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Consumer Checkpoint

Not falling in the Fall

11 October 2023

Key takeaways

- Consumer spending has been fairly flat over the last two months. Seasonally adjusted total card spending rose 0.2% month-over-month, reversing the 0.2% decline in August. Total card spending per household was up 0.7% year-over-year in September, compared to 0.4% in August, according to Bank of America internal data.
- The labor market is key for the consumer. While there has been a relative deterioration in labor conditions at the higher end of the market, most of that underperformance may now be in the past. However, the wages and salaries of higher-income households are still growing at slower rates than other income cohorts.
- One positive in recent labor market data has been that of rising prime-age female participation. That said, Bank of America data shows childcare payments in September are up 32% from 2019 average levels, which may pose some risks to this trend.

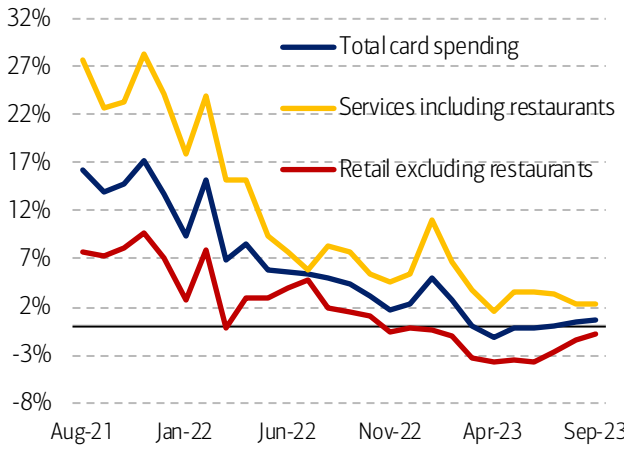
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective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

Post-summer moderation in spending

Bank of America aggregated credit and debit card spending per household rose 0.7% year-over-year (YoY) in September, up from 0.4% YoY in August (Exhibit 1). The rise in the YoY rate of spending growth 'flatters' the picture in September a little. On a seasonally adjusted basis, total card spending per household rose 0.2% month-over-month (MoM), following a seasonally adjusted 0.2% MoM decline in August. When looking at the past two months together, consumer spending appears broadly flat.

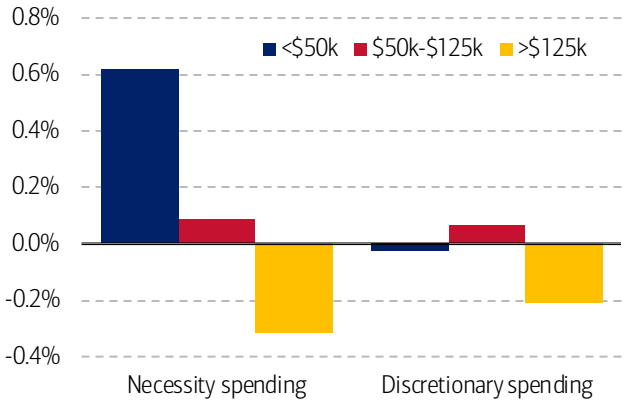
Within total card spending per household, retail spending (excluding restaurant spending) declined 0.9% YoY in September, an improvement on the decline of 1.4% YoY in August. Services spending, on the other hand (including restaurant spending), rose 2.3% YoY, easing from 2.4% YoY in August (Exhibit 1). Goods and services spending seem to be gradually converging on a %YoY basis.

Exhibit 1: Total card spending per household (monthly, %YoY)
Total card spending rose 0.7% in September, up from 0.4% in August



Source: Bank of America internal data

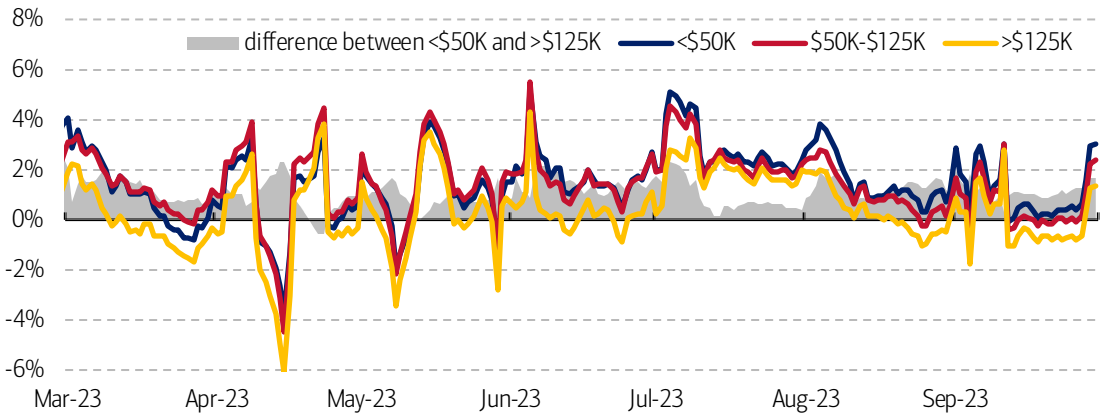
Exhibit 2: Necessity and discretionary spending per household by income group (%MoM for September 2023, seasonally-adjusted)
Lower-income households saw a 0.6% MoM rise in necessity spending



Source: Bank of America internal data. Necessity spending includes food, gas and utilities. Discretionary spending is total card spending minus necessity spending.

Rising gasoline spending has helped drive up the growth in necessity (food, gas, and utilities) spending, which rose at 1.3% YoY in September, compared to 0.4% for discretionary spending. This has had a bigger impact on lower-income households, for whom necessity spending rose 0.6% MoM in September (Exhibit 2). That said, on a YoY basis, lower-income households continue to lead the growth in card spending excluding gas and the gap with higher-income spending growth has not narrowed in recent months despite rising gasoline prices (Exhibit 3).

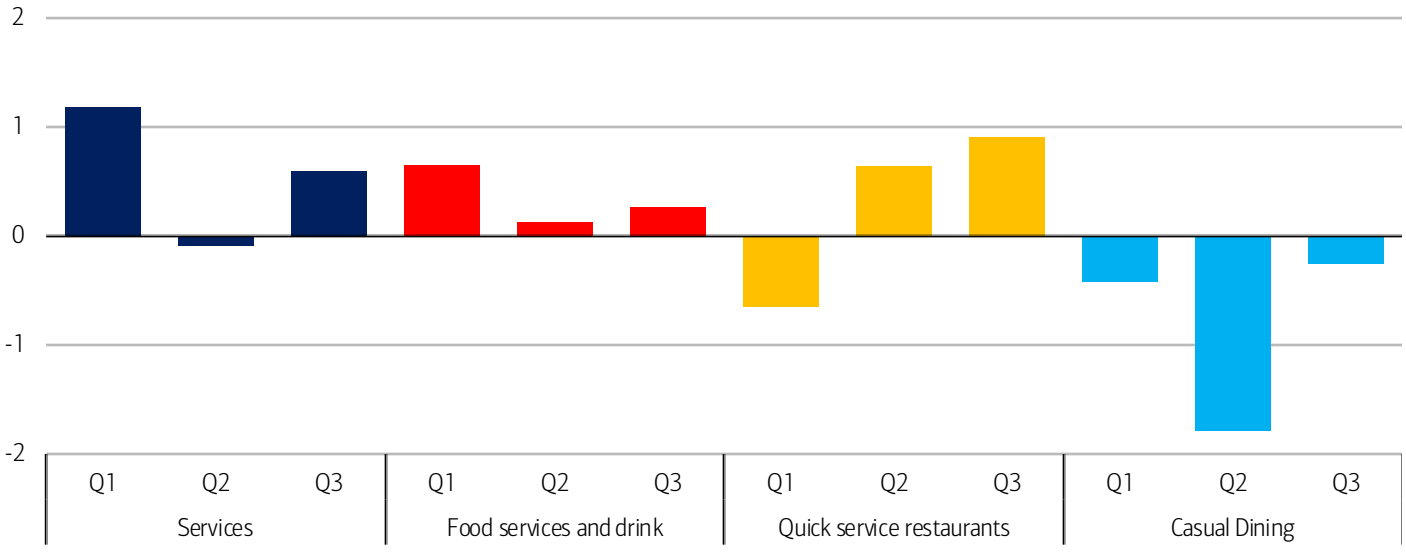
Exhibit 3: Total card spending excluding gasoline per household, by income (%YoY, 7-day moving average through September 30)
Lower-income households continue to lead YoY spending growth



Source: Bank of America internal data. Note the increase in YoY rates at the end of September is due to payday timing mismatch.

Over the first half of 2023, services spending per household increased by an average seasonally-adjusted rate of 0.2% MoM. Over the past three months (3Q 2023) average growth remained at 0.2% per month, though spending within services categories shows some variation. Travel-related spending (airlines and lodging) continues to show signs of normalization following the earlier post-pandemic boom (see: Unpacking summer travel), while restaurant spending has been mixed. Over the third quarter, 'quick-service' restaurant spending increased by more than spending on casual dining, perhaps suggesting that rising necessity spending has been leading some consumers to 'trade down' in their dining choices (Exhibit 4).

Exhibit 4: Total card spending per household on service spending categories (% quarter-on-quarter, seasonally adjusted)
Restaurant spending has shown some forward momentum, with 'quick service' restaurant spending appearing to rise faster in the latest quarter



Source: Bank of America internal data. Quick service restaurants are defined as traditional fast-food restaurants, with a relatively lower price per person menu. Casual dining is defined as full-service restaurants with per-diner pricing averaging modestly above that typically found in quick service. Food services and drink includes quick service and casual dining, but also other forms of restaurant and bar spending.

Labor market: stronger for longer

In our view, the path for consumer spending depends largely on the labor market and the September releases of labor data all point to a still-healthy environment. Bureau of Labor Statistics (BLS) data on nonfarm payrolls increased by a solid 336k in

September, with the unemployment rate remaining at historically low levels of 3.8%. Other measures of the labor market, such as job openings and initial jobless claims, also suggest that the labor market remains in good shape.

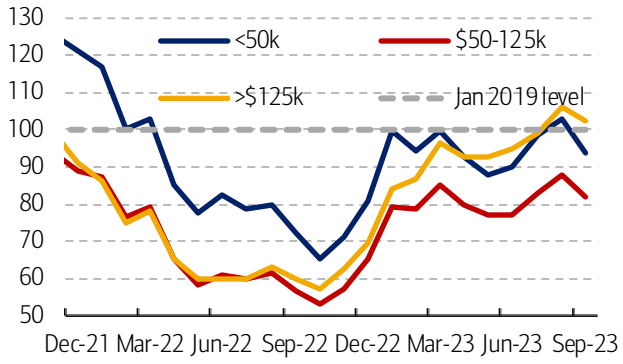
While public data sheds little light on different dynamics across income groups, Bank of America internal data provides this context. Looking at the number of households (adjusted for a growing customer sample size) receiving unemployment benefits through direct deposit each month, we find higher-income consumers have seen the fastest rise in unemployment over the last year (Exhibit 5). Notably, the number of higher-income households receiving unemployment benefits in September 2023 was around 2% above that of January 2019.

The good news is that for middle- and lower-income households the number remains below pre-pandemic levels. The relative strength in the lower-income labor market can also be seen in the 96k jobs added in the leisure & hospitality sector in September, according to BLS, while financial services saw only a 3k payroll increase.

However, there are signs that the underperformance of the higher-end labor market may increasingly be behind us. In our May Consumer Checkpoint, we argued that the relative weakness in higher-income labor markets was due to layoffs in industries such as tech and financial services. Today, according to data from the Challenger Survey, we seem to be past this wave of layoffs (Exhibit 6).

Exhibit 5: Number of households receiving unemployment benefits through direct deposit (index, Jan 2019 =100 for each income group)

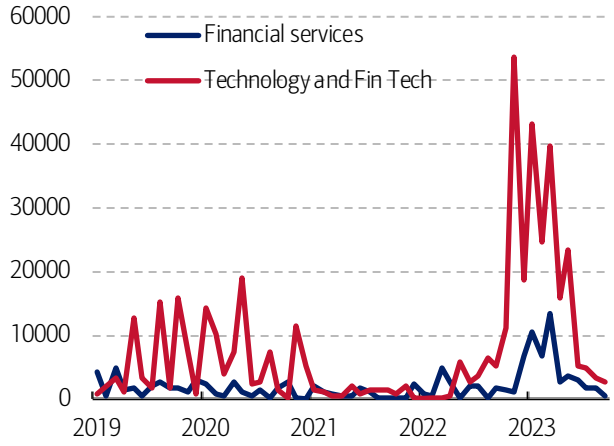
Unemployment for higher-income households has risen above January 2019 levels



Source: Bank of America internal data. Note: this calculation adjusts for growing customer sample size.

Exhibit 6: Number of job cuts announced by select industry (Challenger Survey)

The wave of job loss announcements in financial services and tech appears to have subsided

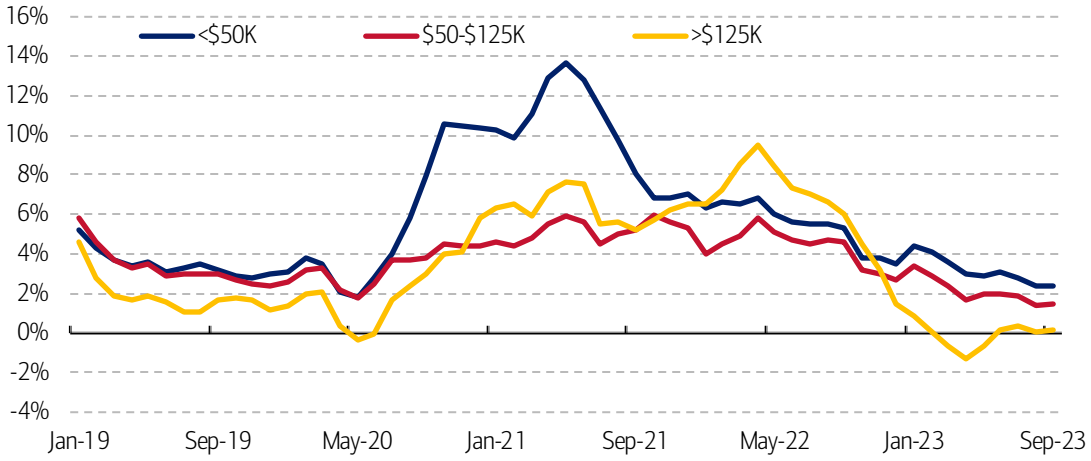


Source: Haver Analytics

While the relative deterioration in the higher-income labor market may be less of a factor going forward, wage growth at the higher end of the income distribution continues to look weaker than for middle- and lower-income groups. In September 2023, after-tax wages and salaries were roughly unchanged from a year ago for higher-income households but grew by 2.4% YoY for lower-income households (Exhibit 7).

Exhibit 7: After-tax wage and salary growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, SA)

There is a continued slowing in wage and salary growth



Source: Bank of America internal data

Affordable childcare wanted

One positive development in the labor market over the last two years has been the increasing numbers of women entering the workforce. This has pushed the prime-age (25-54 years old) female labor force participation rate (LFPR) to historically high levels.

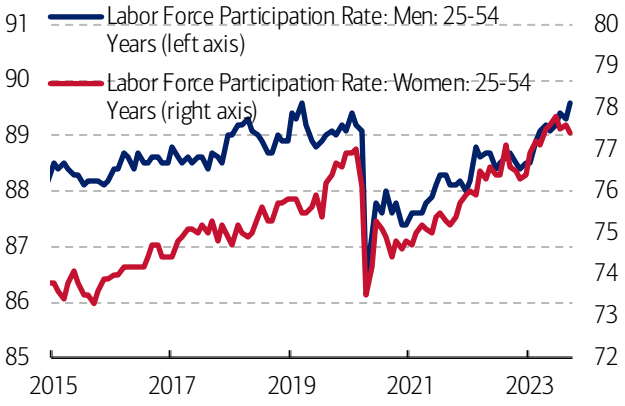
But while the BLS September employment report showed an unchanged prime-age overall labor force participation rate at 83.5% compared with the prior month, a rise in prime-age male LFPR to 89.6% was offset by a decline in prime-age female LFPR (Exhibit 8) to 77.4%.

What could be behind this drop in female participation, and should we be concerned that it will become more persistent?

One possibility is that a lack of affordable childcare is driving women to leave or not enter the labor market, given that childcare responsibilities have traditionally fallen more on mothers. According to Bank of America internal data, average monthly childcare payments per customer have increased steadily over the past three years. As of September, they were 32% higher than the 2019 annual average (Exhibit 9).

Exhibit 8: Labor force participation rate for prime-age men and women (%)

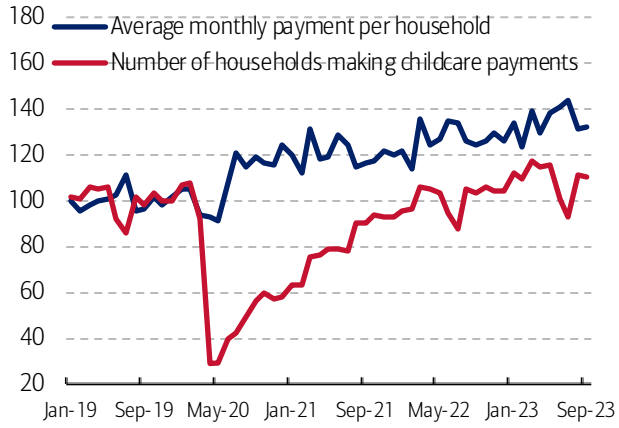
Prime-age female labor force participation rate fell in September



Source: Bureau of Labor Statistics

Exhibit 9: Average monthly childcare payment per customer and number of customers making such payments (index, 2019 average =100 for each series)

Average monthly childcare payment per customer has increased steadily over the last three years



Source: Bank of America internal data

Data from BLS' Consumer Price Index (CPI) report tells a similar story: prices for daycare and preschools were up 5.6% YoY in August, down from 7% in April, but still very elevated by historical standards (Exhibit 10).

While daycare and preschool prices have a weighting of less than 1% in the CPI calculation, meaning that for *all* US consumers the spending share on childcare is small, any further increase in prices would disproportionally weigh on families with young children. According to a recent survey by Care.com, for parents that do pay for childcare, 67% are already spending 20% or more of their annual household income on such services.

Looking ahead, prices for childcare services could rise further as the expiration of the Child Care Stabilization (CCS) program on September 30 could reduce childcare supply. The Child Care Stabilization program was passed as part of The America Rescue Plan in 2021 and allocated $24 billion to more than 220,000 childcare programs in the United States, impacting as many as 9.6 million children, according to the Administration for Children and Families. According to public policy think tank The Century Foundation, the reduction in funds from the expiry of the CCS could lead to the closure of 70,000 childcare programs, impacting more than 3 million children.

In our view, the impact from the CCS expiry will be fairly gradual, as it impacts childcare service providers and not consumers directly. But upward pressures on childcare prices are likely to add to the list of potential downside risks consumers face as we head towards year-end.

Exhibit 10: Consumer Price Index: daycare and preschool (%YoY)
Daycare and preschool price inflation was 5.6% YoY in August

Source: Bureau of Labor Statistics

Monthly data update for September

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) was 1.0% YoY in September. Bank of America total credit and debit card spend, which makes up over 20% of total payments, was up 3.2% YoY.

The YoY growth in total card spending per household, which measures average spending for Bank of America customer households, was 0.7%.

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.

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

Ana Maxim

Senior Vice President, Consumer and Small Business

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