Consumer Checkpoint

Facing hurdles or the high jump?

08 August 2024

Key takeaways

- Bank of America aggregated credit and debit card spending per household fell 0.4% year-over-year (YoY) in July, compared to a 0.5% YoY decline in June. Within the total, services spending was stronger than goods. International travel remains a highlight, with consumers flocking to the Paris Olympics and Taylor Swift concerts.
- The labor market is showing more signs of cooling. But, for now, Bank of America internal data on after-tax wages and salaries growth remains supportive of consumer spending.
- We think households have managed to eke out some volume growth in their spending despite the weaker growth in nominal spending per household. To do this, consumers are becoming more price sensitive, and we see stronger spending in value groceries and clothing than in these categories overall.
- One reason for increased price sensitivity may be the diminishing savings buffers consumers have, especially after allowing for inflation. But while deposits have fallen back, in our view, they remain modestly supportive of the consumer.

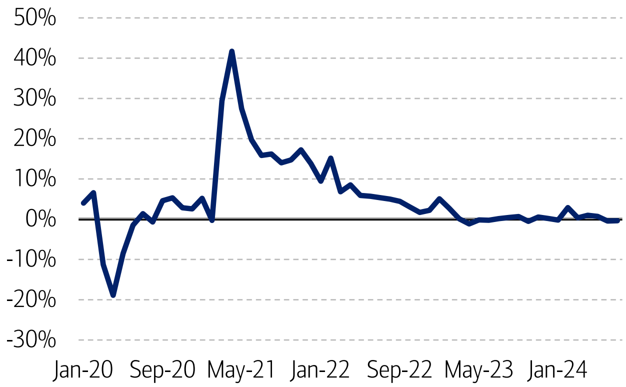
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective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

Spending in July

Bank of America aggregated credit and debit card spending per household fell 0.4% year-over-year (YoY) in July, compared to a drop of 0.5% YoY in June (Exhibit 1). On a monthly, seasonally adjusted (SA) basis, July's total card spending per household rose 0.3% month-over-month (MoM), following a drop of 0.1% MoM in June.

Exhibit 1: Bank of America credit and debit card spending per household decreased by 0.4% YoY in July

Total credit and debit card spending per household, based on Bank of America card data (monthly, %YoY, non-seasonally adjusted (NSA))



Source: Bank of America internal data

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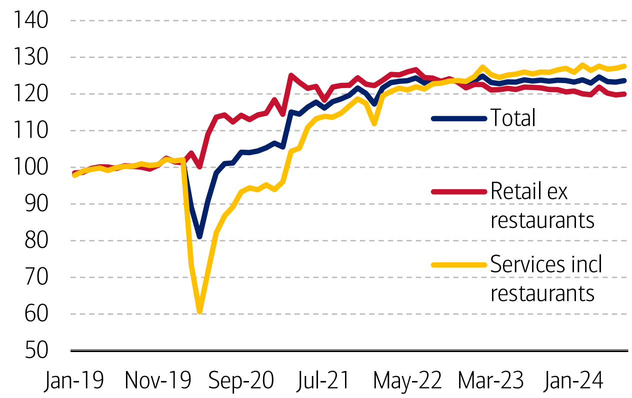
Exhibit 2: Services spending continues to have stronger momentum than retail spending

Total, retail, and services credit and debit card spending per household, based on Bank of America card data (monthly, index 2019 = 100, seasonally adjusted (SA))



Source: Bank of America internal data

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July was a strong month for services, including restaurants spending, increasing by 0.5% MoM SA, while retail spending ex restaurants rose 0.2%. Levels of spending remain up around 20% or more as of July compared to the 2019 average (Exhibit 2).

The summer travel season appears to be providing momentum to consumer spending and internationally, some of this has been 'event' driven. Bank of America internal data shows a 27% rise in spending in Paris and other Olympic cities over the period July 25th to August 4th compared to the same days in 2023. This figure compares to around a 23% increase in spending in London at the time of the 2012 Olympics. Taylor Swift concerts in Europe also continue to draw US consumers too, and we saw a 35% YoY increase in spending in the cities hosting the Eras tour compared to spending in these cities over the same dates in last year.

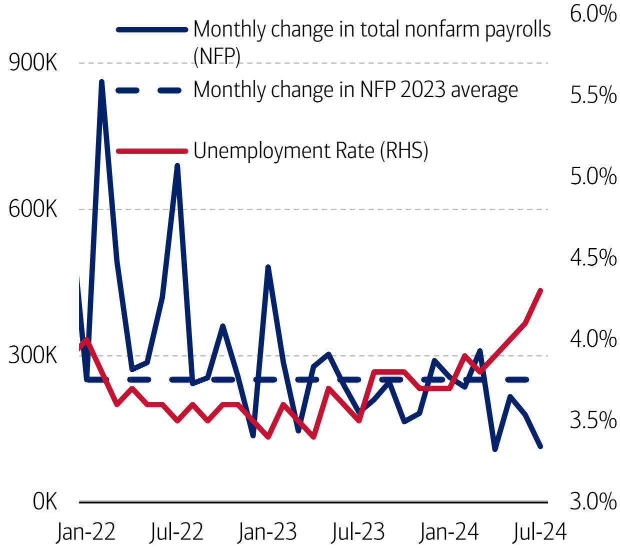
In addition, a number of one-off factors influenced spending in July. At the start of the month, Hurricane Beryl made landfall in Texas resulting in in some downward impact on spending there. Toward the end of the month, IT system crashes globally may have frustrated some spending. On the upside, online promotions likely boosted retail spending in the middle of the month. Overall, none of these factors seemed to be a significant driver of total card spending in the aggregate.

Labor markets – growing but slowing

Hurricane Beryl also appears to be one of the reasons, according to BofA Global Research, for a weak July jobs report. The latest data from the Bureau of Labor Statistics (BLS) shows that the monthly change in total nonfarm payrolls increased by only 114K in July 2024, less than half the 2023 average (Exhibit 3). The unemployment rate also rose to 4.3% from 4.1% in June.

Exhibit 3: The US added 114K jobs in July 2024 as the unemployment rate increased to 4.3%

MoM changes in total nonfarm payrolls (monthly, actual) compared to unemployment rate (right hand side (RHS), monthly, %)



Source: Bureau of Labor Statistics

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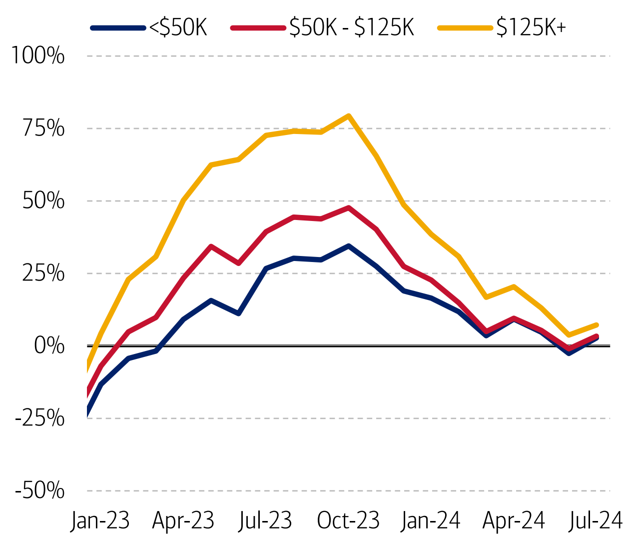
Exhibit 4: According to Bank of America data the growth in the number of households receiving unemployment income increased across income cohorts in July

Change in the number of households receiving unemployment benefits through direct deposit (monthly, %YoY)



Source: Bank of America internal data

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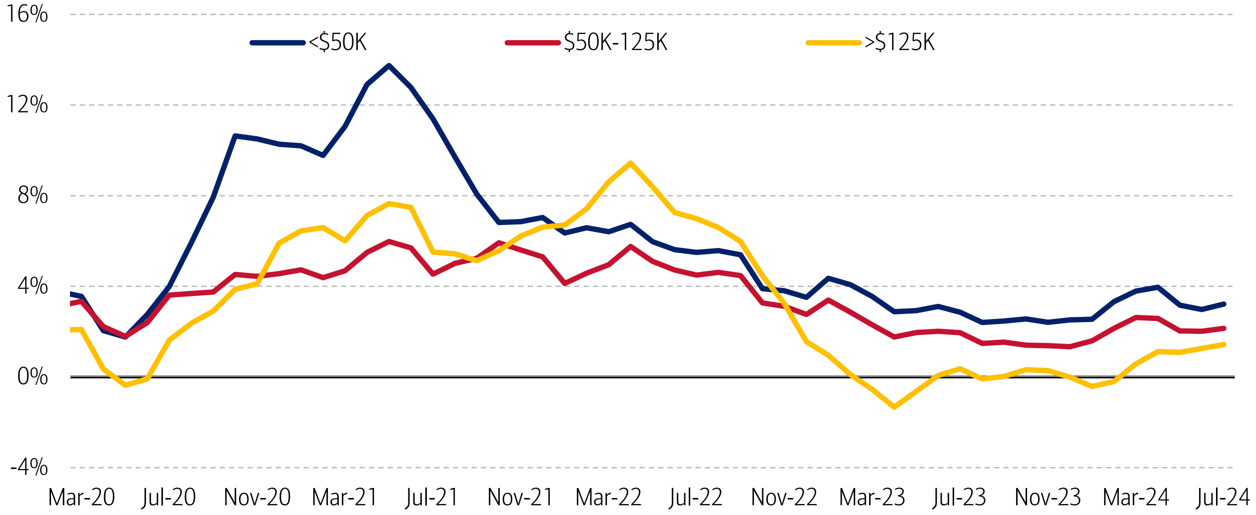
However, there are no obvious signs of a surge in joblessness in Bank of America internal deposit data on households receiving unemployment income, though there was a small rise in the YoY growth rate of households receiving unemployment income in July 2024 across income cohorts (Exhibit 4). Overall, while the hurricane may have exaggerated the softening in the labor market, it appears that some slowdown is becoming embedded.

We've noted many times that the labor market remains a key source of consumer spending momentum. Our data on after-tax wages and salaries growth (Exhibit 5) continues to show robust wage growth with wages for lower- and middle-income households growing faster than higher-income households. It appears that higher-income households wage growth is improving, having been close to zero for much of 2023.

In our view, wage growth should continue to underpin the consumer for some time. But the impact of any sustained or accelerated weakening in the labor market could, in time, be reflected in wages, with implications for spending.

Exhibit 5: Wages for lower- and middle-income households are growing faster YoY compared to higher-income households, but wage growth for higher-income households appears to be improving

After-tax wage and salary growth by income group, based on Bank of America aggregated consumer deposit data (3-month moving average, %YoY, seasonally adjusted (SA))



Source: Bank of America internal data

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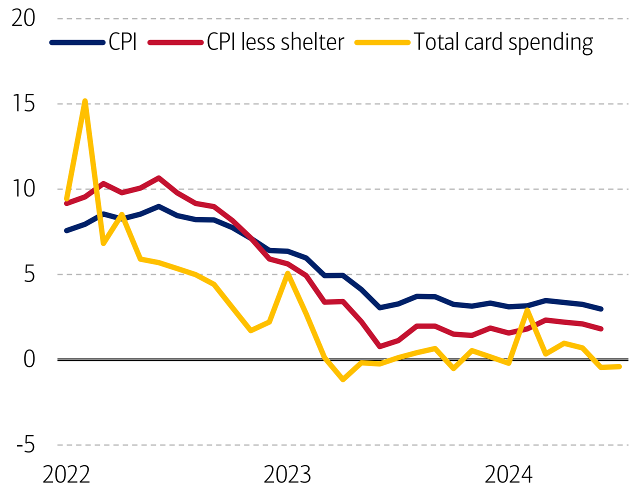
Consumers squeezing volume from declining spending growth

A slowing labor market is, in some respects, part of the ‘normalization’ that the Federal Reserve has been looking for to bring down underlying inflation pressures. The overall US inflation rate has already declined from a peak of 9% in June 2022 to 3% as of June 2024 (Exhibit 6).

The slowdown in total card spending growth per household has largely tracked the decline in inflation, with total card spending growth remaining below that of CPI inflation since its peak. Does this imply that the volume of card spending – the amount of ‘stuff’ people are actually buying – is not growing?

Exhibit 6: Card spending growth has followed the softening trend in inflation

BLS CPI inflation and Bank of America internal credit and debit card spending per household (monthly, % YoY)



Source: BLS, Bank of America internal data

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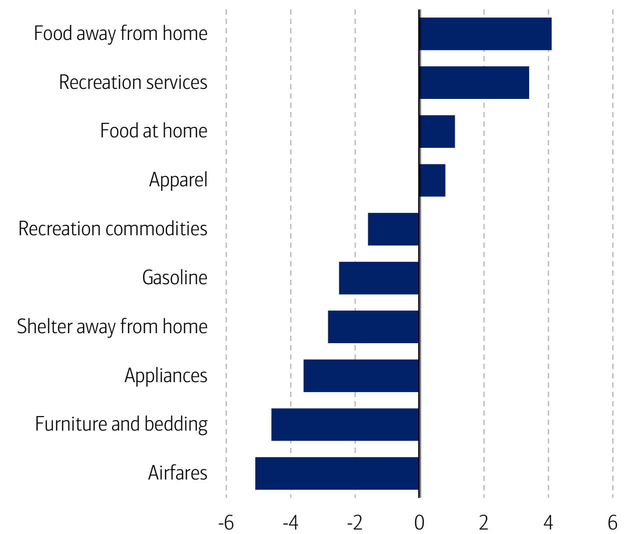
Exhibit 7: Prices are falling in many card-centric spending categories

BLS CPI inflation by category (June 2024, %YoY)



Source: BLS

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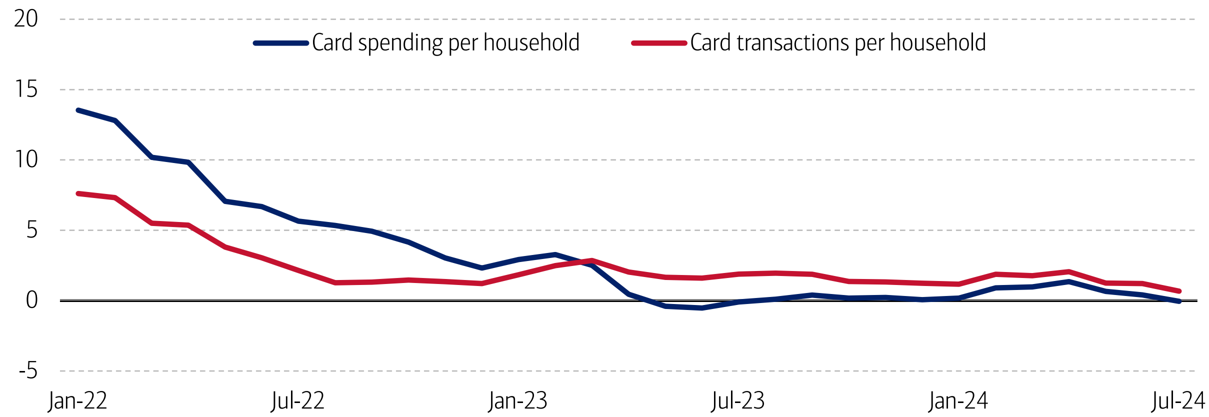
We would argue that there is still likely some decent volume growth in card spending. Many of the services prices included in the CPI, including those for 'shelter' (which makes up over a third of the total CPI calculation), are not typically paid for via credit or debit cards. Other examples include childcare, insurance and utility payments. These more standard service payments will often occur through bank transfers.

Exhibit 7 shows some inflation rates as of June 2024 for items more likely to be purchased on cards. It's clear that the prices for many are falling, implying that even a fairly flat rate of growth in nominal card spending can translate into positive growth in the volume of spending. Two important travel-related examples in this camp are airfares and shelter away from home, which includes hotel/motel prices.

Another way to look at this is via the actual number of transactions per household on credit and debit cards, as we might think a rising number of transactions implies a rising volume of goods and services being bought. Exhibit 8 shows that for total card spending, the overall number of transactions per household was showing fairly stable growth at over 1% YoY over 2023 and through the first quarter of 2024. There has, however, been some signs of a slowdown over the last few months.

Exhibit 8: Transaction growth has been fairly steady, though has shown some signs of slowing over the last few months
Number of card transactions per household and total card spending per household (3-month moving average, % YoY, NSA)



Source: Bank of America internal data

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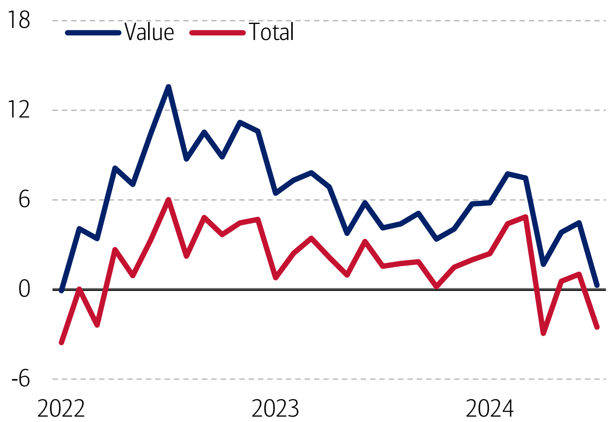
A concern would be if households are buying fewer things per transaction, essentially reducing their 'basket size' and implying less overall volume expansion for a given number of transactions. While this is possible, Exhibit 9 and Exhibit 10 show that consumers are also increasingly looking to stretch their dollars. For example, in groceries and clothing, spending growth in stores focusing on 'value' products is stronger than overall spending in these categories. As a result, we think it likely that consumers have thus far been successful at wringing volume growth from their spending by becoming more price sensitive, even as overall inflation drops back.

Exhibit 9: Consumers appear to be looking for value in groceries…
Card spending per household on overall and value focused grocery stores (monthly, % YoY)



Source: Bank of America internal data

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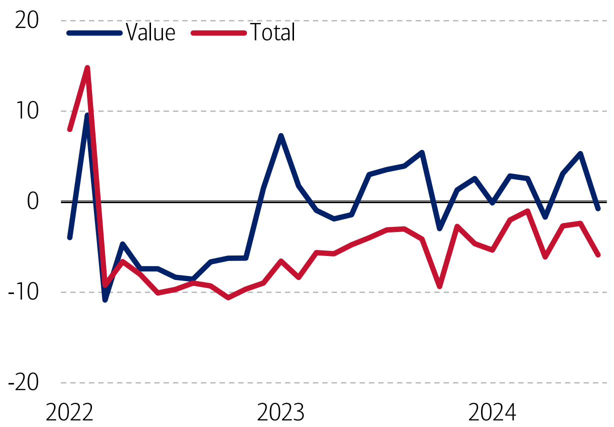
Exhibit 10: …and in clothing
Card spending per household on overall and value focused clothing stores (monthly, % YoY)



Source: Bank of America internal data

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Why are consumers trading down? It's all about balance

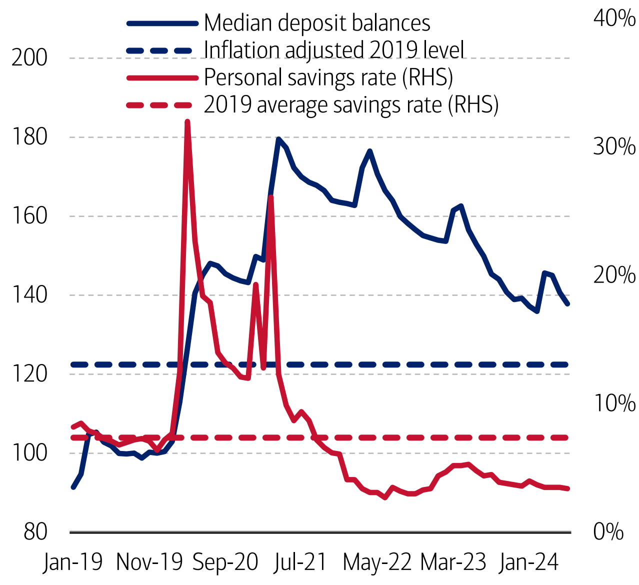
One reason that consumers have become more price conscious may be the gradual decline in their median deposit balances. Bank of America internal deposit data suggests that while median deposit balances remain almost 40% above pre-pandemic levels and over 15 percentage points above inflation-adjusted 2019 levels, they have declined to near their lowest post-pandemic level (Exhibit 11).

These elevated deposit balances potentially allowed consumers to spend more of their income in recent years, supporting spending. US Bureau of Economic Analysis data shows that the personal savings rate has been less than half of the pre-pandemic rate in recent years. Now, with deposit balances gradually declining, it could be that households are beginning to look for value in their spending to support their overall finances.

Another reason for increased price sensitivity and value-hunting from consumers could be the diminished borrowing margins they have on their credit cards (Exhibit 12). For now, however, credit card utilization rates remain below 2019 levels.

Exhibit 11: Deposit levels are over 15 percentage points higher than inflation-adjusted pre-pandemic levels, but are close to their lowest post-pandemic levels and the personal savings rate is less than half of the 2019 average

Monthly median household savings and checking balances for a fixed group of households (monthly, 2019 average = 100) compared to the US personal savings rate (monthly, %, RHS)



Source: Bank of America internal data and US Bureau of Economic Analysis. Note: Monthly deposits data includes those households that had a checking and/or savings account for all months from Jan. 2019 through June 2024.

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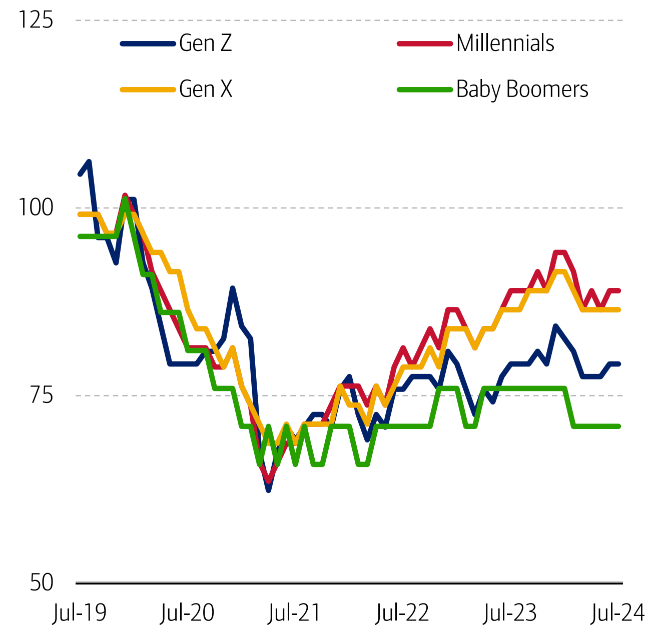
Exhibit 12: Median utilization rates have increased since 2021 but remain lower than their 2019 levels

Median credit card utilization rates for customers with a revolving balance by age (monthly, index 2019 average = 100)



Source: Bank of America internal data

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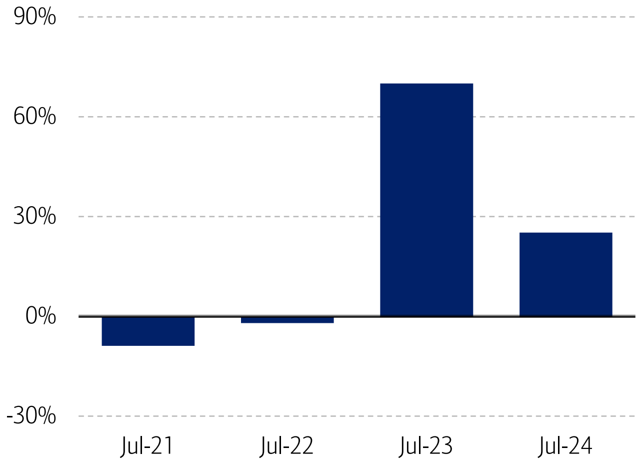
It's important to note that not all the drawdown in savings and checking balances has been spent, either. Some households have been moving their money into less-liquid investment accounts. Bank of America internal data shows the July 2024 median balances per account for certificates of deposits (CDs) are up 25% YoY, on top of the 70% YoY growth that occurred this time last year (Exhibit 13). Some households may also have been taking money out of liquid deposits to invest directly in stocks, bonds and other financial assets.

Exhibit 13: July 2024 median balances for CDs are up 25% YoY on top of the 70% YoY growth that occurred this time last year

YoY% growth of median CD balance per customer (monthly, %)



Source: Bank of America internal data

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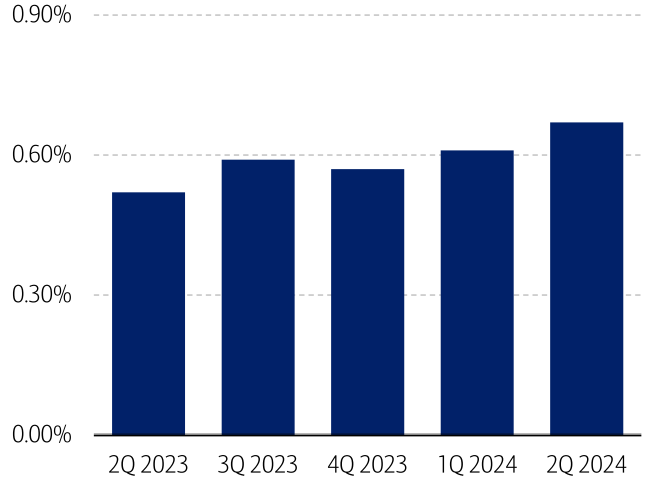
Exhibit 14: There has been an increase in 401(K) participants taking a hardship distribution, both quarter-over-quarter and YoY

% of total 401(k) participants taking a hardship distribution (quarterly, %)



Source: Bank of America internal data

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Another area of household savings are retirement accounts. According to Bank of America's 2024 Q2 Participant Pulse, the average 401(k) contribution rate of 6.5% remained consistent with year-end 2023, and more participants – almost 90% – kept their contribution rate consistent than in 1Q (81.2%). However, there was an increase in 401(k) plan participants that took a hardship distribution in 2Q 2024 to 0.67% from 0.61% in 1Q 2024 and 0.52% in 2Q 2023 (Exhibit 14). While the overall percentage share is low, it could be an indication that there are some pressures building for some pockets of consumers.

Monthly data update

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 9.2% in July. Bank of America total credit and debit card spend, which comprises around 20% of total payments, increased 3.4% YoY in July.

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.

Discretionary spending consists of total payments across credit card, debit card, ACH, wires, bill pay, business/peer-to-peer and checks. minus necessities (food at home, childcare, housing, autos, etc.) and other outflows (transfers, debt payments, cash, etc.).

The data on inflows and outflows into direct deposit accounts data is based on BAC internal data, it is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US at a highly aggregated level. Inflows and outflows are calculated as six-month averages.

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 2Q 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 June 30, 2024.

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

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Disclosures