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Consumer Checkpoint

Consumers weathering the storm of higher prices

06 April 2022

Key talking points

- Bank of America aggregate credit and debit card spending was up 11% YoY in March, while card spending per household was up 6.7% YoY[1], suggesting consumers continue to provide solid momentum to the economy.
- Aggregated payment data in other channels also remained strong in March, pointing to broader growth.
- But the consumer is facing headwinds from higher energy and food prices, particularly those with lower incomes. For now consumers' balance sheets appear strong enough to weather the storm provided it doesn't persist too long.

Consumer Checkpoint is a new regular publication from the 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.

Card spending shows momentum into March

Solid spending in March. Bank of America aggregate credit and debit card spending was up 11% YoY in March. Within this, credit card spending rose by 21% YoY, while debit card spending increased by 4% over the same time period. YoY card spending has slowed from February, due largely to the comparison period this time last year: in March 2021 the third Economic Impact Payment ('EIP3') started to be paid to eligible adults and as a result there was a wave of pent up spending in that month last year. Spending remains strong relative to pre-pandemic levels.

Spending on leisure is back. Bank of America credit and debit card spending has rebounded strongly in travel and leisure activities since the ebbing of the omicron wave. Airline spending was 91% higher YoY, while restaurant spending rose by 17%. Spending on leisure appears to be normalizing, after a long period during the pandemic when spending on goods was favored over that on services.

Higher gasoline prices are impacting consumers. Card spending on gasoline was 41% higher than the same period a year earlier. This is clearly being driven largely by rising prices at the pump – we consider the impact in more detail in the CheckIn section below.

Robust consumer spending spans all income groups. Bank of America credit and debit card spending per household by lower-income consumers[2] (<$50K) was up 4.0% relative to the same 28 day period in 2021. The payment of EIP3 in 2021 disproportionately impacted the lower-income spending data, tending to reduce the yearly growth figures. On a three-year (pre-pandemic) basis, spending in this group is up 30.4%.

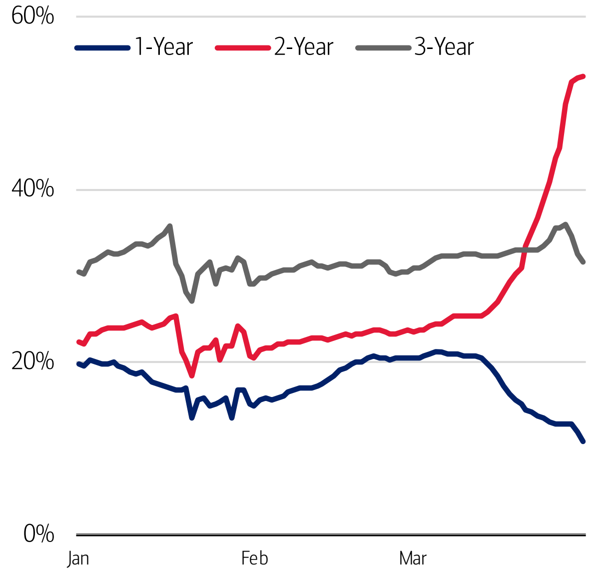
Card spending per household by upper-income consumers ($125K+) was up 11.8% YoY and 22.5% over three years, relative to the same 28 day period in 2021. On a year earlier the gap between spending growth in the high and low-income groups is widening, with higher income spending supported partly by the rebound in travel and entertainment, which tends to make up a larger part of this group's spending.

[1] 'Per Household' data time period refers to 28 days to 26th March – the latest period for which data on this basis is available at publication. The household data only includes consumer households making a minimum of five transactions a month in the dataset. Aggregate card data includes all transactions and also small business card spending.

[2] For reference median US household income in 2020 was $67,521 (Census Bureau). Households with income below $50K form around 38% of total households.

Exhibit 1: Bank of America credit and debit card spending (1-year % change, 2-year % change, 3-year % change. 28-day moving average)

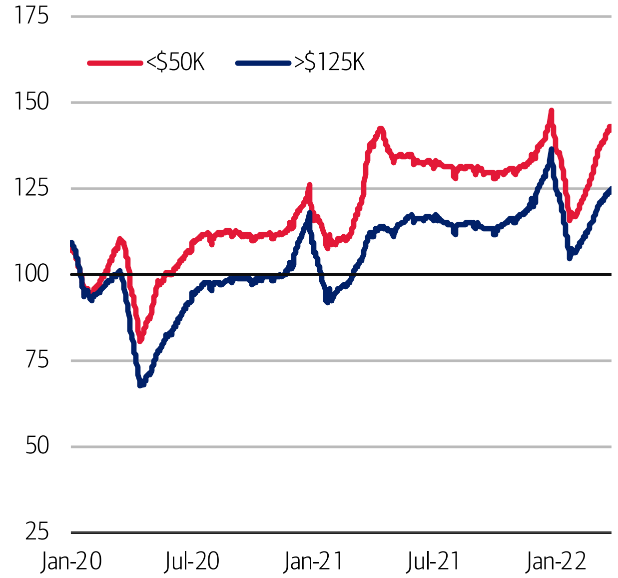
Card spending growth has slowed but remains strong relative to pre-pandemic levels



Source: Bank of America Internal Data

Exhibit 2: Credit and debit card spending per household, by income group (Jan'20=100)

Lower-income consumers card spending has increased by more than higher income, relative to before the pandemic



Source: Bank of America Internal Data

Bank of America payments data also points to robust consumer spending and broadening services demand

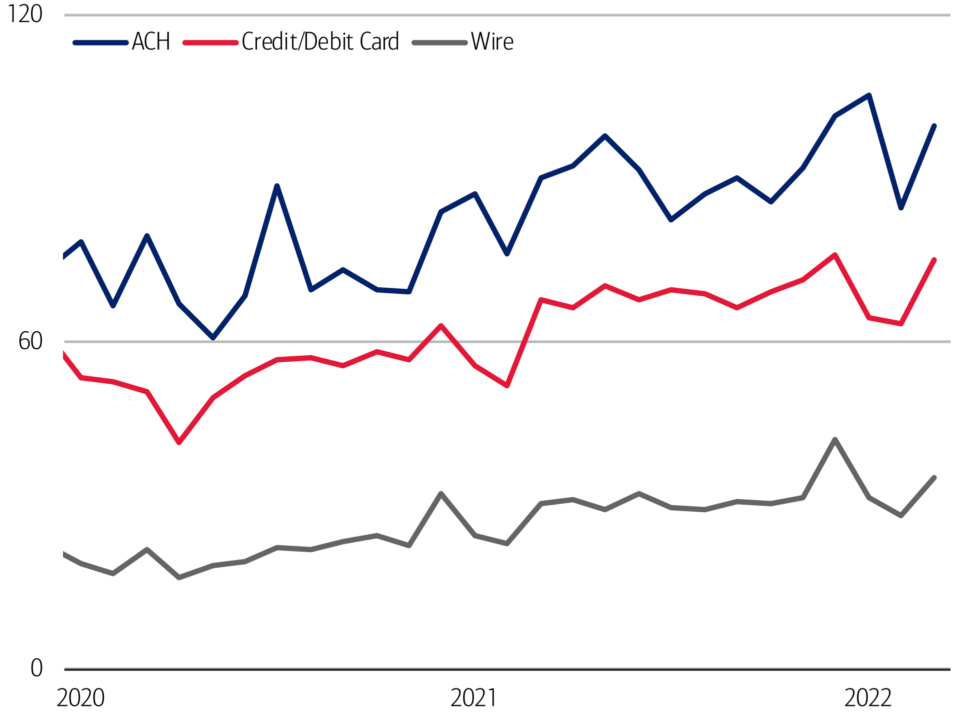
Not all consumer spending is done via debit and credit cards. We also need to look at other forms of payments to get a well-rounded view of overall consumer spending.

For March, Bank of America payments data shows a similarly fairly robust picture. As with card activity, this reflects continued gains in consumer spending on goods and services. March 2021 EIP3 payments also tend to lower the latest YoY comparisons.

Other payment channels also showed solid activity in March. Combined ACH (Automated Clearing House) and Wire payments climbed to $135bn, a 12% increase from March 2021. These categories can capture growth in bigger-ticket items, such as rent payments, car loans/leases, as well as transfers such as credit card repayments and transfers to brokerage accounts. The strength of credit card repayments suggests strong ability to pay, perhaps due to solid growth in income over the year.

Overall, across card spend per household and payments data, there continue to be signs the consumer is helping move the economy forward.

Exhibit 3: Monthly payments data by channel ($bn)
Card, ACH and Wire are higher than the same time a year ago



Source: Bank of America Internal Data

CheckIn: How are consumers coping with higher prices?

Bank of America spending data (credit/debit card and payments) suggests that spending by US households is exhibiting good momentum. A number of tailwinds are supporting the consumer, such as the buoyant labor market, with near-record job openings and rising wages. The return to work following the omicron wave has also been a strong positive.

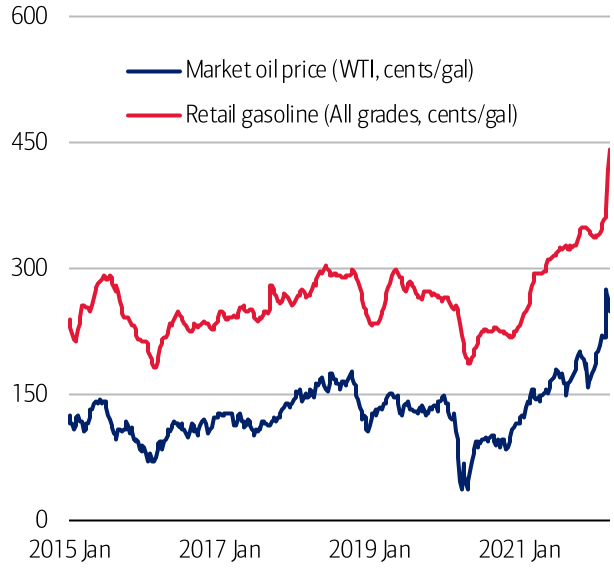
But the latest inflation figures, with the annual change in US consumer prices reaching 7.9% in February, represent a major short-term headwind to the consumer. At the very least, high inflation means that every dollar spent by households doesn't go as far in terms of the goods and services they want to buy.

Pressure at the pump. While inflation is becoming more broadly based, a particular pressure point is energy prices, where consumers are looking at gasoline prices almost 50% higher than a year ago. The surge in global oil prices is most of the story here and, even though oil prices have dropped back of late, the ongoing war in Ukraine is keeping them high. At the end of March, weekly retail gasoline prices (all grades) had risen to $4.34 a gallon, a full 96 cents higher than where they started the year.

Food prices also a pain point. Food price inflation has also been rising sharply, with annual inflation for food at 7.9% in February. Geopolitics is a factor here too, with soft commodity prices rising sharply on world markets this year. For example, wheat prices, where Ukraine is a major exporter, are around 30% higher than at the start of the year.

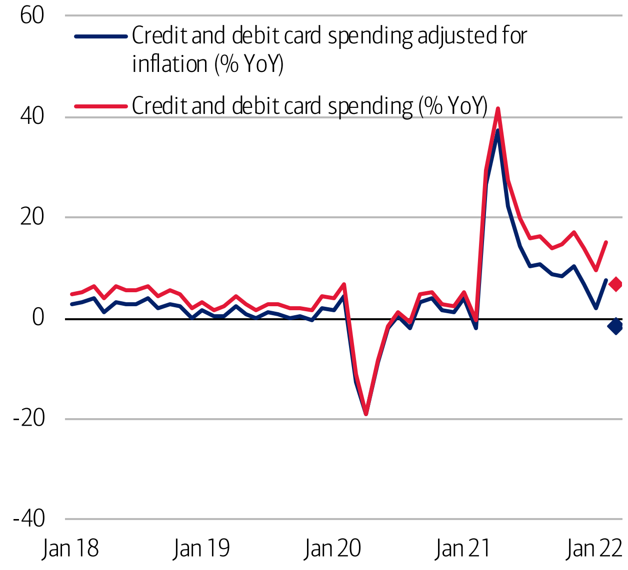
With Bank of America credit and debit card spending per household up around 6.7% in the 28 days to March 26 and inflation in March likely to rise further (BofA Global Research economists forecast CPI inflation moving about 8%) it is a challenge for nominal spending to keep pace with rising prices. There seems little doubt that inflation is eroding how far household dollar-spending is going, despite the slowing in the year-on-year growth in average card spend being largely down to the boost to spending from the EIP3 stimulus payments in March 2021 and the overall CPI mix not perfectly aligned to the card data mix.

Exhibit 4: Weekly gasoline prices and spot oil (cents/gal)
Oil prices recently have risen sharply in recent months and this is being reflected in higher gas prices



Source: U.S. Energy Information Administration

Exhibit 5: BAC card spending per household (%, y/y)
In March card spending struggled to keep pace with inflation
*Diamonds represent estimates using card spending data to March 26th, and a forecast of March CPI inflation of 8.4%



Source: Bureau of Labor Statistics, Bank of America Internal Data

Lower-income consumers feel a greater squeeze. One particular concern is that higher inflation may impact households differently. Those on lower incomes (<$50K) are likely to see their consumption patterns particularly challenged. The Bank of America credit and debit card per household data indicates that households with lower incomes typically spend more on food and gasoline as a percentage of their total spending and they are seeing this share rise sharply.

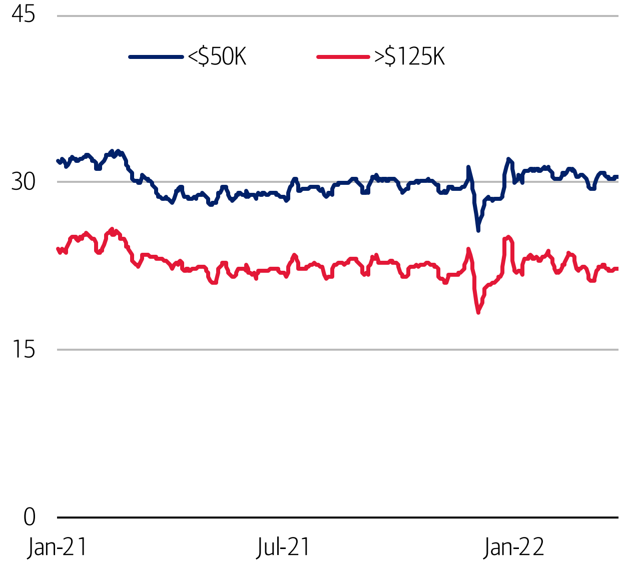
More broadly, non-discretionary 'necessary' spending (defined as spending on food, beverages, utilities and gasoline) is a higher share of total spending for lower-income groups. By contrast, higher-income households ($125K+) spend a greater proportion on discretionary items, meaning they are likely feeling less pressure (though still some) from rising prices in the necessary items like gasoline.

Time to tighten the belt? Faced with higher prices for items consumers really need like gas and food, they could either allow their total spending to rise to keep overall spending plans on track, or spend less on lower-priority 'nice to have' items to keep a lid on total spending.

There are some signs that spending growth among lower-income consumers is indeed slowing for some more discretionary items. In particular clothing and furniture spending growth has slowed sharply relative to a year earlier according to Bank of America data. For now the level of spending compared to pre-pandemic times is still relatively high – but this drop-off in spending on more discretionary items could be indicative of lower income groups feeling some pressure.

Exhibit 6: Share of spending on necessities per household by income (%), 7-day moving average

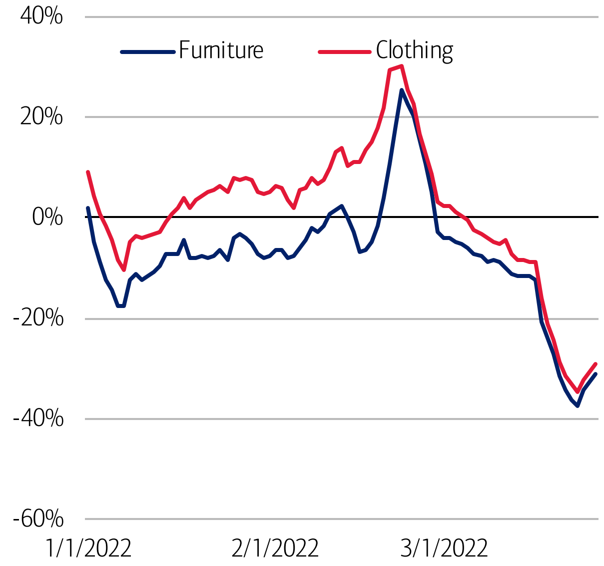
Lower-income consumers spend over 5pp more of their total card spending on necessities than higher-income groups



Source: Bank of America Internal Data

Exhibit 7: Average card spending per household on furniture and clothing for those households with income below $50K (% YoY), 7-day moving average

Lower income spending on furniture and clothing is lower than a year earlier



Source: Bank of America Internal Data

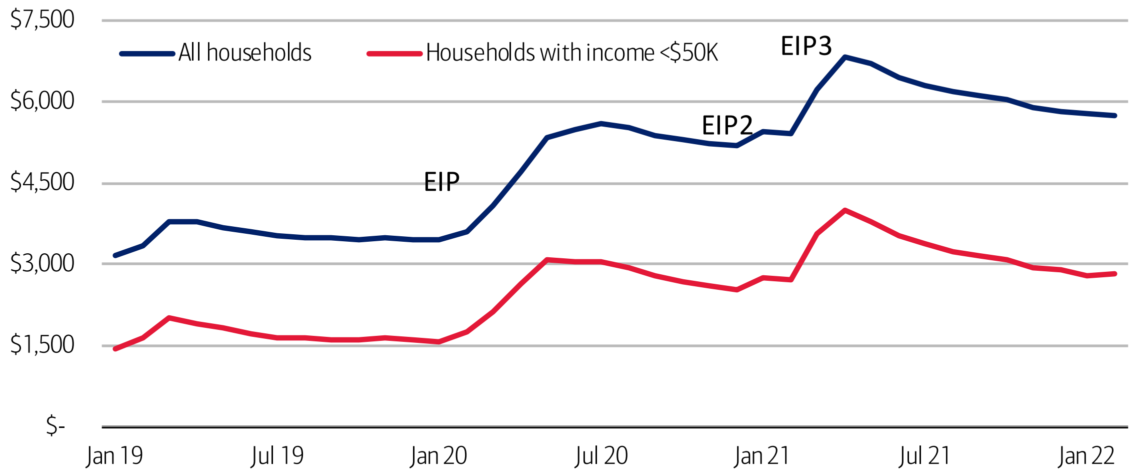
Pandemic savings help to weather the storm – for now. One cause for optimism is that looking at median household deposit balances in Bank of America data it appears that lower-income consumers still have elevated cash savings in deposit accounts relative to before the pandemic. One reason is that stimulus payments, such as EIP3 and child tax credits, may have enhanced their financial position. As time goes on the strong labor market is also part of the story – with lower income households likely able to enhance their financial positions via job changes and pay rises. Tax refunds (and in some states proposed payments to some households to cope with higher energy bills) may also help to support incomes in the short-run.

Households that have elevated savings can therefore potentially use some of these deposits to support them over the period of elevated price rises. A measure of median household savings and checking balances for those groups with income below $50K shows these balances are around double where they were before the pandemic. Broader measures of average consumer deposits show even larger percentage increases.

While these cash buffers are not limitless, it appears that consumers should be in a position to weather the current challenge of rising prices for some time. The key of course will be the duration of the inflationary shock. With most forecasters expecting some easing in inflationary pressure over this year, things should hopefully get easier for the most challenged consumers.

Exhibit 8: Median household savings and checking balances ($) for a fixed cohort of savers as of 2019[3]

Households still have higher savings levels than before the pandemic, likely thanks to stimulus



Source: Bank of America Internal Data

Methodology

Selected Bank of America ("BAC") transaction data are 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 are not comprehensive; they are 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.

The payments data represents aggregate spend and deposit balances from Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions. Aggregate card spend is based on processing date while the 'per household' measure is based on transaction date.

The 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. Monthly data includes those households that had a consumer deposit account all 38 months from January 2019 through February 2022.

Bank of America credit/debit card spending per household include spending from active US households only. Only card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Household credit/debit card spending data 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.

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

[3] Includes those households that had a consumer deposit account all 38 months from January 2019 through February 2022.

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Disclosures

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