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Consumer Morsel

Travel recovery: Bumps along the way

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Key takeaways

- Strong travel spending was a key driver of the rebound in consumer services spending last year. However, it seems to be softening from very elevated levels in recent months. Has the strong, pent-up demand for travel run its course?
- The short answer is, it depends. Spending for categories that recovered more quickly during the pandemic, such as lodging, seems to have already peaked, while spending for the late-recovery sectors such as cruises continues to run hot. Airline spending appears to be falling somewhere in between.
- Similarly, we find demand for international destinations and travel spend among older generations remains strong as both started their recovery later in the pandemic. In our view, residual pent-up demand from these categories could provide some offset to weakness elsewhere and support overall travel spending in the coming months.

Has the pent-up demand for travel run its course?

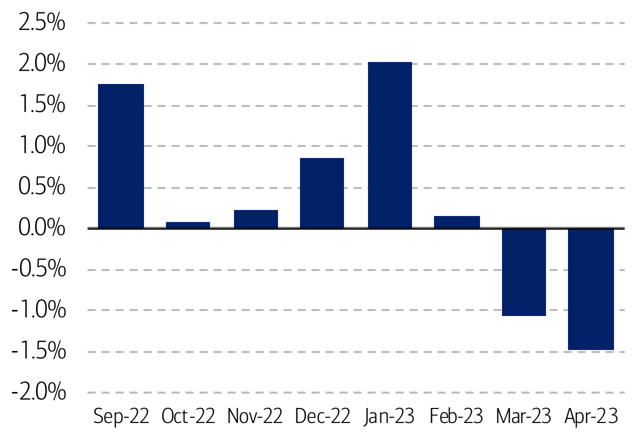
Strong travel spending was a key driver of the rebound in consumer services spending last year. In 2022, Bank of America aggregated credit and debit card spending per household on travel, which includes purchases at airlines, lodging, cruises, and rental cars, was up a strong 27% year-over-year (YoY) and 9% higher than 2019.

However, in recent months, travel spending seems to have moderated from those elevated levels, contracting month-over-month (MoM) in both March and April on a seasonally adjusted (SA) basis (Exhibit 1). As a result, the YOY growth slowed to just +1% in April.

Has the strong, pent-up demand for travel run its course? That depends. This is because beneath the aggregate number, there are variations across categories. For example, spending for categories that recovered more quickly during the pandemic, such as lodging, seems to have already peaked, while spending for the late-recovery sectors such as cruises, continues to run hot. Similarly, we find that travel spending by older generations and international travel both remain strong as both categories started their recovery later in the pandemic. We review these developments below.

Exhibit 1: Bank of America credit and debit card spending per household on travel (% MoM, SA)

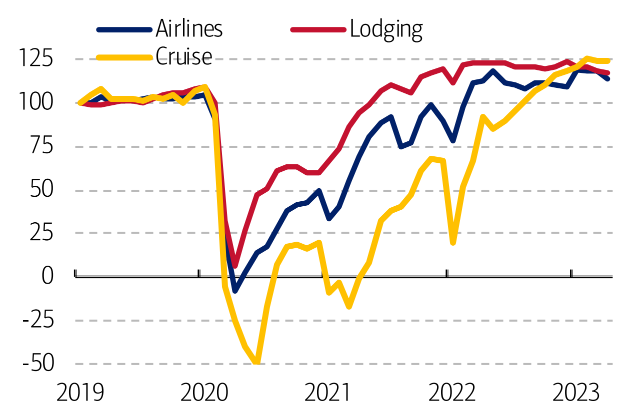
Travel spending has moderated in recent months to - 1.5% MoM in April



Source: Bank of America internal data. Travel spending include airlines, lodging, cruises, and rental cars

Exhibit 2: Credit and debit card spending per household on travel related categories (index, seasonally adjusted, January 2019=100 for each series)

Cruise spending has outpaced airlines and lodging in recent months



Source: Bank of America internal data

Lodging: First to rebound, first to peak

As Exhibit 2 shows, lodging spending started to rebound meaningfully in June 2020, the fastest across travel sectors as consumers chose to stay at hotels or vacation rentals closer to home, while long distance travel by train or plane was limited. In addition, some workers who were working remotely utilized these accommodations, allowing them to stay longer.

By the start of 2022, however, nominal spending for lodging started to move sideways. Inflation was picking up rapidly at that time, which suggests that inflation-adjusted spending on lodging was already moderating. Since the end of 2022, trends in lodging spend have weakened, even in nominal terms. Specifically, lodging spend per household has slid by 5% from the peak as of April 2023 and was the only travel-related category that contracted YoY in April 2023 (Exhibit 3).

The slowdown in spending on lodging could be due to several factors. First, persistent inflation in hotel prices might be dampening the demand. After a 13% YoY surge in 2022, hotel prices continued to rise at an average pace of 7% for the first four months of 2023, surpassing the rest of services inflation. Second, return-to-office policies might mean some workers are no longer taking extended trips and "working from home" in their hotel rooms.

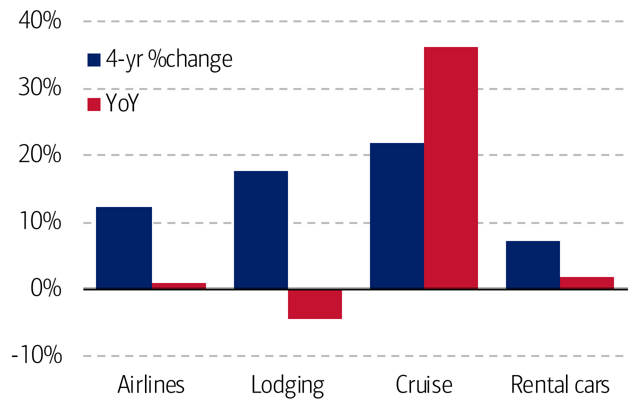
Cruise Lines: Late bloomers, but still going strong

Contrary to lodging, cruise purchases did not rebound meaningfully until the second half of 2021 (Exhibit 2), most likely because operations were not allowed until November of 2020. Even once allowed, however, the close social contact on a cruise ship made many people hesitant to return onboard.

But the good news is that the later recovery also means pent-up demand is still going strong. In April, both the % YoY rate and the 4-year growth rate of card spending per household for cruises were up 22% and 36%, respectively, the highest among major travel categories. Because of such strong growth rates, 6.1% of travel expenditure has been allocated to cruises this year so far, exceeding the pre-pandemic share of 5.8% in 2019 (Exhibit 4).

Exhibit 3: Credit and debit card spending per household on travel related categories (%YoY and 4-yr %change for April 2023)

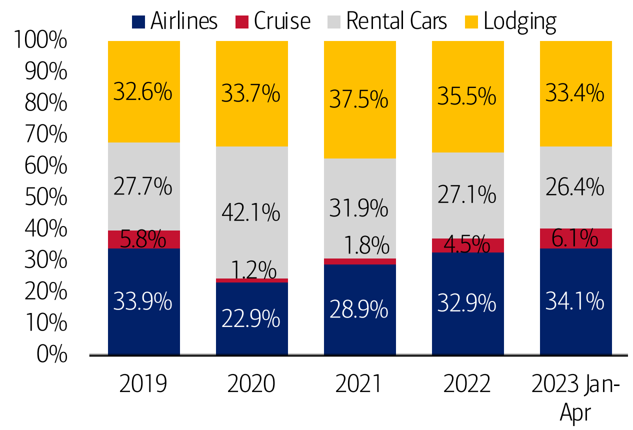
Lodging was the only travel category to contract YoY in April



Source: Bank of America internal data

Exhibit 4: Share of travel expenditure by major categories (%, SA)

So far this year, 6.1% of travel expenditure has been allocated to cruises



Source: Bank of America internal data

Airlines: Somewhere in between

The story for airline spending seems to be somewhere in between. Card spending per household on airlines recovered at a slower pace than lodging, but faster than cruises during the pandemic.

More recently, however, the initial surge of pent-up demand appears to have stabilized and airline spending has increased only modestly (+2%) over the last six months (i.e. spending level change between April 2023 and October 2022). Again, this falls somewhere between the decline in spending for lodging (-2%) and the strong increase for cruises (+13%) over the same time period.

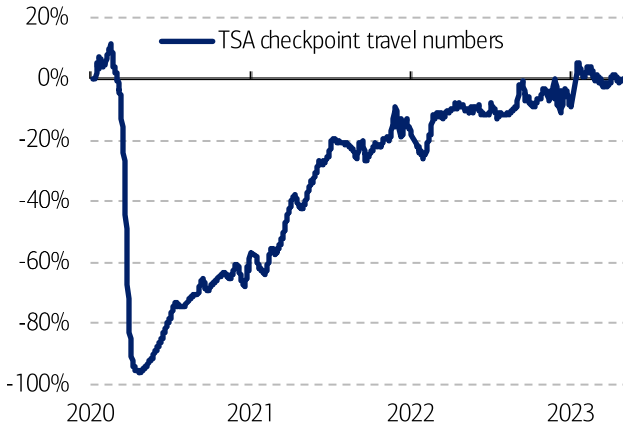
Data from the Transportation Security Administration (TSA) shows a similar story. Besides a spike at the beginning of the year, the number of travelers relative to the comparable period in 2019 showed just a small uptick over the last 6-months (Exhibit 5).

International strength vs. domestic moderation

Shifting our focus to the geographical breakdown of travel, we find similar trends. International travel demand, which only started to meaningfully recover in 2022 as countries relaxed border restrictions, remains resilient.

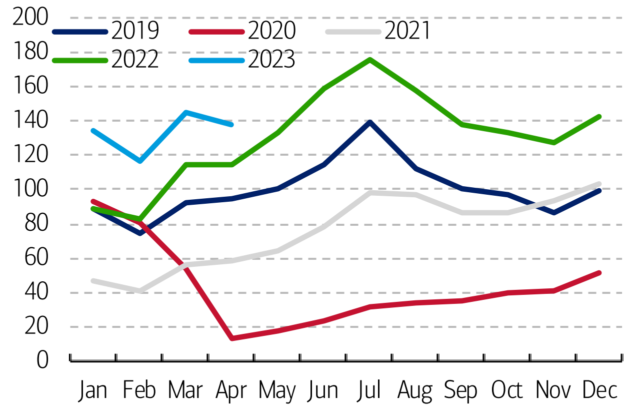
According to Bank of America internal data, total point-of-sale (i.e. in-person) credit and debit card spending by US consumers in foreign countries, which is one way to understand international travel, grew by 21% YoY in April and was 46% higher than the same time in 2019 (Exhibit 6).

Exhibit 5: TSA checkpoint travel numbers (% change from the comparable time in 2019, 14-day moving average)
TSA checkpoint numbers are returning to pre-pandemic growth



Source: TSA

Exhibit 6: Levels of international in-person debit and credit card spending (index, 2019 annual average=100)
Levels of brick-and-mortar spending outside of US remain elevated in 2023

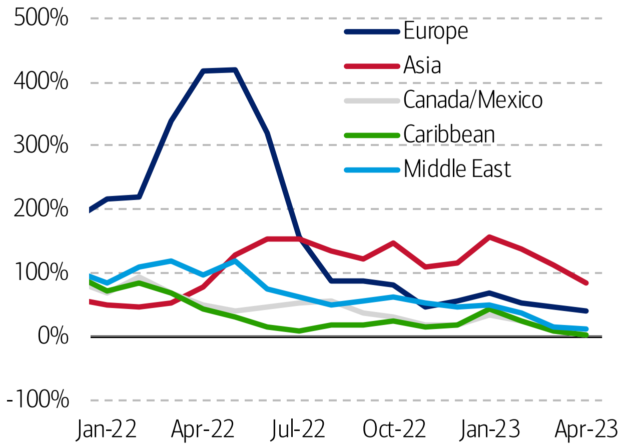


Source: Bank of America internal data

In our view, strong international travel demand has been sustained by the ongoing relaxation of border controls by various regions. As we wrote in a prior [Consumer Morsel](), the reopening of European countries and a strong dollar boosted US consumer spending in the region last summer. Since then, countries in Asia have gradually reopened and, as a result, US consumer card spending in Asia overtook that in Europe as the fastest growing on YoY basis (Exhibit 7).

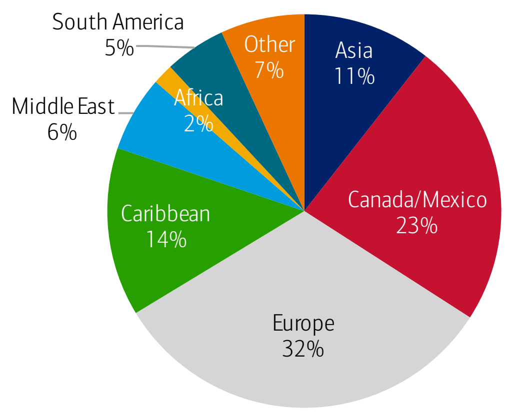
In April 2023, Asia saw a whopping 86% YoY increase in US consumer card spend, compared with a still strong 41% in Europe. That said, on the absolute volume basis, Europe remains the most popular destination for overseas travel as suggested by our Bank of America credit and debit card international spending breakdown (Exhibit 8).

Exhibit 7: International in-person debit and credit card spending by region (%YoY, monthly)
Recent reopening in Asia is driving spending growth



Source: Bank of America internal data

Exhibit 8: April 2023 distribution of international in-person credit and debit card spending (%)
Europe remains the most popular international destination



Source: Bank of America internal data

In fact, the strong demand for international travel might be sustained in the medium term, as suggested by the latest Conference Board survey data. The percentage of respondents that intend to take a foreign vacation within six months of April was nearly six percentage points higher than the same period in the pre-pandemic year of 2019 (Exhibit 9).

By contrast, domestic travel intentions seem to be slowing. The percentage of respondents who intend to take a domestic vacation within six months was one 1 percentage point lower than a year ago and 3 percentage points lower than that in 2019.

Older generations playing catch-up

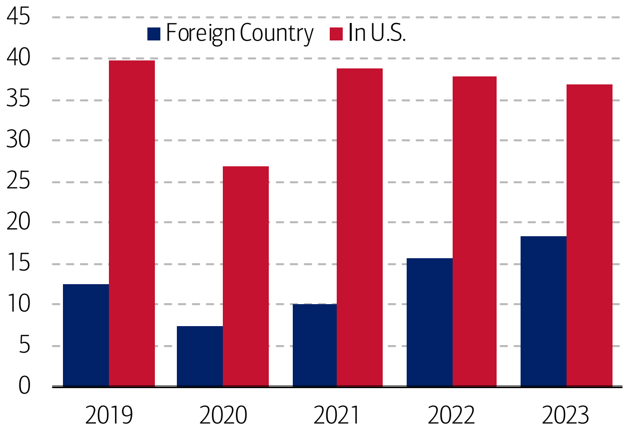
Finally, we find that younger generations are already seeing a contraction in travel spending relative to a year ago. Specifically, for Millennials and Gen Z combined, card spending per household on airlines and lodging was down 5% YoY in April. Gen X also pulled back, but by a small degree of -3% YoY. On the flip side, older generations (Baby Boomers and Traditionalists) both saw an improvement in airline and lodging spending relative to a year ago.

The logic is the same here: younger generations started travelling earlier in the pandemic given that they generally have a lower health risk and as result have lower pent-up demand for travel now. That said, even with the pull back in travel spending, they are still spending nearly 20% more than the comparable time in 2019.

On the flip side, older generations did not resume travel until much later, therefore, much of the pent-up demand for travel Is still getting unleashed. But the process is gradual: for Traditionalists, airline and lodging spending in April remained over 5% lower than the same time in 2019.

Exhibit 9: Vacation Intended within 6 Months: Foreign Country and within the US (% respondents, Conference Board Confidence April survey period of each year, SA)

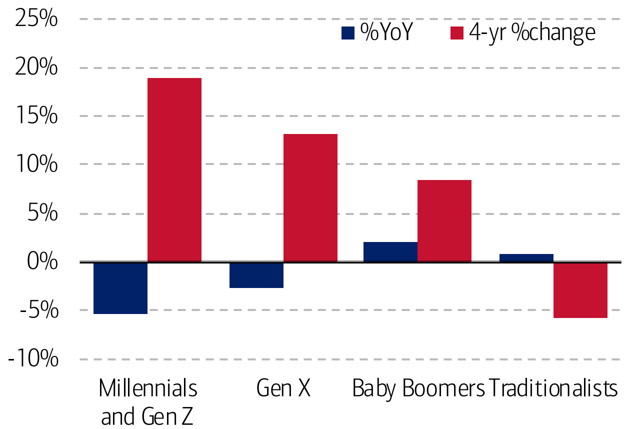
Vacation intentions to foreign countries have grown



Source: Haver analytics

Exhibit 10: Credit and debit card spending per household on airlines and lodging by generation (%YoY and 4-year %change, 28-day period through Apr 29)

Younger generations are already seeing a contraction in travel spending



Source: Bank of America internal data

Residual pent-up demand to hold up overall travel spending

Looking ahead, we think residual pent-up demand for these late-bloomer categories of travel could help offset moderation in travel spending elsewhere. And against the macro backdrop of overall consumer spending moderation, travel will likely remain as one of the top sectors that continues to see spending growth, just at a slower pace than what we saw in 2022.

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 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 1996
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.

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Disclosures

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