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Consumer Checkpoint

Out with the old, in with the new?

10 January 2024

Key takeaways

- Consumer spending finished solidly in 2023, with total card spending per household increasing by 0.2% year-over-year (YoY) in December, according to Bank of America internal data. On a seasonally adjusted (SA) basis, per household spending was positive for the second month in a row, rising 0.1% month-over-month (MoM). Holiday spending started strong, but lagged somewhat in December.
- Higher-income households' after-tax wages and salaries growth dipped into negative YoY territory at the end of 2023, while lower-income households' growth increased, underscoring that the negative gap between these cohorts' spending growth may remain at the start of 2024.
- How are consumers shaping up for 2024? The Bank of America Winter Spending Survey suggests consumers are planning to pull back a bit this year, potentially trimming their spending on meals out and other 'experiences.'

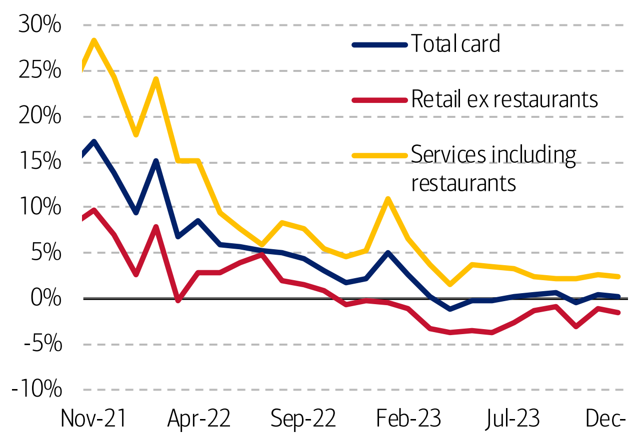
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective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

The 2023 word of the year for the consumer: Rizz-ilient

In December, Bank of America internal consumer spending data ended 2023 in resilient shape. Bank of America aggregated credit and debit card spending per household rose 0.2% year-over-year (YoY), following a 0.5% YoY increase in November (Exhibit 1). Spending on services rose 2.5% YoY in December, unchanged from 2.5% in November, while retail spending (ex-restaurants) fell 1.6% YoY in December – partly due to lower gasoline spending compared to a year earlier. On a seasonally adjusted (SA) basis, Bank of America total card spending per household increased 0.1% month-over-month (MoM) in December, following a 0.2% MoM gain in November.

Exhibit 1: Total card spending per household rose 0.2% YoY in December

Total card spending per household (monthly, %YoY)



Source: Bank of America internal data

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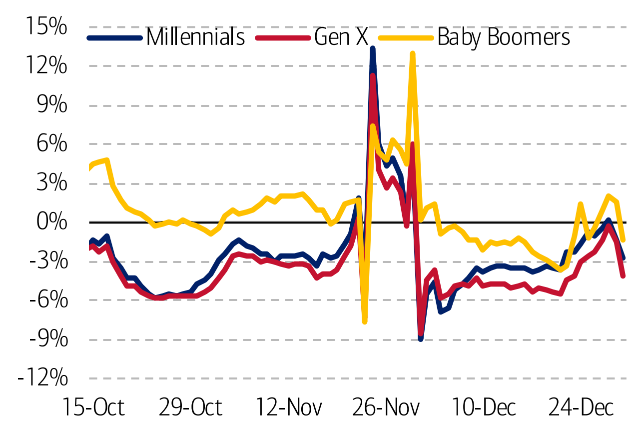
Exhibit 2: Baby Boomers were stronger holiday spenders this year compared to younger generations

Credit and debit card spending per household on holiday items by generation (%YoY, 7-day moving average)



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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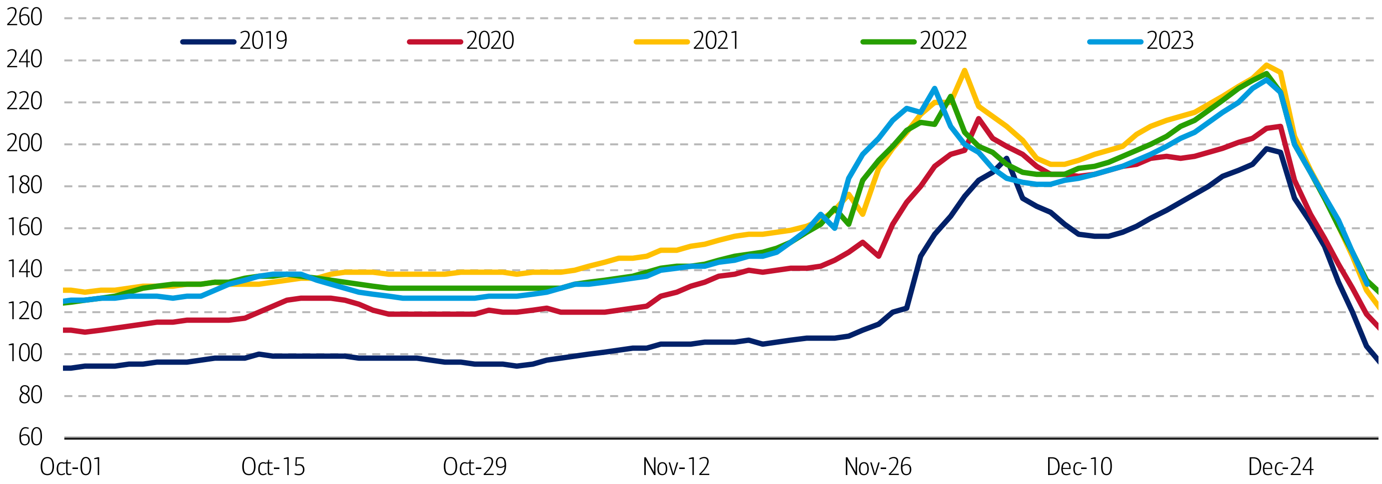
As discussed in our [last Consumer Checkpoint](), our measure of holiday spending, which includes all MCCs (merchant category codes) for which spending in November-December is at least 20% of total annual spending in the category, started early and relatively strongly, with a rise of 0.9% YoY over November. But after the strong start, holiday spending eased (Exhibit 3) with spending in the five weeks following Thanksgiving up 0.2% and declining 1.5% YoY in December.

Looking at the data across generations, holiday spending over November-December was weakest among Gen Xers (Exhibit 2), followed by Millennials, yet Baby Boomer spending was relatively more solid.

Exhibit 3: Holiday spending started strongly, then eased back in December
Total card spending per household on holiday items (7-day moving average, average of last four weeks of August 2019=100)



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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Mind the spending gap(s)

While overall consumer spending was robust in 2023, we saw some significant 'gaps' in spending across categories and households.

Goods vs. services

Last year continued to see households favor spending on "experiences," such as dining out, vacations and attending events, over goods. This reflects the continued unwind since the pandemic, when spending growth on goods was stronger than on services for many households, in part because the latter was restricted by lockdowns and social distancing.

It's notable that the share of services spending within total card spending (Exhibit 5) in 2023 has risen above the level reached in 2019. So, might some rebalancing occur this year?

The Bank of America Winter Spending Survey suggests consumers plan to pull back on dining and takeout, social events and a range of other spending categories (Exhibit 4) this year. If that happens, we might expect to see some relative narrowing in services spending growth compared to goods, but inflation dynamics will remain a factor.

Currently, US consumer prices, as measured by the Bureau of Labor Statistics (BLS), indicate prices for services are rising faster than goods. This partly reflects inflation in 'non-discretionary' services areas such as car insurance and childcare costs, though there is also relatively strong inflation in meals out (food away from home) too. Higher services inflation could therefore keep services spending relatively strong, even if consumers start to pull back on the volume of services they consume.

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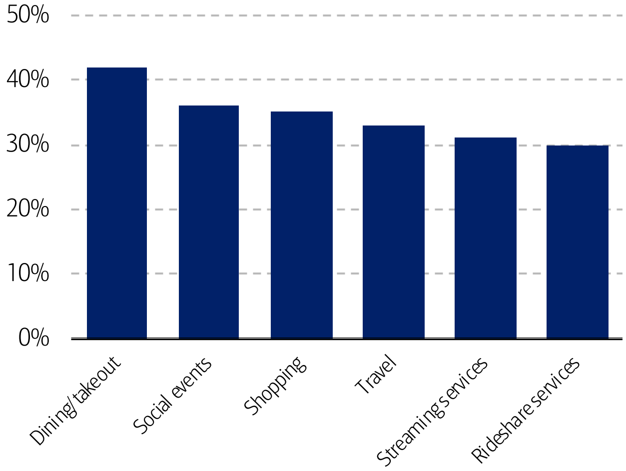
Exhibit 4: Respondents are deprioritizing spending on categories such as dining and social events in 2024

Categories in which survey respondents will deprioritize spending in 2024 (%)



Source: 2023 Bank of America Winter Omnibus Spending Survey

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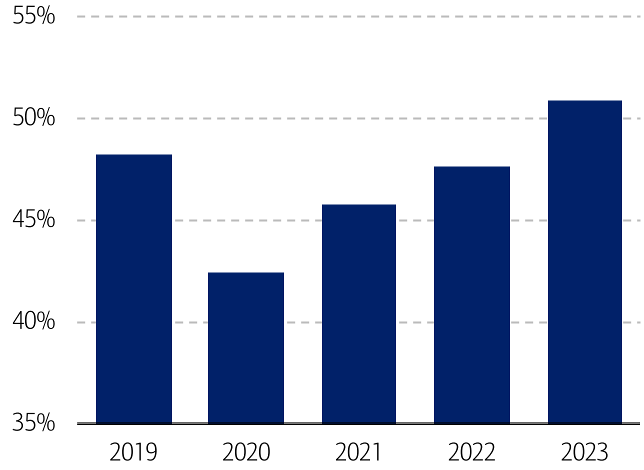
Exhibit 5: Services spending has risen above 2019 levels as a share of total card spending

The share of services spending (inc. food services) as a % of total credit and debit card spending (%)



Source: Bank of America internal data

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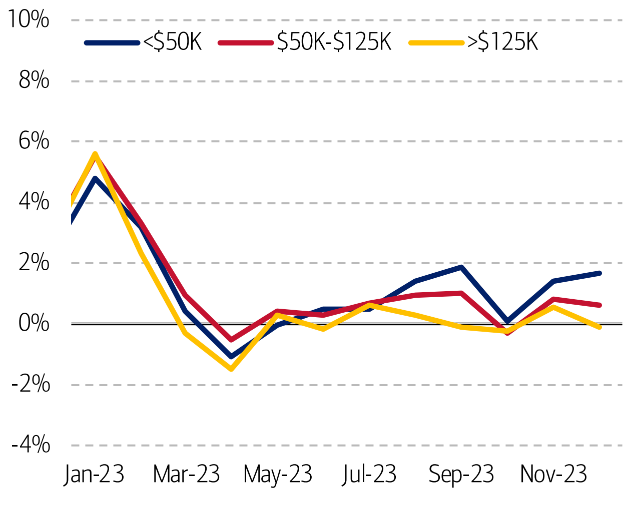
Higher vs. lower income

In 2023, spending by lower-income households generally grew more strongly than higher-income households. This was the case in December too, with total card spending per household increasing 1.6% YoY for those with a household income below $50k (Exhibit 6). In contrast, spending growth for higher-income households (above $125k) fell to -0.1% YoY. For all of 2023, lower-income spending per household increased 0.6pp faster than higher-income spending.

Exhibit 6: Spending growth of lower-income households began to outpace that of higher-income households in 2023

Total card spending per household YoY growth by income (monthly, %)



Source: Bank of America internal data

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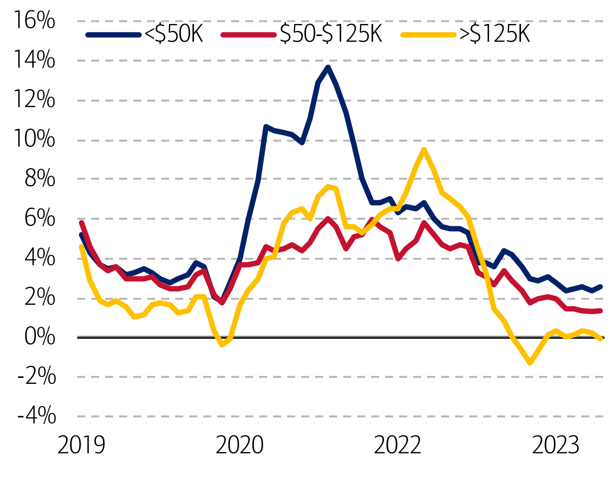
Exhibit 7: Higher income households' wage growth is relatively weak

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))



Source: Bank of America internal data

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Will this gap close in 2024? We do not think this is likely in the short-run, given that after-tax wage and salary growth remains in lower-income households' favor (Exhibit 7), according to Bank of America internal data. Indeed, as of December, higher-income households' YoY wage growth turned negative, while lower-income households' wage growth ticked higher.

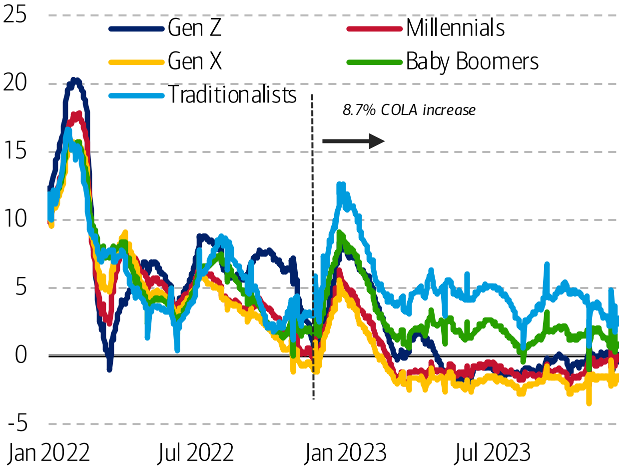
We will, however, keep a close eye on the costs impacting lower-income households. As we highlighted last year, utility bills and childcare costs have been rising since the pandemic, which may erode lower-income households' discretionary spending power.

Older vs. younger generations

Throughout 2023, spending growth per household of older generations (Baby Boomers and Traditionalists) was stronger than younger generations (Millennials and Gen Z). In fact, for the year as a whole, the gap in YoY spending growth between Baby Boomers and Millennials averaged around 2.7 percentage points.

Exhibit 8: Throughout 2023 older generations' spending growth outstripped that of younger generations

Bank of America total card spending per household by generation (28-day moving average, % YoY)



Source: Bank of America internal data

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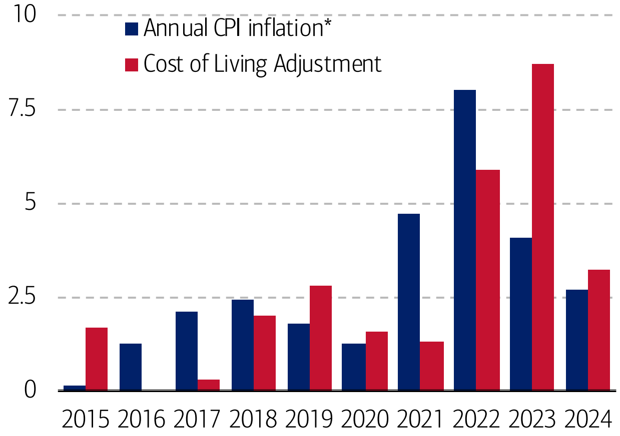
Exhibit 9: The 2023 cost-of-living adjustment (COLA) increase was well above where inflation turned out – this will not likely be the case in 2024

Annual COLA on social security and Consumer Price Inflation (%)



Source: Bank of America internal data, Haver Analytics. * 2023/2024 CPI use latest forecasts from BofA Global Research

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It's notable that the latest Bank of America data suggests some narrowing in this spending gap. In the 28 days to December 30, Baby Boomer spending per household rose 0.8% YoY, while that of Millennials fell 0.3%, a difference of only 1.1 percentage points.

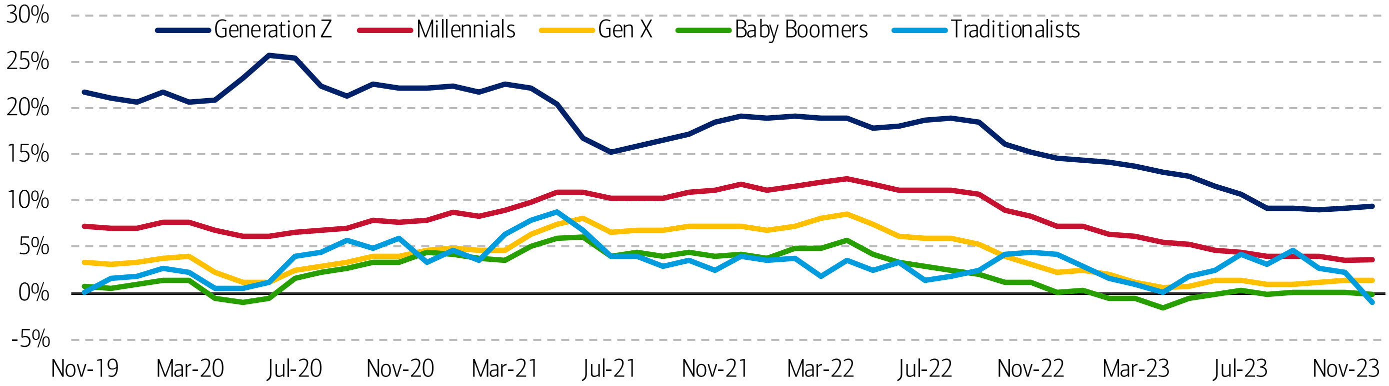
In our view, this gap can potentially narrow further in 2024. One likely driver of the difference last year was the historically strong 8.7% cost-of-living adjustment (COLA) to retirees' social security incomes. This year, the COLA increase is a more modest 3.2%.

Additionally, older generations' wage and salary growth appears weaker than that of younger generations, according to Bank of America data (Exhibit 10). Weak wage growth combined with the smaller rise in social security income may pull older generation spending growth lower, closing the gap with the younger generation.

However, one known unknown is how the resumption of student loan repayments could impact younger generations as these repayments tend to be disproportionately made by younger cohorts.

Exhibit 10: Older generations' wage and salary growth is weaker than that of young generations

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



Source: Bank of America internal data

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New Year's (financial) resolutions

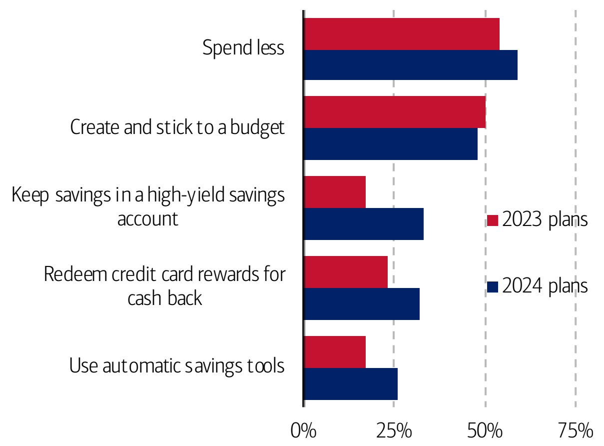
What financial resolutions are consumers making at the start of 2024? The Bank of America Winter Spending Survey may offer further some clues. The survey asked over 2,000 consumers about their past and current spending and their saving intentions.

Survey respondents look to be beginning the new year with a degree of caution, with more than half (59%) of planning to spend less in order to reach their financial resolutions this year (Exhibit 11). To put this in perspective, at the start of 2023, 54% of respondents said they were planning on cutting spending.

The top two 2024 financial resolutions, according to respondents, are increasing savings and paying off credit cards (Exhibit 12). In addition to reducing spending, 48% and 33% of respondents, respectively, said that they would consider sticking to a budget and utilizing high-yield savings accounts to achieve progress toward their goals.

Exhibit 11: Most survey respondents are planning on spending less to accomplish their 2024 financial resolutions

Select ways in which survey respondents plan to make progress toward their 2023/24 financial resolutions (%)



Source: 2022/23 Bank of America Winter Omnibus Spending Survey

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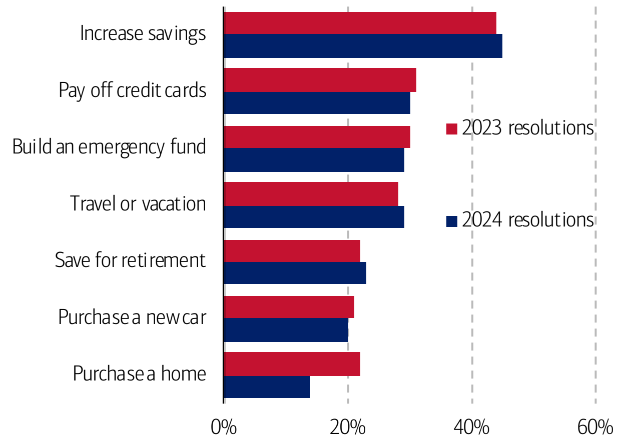
Exhibit 12: Increasing savings and paying off credit cards are the top two financial resolutions among survey respondents

Select 2023/24 financial resolutions of survey respondents (%)



Source: 2022/23 Bank of America Winter Omnibus Spending Survey

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Monthly data update for December

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 1.6% YoY in December. Bank of America total credit and debit card spend, which comprises over 20% of total payments, increased 2.0% 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.

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.

Contributors

David Michael Tinsley

Senior Economist, Bank of America Institute

Taylor Bowley

Economist, Bank of America Institute

Liz Everett Krisberg

Head of Bank of America Institute

Vanessa Cook

Content Strategist, Bank of America Institute

Sources

Li Wei

Director, Global Risk Analytics

Kimberly Warren

Director, Global Risk Analytics

Ana Maxim

Senior Vice President, Consumer and Small Business

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