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Consumer Morsel

Unpacking summer travel

25 September 2023

Key takeaways

- The key theme for travel this summer is "normalization." While consumer demand for flights and hotels remains robust, spending has moderated from very elevated levels.
- We see diverging trends in pricing dynamics between airlines and hotels. The former is showing signs of easing, which largely explains the 3% year-over-year (YoY) drop in average transaction size, according to Bank of America internal data. Meanwhile, hotel prices continue to strengthen, but shorter trips for consumers as they return to office also means smaller transactions.
- International travel remains resilient, with Asia and Oceania, which includes countries like Australia and New Zealand, recording the strongest YoY spending growth at 48% and 60% respectively, over the three-month period through August.

What's different this summer vs. last?

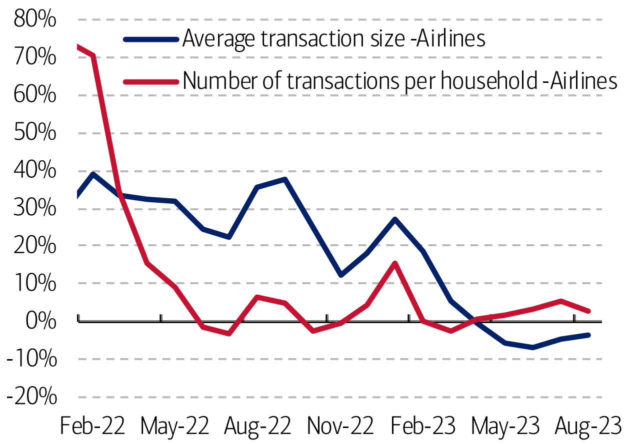
If summer 2022 was the period of "exuberance" for consumer travel spending, summer 2023 would be better characterized as the period of "normalization." For US consumers, as wage growth moderates and excess savings gradually decrease (see Consumer Checkpoint), they have turned more cautious about their spending decisions relative to a year ago and are now more in line with pre-COVID norms. We take a closer look at this through Bank of America internal data.

Let's start with airline spending. According to Bank of America internal data, the number of credit and debit card transactions per household at airlines was up 3.8% year-over-year (YoY) on average for the summer months of June-August, which points to continued demand for travel. Meanwhile, the average transaction size in August was down 3% YoY (Exhibit 1).

What is driving the lower transaction size? In our view, this largely reflects softer pricing, not that the consumer is "trading-down." According to the Airlines Reporting Corporation (ARC), prices for both international and domestic flights were down roughly 3% YoY in 3Q 2023, in line with the pull back in average transaction size.

Exhibit 1: Average transaction size and number of transactions per household at airlines, according to Bank of America internal data (%YoY)

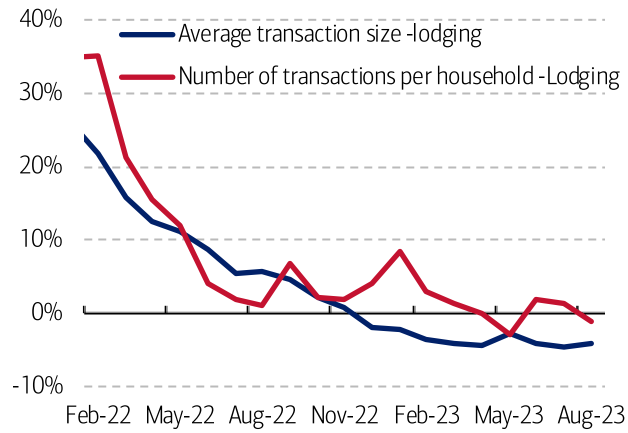
Airlines' average transaction size was down 3% YoY in August



Source: Bank of America internal data

Exhibit 2: Average transaction size and number of transactions per household for lodging, according to Bank of America internal data (%YoY)

Lodging average transaction size was down 4% YoY in August



Source: Bank of America internal data

Note that the Consumer Price Index (CPI) is showing a much sharper pull back in airfares of -13% YoY, though it is largely based on prices for discount fare service (i.e., basic economy) for select routes. As a result, the CPI data might not be reflective of the overall pricing dynamics in the airline industry.

Putting these pieces together, consumers are still booking trips, though a softening in airline pricing means that they don't need to pay as much as they did a year ago for the same experience.

The case of "leisure normalization" for hotel spending

Unlike airfares, prices for hotels and motels continued to increase relative to a year ago, up 3% YoY in August according to CPI from the Census Bureau. Meanwhile, Bank of America internal data suggests the number of lodging transactions per household was down 1% YoY and the average transaction size was down around 4% YoY in August (Exhibit 2).

In our view, these numbers once again reflect a normalization story instead of consumer weakness. There are a few factors at play. First of all, consumers' trips might be shorter as many workers return to the office. According to BofA Global Research, a year ago many consumers were booking extended weekend stays at hotels starting on Fridays or extending to Mondays, but are less likely to do so this year. This could be driving the average transaction size lower given fewer nights of stay, which we do not view as reflective of consumer health.

Second, even though transaction counts are lower than a year ago, they are coming from very elevated levels, so a negative YoY reading does not necessarily reflect weakness. Finally, Bank of America internal data for lodging spending also includes spending at alternative lodging platforms (besides hotels), which have seen some price moderations. This could also be driving average transaction values lower.

International travel bug still strong

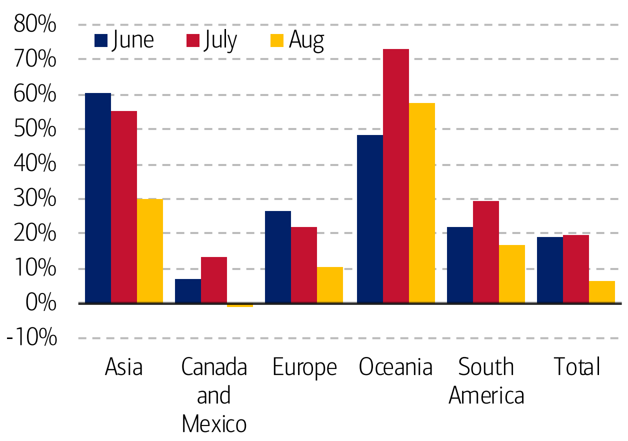
As we mentioned in a prior Consumer Morsel, areas of travel that rebounded later in the pandemic, such as international travel, are seeing sustained growth. Internal Bank of America data shows this still to be the case, with international travel remaining positive in most regions on a YoY basis as measured by in-person, point-of-sale (POS), foreign credit and debit card spending.

However, unlike 2022 when consumers primarily flocked to European countries, this year they were shifting towards Asia and Oceania (think Australia and New Zealand), partly due to the later reopening of these regions. Looking at the summer months combined, average (June-August) spending in Asia and Oceania was up 48% and 60% YoY, respectively (Exhibit 3). But, compared to 2019, South America had the strongest spending growth over the past four years, coming from relatively low levels (Exhibit 4).

Although the YoY growth for spending in Europe has moderated to 20% this summer, Europe remains the most popular destination for international trips: spending in Europe made up 42% of all international spending in the June-August period this year, followed by 23% for Canada and Mexico, according to Bank of America internal data.

Exhibit 3: International point-of-sale (POS) spending by select region over summer months (YoY%)

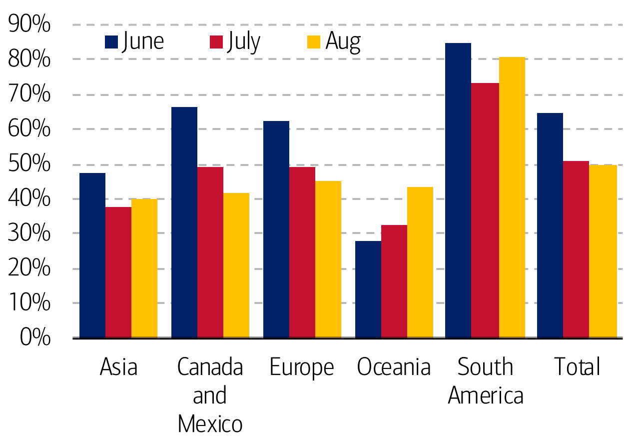
Oceania and Asia had the strongest growth during the summer months



Source: Bank of America internal data. POS is in-person, foreign credit and debit card spending.

Exhibit 4: International POS spending by select region over summer months (4-year %change)

South America had the strongest 4-year growth



Source: Bank of America internal data. POS is in-person, foreign credit and debit card spending.

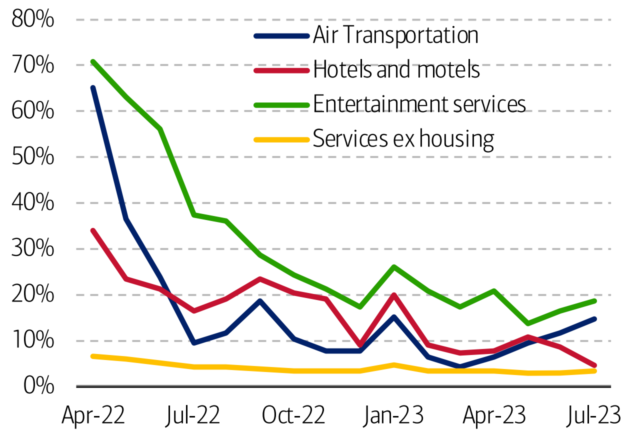
Summer travel shows no signs of waning

Looking more broadly at travel spending trends, we find evidence for a strong summer season. According to data from the Bureau of Economic Analysis (BEA), inflation-adjusted consumer expenditure on entertainment services, air transportation, and hotels in July was 18%, 15% and 3% higher than a year ago, respectively, even as the rest of services spending moderated (Exhibit 5).

While the BEA data is only available through July, data from the Transportation Security Administration (TSA) suggests the travel resilience continued into August and early September. As Exhibit 6 shows, the number of travelers who passed through TSA checkpoints was consistently higher than 2019 levels for the month of August. In the 14-day period through September 18, nearly 2.3 million travelers passed through TSA checkpoints, up 8% versus the same time last year.

Exhibit 5: Inflation-adjusted consumer expenditure for select categories (%YoY)

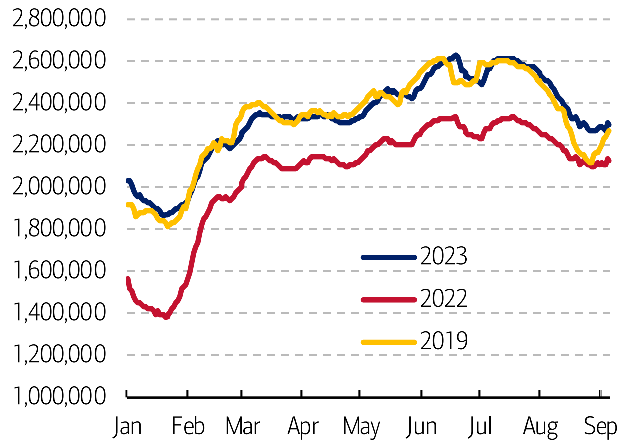
Air transportation and lodging consumer expenditures remain elevated despite rest of services ex housing moderating



Source: Bureau of Economic Analysis

Exhibit 6: TSA Checkpoint travel numbers (14-day moving average)

Almost 2.3 million travelers for the 14-day moving passed through TSA checkpoints as of September 18th



Source: TSA

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.

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.

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.

International POS spending is comprised of consumer credit and debit card spend made outside the US (as well as US territories) for brick-and-mortar for purchases where card is present.

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