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Consumer Checkpoint

No underlying leaps in February

11 March 2024

Key takeaways

- Total card spending per household rose 2.9% year-over-year in February, according to Bank of America internal data. However this strength largely reflected the extra day due to the leap year. On a seasonally adjusted basis, spending rose 0.4% month-over-month, rebounding from the drop of 0.3% in January. Overall, consumer spending momentum appears soft, but stable.
- Lower-income households' spending growth appears to have slackened. This could partly reflect some loss of momentum at the lower end of the labor market. Higher-income households' spending remains weak, but is stronger at the very top end (income above $600K).
- We see a continued rise in the proportion of households using 'buy now, pay later,' but at a much slower pace. Our latest data shows adoption has slowed across all income groups, but particularly in higher-income households.

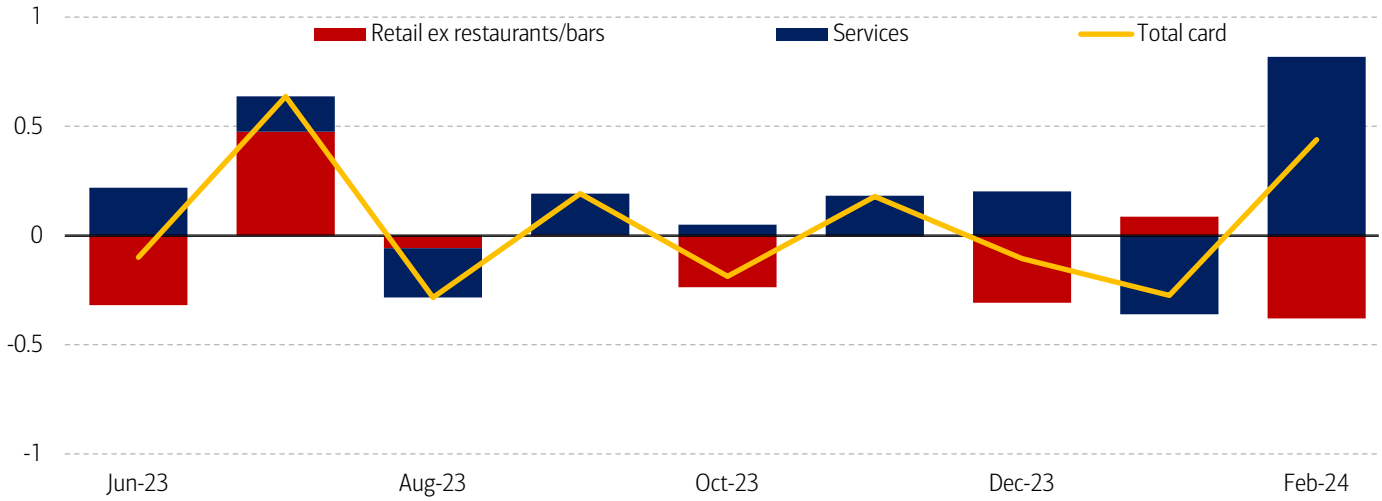
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective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

February jump offsets January weakness

Bank of America aggregated credit and debit card spending per household rose 2.9% year-over-year (YoY) in February, following the decline of 0.2% year-over-year (YoY) in January. However, this rise in the YoY rate of growth reflected the extra day in February due to the leap year.

On a seasonally adjusted (SA) basis, which attempts to control for the impact of additional days and other seasonality, total card spending per household rose 0.4% month-over-month (MoM) in February, following the decline of 0.3% in January. In February, services spending rebounded after a weather-impacted January, but this partly offset a renewed weakening in retail sales (Exhibit 1). Overall, the data suggests that underlying consumer spending momentum in 2024 is soft, but stable.

Exhibit 1: Total card spending rose 0.4% MoM in February on a seasonally adjusted basis
Total card spending per household (monthly, seasonally adjusted, % growth MoM) and contribution to growth from retail and services (percentage points, pp)



Source: Bank of America internal data

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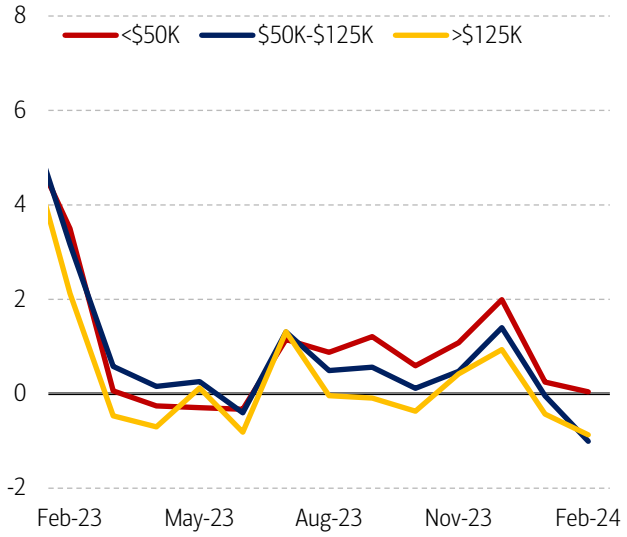
Lower- and middle-income spending slows

From being a point of strength during 2023, it appears that lower- and middle-income households' spending growth has been softening (Exhibit 2). Given that these cohorts had been 'outperforming' in spending growth last year, what effect might this have on overall consumer momentum?

Exhibit 2: Lower-income spending has softened, but remains stronger than higher-income spending
Total card spending per household by income (seasonally-adjusted, % growth YoY)



Source: Bank of America internal data

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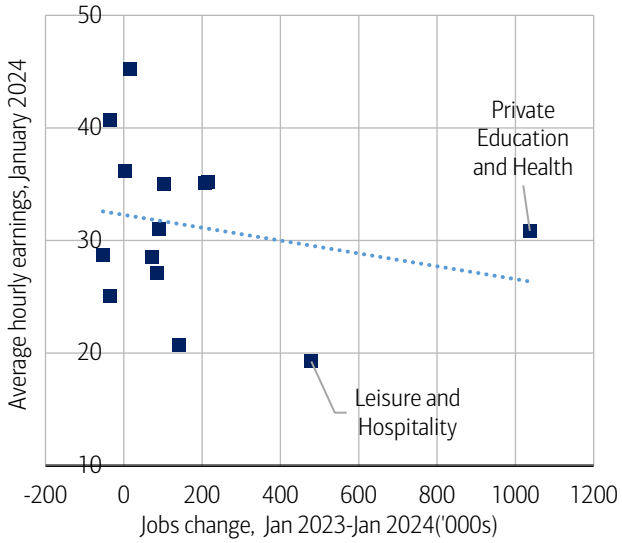
Exhibit 3: Jobs growth has tended to be skewed towards lower paying industries
Jobs growth (YoY) compared to average hourly earnings by industry (January 2024, $)



Source: Bureau of Labor Statistics

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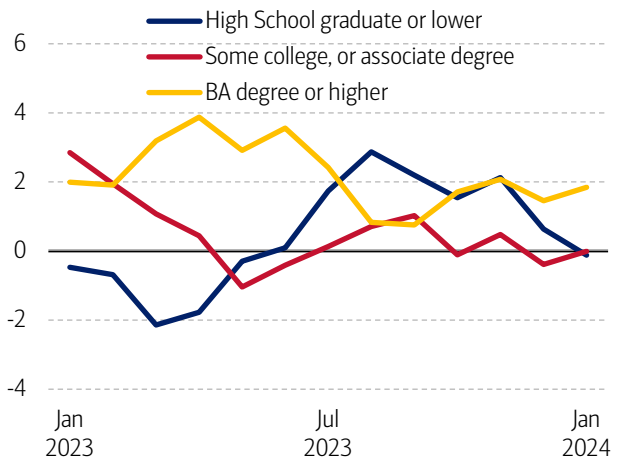
One important driver for lower- and middle-income spending has been the robust US labor market, which has tended to reflect strong jobs growth in industries with relatively lower average hourly earnings (Exhibit 3). However, it could be that some of the momentum at the lower-income end of the labor market may be slowing. Exhibit 4 shows employment growth by level of education, which is likely to be, albeit imperfectly, related to pay. Bureau of Labor Statistics (BLS) data shows employment for those without a college education appears to have been slowing in recent months and turned negative in January.

Exhibit 4: Some of the momentum in employment growth among those with high school or lower educational attainment appears to be slowing
Employment growth by education (% YoY)



Source: Bureau of Labor Statistics

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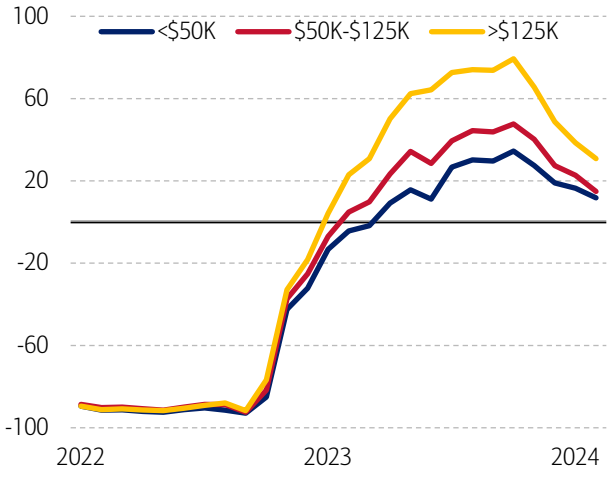
Exhibit 5: The gap between higher- and lower-income unemployment rises has narrowed in recent months
Change in the number of households receiving unemployment benefits through direct deposit (%YoY)



Source: Bank of America internal data

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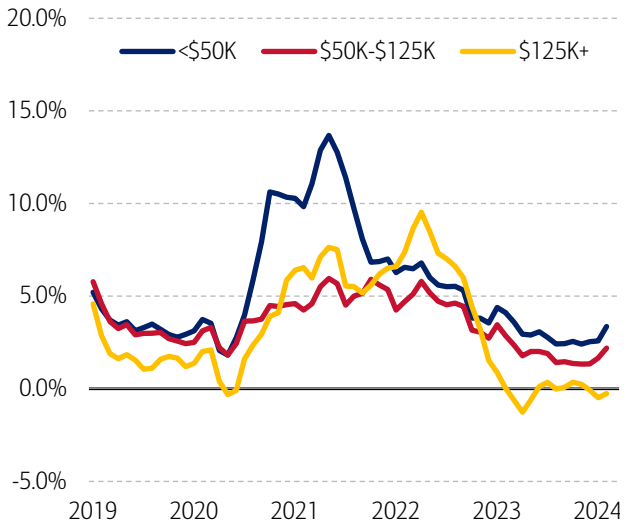
Bank of America internal data on households receiving unemployment benefits through direct deposit shows an increase from a year ago across all income cohorts, albeit the levels of households receiving these payments remains at very low levels. But while the rise in the number of households receiving unemployment benefits is larger for higher-income cohorts, the difference has been narrowing in recent months (Exhibit 5).

So, if this trend continues, it appears that the outperformance of the lower-income end of the labor market may be easing. For those who are employed, however, Bank of America internal data continues to show steady growth in after-tax wages and salaries for both lower- and-middle income households (Exhibit 6). And in February, all income cohorts saw a rise in YoY after-tax pay growth. Even if labor demand is slowing at the lower-income end of the labor market, it may still take some time to show up in pay growth.

A further support for lower-income household spending continues to come from elevated bank deposits. Exhibit 7 shows that across income cohorts, including households with income less than $50K, the monthly median value of savings and checking balances is around 40% higher than the levels in 2019.

Exhibit 6: Lower- and middle-income households after-tax income appears to be growing steadily

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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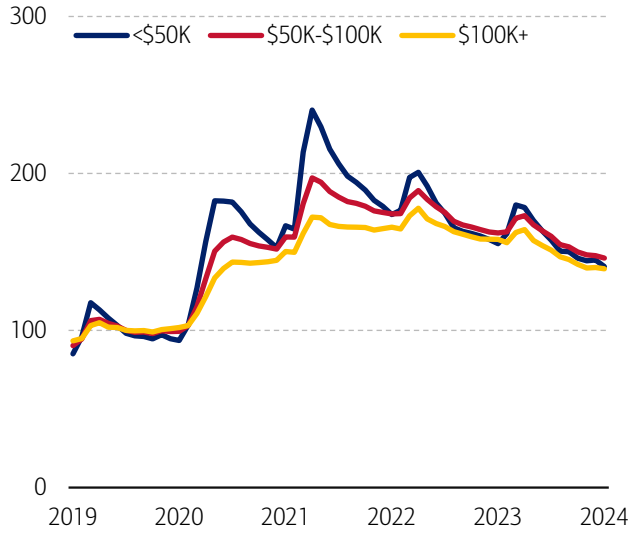
Exhibit 7: Households continues to have higher deposit balances compared to 2019

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



Source: Bank of America internal data. 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 January 2024.

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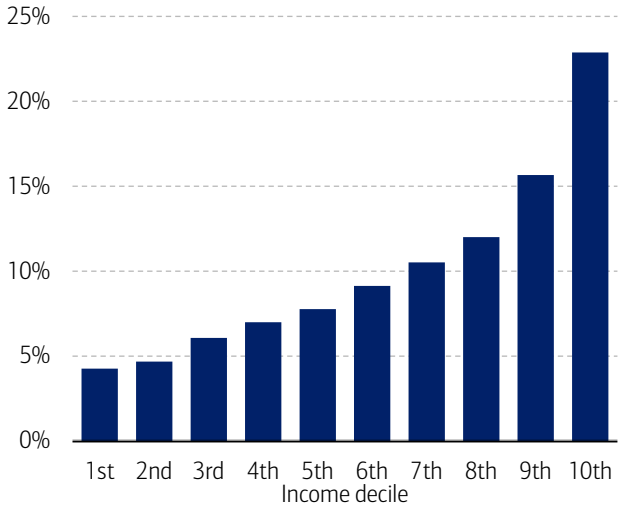
Could spending by higher-income households close the gap?

An important question is whether a recovery in spending by higher-income households could offset any potential ease in spending by those with lower incomes?

We think this question is key because, as Exhibit 8 shows, the highest earning 30% of households (corresponding roughly to household incomes of $120K or higher) account for more than half of overall US consumer spending according to Bureau of Economic Analysis (BEA) data.

But there is a something of a dichotomy among higher-income households. Our data on after-tax wages and salaries for that group shows almost no growth for households with income above $125K for nearly a year (Exhibit 6). Despite this, consumer sentiment, as measured by the University of Michigan Consumer Sentiment Index, has rebounded for those in the top third of the income distribution (Exhibit 9).

Exhibit 8: A large percentage of overall US consumer spending comes from those with the highest incomes
Share of total consumer expenditure by deciles of before tax income (%)



Source: Bureau of Economic Analysis

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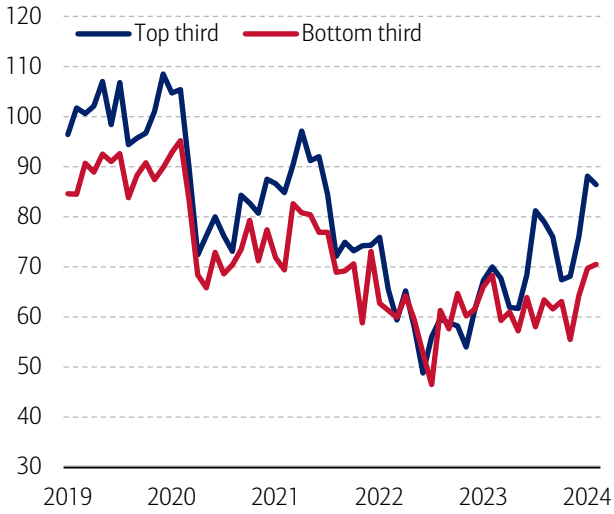
Exhibit 9: There has been a bigger rebound in sentiment among the top third of households by income
Michigan Consumer Sentiment by Income Tercile (1966 Q1=100)



Source: Haver Analytics

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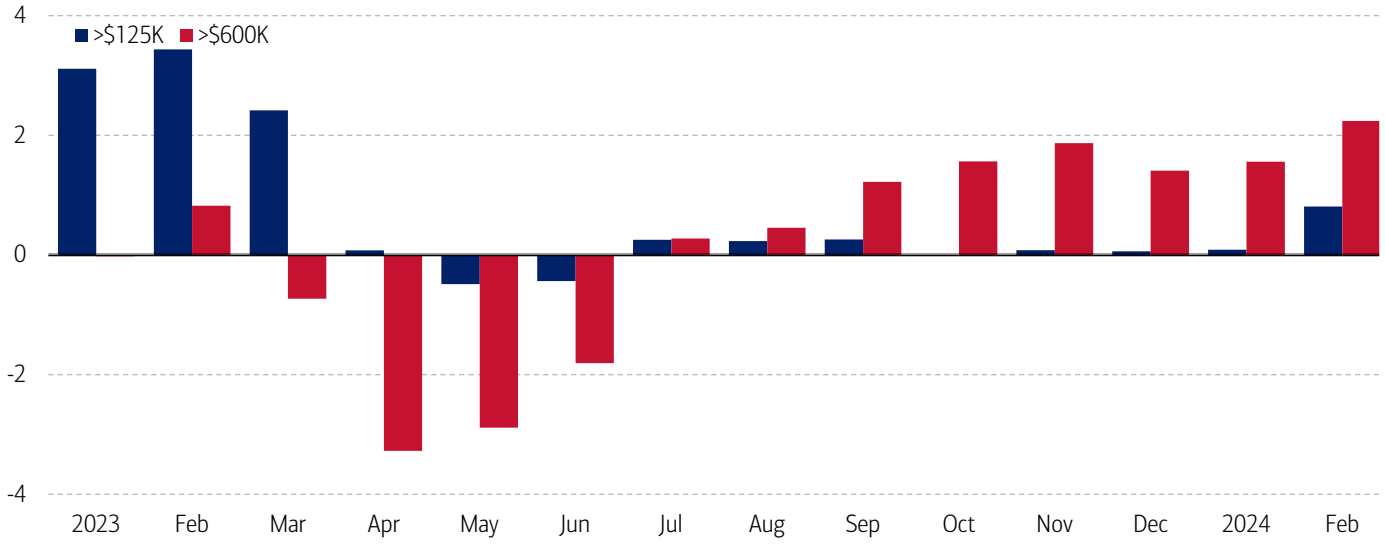
An important point here is that households at the highest end of the income distribution are also likely to have more financial assets than those at the lower end of the distribution. In fact, in 2023 Q3, the top 1% of the income distribution held more than a fifth of total household assets and a third of all corporate equities and mutual fund shares, according to data from the Federal Reserve.

These stocks of wealth may allow some very high-income households to smooth through any weakness in labor income. It is noteworthy that as we move further up the income distribution in our data to look at incomes above $600K, YoY spending growth appears to have been stronger than households with incomes over $125K (Exhibit 10).

With the rise in equities over the last six months it could be that overall higher-income spending may begin to show strength if more households start to feel positive 'wealth effects,' particularly if the labor market for higher-income households also is solid.

Exhibit 10: Households with incomes above $600K appear to be increasing spending at a faster pace than households with incomes over $125K in recent months
Total card spending per household YoY growth by higher-income cohorts (3-month moving average of monthly data, %)



Source: Bank of America internal data

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Buy now, pay later purchasing slows

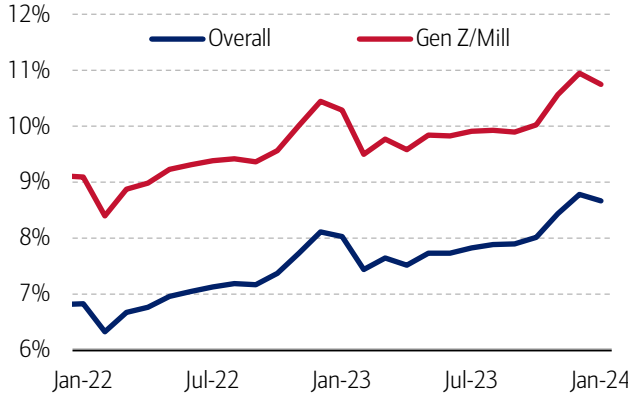
Are a growing number of consumers turning to alternate forms of payments, such as buy now, pay later (BNPL), to supplement spending? Bank of America internal data certainly supports that view, but also suggests that the share of customers doing so is increasing at only half the rate it was compared to this time last year.

Using Bank of America internal data, we find just under 9% of Bank of America deposit customers made at least one BNPL payment in January 2024, up 0.6 percentage points (pp) compared to January 2023. That compares to a 1.2pp increase the year before (Exhibit 11). Younger generations (Gen Z and Millennials) have had a higher adoption rate, while their growth rate has seen an even larger slowdown.

Bank of America internal data also shows that use of BNPL has slowed across all income groups, but the slowdown has been most pronounced for households earning more than $125K, with the YoY share growth for this cohort just above zero (Exhibit 12).

Exhibit 11: Share of Bank of America customers with BNPL transactions in January 2024 has increased only 64 bps YoY, after increasing 120bps YoY in January 2023

Share of Bank of America customers with at least one BNPL payment; overall and Gen Z/Millennial (monthly, %)



Source: Bank of America internal data

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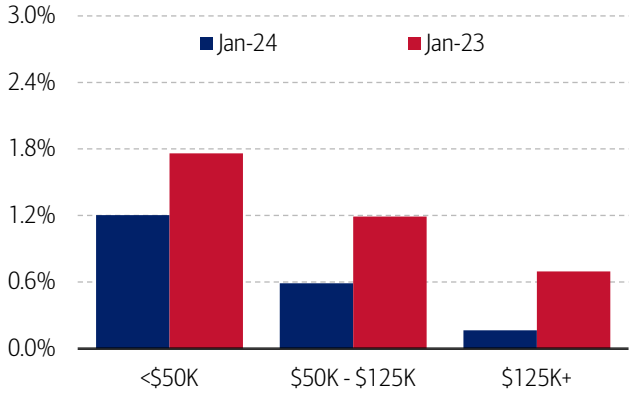
Exhibit 12: The YoY share growth of higher income (>$125k) Bank of America customers with a BNPL payment was nearly flat in January 2024

Increase in the share of Bank of America customers with at least one BNPL payment by income (YoY, %)



Source: Bank of America internal data

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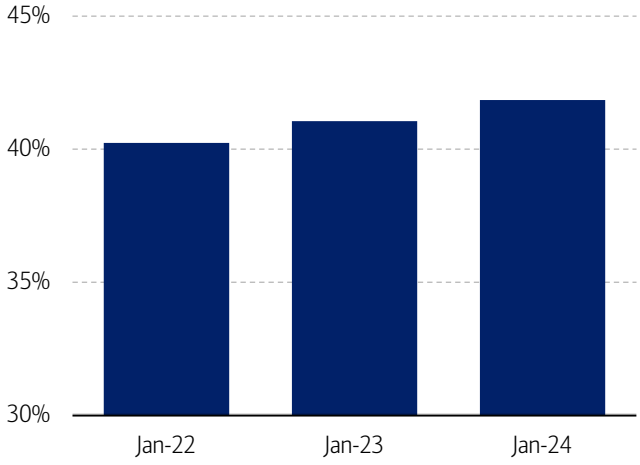
In fact, households earning less than $50K per year are making up a larger share of BNPL users each year (Exhibit 13). And while we find that BNPL users' retail spending is higher than non-BNPL households, it appears that that those using BNPL services are starting to slow their retail spending relative to non-BNPL users (Exhibit 14).

Exhibit 13: Households earning less than $50K per year are becoming a larger proportion of the BNPL universe every year

Households' earning <$50K share of BNPL users (%)



Source: Bank of America internal data

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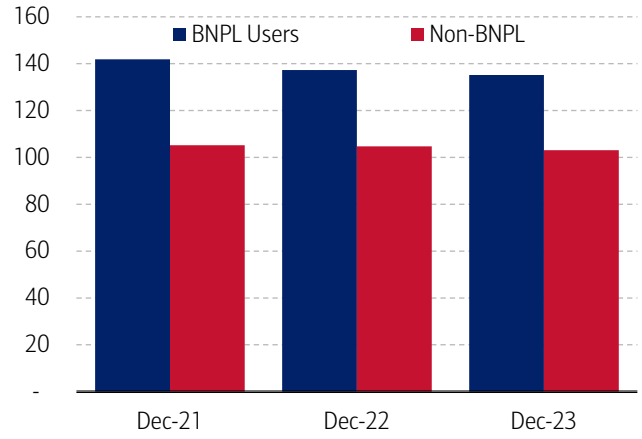
Exhibit 14: Retail spending per household for BNPL users is slowing relative to non-BNPL users

Retail spending, excluding restaurants and gas, per BNPL and non-BNPL households indexed to 2021 (2021 average = 100)



Source: Bank of America internal data

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Monthly data update

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 7.0% YoY in February. Bank of America total credit and debit card spend, which comprises over 20% of total payments, increased 6.4% 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.

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

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Disclosures

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