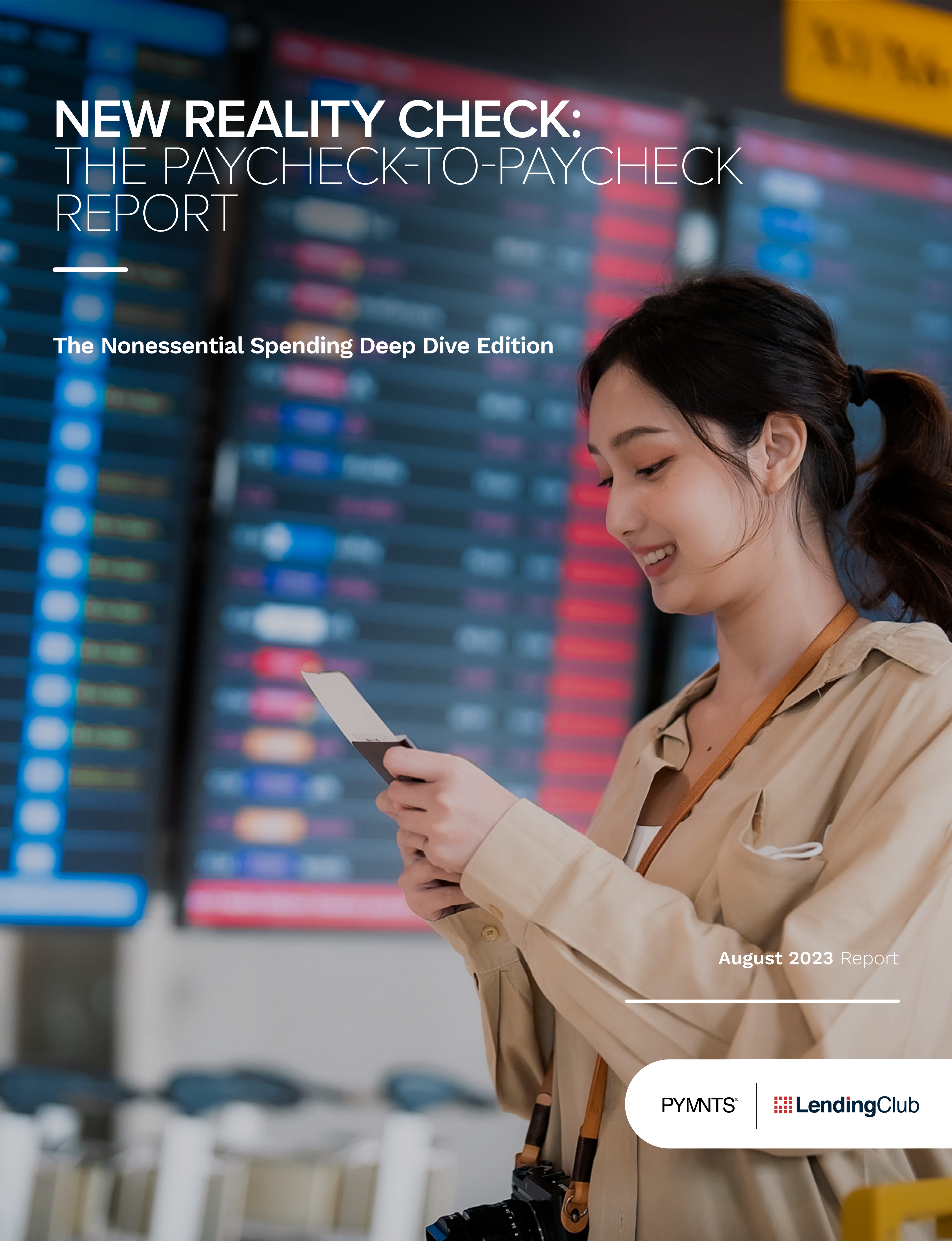

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METHODOLOGY

New Reality Check: The Paycheck-to-Paycheck Report — The Nonessential Spending Deep Dive Edition is based on a census-balanced survey of 3,443 U.S. consumers conducted from July 5 to July 20, as well as an analysis of other economic data. The data in this report is not intended to be a representation of LendingClub's core member base. The Paycheck-to-Paycheck series expands on existing data published by government agencies, such as the Federal Reserve System and the Bureau of Labor Statistics, to provide a deep look into the core elements of American consumers' financial wellness: income, savings, debt and spending choices. Our sample was balanced to match the U.S. adult population in a set of key demographic variables: 51% of respondents identified as female, 33% were college-educated and 38% declared incomes of more than $100,000 per year.

JUNE 2019

ABOUT

PYMNTS

PYMNTS is where the best minds and the best content meet on the web to learn about "What's Next" in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

LendingClub

LendingClub Corporation (NYSE: LC) is the parent company of LendingClub Bank, National Association, Member FDIC. LendingClub Bank is the leading digital marketplace bank in the U.S., where members can access a broad range of financial products and services designed to help them pay less when borrowing and earn more when saving. Based on more than 150 billion cells of data and over $85 billion in loans, LendingClub's advanced credit decisioning and machine-learning models are used across the customer lifecycle to expand seamless access to credit for our members, while generating compelling risk-adjusted returns for our loan investors. Since 2007, more than 4.7 million members have joined the Club to help reach their financial goals. For more information about LendingClub, visit https://www.lendingclub.com.

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