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Consumer Checkpoint

Will spending take a post vacation break?

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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 aggregated credit and debit card spending was up 11% year-over-year (YoY) in June. Meanwhile aggregated card spending per household was up 3.3% YoY in the 28-days ending June 30th, down from 4.0% YoY at the end of May.
- Higher inflation, especially rising gas prices, continues to squeeze consumers. Consumer confidence has also weakened a lot.
- The post-summer outlook for consumer spending is unclear, particularly as services spending is still being temporarily boosted by pent-up demand since Covid restrictions were eased.
- On the positive side the labor market remains supportive of consumers and their balance sheets are in good shape.

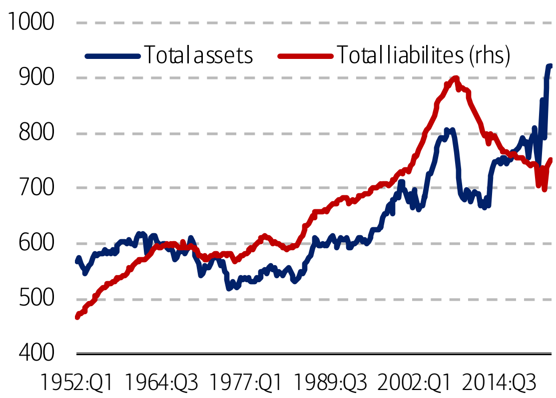
Can the consumer switch off on vacation this year?

Many consumers may not have a carefree vacation this year, as rising gas prices and more expensive borrowing costs play on their minds. Low- and middle-income groups are being hit hard and rising interest rates have made borrowing more expensive, although our analysis suggests the impact on existing debt servicing is fairly limited. Last but not least, services spending such as on travel and entertainment, which is the main engine for the consumer spending recovery this year, is showing signs of slowing on a YoY basis, though levels remain elevated.

But there are significant positives for the consumer. Wage growth is strong and the labor markets remain tight. And the overall financial position of the household sector continues to be relatively robust. At the broadest level, the total assets of US households are historically high relative to disposable income (Exhibit 1). And Bank of America internal data suggests balances in savings and checking accounts remain well above pre-pandemic levels (Exhibit 2).

Exhibit 1: Total assets and liabilities of household and non-profit organizations (% disposable personal income)

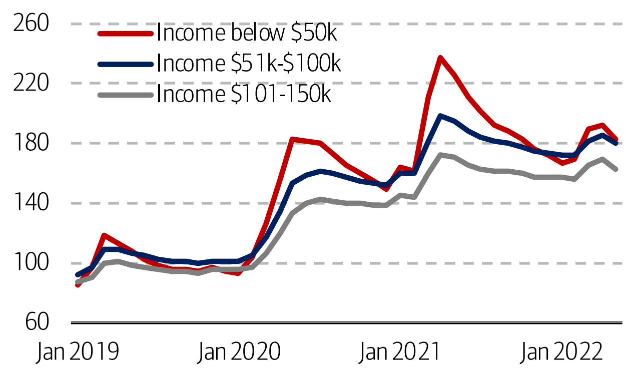
Total assets in the household sector are historically high



Source: Board of Governors of the Federal Reserve System

Exhibit 2: Median household savings and checking balances (index, 2019 average =100 for each group) for a fixed group of households (HH)[1] between January 2019 and May 2022

Savings remain well above pre-pandemic levels



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

[1] Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all 41 months from January 2019 through May 2022.

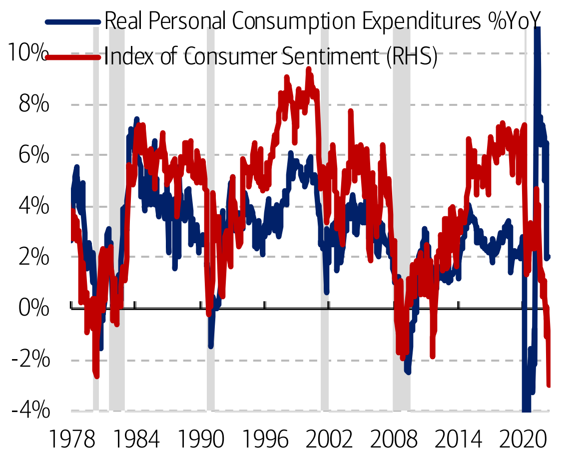
This suggests that, as the rotation into services spending comes to an end the easing back of spending growth may be relatively modest. And consumers are in better shape to respond to a slowdown in the economy than they have been in many previous business cycles – we may have to wait until summer is behind us before it becomes clearer how all these forces will play out.

Consumer sentiment wilts in the summer heat

Consumer sentiment measures have fallen sharply in recent months. Exhibit 3 shows the University of Michigan's consumer sentiment measure (red line) at its weakest point since the late 1970s. Such low levels would usually be associated with a drop in real consumer spending. But, unusually, consumer sentiment around the labor market has not deteriorated to anything like the same extent as overall consumer sentiment, Exhibit 4.

Exhibit 3: University of Michigan measure of Consumer sentiment and real consumer spending

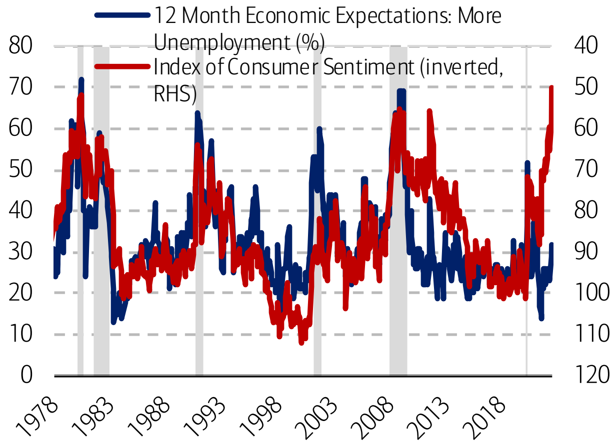
Consumer sentiment is at the low levels usually associated with a period of falling consumer spending



Source: University of Michigan, Bureau of Economic Analysis. Shaded areas means recessions.

Exhibit 4: University of Michigan measure of Consumer sentiment and unemployment expectations

It is very unusual for consumers to feel so downbeat while not expecting rising unemployment



Source: University of Michigan. Shaded areas means recessions.

We think it is likely that that lower consumer sentiment is being driven by the rise in inflation, declines in equity markets and concerns over higher interest rates rather than worries about job security per se. When and to what extent lower sentiment from these sources feeds through to developments in consumer spending is perhaps less clear than in historical cases of lower consumer sentiment. However, there is clearly a risk that consumers are poised to pull back on spending.

Despite the drop-back in measures of consumer sentiment, Bank of America aggregated credit and debit card spending data remains fairly robust, up 11% YoY in June, compared to 9% in May and 13% in April. Looking in more detail, credit card spending was up 16% YoY and debit card spending rose 6% YoY.

Household spending drifting lower, but partly down to seasonality

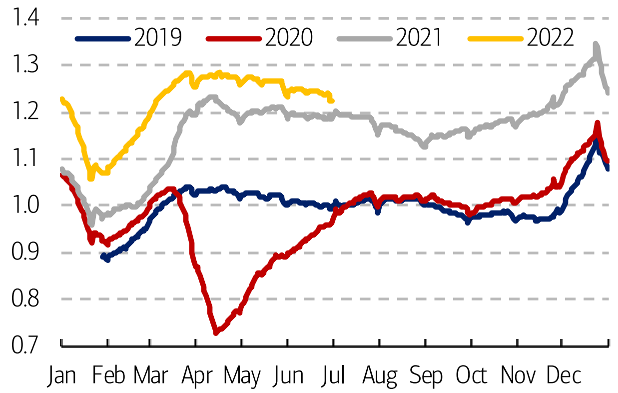
While aggregated Bank of America credit and debit card spending growth remains a little above the prevailing rate of US inflation, this is not the case when we look at the **per household**[2] level. In the 28-day period ending June 30, aggregate Bank of America card spending (credit and debit) **per household** was up 3.3% YoY. This was a slowdown from the 4.0% YoY at the end of May. Moreover, Consumer Price Index (CPI) and Personal Consumption Expenditure (PCE) inflation rates were 8.6% and 6.3% YoY, respectively, in May and are expected to have stayed elevated in June. This implies that YoY growth in inflation-adjusted ("real") spending for households was negative in June.

Card spending per household (Exhibit 5) has been slowing since early April. However, part of this moderation is likely due to seasonality - i.e. spending usually peaks in March/April and slows steadily until the holiday season in a typical year. This seasonal effect will also be compounded this year by the fading of catch-up leisure spending following a post-pandemic boost. It is difficult at this stage to be sure if this slowdown is above what we would expect to see given these crosscurrents.

[2] Per household data divides the total credit and debit card spending by the number of households making transactions. Only households making at least five transactions a month are included in the data.

Exhibit 5: Average daily total card spending per household, based on aggregate Bank of America cards (index, 2019=1, 28-day moving average (ma))

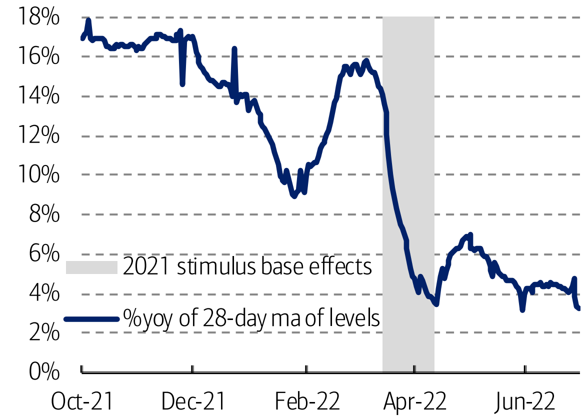
The level of card spending usually slows over the April-June period. It is not clear whether this year's slowdown is larger than normal



Source: Bank of America internal data. Data until June 30 2022.

Exhibit 6: Total card spending per household based on aggregate Bank of America data (% YoY, 28-day ma)

Card spending per household continues to slow



Source: Bank of America internal data. Data until June 30 2022.

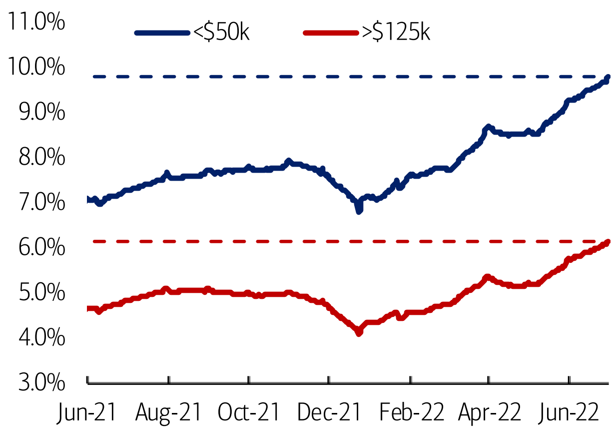
Soaring gas prices squeeze consumer wallets

With national retail gas prices reaching a record high in June, consumers are allocating an increasingly big share of wallet to paying at the pump. According to Bank of America card data, average gas spending as a share of total card spending per household surged to 9.8% for lower-income households (annual income <$50K) for the 28-day period ending June 30th. This compares with just 7.7% for the month of February (Exhibit 7). Meanwhile, the higher-income group (annual income >$125K) also saw a notable increase in gas spending share, to 6.1% for the 28-day period ending June 30th.

The most direct impact from higher gas prices is that consumers, particularly in lower-income groups, are pulling back spending elsewhere. Looking at total card spending excluding gas and grocery, the YoY growth rate for lower-income households contracted 1.0% YoY as of June 30th (Exhibit 8). And when adjusted for inflation in non-grocery and gasoline, this negative nominal spending growth implies that the real spending growth rate is lower. For higher-income households YoY growth in total card spending ex gas and grocery remained positive though it has on a downward trend.

Exhibit 7: Gas spending as a share of total card spending (%, 28-day ma)

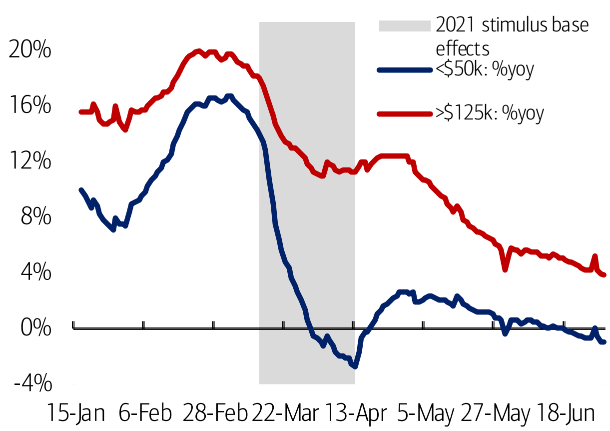
Gas spending is rising as a share of total card spending, particularly for the group of households with income below $50k



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

Exhibit 8: Total card spending excluding gas and grocery (%YoY, 28-day ma)

For lower-income households spending is falling except for gas and grocery spending



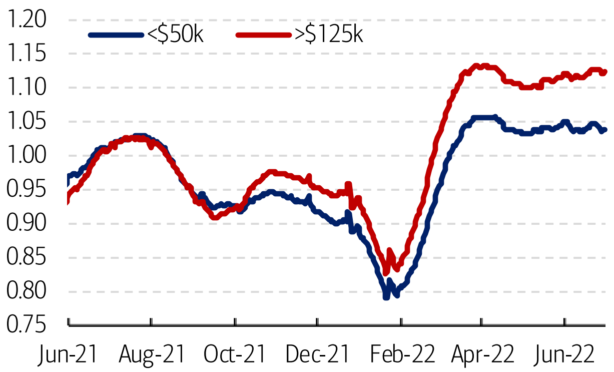
Source: Bank of America internal data. Data as of June 30 2022.

Services spending: enjoy it while it lasts

The biggest driver of consumer spending this year has been the rebound in services spending. This category includes travel, entertainment and restaurants, which have enjoyed a surge in demand following the end of the pandemic. Any signs of a slowdown here could pose downside risks to overall consumer spending. Looking at aggregated Bank of America card data on leisure services (travel, entertainment and restaurants) we see that, on an indexed level, spending remains elevated, up around 4% and 12% relative to the June 2021 average for lower- and higher-income households, respectively (Exhibit 9). The strength in the leisure services rebound has been driven by higher-income households, which had greater pent-up demand for services due to the pandemic.

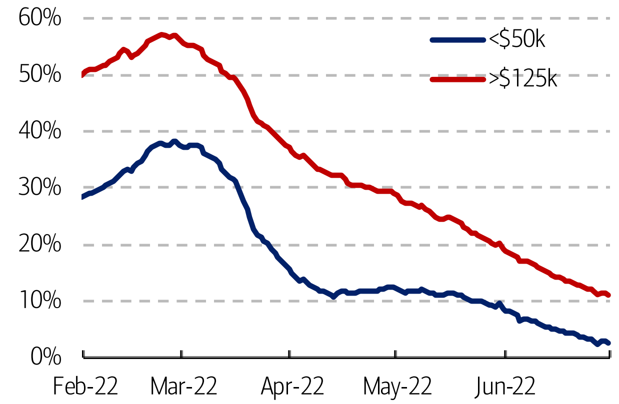
YoY growth rates for leisure services are on a clear downward trend, though remain in positive territory. The biggest test for services spending will come after the summer season. Survey evidence suggests that demand might be waning for domestic travel but remains elevated for international travel, based on data from the Conference Board (Exhibit 11 and Exhibit 12).

Exhibit 9: Spending for leisure services, based on aggregate Bank of America card data per household (index, June 2021 =1 for each group, 28-day ma)
Leisure services spending is significantly higher than June 2021



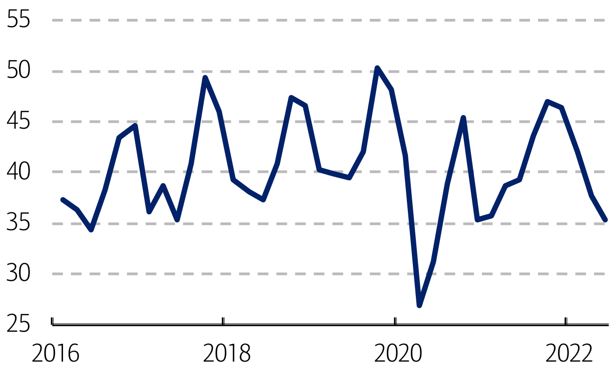
Source: Bank of America internal data. Data as of June 30 2022.

Exhibit 10: Spending for leisure services, based on aggregate Bank of America card data per household (%YoY, 28-day ma)
Year-on-year growth rates for leisure services are on a downward trend



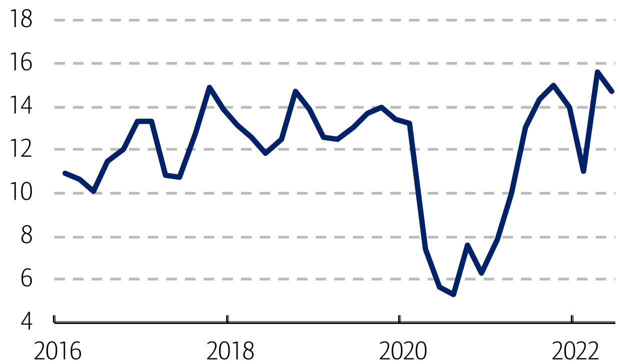
Source: Bank of America internal data. Data as of June 30 2022.

Exhibit 11: The Conference Board confidence survey: vacation intended within 6 months: in the US (% respondents)
Demand for travel in the next six months may be easing



Source: Conference Board

Exhibit 12: The Conference Board confidence survey: vacation intended within 6 months: Foreign Country (% respondents)
But demand for international travel appears to be holding up



Source: Conference Board

Credit where credit's due: rising card use not necessarily a sign of financial stress

Federal Reserve Board data shows that revolving credit card balances increased by 1.6% month over month in April to $1,103bn, surpassing the level in February 2020 for the first time since the pandemic began. This has prompted some concerns that consumers are relying on credit card debt to finance their spending.

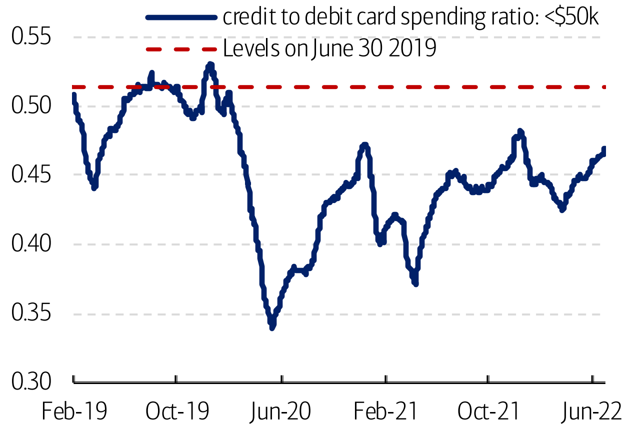
When we look at aggregate Bank of America card spending data broken down by credit and debit cards the story differs by income group: increased credit card spending is a feature of higher-income households rather than those at the lower end of the income distribution.

For lower-income households (i.e. those with annual household income <$50k), the credit to debit card spending ratio was 0.47 for the 28-days ending June 30th, still significantly lower than the 0.51 during the same period in 2019 (Exhibit 13). On the flip side, the ratio was 1.44 for higher income households (i.e. those with annual household income >$125k), well above the ratio of 1.35 for the same period in 2019.

This suggests increased credit card usage is driven primarily by higher-income households as they re-engage in services spending. The good news is that higher-income households historically spend more on credit cards relative to debit cards (due to rewards etc.) and the increased use of credit cards does not necessarily point to financial stress.

Exhibit 13: Ratio of credit to debit card spending for lower-income households (<$50k, 28-day ma)

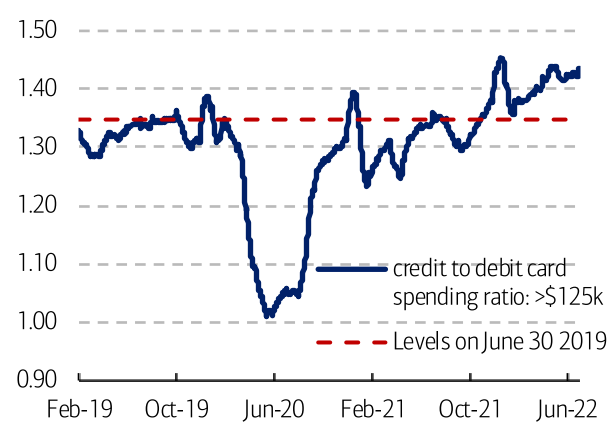
The ratio of lower-income household credit to debit card spending is lower than pre-pandemic



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

Exhibit 14: Ratio of credit to debit card spending for higher-income households (>$125k, 28-day ma)

The ratio of lower-income household credit to debit card spending is higher than pre-pandemic



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

Contributors

David Tinsley

Senior Economist, Bank of America Institute

Anna Zhou

Economist, Bank of America Institute

Taylor Bowley

Analyst, Bank of America Institute

Sources

Li Wei

Senior Vice President, Global Risk Analytics

Ana Maxim

Senior Vice President, Consumer and Small Business

Jonathan Kaplan

Senior Vice President, Digital and Marketing

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. Aggregated 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 (checking and/or savings account) for all 41 months from January 2019 through May 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.

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

Disclosures

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