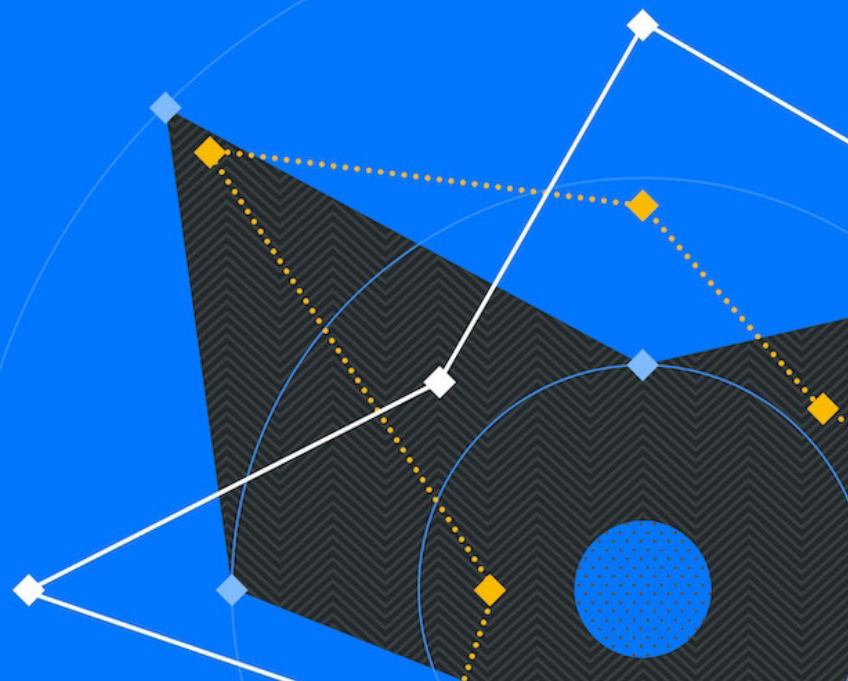


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# Five Crucial Questions: Impact of Student Loan Repayments on Consumer Spending

*Analysis*



# 5 crucial questions

Following the Supreme Court ruling in June 2023, student loan repayments, which have been paused since March 2020, will start coming due in October. While the Biden administration continues to work on plans to alleviate the stress this will cause to these Americans, the reality is that any regulations that can be implemented at this point will not significantly mitigate the impact that it will most likely have on the economy and the ways consumers alter their spending habits later this year.

This will likely have a significant influence on the overall production of the economy, and the sales of many consumer products. Here are the answers to five critical questions that executives should be asking about the ways this event can impact their company's forecasts, plans, and revenue potential in the second half of 2023:

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## **Could the restart of student loan payments cause consumers to change their spending habits this year?**

In anticipating a recession, consumer spending serves as the most critical factor for GDP, as it drives approximately two-thirds of overall economic activity. Despite much anticipation for recession, Personal Consumption Expenditures slowly increased quarter-over-quarter in the first half of 2023 (though the growth has slowed down). This is part of the reason that the economy has not experienced contraction yet in 2023. But, while Americans continued to spend, they increased their debt levels, as well as drawing down their savings.

This means that instead of saving the money that would have been designated towards repaying their student loans, they chose to spend it. As a result, they will have little ability to dip into savings to pay for their student loans and will need to pull back spending in other areas of their lives in order to meet these repayment obligations. There will likely be an adjustment to spending habits across a significant number of consumer groups when repayments start again.

## **Is the money needed for repaying student loans really that significant?**

There are more than 26 million Americans affected by federal student loans. On average, these Americans are paying \$210 each month towards this debt. This comes out to approximately \$6.1 billion annually (or 0.41% of total personal consumption expenditures) that was being added to discretionary spending when student loan repayments were paused.

Removing that amount of consumer spending from the economy when repayments resume in October 2023 will be significant for the overall economy, especially for brands that are significantly reliant on consumers in the key demographics that have student debt.

## **Which Americans will be most affected by the need to start repaying student debt?**

There will be ripple effects felt across all demographics, but the greatest impact on the economy will be felt by the changes in spending by Millennials, particularly those that have attended college and are part of low-to-middle-income households. It is important to note that this group is not limited to individuals with college degrees. There is data that estimates that approximately 40% of Americans carrying student debt did not receive a 4-year degree.

Millennials make up the largest group of consumers in the U.S. and have been powering the economy for the last few years. So, while there will be a significant number of Americans in Gen X and Gen Z generations that are affected by student loan repayments and need to change their spending habits as well, it will be the Millennials that will have the greatest impact on the economy, given that they are the largest portion of the working-age population and in their prime spending years. While the Biden administration works to protect the lowest earners within this group, no regulations will be enough to fully mitigate the challenges for the group at large.

It will be even more pertinent for executives at brands that have Millennials as a key customer group to plan for new habits and a potential pullback in spending towards the end of this year. On the flip side, there might be new opportunities to grow revenue among this group for value brands that may have lost this demographic as a core consumer group during the last few years.

## **Given the timing, how will this impact the holiday shopping season?**

The timing could not be worse for retailers. After displaying slowed year-over-year growth for holiday spending in 2022, the hope for strong consumer spending activities in Q4 2023 is very unlikely. As soon as consumers need to restart repaying their student loans, the impact will be immediate. Without the same build-up of excess savings that empowered the consumer to continue spending over the past few years, the expectations are that there will be an immediate pullback in spending, which will coincide with the holiday season.

Companies in every industry should be planning for a shift in the economy in Q4 due to a decline in consumer spending. But, it will be imperative that retailers that are highly reliant on the holiday spending season have forecasts and strong plans to maximize sales as they face a truly challenging environment.

## **Will this alter Prevedere's forecast for recession and recovery in the next year?**

Prevedere's economic team has been forecasting that there will be a mild recession in the second half of this year, followed by recovery beginning in the first half of 2024. While these events will play a significant role during a potential recession in 2023, they will not be impactful enough to increase the severity of a recession or lengthen the recession further into 2024. Our forecast is not changing based on the need for consumers to start repaying their student loans, but rather this impending headwind is playing right into our expectations.

# Conclusion

When consumers start repaying their student debts in October 2023, it will have an impact on the overall economy and many individual companies. But this is only a portion of the volatility that the economy will experience during the coming recession. In order to navigate this volatility and maximize revenue in Q4 2023, companies must have the right tools to forecast and plan for the changes that will occur during that challenging time period.





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