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CPRC CONSUMER PAYMENTS Research Center

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Latest Survey of Consumer Payment Choice by Boston Federal Reserve Shows Consumers Held More Cash in 2009 and Curbed their Use of Credit and Debit Cards

Recession and public policy changes likely induced caution and "back to basics" budgeting and expense control.

BOSTON – April 7, 2011 – American consumers cut back on their use of credit cards and relied more on cash for routine purchases and bill payments during the depths of the recession, according to the latest comprehensive study of payment preferences by the Federal Reserve Bank of Boston's Consumer Payments Research Center (CPRC).

In addition to the weak economy, new government policies and banking business practices, along with an environment of low interest rates, may also have influenced consumer payment preferences during that time period.

The full results of the CPRC's 2009 Survey of Consumer Payment Choice were released today. The results are shown in 32 tables that compare and contrast consumers' adoption and use of nine instruments encompassing paper, card, and online payment methods. The full data set from which the tables were constructed will be posted on the CPRC web site in May. These data will be downloadable in spreadsheet format in order to enable statistical analysis by interested individuals and researchers from business and academia.

The average consumer made 64.5 payments per month in 2009, down slightly from the 67.4 monthly payments noted in the 2008 survey. Debit cards were still the most commonly used instrument at 19.0 payments per month, with cash second at 18.4. But the gap between the two narrowed considerably. In 2008, consumers reported 21.2 debit card transactions per month and 14.5 cash transactions. The average consumer also kept more cash on hand in 2009: $291 per person compared with $230 in the 2008 survey.

"It appears that the business cycle and payments-related public policies had a notable impact on the composition of consumer payment use in 2009," stated Scott Schuh, director at the CPRC. "For many years, consumers had been migrating away from paper instruments toward cards and electronics. In 2009, consumers reversed that trend and moved back to more reliance on cash. The findings released today raise the important question of whether this move signals a permanent reversal or a transitory response to the severe recession. Results from our 2010 survey will be available later this year, and they should shed a good deal of light on this question."

The survey also shows that 30 percent of consumers had an account with a nonbank online payment service provider. Payments made through these accounts during the year are included in the results but are not identified separately. Another emerging factor is the use of the mobile phone; 8.9 percent of consumers had used their cell phones for routine banking tasks such as checking balances and receiving alerts. Three percent of consumers had made mobile payments, primarily by sending an SMS text message, although one percent indicated they had made some type of contactless mobile payment.

The Boston Fed payment surveys are conducted during the fall of each year. Between the 2008 and 2009 surveys, economic conditions bottomed out as U.S. GDP reached its trough. Unemployment nearly doubled in the interval, peaking at 10.1 percent in October 2009. This decline in economic conditions may have encouraged consumers to restrain credit card spending and borrowing.

Apart from the economy, the survey results reflect the effect of additional forces that likely had an impact on consumers' payment practices. Federal Reserve regulations announced at the end of 2008 and the CARD Act of 2009 may have affected credit card use by reducing the overall supply of revolving credit, and dissatisfaction with overdraft fees may have had an independent effect on consumers' use of debit cards.

There is also evidence of heightened concern among consumers about computer security and identity theft, and these worries may have affected consumer use of some electronic payment methods.

The following data show that between 2008 and 2009, consumers increased their use of cash to pay bills and make purchases, while reducing their use of debit and credit cards.

CONSUMER CASH HOLDINGS
(Dollar values not adjusted for inflation)

	2008	2009	
Cash Holdings, total	**$230**	**$291**	**+27%**
On person	$79	$89	+13%
On property	$157	$229	+46%

INCIDENCE OF USE OF PAYMENT INSTRUMENTS BY TYPE OF TRANSACTION
(Percentage of consumers)

	BILL PAYMENTS		RETAIL, SERVICES, AND P-2-P	
	2008	2009	2008	2009
Cash	**25.8**	**36.1**	**89.1**	**91.6**
Debit cards	**61.2**	**45.8**	**66.6**	**64.2**
Credit cards	**62.8**	**38.4**	**69.6**	**55.5**

FREQUENCY OF USE OF PAYMENT INSTRUMENTS IN A TYPICAL MONTH
(Number per consumer, by instrument type)

	2008	2009	
Cash	14.5	18.4	+27%
Debit cards	21.2	19.0	-10%
Credit cards	14.4	11.2	-22%

Additional findings and statistics noted in the survey include the following:

- Data on the number and types of financial accounts held by households
- Changes in the use of payment instruments for various types of transactions, such as retail purchases, service purchases, and person-to-person payments
- Consumers' delegation of responsibility for various aspects of household financial management
- Consumers' assessments of the characteristics of payment instruments

Click here for more information about the CPRC and its work.

SURVEY AND METHODOLOGY: The Survey of Consumer Payment Choice estimates consumers' adoption and use of nine payment instruments. The 2009 survey, fifth in the series that began in 2003, was developed by the CPRC and administered online by the RAND Corporation as a module of the American Life Panel. The sample size was 1,010 in 2008 and 2,169 in 2009. Statistical precision varies across estimates depending on the unit of measurement and magnitude of the estimate. Most 2009 estimates of the percentage of consumers are considered accurate within plus or minus four percentage points (or less) at the 95 percent confidence level. Most 2009 estimates of the number of payments per month for the payment instruments are considered accurate within plus or minus one payment per month (or less) at the 95 percent confidence level.

The Consumer Payments Research Center was established at the Federal Reserve Bank of Boston in 2004 to learn more about the demand side of the payments market, especially by studying the behavior of end users of payments, including individuals, households, firms, and government. A unit of the Bank's research division, the Center conducts economic research and evaluates and develops public policies for the benefit of citizens, companies, and organizations that rely on America's banking institutions and payments system.