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Consumer Morsel

Is the silver streak still on track?

31 October 2024

Key takeaways

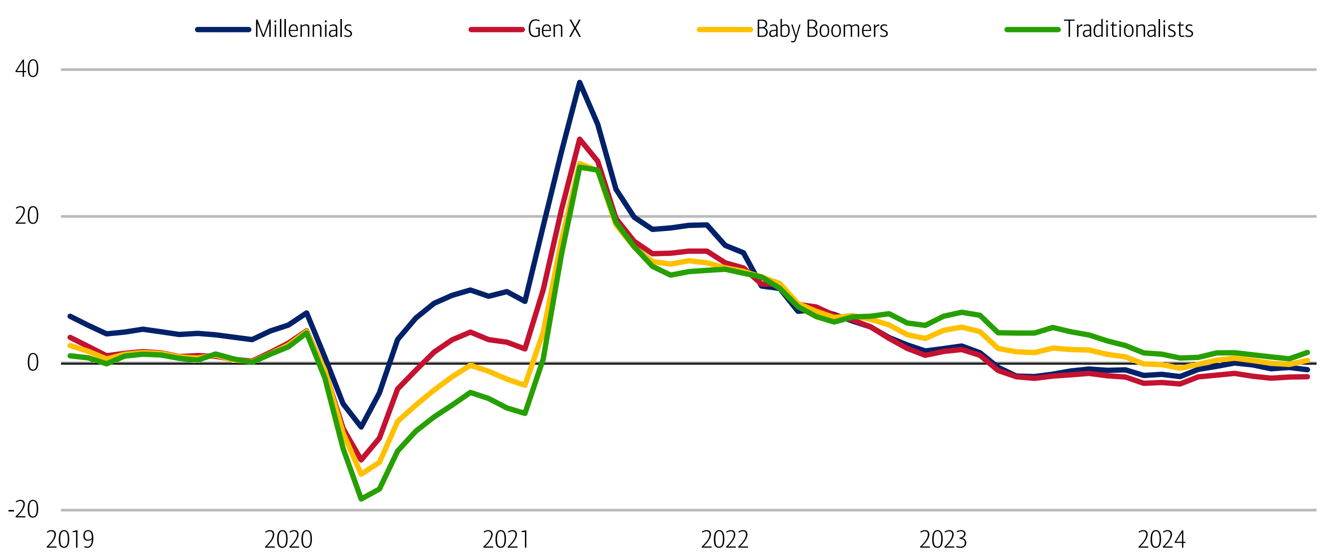
- While the spending growth of Baby Boomers and Traditionalists was significantly stronger than younger generations in 2022 and 2023, this year's gap appears to have narrowed, according to Bank of America credit and debit card data.
- Why? One reason could be that the cost-of-living Adjustment (COLA), which affects social security income, was previously stronger than wage growth, however, this is no longer the case. The COLA increase effective in January 2025 will likely not change this situation. While some retirees receive income from other sources such as pensions, Bank of America internal data does not indicate that these households have significantly stronger spending growth than those relying solely on social security.
- Rising net financial wealth could support the spending growth of some older generations, but we think this is likely to be fairly concentrated. And thus far, we don't see strong evidence for the spending growth of higher income retirees being faster than that of lower income retirees.

Has the strength in silver spending run its course?

From around the mid-2022, Bank of America credit and debit card spending growth per household was stronger among older generations – in particular Baby Boomers (currently 60-78 years old) and Traditionalists (currently over 78). However, Exhibit 1 shows that this trend appears to have increasingly run its course thus far this year.

Exhibit 1: Baby Boomers and Traditionalists recorded faster total card spending growth than younger generations in 2022-2023, but this difference has narrowed in 2024

Total Bank of America credit and debit card spending growth per household, by generation (three-month moving average, YoY)



Source: Bank of America internal data

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Why? One reason is that a portion of the strong growth in spending by older generations was likely a 'catch-up' effect. Older generations had a weaker bounce-back in spending following the pandemic, in part because they were likely more sensitive to the health risks around resuming social activities. As a result, some of their recent strength in spending was likely them making up for lost time.

COLA has gone flat

Another factor to consider when looking at the spending patterns of older generations is the impact of inflation on retirees' social security incomes. The cost-of-living adjustment (COLA), which is announced each October by the Social Security Administration (SSA), becomes effective for retirement social security the following January each year.

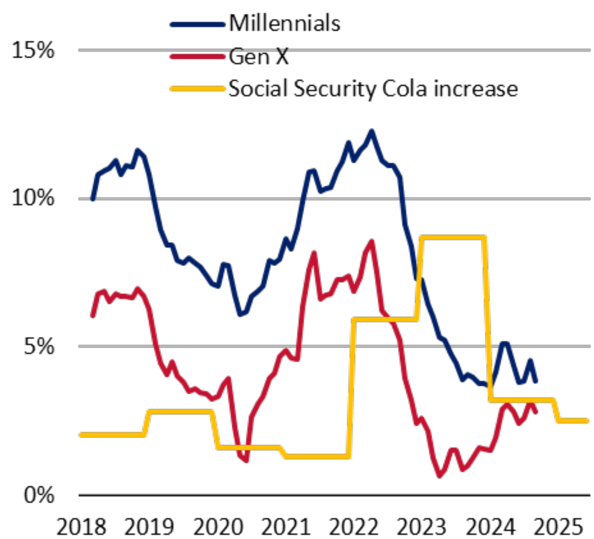
Importantly, the 2023 COLA increase, announced in October 2022, was 8.7%, the highest increase in four decades. As Exhibit 2 shows, relative to Bank of America internal data on post-tax wages and salaries, this was significantly greater than the wage growth that both Millennials and Gen X were experiencing at the time (the same is true for Gen Z). So, for a while, retiree incomes from social security were rising faster than the incomes of people in employment, which helped older generations grow their spending faster than younger ones.

But this situation is changing. The COLA increase that took effect at the start of 2024 was 3.2%, roughly in line with Gen X after-tax wage and salaries growth in our data, but weaker than that of Millennials. And in October of this year, the SSA announced that the COLA increase at the start of 2025 would be 2.5%, below the current after-tax wage growth of Gen X and Millennials.

So the narrowing of the gap in spending growth between older and younger generations likely also reflects the fact that social security incomes are not rising as quickly relative to wages.

Exhibit 2: Millennials' after-tax wage growth is higher than the COLA increase in 2024

After-tax wages and salaries growth and the cost-of-living adjustment to social security (% YoY)



Source: Bank of America internal data

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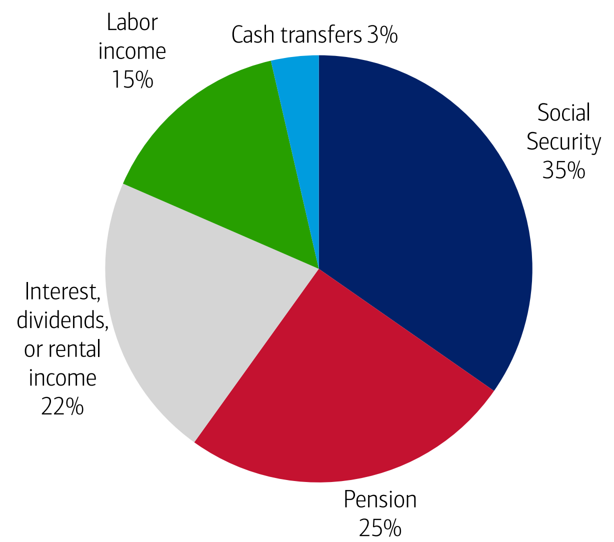
Exhibit 3: Retirees have a relatively diverse range of income, with 25% receiving pensions

Sources of income among retirees (%)



Source: Board of Governors of the Federal Reserve System (Economic Well-Being of US Households in 2023). Respondent can select multiple answers.

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Social security is only part of the picture

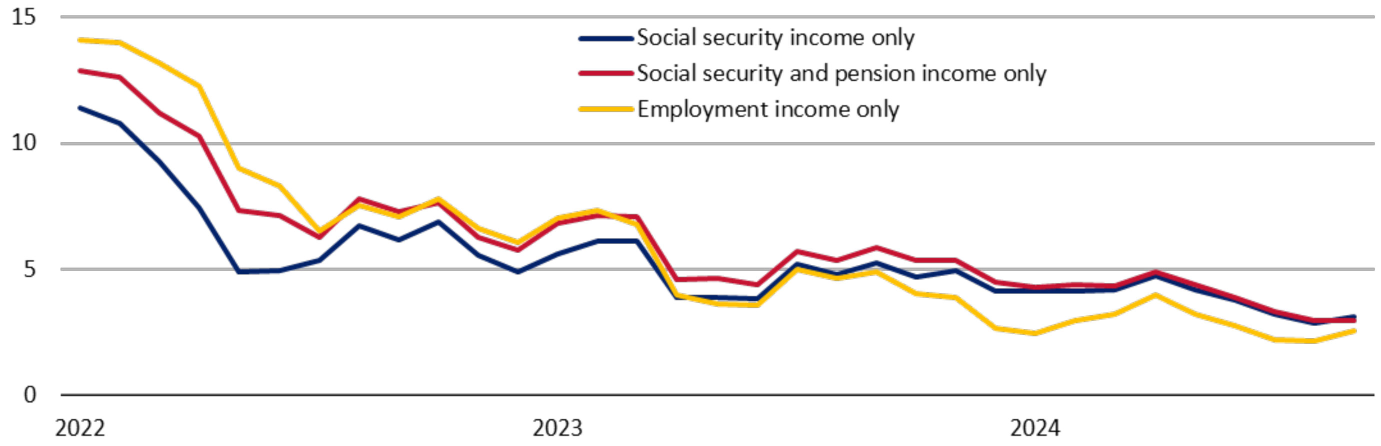
But social security is, of course, not the only source of income for older generations. Some are still working and garnering income from employment. And of those who have retired, around 25% have some form of pension (Exhibit 3), providing additional regular income, according to data from the Federal Reserve. Some retirees also receive income from interest, dividends and rents.

We can use Bank of America internal data to investigate how the spending growth of some of these different groups has varied. In particular, we look at households where the primary account holder is older than 62 years (the age that people can start drawing social security) and then categorize them by their various sources of income.

Exhibit 4 shows that the spending growth of households that appear to be still working – as they have only employment income according to our data – has been relatively weak since the middle of 2023. This is consistent with Bank of America internal data on post-tax wages, which shows that older generations have had significantly softer wage growth than younger generations. For example, in September we find the after-tax wage growth of Baby Boomers to be 1.3% year-over-year (YoY), compared to 3.8% YoY for Millennials.

It also appears that households that have both social security and pension income have had only slightly faster spending growth than those solely reliant on social security since 2023. And both cohorts appear to have experienced a similar slowdown in spending growth over 2024.

Exhibit 4: Households aged over 62 years old with pensions and social security income have also seen slowing spending growth in 2024
Bank of America credit and debit card spending growth for households aged 62+, by source of income (three-month moving average, YoY)



Source: Bank of America internal data

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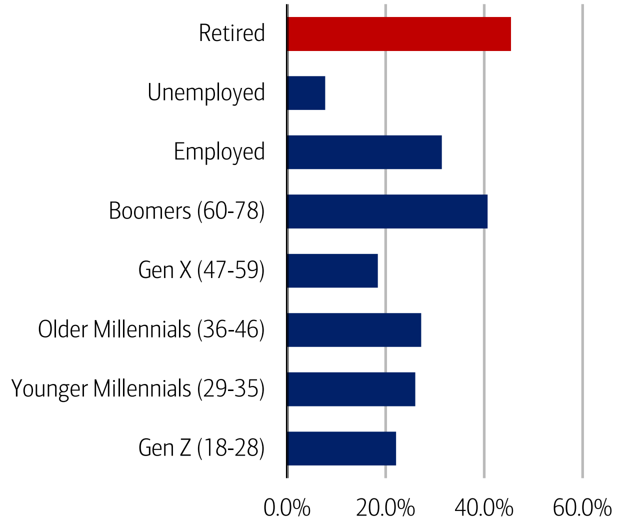
Retirees feel OK now, but are not optimistic things will get better

Overall, most components of older generations' income growth support the proposition that the narrowing of older generation spending growth versus that of younger generations is here to stay. Yet interestingly, the Bank of America Proprietary Market Landscape Insights Study for October 2024 suggests that retirees are feeling less confident about their finances going forward. Exhibit 5 and Exhibit 6 show responses to questions on the 'state of finances.' While most groups indicated that they expect their finances to be in better shape over the next six months, retirees lagged all other cohorts despite being relatively happy with how their finances are today.

Exhibit 5: A large proportion of retirees rate their current finances as 'excellent' or 'good'
Response to a question on the state of respondent's current finances (% responding 'excellent' or 'good')



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

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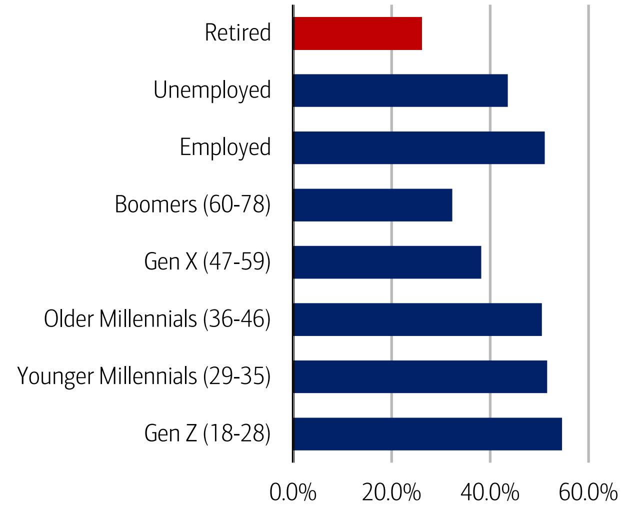
Exhibit 6: But retirees are relatively less likely to expect their finances to get better over the next six months
Response to a question on the state of respondent's expectation on their finances over the next six months (% responding 'much better' or 'somewhat better')



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

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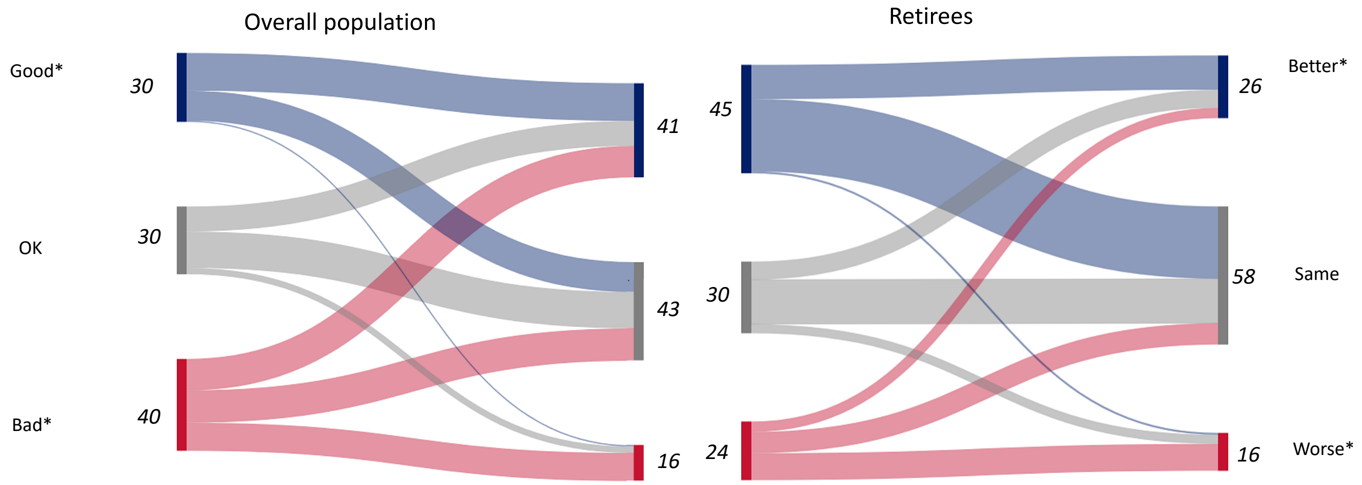
When we dig further into the survey responses we find that compared to the general population, a relatively larger proportion of the retired who feel their finances are 'good or excellent' today expect them to remain the same over the next six months, rather than improve further (Exhibit 7).

Exhibit 7: A large proportion of retirees (around two-thirds) who currently assess their finances as 'good' expect them to remain unchanged over the next six months, compared to under 50% for the general population

Sankey diagram showing combinations of responses to questions on personal finances today versus over the next six months (thickness of the bands represents the proportion of respondents answering that combination of responses, %)



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

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Wealth could benefit some, but not many

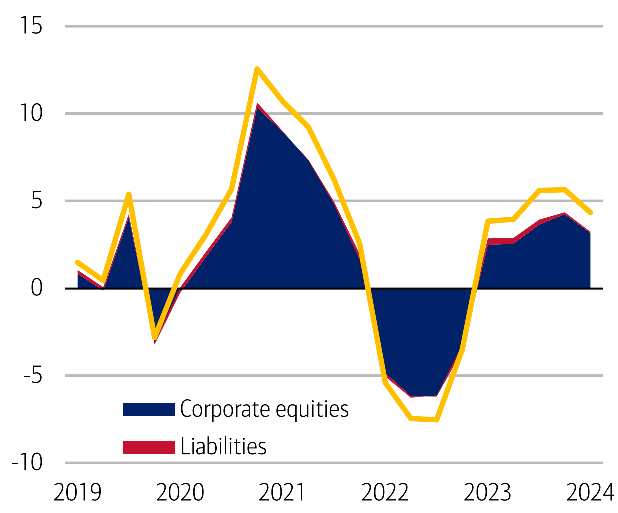
Baby Boomers and Traditionalists hold around 70% of all net financial assets, the value of which has been rising over the last year, largely reflecting the rise in equity markets. In the year to Q2 2024, Federal Reserve data suggests the net financial assets of these two older generations together rose around $4.3 trillion YoY (Exhibit 8).

Could these rising assets help support older generations' spending? It is certainly possible, but we think that many retirees may not benefit much, as these holdings are likely highly skewed toward those who had higher incomes during their working lives.

When we look at Bank of America data and split the spending growth of those people with pension and social security income by income terciles, there does not appear to be strong evidence that the higher income tercile is showing faster spending growth (Exhibit 9). Given those households with higher net financial assets would also likely be in this higher income tercile, any boost from rising wealth may be limited so far.

Exhibit 8: Baby Boomer and Traditionalist net financial wealth rose around $4.3 trillion in 2024 Q2 YoY

Change in net financial wealth and components ($ trillion YoY)



Source: Board of Governors of the Federal Reserve (Distributional Financial Accounts)

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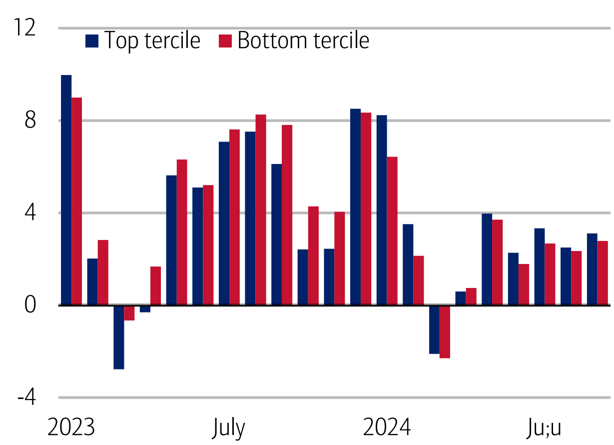
Exhibit 9: Higher income tercile spending growth for those with pension and social security income is not rising significantly faster than lower income tercile spending

Bank of America credit and debit card spending for individuals aged 62+ with identified social security and pension income, by tercile (three-month moving average, YoY)



Source: Bank of America internal data

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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 1989-1995
3. Older Millennials: born 1978-1988
4. Gen Xers: born 1965-1977
5. Baby Boomer: born 1946-1964
6. Traditionalists: born 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.

Bank of America Proprietary Market Landscape Insights Study is an online quantitative survey among Bank of America customers and noncustomers sampled and balanced to provide a representative view of the U.S. adult population. Insights are based on aggregated and anonymized responses to surveys. Significance testing is done at the 90 percent confidence interval.

Additional information about the methodology used to aggregate the data is available upon request.

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Sources

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Disclosures