Consumer Morsel

The cost of living ain't easy

20 March 2025

Key takeaways

- The cost of living keeps getting costlier. Consumers are paying more for some of their largest expenses like housing, insurance, car payments, and utilities, according to Bank of America payments data. But a recent decline in gasoline prices and trading down on groceries may be offsetting this trend.
- Consumers have not been able to offset all of these costs, and the share of spending on more discretionary items like electronics, restaurants, and travel has declined across all income cohorts in the past two years, but especially for lower-income customers, according to Bank of America payments data. However, the decline in discretionary spending share has slowed significantly in the past year for all income groups.
- While the strong labor market is likely responsible for some of this improvement, rising unemployment over the past year and the fear of further job losses may affect consumer spending, especially on more discretionary items.

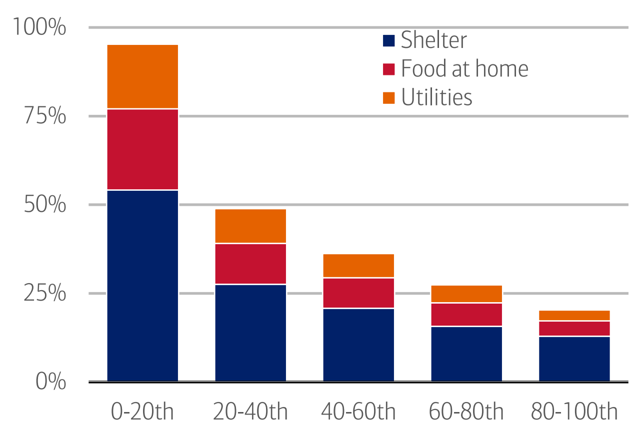
Prices are rising for the biggest expenses: Housing, utilities and vehicles

'Hidden' costs of homeownership are likely continuing to weigh on the consumer

Consumers are currently facing a myriad of financial pressures on their necessity spending, from housing and insurance to utility bills and groceries. This is particularly important for lower-income households as these expenses account for around 95% of their after-tax income, according to Bureau of Labor Statistics' (BLS) data (Exhibit 1). By contrast, these necessities only make up 20% of the highest-income households' earnings. In fact, across all income cohorts, shelter is often the largest outlay, followed by transportation, groceries and electric and gas bills.

Exhibit 1: For lower-income households, spending on necessities represents a significant share of after-tax income - the lowest

20% of households spend around 95% of their income on necessities Share of annual expenditures for select necessity categories by income quintile (2023, %)



Source: Bureau of Labor Statistics. Note: Shelter includes rent or mortgage payments as well as associated costs like insurance, taxes, and repairs. Transportation includes vehicle costs, insurance, repairs, and maintenance.

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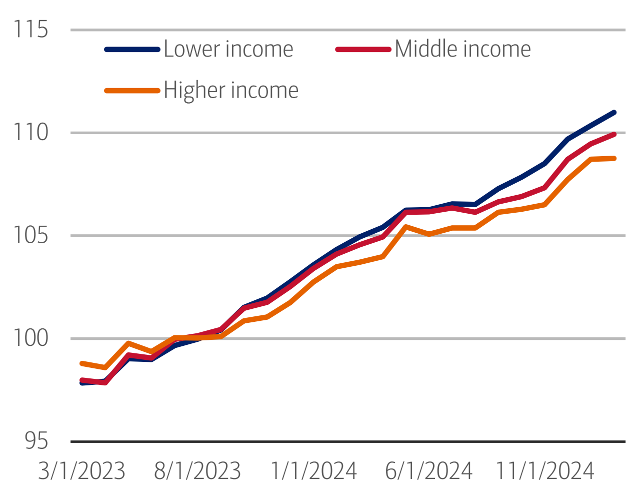
Exhibit 2: Housing costs are rising fastest for lower-income customers

Weighted average of mortgage and rent payments, based on Bank of America payments data, by customer income (3-month moving average, Index 2023 average = 100)



Source: Bank of America internal data

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Using a weighted average for mortgages and rents (see Methodology), we find that housing costs are continuing to increase for all income cohorts, but especially for lower-income customers. Their rent and mortgage payments was up 11% in February compared to the 2023 average, according to Bank of America payments data. By contrast, higher-income customers have only seen a 9% average increase (Exhibit 2).

It's likely that lower-income consumers are getting hit harder as apartment rental increases spread to less expensive areas (see Methodology and our recent analysis on rents by area). At the same time, those with higher incomes may be benefitting from a relatively smaller increase because homeownership tends to skew toward higher-income individuals, and monthly mortgage (e.g., principal and interest) payments typically do not change over time. Those customers may have also locked in lower payments during the historic decline in mortgages rates seen during the pandemic.

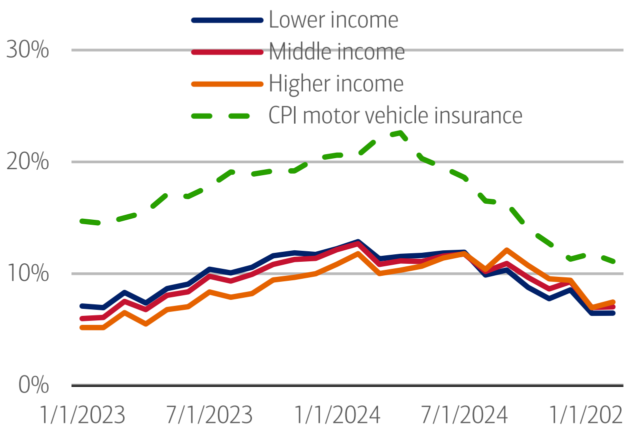
Yet those who earn more haven't entirely been protected from bigger bills. In fact, they have been pinched by the 'hidden' costs of homeownership including rising insurance or property tax payments often added into monthly mortgage payments (read more about this in our previous analysis on the hidden cost of housing).

Rising utility and vehicle costs are also a pressure point

There is other evidence that consumers are continuing to see higher insurance costs as well. Insurance payments of all types ticked up for all income levels last month. Consumers' direct payments to insurance providers were up over 6% year-over-year (YoY), with payments for middle- or higher-income customers growing slightly faster, according to Bank of America payments data. By contrast, motor vehicle insurance premiums were up significantly more at 11% YoY, according to Consumer Price Index (CPI) inflation data from the BLS, although both price growth and payment growth has nearly halved in the past year (Exhibit 3).

Exhibit 3: Insurance payments rose over 6% YoY in February across all income cohorts, while motor vehicle insurance prices were up 11% YoY

Insurance payment amounts per customer by income, based on Bank of America payments data (3-month moving average, YoY%) and motor vehicle insurance inflation rates, based on BLS data (monthly, YoY%)



Source: Bank of America internal data and Bureau of Labor Statistics

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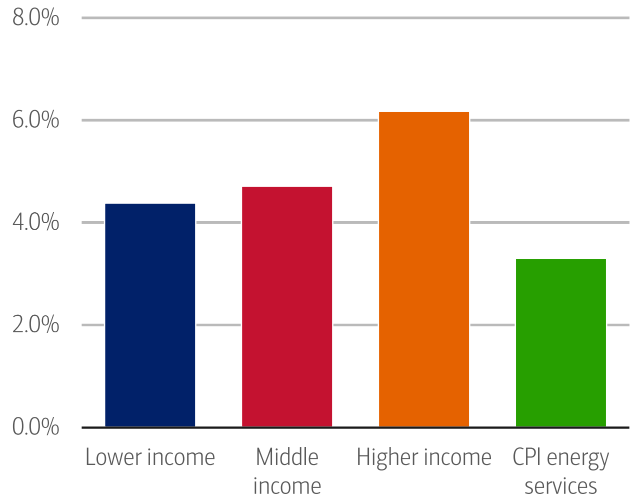
Exhibit 4: Utility payments rose faster than energy prices in February

Average utility payments per customer by income, based on Bank of America payments data (3-month moving average, YoY%) and energy services inflation rates, based on BLS data (monthly, YoY%)



Source: Bank of America internal data and Bureau of Labor Statistics

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And it's not just insurance. Bank of America internal data suggests that utility payments increased faster YoY than BLS inflation rates in February across all income cohorts (Exhibit 4). Consumers likely cranked the thermostat and used more energy to heat their homes as winter storms swept the nation (read more on utilities in this piece).

Furthermore, nearly a fifth of households have a monthly vehicle payment of $1,000 or more (see our piece on rising auto payments for more), adding additional financial pressure to their wallets. And while vehicle loan repayment growth has slowed, it remained over 5% YoY on average in January.

Consumers save on gas but trade down for groceries

While these cost increases have certainly pressured consumers, it's not all bad news. Drivers are feeling less pain at the pump. Gasoline prices have been falling YoY for the past three months, according to data from the Energy Information Administration (EIA), and gas spending has followed suit. According to Bank of America aggregated credit and debit card data, spending on fuel declined 6.6% YoY in February – about three times the rate of inflation (Exhibit 5). (Note: Some of the drop may be due to an extra day of spending in February 2024 due to leap year).

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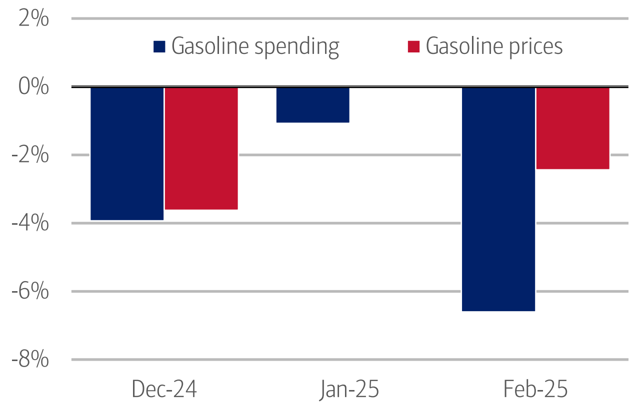
When it comes to groceries, however, shoppers have had to get creative to save money. Even though grocery prices have been increasing YoY, consumers appear to have been trying to offset some of that by trading down to value or discount grocers. Overall, per household spending at value grocers was up 1.2% YoY, while spending at premium tier grocers was down 1.4% YoY (read more in our [March Consumer Checkpoint]).

While consumers across the income spectrum have increased spending at value grocers relative to premium grocers, this has slowed for middle- and higher-income households in the past year. Lower-income households, however, continued their pivot to value-tier grocers. In fact, they spent more than 3.75 times as much at value grocers than at premium grocers in February 2025, up from 3.6 times more in February last year and 3.2 times more in February 2022 (Exhibit 6).

Exhibit 5: Gas spending and gas prices have decreased YoY in the past three months

Gas spending per household, based on Bank of America card data (monthly, YoY%) and gas prices, based on EIA data (monthly, YoY%)



Source: Bank of America and Energy Information Administration data. Note: Gasoline prices from EIA are all grades, all formulations.

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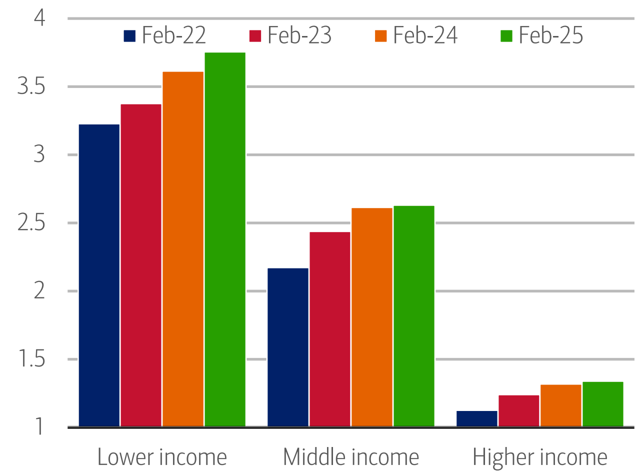
Exhibit 6: Lower-income households spend 3.75 times more at value grocers than at premium ones

Ratio of spending at value grocers to premium grocers per households by income tercile (3-month moving average, ratio)



Source: Bank of America internal data

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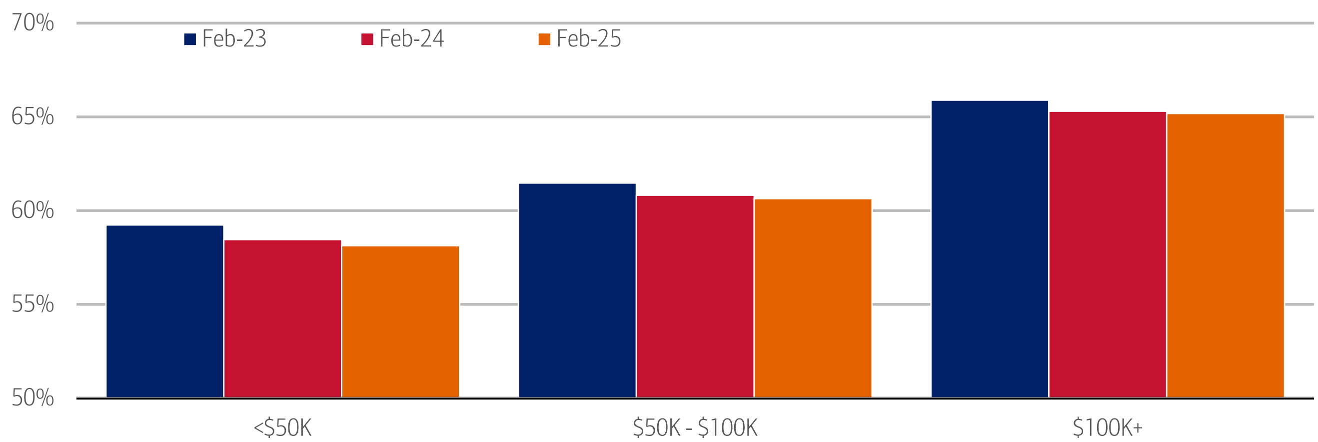
Discretionary spending stabilizes – for now

Consumers have cut back, but only slightly

It's possible that some of these cost savings have allowed consumers to maintain similar levels of spending over the past year. According to Bank of America payments data, the share of outflows that go to more discretionary goods and services (e.g., electronics, travel, restaurants – see Methodology) have declined compared to two years ago, but have been comparatively stable in the past year (Exhibit 7).

Exhibit 7: Share of spending on discretionary categories has fallen in February compared to two years ago, but was stable compared to last year across all income cohorts

The share of aggregate discretionary spending by customer income (3-month moving average, %)



Source: Bank of America internal data. Note: Shares differ from BLS data as these are aggregate outflows for a 3-month period as opposed to an annual per household figure.

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Additionally, customers with lower incomes spent a higher share of their paychecks on necessities and have seen a larger decline in discretionary spending over the past two years than other income cohorts. However, the rate of decline in their discretionary spend share has more than halved in the past year, falling by 0.3 percentage points in February compared to the 0.8 percentage point decline the year before.

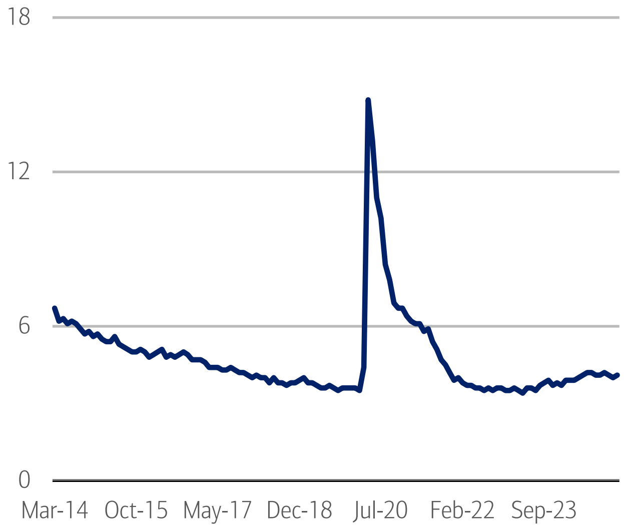
The labor market is supporting spending for now, but cracks have emerged in sentiment and expectations

Perhaps, another part of the reason for the stability in spending is the strength of the labor market. As mentioned in our March Consumer Checkpoint, households across all income levels have seen post-tax wages and salaries rise YoY, and while deposits are declining, they're not declining as fast as they were last year, according to Bank of America internal data. So, it's possible that consumers tapped into their savings to cover some non-discretionary costs but have curtailed that a bit over the past year.

Dialing in a bit further however, it's important to note that lower-income households have seen slower wage growth over the past two years. And while the overall unemployment rate is comparatively low – 4.1% in February – it has increased over the past two years (Exhibit 8). Furthermore, 66% of those surveyed by the University of Michigan's Survey of Consumers in March said they expect unemployment to get worse in the next 12 months, the highest percentage share in the past 10 years by far (Exhibit 9). In fact, it's 14% higher than it was in the first two months of the COVID-19 pandemic.

So, in our view, while the labor market remains solid, it's possible that consumers' negative expectations may weigh on their spending decisions, especially when it comes to lower-income households and their more discretionary choices.

Exhibit 8: Unemployment rates have increased in the past two years, but remained at comparatively low levels
Unemployment rate (monthly, %)



Source: Haver Analytics and Bureau of Labor Statistics

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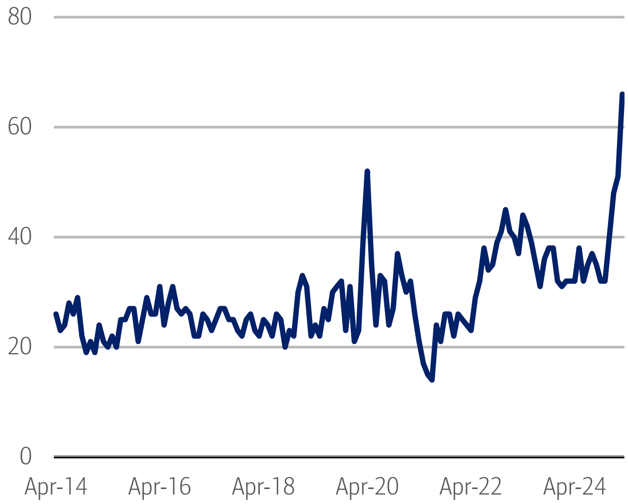
Exhibit 9: The share of survey respondents who expect more unemployment in the next year rose sharply in March
Share of survey respondents who expect more unemployment in the next 12 months (monthly, %)



Source: University of Michigan survey of consumers

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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 (if discussed) 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.

We consider a measure of services necessity spending that includes but is not limited to childcare, rent, insurance, insurance, public transportation, and tax payments. BLS shelter expenditures do not include mortgage principal payments, as those are considered repayments of a financial product and not an expenditure, per se. As such, it's possible that some consumers have a higher share of their annual expenditures in shelter. Our measure of housing costs is a weighted average. In it, we take the total amount spent on mortgages and rent and divide by the sum of the amount of rent and mortgage payments.

Discretionary services includes, but is not limited to, charitable donations, leisure travel, entertainment, and professional/consumer services. Any analysis of discretionary spending share excludes, but is not limited to, external transfers, cash spending, investments, and credit card debt. Holiday spending is defined as items in which spending in the November-December period is usually at least 20% of total annual spending on the category.

For analysis looking at higher value transactions (including durables), we consider a value per transaction threshold estimated with reference to the top 30% of transactions by value in 2024. The share of higher value transactions is then the number of transactions above this threshold as a percentage of total transactions over time.

Lower, middle and higher rent cuts in Bank of America payments data are based on median rents in each zip code. These calculations are bucketed according to terciles, with a third of rent payments placed in each tercile periodically. The lowest tercile represents 'lowest rents', the middle tercile represents 'middle rents' and the highest tercile 'higher rents'. The zip codes are reallocated over time, reflecting any number of factors that impact rent, including rent inflation, net domestic migration and shifting supply/demand. The median rents in each zip code are periodically re-assessed.

Lower, middle and higher household income cuts in Bank of America credit and debit card spending per household, and consumer deposit account data are based on quantitative estimates of each households' income. These quantitative estimates are bucketed according to terciles, with a third of households placed in each tercile periodically. The lowest tercile represents 'lower income', the middle tercile represents 'middle income' and the highest tercile 'higher income'. The income thresholds between these terciles will move over time, reflecting any number of factors that impact income, including general wage inflation, changes in social security payments and individual households' income. The income and tercile in which a household is categorised are periodically re-assessed.

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.

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

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