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Consumer Morsel

Gas inflates the risks to spending

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Key talking points

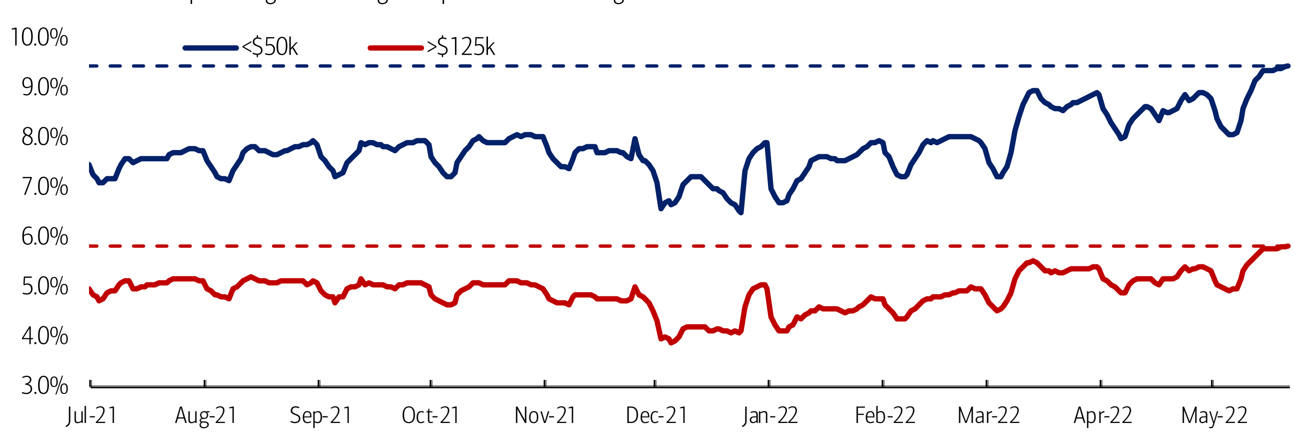
- Gas spending is taking up an increasingly larger share of consumer wallet as retail gas prices reach record high levels. The lower income group is getting hit harder.
- As a result, we see some evidence of slowing growth rates for spending elsewhere: total card spending per household excluding gas and grocery was down 0.3% YoY (year-over-year) for the week ending May 21st for the lower (<$50K) income group. Both durable and nondurable goods spending are down compared with a year ago.
- But the good news is that some of the slowdown is due to the "base effect" of high spending a year ago and the levels of spending still remain well above their 2019 levels. Services spending, particularly travel and entertainment, shows resilient %YoY growth.

Pain at the pump

After moderating slightly in April, the national average of retail gas prices climbed up again in May, reaching a record high this week. According to the aggregated Bank of America consumer credit and debit card data, gas spending as a share of total card spending per household surged to 7.8% for the week ending May 21st, up from 7.0% for the month of April and just 6.4% for the month of February (prior to the global energy shock). The lower income group (defined as those with annual household income lower than $50k) saw a bigger impact as the share of gas spending surged to 9.4% (Exhibit 1).

As gas spending takes up an increasingly larger share of consumer wallet, the risks are skewed to the downside for spending elsewhere. Indeed, when we look at total card spending per household excluding gas and grocery, spending has been slowing steadily on a %YoY basis (Exhibit 2). For the lower income consumer, total card spending ex gas and grocery was 0.3% lower than the same period 2021 as of May 21st. The caveat is that spending around this time last year was very strong due to stimulus and the ongoing reopening following Covid restriction. Compared to 2019, spending levels remain elevated across income cohorts.

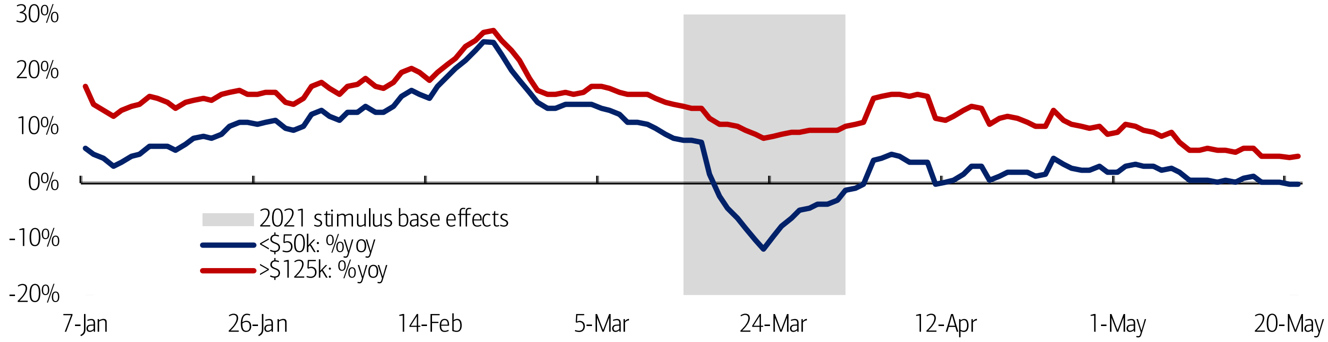
Exhibit 1: Gas spending as a share of total card spending per household by income group (%, 7-day moving average (ma))
Share of consumer wallet spent on gasoline surged as prices hit record high levels



Source: Bank of America internal data. Note: Households with annual income less than $50k takes up roughly 35% of total US households based on data from Census Bureau.

Exhibit 2: Total card spending per household ex grocery ex gas by income group based on aggregated Bank of America card data (%yoy of the 7-day moving average of spending levels)

Total card spending excluding as and grocery has been slowing steadily on a %yoy basis



Source: Bank of America internal data. Note: Households with annual income less than $50k takes up roughly 35% of total US households based on data from Census Bureau.

The Great Rotation

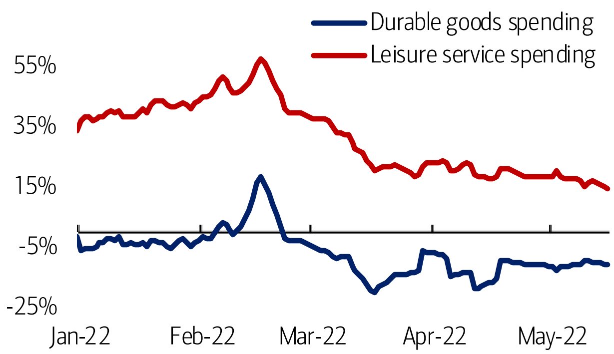
The combination of surging gas prices and the ongoing rotation towards services spending as the economy gets back on its feet following the pandemic means a sustained slowdown in goods spending. As Exhibit 3 shows, durable goods spending, which includes furniture, electronics and home improvement, was down 11% on a YoY basis as of May 21st. Similarly, spending for nondurable goods, such as clothing, is also at lower levels compared with the same time last year (Exhibit 4).

But despite this relative weakness in goods spending, services spending growth has been remaining resilient. Our proxy of leisure services spending, which includes airlines, lodging, entertainment services and restaurants, has been growing steadily at around 15-20% YoY since late March. Note that we will likely see some moderation in the %YoY for leisure services spending going forward given base effects (i.e. an increase in spending last year due to the reopening) but the %YoY should remain well into the expansionary territory.

Although card spending does not capture all services such as rent and utilities, which are usually paid through Automatic Clearing House (ACH, i.e. recurring direct payments), we think our leisure services spending proxy provides a directionally important signal for overall services spending. With services spending taking up more than 60% of total personal consumption expenditure (PCE), the strength in services spending means that even if goods spending – especially ex grocery and gas – is weakening, overall consumer spending is likely in better shape.

Exhibit 3: Spending for durable goods and leisure services (%yoy of the 7-day moving average of spending levels)

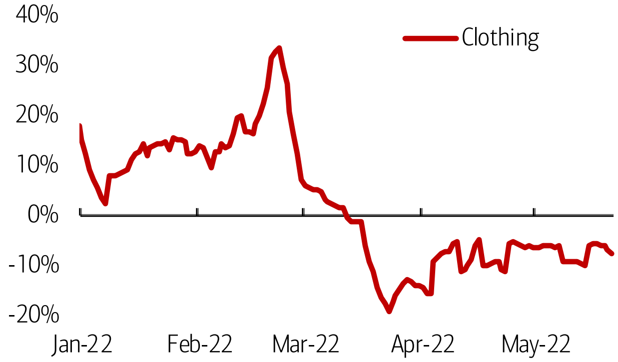
After surging during the pandemic, durable goods spending is now negative on a %yoy basis



Source: Bank of America internal data

Exhibit 4: Spending at clothing stores (%yoy of the 7-day moving average of spending levels)

Clothing spending is also seeing negative %yoy growth rates



Source: Bank of America internal data

The road ahead

The US consumer is currently facing multiple cross-currents. On the one hand, accumulated savings during the pandemic and surging wages from a red hot labor market provide support to consumer spending. On the other hand, persistent inflationary pressures, including for gas prices, are biting into consumer's purchasing power. The former seems to be the dominating force for now but an extended period of time of high price levels, or a rapid cooling in the labor market, could tilt the risks to the downside.

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Methodology

Readers should be aware that although the Bank of America datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

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.

Bank of America data used in this report include spending from active US households only. Spending from corporate cards are excluded.

Our methodology for calculating the growth rates for daily data: we calculate the %yoy growth, the 2-yr and 3-yr %change by matching calendar days (Jan 1 '22 matched to Jan 1 '21, Jan1, 2020 and Jan1, 2019, respectively). The % change is be calculated based on the 7-day moving average of spending levels.

Unless otherwise noted, the monthly subsector data are adjusted to control for seasonality and other factors.

Disclosures

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