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ALERT**TOP STORY**

Southern Illinois experts weigh in on American's credit card habits

Les O'Dell

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A new report by personal finance website WalletHub shows that U.S. consumers have slowed in paying down their personal credit card debt.

The “Credit Card Debt Study,” released last week, showed that consumers’ paydown of credit card debt in the first quarter of 2023 was the second-smallest in a decade, with just \$24 billion in debt paid. This comes on the heels of an all-time record of nearly \$180 billion in new credit card debt racked up in 2022.

Additionally, average household credit card debt nationally now stands at \$9,654, an increase of \$738 from the first quarter of 2022. Local financial experts give several reasons for the higher debt load and the slower paydown.

Andrew Rogers, a financial adviser with Royal Alliance Associates in Carterville said one factor may just be tighter household finances.

“I think a lot of it is people trying to adjust their budgets to higher prices; prices of everything have inflated so much – consumables like groceries, gasoline, clothing and things like that really went up, especially during COVID,” he explained. “A lot of people are trying to look at where they spend their money.”

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Rogers said that often paying credit card debt sometimes does not receive the same priority as other expenses such as food and utilities.

“When it comes to the more important things, I think people are going to curb debt paydown to buy groceries and things like that,” he said.

The pandemic may have influenced consumers' approach to finance in another way, said Olivia Bradley, vice president of commercial lending for Eldorado-based Legence Bank.

"I think this reflects that people were using COVID-19 relief money to pay of some credit card debt and it has kind of stalled because it's all gone now," she said.

She added as personal credit card balances become greater, the likelihood for banks to loan additional money decreases.

"If you have all of this debt out there, it can impact your debt-to-income ratio and can make it very hard for me to get you approved for a loan whenever you are already struggling to pay the debt that you have," she explained.

Inflation also may be a factor, according to Kevin Sylwester, director of the School of Analytics, Finance and Economics at Southern Illinois University Carbondale.

"The pessimistic story is that it comes from inflation, things simply costing more," he said. "If Americans are finding it more difficult to finance their purchases out of their paychecks, they have to borrow against the future. That's credit card debt. Also, the Federal Reserve has been raising interest rates and I don't know how much credit card rates have gone up, but for people who don't completely pay off their credit cards every month, higher interest rates mean those balances will increase faster."

Sylwester said some analysts may see an upside to the lower paydown rate.

"The more positive spin is that if people are feeling more confident about the future, that's when they make more purchases," he explained. "If credit card debt is going up, it might be that people are just more confident and figure that they can spend more."

As for the level of average credit card debt, Sylwester is not as concerned.

"It is a little concerning that Americans didn't pay down their credit card debt as much as they usually do following the holiday season, but with that being said, we are not in uncharted territory even though credit card debt's never been \$986 billion

before. Once you adjust for inflation, that number comes down and it's not record-breaking," he said.

Regardless, Rogers said he encourages people to find ways to reduce the balance on their credit cards.

"This is another one of those reports that is proof people need to have a plan in place for how they are going to pay it down. That doesn't mean it needs to be paid next week, but they do need to plan," he said.

Bradley said if the Fed does bump interest rates up more, the trend of small credit card paydowns may continue.

"As a consumer, you're going to pay way more for credit and if you are using credit for things you have to have to live and survive, you are not going to pay down debt because you're not going to have any extra money to apply to paying down debt," she said.



According to the most recent quarterly TransUnion report, credit card debt in America hit a record \$930.6 billion by the end of 2022.

States Where People Are Using Credit Cards to Cover Basic Living Expenses

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The COVID-19 pandemic altered American spending patterns dramatically. In the early days of the pandemic, social distancing and stay-at-home orders resulted in a **shift away** from transportation, restaurant, and entertainment expenditures. However, consumer spending has since rebounded, and now high inflation has raised the basic cost of living. In addition, rising interest rates are making the cost of borrowing more expensive. While many Americans use credit cards regularly for their rewards and benefits, more people are turning to credit cards for temporary relief as prices continue to rise.

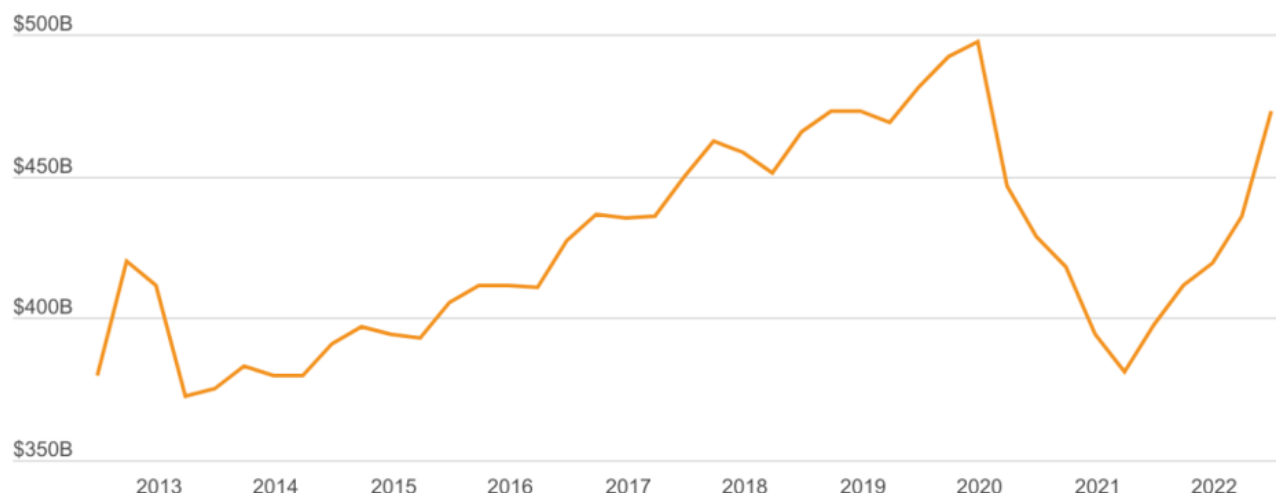
Stokkete

Revolving balances are climbing once again after rapidly

declining during COVID

After rapidly declining during COVID, revolving balances are climbing once again

Total consumer credit card revolving balance (large banks)



Source: Federal Reserve Bank of Philadelphia

In 2020 and 2021, large decreases in consumer spending combined with **stimulus checks and other financial relief** helped reduce revolving credit card balances, which is the amount that accrues interest carried from one billing cycle to the next. And in the spring of 2022, total revolving credit card debt reached its lowest level since 2014. But as consumer spending started to recover and inflation swelled, revolving debt has been climbing steadily and is now nearing pre-pandemic levels.

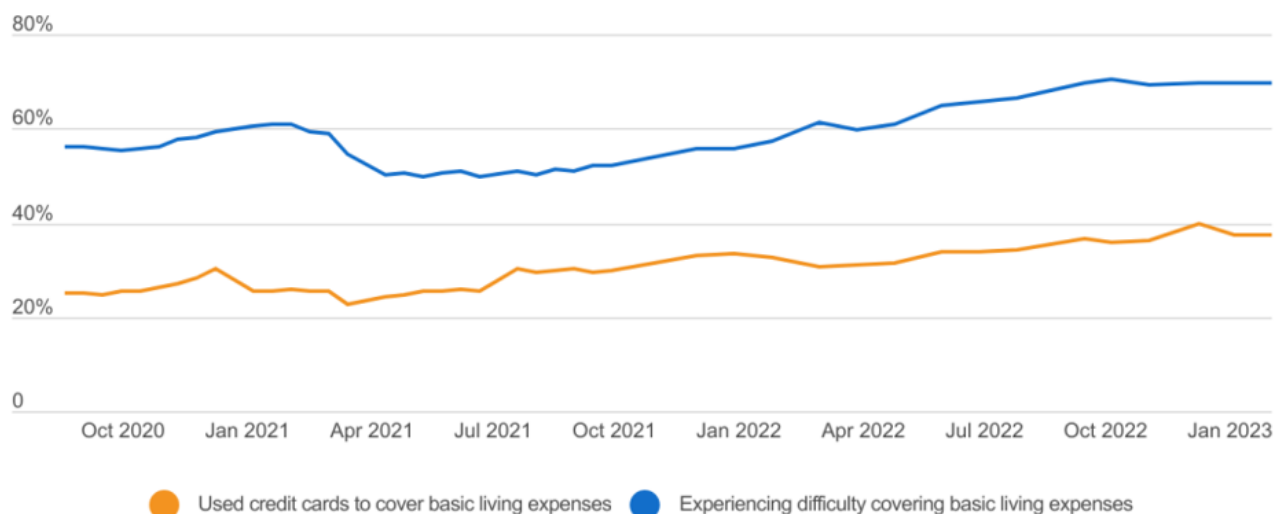
Unfortunately, at the same time credit card balances rose, the cost of carrying credit card debt increased sharply. In a bid to rein in inflation, the Federal Reserve **raised interest rates** 10 times since March of 2022. Consequently, the average **credit card interest rate** for accounts assessed interest swelled from 16.17% in early 2022 to nearly 21% in Q1 2023.

Difficulty affording basic living expenses and the use of credit

cards to cover them is on the rise

Difficulty affording basic living expenses and the use of credit cards to cover them is on the rise

Share of adults



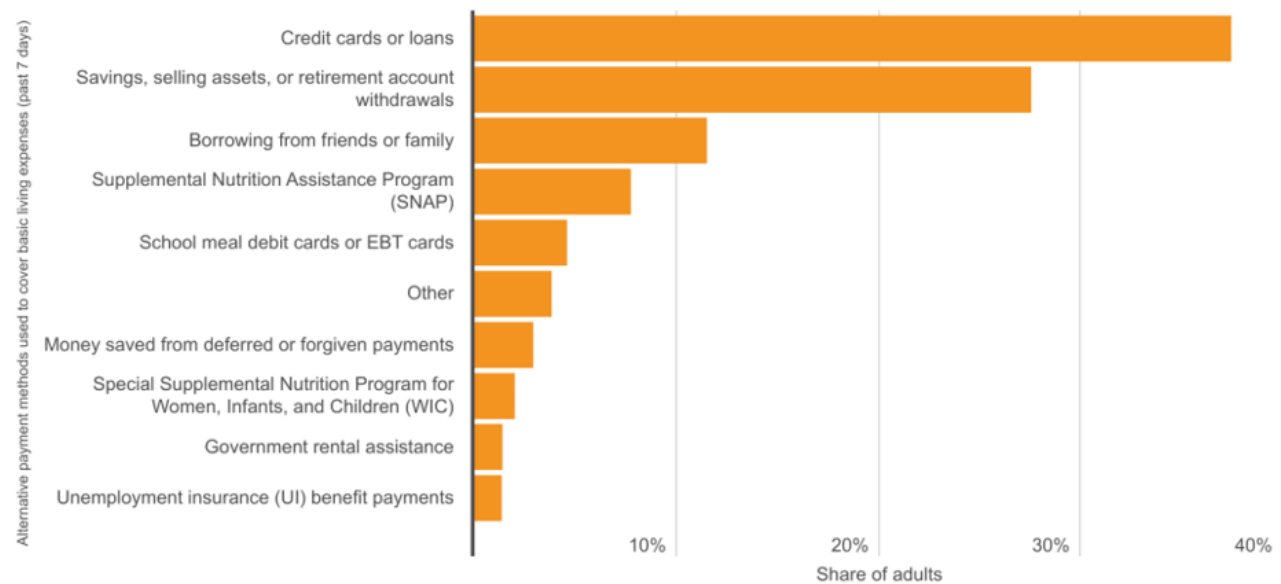
Source: U.S. Census Bureau's Household Pulse Survey

The combination of high interest rates and rising costs has put American households in a challenging position. Now, nearly 70% of people report they are finding it difficult to pay for basic living expenses—up from less than 50% in May 2021, according to the U.S. Census Bureau's *Household Pulse Survey*. At the same time, more and more Americans have turned to their credit cards. As of February 2023, 37% of adults said they used credit cards to cover basic living expenses, up from 23% in March 2021.

More than one in three adults used credit cards or loans to

cover basic living expenses

More than one in three adults used credit cards or loans to cover basic living expenses



Source: U.S. Census Bureau's Household Pulse Survey

Aside from regular income sources, credit cards or loans are the most common payment method used to cover basic living expenses. The 37% of adults who reported using credit cards or loans to pay for living expenses is nearly 10 percentage points higher than the 28% of adults who used savings, sold assets/possessions, or made retirement account withdrawals. Less common methods for paying for living expenses include borrowing from friends or family, various government assistance programs, and money saved from deferred or forgiven payments.

To determine the states where people are using credit cards to cover basic living expenses, researchers at **Upgraded Points** analyzed the latest data from the U.S. Census Bureau. The researchers ranked states according to the share of adults who self-reported recently using credit cards to meet their spending needs. Adults were surveyed during the month of February 2023. Researchers also calculated the total adults using credit cards to cover expenses, the share of adults with difficulty covering expenses, and the total adults with difficulty covering expenses.

Here are the states where people are using credit cards to cover basic living expenses.

15. Florida



Photo Credit: Charles Morra / Shutterstock

- **Share of adults using credit cards to cover expenses:** 38.3%
- **Total adults using credit cards to cover expenses:** 5,933,666
- **Share of adults with difficulty covering expenses:** 72.7%
- **Total adults with difficulty covering expenses:** 11,518,683

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14. Nevada



Photo Credit: f11photo / Shutterstock

- **Share of adults using credit cards to cover expenses:** 38.9%
- **Total adults using credit cards to cover expenses:** 856,412
- **Share of adults with difficulty covering expenses:** 75.4%
- **Total adults with difficulty covering expenses:** 1,694,172

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13. Wisconsin



Photo Credit: f11photo / Shutterstock

- **Share of adults using credit cards to cover expenses:** 39.0%
- **Total adults using credit cards to cover expenses:** 1,623,222
- **Share of adults with difficulty covering expenses:** 61.8%
- **Total adults with difficulty covering expenses:** 2,607,624

f11photo

12. Pennsylvania



Photo Credit: LittleKitty / Shutterstock

- **Share of adults using credit cards to cover expenses:** 39.0%
- **Total adults using credit cards to cover expenses:** 3,416,585
- **Share of adults with difficulty covering expenses:** 68.8%
- **Total adults with difficulty covering expenses:** 6,198,417

LittleKitty

11. Maryland



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- **Share of adults using credit cards to cover expenses:** 39.1%
- **Total adults using credit cards to cover expenses:** 1,673,871
- **Share of adults with difficulty covering expenses:** 62.5%
- **Total adults with difficulty covering expenses:** 2,723,161

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10. Colorado



Photo Credit: Andrew Zarivny / Shutterstock

- **Share of adults using credit cards to cover expenses:** 39.5%
- **Total adults using credit cards to cover expenses:** 1,598,071
- **Share of adults with difficulty covering expenses:** 65.0%
- **Total adults with difficulty covering expenses:** 2,677,301

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9. New Jersey



Photo Credit: Sean Pavone / Shutterstock

- **Share of adults using credit cards to cover expenses:** 39.7%
- **Total adults using credit cards to cover expenses:** 2,422,101
- **Share of adults with difficulty covering expenses:** 69.2%
- **Total adults with difficulty covering expenses:** 4,331,596

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8. Hawaii



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- **Share of adults using credit cards to cover expenses:** 39.7%
- **Total adults using credit cards to cover expenses:** 403,568
- **Share of adults with difficulty covering expenses:** 63.6%
- **Total adults with difficulty covering expenses:** 652,663

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7. Texas



Photo Credit: Francisco Sandoval Guate / Shutterstock

- **Share of adults using credit cards to cover expenses:** 40.2%
- **Total adults using credit cards to cover expenses:** 7,575,103
- **Share of adults with difficulty covering expenses:** 75.1%
- **Total adults with difficulty covering expenses:** 14,510,810

Francisco Sandoval Guate

6. California



Photo Credit: Ingus Krukltis / Shutterstock

- **Share of adults using credit cards to cover expenses:** 40.3%
- **Total adults using credit cards to cover expenses:** 10,683,020
- **Share of adults with difficulty covering expenses:** 70.9%
- **Total adults with difficulty covering expenses:** 19,333,920

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5. Delaware

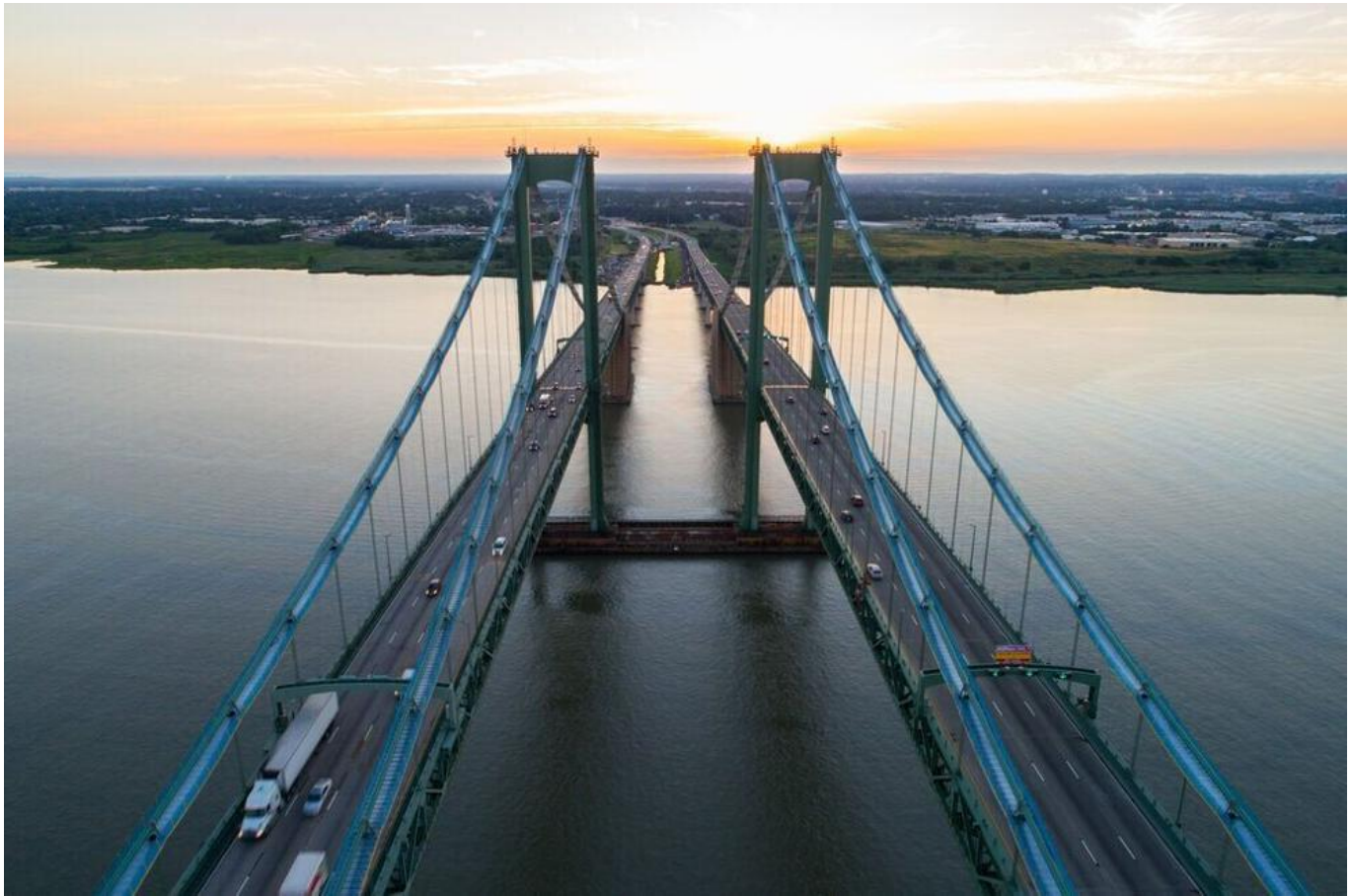


Photo Credit: Felix Mizioznikov / Shutterstock

- **Share of adults using credit cards to cover expenses:** 40.4%
- **Total adults using credit cards to cover expenses:** 287,896
- **Share of adults with difficulty covering expenses:** 64.8%
- **Total adults with difficulty covering expenses:** 471,643

Felix Mizioznikov

4. New Hampshire



Photo Credit: Jon Bilous / Shutterstock

- **Share of adults using credit cards to cover expenses:** 40.9%
- **Total adults using credit cards to cover expenses:** 414,589
- **Share of adults with difficulty covering expenses:** 65.8%
- **Total adults with difficulty covering expenses:** 678,271

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3. New York



Photo Credit: Ingus Krukltis / Shutterstock

- **Share of adults using credit cards to cover expenses:** 41.1%
- **Total adults using credit cards to cover expenses:** 5,413,583
- **Share of adults with difficulty covering expenses:** 70.9%
- **Total adults with difficulty covering expenses:** 9,529,943

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2. Massachusetts



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- **Share of adults using credit cards to cover expenses:** 41.4%
- **Total adults using credit cards to cover expenses:** 1,993,177
- **Share of adults with difficulty covering expenses:** 64.3%
- **Total adults with difficulty covering expenses:** 3,186,312

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1. Connecticut



Photo Credit: f11photo / Shutterstock

- **Share of adults using credit cards to cover expenses:** 42.5%
- **Total adults using credit cards to cover expenses:** 1,051,156
- **Share of adults with difficulty covering expenses:** 74.6%
- **Total adults with difficulty covering expenses:** 1,886,738

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