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Consumer Morsel

When we were young

19 April 2024

Key takeaways

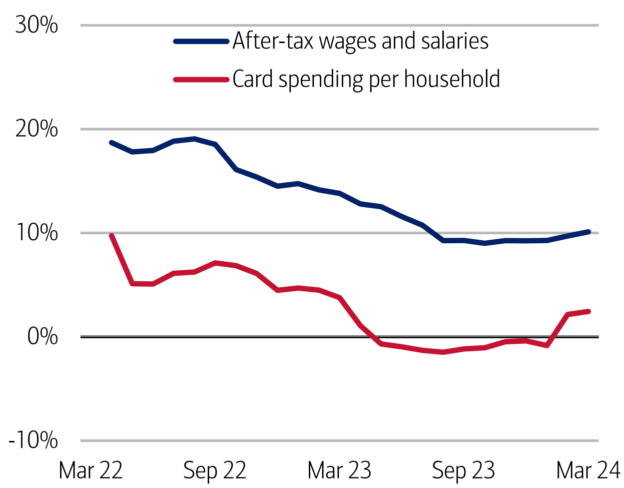
- While the spending growth on credit and debit cards of younger generations (Gen Z and Millennials) appears to be soft, according to Bank of America internal data, their wage and salaries growth has been strong. Why the disconnect?
- One reason could be that the young are spending on housing (rents and mortgages), new cars, and childcare - costs which aren't always paid on cards. Growing up is expensive.
- Also, younger generations appear more financially cautious - according to recent survey results, Gen Z and Millennials like to have savings and say they are more likely to have a rainy day fund than some older generations. One explanation for their cautiousness could be the impact of the pandemic and high inflation on their formative years.

What are the young doing with their money?

Younger generations have enjoyed a buoyant labor market over the last few years. In Bank of America internal data this is reflected in strong growth in after-tax wages and salaries growth amongst Gen Z and Millennials, particularly in the period since 2021.

But at the same time as strong wage growth, younger generations' spending growth on Bank of America credit and debit cards per household has been weak. Exhibit 1 and Exhibit 2 shows that this divergence is largest for Gen Z but also significant for Millennials.

Exhibit 1: There is a large gap between the pay growth Gen Z is seeing and the cohorts spending…
Gen Z total card spending per household and after-tax wages and salaries growth, according to Bank of America internal data (3-month moving average of monthly data, % YoY)



Source: Bank of America internal data

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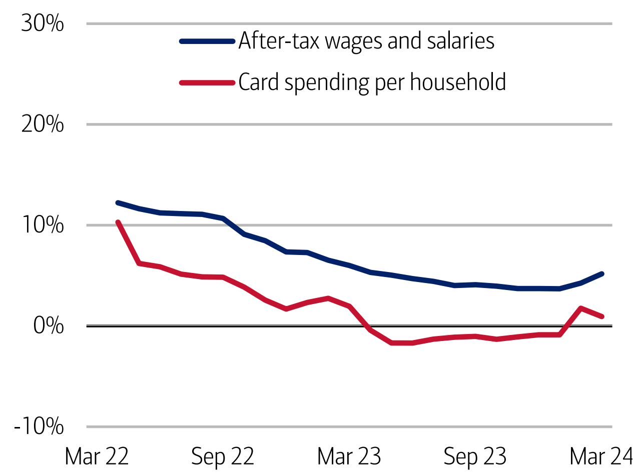
Exhibit 2: …which is also apparent to a lesser extent amongst Millennials
Millennials total card spending per household and after-tax wages and salaries growth, according to Bank of America internal data (3-month moving average of monthly data, % YoY)



Source: Bank of America internal data

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What is driving this wide divergence between the income and spending growth of younger generations?

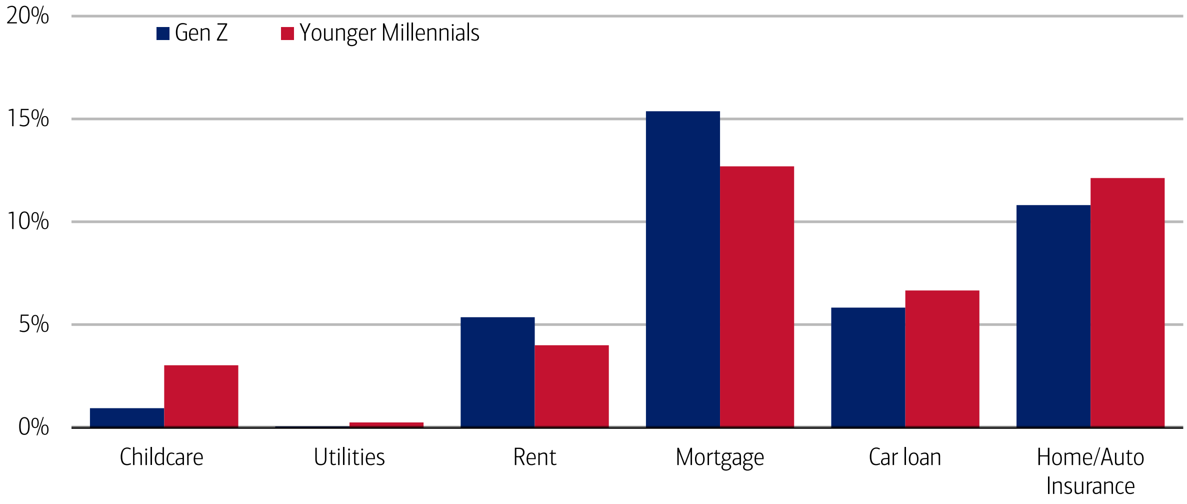
Growing up is expensive: money going on housing, cars and kids

One explanation could be that growing up brings with it costly responsibilities. Many Gen Z and younger Millennial households (18-35 years old) are increasingly taking on housing costs, paying home and/or auto insurance and potentially buying larger vehicles and spending on childcare.

Many of the transactions related to these categories of spending are not paid with credit and/or debit cards. When we use Bank of America internal data to look at spending across a wider range of payment channels including Automated Clearing House (ACH) payments, we see robust payment growth across many of these 'non-discretionary' services across the younger age cohorts (Exhibit 3).

Exhibit 3: Payment growth is strong across many of the categories of spending that become more significant with age

Payment growth per household across ACH, wires, debit and credit cards (2024 Q1, % YoY)



Source: Bank of America internal data

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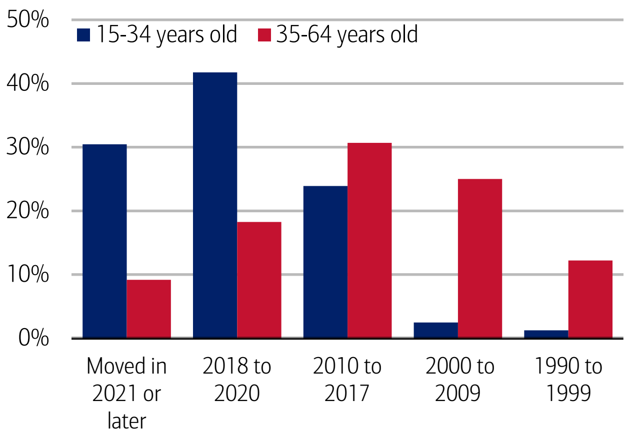
Housing related costs are particularly important because the younger cohorts are far more likely to have recently moved compared to older generations, according to US Census Bureau data. Exhibit 4 shows that 30% of owner-occupier households aged 15-34 have moved into their housing unit since 2021, compared to less than 10% for those aged 35-64.

Exhibit 4: Younger age groups are far more likely to have moved recently than older age groups

% of owner-occupier householders by year of moving into current housing unit (%)



Source: US Census Bureau

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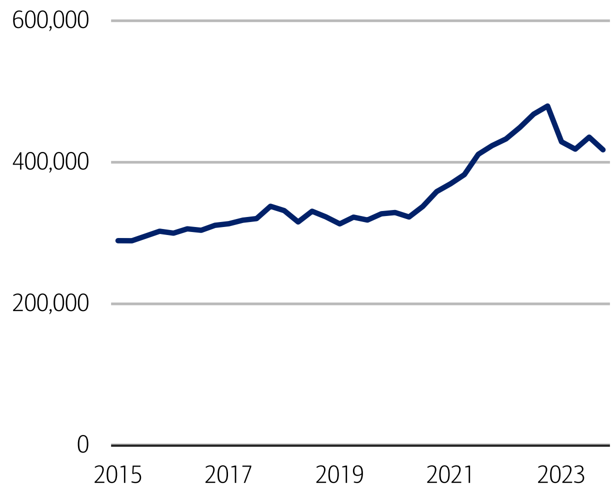
Exhibit 5: House prices have increased significantly since 2020

Median sales price of houses sold in the United States ($)



Source: US Census Bureau

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More recent moves (many likely related to moving for work or for more space for children) mean that younger generations have been more exposed to higher mortgage rates than many older generations who secured fixed mortgage rates before they started rising in 2022. Equally, younger owner-occupiers are more exposed to rising house prices – the median house price sold in 2023 Q4 was $418K compared to $329K in 2020 Q1, according to data from US Census Bureau.

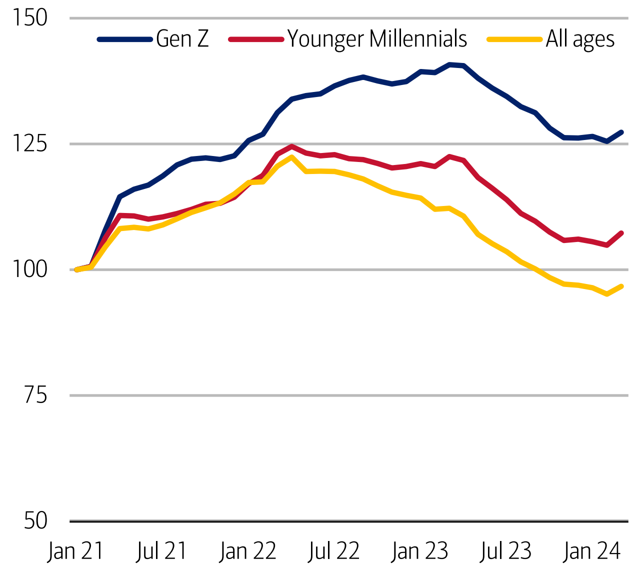
These findings are similar in the rental market: over half of those aged below 35 have moved into their rental unit since 2021 vs. just 24% for those aged 35-64. While rental inflation is now falling (see the April Consumer Checkpoint), movers have faced strongly rising rents over the past few years.

Some signs of increased financial caution among the young, too?

While it appears some of the higher wage growth that younger generations have experienced has been spent on 'growing up' (moving house, getting cars, having children etc), have they also been able to save any of their labor market gains?

Labor market strength for younger generations took off from mid-2021 during the period known as the 'great resignation,' when the pay gains from switching jobs appeared to increase significantly. Though median deposit balances remain 40% higher than pre-pandemic levels, looking at Bank of America internal data on average savings and checking balances since the period of labor market take-off shows some rise in Gen Z average savings balances and a smaller increase for younger Millennials (Exhibit 6). In contrast, across all ages, the average balance was down over this period. So, there appears to be some evidence that younger generations 'banked' some of the labor market gains during this period.

Exhibit 6: Gen Z average savings are higher than the start of 2021
Average household savings and checking balances by generation (January 2021=100)



Source: Bank of America internal data

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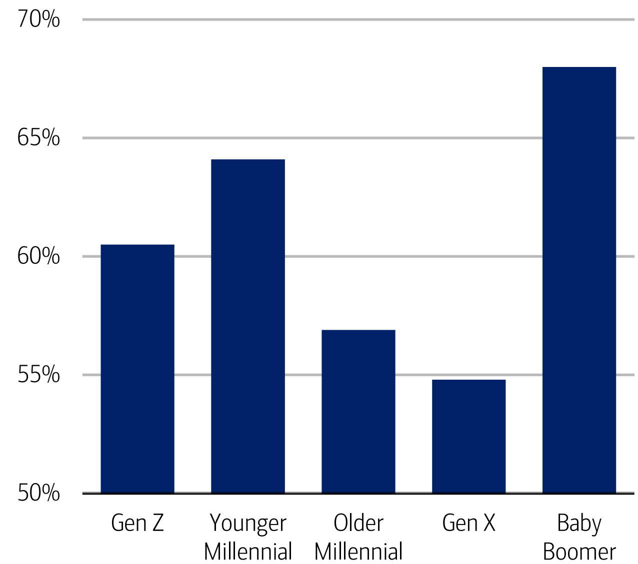
Exhibit 7: Gen Z and younger Millennials are more likely to have rainy day savings that older generations other than Baby Boomers
Survey responses to question 'Do you have a rainy day or emergency fund'? (% of total in each generation)



Source: Bank of America Propriety Market Landscape Insights Study (April 2024)

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But do younger generations also have a particular proclivity towards savings? Interestingly, the latest April 2024 Bank of America Propriety Market Landscape Insights Study ('Insights Study') suggests a relatively high likelihood that Gen Z and younger Millennials already have a 'rainy day' fund established (Exhibit 7). And the November 2023 Insights Study found that nearly half of Gen Z said their reasons for setting up a budget was to 'reduce stress,' a significantly higher proportion than for the overall population.

It could be that Gen Z's formative experiences over the pandemic and potentially also the subsequent inflationary period have made this generation somewhat financially cautious. As one example, the 2023 Better Money Habits study found that nearly three out of four (73%) members of Gen Z said they had changed their spending habits due to increased prices. And while the majority of Gen Z (52%) felt confident that they're on track to meet their financial goals, fewer than half (48%) are fully or even mostly financially independent, potentially getting help from parents to support them.

Will savings be a boost to consumer spending?

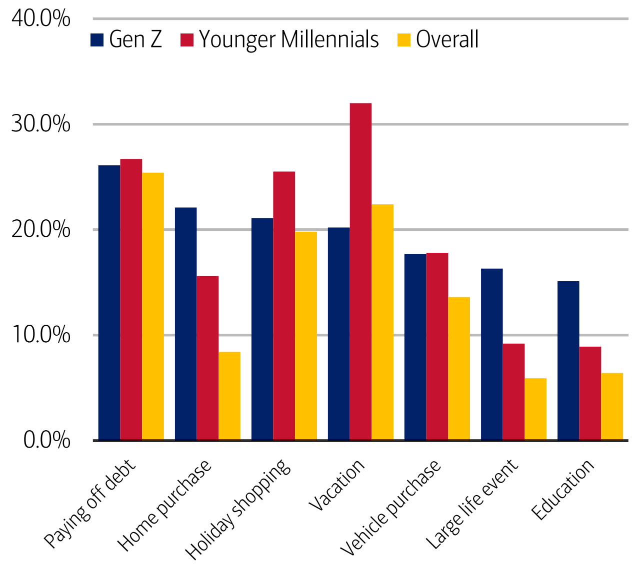
Caution notwithstanding, might the younger generations use some of their savings to boost their spending, especially if the labor market softens? Perhaps, though we see some caveats. The November 2023 Insights Study asked respondents what specific things they were saving for and a relatively large proportion of Gen Z and younger Millennials said they were saving to pay down debt and buy a home, as particular priorities (Exhibit 8). Given these longer-term goals, people may be reluctant to dip into savings to supplement their more day-to-day spending, though younger Millennials do particularly seem to be saving for vacations too, according to the Insights survey.

Could these spending and saving decisions have a big impact on the overall economy? Probably not so much in the short term, as the younger generations still account for a relatively small share of total US consumer spending (Exhibit 9).

However, in years to come BofA Global Research has noted the huge transfer of wealth that is expected to occur as a result of Baby Boomers passing down wealth to the younger generations, meaning that Gen Z and Millennials are likely to be increasingly making the key spending and saving decisions.

Exhibit 8: Many younger generations say they are saving to pay off debt and buy a house

Survey response to question, 'Which of the following things, if any, are you currently saving for?' (% of responses)



Source: Bank of America Propriety Market Landscape Insights Study (November 2023)

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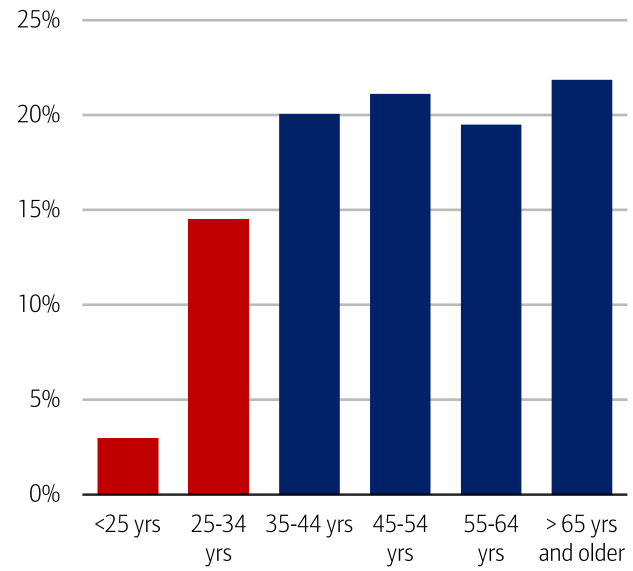
Exhibit 9: Under 35's currently make up a relatively small proportion of overall US consumer spending

Share of total consumer spending by age (%)



Source: US Bureau of Labor Statistics (BLS)

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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

2023 Better Money Habits study methodology

This survey was conducted Aug. 15 – 28, 2023 by Ipsos in both English and Spanish and is based on nationally representative probability samples of 1,156 general population adults (age 18 or older) and a partially overlapping sample of 1,167 Gen Z adults (age 18-26), including 122 Gen Z adults from a non-probability sample. This survey was conducted primarily using the Ipsos KnowledgePanel®, the largest and most well-established online probability-based panel that is representative of the adult US population. The margin of sampling error for the general population sample is +/- 3.6 percentage points at the 95 percent confidence level.

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Sources

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Disclosures

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