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Consumer Checkpoint

April flowers, not showers

09 May 2024

Key takeaways

- Total card spending per household rose 1.0% year-over-year (YoY) in April, following a rise of 0.3% YoY in March. Recent data has been noisy due to the early Easter, the leap year and other seasonal factors. Looking through these gyrations, spending momentum appears to continue to be relatively soft but stable.

- Lower-income spending growth remains above that of higher-income households in Bank of America data. And it appears lower-income households' after-tax wages and salary growth has risen, while savings buffers remain. But the apparent cooling in the labor market warrants close watching from here.

- Tax refunds have been skewed towards lower-income cohorts. But while they appear to have spent some of these on retail, we see signs that they increased debt payments, possibly dampening some tax refund boosts to spending.

- Rising property insurance costs are a significant headwind for consumers. Some of the reasons for higher insurance payments are likely to be persistent.

Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America.

Continued spending momentum amid the noise

Bank of America aggregated credit and debit card spending per household rose 1.0% year-over-year (YoY) in April, following a 0.3% YoY rise in March. Monthly spending this year has been impacted by the leap year in February as well as Easter being earlier than in 2023, making for a lot of gyrations in the data. On a seasonally adjusted (SA) basis, total card spending per household in April rose a strong 1.3% month-over-month (MoM), following a 0.7% MoM decline in March. Taking these months together, consumer spending momentum continues to appear relatively soft but stable (Exhibit 1).

Exhibit 1: Card spending across all categories jumped in April
Total credit and debit card spending per household (index, 2022 average = 100, seasonally adjusted, monthly)
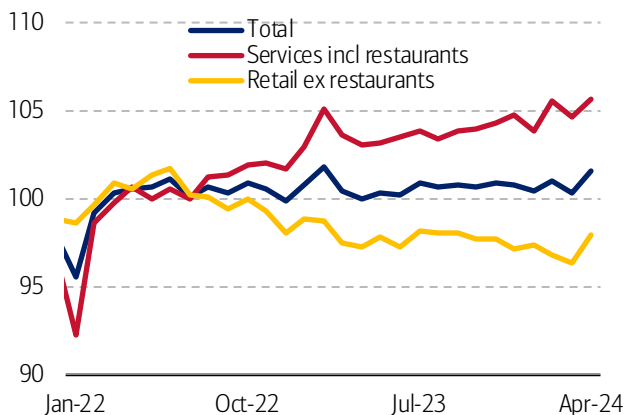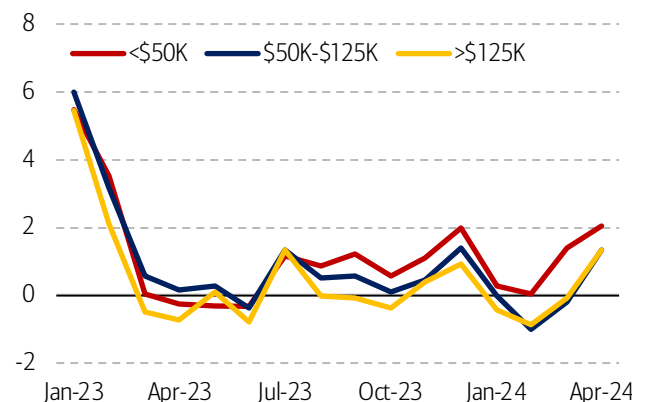

Source: Bank of America internal data

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Exhibit 2: Lower-income card spending growth is stronger than that of both middle- and higher-income consumers as of April
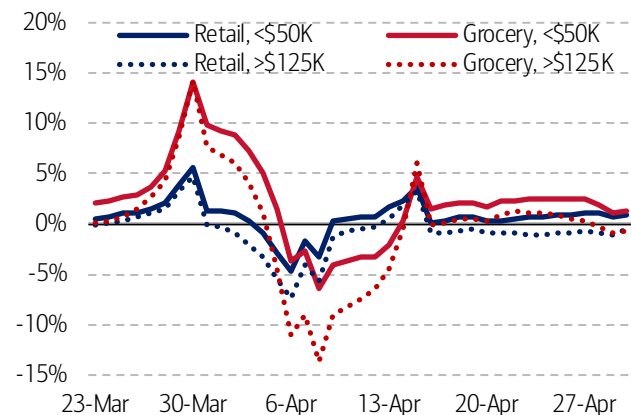Total card spending per household YoY growth by income (%, seasonally adjusted, monthly)

Source: Bank of America internal data

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Is there evidence of a recent slowdown in lower-income household (<$50K) spending? Not in our data. As Exhibit 2 shows, this group's spending growth continued to outstrip that of higher-income households in April. And when we look at daily spending data per household on a seven-day moving average, we find that lower-income spending growth across most categories outpaced that of higher-income (<$125K) groups (Exhibit 3 and Exhibit 4) in late March and April. Both cohorts experienced peaks around Easter, but the relative drop since then in spending on groceries, retail and food services was stronger for higher-income consumers. However, clothing spending growth has been softer for the lower-income cohort.

Exhibit 3: Lower-income spending growth on both groceries and retail has largely outpaced higher-income throughout April
Daily card spending per household growth for <$50K ending April 30th (7-day moving average, %YoY)
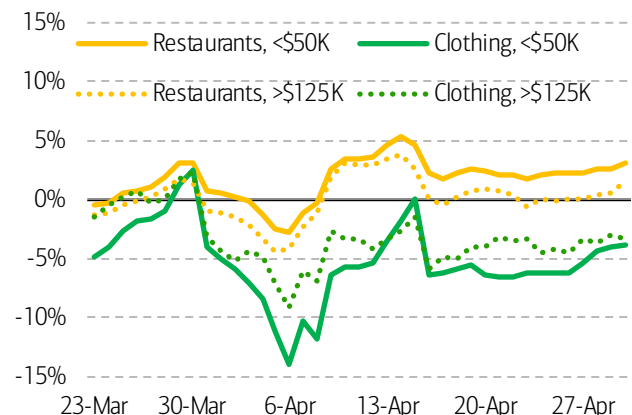

Source: Bank of America internal data

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Exhibit 4: Higher-income spending growth on clothing was stronger than lower-income consumers' throughout April
Daily card spending per household growth for <$50K ending April 30th (7-day moving average, %YoY)
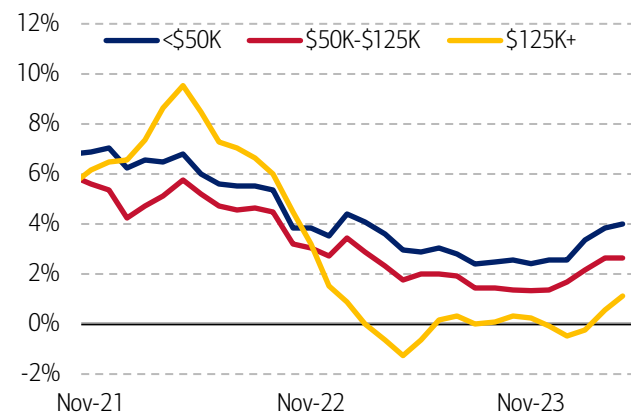

Source: Bank of America internal data

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Exhibit 5 also shows that, according to Bank of America internal data, lower-income household after-tax wages and salary growth has strengthened of late, growing 4.0% YoY in April. But the April Bureau of Labor Statistics (BLS) report showed that strong job gains have been cooling, which warrants close attention to see if this slowdown broadens and deepens.

Exhibit 5: Higher- and lower-income household after-tax income growth appears to have strengthened as of April
After-tax wage and salary growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, seasonally adjusted (SA))
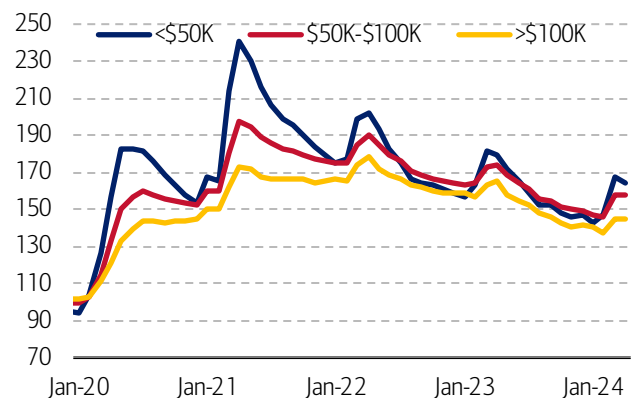

Source: Bank of America internal data

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Exhibit 6: Households saw a bump in deposit levels due in part to tax refunds, especially for the lower-income cohort
Monthly median household savings and checking balances by income (2019=100) for a fixed group of households through April
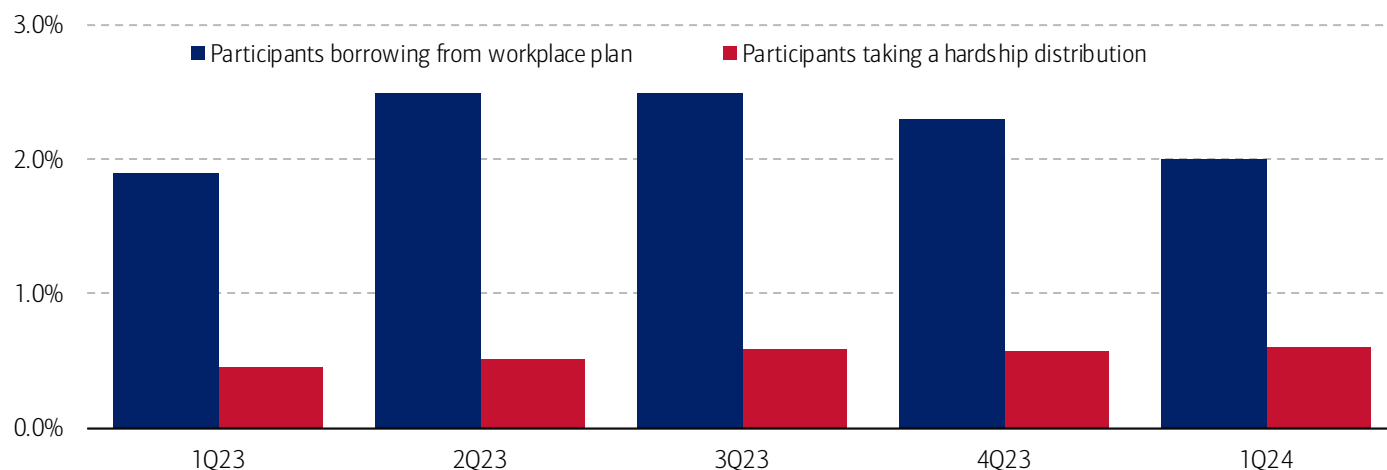

Source: Bank of America internal data
Note: Bank of America internal data. Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through April 2024.

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Financial assets, both liquid savings and longer-term financial assets, also remain in a solid position across income cohorts. Exhibit 6 illustrates that saving and checking balances for a fixed group of households remain well above 2019 levels for the lower-income cohort as well as for the others. Median balances saw a significant increase in March and April 2024 due mostly to the receipt of tax refunds, especially for households earning <$50K.

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Looking at longer-term saving for retirement, according to Bank of America's 2024 Q1 Participant Pulse, slightly more participants took a hardship distribution from their retirement plan in 1Q24 than in 4Q23, and when money was withdrawn, both average loan and hardship distribution amounts were larger. But the proportion taking hardship distributions is very low (Exhibit 7) and participants with a loan from their 401(k) in default have declined steadily over the past several quarters.

Exhibit 7: The share of participants borrowing from their workplace plan as well as the share taking a hardship distribution increased from 1Q23
Participants borrowing from workplace plan (%) and participants taking a hardship distribution (%)

Source: Bank of America Participant Pulse

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## Lower-income consumers used their tax refunds to reduce debt

According to IRS data, 2024 average tax refunds were up nearly 3.5% YoY through April 19th compared with an 8.6% decrease YoY for the same period in 2023. As discussed in last month's Checkpoint, we discussed how survey evidence suggested that almost half of consumers intended to use tax refunds to pay down debt or increase savings, but a significant number of recipients were also planning to shop with the money.

So, how did consumers actually spend their tax refunds? Using Bank of America internal data, and using an approach of reviewing the periods of three weeks prior to and after the receipt of a tax refund as a proxy for how refunds were spent, Exhibit 8 shows that clothing and durable goods seemed to benefit, with the average weekly spending up approximately 35% for the three-week period after receipt of tax refunds compared with the three weeks before.

We also found aggregate consumer spending on experiences (e.g. leisure travel, in-person entertainment, restaurants) was boosted but by less than for goods. It is possible that more consumers were waiting longer for tax refunds this year before spending on bigger-ticket items like durable goods or leisure travel.

Exhibit 8: This year, aggregate consumer spending rose 35% in the three-week period after receipt of tax refunds compared with the period before for retail categories such as clothing and durable goods, while experience categories (e.g. leisure travel, restaurants) saw smaller increases
Aggregate consumer spending for the three-week period after receipt of a tax refund compared with the three-week period before by spending category (weekly average, %)
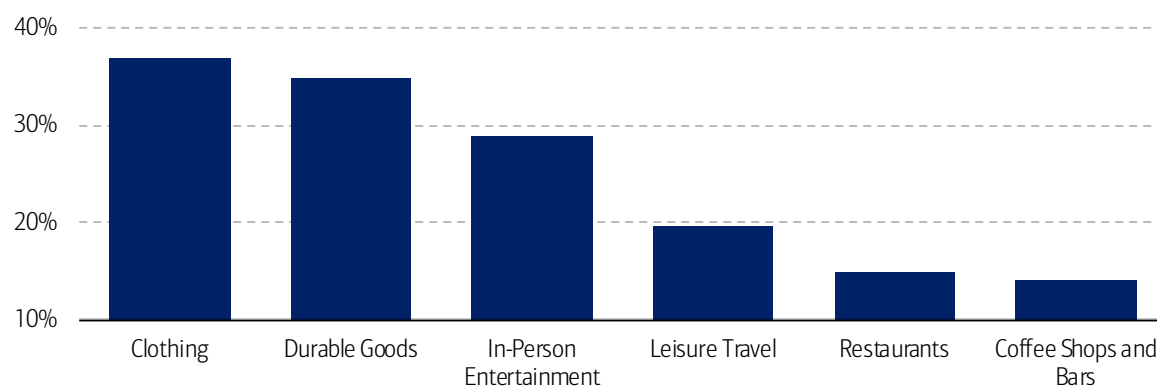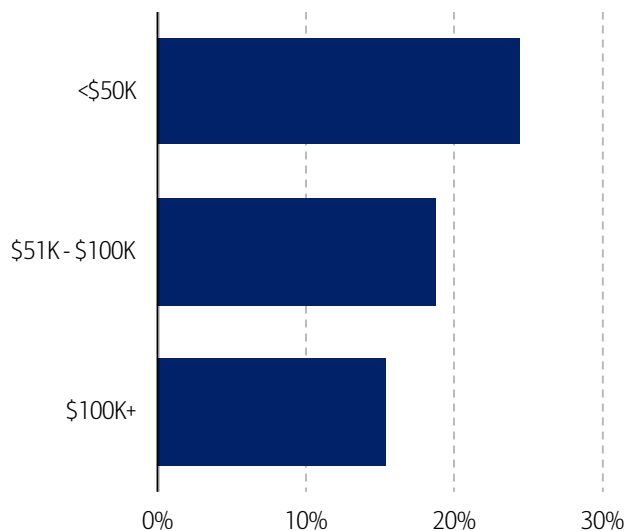

Source: Bank of America internal data

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But Bank of America data also shows evidence that customers earning <$50K annually used their refunds to repay debt (regardless with whom their debts were with). Lower-income cohorts saw the largest rise in aggregate debt payments (Exhibit 9) for the three-week period post tax refund compared with the three weeks before. Exhibit 10 shows that the increases in debt payments by these customers were largest for credit cards, likely due, in part, to rising interest rates.

Additionally, Exhibit 6 shows that some households, especially those with lower incomes, likely saved a portion of their tax refunds resulting in a seasonal increase in median deposit balances.

Exhibit 9: Lower-income customers receiving tax refunds saw larger increases in aggregate debt payments compared to higher-income households receiving tax refunds
Aggregate consumer debt payments for the three-week period after receipt of a tax refund compared with the three-week period before by debt category for customers earning <$50K (weekly average, %)

Source: Bank of America internal data. Note: includes external and internal debt payments

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Exhibit 10: Aggregate credit card debt payments saw the largest post-tax refund increases, with a larger boost for customers with lower incomes compared to higher-income customers
Aggregate consumer debt payments for the three-week period after receipt of a tax refund compared with the three-week period before by debt category for customers earning <$50K compared to customers earning $100K+ (weekly average, %)
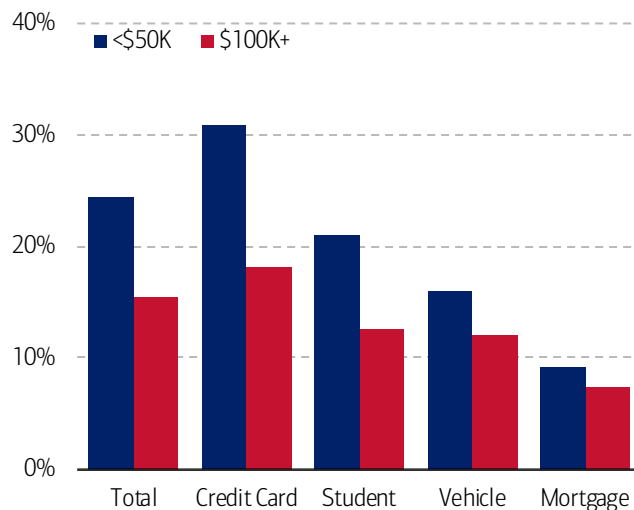
Source: Bank of America internal data. Note: includes external and internal debt payments

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## Rising insurance costs have structural underpinnings

One headwind facing all income cohorts is the significant pressure from rising property insurance – both car and home. For autos, this point was highlighted in the Bureau of Labor Statistics' Consumer Price Index (CPI) data, which showed that motor insurance prices were up 22.2% in the year to March 2024. For home insurance, the CPI only considers the price of insuring tenants' and households' contents (+4.6% YoY in March) and not the broader cost of buildings insurance.

To look deeper, we use Bank of America internal data across payment channels to examine how households' overall property insurance payments are changing. While we cannot distinguish in the data between auto or home insurance payments, we can use our data to gauge the impact of rising aggregate property insurance costs across different groups of consumers.

What do we find? Exhibit 11 shows that the average insurance payment is up 23% relative to 2019 and the average customer payment is up 25%. The difference between these two numbers reflects the fact that some customers will make more than one insurance payment in any month. Compared with 2023, our data shows a rapid increase in these costs for customers over the past year – with the three-month average April 2024 YoY rise at 11%.

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**Exhibit 11: Insurance payments are up close to 25% compared to 2019**
Average home and auto insurance payments according to Bank of America internal data (3-month moving average of monthly data, 2019=100)
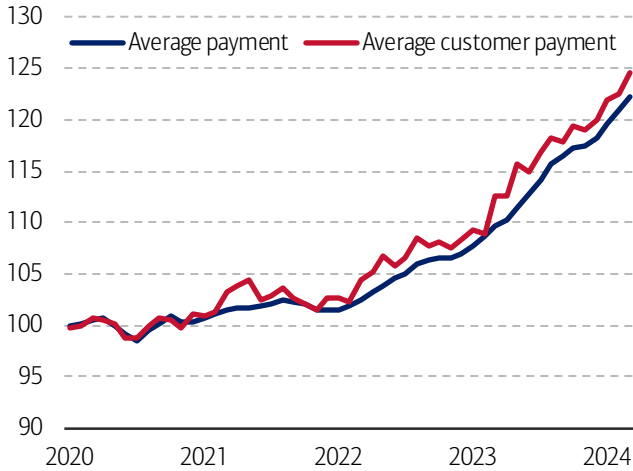
Source: Bank of America internal data. Average payment is the average value of a transaction paid for property insurance in that month. Average customer payment is the average value of all property insurance payments per customer per month.

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Exhibit 12: Homeowners pay over $3k in property insurance
Median annual payment for property insurance according to Bank of America internal data, split by homeowners and renters (April 2023-March 2024, $)
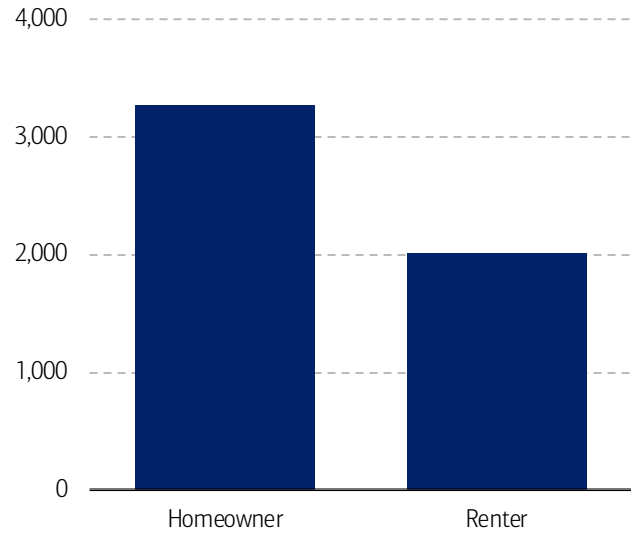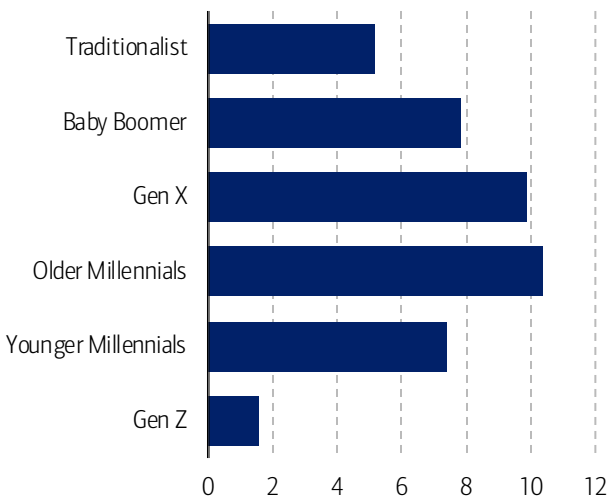

Source: Bank of America internal data

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How significant is property insurance in the typical household budget? To look at this, we use a 12-month window of data, as different people pay for their insurance at different frequencies – some may pay monthly, while others may pay it all as a lump sum. Exhibit 12 shows that the median payment in the 12 months to March 2024 was around $3,300 for homeowners and $2,000 for renters.

So, insurance payments are a large and increasing outlay for many consumers. We estimate that the median household property insurance payment was around 4.5% of household income in the 12 months to March 2024. One factor influencing how much rent landlords charge is their own insurance costs, so renters may well end up paying more indirectly even if their direct property insurance cost is lower.

Exhibit 13: Gen X and older Millennials are seeing the fastest rises in property insurance payments
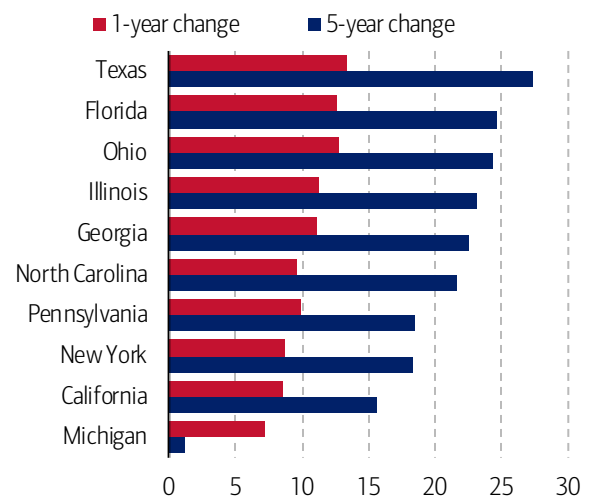Median annual payment for property insurance according to Bank of America internal data, split by generation (% change: year to March 2024 compared to year to March 2023)

Source: Bank of America internal data

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Exhibit 14: There is a fairly wide geographic dispersion in property insurance payment growth
Median annual payment for property insurance according to Bank of America internal data, split by state (% change*)

Source: Bank of America internal data
* 1-year change: year to March 2024 compared with year to March 2023. 5-year change: year to March 2024 compared with year to March 2020. Data is for a fixed universe of homeowners who have not moved out of state over the period.
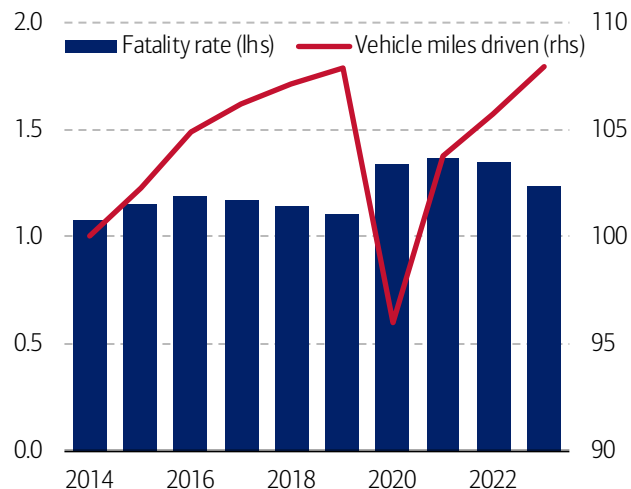
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Who is experiencing the fastest rises in insurance? By generation, Exhibit 13 shows that in Bank of America data it is older Millennials and Gen Xers. This makes sense given these generations may be taking on larger homes and bigger vehicles at this stage in their lives.

But the biggest dispersion in property insurance rises is geographic. Exhibit 14 shows that of the 10 largest US states by population, Texas and Florida have seen the biggest insurance payment rises over the past five years. At the other end of the scale are Michigan and California.

Exhibit 15: The vehicle fatality rate has risen since 2019 and people are driving more than they did a few years ago
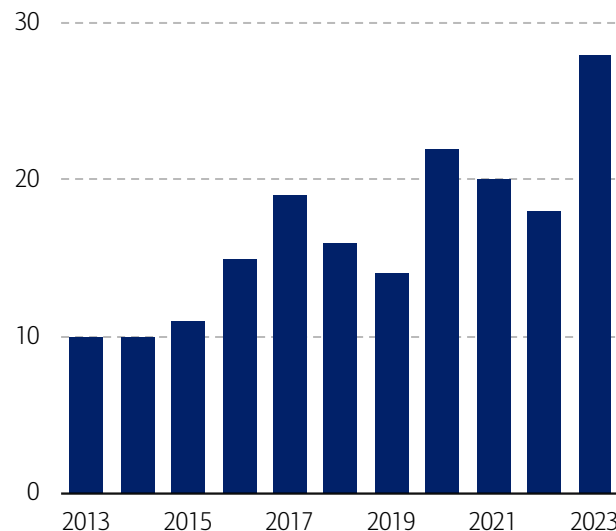US motor vehicle fatality rate (%) and total annual miles driven (2014=100)

Source: Haver Analytics

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Exhibit 16: 2023 saw the highest ever recorded number of billion-dollar disasters in the US
Annual billion-dollar (CPI-adjusted) weather and climate disasters

Source: Haver Analytics, National Oceanic and Atmospheric Administration

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Will there be any respite for households from rising property insurance costs? Some factors that are likely to have pushed up insurance payments may be moderating. For example, for auto insurance, car prices determine the replacement cost when vehicles are damaged. And new and used car prices now appear to be falling after a period of rapid inflation over the past few years. Similarly, for houses, the price of inputs into residential construction has come down.

But other more labor-intensive price pressures appear more persistent, with consumer prices for motor repair and maintenance up 8.2% YoY in March 2024. And average hourly earnings in construction – likely an important factor in house repair costs – rising 4.6% YoY in April.

More 'structurally' there are also some factors keeping property insurance prices higher than would historically be the case. There appears to have been a rise in car accidents. Exhibit 15 shows that the vehicle fatality rate (deaths per 100m vehicle miles travelled) has risen since 2019. At the same time, miles driven continues to recover after the pandemic-related drop. Together, these tend to increase insurance claims, which will ultimately be passed on to consumers.

And for both houses and autos, climate change appears to be producing more damaging weather events, which also raises the cost of insurance. (See also Economic Impact of Climate Change & High Energy Utility Bills.) According to the National Oceanic and Atmospheric Administration (NOAA), 2023 saw the highest number of 'billion-dollar disasters' – events where total estimated losses exceeded one billion dollars (Exhibit 16). Many of these were storms, which the NOAA estimates cost around $56 billion.

So, overall, while some headwinds to consumers' cost of insurance may abate, others are likely to be far more persistent, keeping insurance payments higher.

Monthly data update
Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 12.8% in April. Bank of America total credit and debit card spend, which comprises over 20% of total payments, increased 5.2% YoY in April.

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Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash, and checks.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and generally defined as under $5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

The differences between the total and per household card spending growth rate can be explained by the following reasons:

1. Overall total card spending growth is partially boosted by the growth in the number of active cardholders in our sample. This could be due to an increasing customer base or inactive customers using their cards more frequently.

2. Per household card spending growth only looks at households that complete at least five transactions with Bank of America cards in the month. Per household spending growth isolates impacts from a changing sample size, which could be unrelated to underlying economic momentum, and potential spending volatility from less active users.

3. Overall total card spending includes small business card spending while per household card spending does not.

4. Differences due to using processing dates (total card spending) versus transaction date (per household card spending).

5. Other differences including household formations due to young adults moving in and out of their parent's houses during COVID.

Any household consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level. Whenever median household savings and checking balances are quoted, the data is based on a fixed cohort of households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through the most current month of data shown.

Bank of America aggregated credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1995

2. Younger Millennials: born between 1989-1995

3. Older Millennials: born between 1978-1988

4. Gen Xers: born between 1965-1977

5. Baby Boomer: 1946-1964

6. Traditionalists: pre-1946

Any reference to card spending per household on gasoline includes all purchases at gasoline stations and might include purchases of non-gas items.

Bank of America's 1Q 2024 Participant Pulse monitors plan participants' behavior in Bank of America 401(k) recordkeeping and HSA clients' employee benefits programs, which comprise more than 4 million total participants with positive account balances as of March 31, 2024.

Additional information about the methodology used to aggregate the data is available upon request.

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Disclosures