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Consumer Checkpoint

Starting the fall on the up

09 September 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.

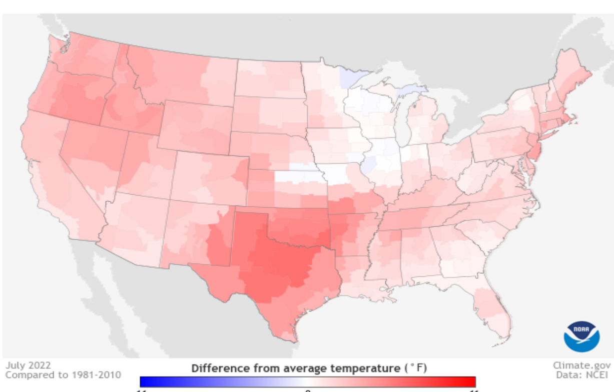
Key talking points

- Consumers continue to demonstrate fairly robust spending growth. They have benefited recently from the drop in the price of gasoline and continue to experience a strong labor market. But there are some cross currents – with consumers getting squeezed by higher utility bills.
- However, Bank of America internal data also points to households continuing to have elevated savings levels relative to before the pandemic, with little indication that lower income households are 'reaching for the credit card.'
- Using aggregated and anonymized Bank of America internal customer data, we find evidence that childcare spending is rising. The average childcare payment per customer was up 9.7% YoY in August and the number of customers making childcare payments reached 94% of the level seen in January 2020. This is important as higher childcare spending may indicate that prime-age parents are returning to the labor market.
- Total payments in Bank of America internal data were up 13% year-over-year (YoY) in August. Within this, overall total credit and debit card spend, which makes up over 20% of total payments, was up 11% YoY. Card spending per household was up 5% YoY in August, compared to 5.3% YoY in July.

Saving on gas, spending on utilities

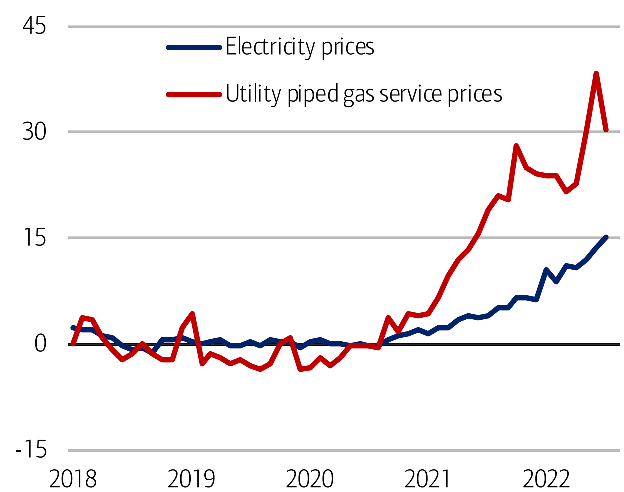
At the end of August, the national average of gas prices had dropped by more than 20% from its peak according to data from the American Automobile Association. While this decline has provided consumers with some welcome relief, they have also been feeling some pressure from the rising cost of energy services. In July, prices for electricity rose 18.8% from one year earlier, while piped natural gas prices rose 30.5% over the same period.

Exhibit 1: Difference from average temperature (Degrees F) for July
July temperatures were above average across much of the US



Source: NOAA Climate.gov

Exhibit 2: Consumer prices for energy services (%YoY)
Electricity and piped natural gas prices have risen sharply



Source: Bureau of Labor Statistics

We use Bank of America internal data to identity customer payments (credit and debit, Automated Clearing House (ACH), bill pay) to utility companies to get a sense of how much more the average consumer is paying. In Bank of America data the average utility payment rose 16% YoY in August, broadly in line with the rise in prices seen in the Consumer Price Index (CPI) for utilities. Differences across income categories are not especially marked, though those households with incomes above $150K appear to have seen less of an increase in their bills.

How important is utility spending? According to the Consumer Expenditure Survey, consumers spent 3% of their annual expenditure on natural gas and electricity in 2019, roughly in line with the 3.3% that is spent on gasoline. Given the similar share of spending on utilities and gasoline, the opposite price effects of the two could end up close to a wash for the consumer in August.

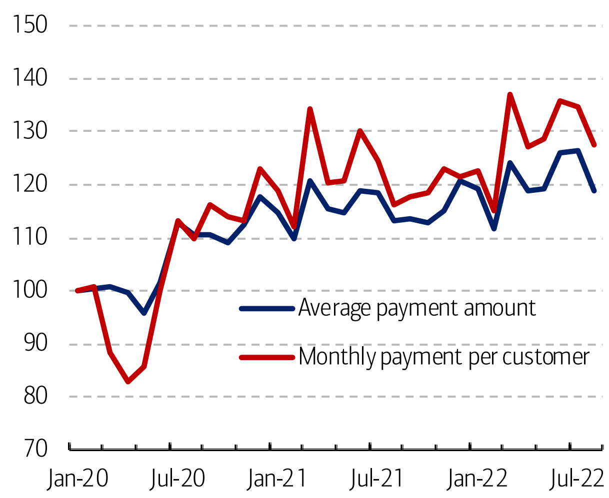
The rising price per energy unit is important, but so is the quantity of energy consumed. Demand for energy can be influenced by the weather, given the need for cooling and heating, and also economic activity. Exhibit 1 illustrates that in July the average temperature across the US was above average, and much of the US continued to report high temperatures into August, too – with heat waves continuing in California, for example. We may not have seen all of this reflected in bills yet, so utility spending could continue to rise in September.

Does higher childcare spending signal parents returning to the labor market?

One of the key economic consequences of the COVID-19 pandemic is the plunge in the labor force. According to the Federal Reserve, between February 2020 and August 2021, the share of population reported as not participating in the labor market due to caregiving reasons had increased by 0.4 percentage point, among which about 0.1 percentage point can be attributed to parents with school-age children. This suggests that childcare responsibilities could be keeping some parents, especially those of young children, away from the labor force. We therefore take a look at the Bank of America internal customer data to see if there has been an increase in childcare spending, which in turn could be a positive sign for the labor force.

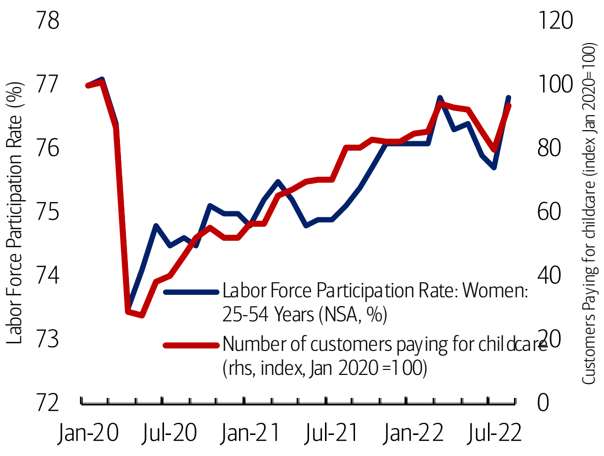
According to Bank of America internal data, the dollar value of childcare payments per customer across ACH, credit card, debit card, and online bill pay, was up 9.7% YoY in August. However, the strong nominal growth in childcare payments is partially due to higher prices as the daycare and preschool component of CPI inflation was up around 3% YoY, suggesting roughly 7% YoY increase in "real" (inflation-adjusted) childcare spending. Similarly, the number of Bank of America customers making childcare payments was almost at pre-pandemic levels as of August, at around 94% of the level seen in January 2020 and a noticeable jump from the prior month. This occurred at the same time as the 0.2 percentage point increase in the labor force participation rate in August as suggested by the nonfarm payrolls report from the Bureau of Labor Statistics. In fact, as Exhibit 4 shows, we find very strong correlation between the prime-age (25-54 years old) women labor force participation rate and the number of customers paying for childcare.

Exhibit 3: Monthly childcare payment per customer and average transaction size (index, January 2020 =100)
Average childcare spending per customer was up 9.7% YoY in August



Source: Bank of America internal data

Exhibit 4: Number of customers paying for childcare (index, January 2020 =100), based on Bank of America internal data, and prime age women labor force participation rate (%)
There is a strong correlation between childcare and the labor market participation of prime-age women



Source: Bank of America internal data, Bureau of Labor Statistics

Back to School spending: earlier, but not stronger

Last month we wrote about a strong start for this year's back-to-school (BTS) spending season (please see Consumer Morsel). As a reminder, we define BTS spending as spending at retailers that historically benefited the most from BTS season and primarily consists of clothing retailers. We found that consumers started BTS shopping earlier this year than last year with the boost to spending from BTS season relative to its underlying trend in June also more noticeable this year (Exhibit 5). That said,

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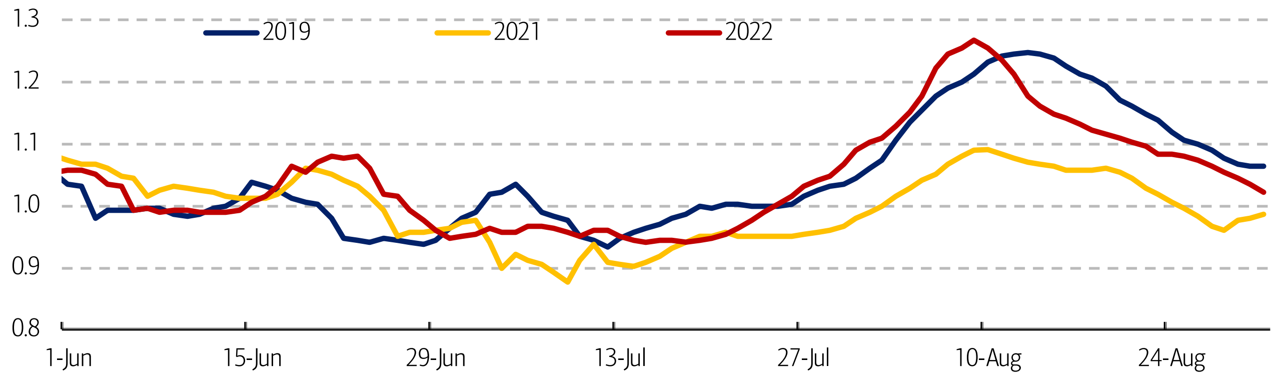
the relatively smaller boost to BTS spending in 2021 was partially explained by the already elevated levels of goods spending following the distribution of stimulus.

With the month of August behind us, we find that BTS spending peaked around August 9th and has normalized quickly. For simplicity, we assume the period between July 15 and August 31 to be the window for BTS shopping and the Bank of America internal data suggests that total BTS spending this year was down around 4% YoY, compared with the +1% YoY estimation from the National Retail Federation. The caveat is that our BTS series is based on merchants that historically benefitted from the BTS season, but with the current environment it is possible that consumers are shopping elsewhere, which might not get captured by the Bank of America BTS series.

Exhibit 5: Daily back-to-school spending per household, based on Bank of America credit and debit card data (index, June avg =1 for each year, 7-day moving average)

Back to school spending occurred earlier in 2022 than in 2021, but the level of spend has now dropped back towards the June average



Source: Bank of America internal data

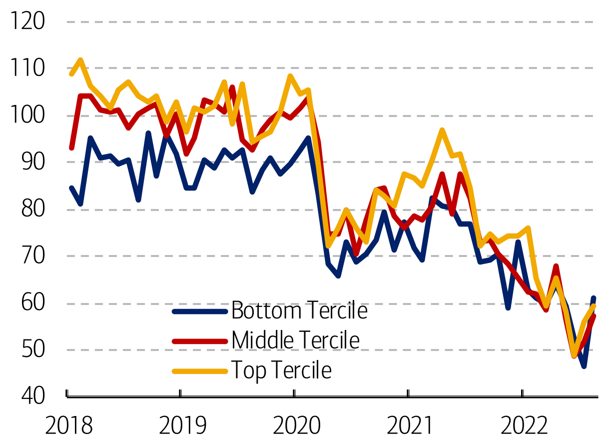
Overall, consumers are feeling more chipper…

So what is the overall state of the US consumer? The short answer is that consumers continue to demonstrate fairly robust spending growth. They have benefited recently from the drop in the price of gasoline, and continue to experience a strong labor market. But there are cross currents as consumers are getting squeezed by higher utility bills, as suggested by the analysis above.

There has been a rebound in recent months in consumer confidence measures, likely in part reflecting the decline in gasoline prices (Exhibit 6). The rebound in the Michigan Consumer Sentiment Index has been sharper amongst consumers with income in the bottom third of the distribution, which correlates with this group having a higher share of their total spending on gasoline. The decline in the price of gasoline has given some room for discretionary spending to rebound.

Exhibit 6: Michigan Consumer Sentiment Index by Income Tercile

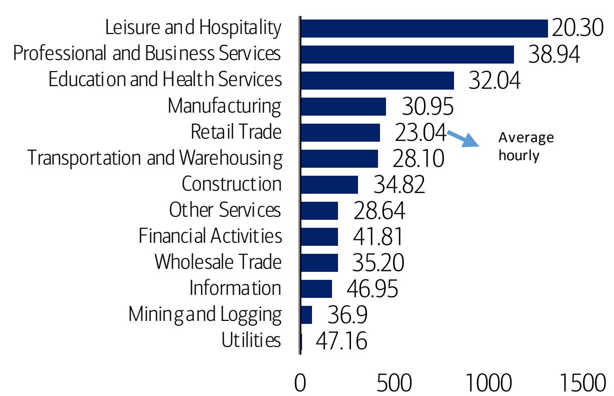
Sentiment has rebound in August



Source: Haver Analytics

Exhibit 7: Change in payrolls by private non-farm industry in August 2022 relative to a year earlier ('000s) and average hourly earnings ($ August, column label)

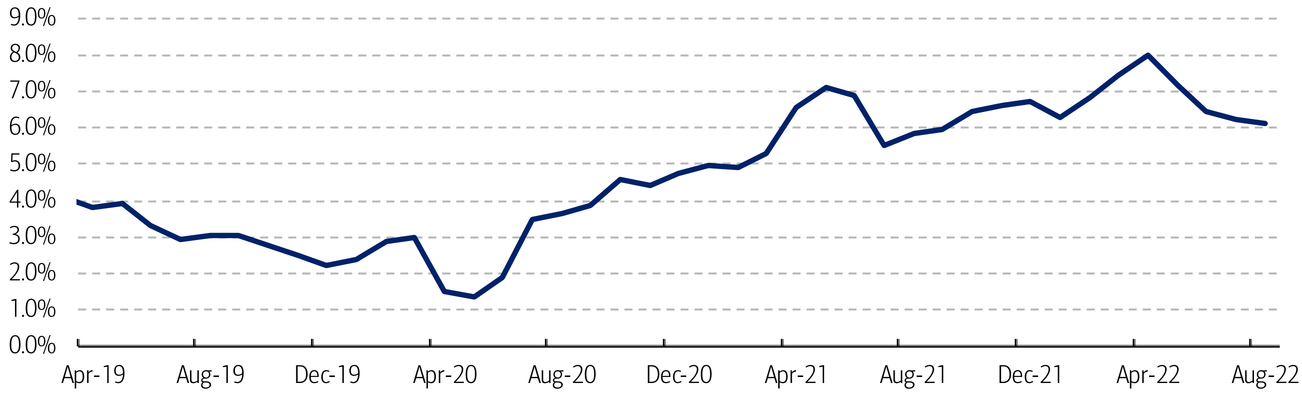
Some industries such as Leisure & Hospitality, with relatively low hourly pay, have seen the highest increase in payrolls



Source: Bureau of Labor Statistics

The continued strength of the labor market is likely also providing support to consumer confidence. Data from the Bureau of Labor Statistics suggests nonfarm payrolls increased by 315,000 in August and US job openings remain exceptionally high relative to the pool of available labor. As Exhibit 7 indicates, some of the largest job gains over the year have been in lower paid industries such as Leisure and Hospitality.

Exhibit 8: After-tax wages and salaries, based on Bank of America aggregated consumer deposit data (%yoy. 3-month moving average)
The Bank of America proxy of after-tax payroll wage growth shows that for the month of August, after-tax wages were up 6.1% YoY on a 3-month rolling basis, slightly down from the peak in April but still elevated



Source: Bank of America internal data

Strong hiring in the labor market is also coupled with higher wages. 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 August, after-tax wages were up 6.1% YoY on a 3-month rolling basis (Exhibit 8). In lower paid industries, such as the Leisure and Hospitality industry, average hourly earnings were even higher at around 8.6% YoY in August, as suggested by the nonfarm payrolls report from the Bureau of Labor Statistics.

...and Bank of America data is indicating solid growth...

Bank of America total payments, which we believe provides a holistic view of money flow, supports the view that the consumer is still looking robust. Total payments increased 13% YoY in August, while total credit and debit card spend, which makes up over 20% of total payments, was up 11% YoY in August. These are solid numbers, but will they remain stable heading into the fall.

Meanwhile, card spending per household, which measures average spending for Bank of America customer households, increased by 5% YoY in August, little changed from the 5.3% YoY in July. Real spending continues to be under pressure from high Consumer Price Index (CPI) inflation (8.5% YoY in July) and Personal Consumption Expenditure (PCE) inflation (6.3% YoY in July).

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 only looks 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 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. (For more details, please see methodology)

....with solid card spending in August...

Our per household measure of credit and debit card spending has been showing a fairly consistent growth rate in year-on-year terms of late (Exhibit 9). On a % month-over-month (MoM) seasonally adjusted (SA) basis, discretionary spending, defined as total card spending excluding grocery, gas and utilities, across income groups moderated in recent months relative to the strong pace seen in earlier in the year, which was particularly boosted by the services spending boost in the higher income households. The good news is that discretionary spending for the middle ($50k-$125k) and higher (>$125k) income groups rebounded again on a %MoM basis in August (Exhibit 10).

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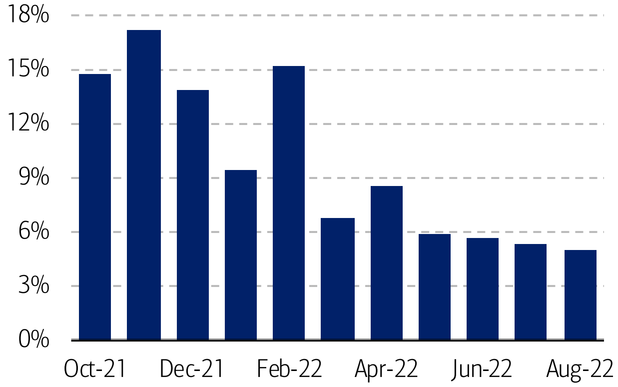
Exhibit 9: Monthly card spending per household, based on Bank of America credit and debit cards (%YoY, monthly, Not seasonally adjusted (NSA))

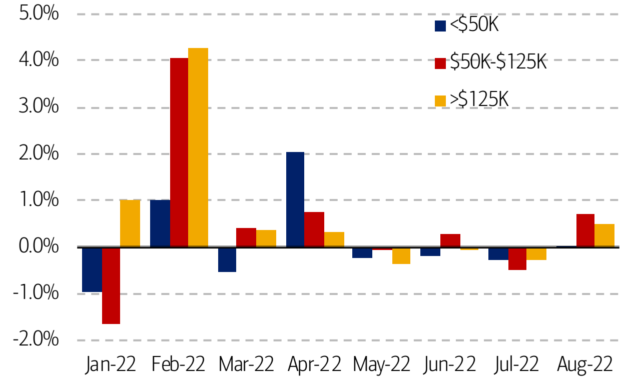
Card spending per household increased by 5% YoY NSA in August



Source: Bank of America internal data

Exhibit 10: Monthly card spending per household excluding food, gas and utilities, based on Bank of America credit and debit cards (%MoM, seasonally adjusted (SA))

Discretionary spending growth rebounded in August after contracting in July



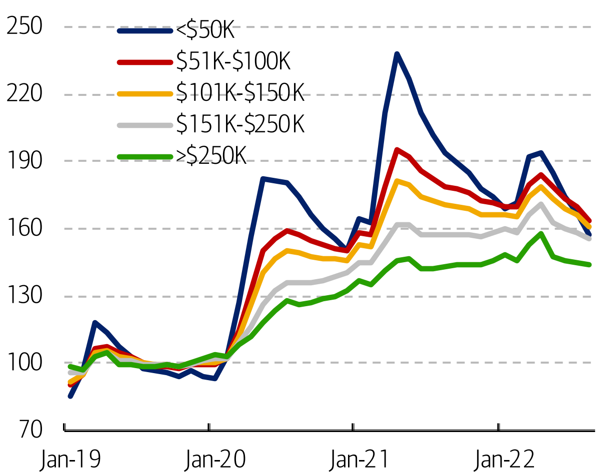
Source: Bank of America internal data

...and still some 'dry powder' in reserve

Bank of America data also indicates that customer savings and checking accounts continue to remain elevated relative to before the pandemic. The largest proportionate increases in median savings and checking balances are seen in lower income households (Exhibit 11). There has been some rise in the share of total card spending on credit cards in Bank of America internal data, Exhibit 12, but this is relatively small. The rise also seems more focused in higher income households rather than lower income ones.

Exhibit 11: Median household savings and checking balances by income (index, 2019 average =100 for each group) for a fixed group of households[(1)] (HH) between January 2019 and August 2022

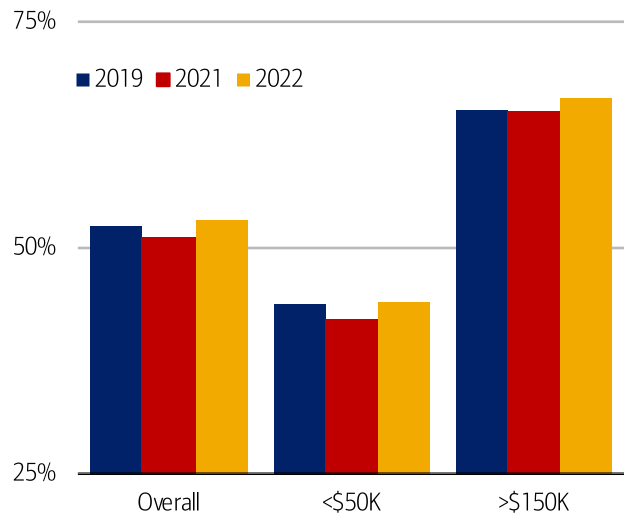
Saving levels remain well up on 2019 levels across income cohorts



Source: Bank of America internal data. Data as of August 2022. (1) Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all 44 months from January 2019 through August 2022.

Exhibit 12: Share of credit card spending by value for those with both credit and debit cards, 4-weeks to September 2nd 2022 compared to equivalent period in previous years (%)

The share of total card spending made using credit cards by those in the higher income group is above the same period in 2019



Source: Bank of America internal data.

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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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