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Consumer Checkpoint

In the pink

10 August 2023

Key takeaways

- July consumer spending returned to positive year-over-year (YoY) territory. Bank of America internal card spending per household rose 0.1% YoY in July, compared to a 0.2% YoY decline in June, helped by July 4th holiday spending, promotions from online retailers and 'movie mania.'
- But different income groups are feeling differently. While lower and middle income households remain resilient, higher-income households still appear to be under some pressure from slower wage growth and incrementally weaker labor markets. But this is probably manageable and BofA Global Research now sees a soft landing with no US recession.
- Deposit buffers have provided ballast to consumer spending and analysis around hypothetical forward looking scenarios suggest that they will continue to do so for some time.

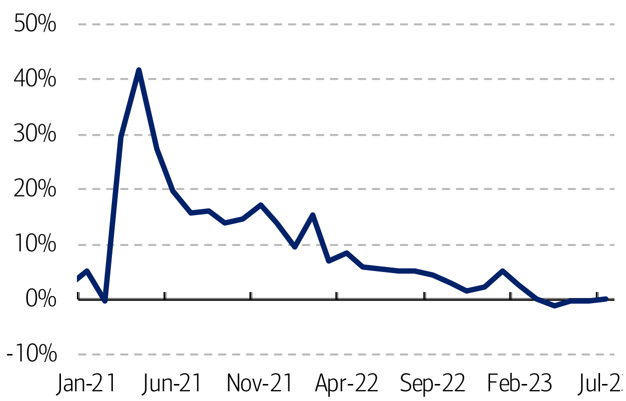
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective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

A bounce in July

Consumer spending showed a solid bounce in July. Bank of America aggregated credit and debit card spending per household increased by 0.1% year-over-year (YoY), following three consecutive months of a negative %YoY readings (Exhibit 1). Moreover, on a sequential basis, seasonally adjusted (SA) card spending per household rose by 0.7% month-over-month (MoM) in July.

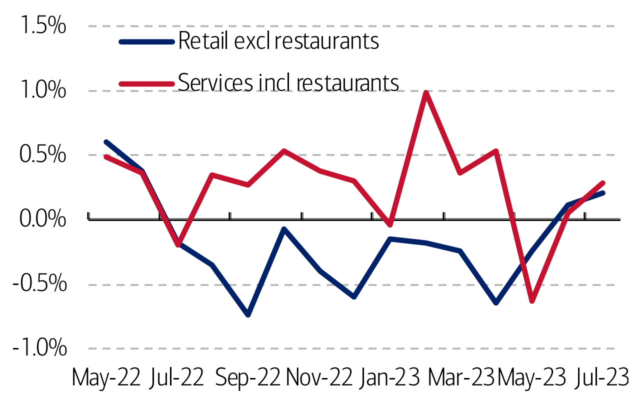
In addition, Bank of America data indicates that the trough of goods spending might be behind us. As Exhibit 2 shows, goods spending in June turned positive on a %MoM 3-month moving average basis for the first time in a year and showed further improvement in July. Although services spending was still modestly stronger in July, it suggests that the "from goods to services" rotation that started to play out in early 2022 may be largely over and the US consumers may be returning to pre-pandemic behaviors.

Exhibit 1: Total card spending per household (Monthly, %YoY)
Credit and debit card spending per household increased by 0.1% YoY in July



Source: Bank of America internal data

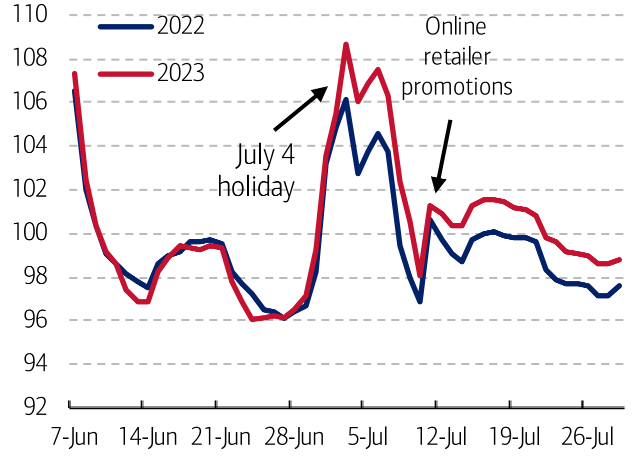
Exhibit 2: Card spending per household for goods and services (%MoM, 3-month moving average, seasonally adjusted)
Goods spending was up 0.2% MoM on a 3-month rolling basis



Source: Bank of America internal data

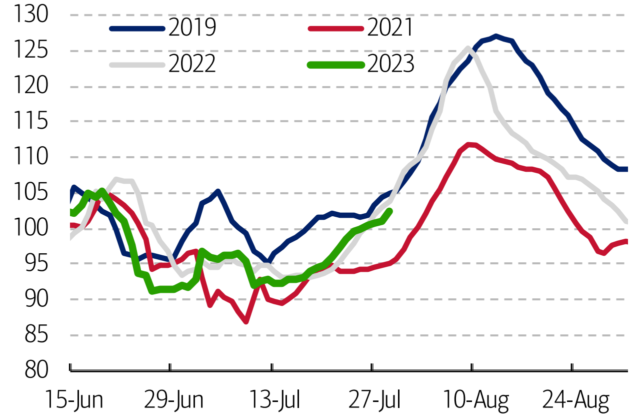
July spending appears to have been positively impacted by a number of events. The early part of the month was boosted by spending around the July 4th holiday, which was stronger in 2023 than 2022 (Exhibit 3). Mid-month, online promotions appear to have also been supportive of spending. The latter part of the month appears to have benefited from a surge in spending on entertainment, in part likely related to the 'movie mania' around the release of 'Barbie' and 'Oppenheimer,' and to some extent on clothing. Another factor that often impacts July spending is back-to-school (BTS) spending. Our measure of BTS spending, which considers spending at merchants that historically benefit the most from the BTS season, so far looks broadly in line with 2022 (Exhibit 4).

Exhibit 3: Total card spending per household (daily, index, June average =100 for each year, 7-day moving average)
The early part of July was boosted by holiday spending



Source: Bank of America internal data

Exhibit 4: Daily back-to-school spending per household, based on Bank of America credit and debit card data (index, June avg =100 for each year, 7-day moving average)
So far back-to-school spending looks in line with 2022



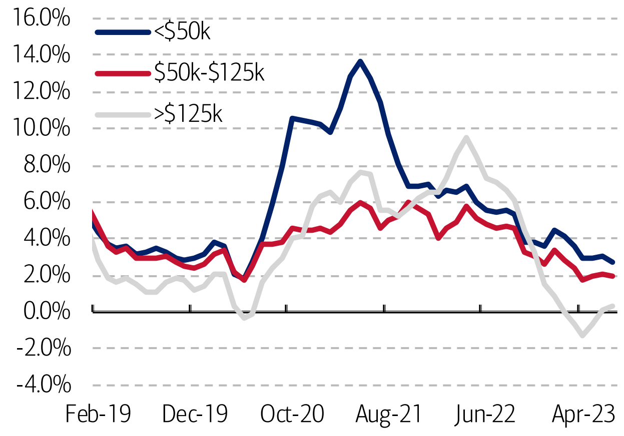
Source: Bank of America internal data. Note 2020 was not shown in the chart given the absence of a BTS season due to the pandemic.

A tale of two consumers

BofA Global Research recently revised their US economic outlook and now no longer expect any contraction in either GDP or consumer spending through the end of 2025. In their view, the strength of the consumer is supported by solid labor markets and the savings buffers households still have – points often discussed in our Consumer Checkpoints.

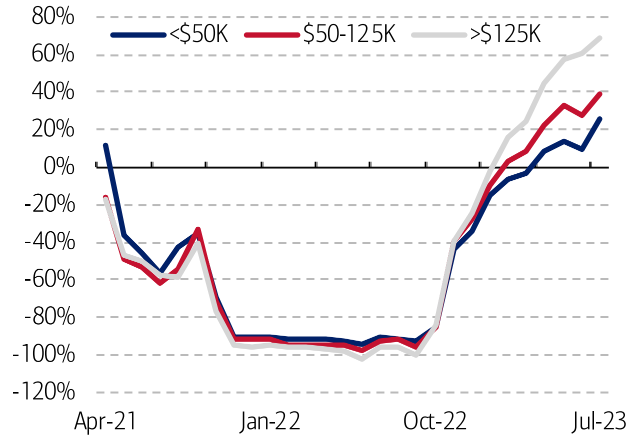
However, different income groups are having different experiences. Specifically, lower- and middle-income households remain fairly resilient, while higher-income households appear to be feeling more of a pinch from the labor market. In the May Consumer Checkpoint, we noted that higher-income consumers experienced a faster rise in unemployment and a bigger drop in wage growth. Have those trends continued through July? According to our data, yes.

Exhibit 5: After-tax wages and salaries growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, SA)
Higher-income households continue to see slower wage growth



Source: Bank of America internal data

Exhibit 6: Number of households receiving unemployment benefits through direct deposit (monthly, %YoY through July 2023)
Unemployment payments appear to be rising fastest for higher-income households



Source: Bank of America internal data

Bank of America deposit data on after-tax wages and salaries growth (Exhibit 5) continues to show softer YoY growth in the higher-income (>$125K) cohort. While some of the weakening in higher-income pay earlier in the year may have been associated with lower bonus payments, the current data reveals that even as we move beyond the key bonus payment periods, the relative

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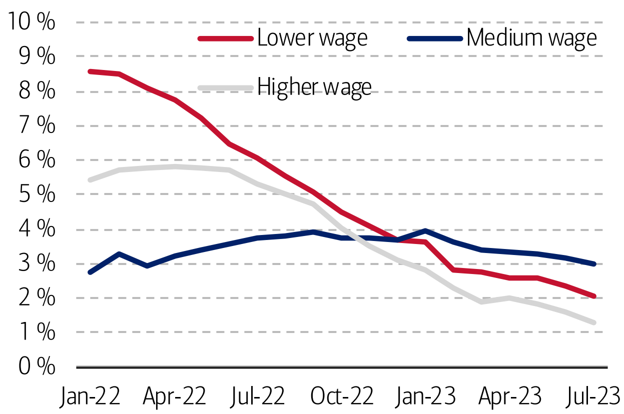
weakening in after-tax income growth for high-income households persists, though higher-income YoY growth is no longer negative as it was in May. By contrast, after-tax wage growth remains at around 2-3% YoY for lower- and middle-income households, a similar pace to 2019.

And while the overall labor market remains in very good health with the July unemployment rate at 3.5%, our deposit data continues to show signs that unemployment is picking up from these very low levels at a faster pace for higher-income earners. The number of such households who received an unemployment benefit deposited into their Bank of America account rose by around 3x the rate for the lower-income group (Exhibit 6).

It is important to note that the absolute numbers receiving unemployment benefits remains very low. The current US Continuing Claims unemployment rate in the week ending July 21st was just 1.1%. In Bank of America data the percentage of households receiving direct deposits on unemployment benefits is also low across all income cohorts. But our findings on the shift up in higher-income unemployment appear consistent with recent cooler readings in official payrolls growth, with July showing a rise of 187,000 in nonfarm payrolls. And when we sort official Bureau of Labor Statistics data on payrolls into industries with high, medium or low median wages (Exhibit 7), the slowest jobs growth, albeit still positive, is in high-wage industries.

Exhibit 7: Payrolls growth by high, medium and low-median wage industries (monthly, % Y/Y)

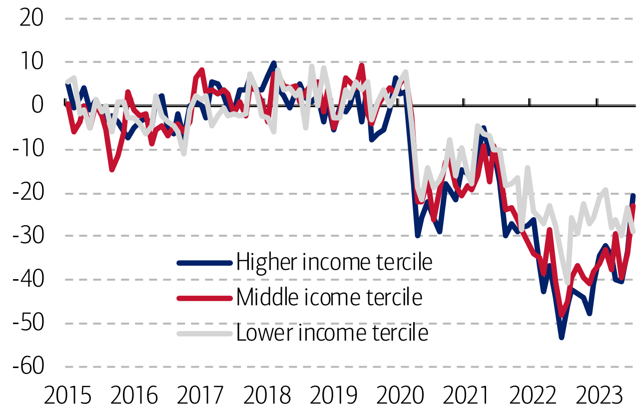
Higher median wage industries appear to have the slowest jobs growth YoY



Source: Bureau of Labor Statistics

Exhibit 8: University of Michigan consumer sentiment by income tercile (relative to 2015-2019 average)

Until recently higher income consumer sentiment appears to have been particularly weak

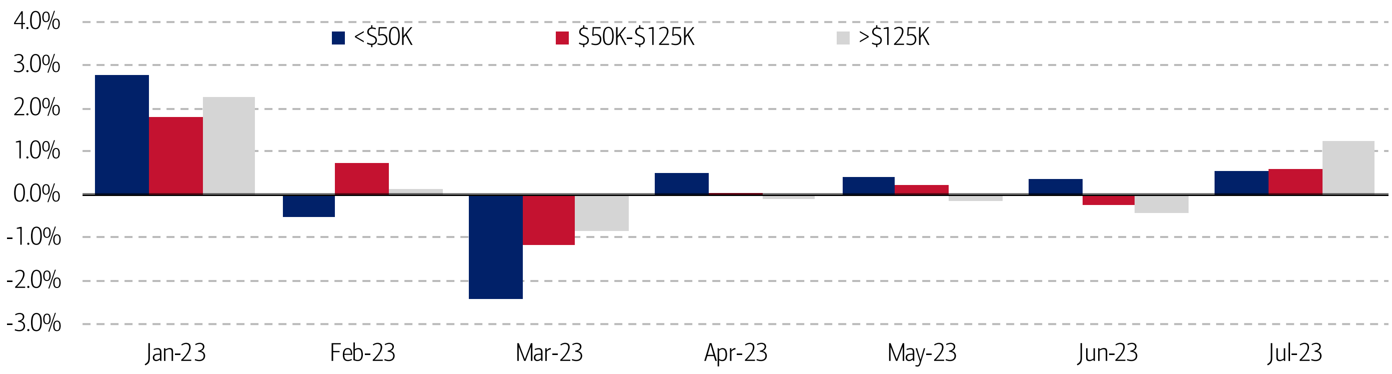


Source: Haver Analytics

As a result, it is possible higher-income households may be feeling a little more cautious up to this point. And Exhibit 8 shows that consumer sentiment across income terciles appears to have been weaker for the highest income group over most of 2023. Over this period of lower confidence, total card spending has been on a weaker trajectory for higher-income households: higher income card spending has been weaker on a %MoM basis than lower income spending for four out of the seven months this year (Exhibit 9). That said, some of the relative slowing in higher-income spending may simply reflect that pent up demand for services has run its course.

Exhibit 9: Total card spending per household by income group (%MoM, seasonally adjusted)

Higher-income card spending has been weaker on a %MoM basis than lower-income spending for 4 out of the 7 months this year



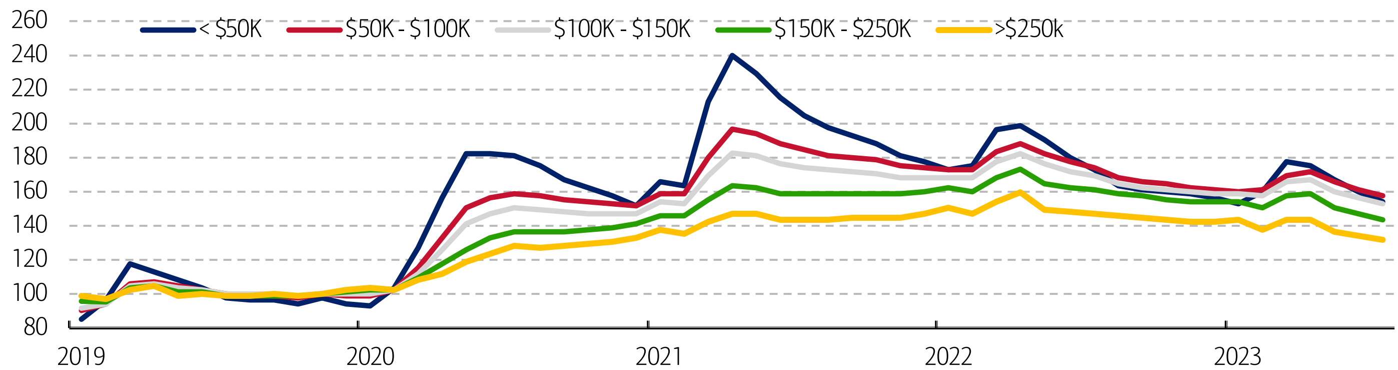
Source: Bank of America internal data

How long would bank deposits last?

An important support for the consumer since the pandemic has been built-up savings buffers. The combination of involuntary savings due to lockdowns and stimulus checks led households' savings buffers to rise over the pandemic and, to date, they have not been depleted. These buffers have likely enabled households to weather higher inflation, as well as given them confidence they could withstand a modest economic downturn.

Looking at the latest Bank of America median household savings and checking balances data, even though deposit balances are off their peak, they continue to be quite elevated relative to pre-pandemic levels. Across all households, median deposit balances were at least 30% higher in July 2023 than they averaged during the pre-pandemic year of 2019.

Exhibit 10: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households
Across all households, median deposit balances are at least 30% higher in July 2023 than they averaged in 2019.



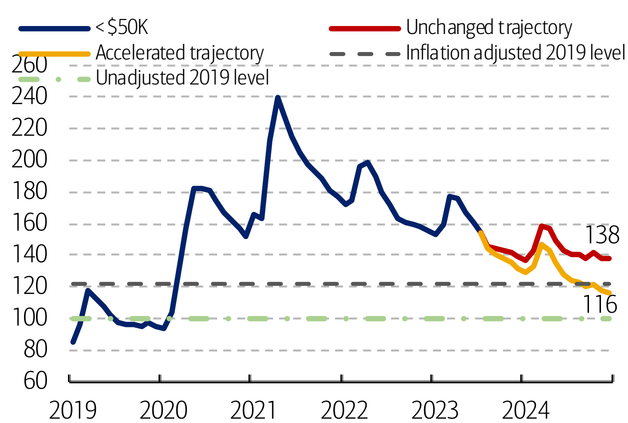
Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings) for all months from January 2019 through July 2023

How long will these higher buffers continue to provide support to the consumer? For illustration purposes, we consider two hypothetical forward-looking scenarios for two income groups, <$50k (lower income) and $150-250k (higher income), in an effort to explore the strength of consumer savings

The first of the two hypothetical scenarios is an "unchanged trajectory" scenario. Here we assume the %MoM change in deposit balance for the next 12 months (August 2023-July 2024) follows the exact same pattern as that over the last 12 months (August 2022 – July 2023). Beyond July 2024, we assume the %MoM pattern will follow the same % change as in the same month in 2019. We make these assumptions because we are assuming for this scenario that in 12 months' time, consumer behavior will be more similar to the pre-pandemic trend.

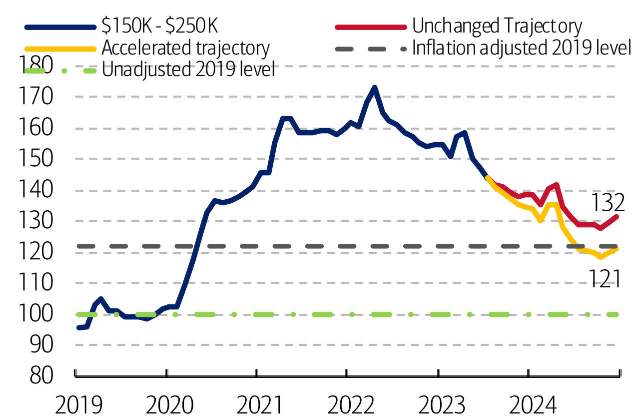
Meanwhile, in an "accelerated trajectory" scenario, we simply assume the %MoM drawdown of savings would be one percentage point faster than the "unchanged trajectory" for every month until the end of 2024 for the lower-income group and half a percentage point lower for the higher-income group. We use this assumption in this scenario because the %MoM change in deposit levels tend to be larger for the lower-income group given that they have lower levels of savings.

Exhibit 11: Hypothetical Scenarios: Monthly median household savings and checking balances for the lower income household (2019=100) for a fixed group of households
Deposit levels would remain elevated for a considerable time to come under both hypothetical scenarios



Source: Bank of America internal data. Monthly data includes those households that had a checking and/or savings account for all months from January 2019 through July 2023.

Exhibit 12: Hypothetical Scenarios: Monthly median household savings and checking balances for the higher income household (2019=100) for a fixed group of households
Deposit levels would remain elevated for a considerable time to come under both hypothetical scenarios



Source: Bank of America internal data. Monthly data includes those households that had a checking and/or savings account for all months from January 2019 through July 2023.

Exhibit 11 and Exhibit 12 show our hypothetical findings. In the "unchanged trajectory" scenario, deposit balances for both the lower- and higher-income cohorts would remain above 2019 levels through at least the end of 2024. Even adjusting the 2019 deposit levels for inflation, both groups would remain above the 2019 inflation adjusted level through the end of 2024. In the "accelerated trajectory" scenario, where savings drawdown could happen at a faster pace, deposit levels would still remain higher than 2019 levels for both groups through the end of 2024. Notably, even in this "accelerated trajectory," deposit levels would dip just slightly below the inflation-adjusted 2019 levels during the second half of next year – in September 2024 for the lower-income cohort and July 2024 for the higher-income, which would still suggest plenty of resilience.

Monthly data update for July

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) was 6.1% YoY in July. Bank of America total credit and debit card spend, which makes up over 20% of total payments, was up 4.0% YoY.

The YoY growth in total card spending per household, which measures average spending for Bank of America customer households, was 0.1%.

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.

For exhibit 7, we define higher, medium, and lower wage industries by looking at the average hourly earnings (AHE) for each industry, based on the Bureau of Labor Statistics data. Industries with AHE higher than half a standard deviation than the national average are categorized as higher wage. Industries with AHE lower than half a standard deviation than the national average are categorized as lower wage. All else is categorized as medium wage.

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 include all purchases at gasoline stations and might include purchases of non-gas items.

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

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Disclosures