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Consumer Checkpoint

Renters feel the squeeze

13 July 2023

Key takeaways

- Consumer spending continued to stabilize in June. Bank of America aggregated total credit and debit card spending per household declined by 0.2% year-over-year (YoY), in line with the YoY rate in May. The level of seasonally adjusted (SA) card spending per household was unchanged over the last three-month period.
- Bank of America internal data confirms a wedge has opened between the spending of renters and homeowners. Renters' spending appears to have been sapped by rent inflation, while homeowners have been somewhat insulated from higher interest rates so far.
- Student loan holders are facing a resumption of payments starting in September. One positive we see in the data is that those with loans tend to have higher incomes, as well as having strong deposit buffers.

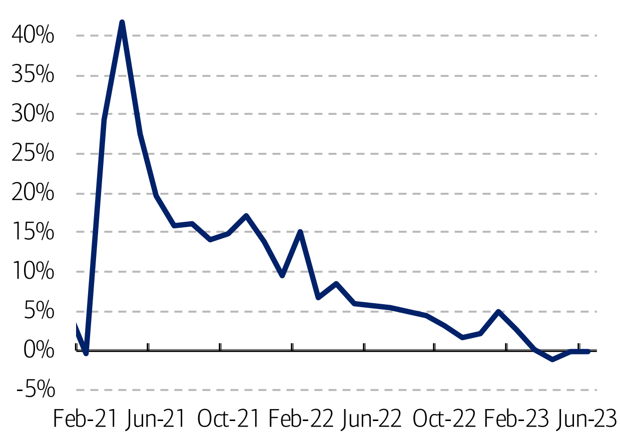
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective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

Spending, down but not out

Consumer spending continued to stabilize in June. Bank of America aggregated credit and debit card spending per household declined by 0.2% year-over-year (YoY), in line with the YoY rate in May (Exhibit 1). Similarly, on a sequential basis, seasonally adjusted (SA) card spending per household contracted by 0.2% month-over-month (MoM) in June after rising 0.1% MoM in both May and April, leaving the levels of spending unchanged over the three-month period.

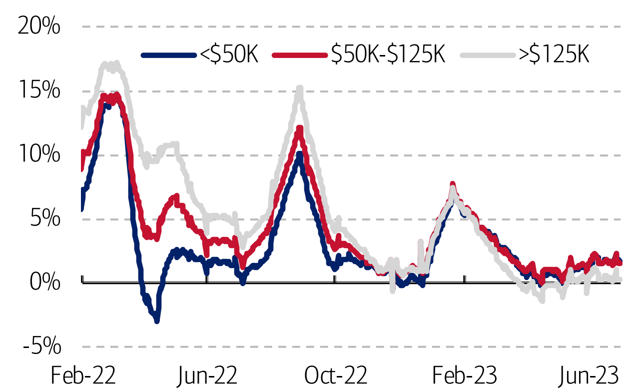
However, the monthly data reveals a split among income cohorts. Spending by higher-income households is weaker than lower- and middle-income households (Exhibit 2). This weaker spending growth is apparent across both retail and services spending (Exhibit 3). This is consistent with previous analysis reported in the May Consumer Checkpoint, which showed some weakening in the higher-income labor market, as well as slower wage and salary growth in this income cohort.

Exhibit 1: Total card spending per household (Monthly, %YoY)
Total card spending YoY growth has been hovering around zero



Source: Bank of America internal data

Exhibit 2: Total credit and debit card spending per household, based on Bank of America card data (28-day moving average, % YoY)
Higher-income spending has been around 1pp weaker than other cohorts

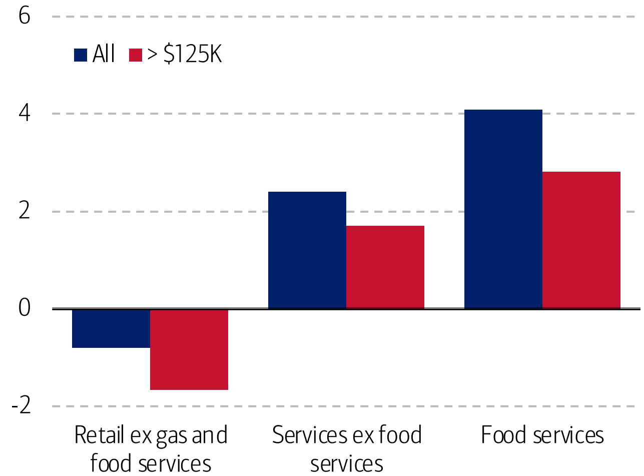


Source: Bank of America internal data

Looking at the goods vs. services breakdown, retail spending excluding food services (i.e., goods spending) turned positive in June on a MoM three-month rolling average basis for the first time since June 2022 (Exhibit 4). Excluding gasoline spending, which has been weak due to lower gas prices, goods spending was even stronger. Meanwhile, services spending has softened since the start of the year, but it remains to be seen whether this deceleration will continue.

Exhibit 3: Total credit and debit card spending per household on retail and services, (28-days to June 30, 2023, % YoY)

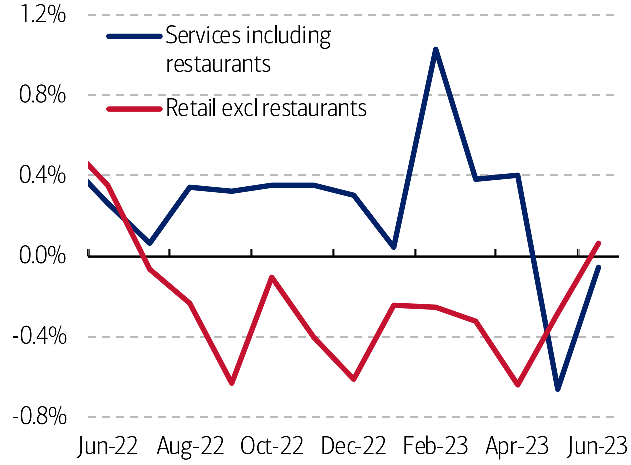
Higher-income YoY spending in both retail and services has been softer than overall spending



Source: Bank of America internal data

Exhibit 4: Card spending per household for goods and services (%MoM, 3-month moving average, seasonally adjusted)

Retail sales ex food services rose in the three months to June



Source: Bank of America internal data

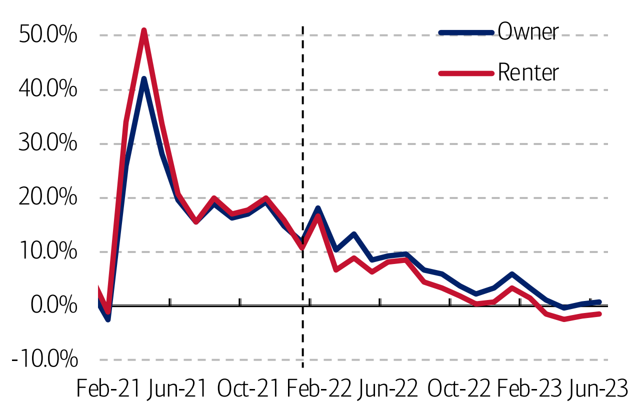
Renters tightening their belts more than homeowners

Higher inflation and interest rates have impacted homeowners and renters differently. For renters, surging rent inflation has been weakening their discretionary spending power for some time. According to the Census Bureau's Consumer Price Index (CPI), rent inflation surged from around 2% YoY in 2021 to 8.8% YoY in March 2023 and has moderated only marginally in recent months.

However, since the majority of US homeowners with outstanding mortgage balances have fixed interest rates which were locked in prior to recent rate hikes, those households are not yet feeling the direct impact from rising rates. Only households who have originated a mortgage since early 2022 or those with floating mortgages (1% of total mortgages outstanding prior to rate hikes) would feel the pinch.

Exhibit 5: Total card spending per household excluding rent, homeowners and renters (Monthly, %YoY)

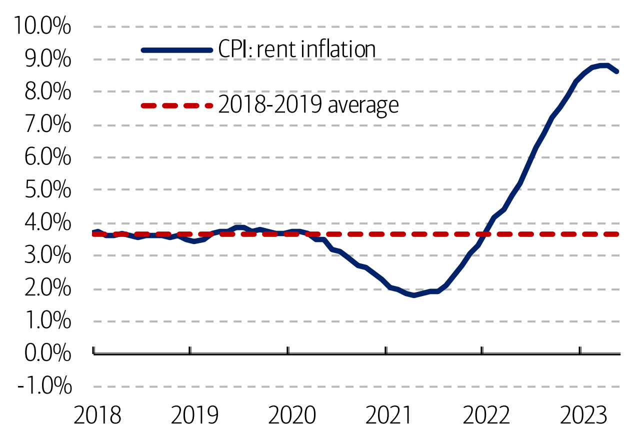
Spending growth by renters is lagging that of homeowners by around 2pp



Source: Bank of America internal data

Exhibit 6: CPI rent inflation (%YoY)

Rent inflation surged in 2022 and remains high in 2023



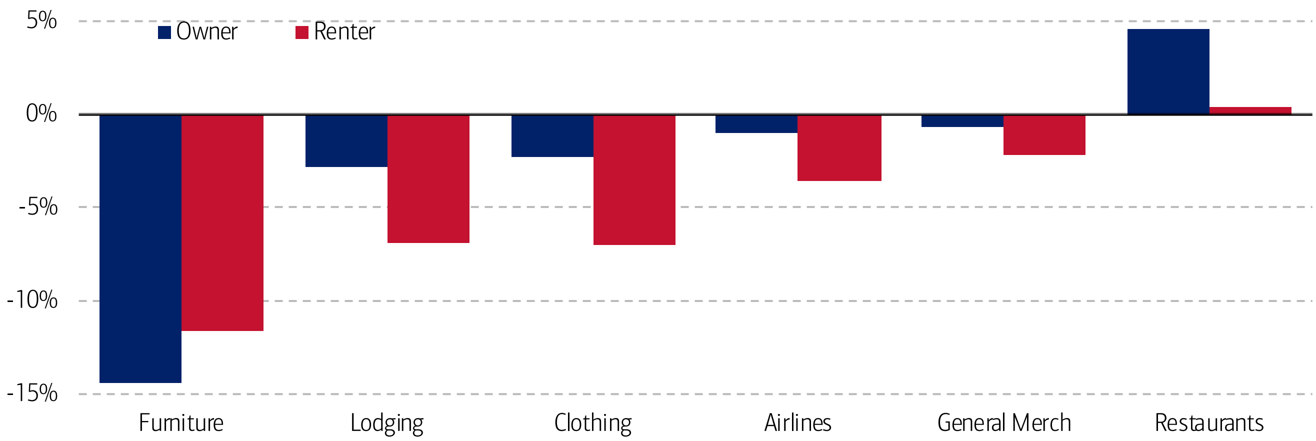
Source: Census Bureau

Bank of America data confirms that the increased financial burden to renters from their more rapidly rising cost of housing has, in turn, put downward pressure on their spending elsewhere. Using Bank of America internal data to identify homeowners and renters by housing-related payments out of their deposit accounts, such as mortgage payments, homeowner association fees (HOA) or rent payments, we found that renters are indeed seeing weaker spending growth outside of housing.

As Exhibit 5 shows, the YoY rate of total card spending, excluding rent, has been weaker for renters since the start of 2022, which coincides with the rise of rent inflation. Rent inflation, as defined by the CPI report, has surpassed the 2018-2019 average since January 2022 and remains elevated (Exhibit 6). The latest Bank of America data as of June 2023 suggests that the YoY spending growth for homeowners was +0.8%, compared with -1.4% for renters.

Beneath the overall spending gap between homeowners and renters (around 2pp in recent data), there are also sector-level differences. For example, homeowners are showing relative spending strength in all major sectors except furniture (Exhibit 7). The weakness in furniture spending is likely related to weak home sales, which would impact homeowners more as they are less likely to be switching homes and therefore have lower demand for new furniture. Restaurants are the only sector where homeowners and renters are both still showing positive %YoY spending growth.

Exhibit 7: Card spending per household for select sectors (%YoY, three-month period ending June 2023)
Homeowners are showing relative spending strength in all major sectors except for furniture



Source: Bank of America internal data

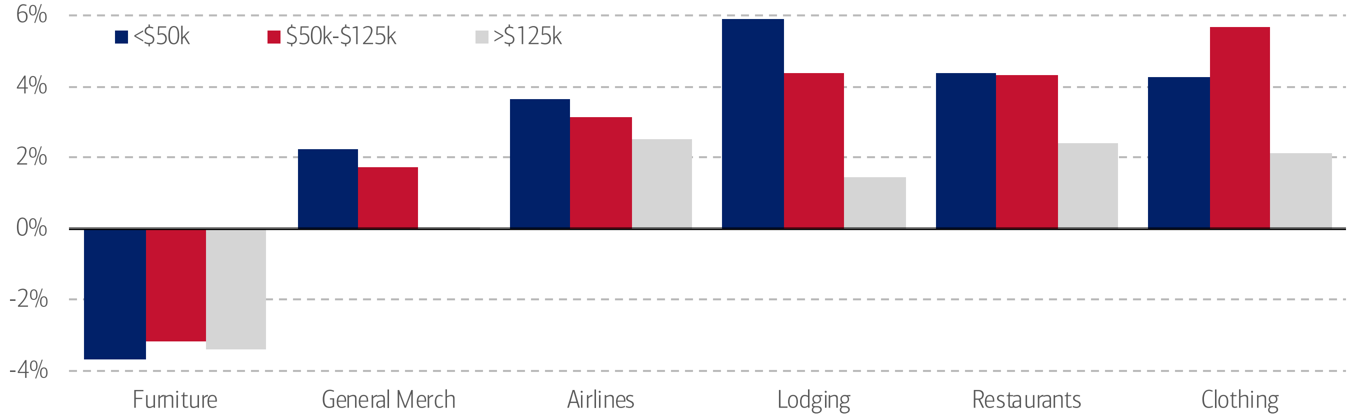
It is possible renters and homeowners may have different income levels which could potentially impact the relative spending growth differences we are seeing. To account for this, we also look at the spending growth rates for renters and owners within each income bracket.

Exhibit 8 shows the difference between the spending YoY rate for homeowners and renters for the three-month period ending June 2023 (i.e., %YoY for homeowners *minus* %YoY for renters). In line with Exhibit 7, homeowners across income groups still see stronger spending in most categories. Another interesting observation is that the difference between owners and renters is less notable for the highest-income group (>$125k), particularly for sectors like general merchandise.

Looking ahead, however, as more and more home buyers absorb higher mortgage costs and rent inflation moderates on the back of Fed rate hikes, it is likely that we could see some convergence between the spending growth rates of the two groups.

Exhibit 8: Difference in the spending growth rate between homeowners and renters in select sectors (%YoY for homeowners minus %YoY for renters, three-month period ending June 2023)

Homeowners across income groups still see stronger spending in most categories.



Source: Bank of America internal data

BofA GLOBAL RESEARCH

Another look at student loans

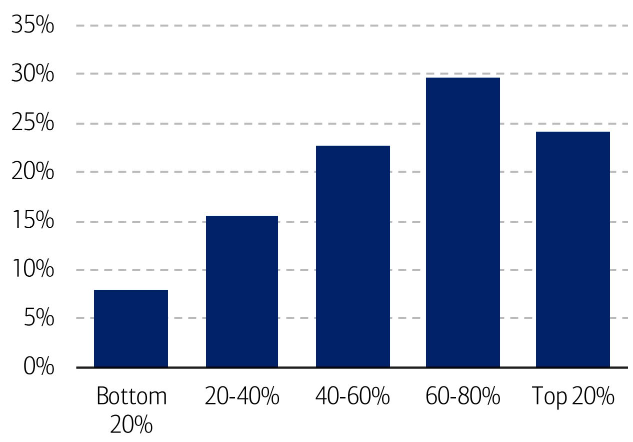
The recent decision by the US Supreme Court to block the US Administration's plan on student loan forgiveness may, for some households, give added saliency to the forthcoming resumption of student loan repayments. Some households may have decided not to make repayments on the loan balances over the moratorium period on the assumption they may have had their loans forgiven. These households may now need to recalibrate their financial expectations on the basis they will need to repay their loans after all.

As Exhibit 9 illustrates, a large proportion of student debt appears to be held by people in higher quintiles of the income distribution. Additionally, it appears (Exhibit 10) that a significant proportion of those holding student debt have advanced degrees.

Given that higher-income households are already showing relative weakness in spending growth versus the other income cohorts, the resumption of student loan payments could potentially put further downward pressure on this cohort's discretionary spending. But higher-income households should have sufficient financial buffers, as suggested by their elevated bank savings levels and low credit card utilization rates as discussed in prior Consumer Checkpoints.

Exhibit 9: Distribution of student debt by quintile of income (2019, %)

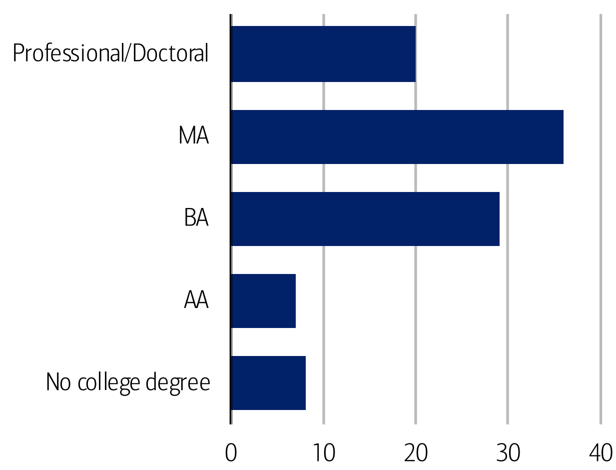
The largest proportion of student debt appears to be held by higher income quintiles



Source: Bank of America Institute estimates based on Federal Reserve Survey of Consumer Finances

Exhibit 10: The distribution of student debt by highest education of the household head or spouse (2019, %)

A lot of student debt was being held by people with higher degrees



Source: Brookings Institution

To explore these issues further, we look at a sample of Bank of America customers who stopped making their student loan payments in April 2020 when the moratorium started. We compare their median deposit balances with customers who continued to make periodic payments over the moratorium, as well as with a sample of all customers regardless of whether they make student loan payments.

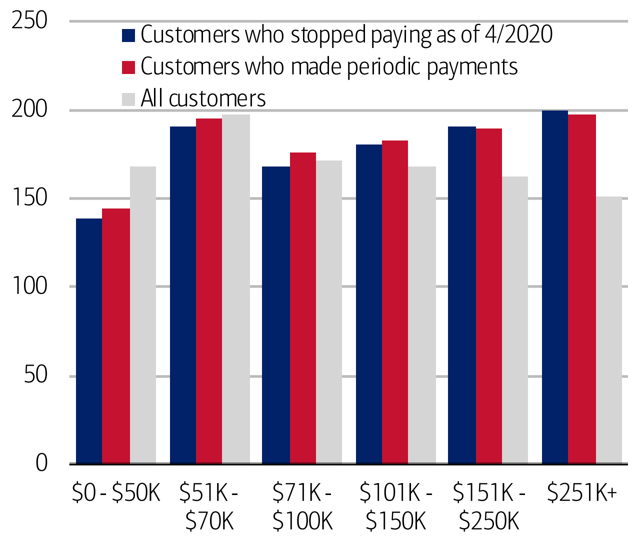
Exhibit 11 shows that as of May 2023 across income cohorts there is little difference in the position of median deposit balances between those customers who stopped making student loans immediately and those who made the occasional payment over the moratorium. But for higher income customers it appears both these groups increased their median deposits by more relative to January 2020 than the sample of all customers. As higher income cohorts hold most student debt, this may suggest those about to resume regularly paying their loans for the first time since the start of the moratorium have been accumulating more savings than those in higher income cohorts who do not have student debt.

We also look at the ratio of payments into accounts relative to the outflows from accounts for the group of customers not making payments over the moratorium (Exhibit 12). As of May 2023, most income cohorts had an inflow-outflow ratio close to 1, indicating a broad balance between what is going into and out of their accounts.

When we incorporate the median student loan payments this group were making in January 2020 back into their current outflows, the inflow-to-outflow ratio decreases to slightly below 1 for all income cohorts except the highest income group. There is typically some variability month-to-month in these inflow-outflow ratios, but this underlines that the resumption of payments may require consumers to make trade-offs, for example by reducing their discretionary spending or drawing upon the savings buffers.

Exhibit 11: Median deposit balances of customers with student loan payments compared to all customers, by income (indexed, Jan 2020 = 100)

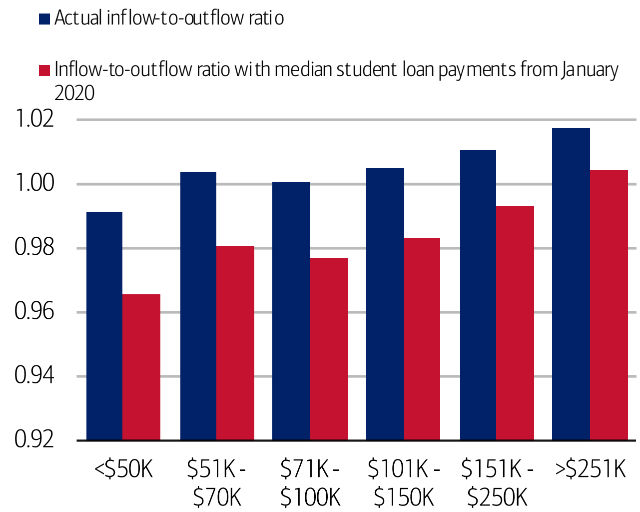
It appears that higher income customers making student loan payments before the moratorium now have higher deposit buffers



Source: Bank of America internal data

Exhibit 12: Actual aggregate deposit inflow-to-outflow ratios as of May 2023 vs. with median student loan payment in January 2020 by income

When incorporating student loan payments into the inflow-to-outflow ratio, all income cohorts have lower ratios



Source: Bank of America internal data

Monthly data update

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) was 4.5% YoY in June. Bank of America credit and debit card spend, which makes up over 20% of total payments, was up 2.4% YoY.

The YoY growth in card spending per household, which measures average spending for Bank of America customer households, was -0.2% YoY in June, the same as in May.

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 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.

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Disclosures