



Cashing In, or Cashing Out?

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Carrying cash hasn't gone out of style even as new payment instruments keep coming.

That's the message from a [recent analysis by the Cash Product Office](#) at the Federal Reserve Bank of San Francisco, based on preliminary results of a survey of U.S. consumers. The [2015 Diary of Consumer Payment Choice](#) monitored a representative sample of consumers' activity over three straight days in late 2015, tracking bill payments, purchases, deposits, withdrawals, and other transactions. The Cash Product Office conducted a similar survey in 2012.

The 2015 survey found that cash was still the most common form of payment, particularly for small purchases. Consumers in the study used cash to pay for 32 percent of all transactions (down from 40 percent in 2012), and 64 percent of those under \$10 (down from 69 percent in 2012). The study's authors attributed some of that decrease to changes in the survey.

Meanwhile, cash remains the most popular method of transferring money between individuals, according to the study, despite the proliferation of peer-to-peer transfer apps such as Venmo and PayPal. Doug King, a payments risk expert in the Federal Reserve Bank of Atlanta's Retail Payments Risk Forum, said the survey shows that people like to carry cash even if they don't plan to spend it. The clear advantage cash has over other payment forms, he added, is that it is generally accepted for payment when nothing else will do.

2015 Average Cash Holdings by Household Income



"For a lot of consumers, cash is not the preferred method of payment, but they are willing to hold on to it in case they need it for

specific purchases," King said, noting that it's ideal for grab-and-go purchases. "Also, obtaining cash is much easier today than it ever was."

Fed still moves plenty of currency

Other measures reinforce the notion of cash's enduring popularity. For example, the Fed is processing more cash. The number of currency notes the Fed paid to and received from financial institutions nationwide as of July is up 4 percent and 3 percent, respectively, from the same period in 2016. The Atlanta Fed's Sixth District recorded slightly bigger increases in cash volume handled.

"Demand for cash both domestically and overseas has contributed to steady increases in the value of U.S. currency in circulation," said Amy Goodman, vice president of the Atlanta Fed's cash operations, who works from the New Orleans Branch.

Goodman noted that \$1.5 trillion in U.S. currency is circulating globally, nearly double the value before the financial crisis and Great Recession. The Fed estimates that the majority of the cash in circulation is outside the United States.

Cash lovers tend to be older, wealthier

Another interesting finding of the 2015 diary: individuals are carrying more cash. The average value of cash held by individuals rose to \$59 from \$55 in 2012. This prompted the San Francisco Fed in June to release a report looking more deeply into the reasons people hold cash, particularly the so-called "just-in-case holders", who carried cash daily but didn't spend it. More than two-thirds (69 percent) of participants held cash every day, even if they didn't use it. Only 17 percent of consumers surveyed held no cash during the survey period, although the same percentage used cash and carried it each day.

Primary Payment Preference by Age

Age	Credit	Cash	Debit
18 - 24	13 percent	38 percent	48 percent
25 - 34	22 percent	29 percent	49 percent
35 - 44	29 percent	25 percent	46 percent
45 - 54	29 percent	27 percent	44 percent
55 - 64	29 percent	26 percent	45 percent
65 and over	39 percent	24 percent	36 percent



In addition to just-in-case holders, the San Francisco Fed report identified other categories: cash lovers, those who held and spent cash each day of the survey; and the cash-averse, consumers who did not carry or spend cash over the study period.

Just-in-case cash holders made up 26 percent of the 2015 diary population. Their average age was 48, but nearly one-third of this group was 18 to 34 years old. These consumers, who prefer to pay for goods with debit or credit, held \$64 a day, on average, during the survey.

Cash lovers tended to be older and wealthier, with an average age of 54. They constituted 8 percent of the U.S. population in 2015, and carried \$113 in cash, on average, each day, according to the diary. Cash-averse consumers, who came to 13 percent of the population, were younger and poorer. Millennials accounted for more than half of this group. In 2015, most of these consumers (54 percent) had household incomes of less than \$50,000, with one-third earning less than \$25,000 a year. This group preferred to pay with debit instruments and may simply have had too little money to carry cash, the survey concluded.

New alternatives to cash



Despite the enduring appeal of cash, issuers of credit and debit cards are sharply focused on bringing consumers more alternatives, said Atlanta Fed payments risk expert Dave Lott. He cited vending machines and parking meters as examples of items that once used only bank notes and coins, but now accept credit and debit cards.

In fact, the San Francisco Fed study revealed gains in consumers' use of credit, debit, and

Payments risk experts Doug
King and Dave Lott
Photo by David Fine

electronic instruments. Debit and credit cards represented 27 percent and 21 percent of 2015 transaction volumes, respectively, an increase of two and four percentage points from 2012.

"The card networks are very aggressively looking for new markets to replace cash with card-based transactions," Lott said.

Still, he doesn't believe cash will disappear, but it will lose ground to other payment options over time. The Federal Reserve's [latest payments study](#) found that most noncash payment forms other than checks were continuing to gain strength. Lott noted that, for a while at least, many people believed that checks were disappearing as well. Yet, despite substantial declines in volume since 2000, "17 billion checks were written in 2015," he said.

"As new forms of payment come into being, it makes sense that there's going to be a smaller share for cash," Lott said.



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