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Consumer Checkpoint

Springing into January

10 February 2023

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 condition or performance of Bank of America.

Key takeaways

- We have seen signs of a strengthening in consumer spending at the start of this year – Bank of America credit and debit card spending per household rose 5.1% year-over-year (YoY) in January, compared to 2.2% YoY in December. Total payments across all channels (Automated Clearing House (ACH), Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) grew 7.5% YoY.

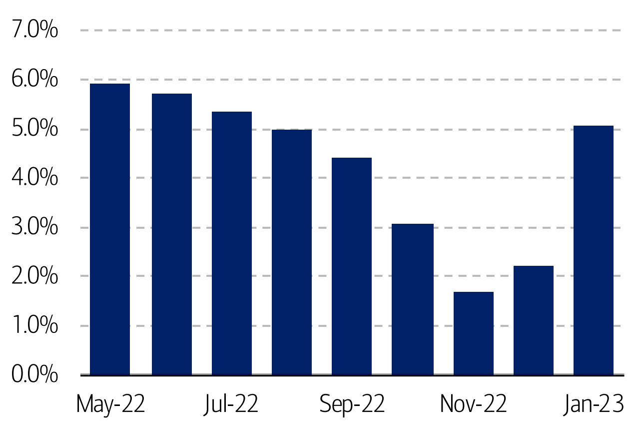
- This increase partly reflects the comparison with an Omicron-impacted January 2022, but we also think an increase in minimum wages and social security may be helping consumers, along with the stellar labor market.

- More broadly, the data suggests that while lower income consumers are pressured, they still have solid cash buffers and borrowing capacity. Even for the lowest income cohorts this should provide support for some time yet.

A blip or something longer lasting?

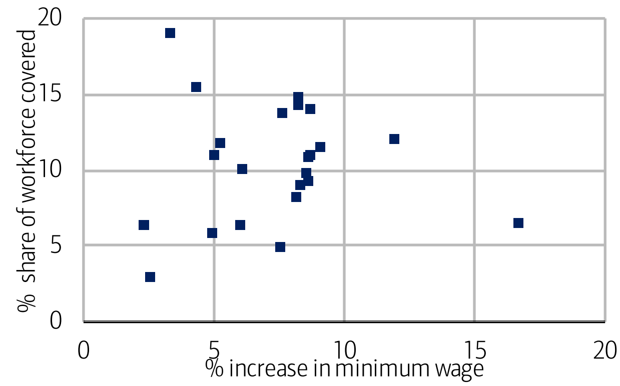
We saw signs of strengthening in consumer spending in both retail and services in January, accelerating from December. Total Bank of America credit and debit card spending per household was up 5.1% YoY in January, vs. 2.2% YoY in December (Exhibit 1). On a month-over-month (MoM) seasonally adjusted (SA) basis, total card spending per household was up 1.7%, more than reversing the 1.4% MoM decline in December. So, to what extent does this reflect the real picture for the consumer?

Exhibit 1: Total credit and debit card spending per household, based on Bank of America internal data (%YoY, monthly)
We saw signs of a strengthening in consumer spending in January



Source: Bank of America internal data

Exhibit 2: Increase in 2023 minimum wage by states versus share of state's workforce covered
A significant proportion of workers in around half of US states will receive a minimum wage rise

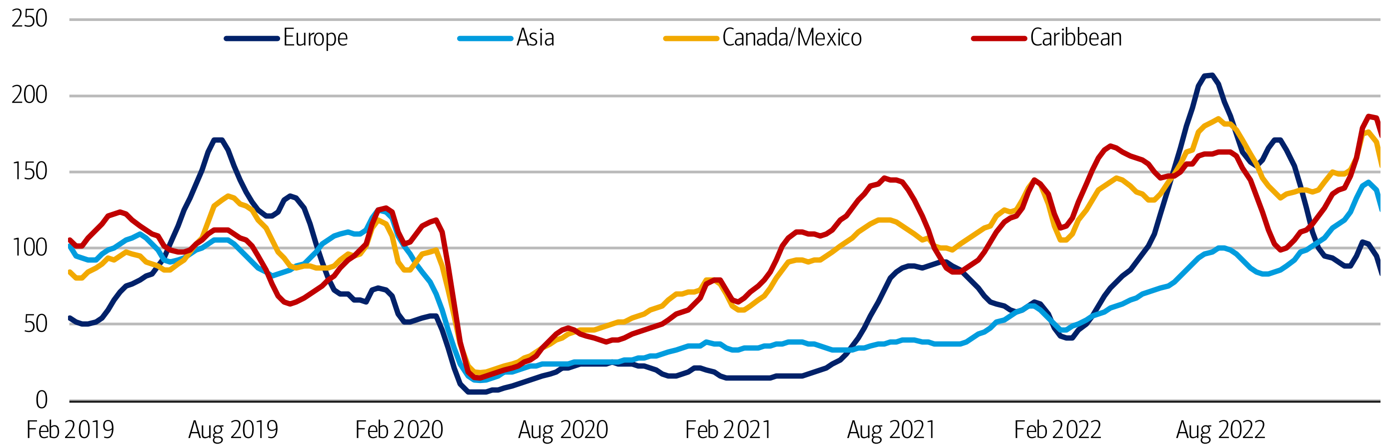


Source: Economic Policy Institute

Some of the YoY increase reflects "base effects" as the Omicron wave in January 2022 weighed on services spending, particularly travel. Consequently, we expect this part of the YoY rise to unwind fairly quickly. However, we also see signs of real strength in services spending in January 2023: Bank of America card spending per household was up 3.5% MoM SA on airlines and by 1.8% on restaurants and bars. International spend rose too, particularly in Asia, compared with the prior two years, due to further reopening and Lunar New Year celebrations (Exhibit 3).

Exhibit 3: Point-of-sale/in-person spending in select international regions, based on Bank of America internal data (4 week moving average, index, 2019 average =100 for each group)

International spend, particularly in Asia, was elevated due to further reopening in the region and Lunar New Year celebrations



Source: Bank of America internal data

Retail spending per household also showed strength in January, up 1.7% YoY compared to 1.1% YoY in December. The Omicron wave didn't impact retail spending as much in January 2022, so this could also represent a more tangible acceleration, at least in the short-term.

Several explanations for the strengthening in January

What could be behind this stronger January?

First, people may have been holding back some of their spending until after the holidays in order to maximize benefitting from promotions and discounts. In fact, daily Bank of America card spending data revealed meaningful acceleration in the %YoY growth rate in the weeks after Christmas. This could mean that any impulse to spend might wane once these promotions are exhausted.

Also, some groups are benefiting from a rise in income at the start of the year. Exhibit 2 shows that a number of US states increased their minimum wages in January. For many states, these hikes are being broadly implemented to bring the wage rate in line with inflation. But they are helping a fairly significant proportion of workers and a rise in their pay could mean more cash available for spending.

Similarly, a rise of 8.7% in federal Social Security and Supplemental Security Income (SSI) came into effect in January. This year's adjustment, which is related to the prior year's inflation, was the largest increase in four decades. The Department for Social Security estimates that it will impact 70 million people.

Last but not least, January saw very strong employment levels, with the economy adding 517,000 non-farm payrolls, the highest monthly gain since July 2022. This means that strong labor income also underpinned consumer spending in the month.

Price pressure pain shifts down the income scale

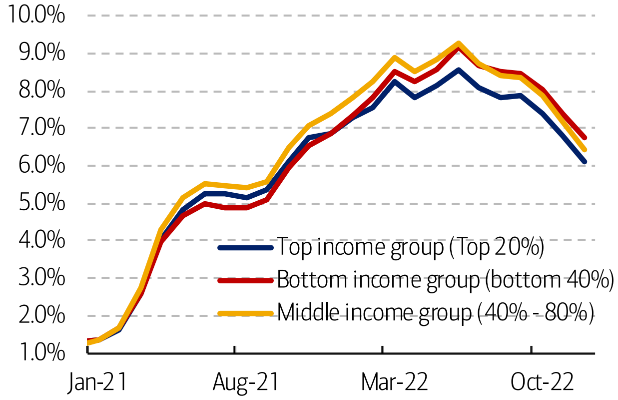
The overall picture for spending was robust in January, though the magnitude of strength varies across incomes, with lower income groups being weaker. While wage rises, including minimum wage increases along with increases in social security, are helpful for lower income consumers, this group continues to face the highest pressure from elevated living costs, even as the headline rate of inflation appears to be coming down.

Recent analysis from the New York Fed estimated that lower income households have overtaken middle income households in feeling the biggest inflation pressure since July 2022. This is because while auto and energy inflation has subsided, food and shelter inflation has picked up noticeably. As a result, lower income households, who typically allocate a bigger share of spending to these categories (Exhibit 4), are experiencing the biggest squeeze. This has led to tighter belts for the less affluent: between July 2022 and January 2023, Bank of America card spending per household increased by just 0.9% SA for lower income groups (<$50k), compared with 2.4% for higher income earners (>$125k).

While food inflation might be moderating, shelter inflation tends to be sticky, meaning that once a price hike comes, it tends to hang around. Despite overall CPI inflation easing to 6.4% YoY in December from the peak of 9% in June 2022, shelter inflation continued to accelerate at 7.5% YoY, the fastest pace since 1982 (Exhibit 5). This suggests that even as overall inflation continues to ease in the coming months, lower income households might not feel the relief as much as others.

Exhibit 4: Estimated % year-over-year inflation growth faced by different income groups

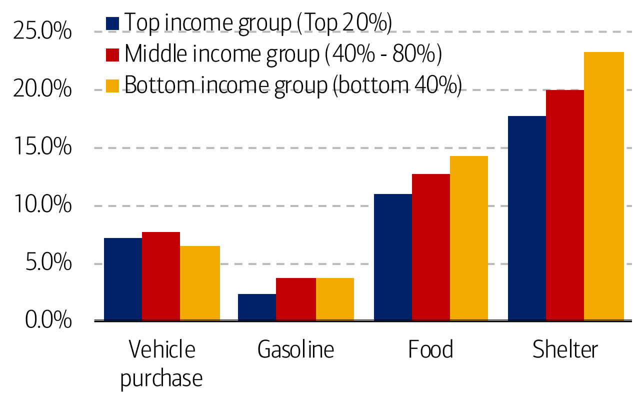
Inflation was highest for middle income households between February 2021 and July 2022



Source: New York Fed

Exhibit 5: Share of total expenditure on categories that are biggest drivers for inflation (%, data for 2021)

In 2021 the bottom income group spent 38% of their total expenditure on food and shelter combined



Source: Bureau of Labor Statistics

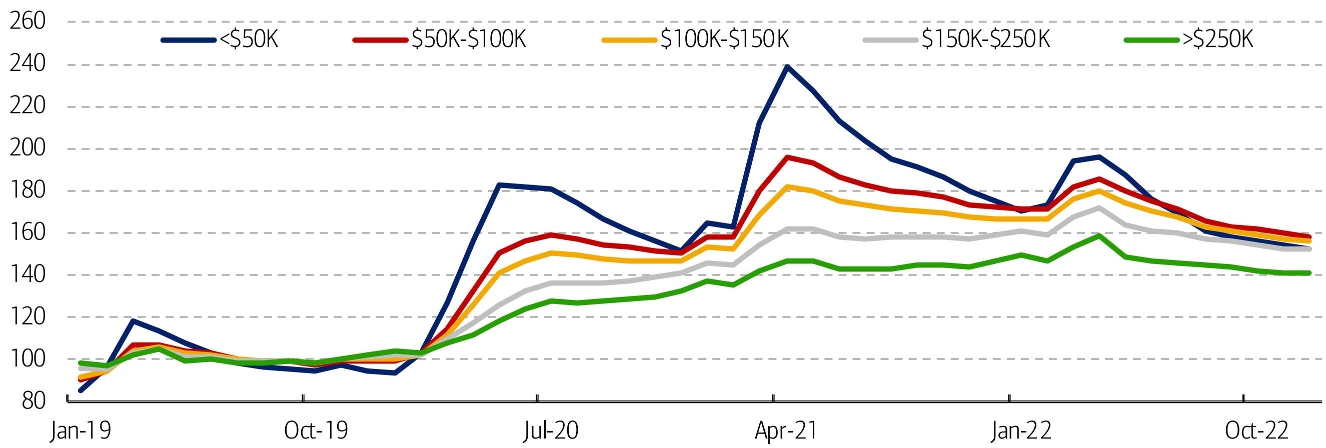
Lower savings buffer but still room for spending to run

While lower income households are feeling stronger headwinds, it seems unlikely that a 'tipping point' in their spending will be reached in the near term. This is because consumers continue to have elevated savings, even adjusting for inflation, suggesting they have not yet reached their financial limits.

On the savings side, Bank of America internal data suggests median household savings and checking balances across income groups have been trending down since April 2022, with the lowest income group (<$50k) seeing the steepest drawdown. But deposits remain above 2019 levels (Exhibit 6) for all income cohorts.

Exhibit 6: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households

Despite drawdowns, deposits remain above 2019 levels for all income cohorts

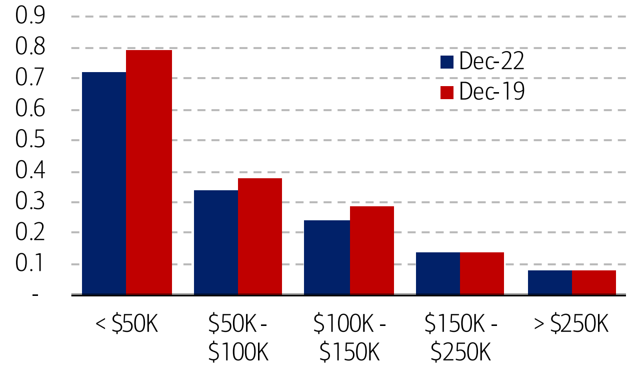


Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through December 2022.

Lower income consumers appear to still have some level of comfort in terms of their financial constraints. On the one hand, the ratio of median household card spending to median deposit balances (spending-to-savings ratio) remained lower than in 2019 for households with an annual income of less than <$150k (Exhibit 7). This suggests this cohort's spending would not need to be reduced too much for the spending-to-savings ratio to return to 2019 levels. On the other hand, the Bank of America credit card utilization rate also remained lower than in 2019 across income groups (Exhibit 8).

Exhibit 7: Median household Bank of America card spending to median deposit balance ratio by income group (3-month ending December 2019 and 2022)

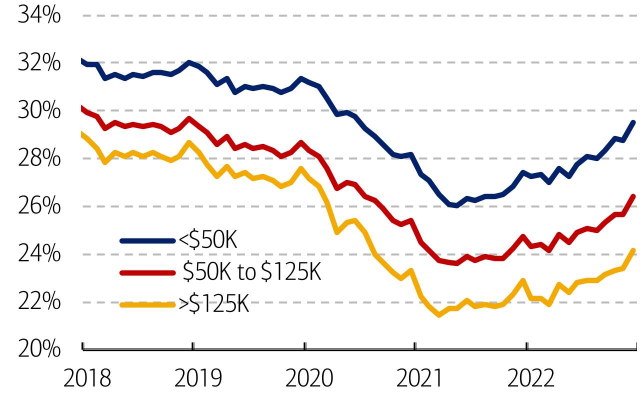
For households with income of less than <$150k, the spending-to-savings ratio as of December 2022 remained lower than that of 2019



Source: Bank of America internal data

Exhibit 8: 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 risk is that if the current drawdown in savings for lower income households becomes more sustained or the labor market cracks with a meaningful deceleration in wage growth, we could start to see a bigger pullback in spending as lower income consumers' ability to navigate an economic downturn is typically more tenuous than that of the higher income consumers. As things stand, we see this as more of a risk in the second half of 2023.

Short-term needs impact 401(k) plan participants

And it's not just savings meant for the now that could be impacted – how consumers prepare for their financial future will also be affected. According to the inaugural 401(k) Participant Pulse that draws on Bank of America recordkeeping data from 401(k) plans, the average plan participant contribution rate dropped from 6.6% at the end of 2021 to 6.4% this past year end, suggesting consumers may be trading retirement savings for short-term financial needs. However, the average annual participant contribution increased 1% YoY, so the decline in savings rate did not generally result in lower dollar contributions, though this could also be due to wage growth.

The report also found that fewer participants took a loan from their 401(k) in Q4 2022 and, for those who did, the average loan amount of $7.5k was 6% lower than Q3. In Q4, 2.1% of participants took a loan. In addition, fewer participants are taking hardship withdrawals for immediate financial needs. Participants taking a hardship distribution declined in Q4 2022 as compared to Q3, with 0.4% of 401(k) participants taking a hardship in Q4. The average hardship amount also declined in Q4 from Q3 by 8% to $4.7k.

The story differs across generations: Millennials lead the way in savings rates. Almost half of them (47%) contributed 7% or more to their plan – more than any other generation. Meanwhile, Baby Boomers had the highest percentage of participants (43%) contributing 3% or less.

Monthly data update

Overall total Bank of America credit and debit card spend, which makes up over 20% of total payments, was up 8.6% YoY in January, as total payments growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) increased 7.5% YoY.

Most payment channels showed positive growth in January. The exception was wire payments, where payments were 10.3% below January 2022 levels. This continues to largely reflect the impact of the housing market slowdown on payments to escrow and title companies.

Meanwhile, YoY growth in card spending *per household*, which measures average spending for Bank of America customer households, was up 5.1% YoY in January, an improvement from 2.2% YoY in December. With inflation coming down, real card spending also seems to be improving as nominal spending was lower than CPI inflation (6.5% YoY in December) but higher than Personal Consumption Expenditure (PCE) inflation (5.0% YoY in December).

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 boosted partly by 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 looks only at households that complete at least five transactions with Bank of America 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. Differences can reflect using the processing date (total card spending) versus the transaction date (per household card spending).

5. Other differences include household formation due to young adults moving in and out of their parents' houses during the pandemic (for more details, please see methodology).

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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 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.

Generations, if discussed, 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

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.

Disclosures