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Consumer Checkpoint

Home and Away

11 October 2022

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 takeaways

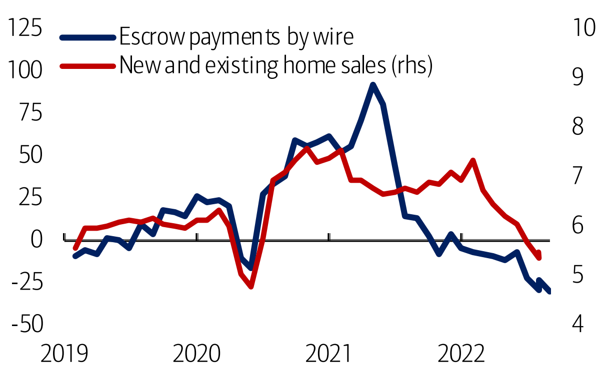
- Bank of America internal data suggests the housing market is slowing. Escrow and title payments – used for deposits ahead of house sales – have been declining for most of 2022.
- The slowdown may partially reflect high valuations and surging mortgage rates, which are weighing on affordability – in September median mortgage payments for Bank of America customers rose 8.8% year-over-year (YoY). Households looking to rent instead of buy are also facing rising costs, with the median rent up 8.1% YoY in September.
- This could translate into a squeeze on discretionary spending particularly for renters, who are typically younger and earn lower income – furniture spending is already significantly weaker. By contrast, homeowners appear to be planning to spend more on home improvements, providing some offset.
- Overall spending is faring better than the housing sector. Bank of America data shows after-tax payroll wage growth of 5.5% YoY is still outpacing growth in total card spending per household, which is up 4.4% YoY in September. The caveat is that card spending per household moderated for the fifth month, partially due to Hurricane Ian. Meanwhile total payments are strong, rising 10% YoY in September. Within this, overall total credit and debit card spend, which makes up over 20% of total payments, was also up 9% YoY.

Bank of America data adds to mounting signs of a housing slowdown

Bank of America internal data suggests the US housing market is slowing. The YoY growth rate in wire payments to escrow and title companies – typically used to pay deposits ahead of closing a housing sale – has been slowing and turned negative in 2022, see Exhibit 1. This is consistent with the pattern observed in new and existing single-family home sales, which have also been falling this year, according to US Census Bureau data.

Exhibit 1: Escrow payments (wire, % YoY) and new and existing home sales (Seasonally Adjusted Annual Rate, Millions)

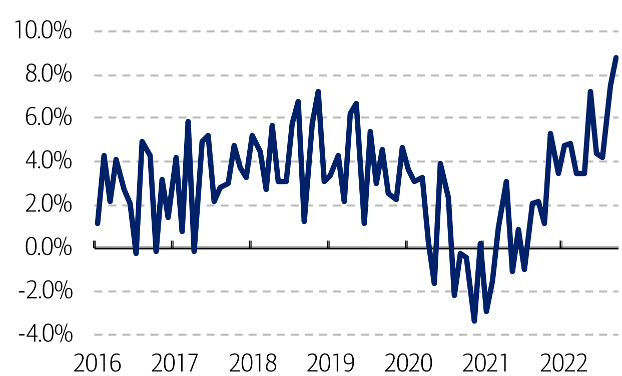
Declining escrow payment volumes are indicative of slowing housing market sales



Source: Bank of America internal data, U.S. Census Bureau.
Escrow payments relate to payments to all external (non-BAC) accounts.

Exhibit 2: Median mortgage payments per household, based on Bank of America internal data (%YoY)

The median mortgage payment rose 8.8% YoY in September 2022



Source: : Bank of America internal data

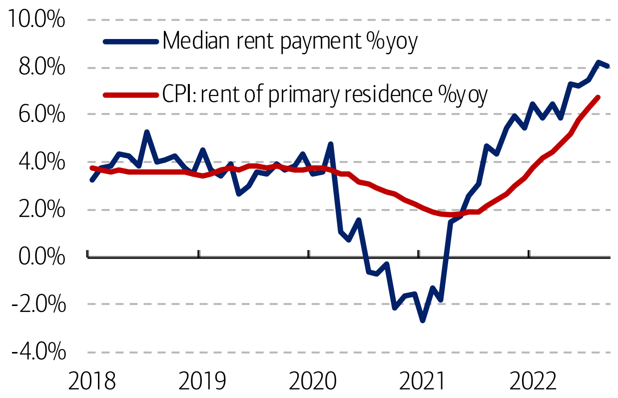
Driving the housing slowdown are high valuations and rising mortgage rates, which are weighing on affordability, particularly for new buyers. A large proportion of existing borrowers are under fixed-rate mortgages and not yet exposed to rising rates. But median mortgage payments in Bank of America internal customer data rose 8.8% YoY in September 2022 (Exhibit 2). We think this likely reflects three factors: 1) higher house prices feeding through to higher average payment size for new mortgages; 2) with surging wages and elevated savings, consumers potentially paying more than needed each month to reduce debt levels; and 3) mortgage payments often include property taxes, so if local taxes are rising, it would skew payments to the upside.

The rising cost of entering the owner-occupied housing market has pushed some potential buyers into the rental market, creating further upside pressure on rent prices. Roughly 34% of US households are currently renting, according to data from Census Bureau in 2022, and 7% of total US consumer expenditure went to rent in 2020, according to the Bureau of Labor Statistics.

In September, median rent payments across ACH (automated clearing house), debit/credit cards and bill payments for Bank of America customers increased by 8.1% YoY, in line with 8.2% YoY in August. As Exhibit 3 shows, the Bank of America median rent payment %YoY tracks the rent component of Consumer Price Inflation (CPI) fairly well. As such, the latest Bank of America rent payment data also points to continued strength in September rent inflation.

Exhibit 3: Median rent payment in Bank of America internal data and rent inflation based on CPI (%YoY)

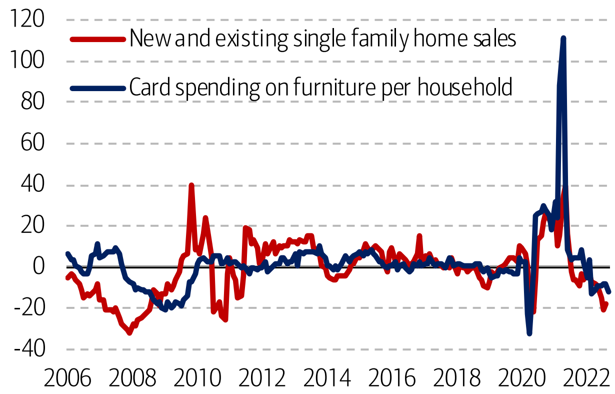
Median rent payments for Bank of America customers increased 8.1% YoY in September



Source: Bank of America internal data, Bureau of Labor Statistics. Rent payment data as of September, CPI data as of August.

Exhibit 4: Bank of America credit and debit spending per household on furniture (% YoY) and new and existing single-family home sales (% YoY)

Both housing sales and furniture spending have been on a weakening trend in 2022



Source: Bank of America internal data, U.S. Census Bureau.

Weakening housing market may be a drag on spending

Housing market trends may be a drag on consumer spending, particularly in housing-related segments. Exhibit 4 illustrates the historically close relationship between housing sales and furniture spending, which is playing out now as both are slowing. In past housing cycles, such as 2008-2010, there was a lag before furniture spending troughed, which suggests further weakness could lie ahead.

But there are some reasons not to be too pessimistic. In the 2008-2010 cycle the housing market correction was severe and accompanied by a marked deterioration in the labor market. Forecasts for the macro economy are not as downbeat currently. Furthermore, supply chain bottlenecks may have frustrated some buyers as we emerged from the pandemic – meaning that demand for housing-sensitive goods could continue even as housing slows.

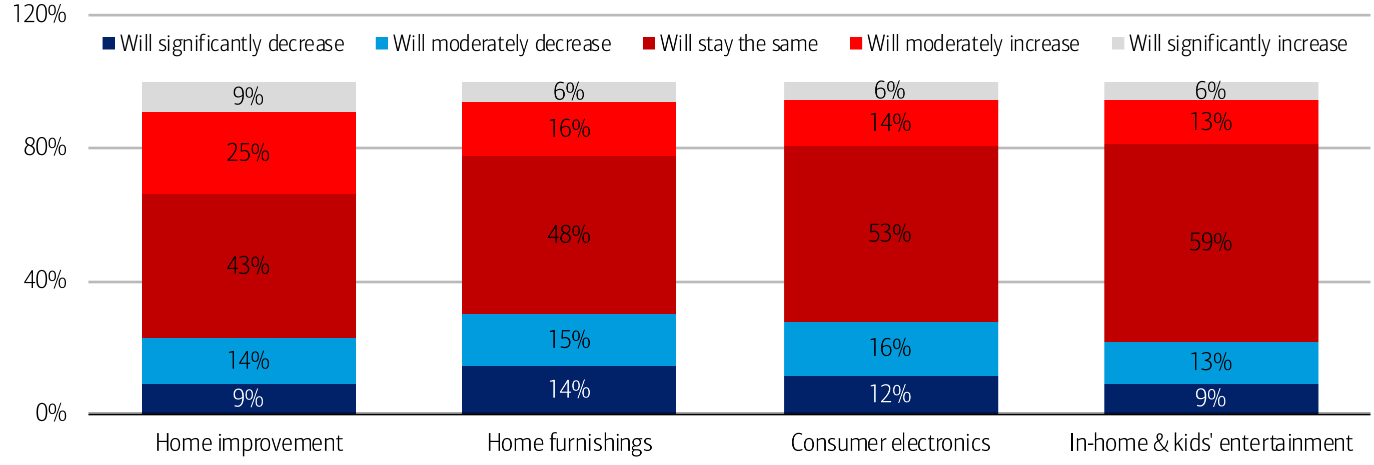
Don't move – improve?

Of course, furniture spending is not the only category that is sensitive to the housing market. Declining home sales, should this pattern persist, would usually be accompanied by weakness in other areas of spending closely correlated with housing moves – such as certain electronics and home appliances. The Home Work survey from BofA Global Research suggests weakness in home-related spending will likely persist next year. Respondents said they intended to spend less on home categories in the next 12 months (Exhibit 5).

One exception, however, was home improvement – the only home-related hardline category where the gap between the percentages who said they would spend more vs. those who would spend less is materially positive as of June '22, based on the Home Work Survey.

Exhibit 5: BofA Global Research Home Work survey respondents' intention to change spending habits in home-related categories

Intentions to spend more on home improvement remain strong



Source: BofA Global Research, SurveyMonkey/Momentive

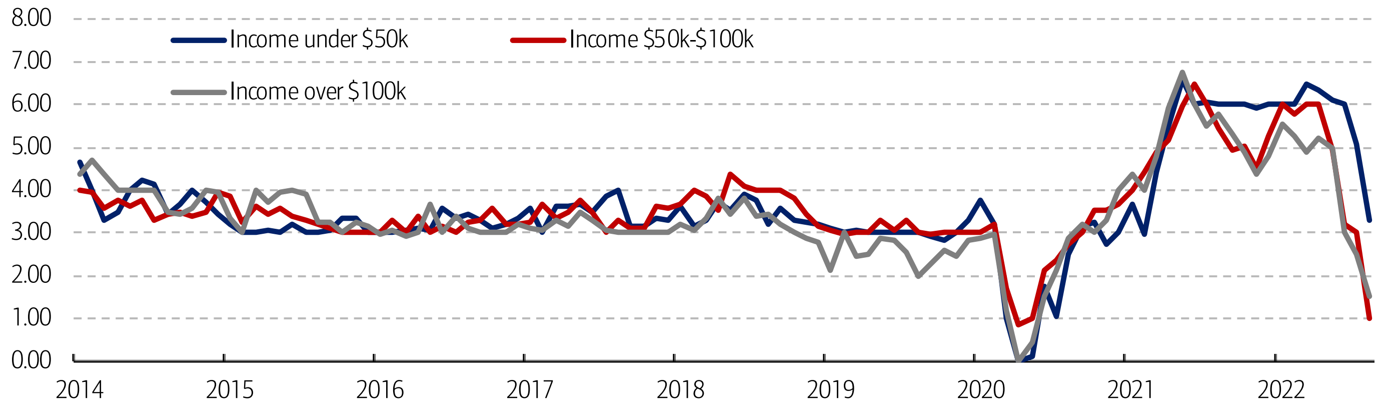
Note: The Home Work series launched in June 2020 with a survey of >1,000 US consumers to analyze the short and longer-term consequences of the outbreak of COVID-19 and social distancing on how consumers live, work, and spend. >1000 survey respondents. The current survey period was conducted during a few days in early September. Survey respondents generally reflect the general population (i.e. split evenly by gender etc)

We think renters and owner-occupiers may feel the impact of housing trends differently. Renters could be affected by rapidly rising payments sooner, especially as they are typically younger households with lower incomes. This may mean they have less discretionary spending for other things. Given they don't own their houses, it tracks that they aren't likely to participate in any home improvement uptick either.

On the other hand, for existing owner-occupiers, higher mortgage costs may not be a drag on their spending for some time and spending might continue to be supported by things like home improvement. However, they might begin to feel less 'well off' if house prices start to drop. These so-called "wealth effects" may mean homeowners revise down their estimates of their household assets and rein in spending as a result. But, for now, it appears consumers are expecting less house price inflation over the next year, rather than outright drops (Exhibit 6), so these wealth effects could be relatively small.

Exhibit 6: One-year ahead house price expectations by income (%YoY, monthly data as of August 2022)

All income groups expect house price inflation to slow, but not to go negative



Source: Survey of Consumer Expectations, Federal Reserve Bank of New York (FRBNY).

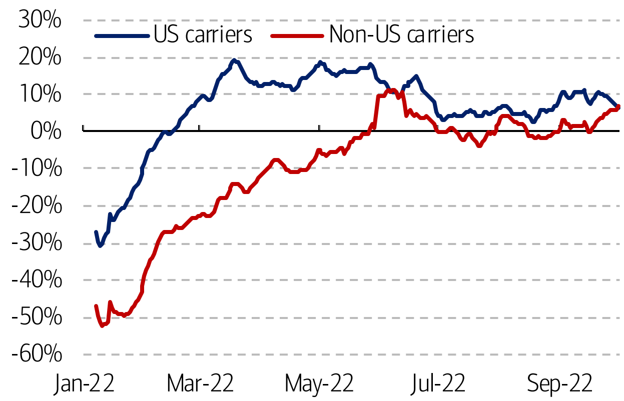
Travel spending is resilient, but holiday goods spending is slow to take off

Rising housing costs may be having some impact on other areas of non-housing discretionary spending, though looking ahead to year-end, there seems to be a divergence between the path of holiday goods and services spending. Travel demand, particularly international travel, remains resilient even as we pass the traditional summer peak season. However, the holiday goods shopping season appears to have gotten off to a relatively slow start compared with 2021 – though it is still early and consumers may be holding out for upcoming promotions.

As for holiday travel plans, airline spending (Exhibit 7) remains elevated overall for both US and non-US carriers. Given that airline spending is generally a forward-looking indicator for travel demand (i.e. people buy tickets months ahead of travel), spending strength now could suggest a busy winter holiday travel season. For the 21 days post-Labor Day (ending September 30), aggregated point-of-sale (i.e. in-person) Bank of America credit and debit card spending in foreign countries was up 29% compared with the same period in 2019. This suggests international travel demand could be sustained into the fall and even year-end. Notably, recent data from the Conference Board consumer survey suggests that nearly one in five people plan to vacation abroad in the next six months, well above pre-pandemic response levels. (For more on international travel, please see Consumer Morsel: Catch me abroad)

Exhibit 7: Spending per household on US vs. non-US carriers, based on Bank of America card data (3-yr %change, 14-day moving average)

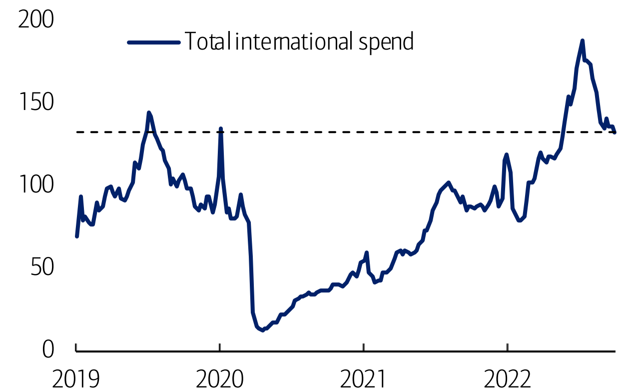
Airline spending remains elevated for both US and non-US carriers



Source: Bank of America internal data

Exhibit 8: Total international in-person spending, based on Bank of America internal data (weekly, index, 2019 annual average =100)

Spending in foreign countries surged this summer and remains elevated

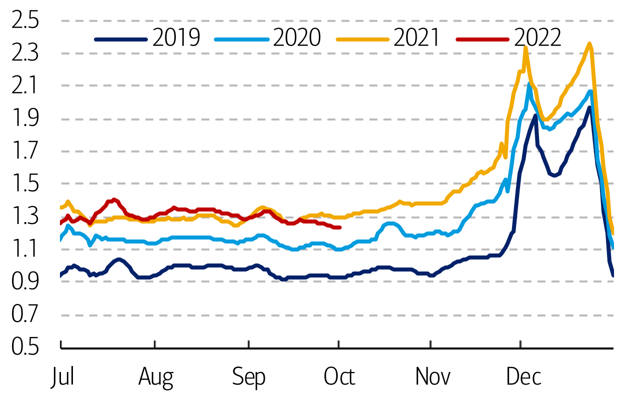


Source: Bank of America internal data. International spend is identified through point of sale in foreign countries.

It's a different story for holiday goods. We look at holiday spending, which includes categories that usually get a big boost in sales during the winter holidays, such as clothing and electronics, and find that such spending in recent weeks (the red line) looks softer relative to 2021. We see two reasons for this. First, keep in mind that last year consumers started holiday shopping much earlier than normal to avoid delays caused by supply chain disruptions. As such, the softer start this year, relative to 2021, could just be a normalization of shopping habits. Second, goods spending in general has been under pressure this year as consumers rotate their wallet share to services. This is evidenced by monthly retail (goods) spending based on Bank of America card data, which shows that goods spending has been on a consistent downward trend since 2021 after adjusting for inflation. That said, we are still in the early days of holiday shopping and forthcoming promotions from online retailers may provide a boost in coming weeks.

Exhibit 9: Holiday spending, based on aggregated Bank of America card data (index, August average 2019=1)

Holiday spending in recent weeks (the red line) looks softer relative to 2021



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

Exhibit 10: Nominal and real (inflation-adjusted) goods spending, based on aggregated Bank of America card data (index, seasonally adjusted, Jan 2019=100)

Goods spending has been on a consistent downward trend since 2021 after adjusting for inflation

Source: Bank of America internal data

Monthly data update

While some components of consumer spending may soften as a result of a weaker housing market, the overall picture continues to fare better. Bank of America total payments, which we believe provide a holistic view of money flow, support the view that the consumer is still spending. Total payments increased 10% YoY in September, while total credit and debit card spend, which makes up over 20% of total payments, was up 9% YoY in September.

Meanwhile, card spending per household, which measures average spending for Bank of America customer households, moderated slightly to 4.4% from the 5% YoY in August. This was the fifth month of moderation in card spending per household on a %YoY basis. It is worth noting that, part of the moderation in September's figure was due to Hurricane Ian. Similarly, real spending continues to be under pressure from high Consumer Price Index (CPI) inflation (8.3% YoY in August) and Personal Consumption Expenditure (PCE) inflation (6.2% YoY in August).

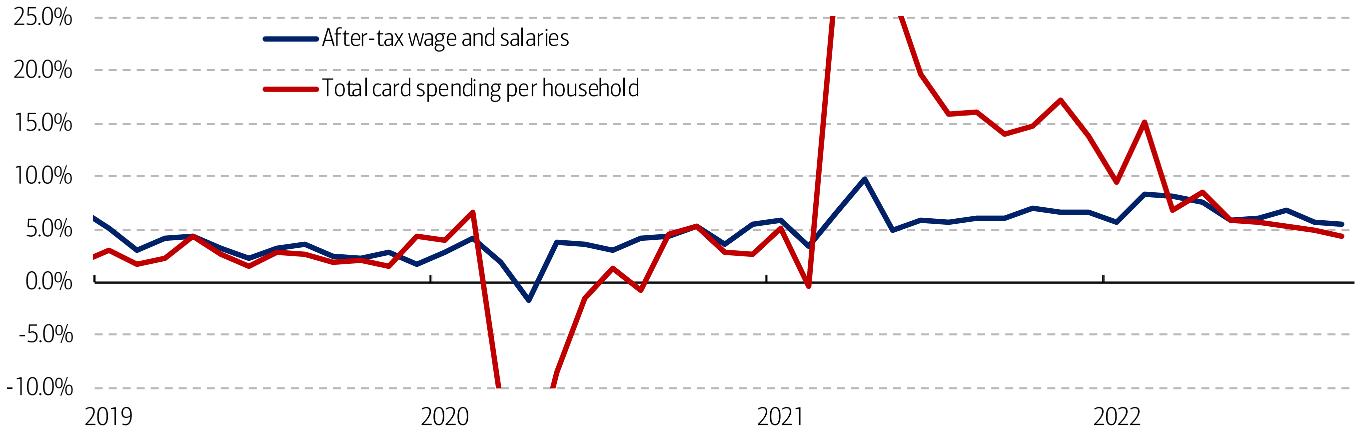
The differences between the overall total credit and debit card spend and per household card spend growth rate can be explained by the following:

1) Overall total card spending growth is 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 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 September, after-tax wages were up 5.5% YoY. This is notable as it continues to outpace the growth in total card spending per household (Exhibit 11).

Exhibit 11: After-tax wages and salaries and total card spending per household, based on Bank of America internal data (%YoY)

After-tax wage growth continues to outpace growth in total card spending per household



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

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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 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 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

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