

Consumer Checkpoint

Shifting gears, but still going forward

09 March 2023

Consumer Checkpoint is a regular publication from 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 takeaways

- After an exceptionally strong January, consumer spending somewhat normalized in February with Bank of America credit and debit card spending per household up 2.7% year-over-year (YoY). On a three-month annualized basis, card spending per household grew 4.8% in February, outpacing inflation. This suggests to us that consumer spending remains resilient even as the rate of spending growth moderates.
- Spending continues to be supported by positive consumer “fundamentals”. Measures of consumer health such as the inflows into customer savings and checking accounts relative to outflows remain in fairly good shape and median bank balances continue to be elevated despite gradual drawdowns for the middle- and lower-income households.
- Strong labor markets are also bolstering the consumer. In the technology sector, which has seen high profile job loss announcements, we find the impact on spending in six MSAs (metropolitan statistical area) with high shares of high-tech employment (based on Census Bureau data) to be modest so far.

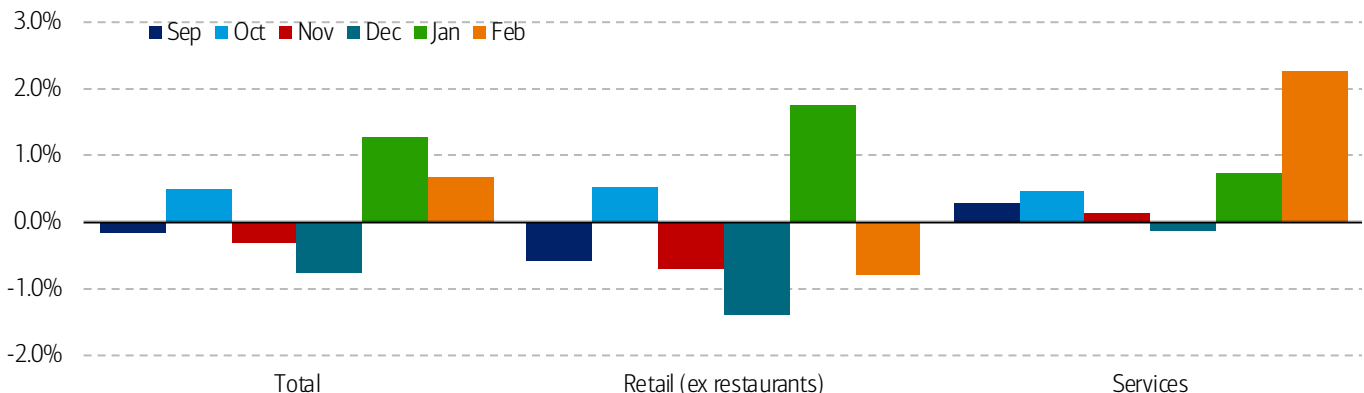
Slower spending growth in February

The growth in Bank of America credit and debit card spending per household decelerated in February to 2.7% YoY, from 5.1% YoY in January. On the month seasonally-adjusted (SA) total card spending rose 0.7% MoM, compared to the strong 1.3% MoM in January. As discussed in last month's [Consumer Checkpoint](#), we think January was likely boosted by several factors, including seasonal quirks, rises in minimum wages, social security payments and consumers looking for promotions in January sales.

If we look through the data wiggles in December and January, total card spending per household grew by an annualized rate of 4.8% SA over the three months ending February, which outpaces the annualized growth rate of around 1% in the Consumer Price Index (CPI) excluding shelter over the three months ending January (February CPI has not been released). This suggests consumer spending remains resilient even as the pace of growth moderates.

Exhibit 1: Total credit and debit card spending per household, based on Bank of America internal data (%MoM, monthly, seasonally adjusted)

After the out-sized rise in seasonally-adjusted total card spending in January, February saw weaker growth



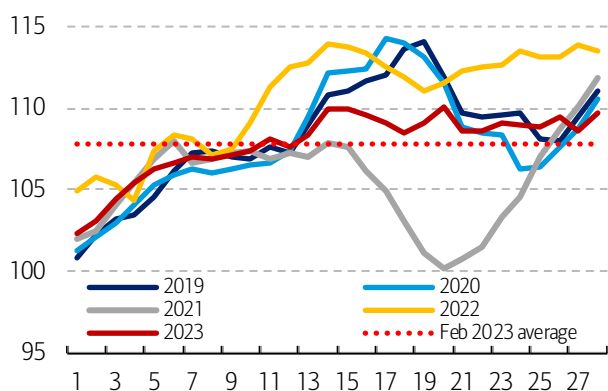
Source: Bank of America internal data

While it appears the first half of February continued the strong momentum in January, some pull-back may have occurred in the second half of the month. Part of the reason for the %YoY slowdown could be that gasoline prices started to rise around the end of February last year, which contributed to higher overall spending. While retail spending received a meaningful boost around President’s Day weekend in 2019 and 2020, this didn’t really happen this year (Exhibit 2). For the month as a whole, spending on services remained robust.

Exhibit 3 shows a more detailed sector breakdown. Home-related categories, such as furniture and home improvement, are still showing the biggest declines in February, down 14% and 7% YoY, respectively. Other types of goods, including clothing and jewelry, are also in contractionary territory. On the flip side, services spending, such as airlines and restaurants, grew strongly, up 21% and 7% YoY, respectively.

Exhibit 2: Total credit and debit card spending per household on retail in February (index, 7-day moving average of spending levels, average of Jan 1-28 of the same year =100)

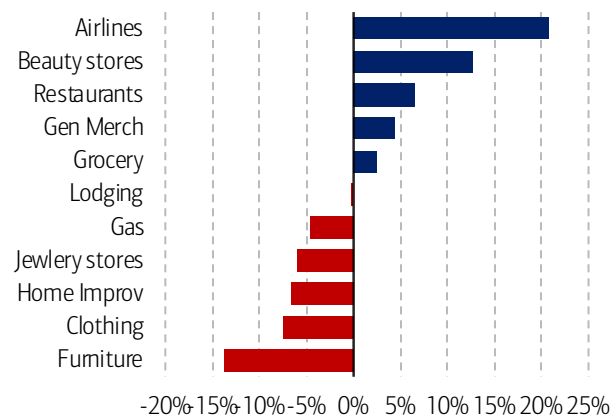
Spending in February appeared to remain flat in the second half of February...



Source: Bank of America internal data

Exhibit 3: Total credit and debit card spending per household on select sectors (%YoY, SA, for February 2023)

Home related categories saw the biggest contraction on a YoY basis in February



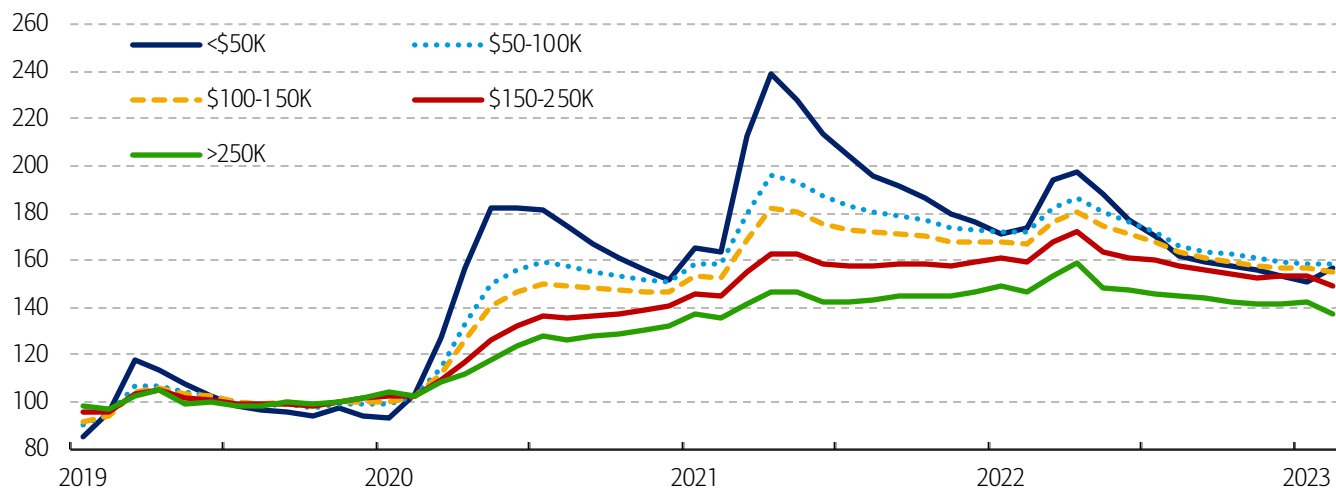
Source: Bank of America internal data

Only modest signs of increased consumer pressure from account flows

The strength of the labor market has allowed US consumers to largely ride through inflationary pressures. As noted in last month’s [Consumer Checkpoint](#), while consumers – at least at the lower end of the income spectrum – appear to be dipping into their savings buffers, they are not doing so at an increasing rate. Levels of savings remained nearly 50% higher than the 2019 average (Exhibit 4) for lower-income households (<\$50k). While this group has seen the fastest drawdown from the peak, there was a small uptick in February which could be attributed to tax refund distributions.

Exhibit 4: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households

Deposits remain well above pre-pandemic levels across income cohorts

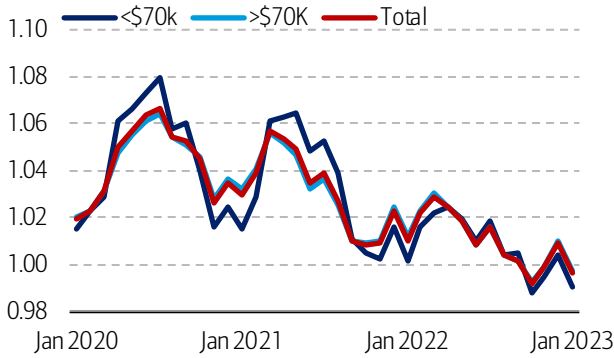


Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through February 2023.

Exhibit 5 illustrates the relatively modest pressure on people’s finances, showing the ratio of inflows into customer savings and checking account to the outflows. Over the pandemic, government stimulus checks meant that the ratio of inflows to outflows rose sharply at times. It has since been moving lower but remains close to “1” for both higher- and lower-income consumers, consistent with the gradual decline in savings buffers.

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

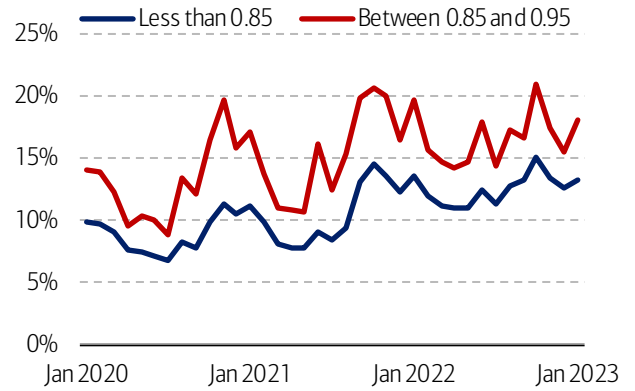
The inflow-to-outflow ratio has been falling, consistent with normalizing deposit levels



Source: Bank of America internal data

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

There is a gradual rise in the proportion of customers where the inflow-to-outflow ratio is well below 1.0.

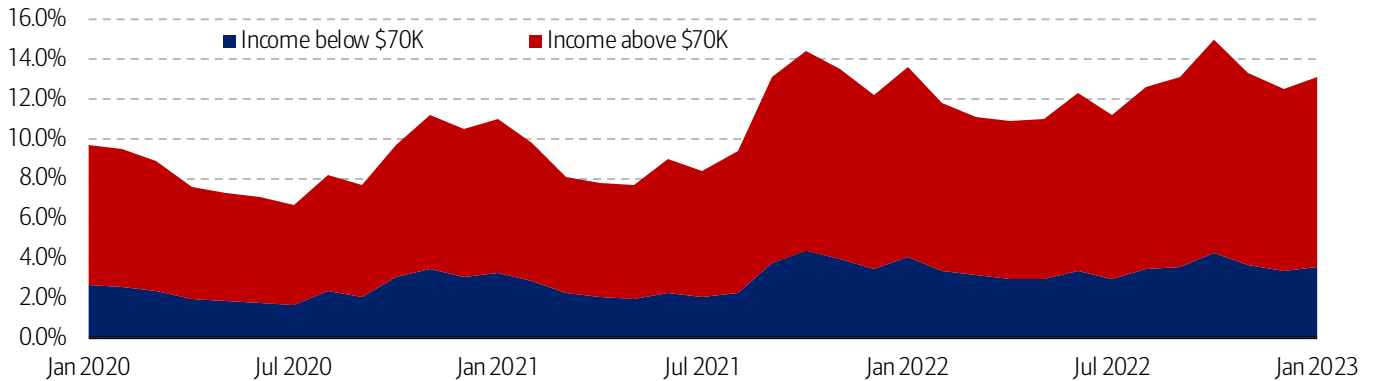


Source: Bank of America internal data

Of course, not everyone has the “average” experience, and some people could be finding themselves under more pressure. To help gauge this, Exhibit 6 shows the proportion of two groups of customers whose account inflows fall short of outflows. Specifically, the share of customers with an inflow/outflow ratio of between 0.85-0.95 and below 0.85 has been rising and is higher than the pre-pandemic January 2020. Again, though, the rise looks relatively gradual. And Exhibit 7 shows that rise in the proportion of customers where the inflow/outflow ratio is below 0.85 has not been rising much in the lower income cohort.

Exhibit 7: The percentage of customers with inflow/outflow ratios below 0.85, by income

The proportion of customers with a low ratio of inflow to outflow has only been rising gradually by those with lower incomes



Source: Bank of America internal data

High tech job news having low impact on spending

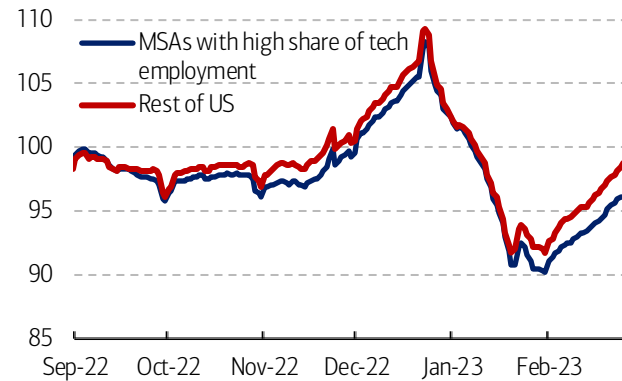
Despite an overall buoyant labor market, the technology sector has certainly seen some pain. According to the Challenger Job Cuts survey, announced job losses at fintech companies reached their highest level in December 2022 since the series began in 2019. In 2023, there have also been more high-profile announcements from tech companies about layoffs. Are these job announcements having an impact on spending?

To estimate this, we identify six MSAs with high shares of high-tech jobs or a high absolute number of high-tech jobs based on an analysis from the Census Bureau. These MSAs are: San Francisco, Los Angeles, Austin, Washington, DC, Boston, and New York City. Exhibit 8 shows that total card spending per household in these high-tech MSAs has lagged slightly versus the rest of the US since late September although the gap seems to have widened in recent weeks. Our back-of-the-envelope calculation suggests that cumulative card spending per households may have fallen by a modest 1% in these high-tech MSAs since September perhaps as a result of tech layoffs.

Given that employees at high tech companies tend to be higher wage earners, we also look at the income breakdown of spending at high-tech MSAs. We find that recent %YoY growth in total card spending for consumers with annual income greater than \$125k is generally in line with those on an income below that in these high-tech MSAs, after leading by a margin of around 3 percentage points in mid-2022. But the same pattern of a narrowing between these two income groups has also occurred at national level. So we think there is no additional impact from the tech layoff announcements on higher income consumers currently.

Exhibit 8: Average total card spending per household in all MSAs vs. high-tech MSAs (28-day moving average, index = August 2022)

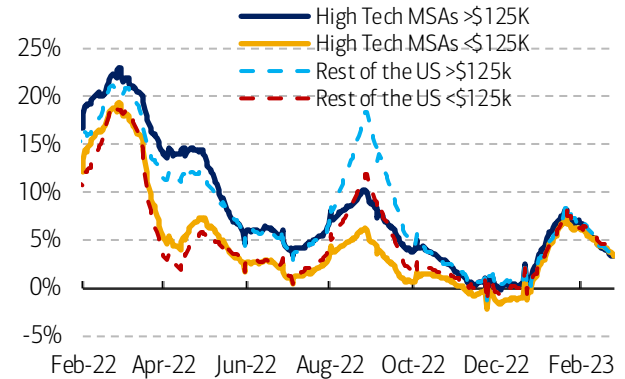
Though card spending levels are increasing, high-tech MSAs are doing so at a slower rate



Source: Bank of America internal data

Exhibit 9: YoY% average discretionary spending comparison by income in all MSAs vs. high-tech MSAs (28-day moving average)

The YoY% difference between spending by high income consumers in high tech MSAs has decreased as of late



Source: Bank of America internal data

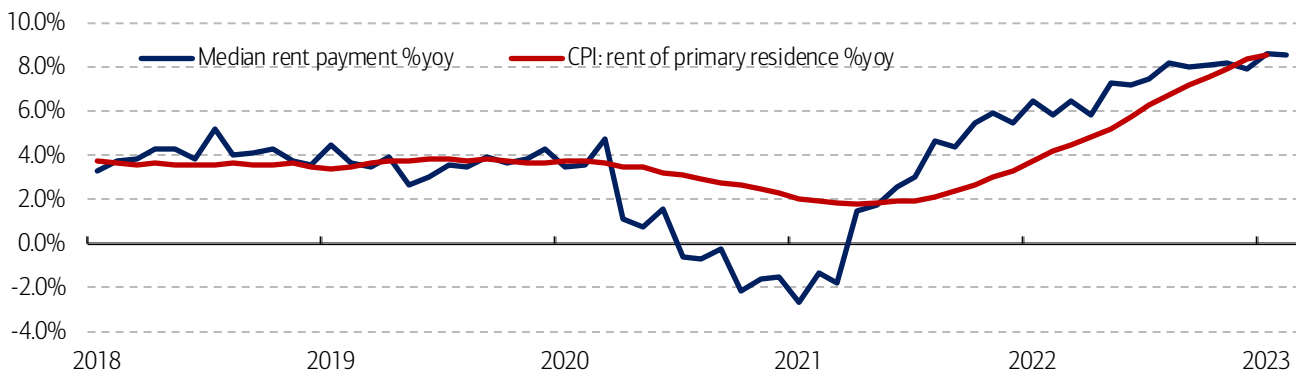
Note: Discretionary spending is total card spending excludes gas, utilities and food

Monthly data update

Overall total Bank of America credit and debit card spend, which makes up over 20% of total payments, was up 6.5% YoY in February, as total payments growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) increased 9% YoY. Most payment channels showed growth in February. Wire payments, however, were 6.2% below February 2022 levels. This continues to largely reflect the impact of the housing market slowdown on payments to escrow and title companies.

Exhibit 10: Median rent payment in Bank of America internal data and rent inflation based on CPI (%YoY)

Median rent payments for Bank of America customers increased 8.5% YoY in February



Source: Bank of America internal data

Meanwhile, median rent payments across ACH (automated clearing house), debit/credit cards and bill payments for Bank of America customers increased by 8.5% YoY in February, just a touch lower than the peak in January of 8.6% YoY. As Exhibit 10 shows, the Bank of America median rent payment %YoY tracks the rent component of Consumer Price Inflation (CPI) fairly well. As such, the good news is that Bank of America rent payment data for recent months suggests we might be near the peak of rent inflation.

The YoY growth in card spending *per household*, which measures average spending for Bank of America customer households, was up 2.7% YoY in February, a deceleration from 5.1% YoY in January.

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 boosted partly by 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 looks only 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 can reflect using the processing date (total card spending) versus the transaction date (per household card spending).
5. Other differences include household formation due to young adults moving in and out of their parents' houses during the pandemic (for more details, please see methodology).

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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 Bank of America 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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