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Consumer Morsel

Three Reasons to be Cheerful

13 April 2022

Key talking points

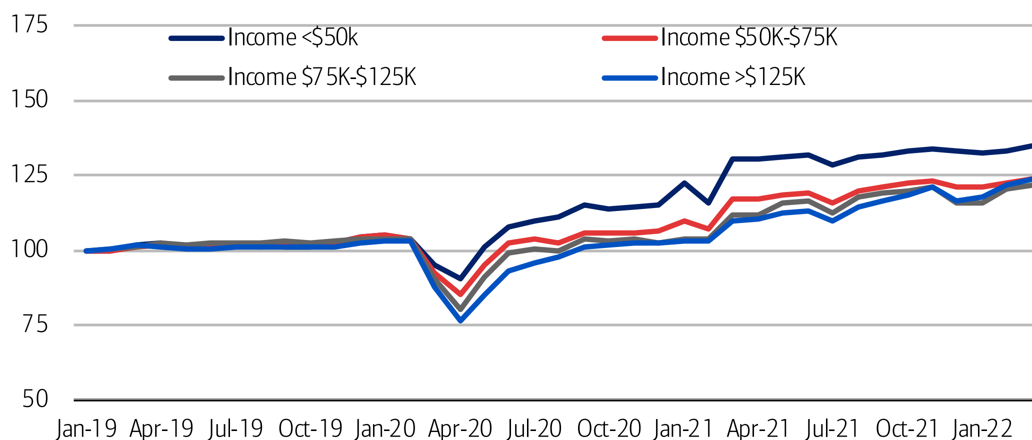
- With consumer price inflation reaching new heights in March (8.5% YoY), there continues to be much media and newswire discussion on the impact of inflation on consumers – particularly those on low and modest incomes. Media stories sometimes cite surveys of sentiment that show that consumers are inclined to cut back in response to higher prices.
- But people don't always actually do what they say they are doing – sentiment is not the same as action. And as we discussed in our April Consumer Checkpoint, the actual hard data does not support all the gloom.
- Bank of America propriety data showed solid 11% YoY card spending in March. **And in the very latest data we are seeing this strength continuing into April**, with solid growth in card spending and even stronger growth in other payment channels.
- In this note we highlight a few reasons not to get too gloomy. In short, the labor market and the state of consumers' finances are good reasons to treat the doomsayers with caution.

Our consumer analyses at the Institute leverages the strength and depth of Bank of America propriety data. With 67 million consumers and small business accounts, the bank observed over 13 billion credit and debit card transactions in 2021. Moreover, with retail deposits of $1.4 trillion, we are able to achieve a richer and deeper assessment of the consumer than small-scale surveys ever can.

1. Bank of America card spending was strong in March and is looking good in April

As discussed in our Consumer Checkpoint Bank of America credit and debit card data showed strong growth in March. Aggregate card spending was up 11% YoY[1]. And data since the Checkpoint was published indicates a strong start so far in April too: combined aggregate credit and debit spend is up +15% YoY in the period to April 8th.

Exhibit 1 Bank of America credit and debit card spending per household (Jan 2019=100, Monthly seasonally adjusted)
Compared to January 2019 lower income group spending is up even more than for higher income groups.



Source: Bank of America Internal Data

[1] In fact the YoY growth rates in March tended to be depressed due to the payment of stimulus checks in March 2021. So the underlying position for spending was likely stronger than the YoY implies.

Moreover, when we look at card spending per household and split this by income group, we find that spending among those on lower incomes is exceptionally strong relative to pre-pandemic periods. Exhibit 1 shows that households on lower incomes are spending more compared to January 2019 than the higher-income groups.

As we noted in the Consumer Checkpoint, some lower income group spending will currently reflect the impact of higher prices and the fact that this group has a higher share of food, gas and utilities in its total spending. But the level of card spending in this group is still way above pre-pandemic levels: the very latest Bank of America debit and credit card spending per household data shows card spending up 33.3% among the below $50K group in three years to the week of 9th April.

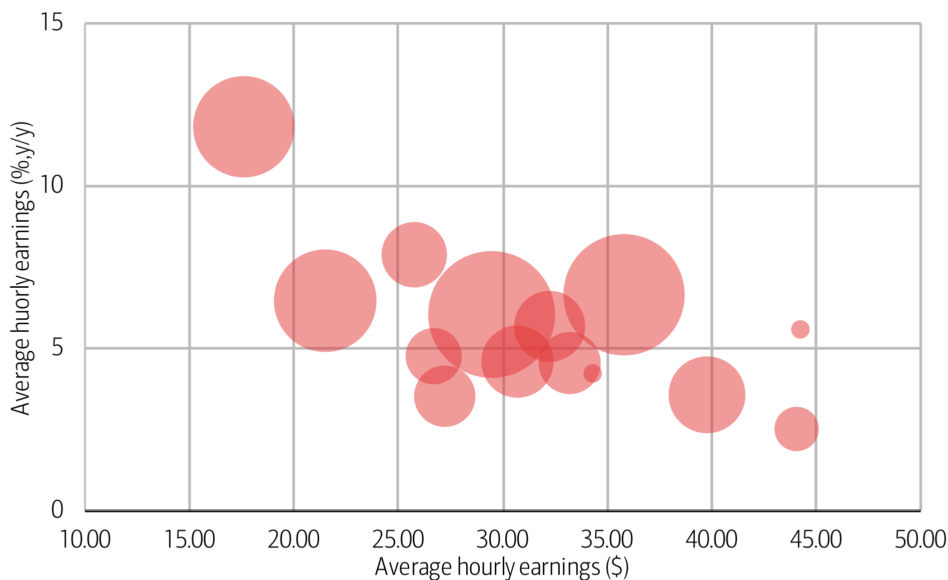
The latest data on total aggregate payments is also looking good for April – with ACH, Wires and P2P payments to April 8th up 26%.

2. The labor market is stronger than it appears for low-income groups

While inflation is strong so is employment and labor income. The overall US labor market looks strong, with the unemployment rate dropping to 3.6% in March and hourly wage growth at 5.6% YoY. But beneath this already rosy picture, the story is **even better** at the lower end of the wage distribution.

Exhibit 2 plots average hourly earnings growth by the level of hourly wages for a range of industries. It shows that those with the lowest hourly wages are experiencing the fastest wage growth. One obvious case is Leisure and Hospitality (L&H), where labor demand has surged as the economy has re-opened - hourly pay growth for this industry is up 11.8% YoY in March.

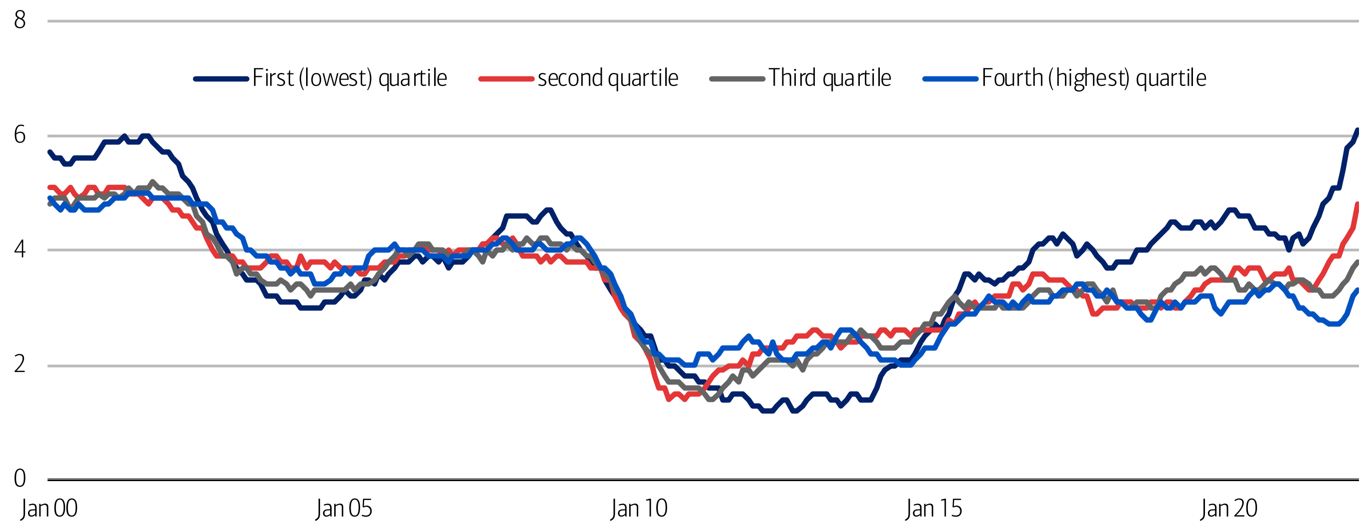
Exhibit 2: Industry average hourly wage growth by starting hourly wage (% y/y, $. Bubble size represents share in total employment)
Those industries with lower hourly wages have experienced the sharpest rises in the year to March



Source: Bureau of Labor Statistics

The Atlanta Fed's Wage Tracker, which is a measure of individual wage growth, also supports the view that those at the lower end of the wage distribution are experiencing the fastest pay growth. The latest data suggests wage growth for the bottom quartile is over 6% YoY in March. In fact, the gap between wage growth for those at the top and bottom is the widest since at least 2000.

Exhibit 3: Atlanta Fed Wage Growth Tracker (%,Y/Y)
Those industries with lower hourly wages have experienced the sharpest rises

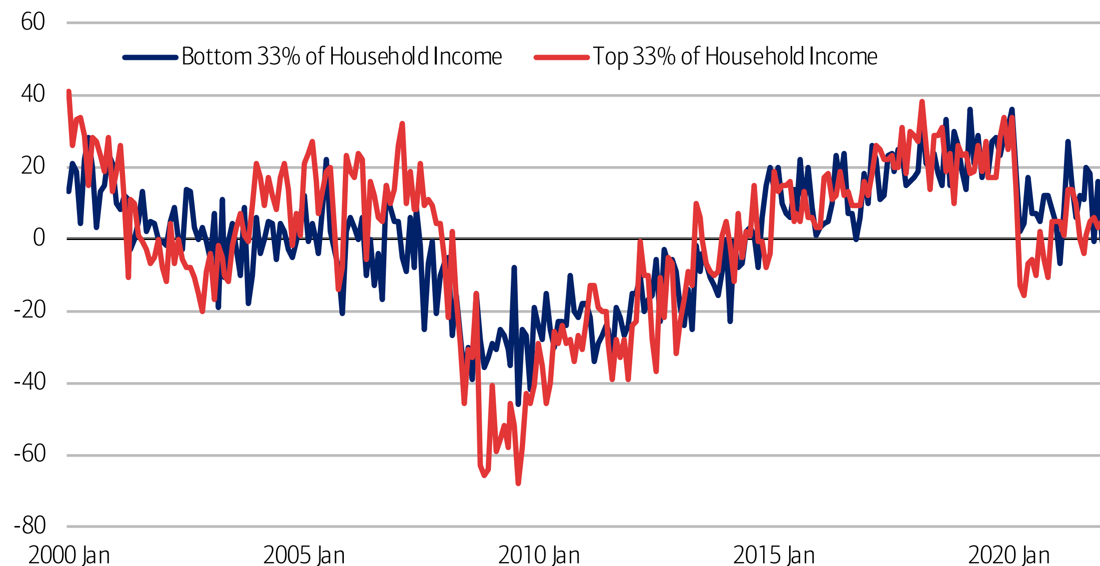


Source: Federal Reserve Bank of Atlanta

With employment rising (also reflected in participation rates increasing), aggregate weekly hours across the economy are up around 4.5% YoY. And looking at jobs growth by industry in detail, it is the lowest paying jobs where the largest jobs growth has been (in Leisure and Hospitality for example the index of average hours is up 14.8%). Strong employment growth in low paid sectors combined with strong hourly pay growth means that aggregate income growth at the lower end of the income distribution could easily be in double-digits.

The labor market story may be one reason why when you ask people how their own finances are, as opposed to general sentiment on the economy, they don't appear too bearish. As Exhibit 4 shows the University of Michigan's survey question on the assessment of personal finances versus a year ago has been deteriorating but it is still not too far away from 'average' levels.

Exhibit 4: Michigan Survey Assessment of Personal Finances v a year ago (balance, mean adjusted)
There has been a relatively small decline in the assessment of personal finances in recent data



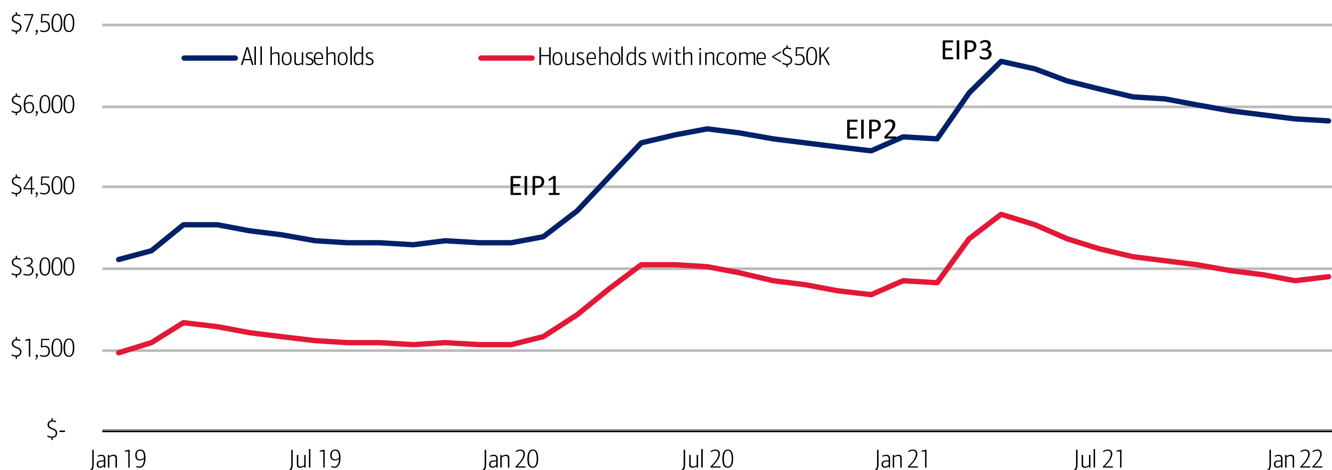
Source: Haver Analytics, University of Michigan Surveys of Consumers

3. Cash in the Bank

Finally, we come back to our finding in April's Consumer Checkpoint. Lower-income households appear to still have substantially higher deposit balances relative to pre-pandemic periods. When we look at savings and checking balances of households with incomes below $50K, we find they have at least $1,500 more than at the start of 2019. To put that in perspective, this figure is

more than 5% of this income group's average household spending in 2019. **So we do not find it too surprising that this group is not reacting as adversely in our card spending data to higher prices as one might assume from reading media stories. It is hard to reconcile, high bank balances and high card spending with the idea that lower income households are being overwhelmed by higher prices.**

Exhibit 5: Median household savings and checking balances ($) for a fixed cohort of savers as of 2019
Households still have higher savings levels than before the pandemic, likely a result of stimulus



EIP = Economic Impact Payments
Source: Bank of America Internal Data

Methodology

Selected Bank of America ("BAC") 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.

The payments data represents aggregate spend and deposit balances 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. Aggregate 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 all 38 months from January 2019 through February 2022.

Bank of America credit/debit card spending per household includes spending from active US households only. Only cardholders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards is excluded. Household credit/debit card spending data merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data is 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.

Contributors and Acknowledgments

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Disclosures

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