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Consumer Checkpoint

Driving home for the holidays

10 November 2022

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.

Key takeaways

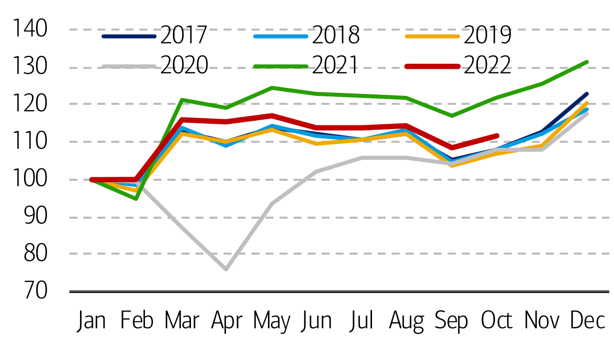
- Overall consumer spending growth continued to slow in October, though remains relatively perky on a nominal basis (i.e. not adjusted for inflation). Discretionary spending has shifted into a slower lane as the tailwind from lower income households (<$50k) fades. In October, discretionary spending per household rose 2.9% year-over-year (YoY), down from 3.2% in September; services spending continues to outperform weaker goods spending on a YoY basis.
- Given that lower income households allocate a bigger share of their total spend on goods, this could mean downside risks to holiday goods spending – the holiday sales tracker appears weaker than last year. It's still fairly early days, but the Bank of America 2022 Winter Omnibus survey also suggests more consumers expect to spend 'less' than 'more' this holiday season.
- Cars are an important part of the average family's spending. Limited supplies have pushed up car prices, meaning the average auto loan repayment by Bank of America customers jumped by 7% YoY in October. But there is a silver lining: as auto supply recovers, spending on cars may buck the overall trend of weakening discretionary consumption.
- Total payments growth was a solid 9% YoY in October. Within this, overall total credit and debit card spend, which makes up over 20% of total payments, was up 8% YoY. Total card spending per household was up 3.1% YoY in October (4.4% in September) and remained lower than inflation.

Lower income tailwind fades ahead of the holiday season

Bank of America data points to a continued slowdown in discretionary card spending. In October the %YoY growth rate was 2.9%, down from 3.2% in September. Card spending on discretionary categories in 2022 appears to be following a broadly similar seasonal path to that in the five years before the pandemic (Exhibit 1), while in 2020 and 2021 spending profiles were distorted by the impacts of lockdowns and reopening. In 2021, card spending leading into the holidays was also boosted by the fading of the Delta variant, which is likely accentuating the apparent slowdown in %YoY growth rates.

Exhibit 1: Monthly credit and debit card spending per household on discretionary categories (Non-Seasonally Adjusted (NSA), index, January each year = 100)

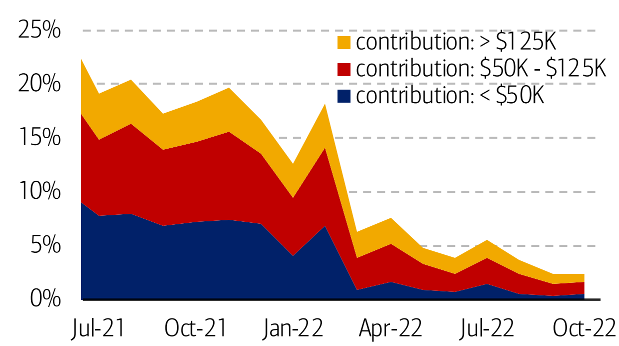
The 2022 pattern of discretionary spending looks similar to those seen pre-pandemic



Source: Bank of America internal data. Note: discretionary spending is total card spending per household excluding gas, grocery and utilities.

Exhibit 2: Contribution to the %YoY growth of total discretionary spending per household on credit and debit cards by income groups

Discretionary spending growth is now driven mostly by middle and higher income groups



Source: Bank of America internal data. Note: discretionary spending is total card spending excluding gas, grocery and utilities.

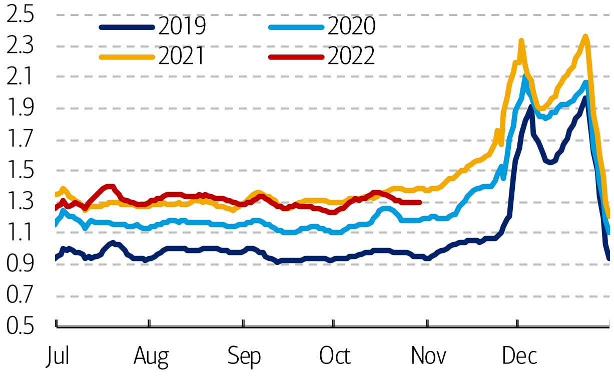
Looking at the contribution to the slowdown in the % YoY growth of discretionary spending by income in 2022, middle ($50-$125k) and higher income (>$125k) households have replaced lower income households as the main driver for the %YoY growth of discretionary spending (Exhibit 2). In October, the lower income group contributed just one fifth of the growth in discretionary spending, compared with around two fifths back in October 2021. This is likely due to lower income groups being the most negatively impacted by surging prices – they have also seen the biggest drawdown of bank savings (for more see: Hitting the Buffers?). Middle and higher income households allocate a bigger share of spending on services, meaning that holiday services spending could come in more resilient than goods spending.

In fact, holiday sales, which include categories that usually receive a big boost in sales during the winter holidays such as clothing and electronics, continue to show some weakness in goods spending for the winter holiday season relative to last year (Exhibit 3). The caveat is that, as we noted above, 2021 was not a 'normal' year.

It may be that holiday spending is being delayed, as consumers sift through promotions, rather than foregone. The Bank of America 2022 Winter Omnibus survey of consumers' intentions around holiday spending (please see methodology section for details) suggests 37% of consumers intend to spend 'the same' as last year (Exhibit 4), while more expect to spend 'less' than 'more'.

Exhibit 3: Holiday spending per household, based on aggregated Bank of America card data (index, August average 2019=1)

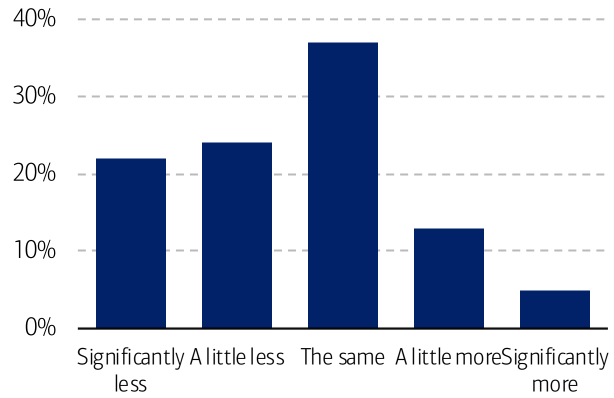
Holiday spending seems to be weaker than last year despite recent retailer promotion, but running higher than 2019 and 2020



Source: Bank of America internal data. Data as of October 29. Note: the holiday sales include all MCC codes for which spending share during Nov-Dec is higher than 20% of annual spending.

Exhibit 4: % Reponses to the question, 'how much do you intend to spend this holiday season compared to last holiday season?'

37% of people plan to spend the same this holiday season compared to last year



Source: Bank of America 2022 Winter Omnibus Survey

Autos constrained by limited inventory and low affordability

One area that may buck the trend of slowing discretionary spending growth is autos. This is because many consumers have been frustrated by lack of supply, meaning there should be a well of pent-up demand as disruptions ease.

Data from the Census Bureau suggests that as of August the inventory to sales ratio for motor vehicles and parts was just 1.5, well below the 2011-2019 average of 2.13. This lack of auto supply has pushed both new and used car prices to record high levels, which, coupled with rising interest rates, means car purchases have become much more expensive.

According to data from the Bureau of Labor Statistics (BLS), the average US household spent roughly 7% of its annual expenditure on vehicle purchases in 2021. This rises to 8.4% for lower income groups, if we use households with less than a college education (household annual income < $54k) as a proxy (Exhibit 5).[1]

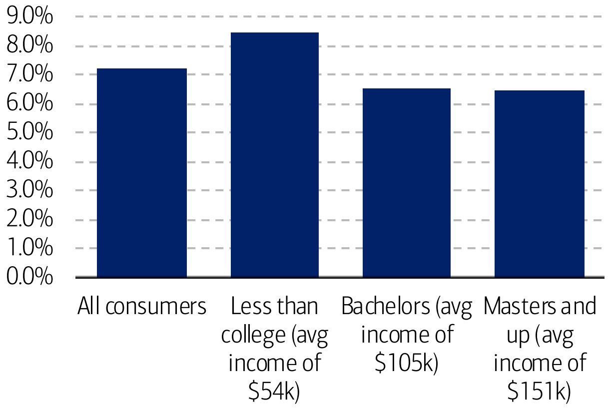
Higher car valuations and rising interest rate had led to an increase in the average auto loan payments. Looking at Bank of America internal data, in October the average auto loan payment was up 7% YoY.

As Exhibit 6 shows, the size of an average auto loan payment has increased steadily since 2019 alongside car prices. But the surge in new car prices since 2021 has not been matched by a similar surge in the size of average loan payment, according to Bank of America internal data. One reason for this is lags – only new auto loans will be impacted by higher car valuations, so the average payment takes a while to reflect higher car prices.

[1] Note for the BLS data we use education level as a proxy for income level given that the bottom income quintile could include retirees and students.

Exhibit 5: Share of annual expenditure on vehicle purchases by education degree (%)

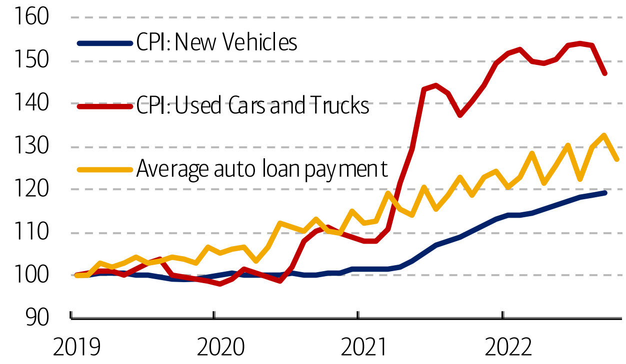
An average US household in 2021 spent roughly 7% of their annual expenditure on vehicle purchases



Source: Bureau of Labor Statistics

Exhibit 6: Average auto loan payment by Bank of America customers vs. Consumer Price Index (CPI) for new and old cars (Non-seasonally adjusted, Jan 2019 = 100)

Average auto loan payment for Bank of America customers was up 7% YoY in October



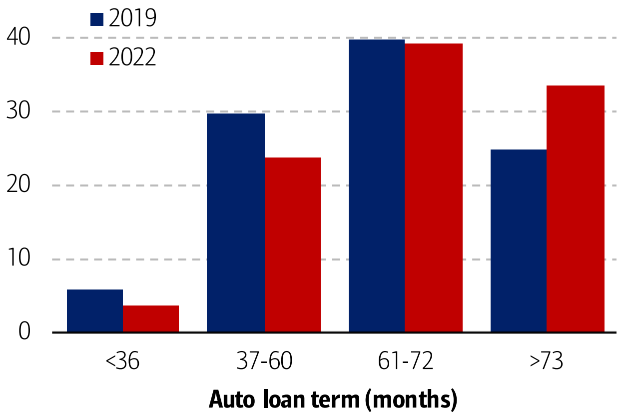
Source: Bank of America internal data, Bureau of Labor Statistics for CPI. Note the sample include both consumer and small business customers. Auto loan payments by Bank of America customers include payments to financial institutions that may include Bank of America

Another reason is that consumers are paying off auto debt over a longer period, making the size of each payment smaller. According to data from Experian, 33% of auto loans had terms longer than 73 months in 1Q 2022, an 8 percentage points increase from the same period in 2019 (Exhibit 7).

For consumers, these longer terms are something of a double-edged sword. They mean that loan payments are not rising as much as they otherwise would. But, at the same time, loans taken out when car prices are high and rates are rising will continue to need servicing for longer.

Exhibit 7: Distribution of auto loans by loan terms Q1 2022 vs. Q1 2019 (%)

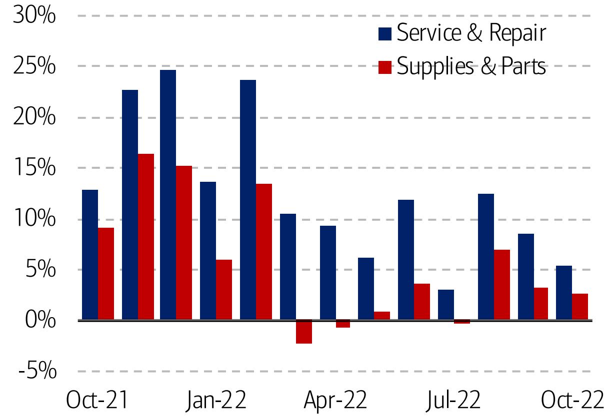
Average auto loan term is getting longer compared with 2019



Source: Experian

Exhibit 8: Credit and debit card spending for auto parts, repair and other auto services (monthly, %YoY)

In October, spending auto services and repair was up 5% YoY, while spending for auto supplies and parts was up 3% YoY



Source: Bank of America internal data

If a new or used car purchase is out the question, maybe you should take better take care of your existing vehicle? Our card data on auto-related spending suggests a mixed picture here, with some moderation in growth of late, though it remains fairly robust overall. In October card spending for auto services and repair was up 5% YoY, while card spending for auto supplies and parts was up 3% YoY (Exhibit 8).

What does the current position of the auto sector mean for consumer spending and the wider economy?

The auto sector is arguably out of step with the rest of the economy, with considerable pent-up demand. This means that as supply gradually catches up, auto prices should moderate and consumers will likely continue to purchase autos and auto-related items and services, even as the rest of consumer spending cools off.

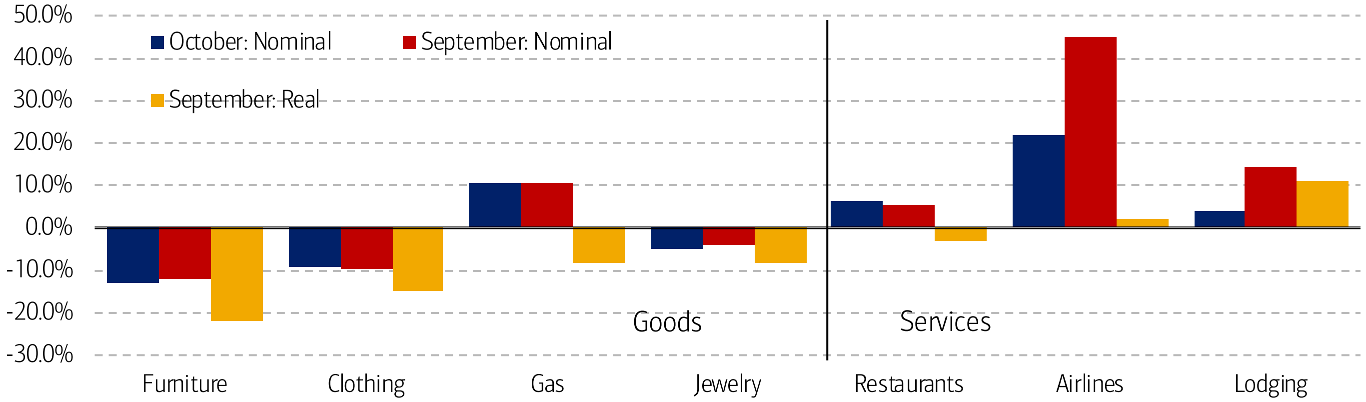
Monthly data update – a nudge up from stimulus in CA

The jury is out on overall holiday spending, but for now at least, it appears fairly soft compared to last year. This is generally consistent with the pattern of weak goods spending that we have seen over 2022, as services and experiences, such as meals out and travel, were favored more. The slowing of the housing market is also contributing to weaker goods spending (Exhibit 9), with furniture spending down more than 10% YoY in nominal terms and over 20% once inflation is taken into account.

Services spending continues to look in better shape overall. In October, services spending, including restaurants and travel, remained well into the positive territory on a %YoY basis. However, airline and lodging spending did moderate sharply and, depending on how fast prices cool in these sectors, real spending growth in these sectors might have slipped below zero in October.

Exhibit 9: Credit and debit card spending per household for select sectors, nominal vs. real growth rates (%YoY)

Services spending remained positive on a %YoY basis in October though airlines and lodging spending are moderately sharply



Source: Bank of America internal data. Real spending growth rate is calculated by adjusting for the corresponding price increase in CPI

Overall total credit and debit card spend, which makes up over 20% of total payments, was up 8% YoY in October, while payments across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) increased 9% YoY in October.

Meanwhile, card spending *per household*, which measures average spending for Bank of America customer households, moderated slightly to 3.1% in October from 4.4% YoY in September. This was the sixth month of moderation on a %YoY basis. Similarly, real spending continues to be under pressure from high CPI inflation (8.2% YoY in September) and Personal Consumption Expenditure (PCE) inflation (6.2% YoY in September).

It appears as though card spending per household received a boost from tax refunds in California, meaning that the underlying spending momentum to total spending would have been mildly weaker than what the headline number suggests. We estimate that between October 1 and October 28, spending per household in California was boosted by around 0.6%. Specifically, by looking at those who received stimulus on 10/7, 10/11, 10/14, and 10/17, spending tended to show the biggest relative increase during the week immediately following the distribution of stimulus (Exhibit 11).

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.

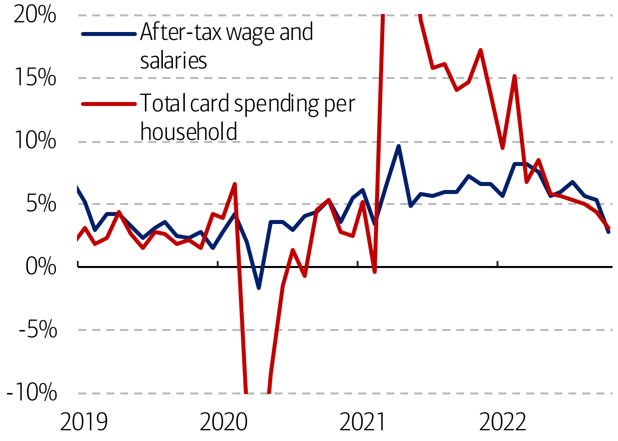
4. Differences can reflect using the processing date (total card spending) versus the transaction date (per household card spending).

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

The Bank of America proxy of after-tax payroll wage growth, which is derived by anonymizing and aggregating direct deposit data from Bank of America consumer deposit accounts in the US, shows that for the month of October, after-tax wages were up 2.8% YoY, slowing down in line with total card spending per household (Exhibit 10).

Exhibit 10: After-tax wages and salaries and total card spending per household, based on Bank of America internal data (%YoY)

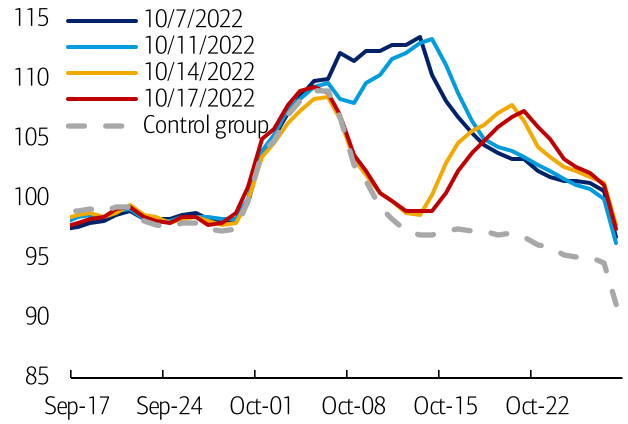
Both total card spending per household and after-tax wage growth slowed down further on a %YoY basis in October



Source: Bank of America internal data. Note: April 2020 and April 2021 data points for card spending per household aren't shown in the chart due to high volatility.

Exhibit 11: Total card spending per household for select groups of stimulus recipients in California vs. the control group (index, September =100 for each group, 7-day moving average)

Spending for stimulus recipients tended to show the biggest relative increase during the week immediately following the distribution of stimulus



Source: Bank of America internal data. Note: control group include households in California that did not receive any stimulus payments in October.

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

Kimberly Warren

Senior Vice President, Global Risk Analytics

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 BAC 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 <u>per household</u> 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.

The America 2022 Winter Omnibus survey was conducted online in October 2022. The survey consisted of 2,008 respondents throughout the U.S. Respondents in the study were aged 18 to 99 and were representative of the average U.S. consumer across income, geography, gender and generation.

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

Disclosures