Consumer Checkpoint

Consumers are not wilting in the summer heat

09 August 2022

Consumer Checkpoint is a 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. 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.

Key talking points

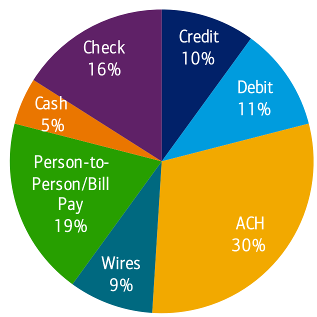
- Bank of America total payments, which provide a holistic view of money flow, increased 7% year-over-year (YoY) in July, roughly in line with June. Overall total credit and debit card spend, which makes up over 20% of total payments, was up 8% YoY while card spending per household was up 5.3% YoY in July. Despite worries about the US consumer, the nominal spending growth rate on Bank of America cards has held up demonstrating steady resilience, though 'real' (inflation-adjusted) card spending continues to be under pressure.
- With roughly 34% of US households being renters, a sizeable increase in rental prices have squeezed consumer wallets. Bank of America data suggest median rent payments increased by 7.4% YoY in July, with the middle income and younger generations seeing the largest increases.
- That said, lower gas prices provided some relief in July and promotional events from retailers boosted goods spending. Household's deposit and savings balances remain elevated and consumers have not yet showed signs of increased borrowing.

Bank of America total payments increased 7% year-over-year (YoY) in July, roughly in line with the %YoY increase in June. Total payments include credit card, debit card, Automated Clearing House (ACH), wires, bill pay, person-to-person, cash and checks and offer a holistic view of money flow. This month, we take a deep dive into the rent payment data across debit/credit card, ACH, and bill pay and find that median rent payments for Bank of America customers increased 7.4% YoY in July, a slight pickup from the 7.2% YoY increase in June.

Overall total credit and debit card spend, which makes up over 20% of total payments, was up 8% YoY in July. Meanwhile, card spending per household, which measures the spending activity of an average Bank of America customer household, increased by 5.3% YoY in July, down from 5.7% in June. Goods spending in July was boosted by retailer promotions, including Prime Day, while lower gas prices also provided some relief to consumers. With US Consumer Price Index (CPI) inflation at 9.1% in June and Personal Consumption Expenditure (PCE) inflation at 6.8%, it appears 'real' consumer spending continues to be under pressure.

Exhibit 1: Composition of Bank of America total payments (Year-to date, %)

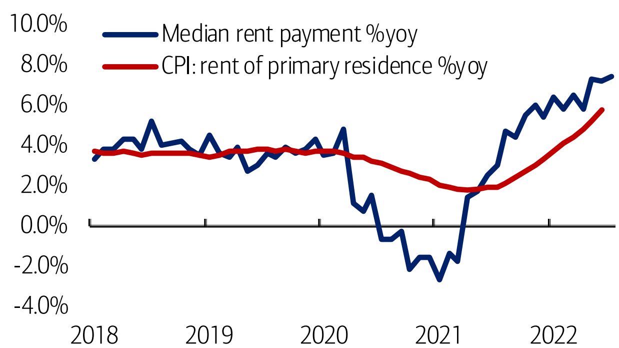
Overall total credit and debit card spend make up over 20% of total payments



Source: Bank of America internal data. Data as of July 2022.

Exhibit 2: Median rent payment in Bank of America internal data and rent inflation based on CPI (%YoY)

Median rent payments for Bank of America customers increased 7.4% YoY in July

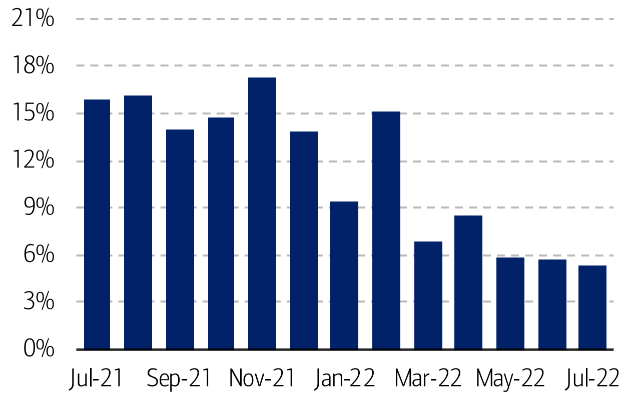


Source: Bank of America internal data, Bureau of Labor Statistics

The differences between the overall total credit and debit card spend and per household card spend growth rate can be explained by the following:

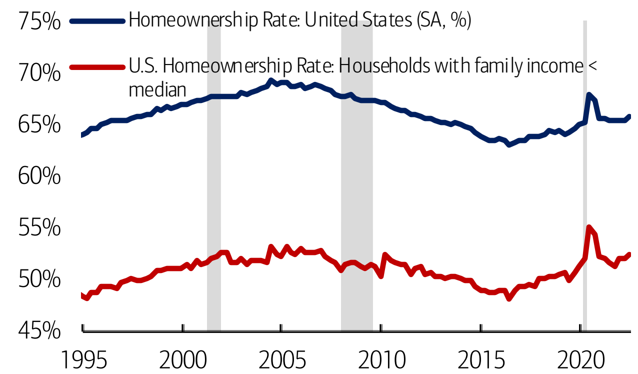
1) Overall total card spending growth is partially boosted by the growth in the number of active cardholders in our sample. This could be due to an increasing customer base or inactive customers using their cards more frequently.
2) Per household card spending growth only looks at households that complete at least five transactions with BAC cards in the month in question. 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) Other differences, including household formations due to young adults moving in and out of their parent's houses during COVID and differences in transaction dates and posting dates. (For more details, please see methodology)

Exhibit 3: Monthly card spending per household, based on Bank of America credit and debit cards (%YoY, monthly, Not seasonally adjusted (NSA))
Card spending per household increased by 5.3% YoY in July



Source: Bank of America internal data

Exhibit 4: Monthly US home ownership rates: all households and lower income households (seasonally adjusted, (SA), %)
Around a two thirds of US housing is owner occupied, but the share lower in lower income households



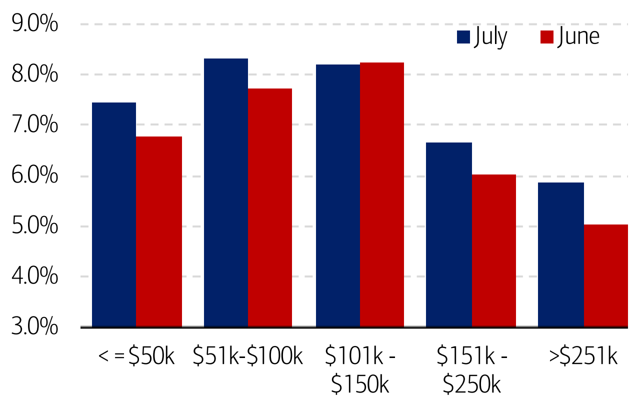
Source: Census Bureau. Note: Shaded areas mean recessions

Feeling the squeeze from rent

Back in the summer of 2021, inflation pressures started to pick up, largely due to a few select sectors, such as car prices and travel prices that were the most impacted by the reopening. However, beginning in the fourth quarter of last year, inflation pressure became much more broad-based in the economy and even the "sticky components" (i.e. items that change prices relatively slowly) started to see meaningful inflation. Rent, one of the main "sticky components" of inflation, also surged: according to data from the CPI report, rent of primary residence increased by 5.8% YoY in June, the fastest pace since 1986.

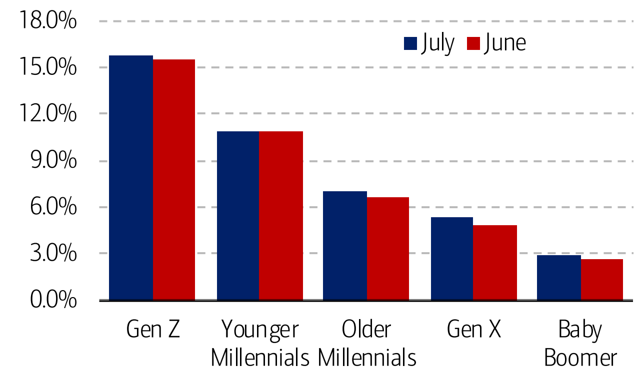
In the US, the homeownership rate, which is calculated by the Census Bureau as owner-occupied housing units divided by total occupied housing units, stood at 65.8% as of the second quarter of 2022 (Exhibit 4). This means roughly 34% of US households are renters. For households with family income less than median income, home ownership was just 52.6% in 2Q, suggesting that 47% of lower income families are renters. As a result, a significant increase in rent can have meaningful impact on household financial situations, particularly for middle and lower income households.

Exhibit 5: Median rent payment growth by income groups (%YoY)
All income groups are seeing significant increases in rent payments



Source: Bank of America internal data

Exhibit 6: Median rent payment growth by generation (%YoY)
Younger consumers are getting squeezed the most by higher rent inflation



Source: Bank of America internal data. Please see methodology section for definition of generations.

According to Bank of America data, median rent payments for Bank of America customers increased by 7.4% YoY in July, a slight pickup from the 7.2% YoY in June. As Exhibit 2 shows, median rent payments %YoY tends to be more volatile than rent inflation though the general trend has been consistent. Moreover, rent payment can also be impacted by a change in "real" spending, such as upgrading to a luxury building or downgrading to a smaller apartment or taking on roommates.

Based on Bank of America data, all income groups are seeing increases in rent payments with the %YoY in median rent the biggest for those with annual household income between $51k and $150k. For households making $51k to $100k annually, median rent payment jumped by 8.3% YoY in July, this compares to an also elevated 7.4% YoY for the bottom income group (<=$50k) and 5.9% YoY for the top income group (>$251k). Data by generation shows that younger consumers are getting squeezed the most by higher rent inflation with median rent payment up 16% YoY in July for Gen Z (those born after 1996), compared with just 3% for Baby Boomers (those born between 1946 and 1964).

A Survey conducted by CivicScience also shows broad-based inflationary pressures on rent: 38% of surveyed renters with annual income higher than $100k quoted higher rent now compared with a year ago[1]. For those making $50k or less, 36% of renters said they are paying higher rent now.

Drop in gas prices oils the wheels of spending

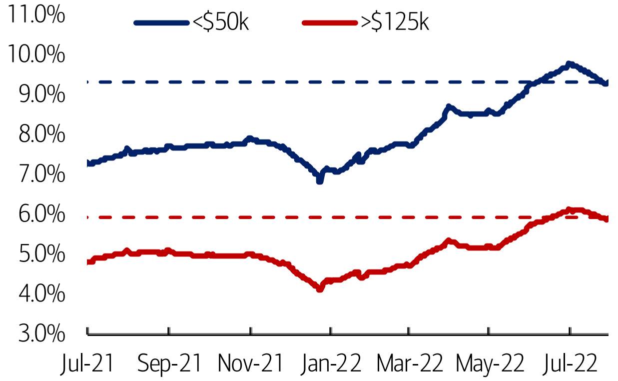
Another key development since the last Consumer Checkpoint has been the continued drop in the oil price. From a peak of over $120 a barrel in mid-June, the oil price has fallen back below $100 per barrel ($88.6 a barrel on Friday 5th August). This drop in oil prices has been feeding through into gasoline prices, providing consumers with some much needed relief. Data from the American Automobile Association suggests that national gas prices (regular unleaded) have fallen from a peak of $5/gallon in mid-June to $4.2/gallon by the end of July, a decline of 16%.

As a result of the drop in gas prices, Bank of America card data shows that average gas spending as a share of total card spending per household dropped back to 9.3% for lower-income households (annual income <$50K) in July from a peak of 10% in June. Meanwhile, the higher-income group (annual income >$125K) also saw a notable decline in gas spending share, to 5.9% for in July 31.

The decline in households' spending on gas has freed up money to be spent elsewhere. Looking at lower-income households, spending outside of gas and grocery rose around 2% YoY for the 28-day period ending July 30, while for higher income households it rose 6% YoY for the same period. Higher income households continue to outpace the lower income households across spending categories on a %YoY growth basis.

Exhibit 7: Daily gas spending per household as a share of total card spending (%, 28-day ma)

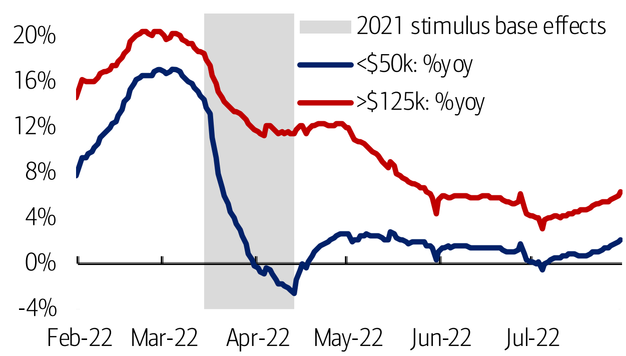
Gas spending has recently dropped back as a share of spending



Source: Bank of America internal data. Data as of July 30 2022.

Exhibit 8: Daily total card spending per household excluding gas and grocery (%YoY, 28-day ma)

The drop in gasoline prices has facilitated a rise in spending ex gasoline and grocery



Source: Bank of America internal data. Data as of July 30 2022.

Goods vs. services: Prime day and leisure services demand

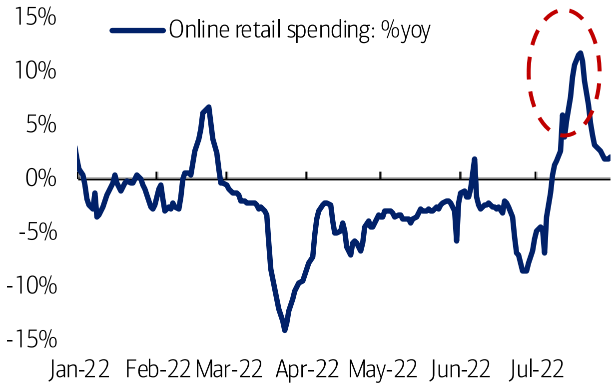
As we have been noting in the past few months, goods spending faced great downward pressure as spending rotated to services. That said, Prime Day and related promotional events in July did provide a boost to goods spending, particularly online spending for goods. As Exhibit 9 shows, online retail spending per household (card not present) surged around the timing of Prime Day promotions, reaching 11% YoY in mid-July. Prior to this, online retail spending has been declining on a %YoY basis for this year as consumers return to stores in person and shifted spending to services.

Meanwhile on the services side, our proxy for leisure services spending per household, which include airlines, lodging, entertainment and restaurants, increased 8% for the 28-day period ending July 30th. Nominal leisure services spending continues to grow on a %YoY basis with the latest data showing a slight uptick, likely due to lower gas prices providing some relief. Keep in

[1] Survey was conducted between July 29 and Aug 3 for 4350 US Adult Renters.

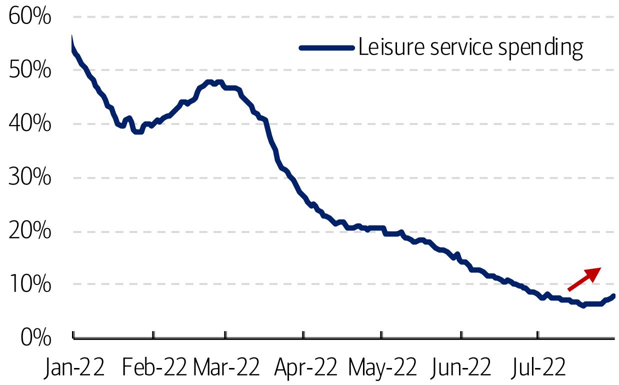
mind that the steep slowdown in the %YoY for leisure services spending earlier in the year was largely due to increased spending levels last year as the economy reopened.

Exhibit 9: Online retail spending (card not present) per household, based on Bank of America card data (%YoY, 7-day moving average)
Online spending surged around Prime Day



Source: Bank of America internal data

Exhibit 10: Leisure services spending per household, based on Bank of America card data (%YoY, 28-day moving average)
There has been a slight uptick in leisure services spending growth

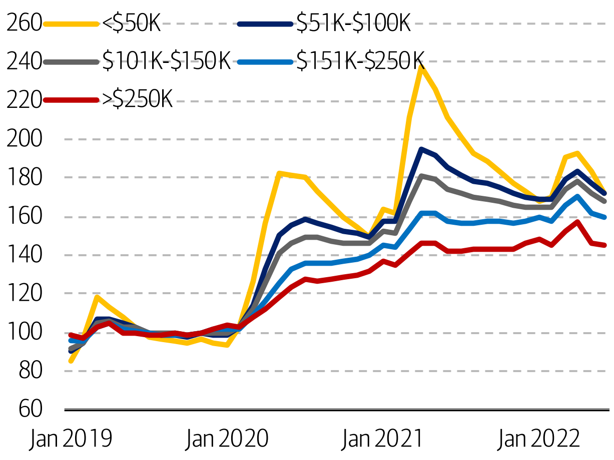


Source: Bank of America internal data

Consumers still have 'dry powder'

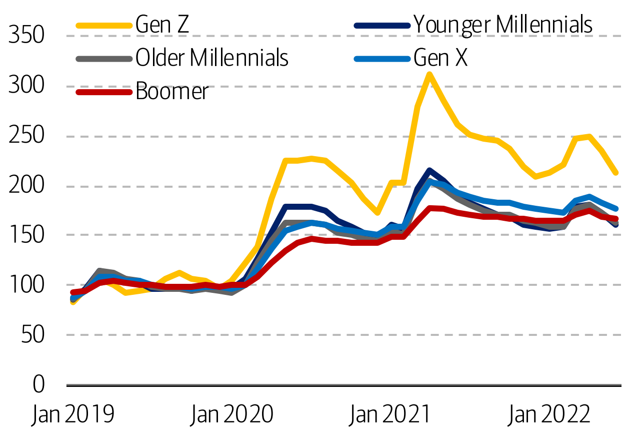
Bank of America data indicates that consumer customer savings and checking accounts continue to remain elevated relative to before the pandemic. The largest proportionate increases in median savings and checking balances are in those in lower income households (Exhibit 11). Looking at the balances across age groups, there is little difference aside from 'Gen Z', where the larger increase may reflect natural progression of this age group into careers (Exhibit 12).

Exhibit 11: Median household savings and checking balances by income (index, 2019 average =100 for each group) for a fixed group of households[2] (HH) between January 2019 and June 2022
Saving levels remain well up on 2019 levels across income cohorts



Source: Bank of America internal data. Data as of June 2022

Exhibit 12: Median household savings and checking balances by age (index, 2019 average =100 for each group) for a fixed group of households (HH)[3] between January 2019 and June 2022
Higher balances are seen across age groups



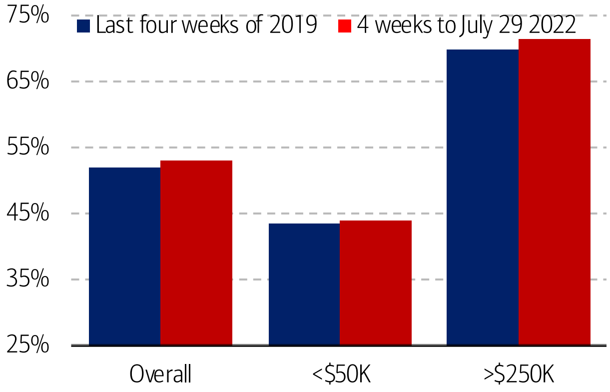
Source: Bank of America internal data. Data as of June 2022. Please see methodology section for definition of generations.

Alongside elevated savings, households appear to continue to have some borrowing capacity they can utilize if required to support consumption. For one, as Exhibit 13 illustrates, the share of card purchases being made on credit cards versus debit cards is not out of line with the period immediately before the pandemic. For another, illustrated by Exhibit 14, households' utilization of their credit limits remains relatively low, despite edging somewhat higher.

[2] Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all 42 months from January 2019 through June 2022.
[3] Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all 42 months from January 2019 through June 2022.

Exhibit 13: % of card purchases via Credit Card where household has both a debit and a credit card with Bank of America

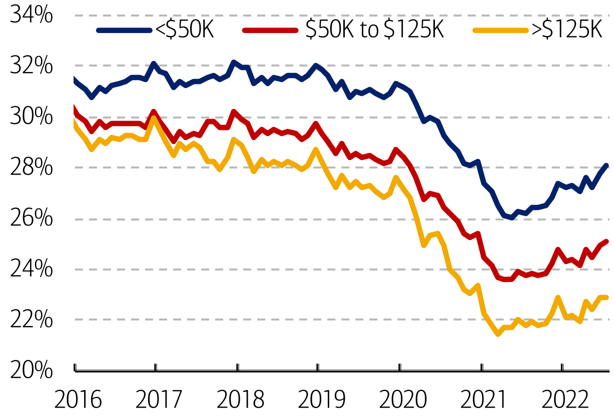
The share of purchases on credit cards for low income groups relative to before the pandemic is little changed



Source: Bank of America internal data

Exhibit 14: Average credit card utilization rates by household income based on Bank of America internal data(%)

Utilization rates have edged higher but remain below pre-pandemic levels



Source: Bank of America internal data

The bottom line

Bank of America total payments, which provide a holistic view of money flow, increased 7% year-over-year (YoY) in July, roughly in line with June. Overall total credit and debit card spend, which makes up over 20% of total payments, was up 8% YoY while card spending per household was up 5.3% YoY in July. Despite worries about the US consumer, the nominal spending growth rate on Bank of America cards has held up demonstrating steady resilience, though 'real' (inflation-adjusted) card spending continues to be under pressure.

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Methodology

Selected Bank of America 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 aggregated spend 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. Overall total card spend is based on processing date while the card spend per household measure is based on transaction date.

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 BAC cards in the month in question. 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) Other differences including household formations due to young adults moving in and out of their parent's houses during COVID and differences in transaction dates and posting dates.

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. For Exhibit 11 and 12, monthly data in the fixed cohort includes those households that had a consumer deposit account (checking and/or savings account) for all 42 months from January 2019 through June 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. 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.

Generations in Exhibit 6 and 12 are defined as follows:

1) Gen Z, born after 1996
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

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

Disclosures