BANK OF AMERICA INSTITUTE

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Podcast: Offering insights from a breadth of consumer data

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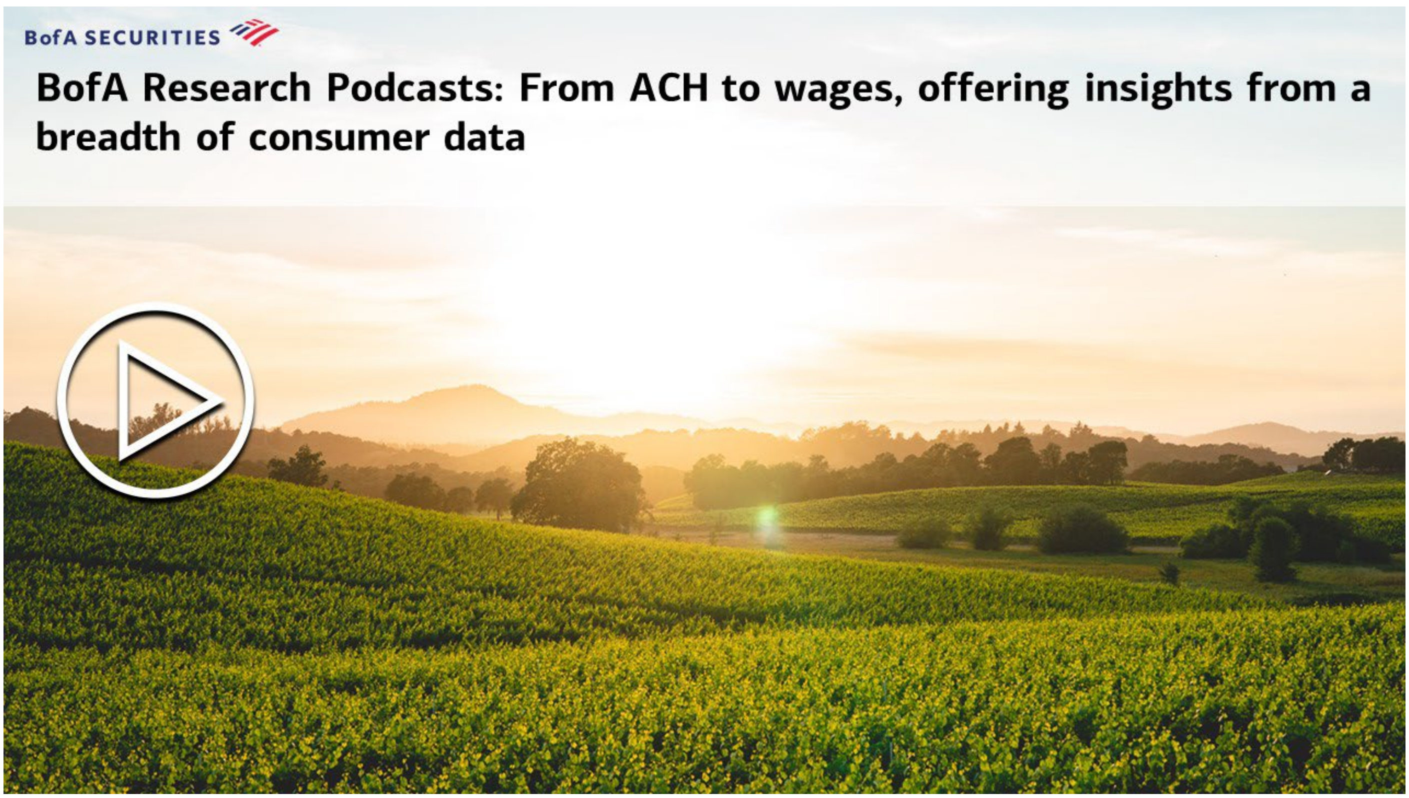
Key takeaways

- BofA Global Research Podcasts are an ongoing series of discussions covering growth industries and topical market themes.
- Bank of America Institute offers insights based on a treasure trove of data, allowing people to make better decisions.
- Consumer spending has slowed since the start of the year, though some of the slowdown is likely due to temporary factors.



Consumer resilient but gradually slowing

Bank of America Institute joins the BofA Global Research Podcast for a discussion on the many data sources we examine, sources that offer a multi-dimensional look at the consumer. Data suggests the US consumer has weakened somewhat since the start of the year, with household spending growth falling to the lowest level since February 2021. Some of the weakness is likely temporary and follows what was a very strong start to the year, and it's noteworthy that total payments, which goes beyond credit and debit card spending, are stronger than card spending. We also discuss regional differences in job growth, how spending in the Midwest has held up better than elsewhere and offer reasons why female labor participation continues to lag.

BofA Global Research Podcasts can now be found on public podcast platforms, including Spotify, Apple Podcasts, Google Podcasts, and Amazon Music. These podcasts are first releases to clients and then to the platforms.

Full Podcast Transcript

T.J. Thornton, Head of Product Marketing and Predictive Analytics: Hello and welcome to BofA Global Research Podcast, where we discuss what's rising from growth industries to rising risks and opportunities in global markets. I'm T.J. Thornton, Head of Product Marketing and Predictive Analytics at BofA Global Research, and we're recording this episode on Monday, April 17, 2023.

One of the reasons spending slowed, we think, in March is because the overall picture on wages and the labor market has softened. One of the things we can do is look at aggregated and anonymized data of after-tax wages and salaries, payrolls going into people's accounts, and what we see there has been a slowdown to 2% year-on-year growth in March, back from a peak of 8% in April 2022. More interestingly, when we pare that apart and look at who's experiencing that slowdown, we see it's actually in higher-income households in particular.

-David Tinsley

Today I'm joined by Liz Everett Krisberg, Head of the Bank of America Institute, and David Tinsley, Senior Economist at the Bank of America Institute. Note that the Institute is not Research and they don't make economic projections, but they do have access to a tremendous amount of data from within the bank, going well beyond credit card data, which is critical to understanding the US consumer, since credit and debit card spend is actually a small sliver of overall spend. Thanks for joining us today, Liz and David.

Liz Everett Krisberg, Head of the Bank of America Institute: Thanks for having us.

David Tinsley, Senior Economist at Bank of America Institute: Thank you.

T.J. Thornton: Liz, I'll start out with one for you. For those that don't know already, what is the Bank of America Institute?

Liz Everett Krisberg: Bank of America Institute is a think tank within the bank that was created to uncover and share unique insights around three pillars – the economy, ESG, and transformation. Our goal is that by sharing these insights, we can help people, businesses, companies as well as individuals, really make better decisions. And we do this by being data driven, by drawing on the treasure trove of data, T.J., that you just referenced, from across the bank, but also around the world. And then sharing those insights not only with our employees and the bank's clients, but also with the public, with communities, and with policymakers.

T.J. Thornton: Okay. And Liz, the Institute celebrated its first birthday just recently. I hope you celebrated by getting some cake on your face as tends to happen on first birthdays. But what are some of the main insights you've been able to uncover over the last year and what has surprised you?

Liz Everett Krisberg: We didn't have a smash cake for our first birthday, but we did turn one, which was very exciting, just last week. I mentioned before that we rely on and we really leverage the bank's proprietary data to answer questions and provide insights, and I think it's really important to underscore just how broad and how deep that data is. Bank of America has 67 million consumer and small business clients. We've got 56 million verified digital users, and last year alone we saw $4.2 trillion in payments go through the bank, as well as $1.4 trillion in consumer and wealth deposits and that's just on the consumer side. You'd really be hard pressed to find a group or an institute that has a more robust data set. And listen, surveys can be very important tools for researchers to use, and we certainly use surveys, but when you're trying to understand what's happening in the economy or how the consumer is responding to a change, it's really powerful to, instead of relying on a survey of 500 or a few thousand people telling you how they think that they've changed their behavior, to instead do what we do, which is to look at the data behind how people are actually changing their behavior, so it's really a game changer. To your question as what's surprised me over the last year, really, the way that the data has shown us the strength and the resilience of the US consumer. But as we've looked at the data, it's really shown that the consumer has been more resilient than the headlines might have suggested they would be and spending continues to grow, albeit at a slower pace. The labor market remains very robust and the consumer continues to have financial buffers.

T.J. Thornton: Okay. And David, Liz just mentioned the resiliency of the US consumer, but I know that the March data did show some weakness as far as the consumer went. Why do you think that is?

David Tinsley: Thanks T.J. Yeah, you are right. March was a fairly soft month, but there are a few nuances here. First up, the headlines were that Bank of America internal data on credit and debit card spending per household slowed to its weakest figure since February 2021. The growth rate was 0.1% year-on-year in March, and that was down from 2.7% in February. But what are these nuances? For one, we saw very strong spending figures in January and February. So when you look at those two months, you see the monthly seasonally adjusted figures are increasing by 0.7% and 1.1% in each of those months, so really you can view the pullback in March as really just a bit of a correction from early strength at the start of the year. And then I think the other nuance, and this goes to what gives the Institute such an edge, is when we look at broader total payment growth, so not just looking at the credit and debit card data, we saw total payments growth, so that's across ACH (Automated Clearing House) payments, wires payments, bill pay payments and other payment channels like peer-to-peer payments, they showed growth year-on-year of 9%. And when we dig into that payment growth, we see for example, ACH payments on services were up a solid 10% and that covers things like utilities, childcare and rent. I think the big story is when you pull back slightly from the weak month itself, the figures still are relatively solid.

T.J. Thornton: So David, two quick follow up questions from that, first off, you mentioned strength and total payments growth of around 9%. Did that also slow as did the card data? And then the second question is: flattish card spend actually seems particularly weak when you consider prices are still rising, so if you adjusted for prices, spend would actually be down, so how do you react to that sort of question?

David Tinsley: T.J. on your first point, payments growth has also slowed a little bit, but nothing like as much as the year-on-year slow down in credit and debit card spending. The portions of spending that are not covered by cards, which will tend to be somewhat more non-discretionary by nature, have been stronger and in a way that also then tallies into our discussion on inflation, so some of that strength in payments is driven by inflation and of course, absolutely, even though the CPI (Consumer Price Index) annual rate came down to 5% in March, households still are hard pressed given those inflationary headwinds. But what we've noticed in our data is that one strategy consumers are employing to make their dollars go a little further is around trading down, so we've taken a look at our Bank of America internal data to see whether consumers are trading down their grocery, spending more at lower value retailers. And we are tending to see that as well, even particularly higher-income consumers are shopping around more.

T.J. Thornton: David, are you seeing differences between demographic groups in terms of spending growth?

David Tinsley: That's a good question, so the answer is yes, we are. Let me give you a couple of examples from our insights. One of the reasons spending slowed, we think, in March is because the overall picture on wages and the labor market has softened. One of the things we can do is look at aggregated and anonymized data of after-tax wages and salaries payrolls going into people's accounts, and what we see there has been a slowdown to 2% year-on-year growth in March, back from a peak of 8% in April 2022. More interestingly, when we pare that apart and look at who's experiencing that slowdown, we see it's actually in higher-income households in particular. Higher-income households look to have seen a small decline in their after-tax wages and salaries relative to a year ago. Another reason we think that March was a soft month was lower tax refunds. And what we've seen in the cumulative IRS (Internal Revenue Service) data is the average tax refunds down around 10% or so, but the IRS don't give you any disaggregation across income cohorts. And what's really interesting is that it's the lower-income households who are seeing the largest falls in average tax refunds, their refunds are down about 8%. In actual fact, higher-income households are seeing slightly higher refunds than last year. Now and one final point to add, which is more on the age differences than the income differences, what we've seen is it's the older generations whose spending is still rising faster than the younger generations. One of the reasons for that is because the older generations, particularly retirees, got a cost of living increase for Social Security of 8.7% in January, which is the highest increase in Social Security, I think for 40 years. And when we look at people who received that increase comparing to people who didn't, we see that could have fizzed up older generations spending by around three percentage points.

Liz Everett Krisberg: T.J., can I chime in here on one other demographic that we've done some work on?

T.J. Thornton: Absolutely.

Liz Everett Krisberg: Back in March, which was Women's History Month, we looked at how women consumers specifically were faring and what we found was pretty discouraging. What our data showed was that those sectors that employ the highest share of female workers, so Healthcare and Education Services and Retail, those sectors had actually seen the biggest contraction in payroll payments at the start of the pandemic, and then also have had the slowest recovery coming out of it. The other thing we found was outside data has shown us the women's labor force participation rate is about 10 percentage points below men and that those women in the workforce are more likely to be working part-time. As I said, these findings were somewhat discouraging, at least to me personally. One of the contributing factors here we think is the lack of affordable childcare choices. Childcare inflation has been rising by more than 10% since the pandemic started according to our data. This is forcing women and families to make decisions choosing between either spending more of their income on childcare or changing to lower care options, reducing hours or giving up work altogether to become full-time caregivers.

T.J. Thornton: Thank you Liz. David, you mentioned the March weakness. How much of that do you think is temporary and what does it mean for consumer momentum going forward?

David Tinsley: I think the reasons for weakness in March that I've touched upon, lower tax refunds, weaker after-tax wage and salaries growth, they fall into two camps these weaknesses. The first camp is really where you would find the tax refunds and also the expiry of SNAP benefits, that's the Supplemental Nutrition Assistance Program, which we haven't discussed yet, but essentially the SNAP food benefits were running at a higher rate during the pandemic and for many states, those benefits reverted to normal levels as of February, which for many low-income households was around the $95-a-month reduction in their resources that they could spend on food. That was another headwind to put with the tax refunds. When we look at those, I think it's possible that the impact of lower tax refunds and the SNAP benefits may only be relatively short-lived in terms of the growth on consumer spending, but I think in a sense of the greater concern is really the second camp, which is the weaker wage growth, particularly at the higher end of the income distribution. If that persists, it's quite likely that there will be a deterioration in the labor market given what the Fed's doing to rates over the next year or so, then that will present a more enduring risk to the downside for consumer spending.

T.J. Thornton: Okay. And David, we've been very focused so far in this podcast on spending and even wage data, but the Institute has a great advantage in that it can look even beyond those into other categories like deposits, so thinking about consumer health more broadly, what are we seeing?

David Tinsley: At the Institute, we don't just look at the current spending data, but we're also able to look at the broader financial health data for the consumer and that can take many different forms. One of the things we've looked at in our latest "*Monthly Consumer Checkpoint*" publication is whether people are spending more on their credit card relative to their debit card. If they were, that might be a sign they're coming under stress and having to reach for the credit card. In actual fact, the ratio of credit cards spending to debit card spending, per household for the lowest and the middle-income households remains below where it was in 2019. The main body of households aren't spending more on their credit card than they were pre-pandemic. The other thing we can look at, in the same sort of area, is how people are spending on their credit card relative to their credit limit. What we're seeing there is a similar sort of story. There is some increase in the use they're making of their credit card relative to their credit limits, their utilization rate is rising, but nonetheless it's still way below for most consumers, way below where it was pre-pandemic levels. More broadly, we've looked at many different measures over the course of the last year of consumer health, and they more or less tell you a similar story, many of these measures, which is that consumers remain broadly healthy. Some of the measures have started to trend back towards pre-pandemic levels, but in the main, they remain in pretty good shape.

T.J. Thornton: And are we seeing big regional differences in the US at the moment?

David Tinsley: That's partly driven by the lasting impact from the pandemic. The housing market remains much hotter in the South than the rest of the country. We published a piece recently that showed rents in Phoenix, as an example, rising at a staggering 26% year-on-year. Mortgage payments are rising faster in the South, which is reflecting the much stronger housing market in the South than in other parts of the country. When we look at that report, we find a strong acceleration really in the inward movement of the population into the South of the US, that's been driven in part by trends in working from home, and of course relatively more affordable housing. These trends have also been assisted by local labor markets, so when you look at, as an example, Tampa, Atlanta and Orlando, you're seeing a 12% increase in employment in information and financial services year-on-year, and if you look at that same series for Chicago and Los Angeles, employment in those areas is still down 1%. The picture is definitely a southern strength story, but interestingly we've also taken a look at other areas and one area that stood out to us quite recently was on discretionary spending. Some cities in the Midwest have also done better than average. Again, we think affordable housing is part of the story here, as is having fairly diverse economies.

T.J. Thornton: Thinking about services again for a moment, what do you think are the lasting impacts from the pandemic? In the depths of it, people were buying boats and golf clubs because there wasn't much else to do. You couldn't go to a concert, you couldn't travel; now obviously things have reverted, but is it fully back to normal as far as the data suggests?

David Tinsley: Yeah, the rotation back into services generally as the economy opens up is an ongoing theme and was a key theme last year as well. Even as this happens, some of the habits that were picked up in the pandemic don't appear to be entirely unwinding. We look at leisure services in particular, and what our spending data shows is exactly what you are describing – a big pickup during the pandemic in activities like golfing and cycling, and our loan originations data showed an increase for RV (recreational vehicle) originations too. But what's really interesting is that with the economy reopening, and of course a return therefore to some social experiences and social leisure, it's still the case actually that these solitary leisure activities are running higher than they were pre-pandemic, and the mix between those two forms of leisure activity, solitary or social, do not appear to be reverting to pre-pandemic norms.

T.J. Thornton: Okay. Great. Liz, let's end with a question on what's next for the Institute, and also if listeners want to read more about all these interesting things that the Institute is doing, where should they go?

Liz Everett Krisberg: First, let's talk about what's next. We had a very busy first year at the Institute and we expect to stay busy going forward. You're gonna to continue to see us delivering regular insights on the state of the US consumer through our monthly flagship publication, the "*Consumer Checkpoint*" that comes out, usually the second week of the month, and then the "*Small Business Checkpoint*" just after that each month as well. But we're also going to delve even further beyond the consumer and into how businesses and sectors are faring, leveraging the bank's data and resources. So we hope that many of your listeners will catch up on all of our publications and continue to engage with us. They can do that at bankofamerica.com/institute, or just simply look up Bank of America Institute on Google or your favorite search engine and you can find us and engage with us there.

T.J. Thornton: All right, Liz, David, thank you so much for joining us today.

Liz Everett Krisberg: T.J. thanks for having us on.

David Tinsley: Thank you.

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Disclosures