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Consumer Checkpoint

The young and the restless

09 June 2023

Key takeaways

- Bank of America internal data suggests consumer spending was broadly stable in May, with Bank of America total card spending per household up 0.1% month-over-month (MoM), seasonally adjusted. The year-over-year (YoY) growth rate remains negative at -0.2% YoY.
- Bank of America data shows older generations' spending growth is outstripping that of younger generations. Older households benefited from the COLA (cost-of-living adjustment) social security increase and typically have significantly more wealth, while younger generations are more exposed to higher housing costs and the pending end of the student loan repayment moratorium.
- All generations still have higher deposit buffers than before the pandemic and the share of credit cards in total card spending is little changed across all age groups. Slowing spending and the continued strength of the labor market likely mean that younger generations do not yet need to tap these savings.

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.

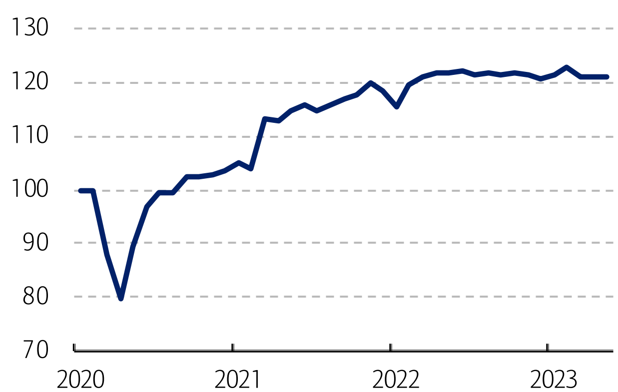
Consumer spending stabilizes in May

Bank of America aggregated credit and debit card spending per household declined by 0.2% year-on-year (YoY) in May, an improvement on the 1.2% YoY drop in April. On the month, consumer spending appears to have been relatively stable, with seasonally adjusted (SA) card spending per household increasing by just 0.1% between April and May.

The YoY spending declines over the past two months partly reflects 'base effects,' as spending ramped up in 2022 after the economy re-opened and this is increasingly part of the denominator in YoY growth comparisons. Seasonally adjusted spending may be a better guide to the trajectory in 2023. As Exhibit 1 shows, seasonally adjusted spending has been fairly stable over the past few months. Moreover, gas spending in May contracted by -3.4% MoM SA, partly reflecting lower retail gasoline prices. After excluding gas, card spending in May was positive at 1.2% YoY (Exhibit 2).

Exhibit 1: Total credit and debit card spending per household, based on Bank of America card data (index, Jan 2020=100, seasonally adjusted)

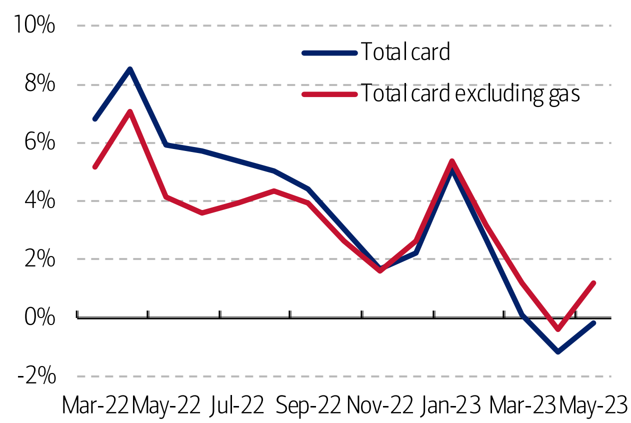
While the YoY growth rate has fallen, the level of spending in 2023 has been relatively flat so far



Source: Bank of America internal data

Exhibit 2: Total card spending vs. card excluding gas spending per household (%YoY)

After excluding gas, the YoY growth in total spending was positive in May

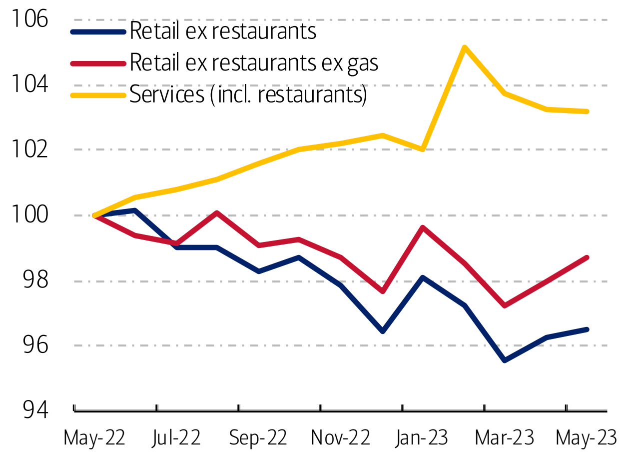


Source: Bank of America internal data

A closer look at the breakdown over the last year shows that retail spending has ticked up in recent months, following a longer period of decline. Services spending, on the other hand, has shown some signs of flattening off after having risen steadily through February 2023. Within services, restaurant spending has shown a significant upward trajectory (Exhibit 4). Meanwhile, airline spending has been fairly choppy and lodging expenditure seems to be on a slight downward trend. As we discussed in a prior Consumer Morsel, travel spending is a mixed bag. Spending for categories that recovered more quickly during the pandemic, such as lodging, seems to have already peaked, while spending on the late-recovery sectors, including cruises, continue to run hot.

Exhibit 3: Total card spending per household: retail vs. services (monthly, index May 2022=100, seasonally adjusted)

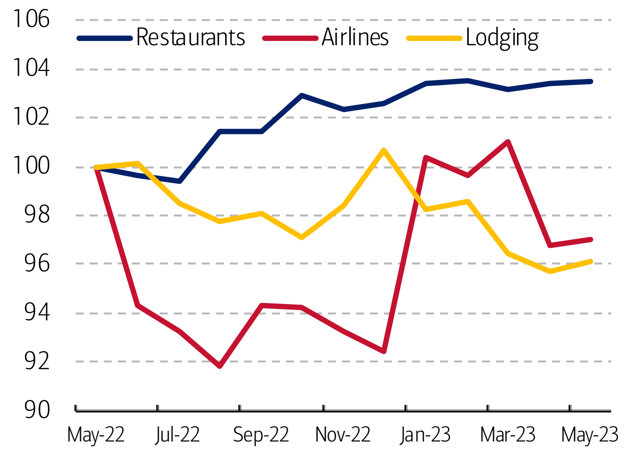
Services spending has been on a broadly upward trajectory over the past year



Source: Bank of America internal data. Note: retail means goods spending.

Exhibit 4: Card spending per household at restaurants, airlines, and lodging (monthly, index May 2022=100, seasonally adjusted)

Restaurant spending has been rising steadily, while travel related spending has been choppy



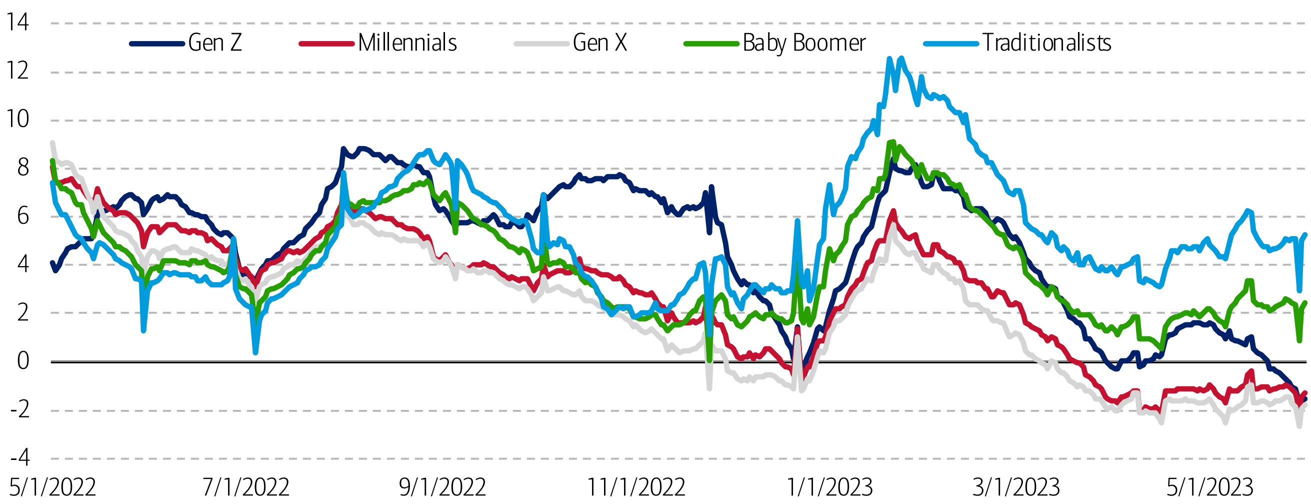
Source: Bank of America internal data

Large differences in spending between the generations

One noteworthy observation in the spending data is a significant difference in the spending growth rates for older and younger generations. In particular, Baby Boomer (born 1946-64) and Traditionalist households (1928-45) are showing higher YoY growth rates in total card spending according to Bank of America internal data. And the strength seems more than just favorable base effects (i.e., lower spending level a year ago). This is important because while Traditionalist households are now relatively few in number, there are many more Boomers (Exhibit 6). So, this group's faster spending is to some extent holding up the average aggregate. It is also striking that Gen X, which is made up of people born between 1965 and 1977, is showing the same weaker trends as Millennials and Gen Z.

Exhibit 5: Total credit and debit card spending per household, based on Bank of America card data, by age generation (daily data to May 31, 28-day moving average, % YoY)

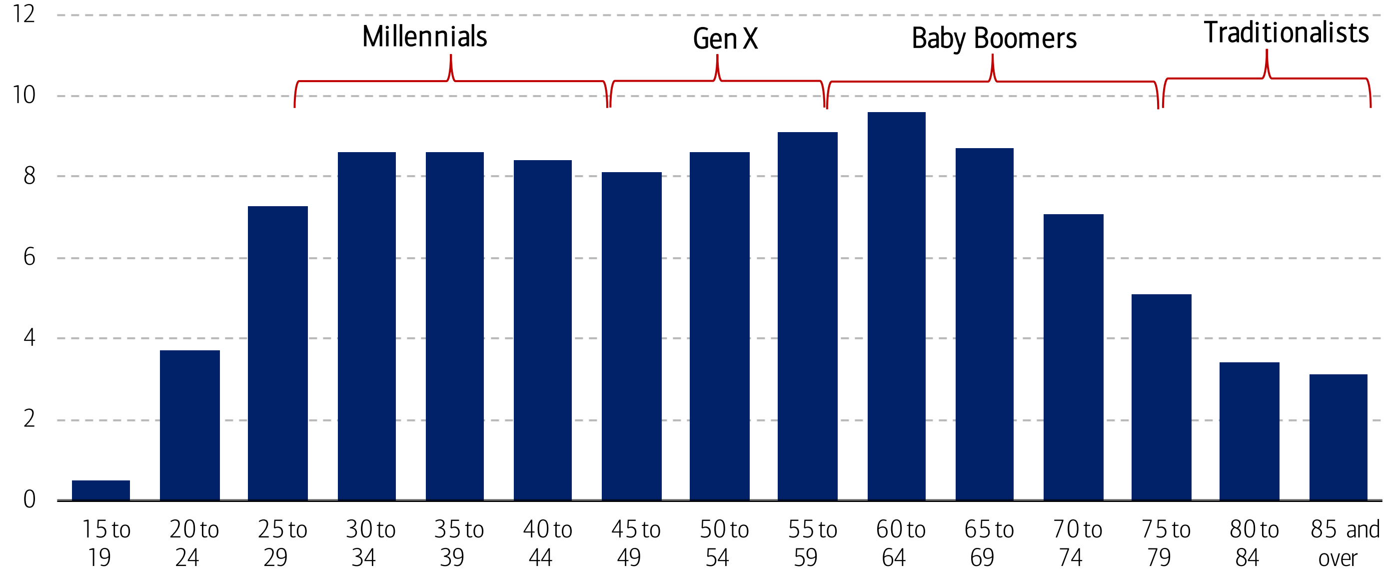
A significant gap has opened up between younger and older generations' spending



Source: Bank of America internal data. Note the latest dip in the daily data is due to Memoria Day timing distortions.

Exhibit 6: Households by age of householder (% share of total)

Baby Boomers and Traditionalists combined make up a significant share of households



Source: US Census Bureau

COLA increase still sparkling

What could be driving this? We have previously discussed how the January 2023 social security cost-of-living adjustment (COLA) increase of 8.7% was the largest in 40 years. Around three-quarters of this rise will have gone to those aged 65+ largely in the form of higher retirement benefits. We estimated at the time that the rise in social security payments may have to led to a significant boost to spending for those recipients. Exhibit 8 suggests there continues to be some positive impact from the COLA increase, though it has faded somewhat.

Exhibit 7: Total credit and debit card spending per household, based on Bank of America card data (YoY, 28-day moving average of daily data as of May 31)

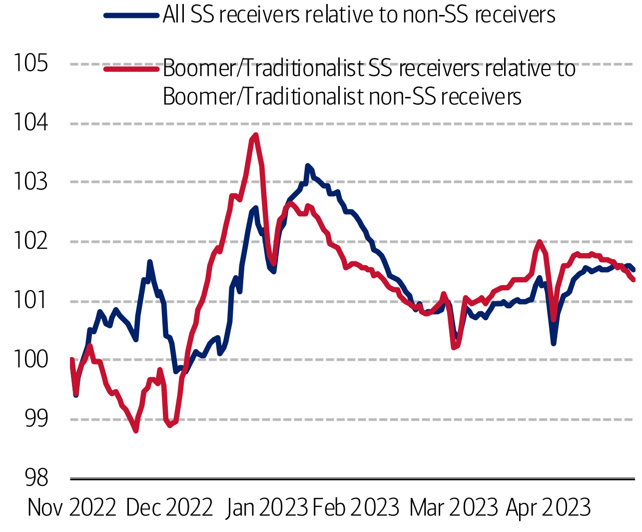
Stronger older generation spending occurs across income cohorts

	LT $50K	$50-125K	$125+
Gen Z	0.4%	-1.0%	0.8%
Millennials	-1.5%	-1.2%	0.0%
Gen X	-1.6%	3.0%	-1.8%
Baby Boomers	1.7%	5.0%	2.8%
Traditionalists	5.6%	2.6%	4.6%

Source: Bank of America internal data

Exhibit 8: The ratio of total card spending per household for households where social security (SS) payments were observed relative to those where they were not (28-day moving average of daily data, index November 30, 2022=100)

There was a clear boost to spending in households that received the COLA increase



Source: Bank of America internal data. Data ends on May 27 to avoid Memorial Day distortion.

While the COLA increase likely remains one reason for stronger older generation spending, the gap between the younger and older groups is probably a little too large for it to be the only explanation. When we look at the breakdown of spending by generations across income cohorts (Exhibit 7), we found that the outperformance of older generations' spending is taking place at higher income levels, too. Since the social security rise would proportionately tend to benefit lower-income groups, this suggests there may be other factors at play.

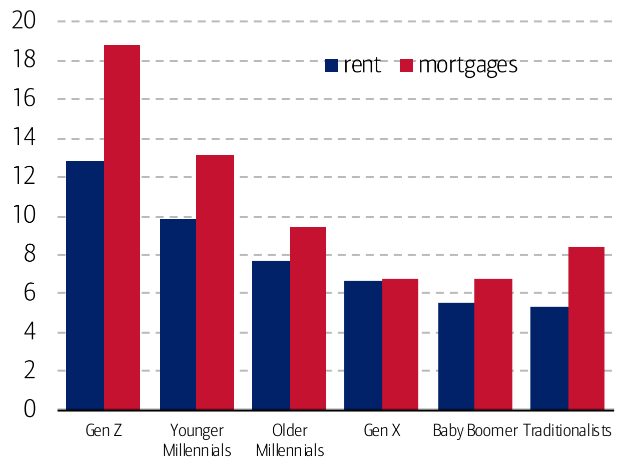
Housing costs hit the young

The different way rising housing costs are felt across generations is another important influence on the divergence in generational spending per household. Bank of America data shows that Gen Z and Millennials are seeing a much higher rise in median rent and mortgage payments than older generations.

These differences in housing costs likely reflect important life-cycle influences. Younger generations will need to move for work, to accommodate expanding families and, more broadly, as they seek more space as they mature. This exposes them more frequently to rising rents (particularly when moving to new accommodation) than older generations. The same is true for house purchases – younger people buying for the first time or needing to move for personal reasons will be more exposed to rising mortgage rates and higher house prices. Conversely, older generations may have less pressure to move and in aggregate they are less likely in any case to have a significant, outstanding mortgage.

Exhibit 10: Median rent and mortgage payments by generation (May 2023, % YoY)

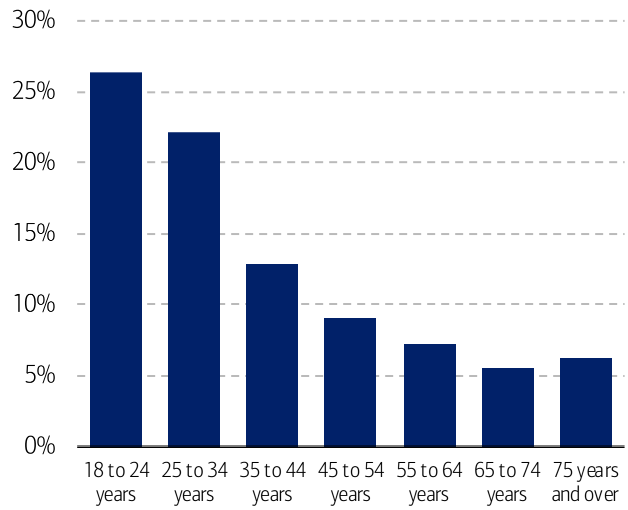
Younger generations are experiencing larger rises in median mortgage and rent payments



Source: Bank of America internal data

Exhibit 10: % of population who moved home in last year (2021)

Younger generations tend to move more frequently than older ones



Source: US Census Bureau (American Community Survey)

Student loan resumption another headwind

An additional factor constraining younger generations spending choices could be the pending need to resume paying student loans. The moratorium on student loan repayments started in March 2020 and has, for some time, been expected to end by the end of August 2023. The recent debt ceiling deal confirms this and puts the end on a statutory basis, with the pause ending 60 days after June 30.

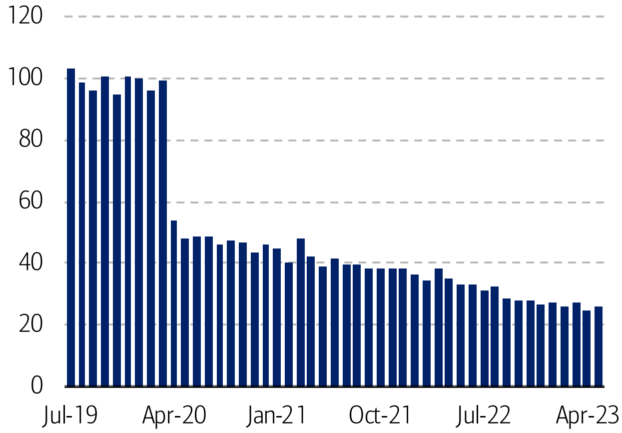
Exhibit 12 uses Bank of America data to show how the number of households making student loan repayments declined very sharply when the original moratorium was announced. However, it did not fall to zero, indicating some households continued to make payments even despite the moratorium. Bank of America data indicates that the median monthly repayment for impacted households in January 2020 was $180.

Student loan debt holders skew towards younger borrowers, although those aged 35-49 have the highest proportion of the outstanding overall student debt. A significant number of younger households may therefore be anticipating additional financial pressure as repayment obligations kick back in.

The overall impact of the ending of the moratorium on student loan payments will depend on how the Administration's plan to forgive some student loans, which is currently being examined by the Supreme Court, is resolved. This will determine for many borrowers the envelope of their future student debt.

Exhibit 11: Number of households making student loan payments (index, Jan 2020 = 100)

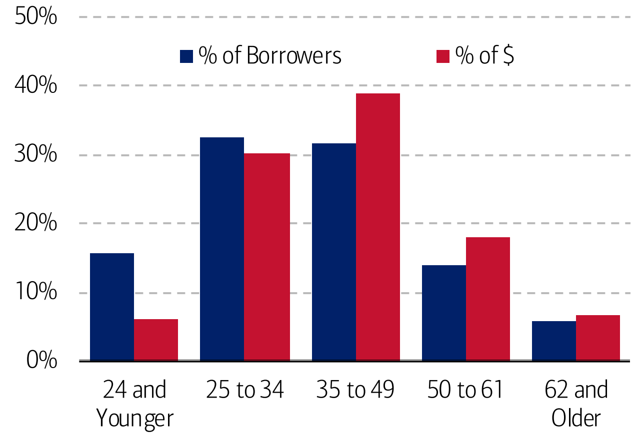
After the first moratorium the number of student loan repayments fell sharply and continues to trend downwards



Source: Bank of America internal data

Exhibit 12: Federal Student Loan Portfolio by Borrower Age (%)

People aged 25-34 and 35-49 account for the largest share of both borrowers and dollars outstanding



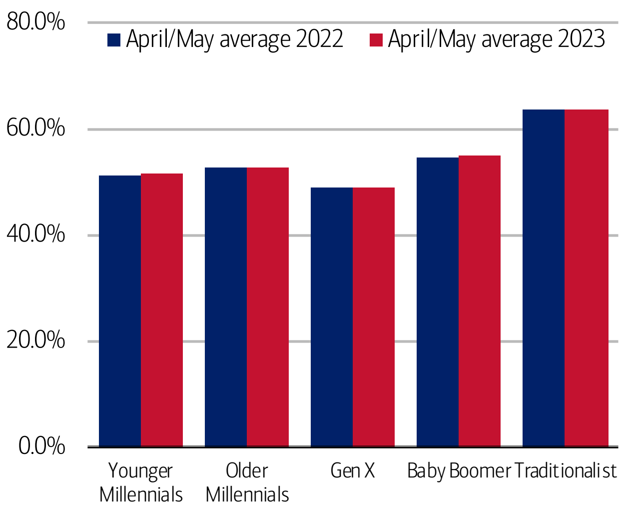
Source: Department of Education, Q1 2023

Younger generations still supported by savings but wealth lags

While it appears that younger generations are facing financial pressure from higher housing costs and the pending resumption of student loan repayments, there is little sign this is being reflected in rising credit card borrowing. Exhibit 14 indicates that the share of credit card spending in total spending is little changed across all generations.

Exhibit 13: Share of credit card spending for households who own both a credit and debit card in the periods shown (%)

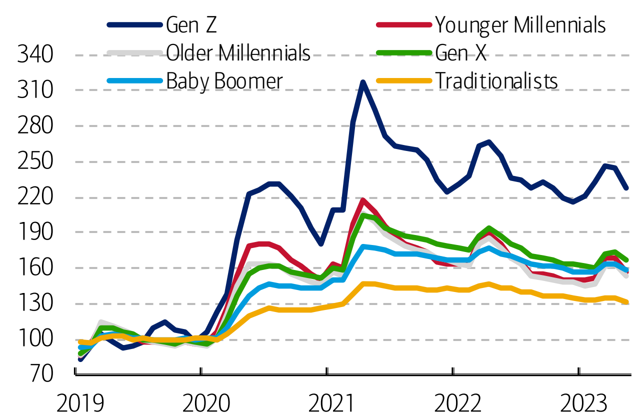
There is very little change in the share of credit cards in total spending



Source: Bank of America internal data.

Exhibit 14: Monthly median household savings and checking balances by age generation (2019=100) for a fixed group of households

Median deposits remain well up on pre-pandemic levels across generations



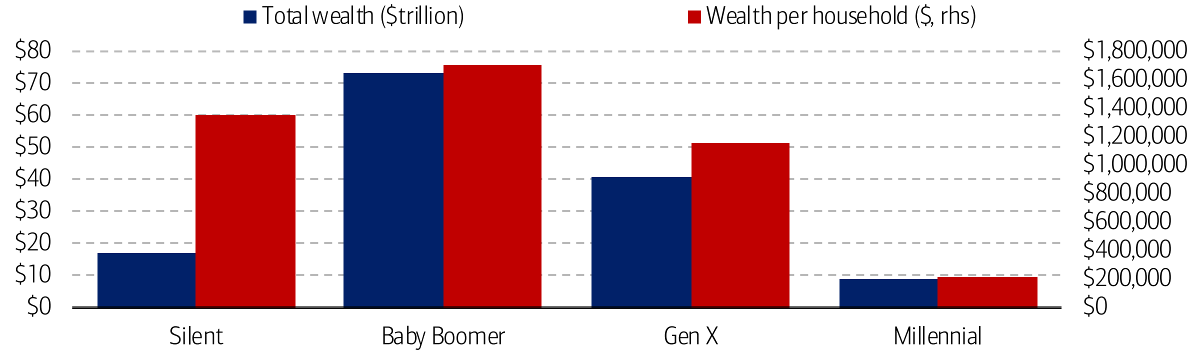
Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through May 2023.

At the same time, Exhibit 15 shows that median household savings and checking balances remain well above their 2019 levels for all generations. So, to the extent that younger cohorts are feeling financial headwinds, they appear to be adjusting their spending rather than allowing themselves to borrow more or to draw down savings. To date, the continuing strength of the labor market is probably also reducing the need for younger generations to tap their buffers.

That said, there remains a stark difference between wealth levels across generations. Specifically, older generations hold a lot more wealth than younger generations, allowing them to better weather rising living costs. According to the Federal Reserve, Baby Boomers held $73 trillion in net worth as of 4Q 2022, eight times that of Millennials. On a per household basis, Traditionalist and Baby Boomer families had on average $1.4 million and $1.7 million in wealth, respectively, compared with just $214k for Millennial households (Exhibit 16).

Exhibit 15: Total net worth and per household net worth by generation in 4Q 2022

Baby Boomers are the wealthiest generation, owning $73 trillion in 4Q 2022, eight times the wealth of Millennials



Source: Federal Reserve. Note: The Fed refers to Traditionalists as the Silent Generation.

Monthly data update

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) was 7.6% YoY in May. Bank of America credit and debit card spend, which makes up over 20% of total payments, was up 3.9% YoY.

The YoY growth in card spending per household, which measures average spending for Bank of America customer households, was down 0.2% YoY in May, compared to -1.2% YoY in April.

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 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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