BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Consumer Checkpoint

Not such a cruel summer

12 September 2023

Key takeaways

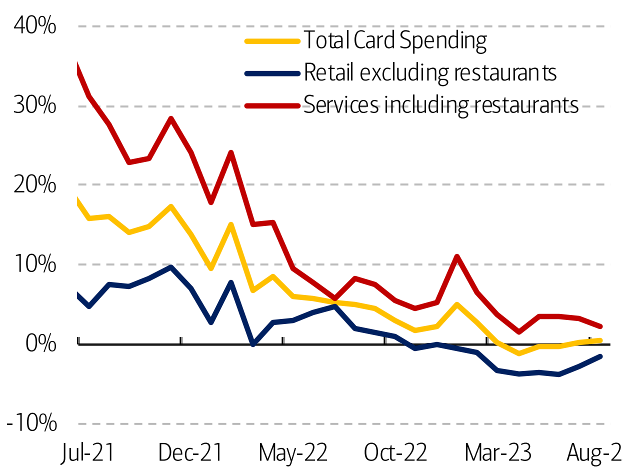
- August consumer spending was broadly stable. Total card spending per household was up 0.4% year-over-year (YoY), compared to 0.1% in July, according to Bank of America internal data. Seasonally adjusted spending fell 0.2% month-over-month, but that followed a strong 0.7% rise in July. Rising gasoline prices have modestly increased the share of necessities in total spending.
- Overall, consumers still have 'dry powder' to support their spending. Credit card utilization rates have risen, but remain below pre-pandemic levels. Average credit card balances are above 2019 levels for lower income households, but their wage growth has also been strong.
- Have people started paying their student loans back before the moratorium ends? Bank of America internal data suggests relatively few households have done this, but those that have, are seemingly making lump-sum payments to avoid the accrual of interest from September 1st.

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.

Summer stability

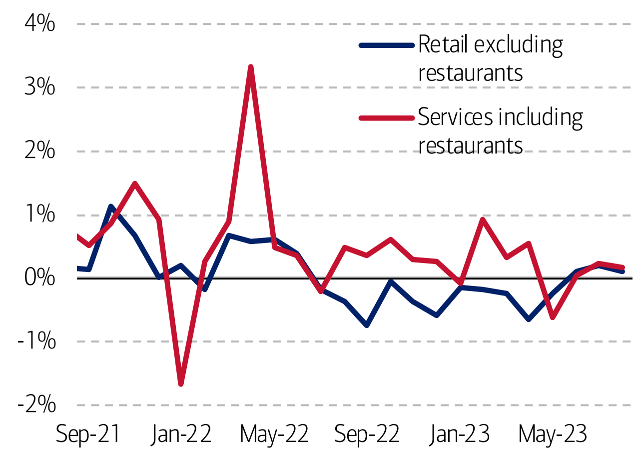
Consumer spending showed broad stability in August, following a strong July. Bank of America aggregated credit and debit card spending per household rose 0.4% year-over-year (YoY), up from 0.1% YoY in July (Exhibit 1). On a seasonally adjusted basis, total card spending per household declined by 0.2% month-on-month (MoM), but that followed a relatively large 0.7% MoM seasonally adjusted rise in July. On a three-month moving average basis, retail and services spending continued to grow in a similar, stable direction, with retail (excluding restaurants) spending up 0.1%, and services spending up 0.2% (Exhibit 2).

Exhibit 1: Total card spending per household (monthly, %YoY)
Total card spending rose 0.4% YoY in August, up from 0.1% YoY in July



Source: Bank of America internal data

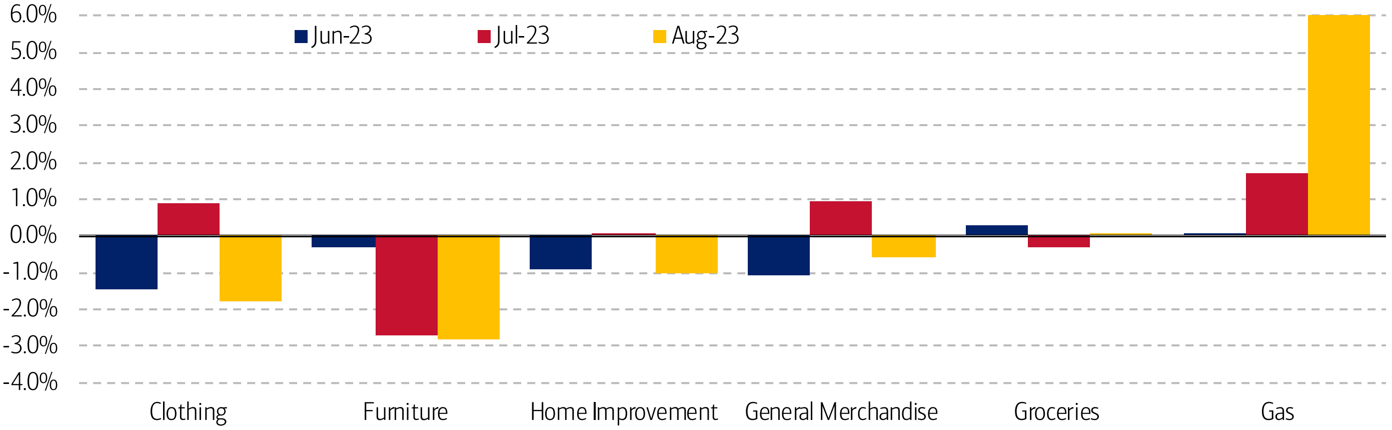
Exhibit 2: Card spending per household for goods and services (%MoM, 3-month moving average, seasonally adjusted)
Services spending was up 0.2% MoM on a 3-month rolling basis



Source: Bank of America internal data

We find variations in spending patterns across retail sectors over the summer months this year. Higher gasoline prices – a reflection of higher oil prices – led to a spike in gasoline spending in August, up 6% MoM (Exhibit 3). Clothing and general merchandise spending (including department stores) has been fairly balanced over the last two months as a promotion-driven surge in July was offset by a softer August. On the other hand, housing-related spending, such as furniture and home improvement, continues to trend weaker than the rest of the retail sector.

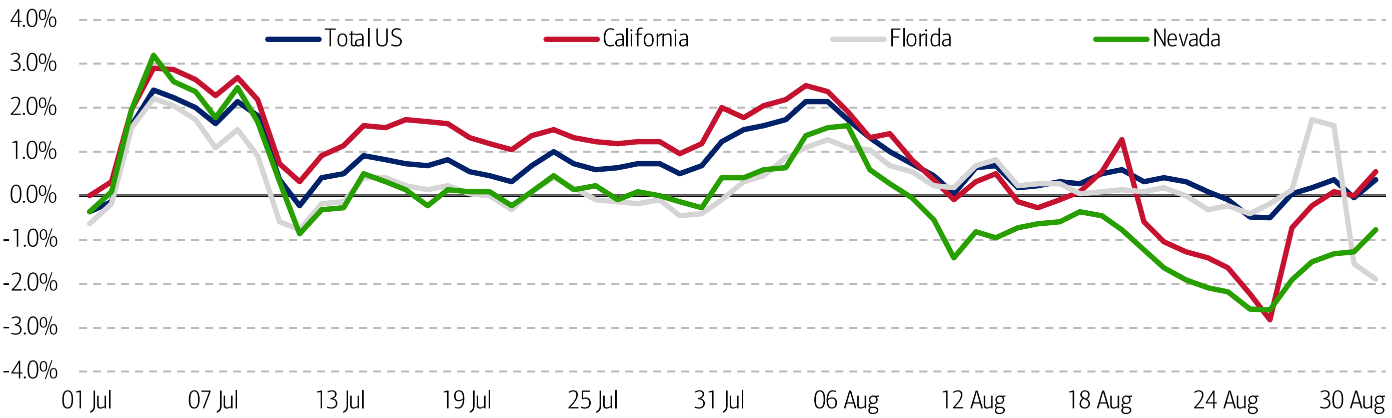
Exhibit 3: Select retail categories card spending per household (%MoM, seasonally adjusted)
Higher gasoline prices led to a spike in gasoline spending in August, up 6% MoM



Source: Bank of America internal data

Several weather-related disruptions in August appear to have dampened spending in the impacted states. Tropical Storm Hilary struck California around August 19, causing heavy rainfall and localized flooding. Ahead of that, Californians appear to have undertaken precautionary spending to stock up on essentials, before a drop in spending when the storm hit (Exhibit 4). Towards the end of the month, spending in Florida rose ahead of the impending Hurricane Idalia, before falling during its landfall and in the immediate aftermath. Nevada was also impacted by severe weather and flooding at the end of the month.

Exhibit 4: Total card spending per household for US and select states (7-day moving average of daily data, %YoY)
California and Florida were both impacted by storms/hurricanes in August, with spending rising ahead of these weather events and dropping thereafter



Source: Bank of America internal data

Credit where it's due

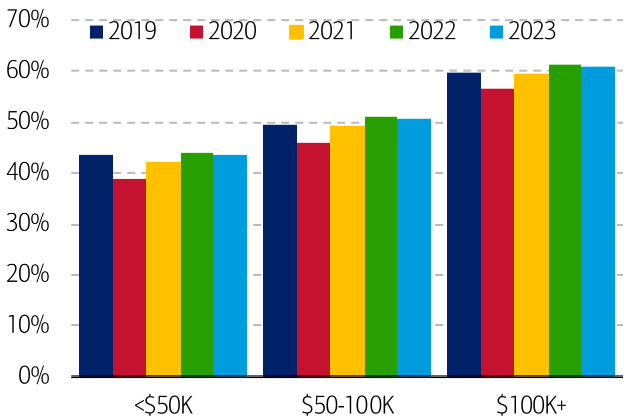
One factor in a consumer's ability to handle forthcoming headwinds is how much borrowing capacity they have. More borrowing capacity tends to imply consumers can keep their spending pace relatively stable in the face of short-term shocks.

Given this, are there signs they are making greater use of credit cards to finance their spending? Exhibit 5 shows the share of card spending on credit cards across income cohorts. Over the pandemic, when people were benefiting from stimulus checks, this share declined. But in the four weeks leading up to September 1, the share is broadly where it was during the same period in 2019.

Another related metric is whether consumers are getting closer to their credit limits – their credit card utilization rate. As Exhibit 6 shows, there has been some tendency for credit card utilization to rise across all income cohorts, however, the current utilization rate remains below that seen in 2019.

Exhibit 5: Share of credit card spending by value for those with both credit and debit cards, 4 weeks to September 1st 2023 compared to equivalent period in previous years (%)

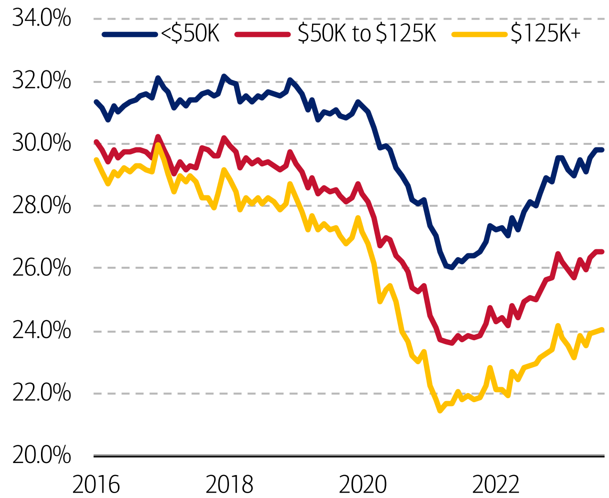
The share of total card spending using credit cards is broadly the same as in 2019 for all income cohorts



Source: Bank of America internal data

Exhibit 6: Aggregate credit card utilization rate by income (%)

Utilization rates have risen but remain below pre-pandemic levels



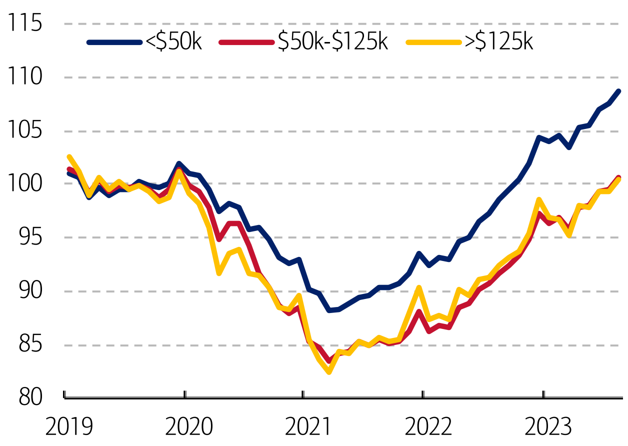
Source: Bank of America internal data

While stimulus was an important factor in limiting credit card-financed spending earlier in the pandemic, in recent times the strength of the labor market and the associated wage gains are likely a major reason why consumers have not had to resort to hitting their credit cards harder.

Exhibit 7 shows that according to Bank of America internal data, average credit card balances have risen over the last few years, after a dip in 2020. The latest reading through August 2023 suggests that for the middle- and higher-income households, credit card balances are at levels equivalent to that in 2019. However, card balances for the lower-income households have seen a steeper rise and have exceeded their pre-pandemic range. The good news is that lower income households continue to see faster wage growth, as suggested by Exhibit 8, which helps offset some of the pressure that the group is facing from higher card balances.

Exhibit 7: Average credit card balance by income groups, according to Bank of America internal data (index, 2019 annual average=100, seasonally adjusted)

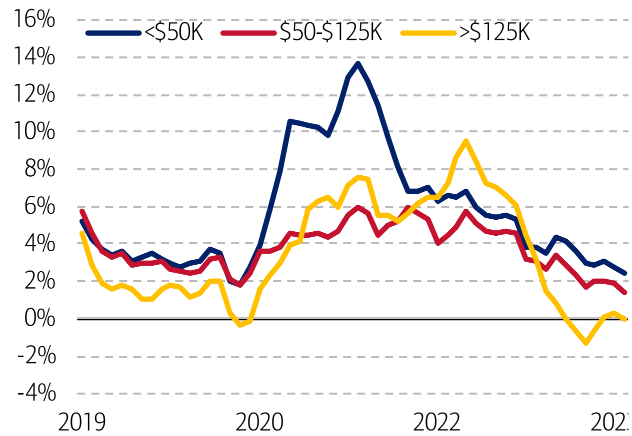
Lower income households have seen a faster rise in credit card balances over the last year



Source: Bank of America internal data

Exhibit 8: After-tax wages and salaries growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, SA)

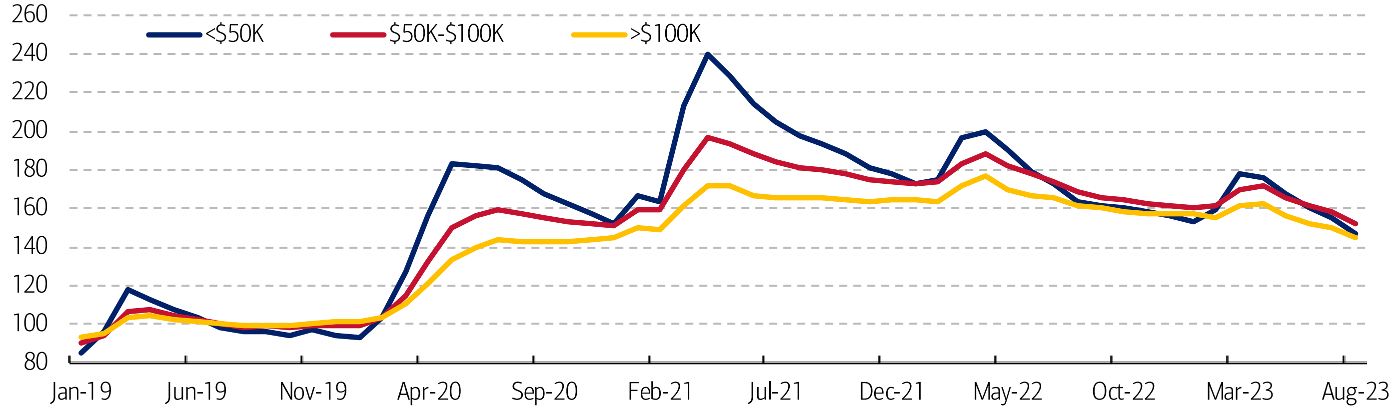
There is a continued slowing in wages and salaries growth



Source: Bank of America internal data

Another sign of consumer stress would be an increase in taking a hardship distribution (a withdrawal from a 401(k) by an employee due to an immediate and heavy financial need) or contributing less to their retirement. According to Bank of America's [Retirement Research & Insights Participant Pulse,](#) though participants taking a hardship distribution in 2Q 2023 increased to 0.52% from 1Q 2023 (0.4%), the average contribution rate remained flat at 6.5%.

Exhibit 9: Monthly median household savings and checking balances by income (2019=100) for a fixed group of households through August 2023
Deposit balances remain elevated 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 August 2023.

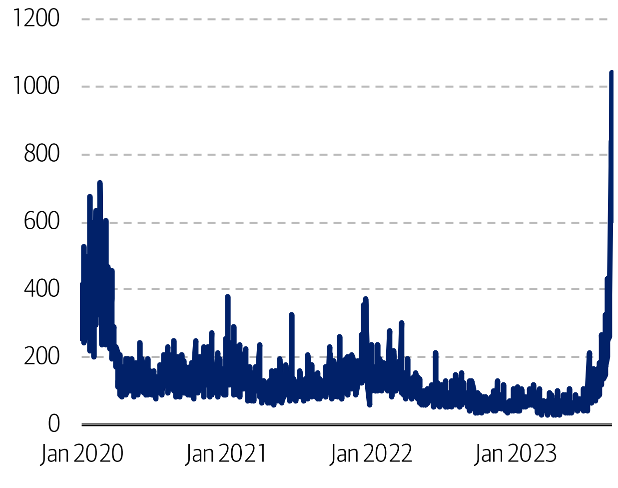
In our view, there continues to be dry powder on the asset side of consumer balance sheets, too. Looking at the latest Bank of America median household savings and checking balances data, deposit balances continue to be elevated relative to pre-pandemic levels, but are trending downwards across all income groups (Exhibit 9).

Early birds?

The resumption of student loan repayments in October is a looming headwind for consumer spending through the rest of the year. Exhibit 10 shows that Department of Education (ED) deposits to the Treasury surged in late August, ahead of the October resumption. The aggregate deposit in August 2023 was $6.4 billion, 4.5x the $1.4 billion monthly average over the first seven months of 2023.

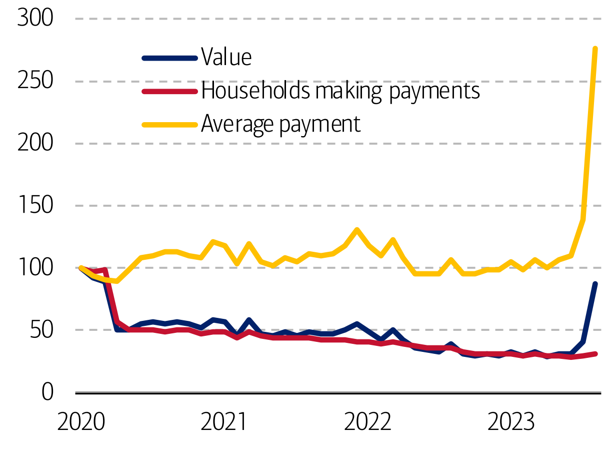
This raises an obvious question of whether this increase means people have started to repay their loans before they formally need to. Exhibit 11 shows Bank of America internal data on student loan payments and confirms a similar directional rise in the most recent data to that seen in ED deposits.

Exhibit 10: US Department of Education deposits into the Treasury General Account (Daily, $Million)
DoE payments to the Treasury have surged



Source: US Treasury

Exhibit 11: Households making student loan repayments using Bank of America internal data (index, January 2020=100)
The jump in payments to student loans appears mainly due to a small number of households making large payments



Source: Bank of America internal data

While the statutory resumption of student loan repayments will not start until October, interest on student loans began to accrue again starting September 1. As the number of households making student loan payments has not risen as much as the dollar value of repayments, the data implies that average repayment size has grown significantly.

In our view, this jump in 'early' student loan repayments likely reflects a relatively small number of borrowers clearing their remaining debt or making lump sum repayments ahead of the resumption of interest. This means that the main impact of student loan repayments resuming across the majority of households has yet to be felt.

In previous Consumer Checkpoints we have discussed how most student debt is held by upper-income quintiles, and by people with higher degrees. Further, households who benefitted from the student loan pause appear to have accumulated deposits at a somewhat faster rate than others. For these reasons, we continue to believe the resumption of repayments will be a relatively minor headwind for most consumers.

Monthly data update for August

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) was 2.6% YoY in August. Bank of America total credit and debit card spend, which makes up over 20% of total payments, was up 2.0% YoY.

The YoY growth in total card spending per household, which measures average spending for Bank of America customer households, was 0.4%.

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.

For exhibit 7, we define higher, medium, and lower wage industries by looking at the average hourly earnings (AHE) for each industry, based on the Bureau of Labor Statistics data. Industries with AHE higher than half a standard deviation than the national average are categorized as higher wage. Industries with AHE lower than half a standard deviation than the national average are categorized as lower wage. All else is categorized as medium wage.

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

Jonathan Kaplan

Senior Vice President, Digital and Marketing

Ana Maxim

Senior Vice President, Consumer and Small Business

Mel Roasa

Vice President, Digital and Marketing

Disclosures