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Consumer Morsel

Hitting the Buffers?

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Key talking points

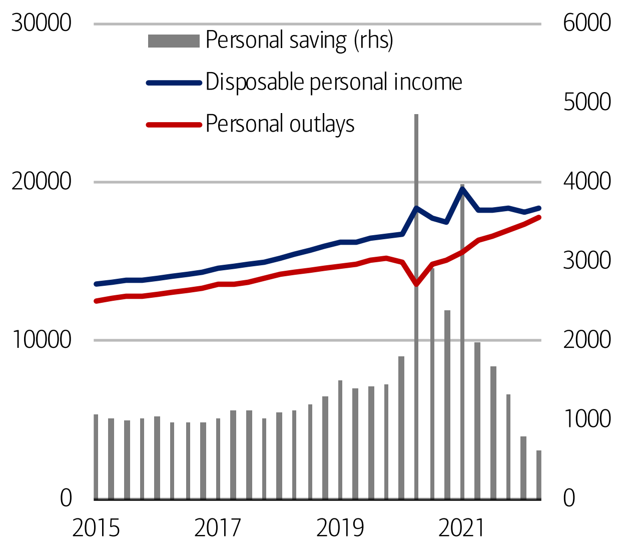
- People saved more than usual over the pandemic, due to stimulus payments increasing income and an initial drop in spending.
- Bank of America internal data indicates that some of the accumulated deposits are now being gradually drawn on, particularly among lower income households.
- But there is little evidence of a sharp rise in people living 'paycheck to paycheck' – only 12% of customers have account inflows 85% or less of their outflows. Provided the economic slowdown is gradual, we expect the accumulated buffers to continue to support consumers for a significant period.

Pandemic buffers are holding

Over the pandemic, two factors tended to boost US savings. First, incomes were boosted by a series of stimulus payments, such as the three Economic Impact Payments and the expanded Child Tax Credit. Also, at the start of the pandemic, consumer spending declined due partly to lockdowns and other restrictions, meaning the opportunity to buy things was limited.

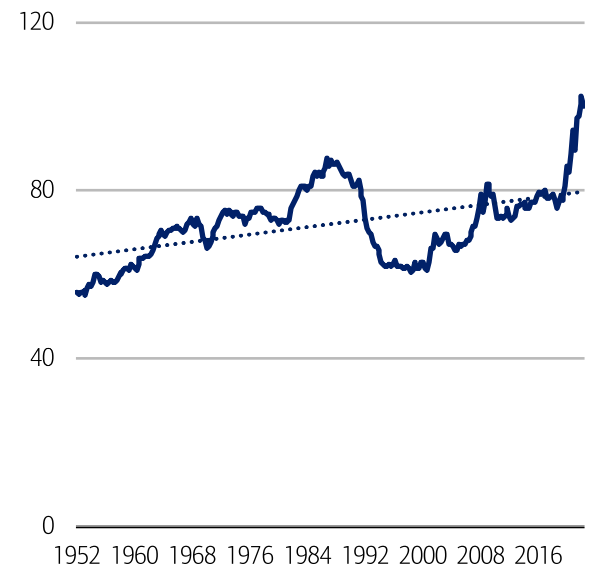
Increased incomes and lower spending meant that many households were saving more than they would usually, as shown in Exhibit 1, which is based on Bureau of Economic Analysis (BEA) data. A large part of this accumulated 'extra' saving ended up in people's bank balances (Exhibit 2).

Exhibit 1: Personal income and outlays ($bn, monthly)
Over the pandemic a larger than usual gap opened up between saving and spending



Source: Bureau of Economic Analysis

Exhibit 2: Household deposits as a percentage of disposable income
The pandemic saw a large rise in deposits relative to disposable income

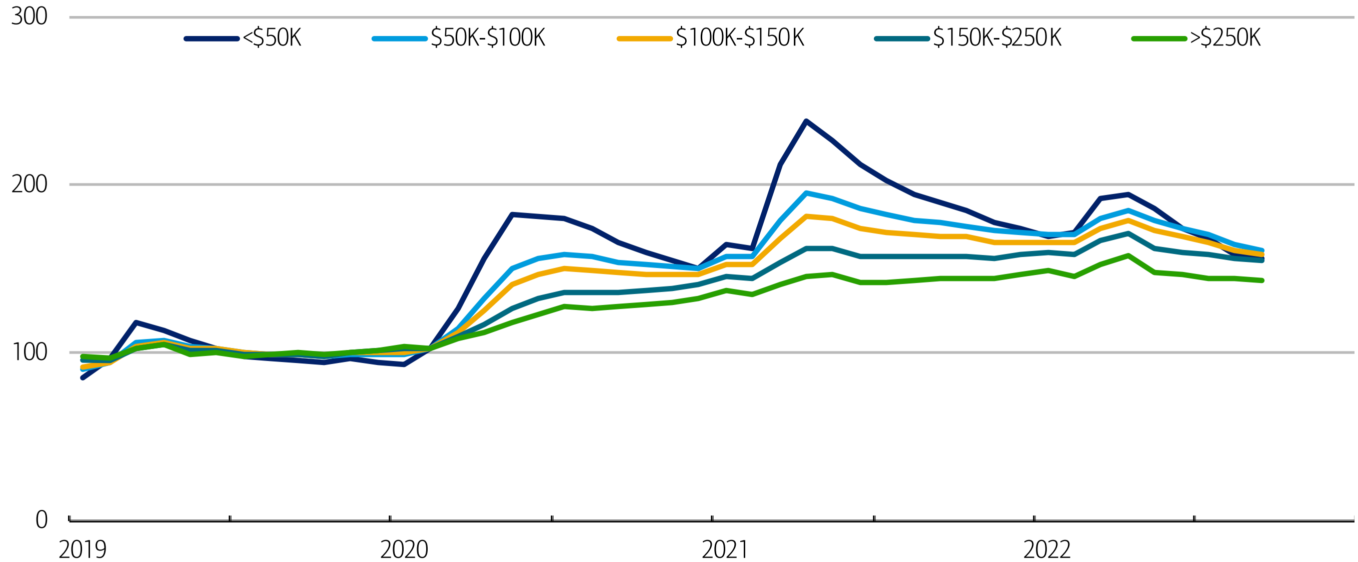


Source: Financial Accounts of the United States, Federal Reserve

Bank of America internal data on household deposits shows a similar pattern over the pandemic. Our internal data is more timely than official sources and allows us to examine trends over the third quarter of this year. Moreover, it gives us insight into how deposits are developing across income and age cohorts.

Exhibit 3 shows the median household deposit balance, according to Bank of America internal data, across a range of income cohorts up to September 2022. We see the same large rise in deposits as in the official BEA and Federal Reserve data. Additionally, we see some evidence that the level of median savings has been easing back recently, especially for those earning below $50,000.

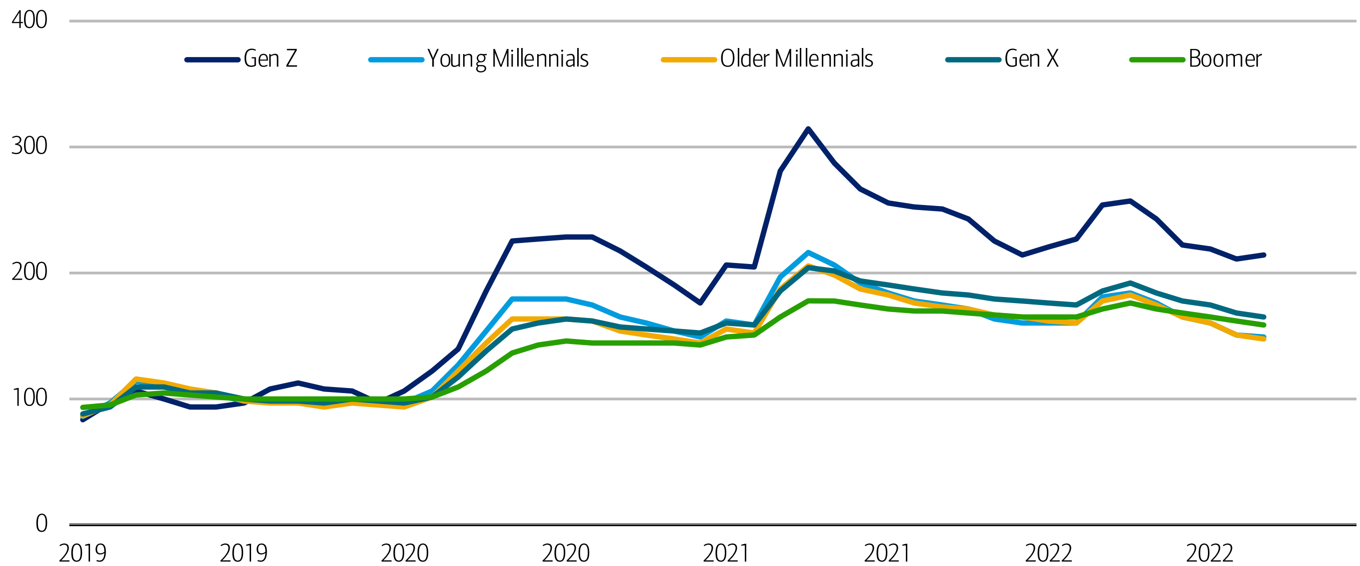
Exhibit 3: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households
Deposit balances remain well above pre-pandemic levels, with some signs of a draw-down particularly amongst lower income cohorts



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

Exhibit 4 presents a similar view by age group. Again, deposit balances are higher than the before the pandemic across all age groups. But there is some sign of a recent drawdown in deposits, particularly among Millennials.

Exhibit 4: Median household savings and checking balances by age group (2019=100) for a fixed group of households
It appears the fastest decline in deposits are amongst Millennials



Source: Bank of America internal data.

Are more people living paycheck to paycheck?

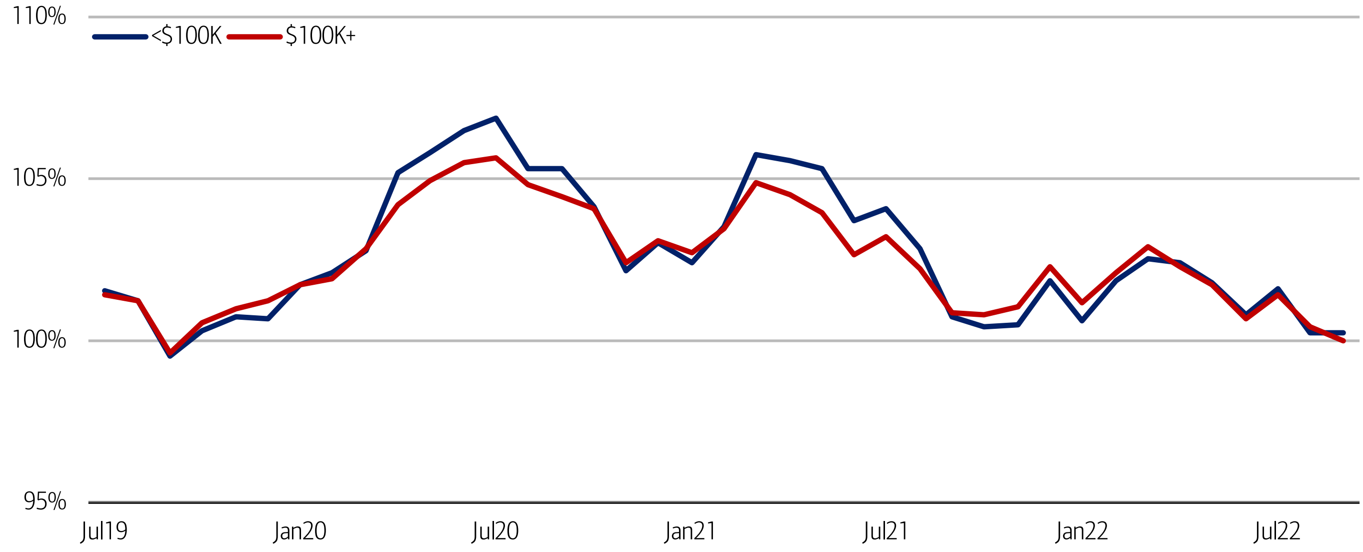
Is this gradual reduction in median household deposit balances something to worry about? Or, to put this another way, is there a growing group of people just getting by and living paycheck to paycheck?

We would argue not at this stage.

Exhibit 5 shows inflows into Bank of America customer deposit accounts as a percentage of outflows for two broad income cohorts earning less or more than $100K pa. The chart shows that inflows were well above outflows for both groups during the pandemic, reflecting both stimulus payments and reduced spending initially. But, while the inflow to outflow rate has fallen this year, it is still just above 100%, and is similar to the pre-pandemic level as of September 2022.

Exhibit 5: Inflows as a percentage of outflows in Bank of America aggregated and anonymized customer deposit data by household income (six-month moving average)

Inflows relative to outflows have come down following the pandemic and are now back to pre-pandemic levels



Source: Bank of America internal data. Data to September 2022.

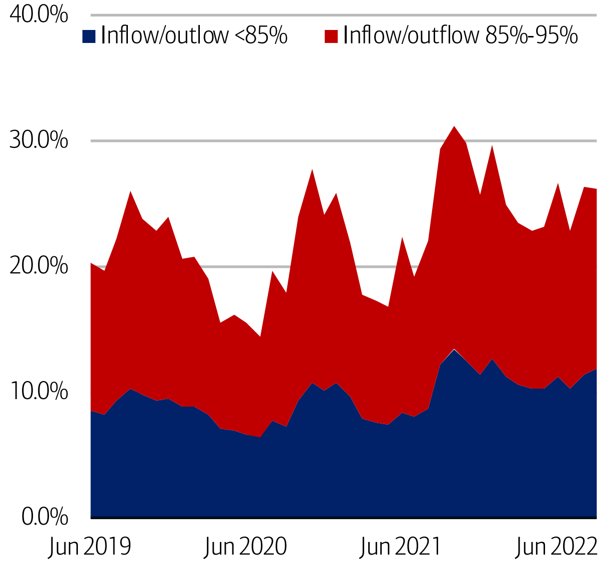
Looking at just the median or mean can hide developments at the 'tail' of the distribution. In this case, is there any evidence of a significant rise in the number of people struggling to meet their payment outflows with inflows?

Exhibit 6 shows the percentage of customer deposit accounts where inflows are 85-95% of outflows and where inflows fall below 85%. We can see some drift higher in these percentages, though no large jumps. If we were to think of 'paycheck to paycheck' pressures as being consistent with these sorts of low inflow rates, the proportion of people struggling to meet their outgoings with money coming in appears to be well short of some media reports that suggest this to be over 60% of the population.

Interestingly, if we split the inflow/outflow rates by income group, we see little difference between lower and higher income earners (see Exhibit 7). As we noted in our earlier publication, 'Who is living paycheck to paycheck?', there could be several reasons for this. Higher income groups may have large mortgages or monthly outflows to investment accounts, for example. Additionally, as those earning more are generally older, they may have more spending commitments, with families and children.

Exhibit 6: The percentage of customers with inflow to outflow ratios at given percentages

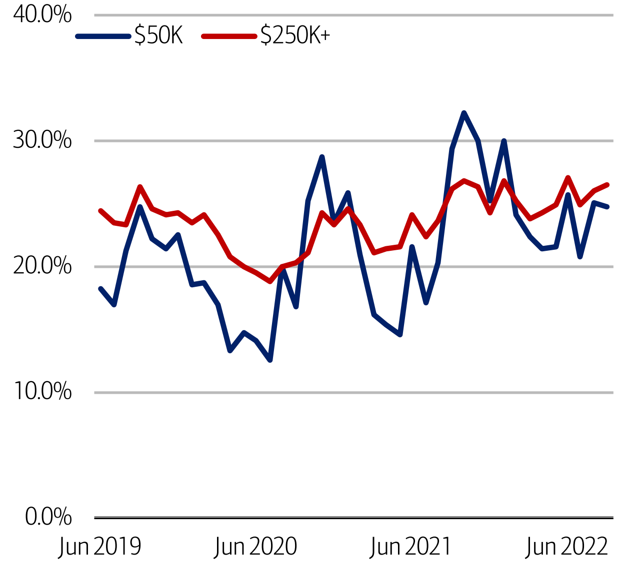
The percentage of customers with inflow to rates below 95% has risen, but not dramatically so



Source: Bank of America internal data. Data to September 2022.

Exhibit 7: The percentage of customers with inflow to outflow ratios at below 95% by income

There is currently little difference between the inflow/outflow rates of lower and higher income groups



Source: Bank of America internal data. Data to September 2022.

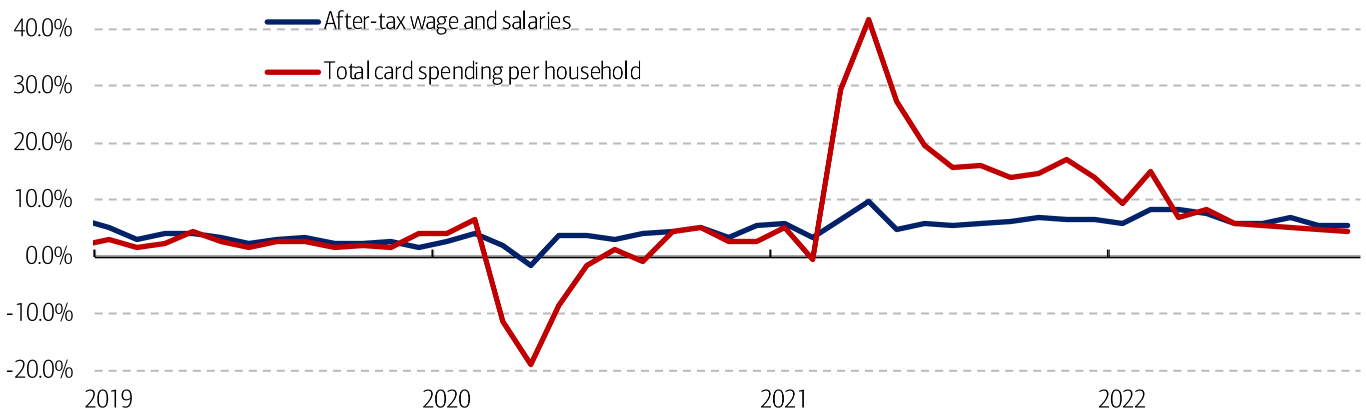
What about a rainy day?

So the good news is that although savings buffers are easing lower, they are doing so fairly gradually, and detail on inflows and outflows suggests that inflows fall well short of outflows for a still relatively small number of people.

Our Bank of America wage proxy series, which is created using identified ACH (Automated Clearing House) payroll payments into customer accounts, increased by 5.5% per household in the year to September. In the same month, total card spending per household increased by 4.4%. That suggests the strong US labor market is in part helping households keep up their spending growth without too much pressure to dip into savings, even though they remain challenged by high consumer price inflation, which was 8.2% over the same period.

Exhibit 8: After-tax wages and salaries and total card spending per household, based on Bank of America internal data (Monthly, %YoY)

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



Source: Bank of America internal data.

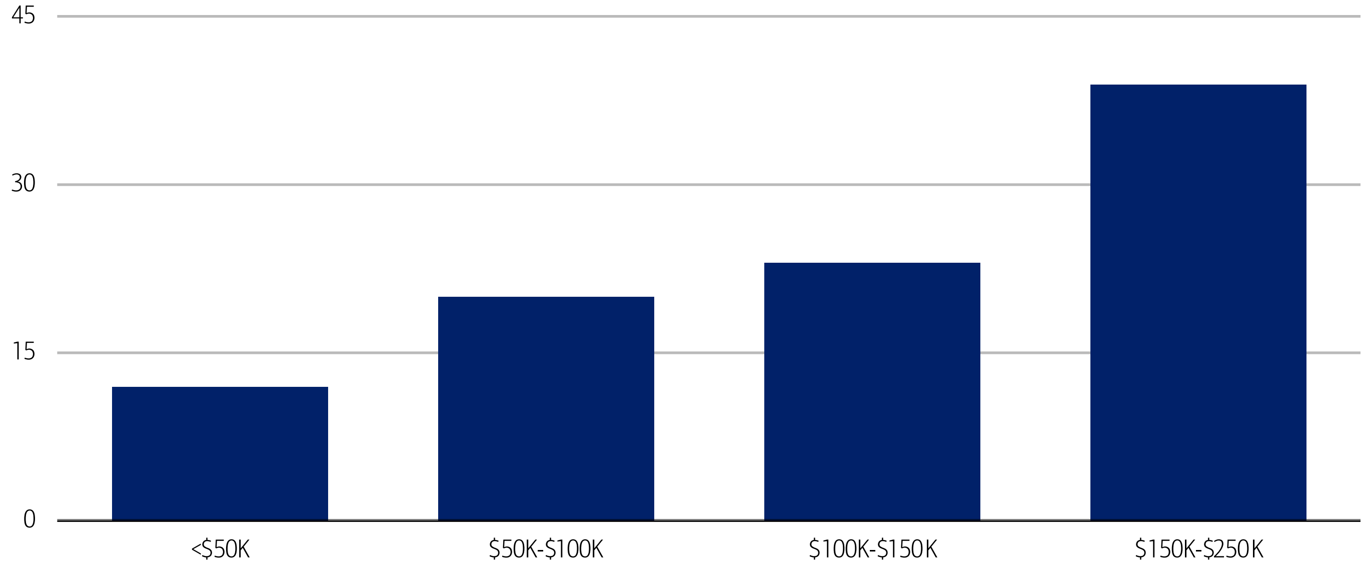
What comes next? Critical for the consumer will be how any economic slowdown in response to Federal Reserve policy tightening unfolds. Should the labor market cool, both in terms of employment and wage growth, consumers may need to increasingly access their buffers to support their spending.

But the 'run-way' consumers have in this situation could be fairly long. Exhibit 9 shows, for illustrative purposes, that at the current three-month average rate of decline, the median deposit buffers for all income groups would last a significant period.

The overall point is that consumers may be able to 'outperform' a modest slowdown in the overall economy by utilizing their buffers.

Exhibit 9: Months for median deposit to return to average 2019 level given rate of decline in last three months

At the current rate of decline even the lower income groups would have a significant period of time before their buffers returned to 2019 levels



Source: Bank of America internal data

Should a harder landing develop, then this run-way will clearly be shorter. In particular, a sharper slowdown in the labor market, combined with stubborn inflation, would mean slowing inflows but elevated outflows. At some point, consumers may need to make a bigger course correction in their spending, by cutting back on discretionary purchases, for example. But at least for now and some time to come, consumers appear to have sufficient buffers to weather any storm.

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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.

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.

Bank of America credit/debit card spending per household includes spending from active US households only. Only 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 7 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.

Generations, if discussed, are defined as follows:

Gen Z:	born after 1996
Younger Millennials:	born between 1989-1995
Older Millennials:	born between 1978-1988
Gen Xers:	born between 1965-1977
Baby Boomer:	born between 1946-1964

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

Disclosures

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