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Consumer Checkpoint

Amidst the freeze, is confidence thawing?

08 February 2024

Key takeaways

- Consumer spending softened in January with total card spending per household falling by 0.2% year-over-year (YoY), after a 0.2% YoY rise in December, according to Bank of America internal data. On a seasonally adjusted (SA) basis, per household spending dropped 0.3%.
- The weather appears largely to blame for the weakness in January as it was cold and snowy and/or rainy in large parts of the country. Yet, where the weather was better, such as the West, spending was resilient, and in the later part of the month, total card spending per household rebounded across the country.
- Despite the freeze, consumer confidence has rebounded as of late. It does, however, remain relatively weak given the consumer has been resilient over the last year and the labor market has been solid. Why? 'Sticker shock' from higher prices is a good part of the explanation.
- As the rate of inflation comes down this sticker shock should begin to fade, particularly as after-tax wages and salaries growth remains healthy for low and middle-income households in our data. Consumers' savings buffers remain elevated and Bank of America's latest Participant Pulse shows no significant sign that people are tapping into their longer-term retirement savings.

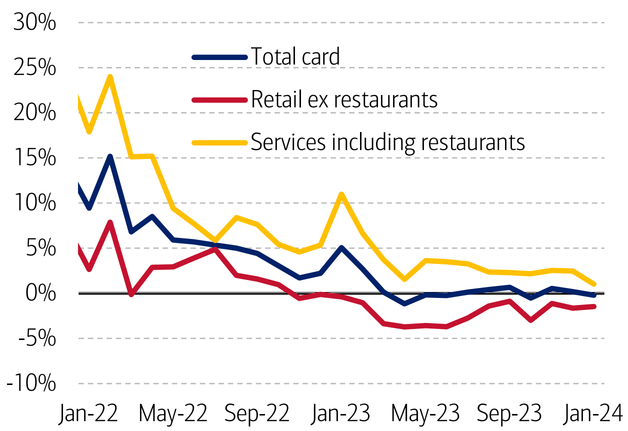
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America.

Baby, it's cold outside

Bank of America aggregated credit and debit card spending per household fell 0.2% year-over-year (YoY) in January, following a 0.2% YoY increase in December (Exhibit 1). Retail, ex-restaurant spending, saw a decline of 1.5% YoY, exacerbated by weaker gasoline spending, while services spending growth slipped to 1.0% YoY, compared to 2.5% YoY in December. On a seasonally adjusted (SA) basis, total card spending per household dropped 0.3% month-over-month (MoM) in January.

Exhibit 1: Total card spending fell 0.2% YoY in January

Total card spending per household (monthly, %YoY)



Source: Bank of America internal data

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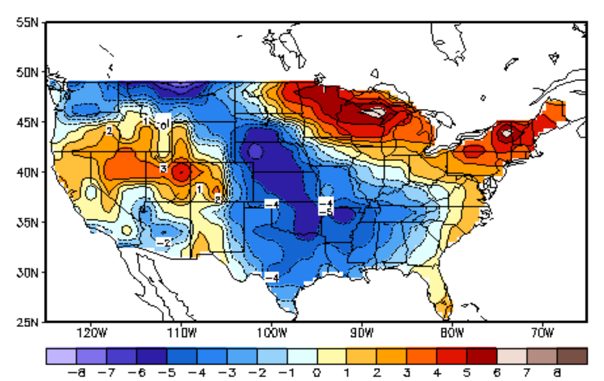
Exhibit 2: January saw very cold weather across the Midwest and South

Mean temperature anomaly (Degrees F)



Source: National Oceanic and Atmospheric Administration (NOAA). Anomaly is calculated as the temperature difference from 1991-2000 average.

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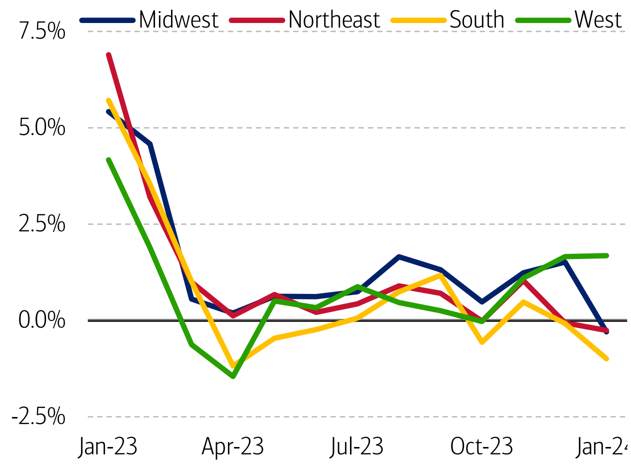
What could be driving the weaker tone to spending in January? In our view, one key reason appears to be the weather. For starters, January was very cold across much of the United States (Exhibit 2), especially in the central and southern regions. But alongside this, precipitation was also above average throughout the eastern US. One area where we saw a clear impact was in restaurant spending, where card spending per household slumped to growth of -3.2% YoY in January, from 3.6% YoY in December.

With most US Census regions impacted by the weather, it is hard to take much of an overall message from the weaker January data. Two positives, however, are that the West – least impacted by bad weather in January – showed more signs of consumer resilience, with spending rising 1.7% YoY (Exhibit 3). And, as we moved through January and the weather improved across most of the country, Bank of America internal data showed that spending largely rebounded across the US (Exhibit 4).

Exhibit 3: The West showed resilience in spending, while weather hit the other regions

Total card spending per household by Census region (% growth YoY)



Source: Bank of America internal data

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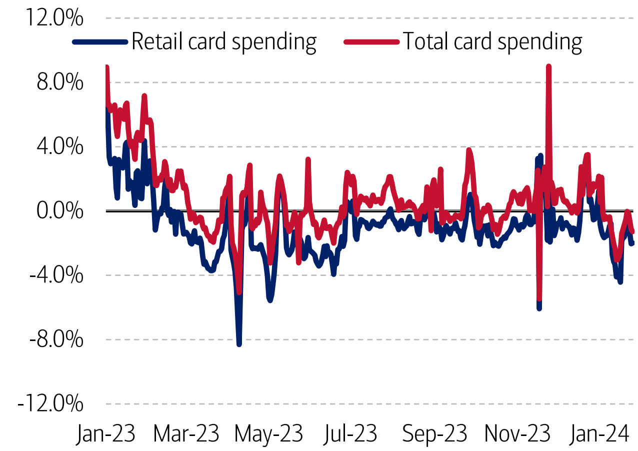
Exhibit 4: As the weather eased, spending rebounded later in January

Card spending per household (% growth YoY, 7-day moving average of daily data to January 31)



Source: Bank of America internal data

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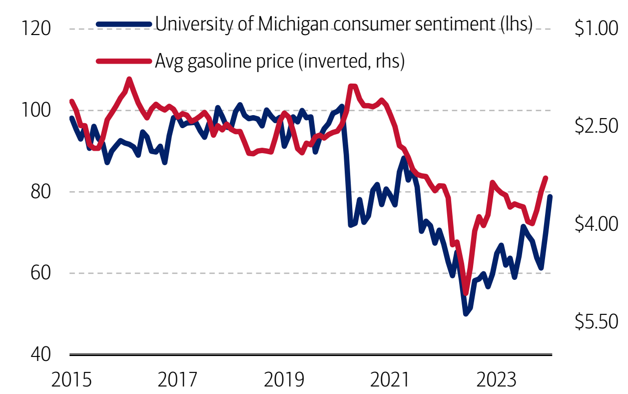
Are consumers catching a vibe?

One of the curiosities over the last year or so has been that, despite a strong labor market and robust consumer spending, consumers have not been expressing much confidence. For example, the University of Michigan's Consumer Sentiment survey has shown that sentiment remains well below pre-pandemic levels (Exhibit 5). And, although the US Conference Board's measure of consumer confidence has not been nearly as weak, it is still tracking below where it was immediately before the pandemic.

Exhibit 5: Consumer confidence has improved, perhaps in part following lower gasoline prices

University of Michigan Consumer Sentiment (Index 1966 Q1=100) and average price of unleaded gasoline ($ per gallon, inverted)



Source: Haver Analytics

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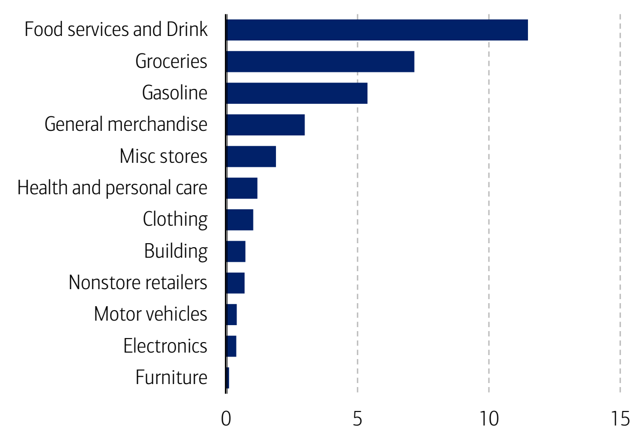
Exhibit 6: Households typically make a disproportionately large number of transactions at restaurants, bars, groceries and gas

Average number of card transactions per household (monthly 12-month average to January 2024)



Source: Bank of America internal data

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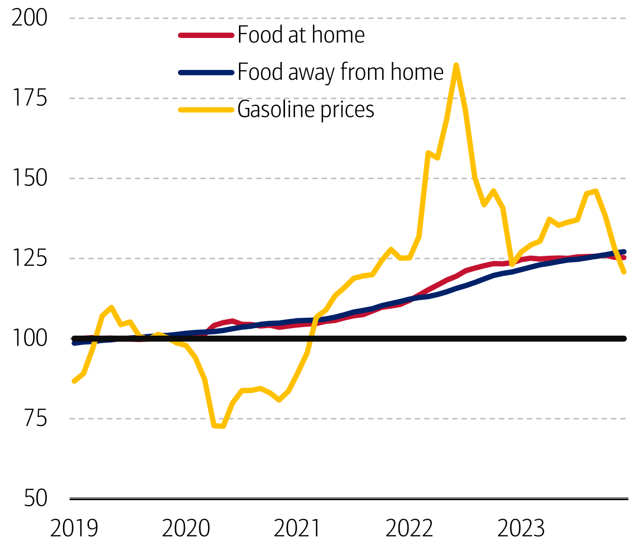
More recently, however, consumer sentiment has been rising. One driver here appears to be lower gas prices. Exhibit 5 shows that consumers are particularly sensitive to gasoline prices and as this has moved lower throughout 2023, consumer sentiment, as measured by the Michigan survey, has improved. Still, confidence remains below levels that would be consistent with consumers getting their 'vibe' back fully. Why?

We think one reason is the frequent reminders of higher prices. Looking at Bank of America internal data, we find that on average, household tends to make many more transactions per month at restaurants and bars, groceries and gasoline than in other retail spending categories (Exhibit 6). As a result, we think consumers are consistently confronted with the 'sticker shock' of higher prices in these categories in their daily lives. And even though inflation in all these spending categories has fallen back, prices (even in gasoline) remain significantly above where they were before the pandemic (Exhibit 7).

Exhibit 7: Frequently bought items may have sticker shock for consumers

Consumer prices in selected categories relative to 2019 (index 2019=100)



Source: Haver Analytics

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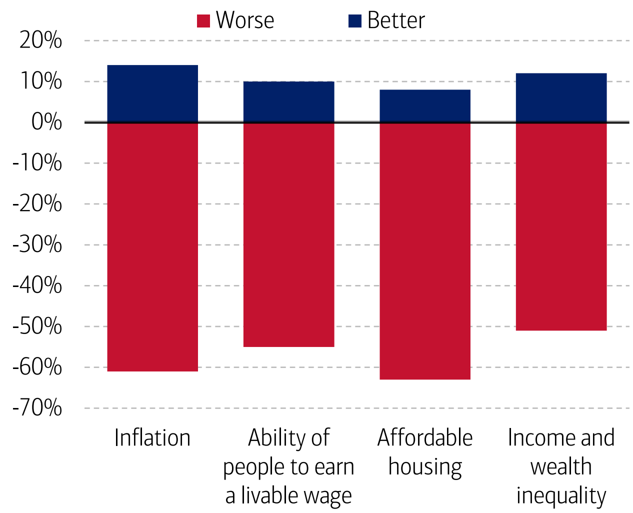
Exhibit 8: A large proportion of Americans continue to view inflation as a top concern

Reponses to survey question 'Will these challenges get better or worse in 2024?' (%)



Source: Bank of America Proprietary Market Landscape Insights Study (December 2023)

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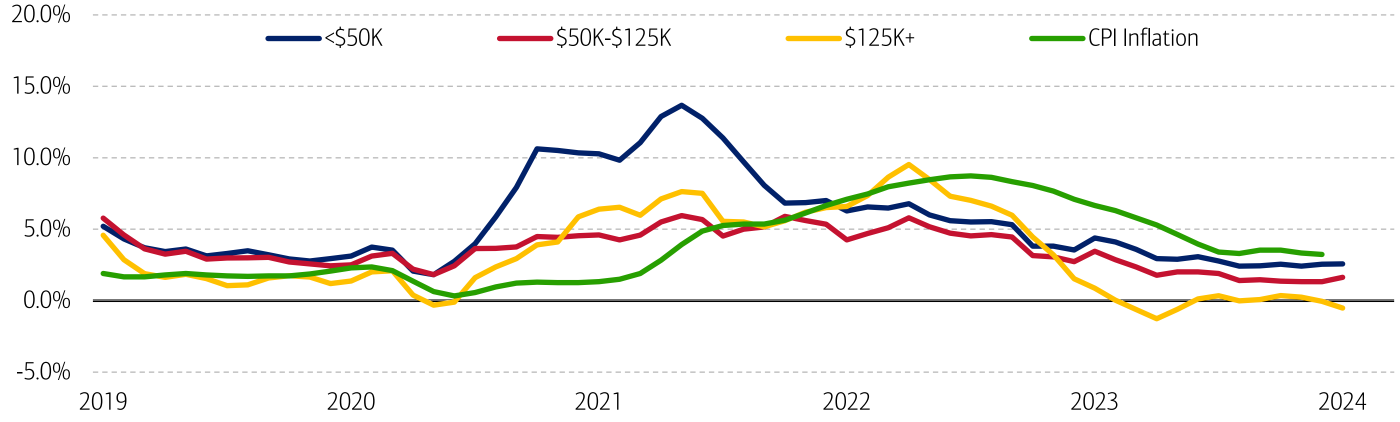
Over time, lower prices may become more difficult to recall, potentially reducing the impact of 'sticker shock.' But the December 2023 Bank of America Proprietary Market Landscape Insights Study ('Insights Study') found that Americans still rated inflation as the top economic concern this year, and a majority thought it would get worse in 2024 rather than better (Exhibit 8). This suggests sticker shock may fade, only fairly gradually.

The good news is that there continues to be solid growth in after-tax wages and salaries (Exhibit 9), particularly for low-and middle-income households, according to Bank of America internal data. Higher-income households' after-tax wages and salaries looks weaker, declining -0.5% YoY in January, the second consecutive month of negative growth.

Solid overall wages and salaries growth means that as inflation comes down the drag on households' real incomes is lessening. If the US labor market continues in as good a shape as seen in the January employment report from the Bureau of Labor Statistics (BLS), it is plausible that the wages and salaries growth shown in our data could start to exceed inflation at some point in 2024, which could help the continued thaw in consumer sentiment.

Exhibit 9: Falling inflation means the decline in households' real after-tax incomes is moderating
After-tax wage and salary growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, seasonally adjusted (SA)) and US consumer price inflation (% YoY)



Source: Bank of America internal data, Bureau of Labor Statistics

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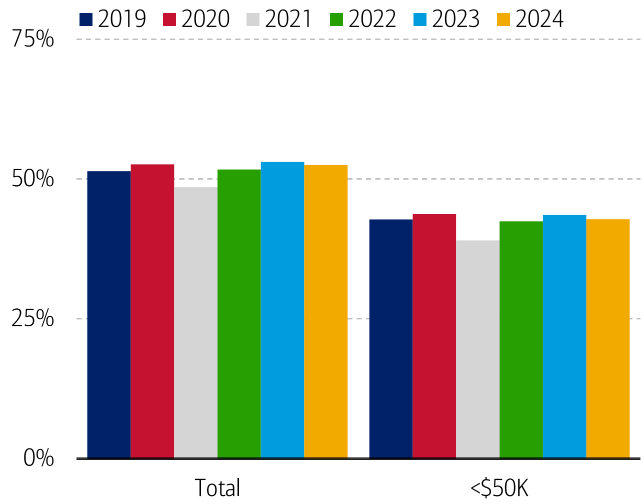
Financial health check – room to spend?

After-tax wages and salaries are likely the most important component of spending growth, particularly for lower- and middle-income households, but consumers' overall financial position is also important. For example, are consumers able to borrow to finance their spending or are they overstretched? And do they have enough savings in the bank to feel comfortable?

Two metrics to measure consumers' ability to borrow for everyday spending are the share of current spending they are financing on credit as opposed to debit cards and the degree to which they are spending close to their credit limits. On the first of these, Bank of America internal data suggests that the share of spending on credit cards, while rising since 2020, is no higher than it was in 2019. On the second, the average credit card utilization rate (credit card balances relative to credit limits) remains below 2019 levels (Exhibit 11). The New York Federal Reserve's Household Debt and Credit Report for 2023 Q4 also suggests that across the wider financial system, consumer credit card utilization is not above the levels seen immediately before the pandemic.

Taken together, we think this suggests that consumers continue to have 'dry powder' to support their spending.

Exhibit 10: There is no obvious rise in the share of spending being financed on credit cards vs debit cards
Share of credit card spending for those with both credit and debit cards, 4 weeks to 26th January compared to equivalent period in previous years (%)



Source: Bank of America internal data

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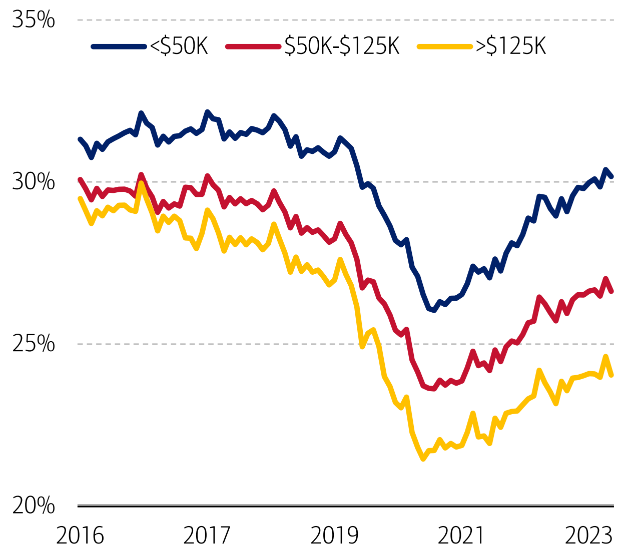
Exhibit 11: Credit card utilization rates across income groups remain below 2019 levels
Credit card utilization rate by income group (%)



Source: Bank of America internal data

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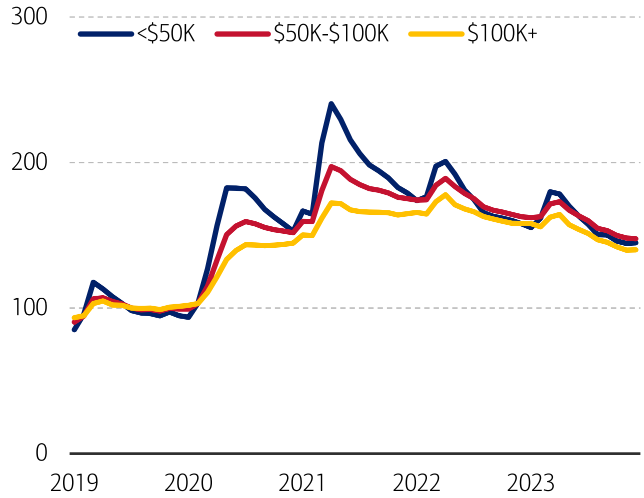
What about money in the bank? Bank of America internal data from a fixed group of households that had a consumer deposit account (as explained in more detail in our methodology) continues to show savings and checking balances elevated relative to 2019 (Exhibit 12). Across all income cohorts, this measure of savings buffers is up at least 40% compared to 2019. More broadly, looking at Federal Reserve data, overall US households' total financial assets, Exhibit 13, were up around 25% on 2019 in 2023 Q3.

Exhibit 12: Households continues to have raised deposit balances compared to 2019

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



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 December 2023.

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Exhibit 13: Total household financial assets are also up significantly

Household financial assets to 2023 Q3 (Index, 2019=100)

Source: Board of Governors of the Federal Reserve System

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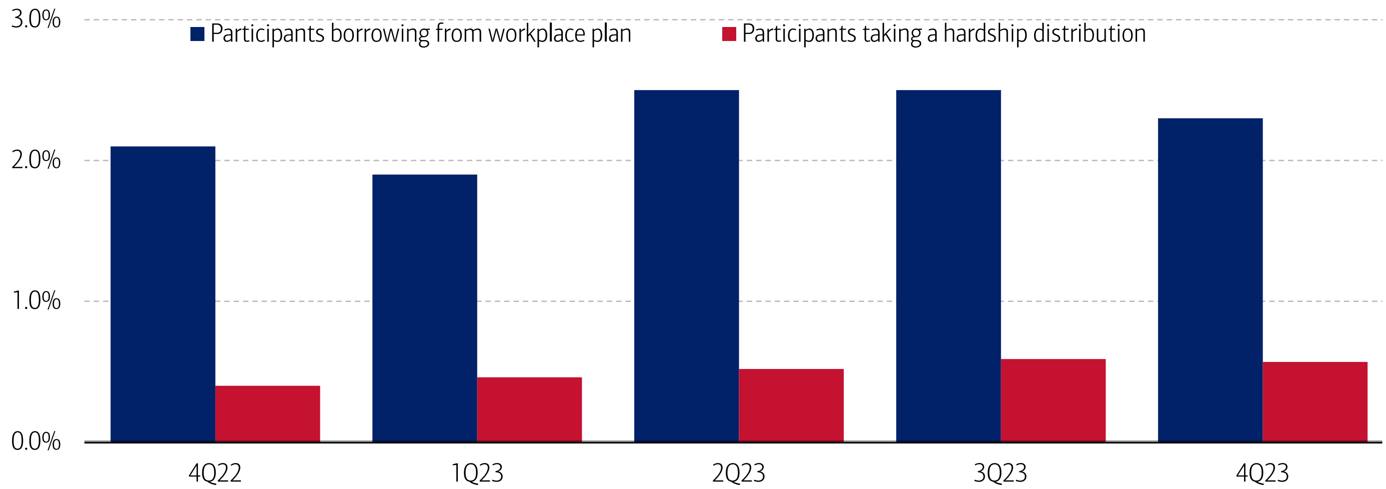
For many, a key part of their financial assets is their retirement fund. According to Bank of America's 2023 4Q Participant Pulse, one in five participants changed their 401(k) retirement contribution rate in the fourth quarter with almost 6x as many participants increasing their contribution compared to decreasing. The proportion of participants borrowing against their retirement plans also declined compared to Q3 2023, while the proportion taking hardship distributions is very low (Exhibit 14). Notably, for the full year, average 401(k) account balances rose 15% compared to the end of 2022. Meanwhile, year-end 2023 Health Savings Account (HSA) balances increased 11% over the prior year.

Exhibit 14: Overall borrowing from 401(k) plans is down, while hardship distributions remain very small

Participants borrowing from workplace plan and participants taking a hardship distribution (%)



Source: Bank of America internal data

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Monthly data update for January

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 5.0% YoY in January. Bank of America total credit and debit card spend, which comprises over 20% of total payments, increased 3.8% 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.

Bank of America's 4Q 2023 Participant Pulse monitors plan participants' behavior in Bank of America 401(k) recordkeeping and HSA clients' employee benefits programs, which comprise more than 4 million total participants with positive account balances as of December 31, 2023.

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

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