

Consumer Checkpoint

Higher-income pullback

10 May 2023

Key takeaways

- April data presents further signs that consumer spending is softening. Bank of America total card spending per household dropped to -1.2% compared with April 2022, the first negative year-over-year (YoY) reading since February 2021. Seasonally-adjusted spending rose +0.3% in April month-over-month (MoM).
- The aggregate labor market picture remains solid, but Bank of America data suggests some deterioration at the higher end of the income distribution. Unemployment is rising fastest amongst higher-income households, while their pay growth is weakest. Higher-income spending growth on discretionary items has also fallen below lower- and middle-income households.
- The good news is that savings buffers remain elevated. Bank of America internal data on household savings and checking balances shows the median balance continues to be over 40% higher than the average in 2019 across all income cohorts.

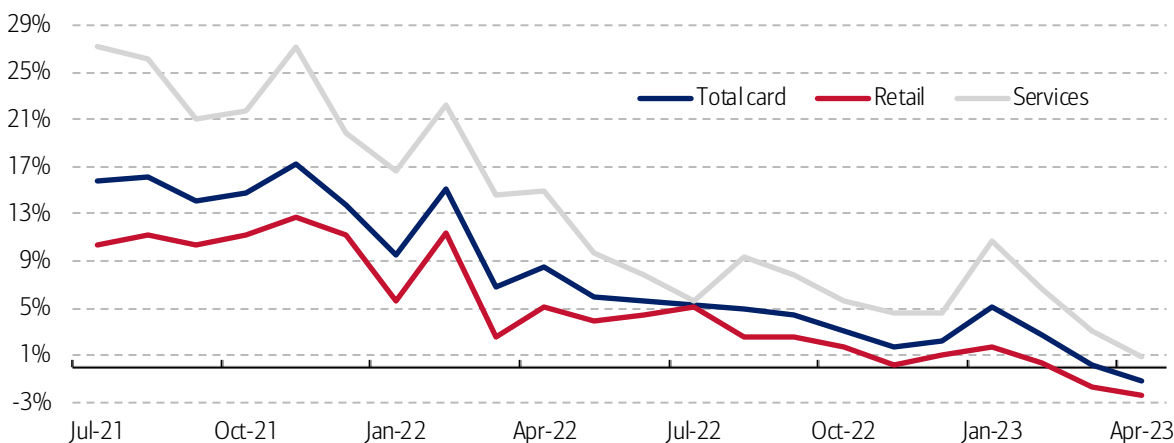
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective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

More signs of a cool down in consumer spending

From the moderation seen last month, there were further signs of a slowdown in consumer spending in April. Bank of America aggregated credit and debit card spending per household slowed further to -1.2% year-over-year (YoY) in April, the first negative monthly YoY reading since February 2021.

Most noteworthy is a softening in spending on services to just +0.9% YoY. Until recently, services had been driving overall spending growth. The moderation last month, however, was broad based led by spending on airlines dropping by 4.5 percentage points to +0.9% YoY in April (Exhibit 2).

Exhibit 1: Total credit and debit card spending per household, based on Bank of America card data (%YoY, monthly, Non-Seasonally Adjusted (NSA))
Total spending fell by 1.2% YoY in April



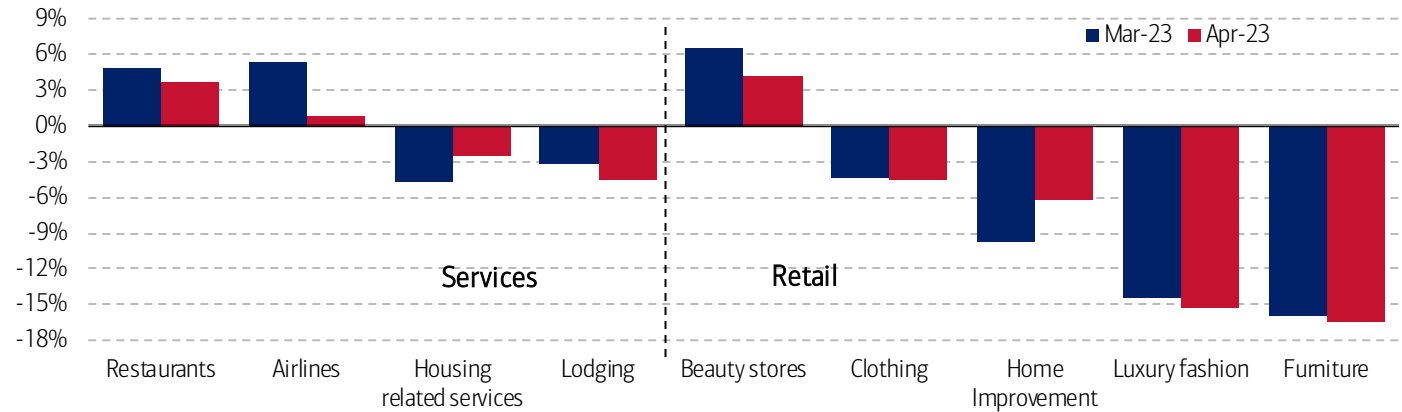
Source: Bank of America internal data

Despite the weak YoY growth rate, sequentially, total spending actually increased by 0.3% month-over-month (MoM) seasonally-adjusted (SA). Two factors to keep in mind are that spending was strong last April, an unfavorable base effect for this year's YoY

comparison, and the timing of Easter may also have been impactful. Easter Sunday was April 9th this year, compared to April 17th in 2022. Nonetheless, daily spending data following Easter looks softer.

Exhibit 2: Bank of America credit and debit card spending per household per select sectors (%YoY for March and April 2023, SA)

Moderation in YoY services spending was broad based with spending on airlines dropping by 4.5 percentage points from March, to 0.9% YoY in April



Source: Bank of America internal data

Signs of a higher-income job market slowdown impacting spending

In previous Consumer Checkpoints we have discussed how the underlying consumer spending outlook hinges on not only shorter-term factors such as lower tax refunds, but also the state of the labor market. In fact, the strength in the labor market, both in terms of jobs and wage growth, has helped keep consumers spending in the face of higher prices.

However, while recent data including April’s Employment Report suggests labor markets remain tight by historical standards, there are broad signs of moderation in the labor market. Nonfarm payrolls increased by 253k in April, down from the 2022 monthly average of 400k. Similarly, the latest initial jobless claims data through April 29, which tracks the number of people filing for unemployment benefits for the first time, also ticked up slightly to 239k on a four-week average basis, compared with the average of 214k in 2022 (Exhibit 3). Job openings in March, while remaining fairly high, also fell 20% from the peak a year ago.

There is also further differentiation in the labor market among income groups. Bank of America internal data offers additional insight into which people and households are seeing the clearest impact from this early labor market deterioration. We identified households receiving unemployment benefits through direct deposit and detected changes in trends across income cohorts. The number of unemployment benefits recipients among higher-income households increased over 40% in April from the fairly low levels a year ago. This was the fastest increase among all cohorts and five times more than the %YoY increase for lower-income recipients (Exhibit 4).

Exhibit 3: Initial jobless claims (4-week moving average, seasonally adjusted (SA), thousands)

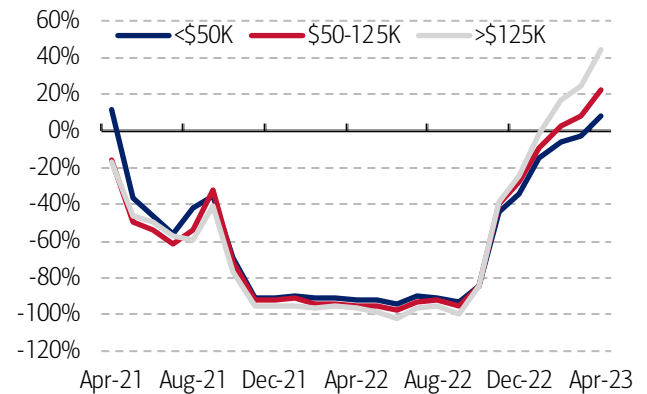
The four-week average of initial claims has risen to around 239K



Source: Department of Labor

Exhibit 4: Change in the number of households receiving unemployment benefits through direct deposit (%YoY)

Unemployment appears to have risen faster in the higher-income group



Source: Bank of America internal data

One caveat to our analysis is that our sample only captures 30 states that disburse funds through direct deposits (some states make use of pre-paid debit cards) and we can only identify deposits into Bank of America accounts. Still, we believe the data offers value directionally and the relative comparison between income groups is insightful.

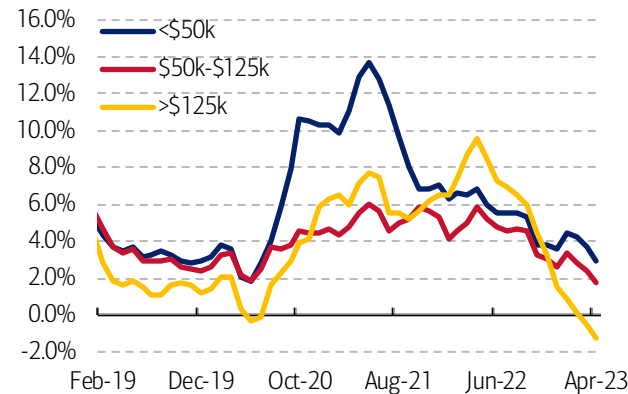
The signs of weakness in the higher-income cohort claiming unemployment benefits is paralleled by a softening in wages and salaries data in this cohort as well. Exhibit 5 shows higher-income households saw after-tax wages contract by 1.3% YoY in April 2023 on a three-month rolling basis, the second consecutive month of negative growth.

Note that our wage data seems to be weaker than the average hourly earnings (AHE) from the Bureau of Labor Statistics' nonfarm payrolls report. Besides sample differences, one possible explanation is that workers may not be experiencing the magnitude of wage inflation suggested by AHE because their work hours are also lower than a year ago.

Another factor is that our wage data includes bonuses, which could be driving the %YoY comparison for higher-income households lower as bonuses tend to see bigger fluctuations than base pay.

Exhibit 5: After-tax wages and salaries growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, SA)

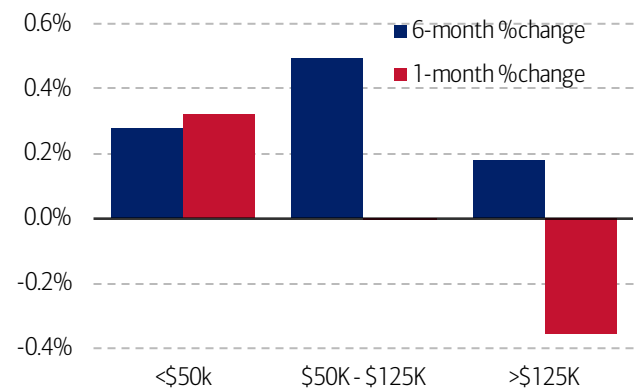
Higher-income households are seeing the fastest slowdown in wage growth



Source: Bank of America internal data

Exhibit 6: Discretionary spending per household on Bank of America credit and debit cards (SA, % change from 6 months and one month ago)

The higher-income households spending for discretionary items has slipped below lower- and middle-income groups since the start of this year



Source: Bank of America internal data

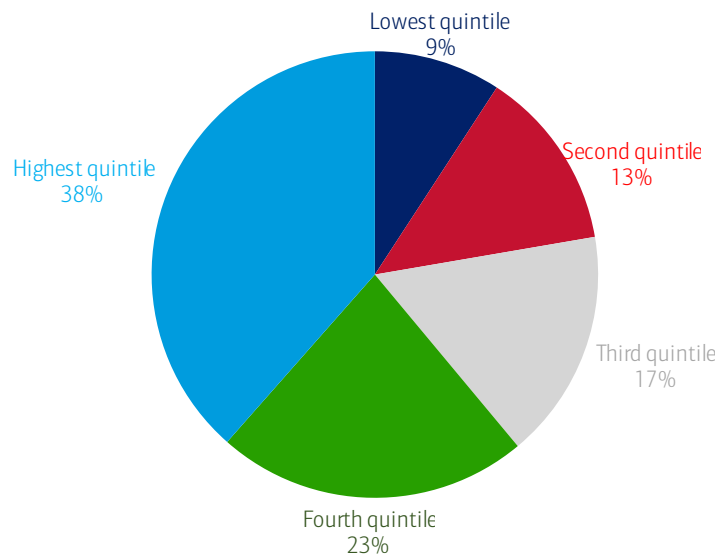
This weakening in the higher-income labor market, both in jobs and pay growth, appears to be driving some divergence in spending patterns across income groups. Exhibit 6, which shows the % change for discretionary spending per household on credit and debit cards relative to October 2022 and March 2023, confirms that higher-income household discretionary spending has remained below lower- and middle-income households. Moreover, higher-income households spent less in April compared with one year ago.

Why does this matter? The highest 40% of the households by income account for over 60% of overall consumer spending (Exhibit 7). So, a labor market slowdown driven by the higher end of the income scale could have an outsized impact on the overall economy.

As of now, the labor market is beginning to soften from a very buoyant initial position, so it will likely take quite some time before the full impact on consumer spending comes through.

Exhibit 7: Share in total annual consumer expenditure by income quintile (% , 2021 annual data)

A large share of total consumer spending is made by the higher-income cohorts



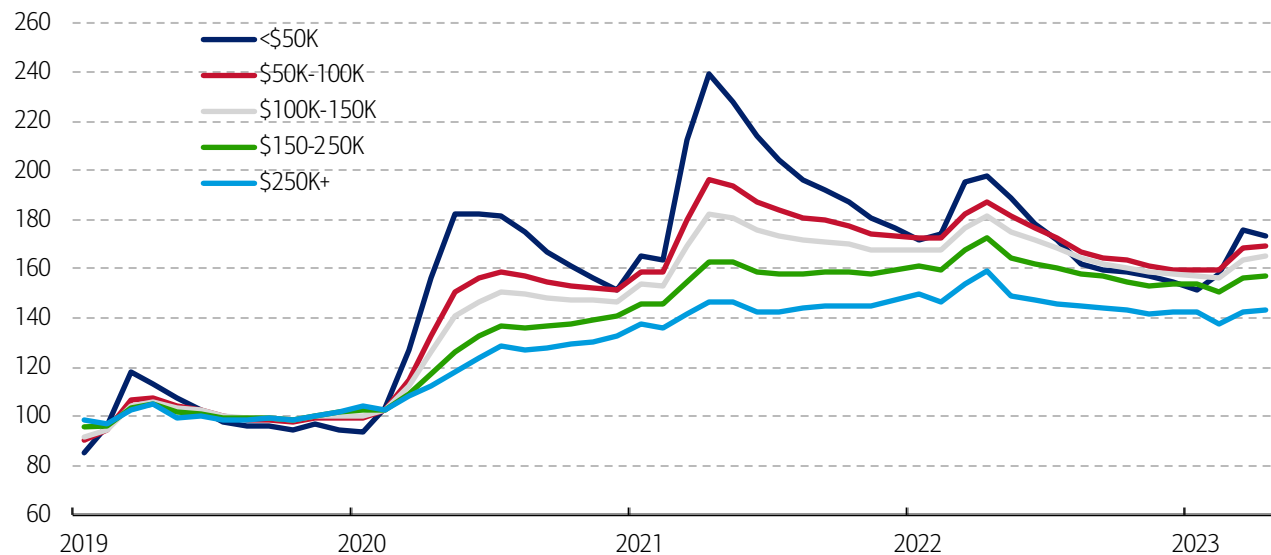
Source: Bureau of Labor Statistics. Quintiles divide the distribution into equal sized 20% groups.

Savings balances continue to provide support

Against the backdrop of softer spending, one positive for consumers is that their deposit balances remain elevated. Bank of America internal data on household savings and checking balances shows the median balance remains 40 to 70% higher than the average in 2019 across all income cohorts (Exhibit 8).

Exhibit 8: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households

Median deposits remain well up on pre-pandemic levels, with a recent uptick likely to reflect tax refunds

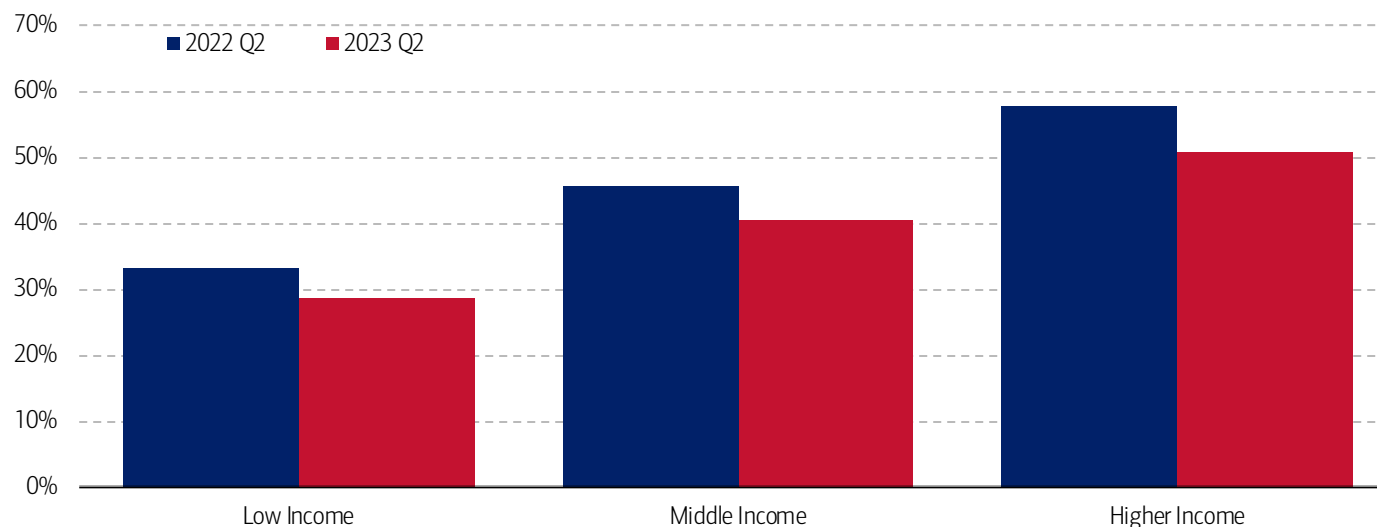


Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through April 2023.

Interestingly, despite elevated median deposit balances, the April 2023 Bank of America Propriety Market Landscape Insights Study found that the proportion of survey respondents indicating their 'rainy day' savings would last them at least six months fell versus one year ago (Exhibit 9). This survey asks Bank of America customers and non-customers a series of questions each month about how they view the economy and their own finances. It allows us to look at the specific sentiment of the middle-income group across a wide range of questions. Their response to this question may partly reflect that consumers recognize that inflation has eroded some of their spending power, even while their cash balances remain elevated.

Exhibit 9: Proportion of survey respondents with a 'rainy day' fund saying this would last them more than six months (%)

There has been a small decline in survey respondents indicating their 'rainy day' funds would last them more the six months



Source: Bank of America Proprietary Insights Survey. Higher-income defined as over \$150K, middle-income between \$50K to \$150K, lower-income below \$50K

Monthly data update

As expected, total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) declined by 5% YoY, largely due to significantly lower tax payment outflows after elevated levels in April 2022.

Bank of America credit and debit card spend, which makes up over 20% of total payments, was up 1% YoY in April. The YoY growth in card spending per household, which measures average spending for Bank of America customer households, was down 1.2% YoY in April, compared to +0.1% YoY in March.

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 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 1996
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

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.

Contributors

David Michael Tinsley

Senior Economist, Bank of America Institute

Anna Zhou

Economist, Bank of America Institute

Taylor Bowley

Economist, Bank of America Institute

Liz Everett Krisberg

Head of Bank of America Institute

Sources

Li Wei

Senior Vice President, Global Risk Analytics

Kimberly Warren

Senior Vice President, Global Risk Analytics

Jonathan Kaplan

Senior Vice President, Digital and Marketing

Ana Maxim

Senior Vice President, Consumer and Small Business

Mel Roasa

Vice President, Digital and Marketing

Megan Fowler

Senior Vice President, Digital and Marketing

Riley Fillius

Market Information Manager, Digital and Marketing

Disclosures

These materials have been prepared by Bank of America Institute and are provided to you for general information purposes only. To the extent these materials reference Bank of America data, such materials are 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. Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, Environmental, Social and Governance (ESG) and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular client and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular client. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice.

Copyright 2023 Bank of America Corporation. All rights reserved.