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Consumer Morsel

Consumer apparel: trading down is the new dressing up

20 August 2024

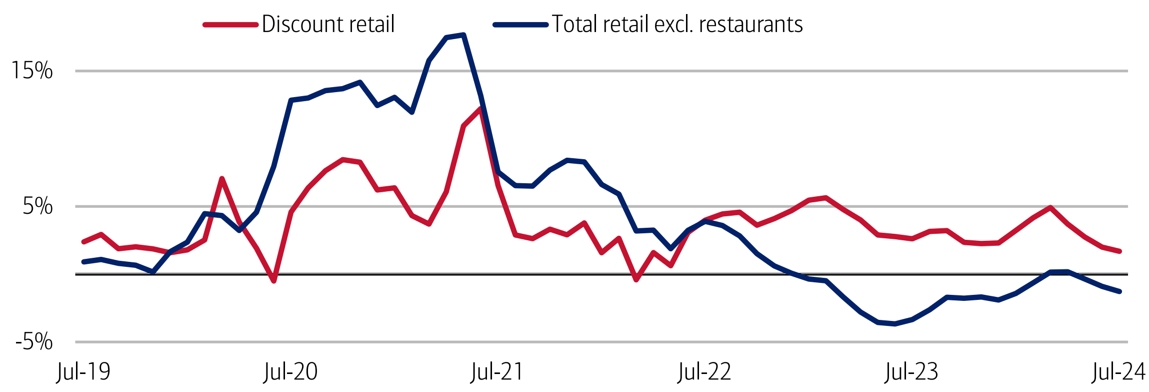
Key takeaways

- Bank of America internal card data suggests that discount retail spending per household has been growing faster than overall retail spending since July 2022. We find that consumers trading down to value apparel in the face of high inflation has been an important contributor to this trend.
- Bank of America internal card data also suggests that the market share for value apparel has increased nearly four percentage points for Gen Z and Millennials in the last year, as they balance the rising costs of necessities and increased spending on experiences, leaving less room in their budgets for discretionary goods.
- Notably, the increase in value apparel's market share has been more pronounced for lower- and middle-income consumers, up over ten percent from July 2019 to July 2024, more than twice the rate of growth for higher-income customers.

Consumers trading down across retail categories, but especially for apparel

Bank of America data suggests that household spending for overall retailers increased rapidly after the onset of the pandemic but has been decreasing since June 2022. Conversely, spending at discount retailers (e.g. wholesalers, value groceries/apparel, and dollar stores) has continued to grow since then and in July 2024 per household spending for discount retailers increased 2% year-over-year (YoY), while overall retail excluding restaurants spending decreased by 1% YoY (Exhibit 1).

Exhibit 1: Per household spending on discount retail has been increasing at a slightly faster rate than overall retail spending since mid-2022, reversing a two-year trend that began at the onset of the pandemic.
Per household spending at discount retailers and overall retail excluding restaurants (three month moving average, %YoY, non-seasonally adjusted (NSA))



Source: Bank of America internal data

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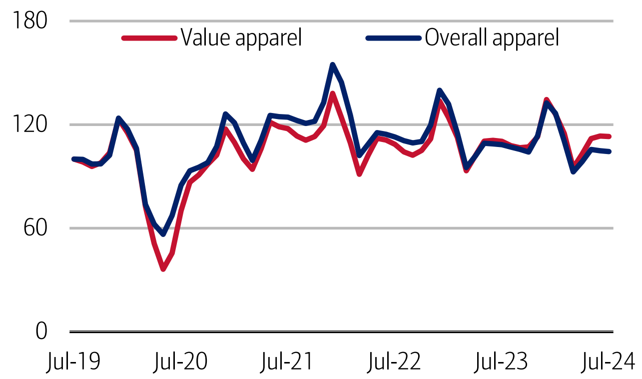
What's behind this shift? It's likely inflation. In June 2022, US inflation reached a 40-year high, pressuring some households to "trade down." In a recent publication, (see: August Consumer Checkpoint), we reported that consumers moving to value grocers was likely driving some of this growth.

But Bank of America internal card data also suggests that trading down to value apparel (as we define below) has also been a recent contributor to this trend. In fact, household spending on value apparel in July is up 13% relative to July 2019, while overall apparel (including stores that sell clothing, shoes, jewelry or accessories) spending is up less than 5% (Exhibit 2). While both categories surged after the onset of the pandemic, overall apparel spending growth has slowed while per household spending at value clothing stores (we will use *apparel* and *clothing* interchangeably) continues to strengthen.

Importantly, Consumer Price Index data from the Bureau of Labor Statistics (BLS) suggests that price growth has been relatively muted for apparel, with prices only 5% higher than in July 2019 (Exhibit 3). By contrast, the cost of groceries has surged nearly 30% over the same period. In our view, this suggests the trade down to value apparel reflects the broader costs of living facing households, rather than the direct impact of higher clothing prices.

Exhibit 2: July 2024 per household spending on value apparel has been increasing faster than overall apparel spending relative to July 2019

Per household spending on value apparel compared to overall apparel (three-month moving average, index July 2019 = 100)



Source: Bank of America internal data

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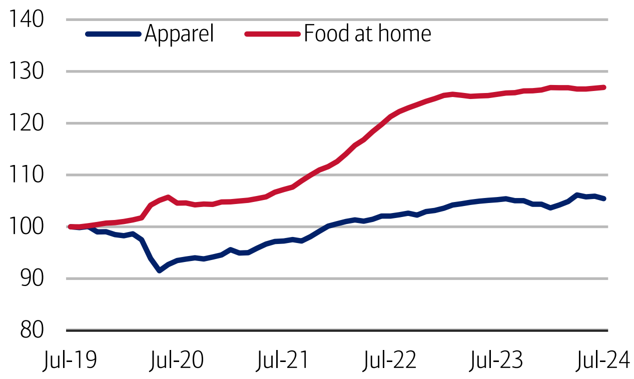
Exhibit 3: Prices for apparel and groceries are up 5% and nearly 30%, respectively, compared to 2019 levels

Consumer Price Index inflation of apparel compared to food at home (monthly, index July 2019 = 100)



Source: Bureau of Labor Statistics

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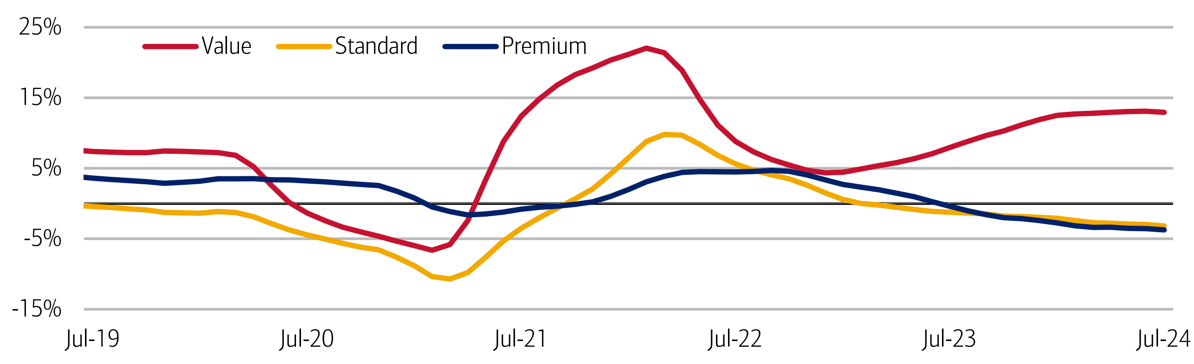
Consumers embrace value apparel as costs of living rise

As we noted in a previous publication (see: [Value shop 'til you drop]), the increase in the 'value tier' market share for groceries, has been relatively small. Here we apply the same tiering approach to apparel stores, to explore the relative shift in market shares in this area of spending.

Using Bank of America internal card data, we define apparel store tiers (value, standard and premium) based on the median income of customers that frequently visit those establishments (see methodology). For example, clothing stores with customers with the lowest median income were categorized as `value tier', likely reflecting, in our view, stores with the least expensive items. We then categorize each customer to an apparel tier based on where they typically allocate most of their clothing spending.

Exhibit 4: The percentage (%) growth in the number of customers with the majority of their monthly apparel budgets in the premium and standard tier is decreasing YoY, while the % growth in the number of customers spending most of their monthly apparel budgets at the value tier is increasing

The YoY % growth of the number of customers by apparel tier (monthly, %)



Source: Bank of America internal data

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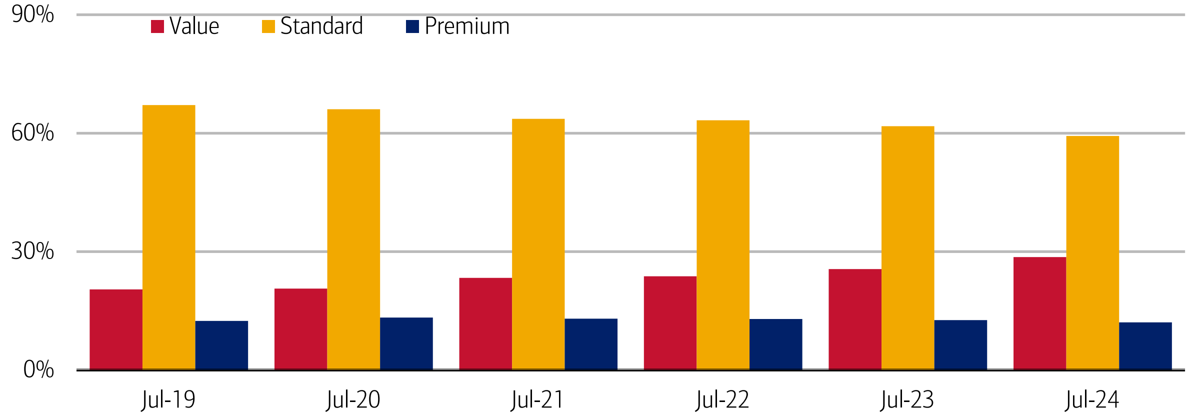
Exhibit 4 shows that that the YoY percentage change in customers with most of their spending in the value tier has been surging. It was up over 10% YoY in July 2024, while that of standard and premium tiers fell by 4% YoY.

Using this approach, we can also determine each apparel tier's percentage share of the total sample of customers – our proxy for "market share." Exhibit 5 shows that the market share of the standard tier was nearly 59% in July 2024. That was almost eight percentage points lower when compared to July 2019.

At the same time, we find there has been with an equivalent increase in the market share for value tier clothiers during the same period. And, notably, the largest increase occurred in the past year. In our view, this reflects consumers accelerating their trading down as they grapple with higher costs for housing, utilities, insurance, and other necessities (see our reports: Hidden costs and slowing spending and see: Powering the revolution).

Exhibit 5: The share of customers with most of their apparel spending in the value apparel tier experienced a relatively large increase from July 2020 to July 2021 but the largest increase occurred from July 2023 and July 2024
Percentage share of customers by their apparel spending tier (monthly, %)



Source: Bank of America internal data

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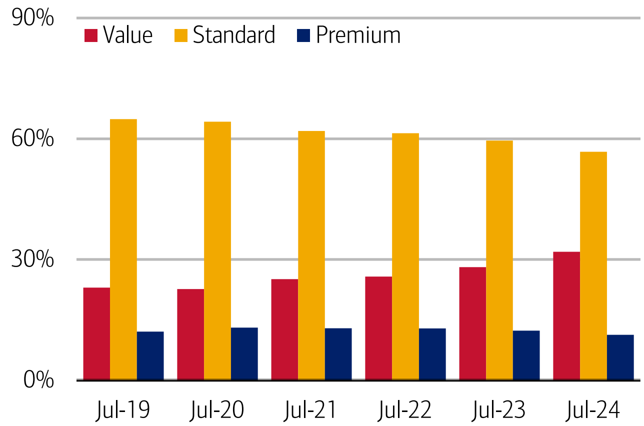
Fast times at discount high for Gen Z and Millennial consumers

Looking across age groups, we find that Millennials (Exhibit 6), and especially Gen Z (Exhibit 7), spend more on value apparel than other generations.

Exhibit 6: The July 2024 market share for value tier apparel stores is higher for Millennials, with a large increase in the past year
Percentage share of customers by their apparel spending tier Millennials (monthly, %)



Source: Bank of America internal data

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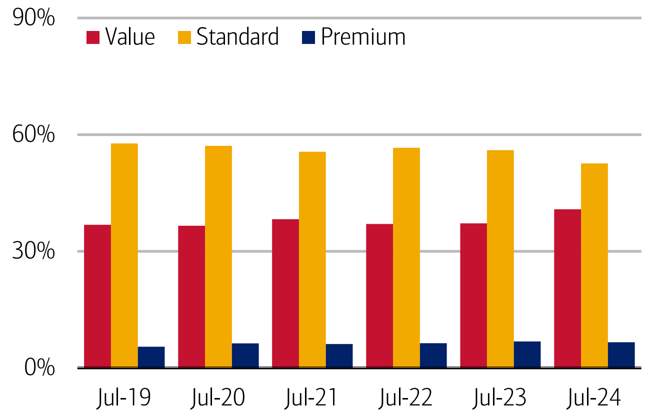
Exhibit 7: The July 2024 market share for value tier apparel stores is significantly higher for Gen Z
Percentage share of customers by their apparel spending tier Gen Z (monthly, %)



Source: Bank of America internal data

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Working from home and wearing more casual clothing in the office may be spurring some of this spending. But in our view, there are other factors.

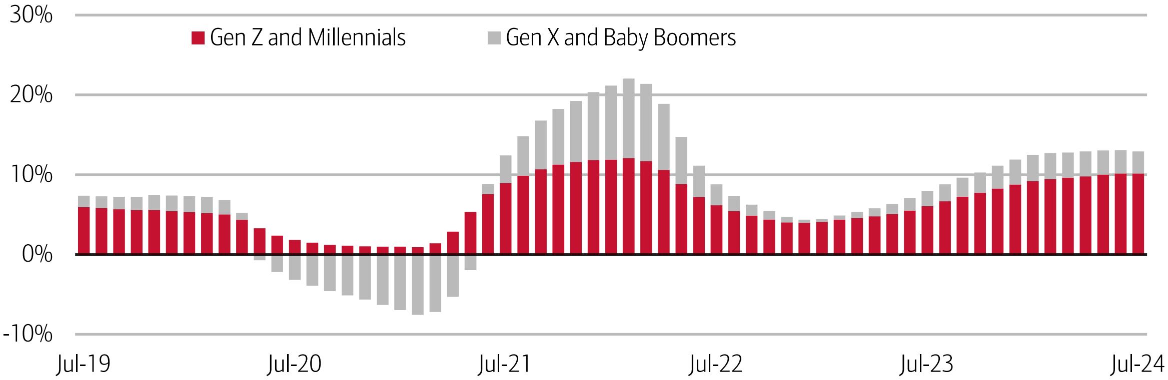
First, younger people are typically earlier in their careers and therefore likely earn less. They also tend to favor fast fashion, where comparatively lower-quality – and lower priced – apparel is manufactured quickly to keep up with the latest trends.

Furthermore, as we have previously discussed (see: June Consumer Checkpoint), Gen Z and Millennials are spending more on necessities as they grow older and take on more financial obligations, leaving less for discretionary items. And younger generations are still favoring discretionary experiences like travel and restaurants, which leaves even less of their budget for discretionary goods like apparel.

In fact, Bank of America internal data suggests that Gen Z and Millennials have contributed a much higher proportion of the YoY percentage growth in the number of customers spending the majority of their apparel budgets at value tier clothing stores over the last two years (Exhibit 8).

Exhibit 8: Gen Z and Millennials have driven a much higher proportion of the YoY growth in the number of customers who spend the majority of their money at value tier apparel stores over the past two years

Contributions to customers who spend the majority of their money at value tier apparel stores (three-month moving average, percentage points contribution to YoY % change)



Source: Bank of America internal data

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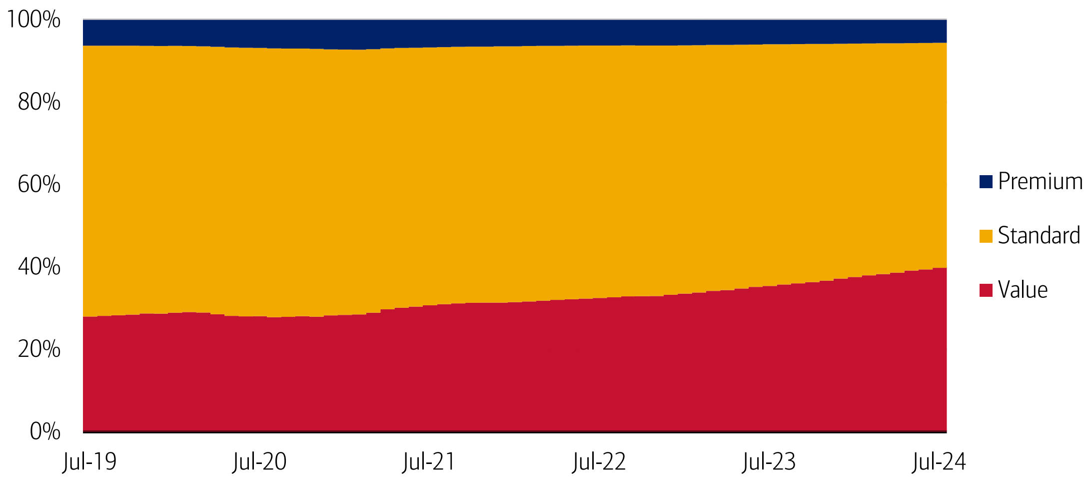
Lower- and middle-income consumers see largest gains in value apparel market share

Looking by income, unsurprisingly we find the trend to value apparel is being driven by lower income households. Spending data for customers earning less than $50K (Exhibit 9) and those making $50K-$100K (Exhibit 10), suggests that the market share for value apparel increased nearly 12 percentage points since July 2019 through July 2024, with over half of that gain occurring since July 2022. Notably, over this period the market share for higher-income customers ($100K+) has only risen five percentage points, less than half of the increase seen by lower- and middle-income customers (Exhibit 11).

Exhibit 9: The July 2024 market share for value tier apparel stores is much higher for customers earning lower incomes, with a notable increase that occurred in the past two years

Percentage share of customers by their apparel spending tier for customers earning <$50K annually (monthly, %)



Source: Bank of America internal data

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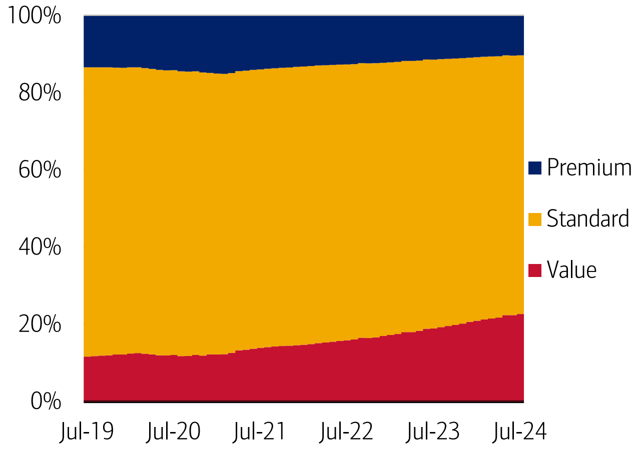
Middle- and higher-income customers have been shying away from premium apparel since early 2021 (Exhibit 10, Exhibit 11). And although wages have been rising relatively slowly for those with higher incomes (see: Facing hurdles or the high jump), in our view, the spending shift likely reflects a change in the way people dress at work rather than a financial crunch.

Exhibit 10: The July 2024 market share for value tier apparel stores has increased since July 2019 for middle-income customers, with a notable increase in the past two years

Percentage share of customers by their apparel spending tier for customers earning $50K-$100K annually (monthly, %)



Source: Bank of America internal data

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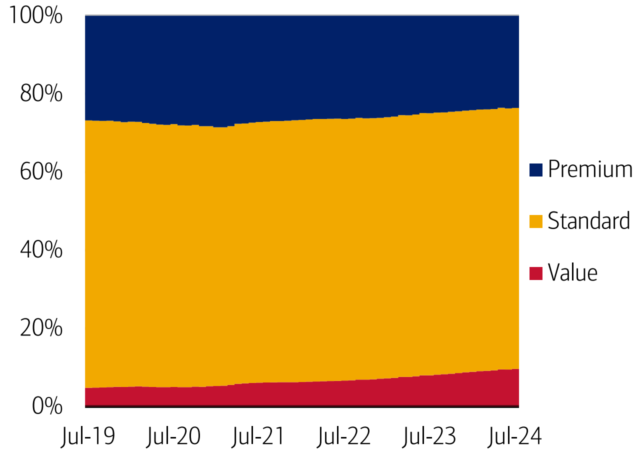
Exhibit 11: The market share for the value tier apparel stores remains relatively low for higher-income customers through July 2024

Percentage share of customers by their apparel spending tier for customers earning $100K+ annually (monthly, %)



Source: Bank of America internal data

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Overall, then, there does appear to have been a marked shift, and even an acceleration, in the trends towards value apparel, especially among lower-income earners and/or the young. And – at least for now – due to higher costs of living, a more casual dress code, and a preference for experiences, "value" will likely continue to be the slogan for apparel shoppers.

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.

Three apparel tiers (premium, standard and value) were based on after-tax median income derived from payroll direct deposit of individual customers who have shopped at such clothing stores (as defined by MCC code) for at least six out of the past 12 months. In our view, such categorization is a fair view of price levels at those stores. Any apparel stores included has had at least 100,000 individual Bank of America customers making at least one purchase during the past 12 months.

The sample of customers in this analysis includes a dynamic pool of customers that have a checking, a saving or a credit card account with BAC consecutively each month between October 2017 and May 2024. Each customer's apparel tier was determined by taking customer spending on dining during past 12 months, across the three apparel tiers. The tier with the highest percent of spending will determine the customer's apparel tier. For example, if the customer spent the majority of their apparel dollars at premium tier apparel stores, the customer's tier is designated as premium tier, even though they might still have apparel spending at the value/standard tier.

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.

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

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

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Sources

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Disclosures