Consumer Checkpoint

New year, new challenges

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 condition or performance of Bank of America.

Key takeaways

• 2022 was a solid year for consumer spending. The main theme was the rotation towards ‘experiences’ and away from goods. Total card spending per household finished the year up 2.2% year-over-year (YoY) in December, boosted by services spending. However, with headwinds growing for the consumer, spending growth slowed across the year. Our holiday tracker (which looks at a specific subset of goods in November and December) was down 3.0% YoY, according to Bank of America credit and debit card data.

• In 2023, consumers may face a weaker job market, but also easing inflation pressures. The labor market remains buoyant for now, however Bank of America data shows signs of easing wage inflation, with after-tax wages up just 3% in December. And consumers are still seeing higher cost of living, with average utility bill payments up 13% YoY in December.

• January and February are typically lighter months for spending, but consumers’ New Year’s resolutions to get healthier may provide some support to spending: spending on gym memberships usually surges in January of each year.

2022 was a strong year, with rotation away from retail the main theme

Bank of America aggregated credit and debit card data indicates 2022 was a strong year for consumer spending, though with some fade towards the end of the year. Over 2022 as a whole, total card spending per household was up 5.9%, with the YoY rate of growth slowing to 2.2% by December. There was a stark difference between retail/goods spending and non-retail spending (which includes services such as travel and entertainment): average growth through 2022 in retail was 3.7% compared to a much stronger 10% in services.

Exhibit 1: Total card spending per household in 2022 (%YoY, 2022 only)

Total card spending growth slowed over 2022...

Exhibit 2: Retail spending per household in 2022 (%YoY, 2022 only)

...with the sharpest pull back in retail...

Exhibit 3: Services spending per household in 2022 (%YoY, 2022 only)

...while services spending remained stronger
Another theme over 2022 was the strength of higher income households’ spending relative to lower income spending. Higher income spending benefited from the opening up of the economy following the pandemic, with consumers looking for ‘experiences’ over goods spending. Airlines, dining and lodging were all beneficiaries here overall (Exhibit 5), while spending on areas such as electronics and furniture suffered. The waning in the impetus given to lower income spending from stimulus checks was a factor here, as was that an areas of goods spending that had already been satiated over the pandemic. The slowing housing market was also an increasing factor as the year wore on.

**Exhibit 4: Total card spending per household in 2022 by income (%YoY, 2022 only)**

For much of 2022, higher income households were showing faster spending growth from a year earlier.

**Exhibit 5: Card spending per household by category in December 2022 (% YoY)**

More discretionary spending linked to ‘experiences’ was the main driver of spending.

**Holiday season: a softer finish**

With December behind us, we can take a look at the complete picture for holiday spending. Exhibit 6 shows the holiday tracker, which looks at a basket of goods where at least 20% of annual spending happens in November and December. For the last two months of 2022 combined, card spending per household on holiday items was down 3% YoY, though still 27% higher than the comparable period in 2019.

Looking at the breakdown, the biggest weakness in holiday spending was concentrated among durable goods, including electronics and furnishing, which were both down 13% YoY in December. On the flip side, we saw some strength in cosmetics spending per household (+3.8% YoY). Interestingly, consumer per household payments to buy now pay later (BNPL) companies were up 3.5% YoY for the holiday season (November and December combined). As we discussed in last month’s Consumer Checkpoint, BNPL usage tends to increase around holiday shopping seasons. This implies that the December holiday spending data might be underestimating the actual sales figures as consumer spending may end up bring spread over a longer period.

**Exhibit 6: Holiday spending per household, based on Bank of America credit and debit card data (index, August average 2019=1)**

Holiday spending for the months of November and December combined was down 3% YoY.
So, what’s next?
So how will 2023 play out? At the outset, consumers are starting the new year with cross-currents.

On the one hand, they are continuing to get squeezed by higher living costs. For example, Bank of America internal data shows that the average utility payment per customer increased by 13% YoY in December, even as natural gas prices have dropped by more than 50% since the peak price levels in August 2022. These bill increases are likely partially driven by a colder December in 2022 than in 2021. Exhibit 8 shows the deviation from historical standards of heating degree days in the US, which reflects heating energy requirements. Heating degree days in December 2022 were roughly in line with historical norms while December 2021 had significant less heating energy, which implied a warmer holiday season.

Exhibit 7: Utility payment per customer, based on Bank of America internal data (%YoY)
Average utility payment per customer increased by 13% YoY in December even as natural gas prices cooled

Source: Bank of America internal data

Exhibit 8: Heating degree days deviation from normal
Heating degree days in December 2022 were roughly in line with historical norms while December 2021 had significant less heating energy.

Source: National Oceanic and Atmospheric Administration through Haver Analytics

But on the other hand, the labor market remains tight with 223k jobs added in December, according to the Bureau of Labor Statistics. That said, we do see signs of wage growth moderation, partially as labor force participation rate continues to tick up. In December, average hourly earnings slowed to 4.6% YoY, down from the peak of 5.6% in March 2022. This is echoed by Bank of America data, with consumer after-tax wages decelerating to 2.7% YoY (3-month moving average) in December, from the high of 8% in April 2022 (Exhibit 9).

Exhibit 9: After-tax wages and salaries, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average) and Bureau of Labor Statistics average hourly earnings (%YoY)
Our after-tax measure of wages showing a steady decline in growth

Source: Bank of America internal data, Bureau of Labor Statistics
Over 2023, most forecasters are expecting both a reduction in cost of living pressures AND some easing in the labor market. How these two things balance out will clearly play an important role in determining the evolution of consumer spending. And in the background, the Federal Reserve’s rate hikes are slowly percolating through the economy, most obviously right now in the housing market.

One other positive for consumers is that they continue to have significant liquid savings buffers to weather some of the winds that consumers may face this year. Across income cohorts, savings and checking balances in Bank of America internal data remains higher than in 2019, albeit with a gentle decline over much of 2022.

**Healthy living in the New Year**

In the short-term, January and February make up a relatively lower percentage of total annual spending, as the post-holiday rush gives way to the slog through to spring. But a new year often signals a fresh start and good intentions, with web searches for “gym memberships” spiking in January. Might this make a useful, albeit small, contribution to spending?

The good news is that, if history is any guide, the start of a new year does tend to correlate with increased fitness activities. According to Bank of America internal data, between 2010 and 2019, credit and debit card spending per household at fitness clubs surged in January of each year, after relatively low levels during the winter holiday months (Exhibit 10). Note that credit and debit cards represent around 85% of total fitness spending volumes included in the Bank of America internal data, while the remaining 15% is largely through the automated clearing house (ACH).

Interestingly, as of December 2022, card spending per household at fitness clubs remained 35% lower than in February 2020. Part of this weakness could be due to the rise of in-home fitness, which gained popularity since the pandemic because of migration out of city centers and a preference for social distancing, especially among older generations. In 2022, in-home fitness spending (based on both cards and ACH) on average, accounted for 16% for total fitness spending, down from 24% in 2020, but higher than the 11% in 2019. A preference for in-home fitness seems to be more common among baby boomers and traditionalists. Between January and November 2022, these two generations accounted for 26% of all in-home fitness spending, compared with just 17% for fitness clubs.

So, we will likely see an uplift in fitness club spending this month, but what about purchases for related items such as sporting apparel? We find that purchases of sporting apparel don’t seem to be impacted by the start of the new year, suggesting the overall boost to spending from increased fitness activities might be limited. On average, just less than 6% of all annual sporting apparel purchases were made in January vs. more than 15% in December. This suggests that consumers are more likely to buy sports apparel during the holidays and back-to-school season when promotions and sales are on.

Healthy living at the start of a new year isn’t just limited to working out more. Consumers also seem to be typically drinking less, at least for at-home consumption. Using spending at liquor stores as a proxy for at-home alcohol consumption, we find that credit and debit card spending per household at liquor stores plummeted in January of each year (Exhibit 11). This stood in stark contrast with the very high levels of liquor store spending in the prior month, which was likely boosted by winter holiday celebrations. January usually marks fewer holiday celebrations and some people might be partaking in ‘dry January,’ following the holidays. We also find that alcohol spending seems to have increased since the pandemic. In December 2022, card spending per household at liquor stores were up 23% vs. December 2019, though part of this was likely due to higher inflation.

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**Exhibit 10:** Bank of America credit and debit card spending per household at fitness clubs (index, January 2010 =100, non-seasonally adjusted)

Credit and debit card spending per household at fitness clubs surged in January of each year.

![Exhibit 10: Bank of America credit and debit card spending per household at fitness clubs (index, January 2010 =100, non-seasonally adjusted)](source: Bank of America internal data)

**Exhibit 11:** Bank of America credit and debit card spending per household at liquor stores (index, January 2010 =100, non-seasonally adjusted)

Credit and debit card spending per household at liquor stores plummeted in January of each year after a surge in December.

![Exhibit 11: Bank of America credit and debit card spending per household at liquor stores (index, January 2010 =100, non-seasonally adjusted)](source: Bank of America internal data)
Monthly data update

Overall total credit and debit card spend, which makes up over 20% of total payments, was up 4.5% YoY in December, as total payments growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) increased 1.4% YoY. The weakening in overall payments growth continues to be partly driven by wire payments, which contracted by 22% YoY in December. This largely reflects a drop in payments to escrow and title companies amid the housing market slowdown.

Meanwhile, YoY growth in card spending per household, which measures average spending for Bank of America customer households, was up 2.2% in December, a slight improvement from the 1.7% YoY in November. This was the first sequential improvement in the %YoY rate after seven consecutive months of moderation (Exhibit 12). Despite the improvement, real spending continues to be under pressure from high CPI inflation (7.1% YoY in November) and Personal Consumption Expenditure (PCE) inflation (5.5% YoY in November).

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).

Exhibit 12: Total credit and debit card spending per household, based on Bank of America internal data (%YoY, monthly)

December was the first sequential improvement in the %YoY rate for total card spending per household after seven consecutive months of moderation.

Source: Bank of America internal data
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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 BAC 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:


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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