### Consumer Morsel

# Middle-income, Millennial, and thrifty

**21 November 2024**

## Key takeaways

- Bank of America aggregated credit and debit card spending data shows that consumers continue to show forward momentum, but some are trading down across restaurants, grocery stores, travel, and clothing stores in order to continue to spend.
- Looking across incomes, consumers in the middle (earning between $50K and $100K) have traded down the most on average. This is likely as their wages have lagged the rate of inflation by six percentage points relative to 2019, according to wage data from Bank of America deposit accounts and inflation data from the Bureau of Labor Statistics.
- Among age groups, Millennials have seen the largest degree of trading down to less expensive "value" tiers since April 2022, likely as they attempt to offset the rising costs of housing, cars, and childcare, according to our data.

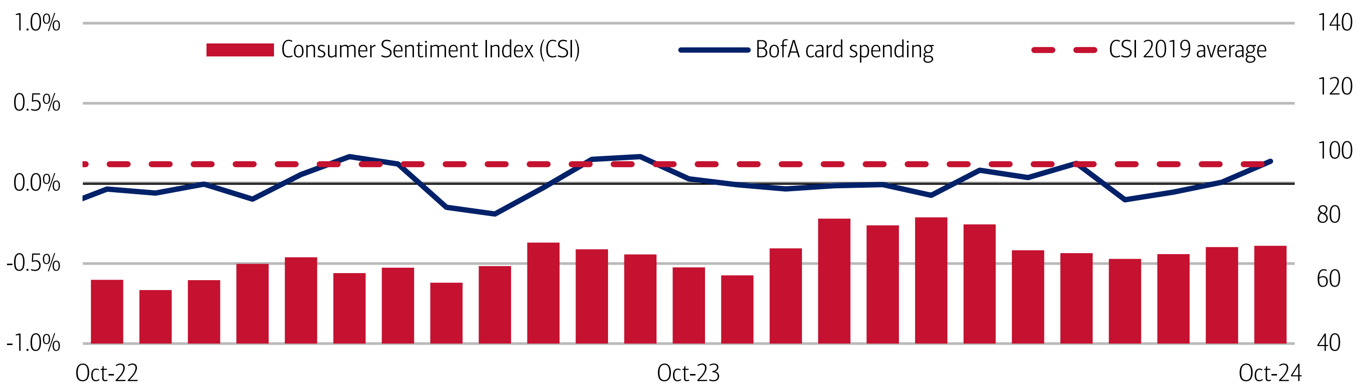
## Consumers feel gloomy, yet continue to spend

There's a paradox when it comes to consumer spending and sentiment. While consumers are spending more, they do not feel very confident.

Consumer spending remained positive month-over-month (MoM) in October, according to Bank of America aggregated credit and debit card data, suggesting that consumers continue to show forward momentum (Exhibit 1) (see: November Consumer Checkpoint). And last month, the University of Michigan Consumer Sentiment Index (CSI) rose to the highest level since April 2024. But consider this counterpoint: it's still down more than 25% compared to the 2019 average.

**Exhibit 1: Bank of America total card spending per household continues to show positive forward momentum, up 0.1% MoM. Meanwhile, consumer sentiment remains 25% below 2019 average levels, although it has been rising recently**

Bank of America total credit and debit card spending per household (3-month moving average, month-over-month (MoM), seasonally adjusted) and University of Michigan Consumer Sentiment Index (monthly, Q1 1966 = 100)




**Source:** Bank of America internal data and University of Michigan Consumer Sentiment Index (CSI). Note: November data is not shown for the CSI as it is preliminary.

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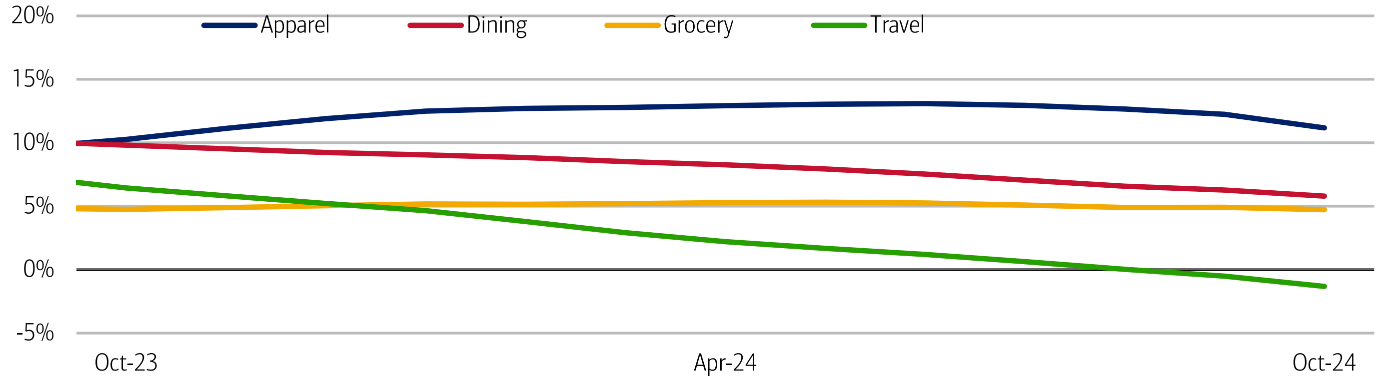
Given the difference between how people behave and how they feel, is there a change in how they spend? We think so. Earlier this year, we posited that some consumers had "traded off" in spending. They sought to save by shopping for "value" apparel so they could "buy" experiences, such as travel or dining (see: Trading down is the new dressing up).

Looking at the most recent data, we see that those trends are continuing. The number of customers trading down to the value apparel tier (see Methodology) was up nearly 11% year-over-year (YoY) in October 2024, according to Bank of America credit and debit card data (Exhibit 2).

By contrast, the number of customers trading down to value dining and grocery options (see: Quantity is the new quality and Value shop 'til you drop) increased at a slower rate in October 2024 than value apparel, consistent with our previous findings. Yet, when it comes to travel spending, it is a different picture. Customers who moved to value travel declined 1% YoY, and in our view, this indicates that many would-be travelers are foregoing such spending altogether.

**Exhibit 2: The number of customers trading down to value apparel merchants increased 11% YoY in October 2024, while the number of customers trading down for dining and grocery saw around 5% YoY increases, and travel declined 1% YoY**

The number of customers who spent the majority of their apparel, dining, grocery or travel budgets at the value (discount) tier by category (3-month moving average, YoY%)




**Source:** Bank of America internal data

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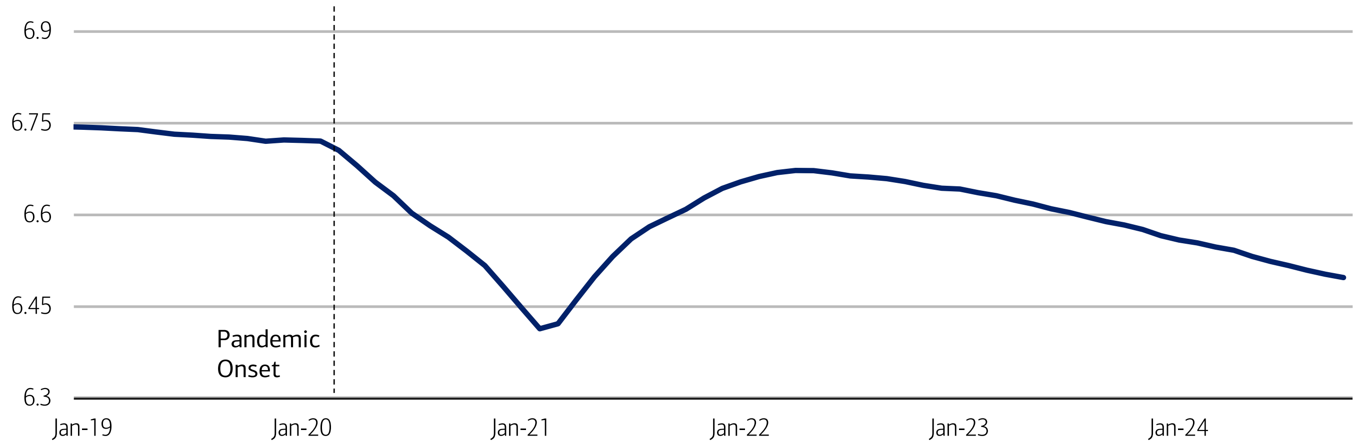
However, the bigger question is whether consumers are trading down across the board or just trading off. For example, are they trading down in just apparel or are they trading down on average across multiple sectors of the economy?

To find out, we used Bank of America card data to create a proprietary spending tier composite (STC). To create the composite, we first ranked spending by tiers (see Methodology). For example, if a customer spends most of their money at premium stores, that equals a score of "3," while standard is a "2" and value equals "1."

Then, we did this across four major spending categories: groceries, apparel, restaurants and/or travel. The highest total score that can be achieved is a "12" (if someone spends the majority of their money at premium stores across all four categories). Furthermore, the lowest is a "3" (if another person spends the majority of their money at value stores for groceries + "1", restaurants + "1", and apparel + "1" and has no travel spending + "0"). Finally, we take an average score across all customers to get the STC.

**Exhibit 3: The spending tier composite was declining in October 2024, suggesting that consumers are trading down to discount tiers overall. The index was around 6.75 throughout 2019 but dropped to nearly 6.42 in early 2020 before recovering and dropping to nearly 6.50 in October 2024**

Bank of America spending tier composite derived from credit and debit card spending (monthly, index)




**Source:** Bank of America internal data. Note: Spending tier composite is derived from card spending on apparel, dining, grocery, and travel.

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A higher STC indicates that more spending occurs at more expensive tiers on average, while lower scores indicate more shopping at less expensive discount or value stores. Furthermore, increases in the composite suggest consumers are trading up to more costly stores, while decreases imply they are trading down.

Based on our analysis, we see that "value" is gaining more appeal among consumers. In the past two years, our spending tier composite has moved slightly below 6.5, suggesting that more consumers are starting to utilize the value tier, on average (Exhibit 3). By contrast, the index was nearly 6.75 for several years before the onset of the Covid-19 pandemic in March 2020, suggesting that the average consumer did most of their spending at the standard tier and had some travel spending.

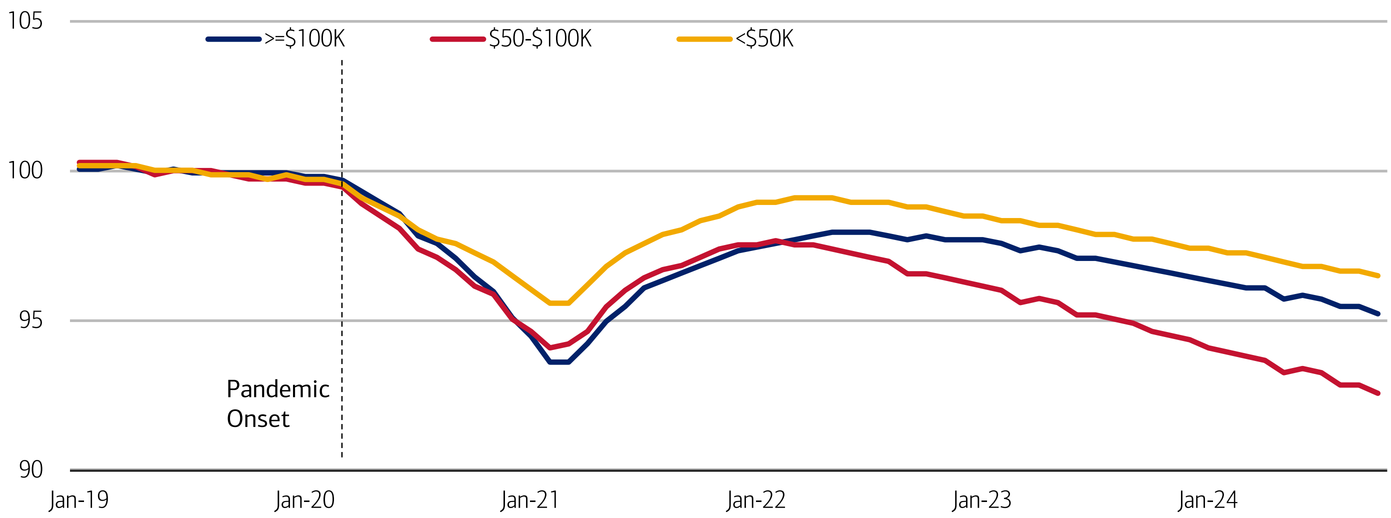
## Stuck in the middle

Looking across all income levels, we see that consumers of all incomes are moving toward value spending. However, Bank of America card data also suggests that people earning less than $50K have seen a comparatively smaller level of trade down, on average, through October 2024, relative to their 2019 levels (Exhibit 4). This may reflect that this group was already value shopping and may not have the ability to trade down any further.

The spending tier composite for customers with incomes over $100K also indicates a comparatively lower level of trade down on average through October. This is likely due, in part, to an economic truism: those with higher incomes likely have a bigger financial cushion as well as varied sources of income to absorb cost-of-living increases (see: Paycheck to paycheck).

**Exhibit 4: Customers earning between $50K - $100K have seen the largest decrease in the STC, suggesting they have traded down further than any other income cohort, relative to 2019**

Bank of America spending tier composite derived from credit and debit card spending by income (monthly, index 2019 = 100)




**Source:** Bank of America internal data. Note: Spending tier composite is derived from card spending on apparel, dining, grocery, and travel

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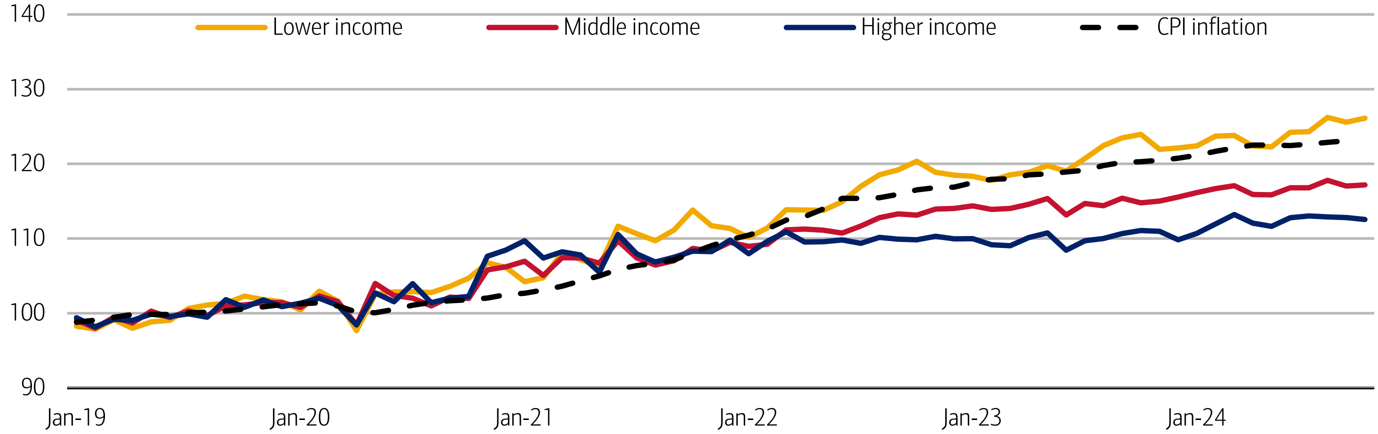
Perhaps most notable is that customers in the middle, those who earn between $50K- $100K, have traded down the furthest in the past two years, likely reflecting the fact that average wage growth for middle-income households has not kept up with the higher cost of living.

In fact, Bank of America customer deposit account data for after-tax wage growth, combined with Consumer Price Index (CPI) inflation data from the Bureau of Labor Statistics (BLS) shows that this cohort's average wage growth has lagged inflation for two years. In October, inflation growth was six percentage points higher than their wage growth, relative to 2019 (Exhibit 5).

And, given that middle-income households are less likely to have a financial buffer than those who earn more, they may feel continued pressure to trade down across the board for now.

**Exhibit 5: After-tax wage growth for middle-income households lagged the rate of inflation by six percentage points in October 2024, relative to 2019**

Bank of America customer deposit account data on after-tax wage growth by income tercile (monthly, index to 2019 = 100, seasonally adjusted) and BLS CPI inflation rate (monthly, index 2019 = 100)




**Source:** Bank of America internal data and Bureau of Labor Statistics. Note: lower, middle, and higher income is determined by terciles of the household income distribution.

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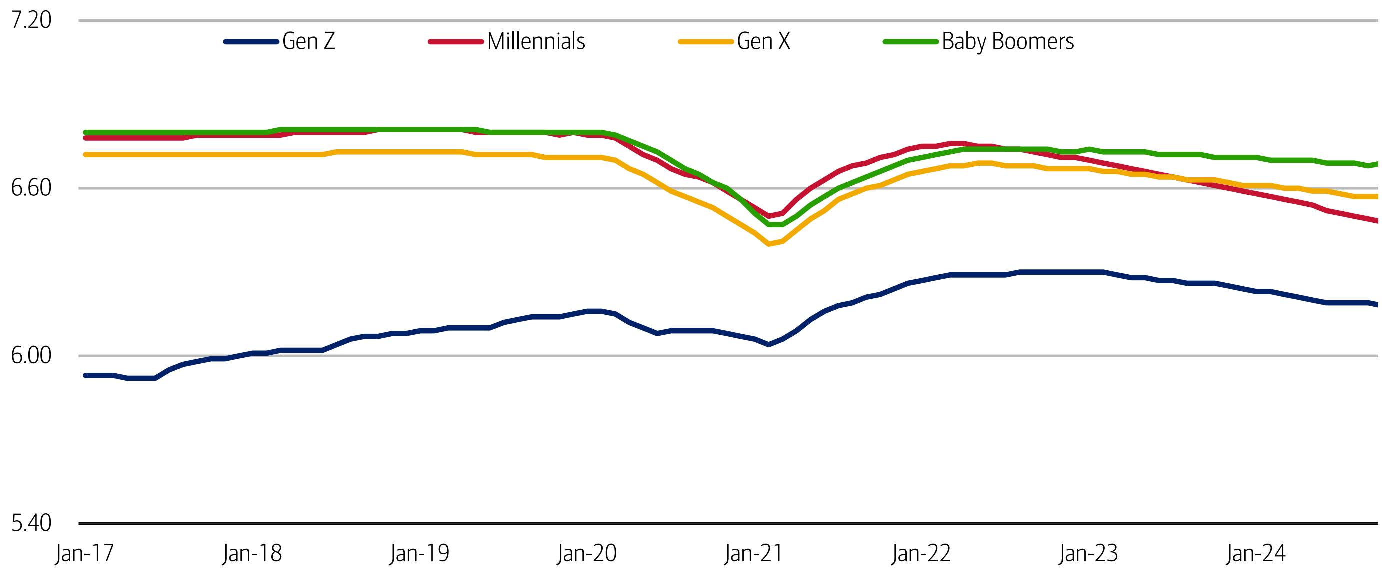
## Bougie to budget: A Millennial story

Using Bank of America card data and our new composite, we find that, across age generations, Millennials have seen the largest degree of trade down to less expensive value tiers across the board.

Gen Z – and some younger Millennials – are more likely to shop with value in mind, in part, because some are just starting their careers and have lower wages on average. But our index shows that something unique is happening with the Millennial cohort. Their index was the highest among all generations as recently as April 2022, but it dropped below Baby Boomers and Gen X in October 2023 and continued to decline over the past year (Exhibit 6).

**Exhibit 6: Millennials had a higher STC than any other generation in April 2022, but in October 2024 both Gen X and Baby Boomers had higher scores, on average, while Gen Z has the lowest average scores over the past five years**

Bank of America spending tier composite derived from credit and debit card spending on four spending categories by age generation (monthly, index)




**Source:** Bank of America internal data. Note: Spending tier composite is derived from card spending on apparel, dining, grocery, and travel

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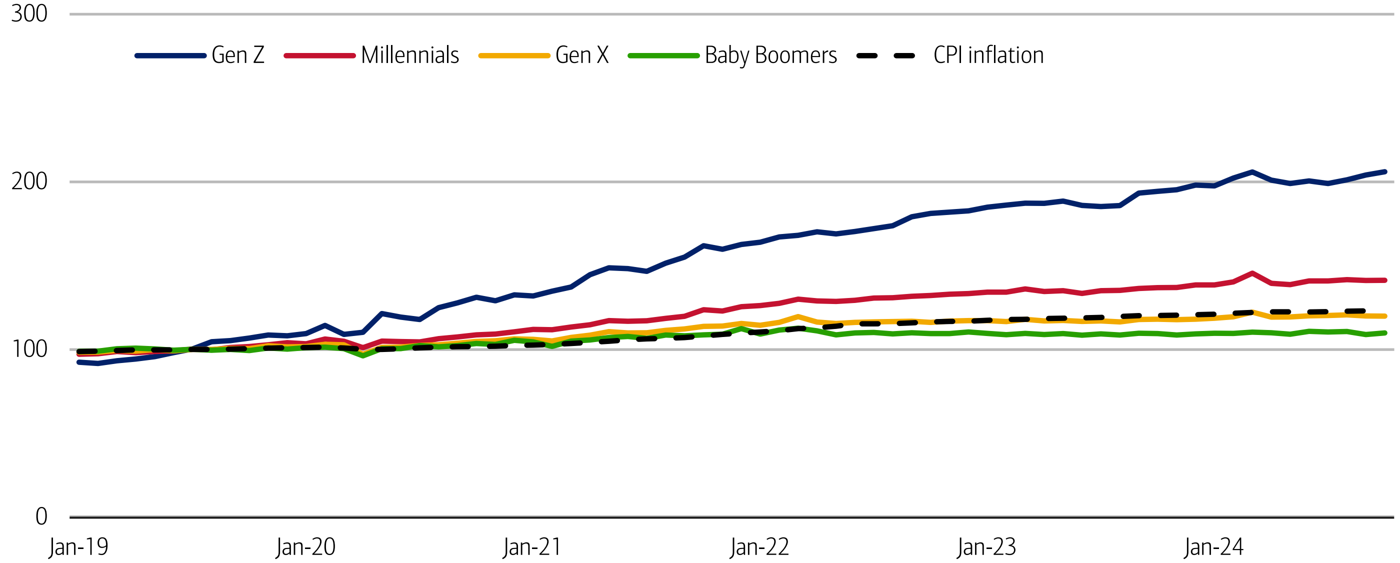
Yet that raises another question: why are younger people trading down so much more given their average wages are up? According to Bank of America and BLS data, October 2024 average wages for younger generations, relative to 2019, were much higher than the rate of inflation, and have outpaced inflation since Fall 2019 (Exhibit 7).

**Exhibit 7: After-tax average wage growth for Gen Z and Millennials have far outpaced the rate of inflation relative to 2019, while Gen X is on par**

Bank of America internal deposit account data on after-tax average wage growth by age (monthly, index to 2019 = 100, seasonally adjusted) and BLS CPI inflation rate (monthly, index 2019 = 100)




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

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In our view, it could be that some Gen Z and Millennials have been taking on more financial obligations at the same time that the cost of living rose the quickest it has in 40 years (see: When we were young). Some could also be burdened by increasing childcare expenses (see: Labor pains or labor gains?) given that they are also at the age most likely to have young children. Overall, as they attempt to offset the rising cost of housing, cars, and childcare – Gen Z and Millennials, may continue to look for value across the board.

## Methodology

Selected Bank of America (BAC) 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.

Three tiers (premium, standard and value) were based on after-tax median income derived from payroll direct deposit of individual customers who have shopped at such stores. The stores were then ranked by the median income of their shoppers, with the top third denoted as "premium," the middle third as "standard," and the bottom third as "value." In our view, such categorization is a fair view of how expensive the items are at those stores. Any stores included has had at least 100,000 individual Bank of America customers making at least one purchase during the past 12 months.

The sample of customers in this analysis includes a dynamic pool of customers that have a checking, a saving or a credit card account with BAC each month. Each customer's tier was determined by taking customer spending during the past 12 months, across the three tiers. The tier with the highest percent of spending will determine the customer's tier for each category. For example, if the customer spent the majority of their apparel dollars at premium tier apparel stores, the customer's apparel tier is designated as premium tier, even though they might still have apparel spending at the value/standard tier. This is repeated for dining (restaurants, bars, etc.), travel (hotel lines, car rental agencies, airlines, etc.), and grocery stores.

For the "spending tier composite", or STC, if a person spends most of their money at the premium tier, that equals a score of "3," while standard is a "2" and value equals "1." This is done across four major spending categories: groceries, apparel, restaurants and/or travel. The highest score that can be achieved is a "12" (if someone spends the majority of their money at premium stores across all four categories), while the lowest is a "3" (if another person spends the majority of their money at value stores for groceries, restaurants, and apparel and has no travel spending). Then, we take an average of everyone in our sample to get a spending tier composite.

Bank of America 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.

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. However, some of the exhibits are still based on historical income ranges.

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

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

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

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## Sources

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# Disclosures