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## Consumer Checkpoint

# Another month of moderation

**09 November 2023**

## Key takeaways

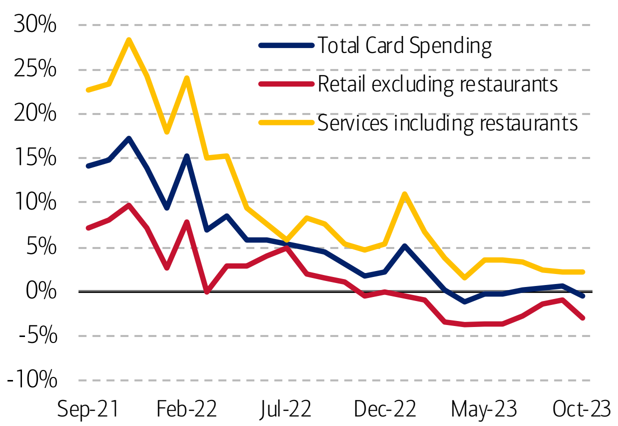
- Consumer spending moderated in October with total card spending falling 0.2% month-over-month (MoM), seasonally adjusted, according to Bank of America internal data. This month, we saw a meaningful convergence between lower- and higher-income households' spending growth, which could be partly explained by the rebound in wage growth for the latter.
- That said, rising mortgage payments have started to disproportionately weigh on some higher-income households, as suggested by Bank of America internal data. This has led to slower spending for homeowners relative to high-income renters. If rent inflation softens further, renter spending outperformance could play out in middle- and lower-income families too.
- The good news is that despite a jump in households resuming student loan repayments, we see little sign yet of a negative impact on spending. Household balance sheets also remain in robust shape. Bank of America data on a fixed group of households' median savings and checking balances suggest these remain elevated relative to pre-pandemic. People also do not appear to be adjusting their retirement savings.

*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.*

## A moderating month

Bank of America internal data in October showed another month of moderation for consumer spending. Aggregated credit and debit card spending per household fell 0.5% year-over-year (YoY), following the +0.7% YoY gain in September (Exhibit 1). On a seasonally adjusted (SA) basis, total card spending per household declined 0.2% month-over-month (MoM). That follows a seasonally adjusted rise of 0.2% MoM in September. In contrast to the pattern we've seen since the summer, the data no longer shows a convergence of services and retail spending. Spending on services rose 0.1% MoM, seasonally adjusted, while retail spending (ex-restaurants) declined 0.4% MoM.

**Exhibit 1: Total card spending per household (monthly, %YoY)**
Total card spending fell 0.5% YoY in October




**Source:** Bank of America internal data

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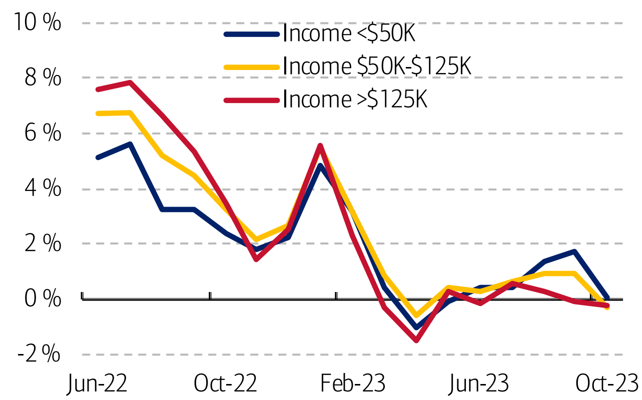
**Exhibit 2: Total card spending YoY growth by income (monthly, %)**
Lower-income households showed the biggest drop back in YoY spending




**Source:** Bank of America internal data

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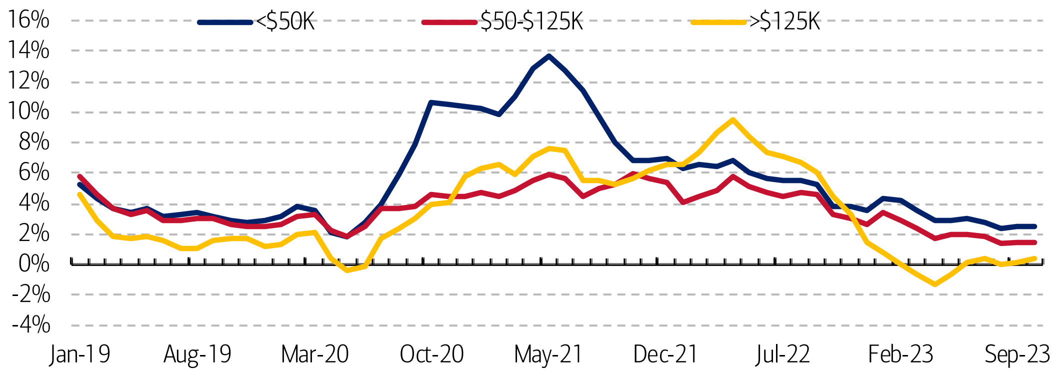
Another trend that shifted in the October data is spending growth by income, with a narrowing of the spending growth outperformance by the lower end of the income distribution. In fact, lower-income households showed the biggest slowdown in YoY spending growth with card spending per household close to zero YoY for those with a household income below $50k, down from +1.75% YoY in September. In contrast, spending growth for higher-income households (above $125k) fell 0.2% YoY in October (Exhibit 2), from -0.1% YoY in the prior month. Some of this narrowing reflects falling gasoline prices, which tend to benefit lower-income cohorts relatively more as they have a higher weight of gasoline in their overall spending.

One possible explanation for the narrowing gap between lower- and higher-income spending growth may be the converging after-tax wages and salary growth for these two cohorts. Exhibit 3 shows that, according to Bank of America internal data, after-tax wages and salaries were up 0.4% YoY in October for higher-income households and grew by 2.6% YoY for lower- income households. While there is still a 2.1 percentage points (pp) gap between the two growth rates, it has narrowed from the 4.3pp difference in April 2023.

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

Tepid higher-income spending likely in part reflects weak wages and salaries growth




**Source:** Bank of America internal data

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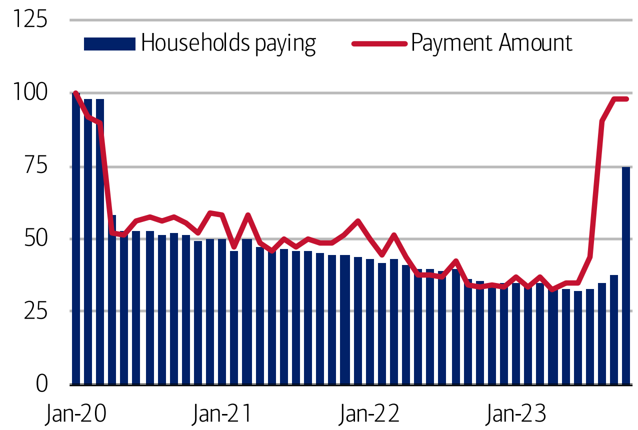
## Few learnings yet from student loan payment resumption

With the end of the student loan moratorium, many are wondering if consumers will cut back on spending to make loan repayments. As discussed previously, the largest proportion of student loan debt lies with younger households and those with relatively higher incomes. Bank of America data shows a large jump in the number of households with deposit accounts making student loan (SL) repayments in October (Exhibit 4), doubling from September. However, the number of households making payments is still running about 25% below January 2020 levels.

**Exhibit 4: Bank of America deposit households with SL repayments (index, Jan 2020=100)**

There has been a large jump in households making student loan repayments




**Source:** Bank of America internal data

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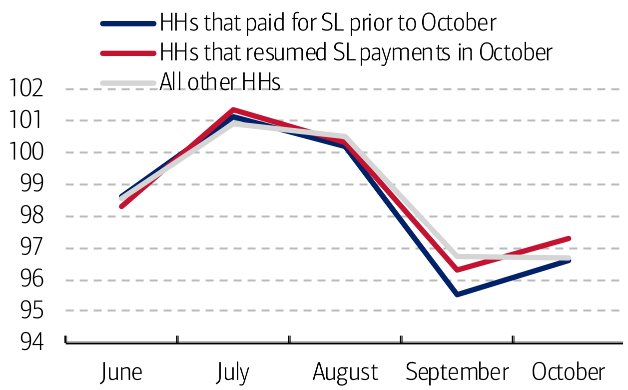
**Exhibit 5: Monthly total card spending per household for those with SL payments prior to October, those who resumed payments in October and others (index, Jun-Aug average =100 for each group)**

We do not see an adverse impact to spending for households who resumed SL payments in October




**Source:** Bank of America internal data

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When we look at the spending of households who made a SL payment for the first time in 2023 in October, we do not see any obvious sign of an adverse impact relative to other groups of households (Exhibit 5). But one possibility for this could be that those households who are most likely to struggle with the resumption SL repayments are able to make use of the 'on-ramp' period through September 30, 2024, a policy that allows any missed repayments not to be considered delinquent. These households might also be able to apply for income-driven repayment plans.

## Renters set for a change in wind direction?

Spending for shelter takes up a big slice of US household spending: 20% of total consumer expenditure in 2022, according to the Bureau of Labor Statistics (BLS). But home renters and owners have had different experiences over the past two years. According to the US Census Bureau, 65% of American households own their home in 2023, while 35% rent. Of those that own, around 61% have a mortgage.

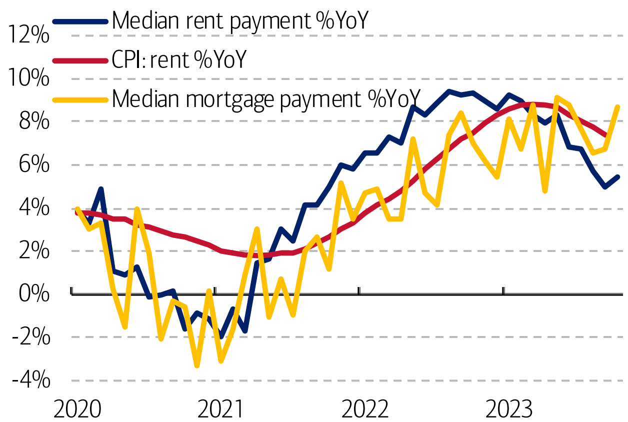
As Exhibit 6 shows, according to Bank of America internal data, between May 2021 and March 2023, median rent payments increased at a faster pace than median mortgage payments. This reflected that rent inflation, together with overall inflation, was soaring during this period. However, for many existing homeowner-households there was little upward pressure on their mortgage payments, given most mortgages were fixed rate and therefore not immediately impacted by monetary policy tightening that started in March 2022.

But these dynamics have since reversed. In October, the median rent payment was up 5.5% YoY, which is less than the 8.7% YoY jump in median mortgage payments.

Why the turnaround? For one, rent price inflation is softening, as can be seen in the Consumer Price Index (CPI) rent price index. But also, as an increasing number of households have purchased homes with both higher valuations and higher mortgage rates than a few years ago, mortgage payments are rising. According to data from eMBS, over 80% of mortgage outstanding balance had a rate less than 4% in October 2022, compared with 72% in October 2023 (Exhibit 7).

**Exhibit 6: Median rent and mortgage payment, according to Bank of America internal data, and CPI for rent (%YoY)**

Rent payment growth is now below that of mortgage payments




**Source:** Bank of America internal data, Bureau of Labor Statistics

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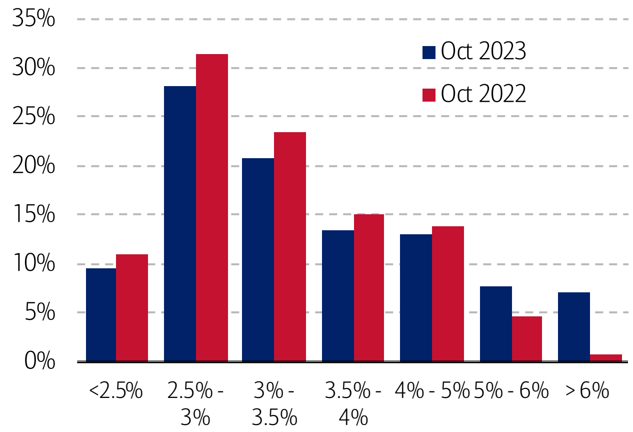
**Exhibit 7: Distribution of mortgage outstanding balance by mortgage rate (%)**

The proportion of mortgages at higher rates is gradually increasing




**Source:** eMBS

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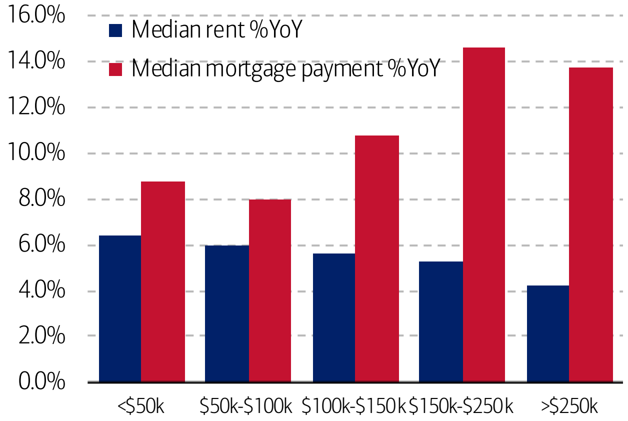
It appears that higher mortgage payments are largely a feature of higher-income households (Exhibit 8). Though even for higher income households, rising mortgage payments are likely only being experienced by a small proportion - mainly those who have moved or have an adjustable rate mortgage. On the other hand, current growth in rent payments appears to be fairly evenly distributed across income groups.

Interestingly, the rise in mortgage payments relative to rents at the upper end of the income distribution is resulting in stronger total card spending among high-income renters relative to higher-income homeowners (Exhibit 9). But for lower- and middle-income households, homeowners continue to spend at a stronger pace than renters. If rent inflation cools further, or the upward pressure on mortgage payments moves down the income distribution, we may begin to see a reversal between renter and homeowner spending at the lower and middle end of the income distribution, too.

**Exhibit 8: Median rent and mortgage payment by income groups, according to Bank of America internal data (%)**

Mortgage payment growth is significantly stronger at the higher end of the income distribution




**Source:** Bank of America internal data

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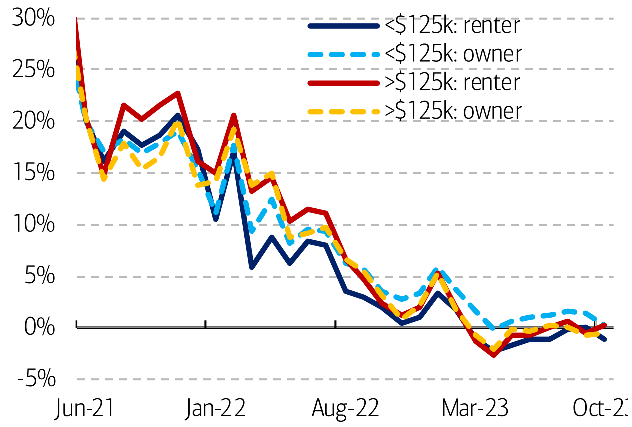
**Exhibit 9: Total card spending excluding rent for renters and homeowners by income groups (%YoY)**

Renters spending growth remains weaker than that for homeowners




**Source:** Bank of America internal data

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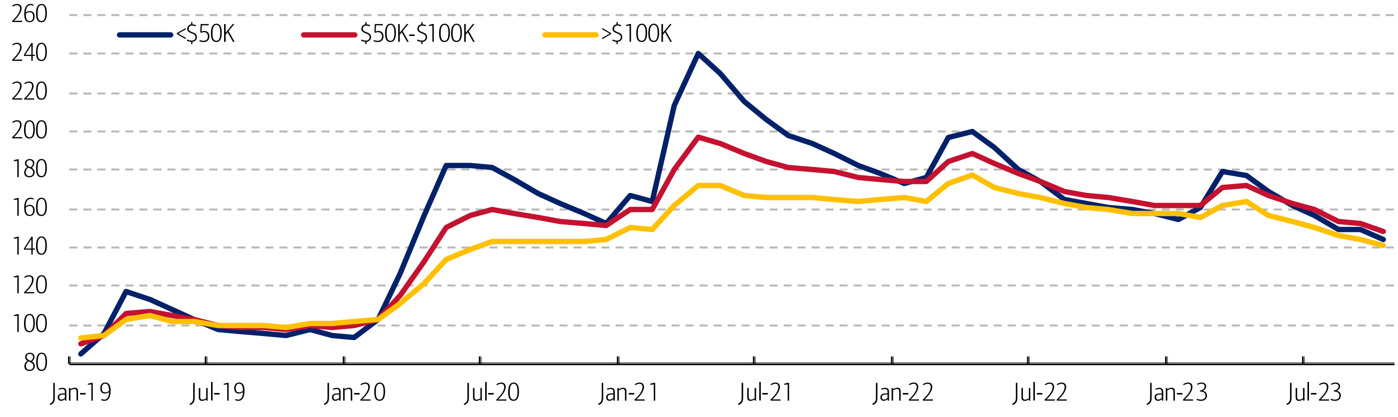
## Deposit balances remain elevated

Relatively healthy consumer balance sheets have helped support spending in 2023. Looking at the latest Bank of America data on median household savings and checking balances for a fixed cohort of households, we see that deposit balances continue to be elevated relative to pre-pandemic levels (Exhibit 10). The decline in deposit balances appears fastest for lower-income households.

**Exhibit 10: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households through October 2023**

Deposit balances remain elevated at all income levels compared to 2019 levels




**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 October 2023.

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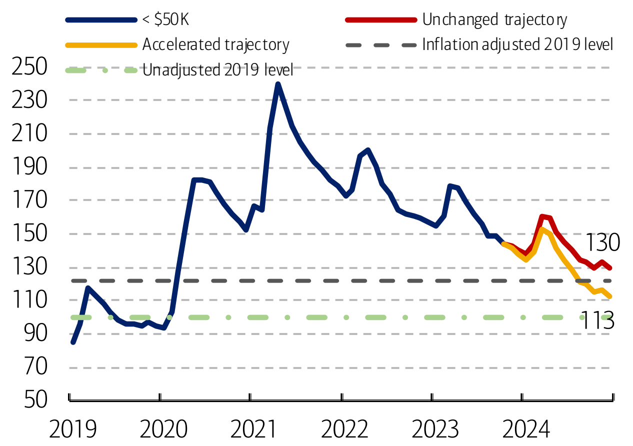
In Exhibit 11 and Exhibit 12, for illustration purposes, we consider two hypothetical, forward-looking scenarios in an effort to explore what the path of deposit buffers could look like for higher- and lower-income households if they continue to follow the same pattern of growth over the last year, or an "unchanged trajectory," along with a scenario in which these buffers decline at a faster rate, or an "accelerated trajectory." Note that in an "accelerated trajectory" scenario, we simply assume the %MoM drawdown of savings would be one percentage point faster than the "unchanged trajectory" for every month until the end of 2024.

Using these hypothetical, forward-looking approaches, both lower- and higher-income households would see elevated deposits relative to 2019 for a considerable time to come, and could continue to support spending growth well into 2024. But lower-income households would see a somewhat faster run-down in deposits than higher-income households.

**Exhibit 11: Hypothetical Forward-Looking Scenarios: Monthly median household savings and checking balances for the lower-income household (2019=100) for a fixed group of households**
Deposit levels would remain elevated for a considerable time to come under both hypothetical scenarios




**Source:** Bank of America internal data. Monthly data includes those households that had a checking and/or savings account for all months from Jan. 2019 through Oct. 2023.

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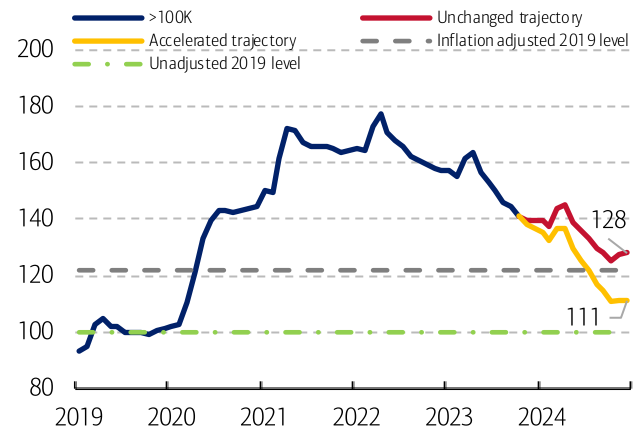
**Exhibit 12: Hypothetical Forward-Looking Scenarios: Monthly median household savings and checking balances for the higher-income household (2019=100) for a fixed group of households**
Deposit levels would remain elevated for a considerable time to come under both hypothetical scenarios




**Source:** Bank of America internal data. Monthly data includes those households that had a checking and/or savings account for all months from Jan. 2019 through Oct. 2023

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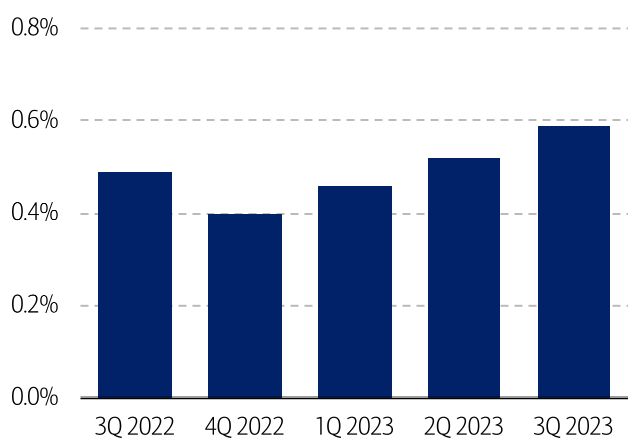
Adjusting longer-term retirement savings is another alternative consumers may consider, though our data does not show signs of significant consumer stress at this time. According to Bank of America's Retirement Research & Insights Participant Pulse, while there was an increase in 401(k) plan participants that took a hardship distribution in 3Q 2023 to 0.59% from 0.52% in 2Q 2023, the overall number remains low on an absolute basis (Exhibit 13). The average participant hardship amount in 3Q was $5,070, comparable to hardship distributions in 2Q. In addition, the report did not see signs of participants pulling back on their 401(k) contributions, as the average contribution rate was flat at 6.5% (Exhibit 14).

**Exhibit 13: Participants taking a hardship distribution (%)**
There has been an increase in participants taking a hardship distribution in 2023 so far




**Source:** Bank of America internal data

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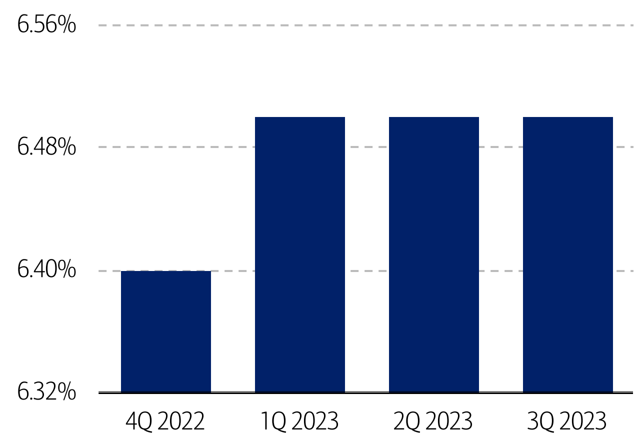
**Exhibit 14: Average retirement contribution rate across all age groups (%)**
Average contribution rates stayed the same this quarter




**Source:** Bank of America internal data

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## Monthly data update for October

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) was up 7.0% YoY in October. Bank of America total credit and debit card spend, which makes up over 20% of total payments, was up 2.2% 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