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Consumer Morsel

Catch me abroad

04 October 2022

Key takeaways

- International travel surged this summer as the majority of countries eased or lifted pandemic-related travel restrictions. Bank of America internal data suggests robust international travel demand could be sustained into the fall even as we move past the traditional summer holiday season. Similarly, recent data from the Conference Board consumer survey suggests that nearly 1 in 5 people plans to vacation abroad in the next six months, well above pre-pandemic response levels.

- For the 14 days post Labor Day (ending September 23), 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.

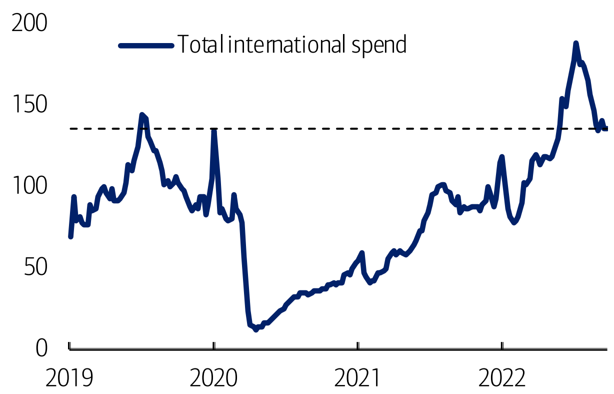
- However, the story varies by region. Spending in Europe remains healthy post-summer, supported by a stronger dollar with luxury/jewelry and clothing spending particularly buoyant. US consumer spending in Asia continues to lag, but this means it has the biggest upside potential in the near term due to imminent easing of travel restrictions in key regions.

Is the summer surge in international travel sustainable?

International travel surged this summer as the majority of countries eased or lifted travel restrictions for the first time since the pandemic began. Now the question is: can strong international travel demand be sustained into the fall? Existing evidence suggests it could.

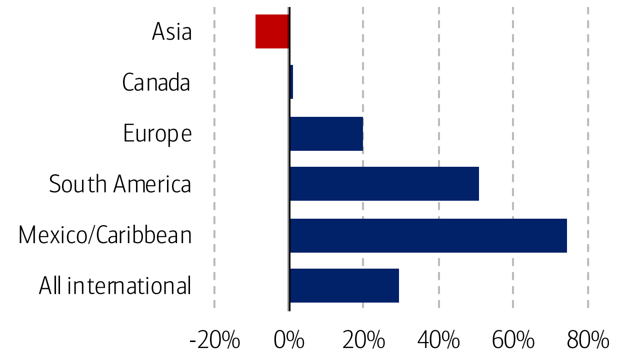
According to Bank of America internal data, total point-of-sale (i.e. in-person) credit and debit card spending by US consumers in foreign countries, which is one way to understand international travel, surged over the summer months. It has come down slightly since early July, which is a normal seasonal shift. Even with this moderation, international spending levels post Labor Day (14-day period ending September 23) were similar to the peak in 2019 and up 29% compared with the same period that year.

Exhibit 1: Total international in-person spending, based on Bank of America internal data (weekly, index, 2019 annual average =100)
Spending in foregin countries surged this summer and remains elevated



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

Exhibit 2: US consumer in-person spending by select regions, according to Bank of America internal data (14-day ending September 23, % growth from the comparable period in 2019)
Spending in most interntional regions is up compared with 2019

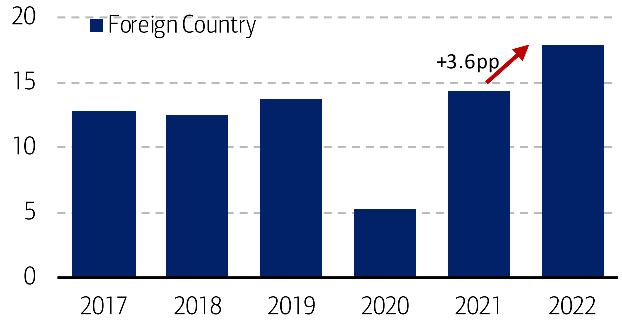


Source: Bank of America internal data. International spend is identified through point of sale card spending in foreign countries.

Similarly, recent data from the Conference Board survey suggests vacation intentions for international travel are particularly strong. In August, 17.9% of respondents intended to take a vacation to a foreign country within six months, up 3.6 percentage points compared with August 2021 and well above pre-pandemic response levels. By comparison, 44% of respondents intended to vacation within the US in the next six months, roughly in line with the prior year but still elevated compared with historical levels.

Exhibit 3: Vacation intended within six months: Foreign Country (% respondents, Conference Board Confidence August survey period of each year)

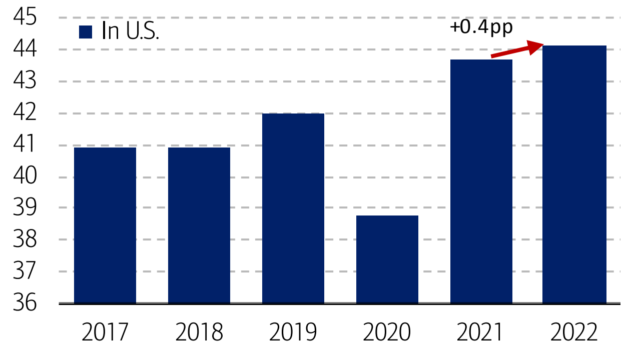
% of respondents intending to vacation in a foreign country at a much higher level compared to pre-pandemic.



Source: Haver Analytics

Exhibit 4: Vacation intended within six months: in US (% respondents, Conference Board Confidence August survey period of each year)

Survey results show 44% of respondents intended to vacation in the US in the following six months.



Source: Haver Analytics

Europe still most robust as the dollar goes further

But the story varies across different geographical regions, largely due to different degrees of travel restrictions imposed by local governments.

In 2019, Europe accounted for over 35% of total international spending, the largest across all regions. Visits to Europe only meaningfully picked up this year when border restrictions for non-citizens were lifted substantially. As a result, spending returned to its pre-Covid level (2019 annual average) around May this year and remained robust through summer and after Labor Day. While Labor Day usually marks the end of the summer and heralds a subsequent slowdown in travel demand, Bank of America internal data suggests that was not the case this year – spending in Europe was still up 20% for the 14-day period ending September 23, compared with the same period in 2019 (Exhibit 2). Similarly, according to a CNBC report citing data from aviation analytics firm Cirium, there was a smaller month-to-month decrease in airline seats from the US to Europe in September than in 2019 due to more buoyant travel demand than usual. An appreciating dollar against the euro and the pound likely also helped.

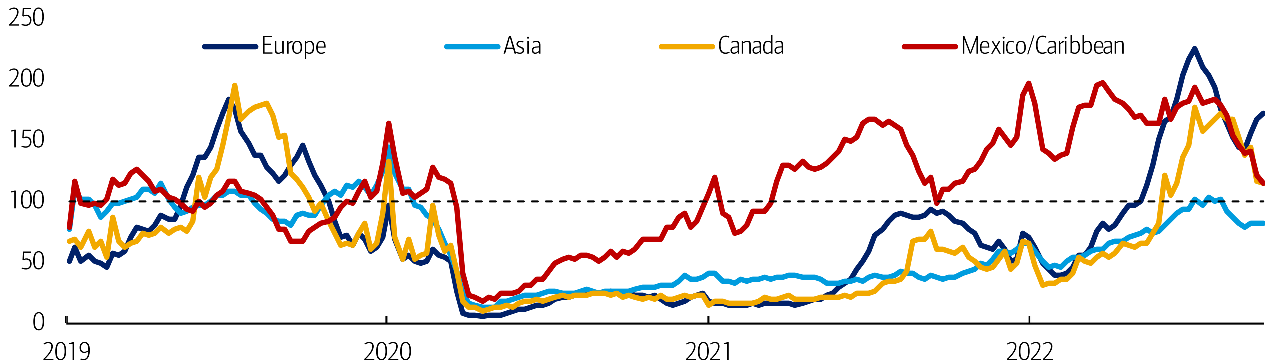
Mexico & Caribbean benefit from proximity and throwing open their doors early

US consumer spending in Mexico and the Caribbean region rose the most in terms of percentage change compared with 2019, up 74% for the 14-day period ending September 23. The region was among the first to open its doors to visitors during the pandemic and was therefore also the first to see in-person spending by US consumers return to its pre-Covid level in January 2021, according to Bank of America internal data. It is interesting that US consumer spending remained so resilient in the region even as other parts of the world reopened. Looking ahead, spending in Mexcio and the Caribbean will likely remain robust as the winter holidays approach, a popular time for US consumers to visit warmer locations.

US spending lags in Asia but poised for post-reopening surge

By contrast, US consumer spending has lagged in Asia, where Covid policies have been more restrictive. Hong Kong dropped its quarantine requirement for overseas visitors on September 26, while Japan is not opening up to visa-free tourism until October 11. China is maintaining its zero-Covid policy for all international travel for the foreseeable future. All of this means a slower recovery of US tourism in Asia. According to Bank of America internal data, US consumer spending in Asia only recovered to its 2019 average in early August this year, when spending tends to be elevated due to the summer holidays. For the 14-day period ending September 23, spending in Asia was down 9% compared with the same period in 2019. It is worth noting that while spending in Asia started the fall on a weak footing, imminent reopenings suggest there could be a surge in tourism later in the year.

Exhibit 5: Spending in select international regions, based on Bank of America internal data (weekly, index, 2019 average =100 for each group)
Spending in Europe saw the biggest boost this year, while US consumer spending in Asia lagged



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

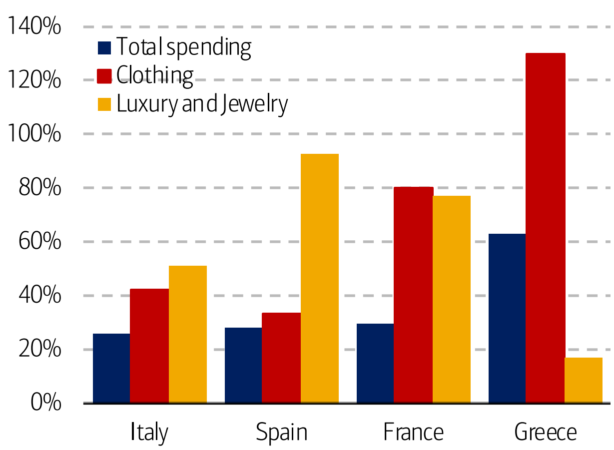
Europe in focus: US consumers load up on luxury

Europe accounts for a larger share of international spending by US consumers than any other region, so we took a look at spending by categories to see which countries and sectors have been driving the strength post-summer. We found spending in many countries in southern and western Europe, including Italy, Spain, Greece and France, saw the biggest boosts relative to 2019. Greece, for example, saw spending surge by over 60% compared with the same period in 2019 for the 14-day period ending September 23. By contrast, spending in the UK and Germany was only comparable to the levels in 2019, up just 3% each.

Furthermore, clothing and luxury spending in these southern and western European countries has been particularly strong (Exhibit 6). This is not surprising given that Italy, Spain and France are home to many luxury and fashion brands. For the two weeks ending September 23, point-of-sale spending at clothing stores was up 80% and 130% compared with the same period in 2019 in France and Greece, respectively. Spain and France saw the biggest increase in luxury and jewelry spending, up 93% and 77%, respectively compared with the same period in 2019.

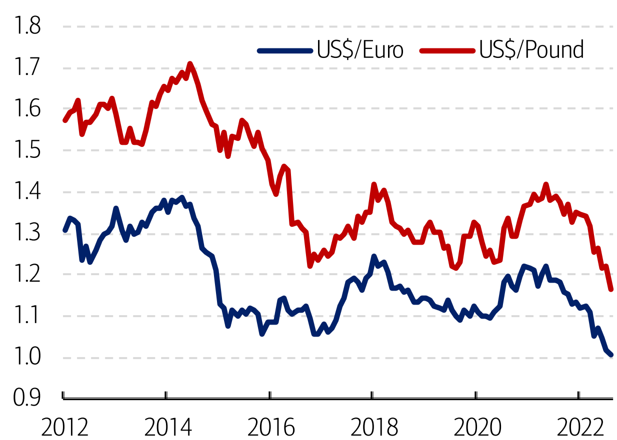
In our view, this resilience is partly due to the strength of the US dollar, which has made goods and services in Europe more affordable to US consumers. According to data from the Federal Reserve Board, the greenback has been appreciating steadily since May 2021, reaching parity with the euro at the end of August (Exhibit 7).

Exhibit 6: Spending in select sectors in Italy, Spain, France and Greece (14-day period ending September 23, % growth from the comparable period in 2019)
Spending on clothing and luxury/jewelry in Europe is seeing extremely strong growth



Source: Bank of America internal data

Exhibit 7: US$ exchange rate against euro and pound (end of period = 08/2022)
The dollar has appreciated strongly against the euro this year



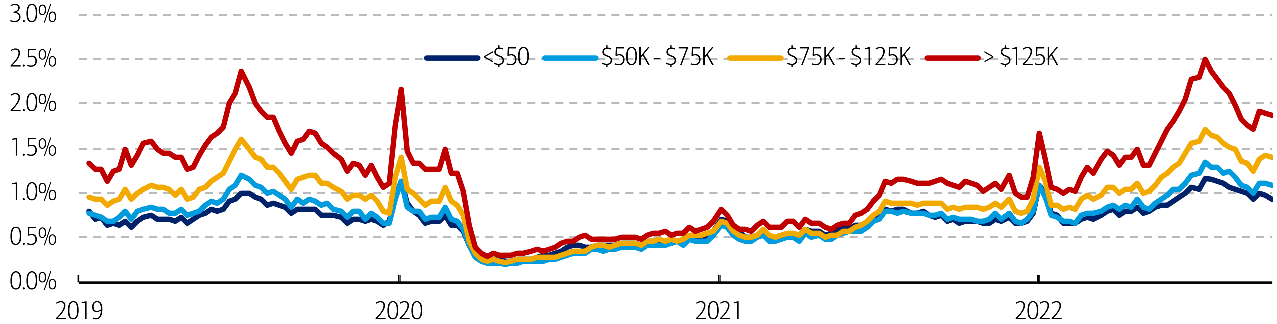
Source: Haver Analytics. Note: lower value means stronger dollar

Higher earners still driving spending overseas

Higher-income consumers (those with annual income greater than $125k), who have stronger pent-up demand for travel, continue to part with the biggest relative share of their total expenditure abroad. As Exhibit 8 shows, this higher-income cohort saw a bigger pullback in international spending at the beginning of the pandemic but has recovered the fastest since mid-2021. For the same two-week period after Labor Day, 1.9% of this group's brick and mortar retail spending was abroad on average, 0.2

percentage points higher than the same period in 2019. Meanwhile, for lower-income consumers (those with annual income less than $50k) only roughly 0.9% of their in-person retail spending was abroad, on par with the share in the same period in 2019. This suggests that higher-income consumers might be critical in determining the resilience of international travel demand into the fall.

Exhibit 8: Share of brick and mortar retail spending made inf oregin countries by income group (weekly, %)
Consumer international travel rebound has been driven by higher-income households who have stronger pent-up demand for services spending



Source: Bank of America internal data

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Methodology

Selected Bank of America transaction data are 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 are not comprehensive; they are 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.

Total payments include total credit card, debit card, ACH, wires, billpay, person-to-person, cash and checks. The payments data represents aggregated spend from Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

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.

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

Disclosures

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