

Consumer Morsel

Utility bills: cooler spell in 2023 but heating up longer term

20 November 2023

Key takeaways

- According to the Bureau of Economic Analysis expenditure on utilities has come down from 2022 highs, but is ticking back up again. According to Bank of America internal data, the median utility payment per customer has risen nearly 20% since 2018 to over \$200 per month. This is most obvious among lower-income customers who might still be facing some level of utility debt gamered over the course of the pandemic.
- Where you live matters: customers in the South and West are experiencing greater median utility rate increases, due in part to climate sensitivity.
- In the South, median utility payments are growing faster for coastal cities than landlocked ones. And climate events like extreme heat and hurricanes can bump up utility costs even more, which could impact domestic migration patterns and the allocation of consumer spending.

Energy use in homes bumping up utility bills?

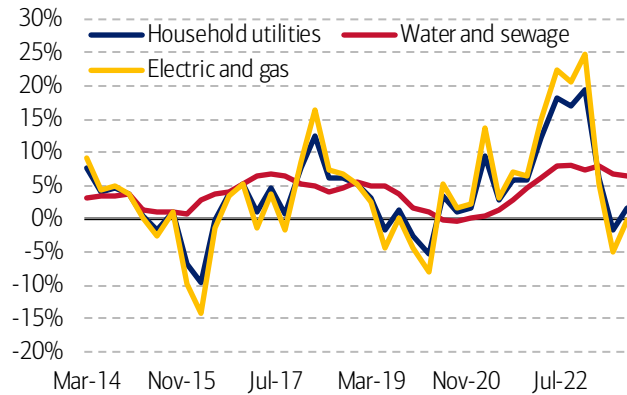
The typical US household now uses more air conditioning, appliances, and consumer electronics than ever before according to the US Energy Information Administration (EIA). In 2022, the average household spent 2.5% of their total annual expenditures on utilities, with the average annual site energy use per home declining due to greater efficiency in building materials and products, according to EIA.

Electricity is used in almost all homes, and retail electricity purchases accounted for 43% of total residential sector end-use energy consumption in 2021 (source: EIA). The biggest single uses of electricity in the residential sector are space heating and cooling (air conditioning), lighting, water heating, and appliances and electronics (Exhibit 2). All of these uses add up in monthly electric bills, and with electricity being a major component of utility bills, utilities could detract from consumer spending elsewhere.

As Exhibit 1 shows, expenditure on household utilities peaked in 2022, due to natural gas consumption, production and exports breaking records as real average prices hit a 14-year high (source: EIA). Additionally, according to EIA, US natural gas consumption reached record levels last year because of increased use in the electric power sector.

Exhibit 1: Personal consumption expenditures: household utilities; water supply and sanitation; electric and gas (YoY%)

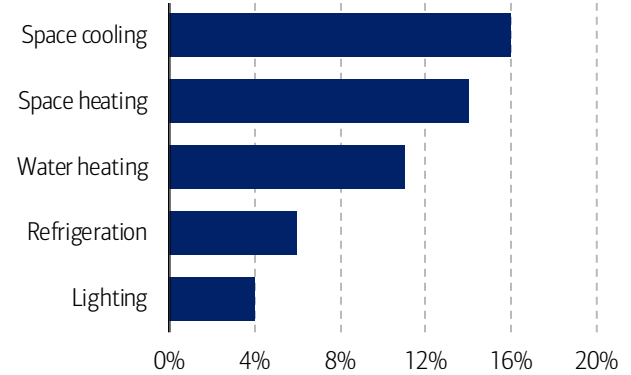
Expenditure on household utilities peaked in 2022 during this period



Source: Bureau of Economic Analysis

Exhibit 2: U.S. residential sector electricity consumption by select major end uses in 2022

Space cooling and heating are the primary major end uses for residences in 2022



Source: U.S. Energy Information Administration, Bank of America Institute

But after a period of easing inflation, according to Bank of America internal data, utility bills are now rising again. To get a sense of how this is impacting the typical consumer, we use internal aggregated and anonymized Bank of America customer data to track payments for aggregate utilities. Note that in our data, utilities might include water, electricity, gas, and/or sanitary management.

The %YoY growth rate of median utility payments in our data has been increasing since July of this year on a 3-month moving average (Exhibit 3). When looking at the latest CPI reading, it seems as if natural gas could once again be driving this uptick (Exhibit 4). As of October, the median utility payment per customer was over \$200 per month, nearly 20% higher than the 2018 average.

Exhibit 3: Median utility payment per customer (3-month moving average, YoY%)

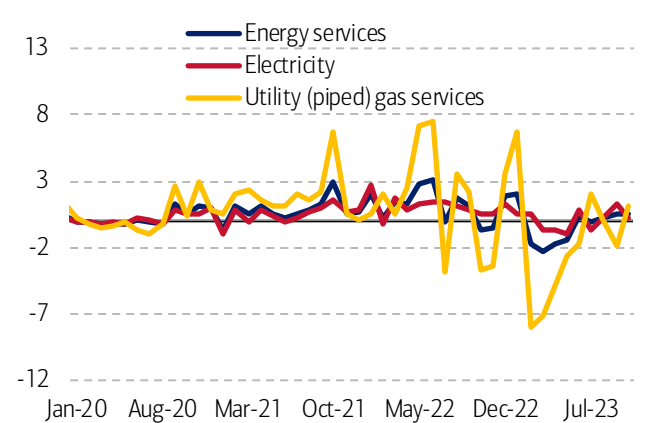
Median utility payment growth has been increasing since July 2023



Source: Bank of America internal data

Exhibit 4: Monthly CPI-U by select expenditure categories (seasonally adjusted, %)

Natural gas might be driving part of the median utility payment growth



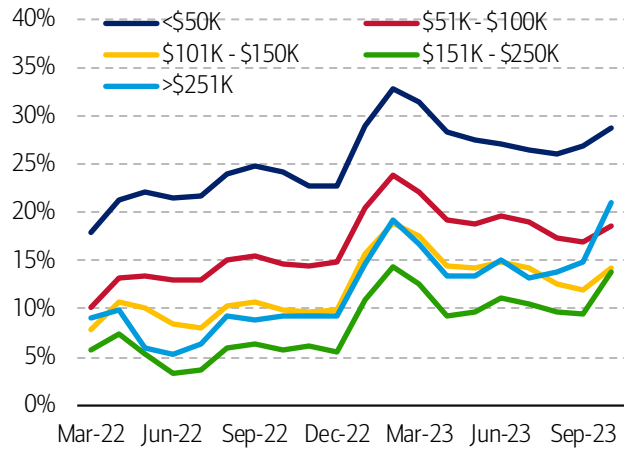
Source: Haver analytics

Looking at median payment growth on a four-year-percent change, lower-income cohorts have faced the highest growth rate, at 28.7% in October, though growth for higher-income households is also on the rise on a 3-month moving average (Exhibit 5). In addition, utility arrears increased during the pandemic despite energy assistance programs, and it's possible lower-income families are still facing some level of utility debt.

When we look at median utility payment amounts by income, lower- and middle-income customers have experienced greater peaks since the second half of 2020, particularly for those individuals earning <\$50K (Exhibit 6). In fact, the Census Bureau Household Pulse Survey's latest reading for the two-week period ending October 30 reported that 36% of households whose income is <\$50K were unable to pay an energy bill or unable to pay the full bill amount at least once over the past 12 months.

Exhibit 5: Median utility payments per customer by income group (3-month moving average, 4-year % change)

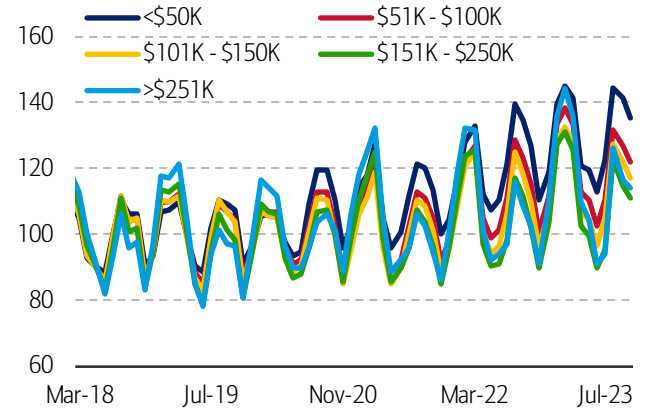
Lower-income customers have seen the highest growth rates



Source: Bank of America internal data

Exhibit 6: Median utility payment per customer by income group (indexed, 2018 average = 100)

There has been a continued divergence in lower-income median utility payments from 2020



Source: Bank of America internal data

Where you live affects utility costs

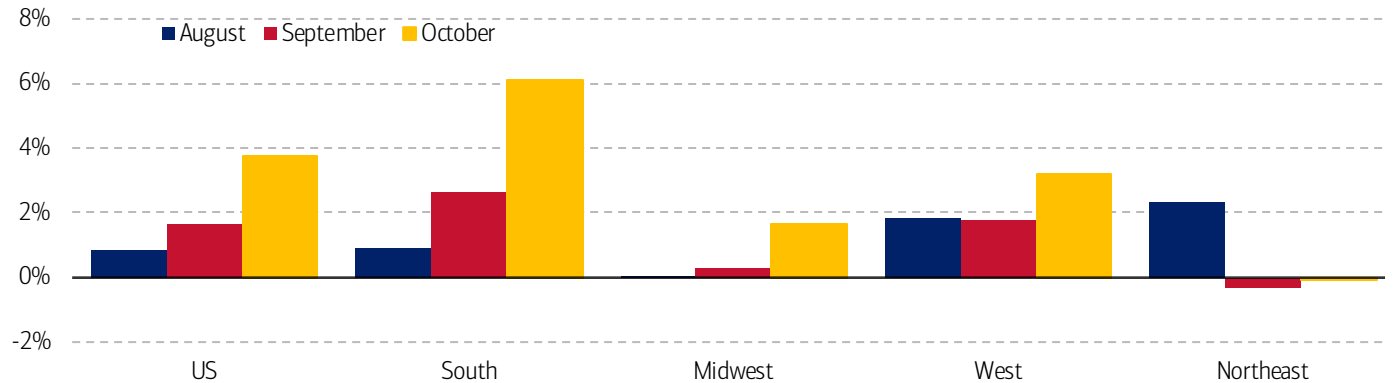
Where you live in the US can affect utility costs. If a house is in a temperate climate, utilities won't necessarily cost as much because there is less need for constant heating in the winter and air conditioning in the summer. This is also why electricity demand in the residential sector tends to be highest on hot summer afternoons due to increased air conditioning use, followed by evenings, when the lights are turned on (source: EIA).

Yet, across the country, temperatures are rising in all regions according to the Environmental Protection Agency (EPA). And as the climate warms, Americans are expected to use more energy, mostly electricity, for cooling (source: EPA). With people moving to warmer parts of the US (see our latest [On the Move](#)) and the availability of air conditioning in almost all new homes, air conditioning has been one of the fastest growing energy uses in homes (source: EIA).

These impacts can be seen in our data. When compared to last year, median utility payment growth per customer in October was highest in the South and West, with the former above the national average each month (Exhibit 7).

Exhibit 7: Median utility payments per customer by Census region (3-month moving average, YoY%)

The South has seen higher than national average increases in median utility payments growth



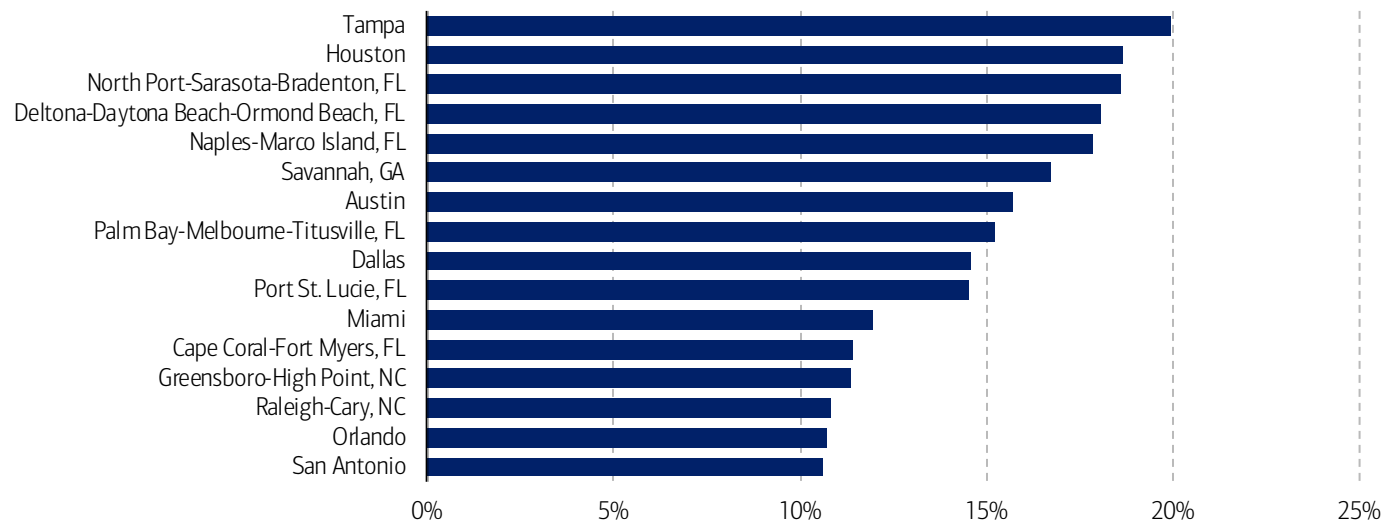
Source: Bank of America internal data

Coastal cities bear the brunt of climate change

Digging deeper, how are specific cities in the South faring? Of the 32 cities within our southern region data, half have higher growth rates than the regional average. We highlight these 16 cities below (Exhibit 8). Many of these cities are in Florida and Texas, the latter of which has less regulation regarding utilities. It's therefore possible that growth rates are rising faster here because utilities may be able to pass-through wholesale cost increases faster.

Exhibit 8: Median utility payments per customer in October 2023 by select Census Core-Based Statistical Area (YoY%)

Coastal cities have higher median utility payment growth on average than landlocked cities



Source: Bank of America internal data

In addition, coastal cities such as those in Florida and Texas may be more at risk of physical climate impacts. Most obviously, this affects space cooling and heating in the event of extreme weather such as heat waves or hard freezes. Water and sewage are not immune from environmental risks either as disaster events like flooding can destroy or contaminate entire water supplies.

The National Oceanic and Atmospheric Administration projects that many areas in the South will see increased energy spending, impacting consumers' cost of living. As climate change worsens, could the cost of living in particularly vulnerable regions become a deterrent to living in certain areas (see also: [Are rising insurance payments crimping consumers?](#))? Certainly, rising energy costs may be a headwind and ultimately, this could have long-lasting implications for local economies.

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, bill pay, and checks.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

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

Taylor Bowley

Economist, Bank of America Institute

David Michael Tinsley

Senior Economist, Bank of America Institute

Sources

Jonathan Kaplan

Senior Vice President, Digital and Marketing

Joe Wadford

Vice President, Consumer and Small Business

Disclosures

These materials have been prepared by Bank of America Institute and are provided to you for general information purposes only. To the extent these materials reference Bank of America data, such materials are 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. Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, sustainability and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular client and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular client. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice. Copyright 2023 Bank of America Corporation. All rights reserved.