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Consumer Checkpoint

Happy holidays?

12 December 2023

Key takeaways

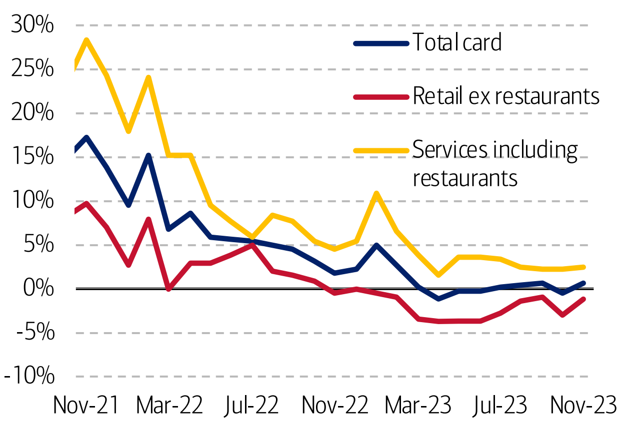
- The onset of the holiday season boosted consumption in November, with spending on holiday items up 1% year-over-year (YoY), according to Bank of America internal data. Overall consumer spending growth returned to positive territory, with total card spending per household up 0.5% YoY, after a 0.5% fall in October.
- Younger generations' spending growth has lagged older generations generally in 2023. This appears to be playing out in holiday shopping as well, though with some signs that promotion-hungry younger generations started ramping up spending in late November.
- Fundamentals look largely supportive for younger people in our view, with still fairly decent (if slowing) wage growth and elevated deposits relative to 2019, according to Bank of America internal data. However, student loan repayments and onerous housing and childcare costs may yet dampen festive spirits (and spending).

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.

November reigns

Bank of America internal consumer spending data in November showed a resilient month. Bank of America aggregated credit and debit card spending per household rose 0.5% year-over-year (YoY), following the 0.5% YoY decline in October (Exhibit 1). Spending on services was up 2.5% YoY in November, rising from 2.1% in October, while retail spending (ex-restaurants) was down 1.1% YoY, but it is an improvement from the -3.0% YoY drop in October. On a seasonally adjusted basis, Bank of America total card spending per household rose 0.2% month-over-month (MoM). Note that gasoline spending declined by 4% MoM in November on lower gasoline prices, so excluding gas, total spending was even stronger on the month.

Exhibit 1: Total card spending per household (monthly, %YoY)
Total card spending rose 0.5% YoY in November



Source: Bank of America internal data

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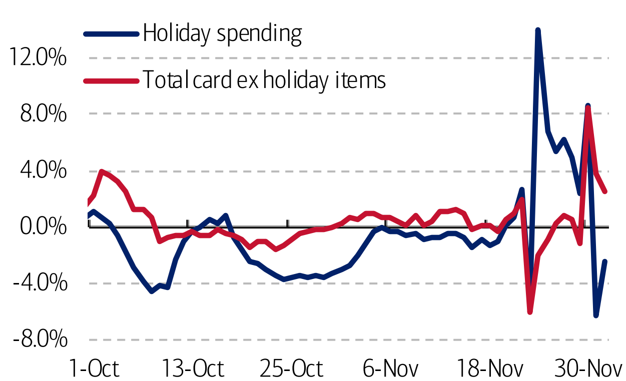
Exhibit 2: Card spending per household for holiday items and excluding holiday items (%YoY, 7-day moving average)
Holiday spending was up 1% YoY over November



Source: Bank of America internal data. Holiday items include all MCC codes for which spending in Nov-Dec is at least 20% of total annual spending in the category.

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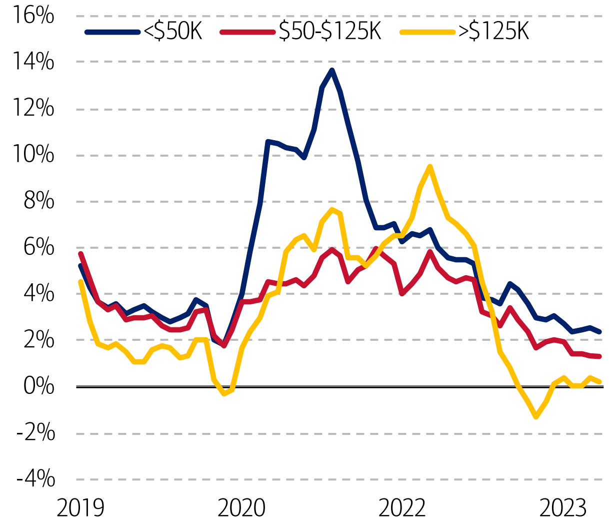
For many consumers, November marks the start of the winter holiday shopping season. According to Bank of America internal data, card spending on holiday items, defined as those on which spending in the November-December period is at least 20% of total annual spending on the category, started November on a negative % YoY basis, but showed a strong increase around Black Friday and Cyber Monday (Exhibit 2). For the full month of November, aggregate holiday spending per household was up around 1% YoY. Excluding these holiday items, card spending elsewhere grew by an average YoY rate of 0.5%.

Zooming in on the promotional periods, while many retailers started their promotions as early as November 1, Black Friday and Cyber Monday still attracted the most purchases in the month. To put this in historical context within the broader holiday spending period of November and December, around 10% of all holiday spending is done between Black Friday and Cyber Monday while around 15% is purchased during the 7-day period leading up to Christmas, according to Bank of America internal data for 2019 and 2022. This year, Bank of America aggregate consumer spending from Thanksgiving through Cyber Monday was up 5% YoY. Which categories saw notable lifts? Clothing, cosmetics, and other merchandise, as well as experiences such as air travel bookings and event tickets, which were also up a combined 5% YoY.

Throughout 2023 our data has shown two important developments. The first is the significantly slower after-tax wage and salary growth seen by higher-income (>$125k) cohorts. Exhibit 3 shows this continues to be the case as we approach year end, although higher income cohorts' wages and salaries growth is off the lows seen earlier in 2023, while there is gradual deceleration in the pay growth of lower- and middle-income households. The second development is the ongoing elevated level of household savings and checking balances. Exhibit 4 highlights that while these deposits are trending down, median balances remain more than a third higher than 2019 across all income cohorts, according to Bank of America internal data.

Exhibit 3: After-tax wage and salary growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, SA)

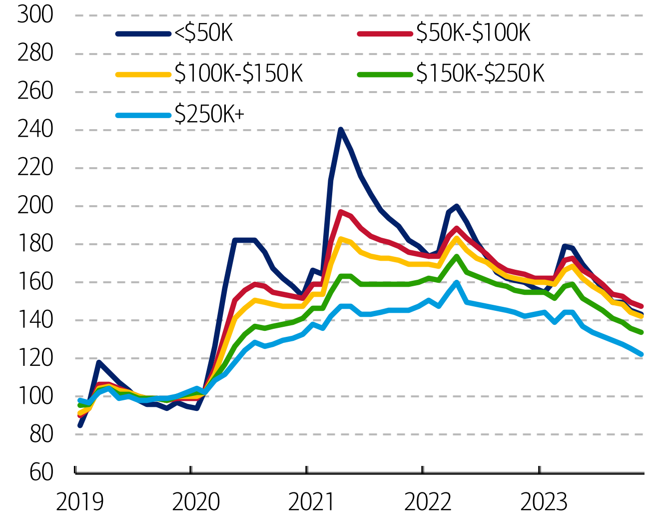
Lower income cohorts continue to experience faster wage growth



Source: Bank of America internal data

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

In November households across income cohorts continued to have raised deposit balances compared to 2019



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 November 2023.

Younger consumers are seeking the deals

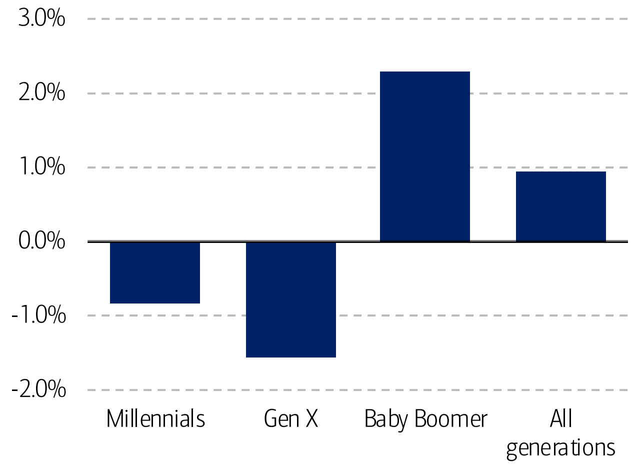
Another key theme we have reported on over the last year has been the relative outperformance of older (Baby Boomer and Traditionalist) generations' spending growth. The 8.7% 2023 cost-of-living adjustment (COLA) to social security, which boosted retirement incomes, as well as higher levels of wealth were among the drivers of this outperformance.

We see this trend continuing to play out in holiday spending. Exhibit 5 shows holiday spending per household in November by generation. While Baby Boomers saw solid 2.3% YoY growth in November, both Millennials and Gen X consumers had lower holiday spending than in the same 30-day period last year.

In addition to spending less on a relative basis, Millennial and Gen X consumers seem to be more promotion-driven, as their holiday spend was more concentrated around Black Friday and Cyber Monday, compared with Baby Boomers. As Exhibit 6 shows, Baby Boomers' holiday spending started to pick up from the start of November and continued to rise throughout the month, though this could slow further into the holiday season. Meanwhile, Millennials started to ramp up their holiday spending much later in the month.

Exhibit 5: Card spending per household on holiday items by generation (30-day aggregate for November, %YoY)

Baby boomers spending saw solid spending growth in November



Source: Bank of America internal data

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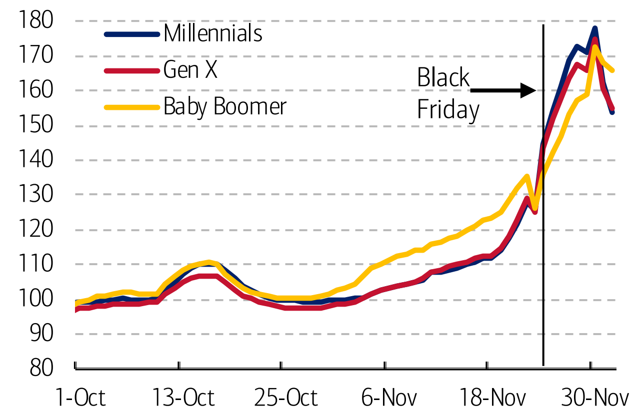
Exhibit 6: Credit and debit card spending per household on holiday items by generation (index, Aug-Sep average=100 for each year, 7-day moving average)

It appears Millennials may have delayed their spending to benefit from promotions



Source: Bank of America internal data

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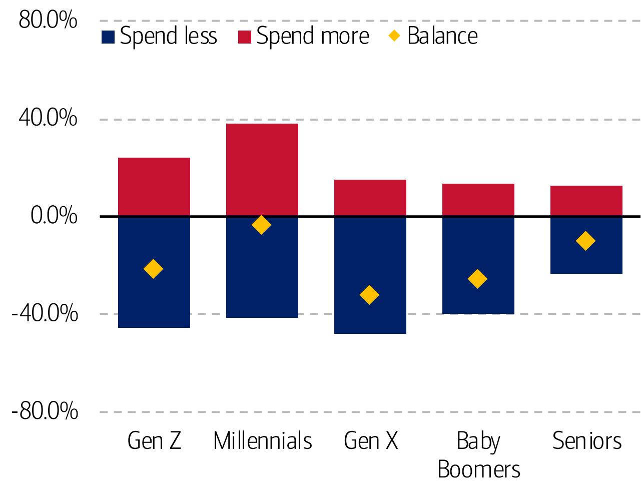
Are younger generations now making up for a slower start to holiday spending, or will their belated momentum fade? The 2023 Bank of America Winter Spending Survey provides insight. It found that over 40% of respondents are planning on spending less this holiday season, with only a quarter of respondents planning to spend more, yet Millennials appear least likely to trim their overall holiday spend (Exhibit 7).

The survey also finds that although 70% of respondents do not anticipate taking on any debt to purchase holiday gifts, younger generations are more likely to do so (Exhibit 8) – a finding that may be consistent with reports that buy now, pay later (BNPL) usage has risen. In our December 2022 Consumer Checkpoint, we noted that BNPL usage was rising particularly amongst younger generations, though it remained fairly low overall. BNPL usage means that some holiday shopping may not yet be reflected in the Bank of America spending data and could be spread out over the first few months of 2024. The upshot is that an already decent holiday spending season could look better still.

Exhibit 7: Survey responses to the question "How do you expect your holiday spending to change this year compared to 2022?"

Survey respondents who were Millennials appear to be planning to spend about the same as they did in 2022



Source: Bank of America Winter 2023 Omnibus Survey

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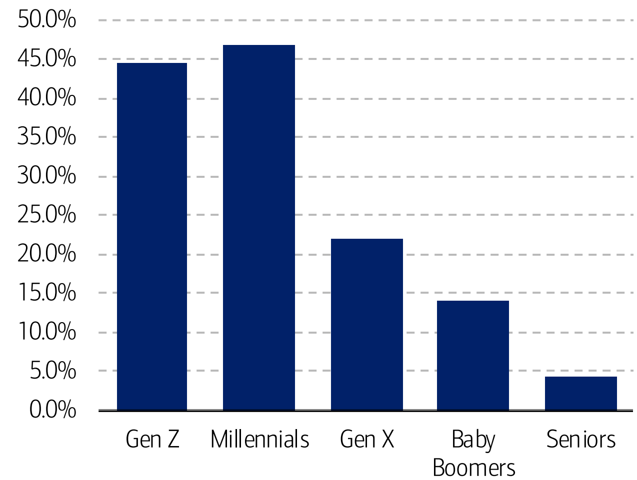
Exhibit 8: Survey responses to the question "Do you anticipate taking on any debt to purchase holiday gifts (e.g., carrying a credit card balance, borrowing money from others, or taking out a loan)?"

Survey respondents who were Millennials appear most likely to take on debt to finance holiday spending



Source: Bank of America Winter 2023 Omnibus Survey

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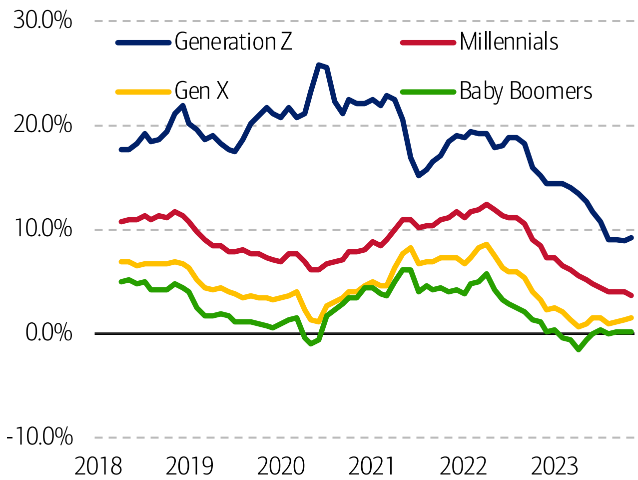
Fundamentals of younger gen spending are mixed

In some respects, spending by the younger generations has had support from 'fundamentals.' While there are signs the labor market is cooling, and that Millennials are seeing the biggest pull-back in pay rises on job moves, it remains the case that younger generations are seeing the largest YoY rise in wages and salaries according to Bank of America internal data (Exhibit 9). Moreover, this year Millennials' wage growth has been softening broadly in line with overall consumer price inflation.

Exhibit 9: After-tax wage and salary growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, SA)

Gen Z and Millennial wages are growing faster than those of older generations, though decelerating



Source: Bank of America internal data

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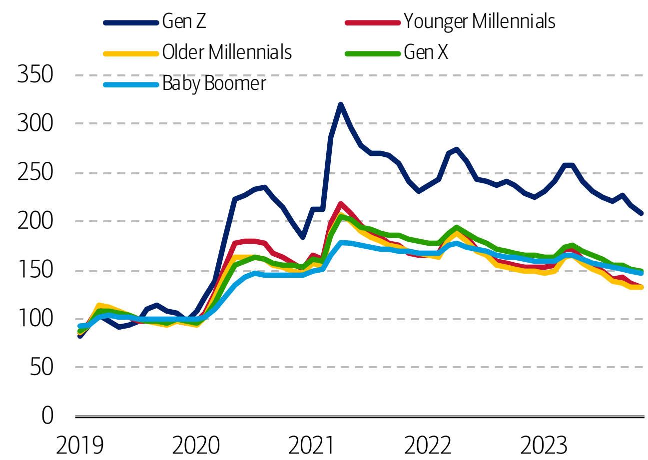
Exhibit 10: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households through November 2023

Millennial deposits are coming down faster than those of other generations, though remain well above 2019 levels



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 November 2023.

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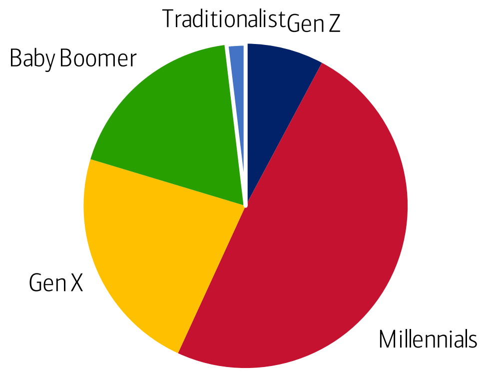
When we look at Bank of America internal data on savings and checking balances for a fixed group of households (Exhibit 10), we find that younger generations continue to have elevated deposits relative to pre-pandemic (2019), but they are falling at a faster pace than that of older generations. Younger generations also face several headwinds in our view, including the ongoing resumption of student loan repayments. So far, we see limited impact from this (Exhibit 12), but if younger generations are currently making use of the 'on ramp,' which allows repayments to be delayed further without affecting their credit rating, the negative impact on spending may build relatively slowly. Additional headwinds we think could particularly impact younger generations include childcare costs and the uneven housing market.

Exhibit 11: Share of households making student loan repayments in November 2023 by generation (%)

Millennials and Gen Z households are well over half of all student loan re-payers



Source: Bank of America internal data

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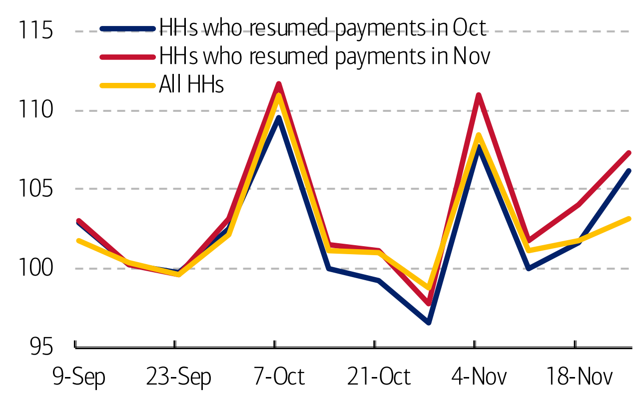
Exhibit 12: Weekly total card spending per household (HH) for all households and those who resumed student loan (SL) payment in October and November (index, 14-day ending Sep 23 average = 100 for each group)

We do not yet see an adverse impact to spending for households who resumed student loan payments in October and November



Source: Bank of America internal data

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The competing solid fundamentals and significant headwinds facing younger generations makes for a complex and evolving year ahead and perhaps it isn't surprising they may be feeling somewhat cautious. According to a recent Bank of America survey of young investors, nearly half of respondents who were young adults (Gen Z and Millennials) have a negative outlook on the economy over the next year, with only a fifth of respondents anticipating an improvement. 85% of the Millennials and Gen Z survey respondents have adapted their investment strategies due to the current economic conditions. However, they're split on how best to approach the market – with 45% saying they're being more conservative, while 41% are being more aggressive.

Monthly data update for November

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) was up 3.0% YoY in November. Bank of America total credit and debit card spend, which makes up over 20% of total payments, was up 3.5% YoY.

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 aggregated 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 1995
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
6. Traditionalists: pre-1946

Any reference to card spending per household on gasoline includes all purchases at gasoline stations and might include purchases of non-gas items.

Concentrix+Webhelp (an independent market research company) conducted a panel-sample online survey on behalf of Bank of America/Merrill from September 27th to October 5th, 2023. The survey consisted of 2,001 affluent respondents throughout the U.S. Respondents in the study were defined as aged 18 to 26 (Gen Z) with investable assets between $50,000 and $1,000,000 or aged 27 to 42 (Millennial) with investable assets between $100,000 and $1,000,000.

The Bank of America 2023 Winter Omnibus survey was conducted online between October 19, 2023 and November 2, 2023. The survey consisted of 2,004 respondents throughout the U.S. Respondents in the study were aged 18+ and were representative of the composition of the US Census for age, gender, household income and Census region.

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

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Disclosures

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