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Consumer Checkpoint

Holiday spending unwrapped

12 November 2024

Key takeaways

- The consumer shows solid momentum as we head into the holidays. Bank of America aggregated credit and debit card spending per household rose 1.0% year-over-year (YoY) in October, rebounding from the 0.9% YoY decline in September. On a seasonally adjusted basis, spending was down 0.1% month-over-month (MoM) in October, following the previous 0.6% MoM increase.
- Strengthening after-tax wages and salaries growth among higher-income households, up nearly 2% YoY in October, has underpinned a rise in their spending growth, with spending increasing YoY for all income cohorts.
- Consumer sentiment has also shown signs of improvement, and the 2024 Bank of America Holiday Survey suggests people are planning to spend $2,100 outside of typical obligations and necessities this holiday season, up 7% YoY. But consumers continue to look to stretch their dollar and intend to focus their holiday spending firepower on deals and cost savings.
- Overall, the financial position of households appears sound. Household savings and checking balances are declining, but slowly, while the proportion of 401(k) participants taking hardship distributions remains low.

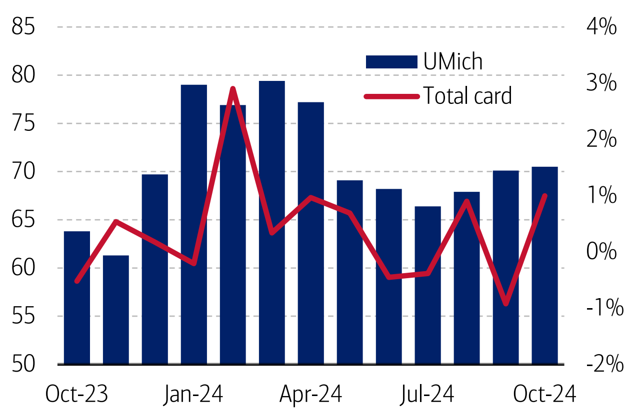
Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America.

Spending update

Overall, as we head into the holidays, the consumer continues to show forward momentum. Bank of America aggregated credit and debit card spending per household rose 1.0% year-over-year (YoY) in October, rebounding from a 0.9% YoY decline in September (Exhibit 1). On a seasonally adjusted basis (SA), spending fell 0.1% month-over-month (MoM), after a 0.6% MoM rise in September.

Exhibit 1: Consumer sentiment has been rising since July 2024

Total credit and debit card spending growth per household, based on Bank of America card data (RHS, monthly, YoY%) and University of Michigan Index of Consumer Sentiment (LHS, monthly, index, Q1 1966 = 100)



Source: Bank of America internal data and Haver Analytics

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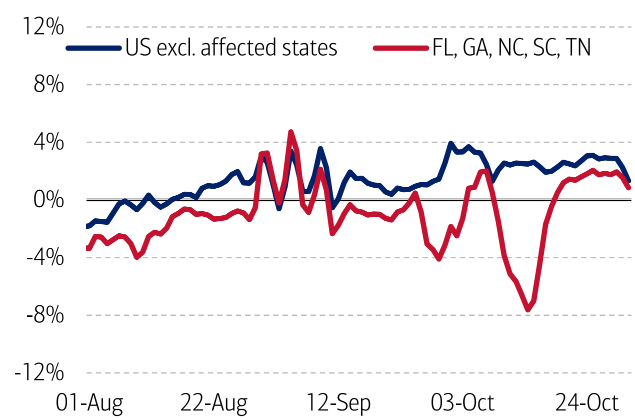
Exhibit 2: Spending in states affected by hurricanes Helene and Milton recovered toward the last week of October following a sharp drop in late September and mid-October

Total credit and debit card spending per household by state (7-day moving average, YoY%)



Source: Bank of America internal data

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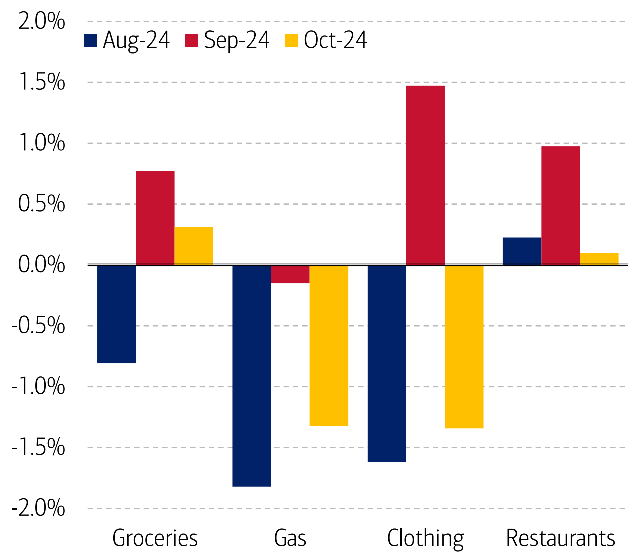
Is the apparent strengthening in consumer spending temporary? Potentially, but there are reasons to be optimistic. Consumer sentiment has been rebounding over the past four months according to the University of Michigan's consumer sentiment index, inching up to its highest reading since April 2024.

On another positive note, by the last week of October, average card spending per household recovered in the states affected by hurricanes Helene and Milton by the last week of October, up 2% YoY after declining nearly 8% YoY during the third week of October. Meanwhile, spending growth was positive throughout the month for the rest of the United States (Exhibit 2).

When we look by category, spending on necessity goods such as gasoline has been weak over the last three months, reflecting recent deflation in this category. Additionally, spending on groceries has been modest, reflecting slowing inflation for food consumed at home (Exhibit 3).

It could be that the slowing of the pace of inflation has left more room in consumer budgets for discretionary services like restaurants, which has had three consecutive months of strengthening. This could also explain the growing contribution of discretionary services spending to overall aggregate card spending growth in the past few months (Exhibit 4).

Exhibit 3: Gasoline spending has fallen for three consecutive months through October, while restaurant spending remains up
Select retail and services categories card spending per household (%MoM, seasonally adjusted)



Source: Bank of America internal data

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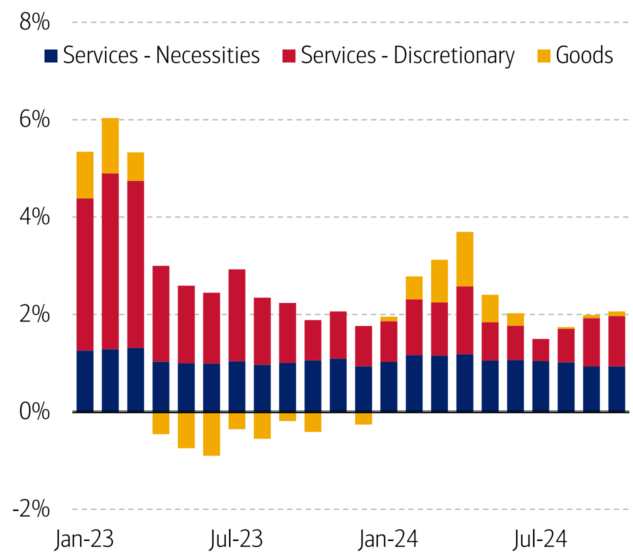
Exhibit 4: Over the past few months, discretionary services' contribution to overall credit and debit card spending growth YoY is growing again, to 1 percentage point (pp) in October, after waning slightly earlier in the year
Contributions to total credit and debit card spending growth by category (3-month moving average, percentage points contribution to YoY % change)



Source: Bank of America internal data

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Top third take-off?

As we have discussed previously, household after-tax wages and salaries have increased, on average, across all income cohorts over the past several years. As a result, using a given fixed income level to indicate a 'lower-income' household may be less representative than in the past.

One way to adjust for this is to divide households into terciles – or thirds – so that 'lower-income' households constitute the bottom third of households by income, with the next third representing 'middle income' and the top tercile being 'higher income.' This way, as wages and income adjust, the income thresholds between lower, middle and higher income also adjust, so that a third of households remain in each bucket.

Looking at recent spending growth using this approach, Exhibit 5 shows positive momentum in the lower- and middle-income groups in 2024, while higher-income spending growth through 2024 appears to have recovered from the comparative weakness of last year. This year's improvement in higher-income spending growth is consistent with the recovery in after-tax wage and salary growth, according to Bank of America deposit data (Exhibit 6). Meanwhile, wages are also growing steadily for lower- and middle-income peers over 2023 and 2024, although there has been some deceleration in the rate of growth at the lower end over the past year.

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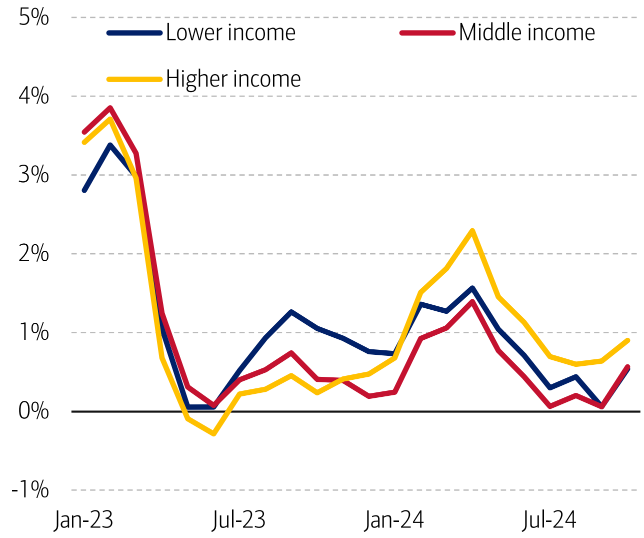
Exhibit 5: There has been a rise in spending growth among the top third of households by income, reaching 0.9% YoY in October, while lower- and middle-income households grew by just over 0.5% YoY

Total credit and debit card spending per household, by household income terciles (3-month moving average, YoY%)



Source: Bank of America internal data

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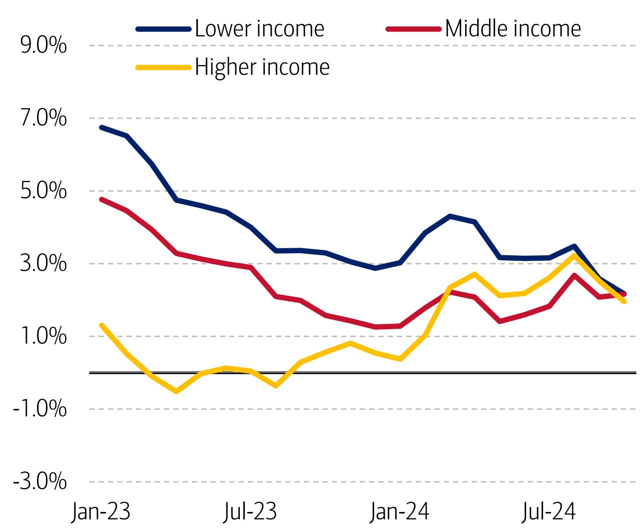
Exhibit 6: …at the same time, higher-income wage growth accelerated to 2% YoY in October, significantly higher than 2023 growth rates

After-tax wage and salary growth by household income terciles, based on Bank of America aggregated consumer deposit data (3-month moving average, %YoY, seasonally adjusted (SA))



Source: Bank of America internal data

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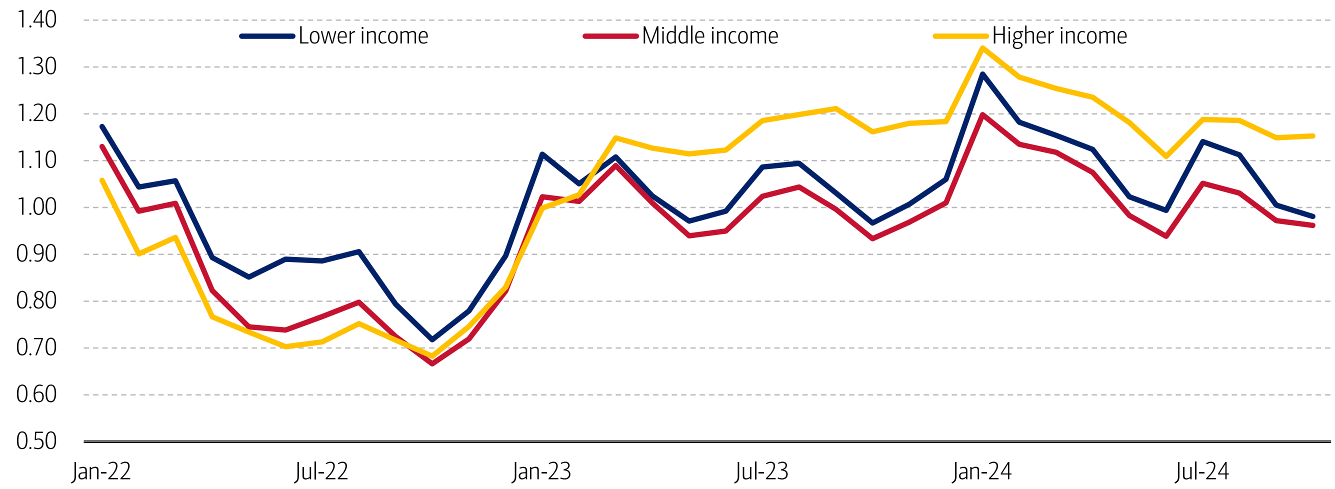
Does the labor market continue to underpin wage and consumer spending growth? We think so. While the October Bureau of Labor Statistics (BLS) showed a weak 12,000 rise in jobs, it was likely distorted by hurricanes and labor strikes, and followed a strong September.

Additionally, there are no signs of any recent increase in the share of households who receive unemployment benefit payments in their Bank of America deposit accounts (Exhibit 7). Relative to 2019, the share has risen the most for higher-income households (top tercile), but most of this increase occurred over 2022 and 2023. Meanwhile, the share of lower-income households (bottom tercile) receiving unemployment payments has decreased since January 2024, and is now below 2019 levels.

So, for now, while the labor market is cooling, it remains a net positive for the consumer in our view.

Exhibit 7: The share of higher-income households receiving unemployment benefits has risen since 2019, while that of lower- or middle-income households has declined, although all income cohorts have seen a decrease in the past year

Share of households receiving unemployment benefit payments by income tercile (2019=1)



Source: Bank of America internal data

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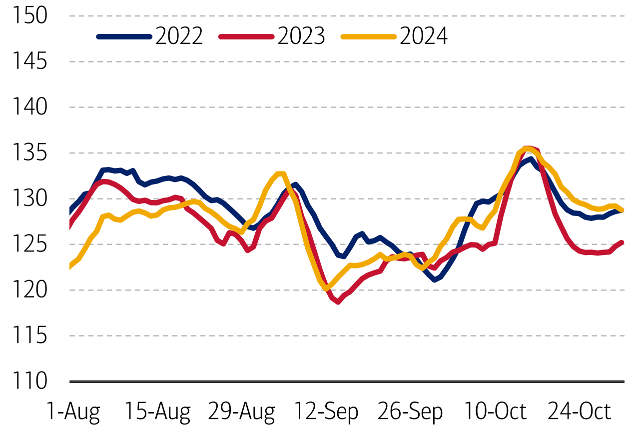
A slightly cooling labor market, but not a frosty holiday shopping season

Does a cooling labor market suggest a frosty holiday shopping season? Not necessarily. Over the past couple of months, spending on holiday items (see methodology) has shown modest increases in October compared to the past two years (Exhibit 8).

Some of this recent strength might reflect the trend of consumers doing their holiday shopping earlier and more online than in the past. In recent years, in-person 'brick and mortar' (B&M) retail spending (excluding groceries, restaurants and gas) during the holidays has shifted away from Christmas Eve to the two weeks around Cyber Monday, up two percentage points compared with 2019 (Exhibit 9) (see: Is online spending creating new holiday hotspots?).

Exhibit 8: Over the past couple of months, average spending on holiday items in 2024 has started to rise above 2023 levels

Card spending per household for holiday items, by year (7-day moving average, index, 2019 average = 100)



Source: Bank of America internal data. Holiday items include all MCC codes for which spending in Nov-Dec is at least 20% of total annual spending in the category.

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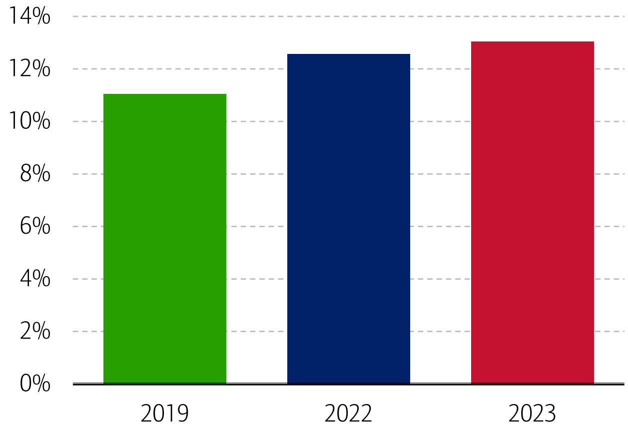
Exhibit 9: Online retail spending around Cyber Monday has been accounting for a larger proportion of holiday sales since 2019, reaching 13% in 2023

Online retail spending excluding gas, groceries, and restaurants for Cyber Monday and the week before and after as a share of retail spending excluding gas, groceries, and restaurants during the holidays (yearly, %)



Source: Bank of America internal data

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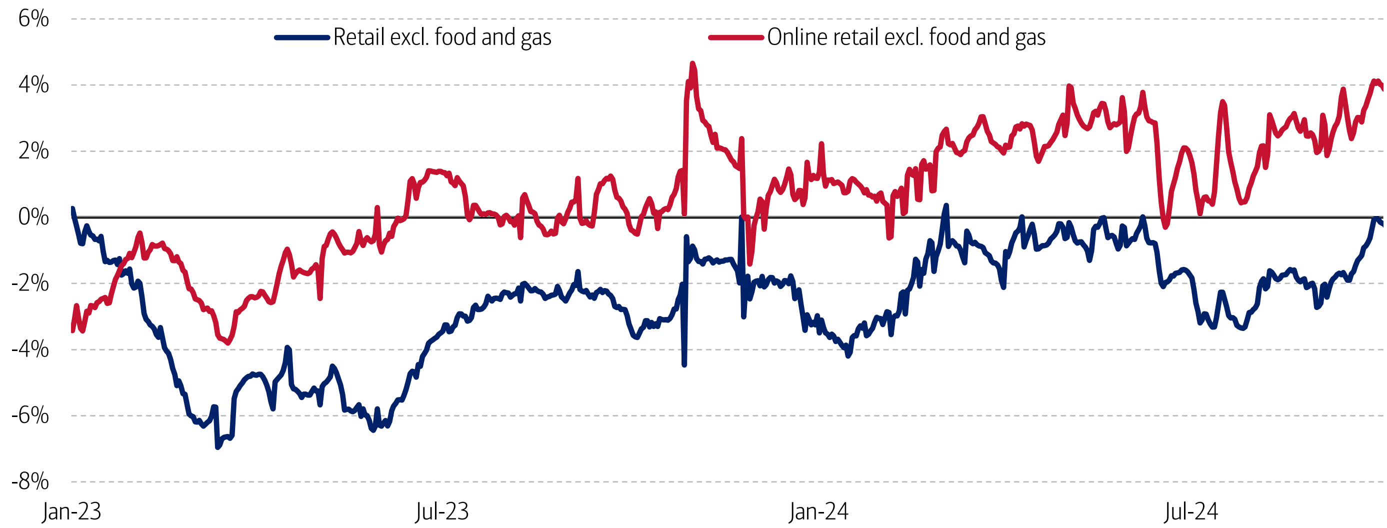
Consistent with these trends, in the last week of October 2024, online retail spending excluding food and gas grew at double the rate of in-person B&M spending for the same categories, likely as consumers look for deals and savings (Exhibit 10).

Exhibit 10: Online card spending for retail excluding food and gas has been growing much faster than B&M retail excluding food and gas spending over the past year. In October 2024 the gap was four percentage points

Average credit and debit card retail spending excluding groceries, restaurants, and gas by online and in-person (28-day moving average, YoY%)



Source: Bank of America internal data

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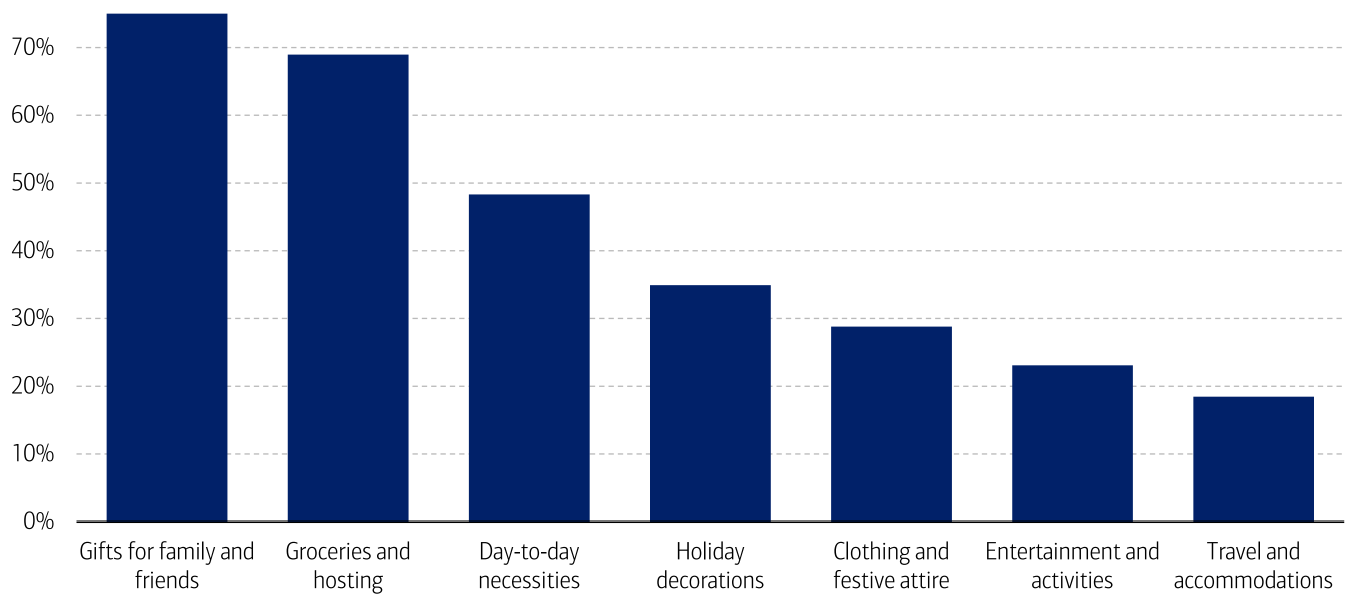
So, is the recent strength in holiday spending just 'borrowing' from spending closer to the holidays? It's possible, but the 2024 Bank of America Holiday Survey ('Holiday Survey,' see methodology for details) suggests that the overall holiday spending season should be a solid one. Survey respondents are planning to spend an average of $2,100 outside of typical obligations and necessities this holiday season – up 7% from last year's survey.

As expected, the Holiday Survey finds that a high share of people are prioritizing gifts for family and friends, however a rather large share are also prioritizing groceries and day-to-day necessities this year (Exhibit 11). In fact, almost half of survey respondents say spending on day-to-day necessities is a top priority. In our view, this may be in part because they are anticipating paying higher prices, as opposed to making more purchases.

So, it makes sense that over the holidays consumers are looking to stretch their dollar. Notably, 59% of respondents are planning to trade down and do more shopping at discount stores this holiday season, in line with what we have seen for apparel stores, in particular, this year (see: Trading down is the new dressing up).

Exhibit 11: Gifts for family is the top priority, but groceries, hosting, and day-to-day necessities are also a key priority for holiday spending
2024 Holiday Survey share of participants for the question "top three priorities for spending this holiday season" by category (%)



Source: Bank of America 2024 Holiday Survey

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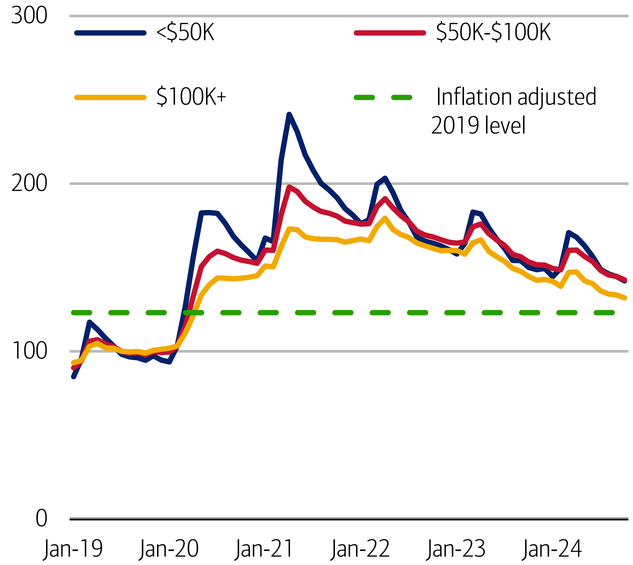
Deposits and investments still add buffer

Financially, consumers appear reasonably well placed as we head into the holidays. Exhibit 12 illustrates that saving and checking balances for a fixed group of households remain above 2019 levels for all income cohorts described below. The rate in which households are drawing down has moderated, but it is worth noting that savings buffers are starting to slim.

Looking at longer-term retirement savings, according to Bank of America's 2024 Q3 Participant Pulse, the average account balance for plan participants is at a two-year high, partially reflective of record market levels. The average contribution rate as of 3Q was 6.6%, up from 6.5% in Q2. Slightly more participants took a hardship distribution in 3Q than in the previous quarter, though the proportion taking these distributions is very low. Of those participants with a loan from their 401(k), those that are in default has declined steadily over the past two years (Exhibit 13).

Exhibit 12: Median checking and savings deposit balances have declined over the past year for all income cohorts, but still remain above inflation adjusted 2019 levels

Monthly median household savings and checking balances by income (2019=100) for a fixed group of households through October 2024



Source: Bank of America internal data Note: Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through October 2024.

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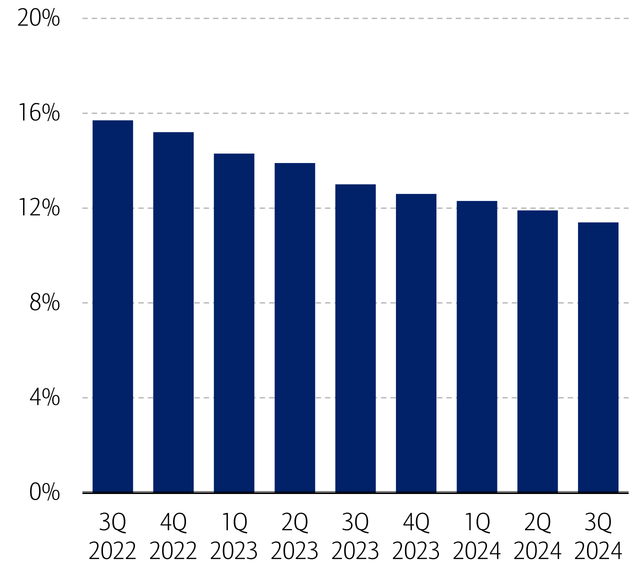
Exhibit 13: The percentage of participants with a loan from their 401(k) in default has declined steadily over the past two years

Of participants with a 401(k) loan, the percentage of those with at least one loan in default (%, quarterly)



Source: Bank of America internal data

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Monthly data update

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 2.9% in October. Bank of America total credit and debit card spend, which comprises over 20% of total payments, increased 3.9% YoY in October.

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.

We consider a measure of services necessity spending that includes but is not limited to childcare, rent, insurance, insurance, public transportation, and tax payments. Discretionary services includes but is not limited to charitable donations, leisure travel, entertainment, and professional/consumer services. Holiday spending is defined as items in which spending in the November-December period is usually at least 20% of total annual spending on the category

Lower, middle and higher household income cuts in Bank of America credit and debit card spending per household, and consumer deposit account data are based on quantitative estimates of each households' income. These quantitative estimates are bucketed according to terciles, with a third of households placed in each tercile periodically. The lowest tercile represents 'lower income', the middle tercile represents 'middle income' and the highest tercile 'higher income'. The income thresholds between these terciles will move over time, reflecting any number of factors that impact income, including general wage inflation, changes in social security payments and individual households' income. The income and tercile in which a household is categorised are periodically re-assessed.

The Bank of America 2024 Holiday Survey was conducted online between September 27, 2024 and October 7, 2024. The survey consisted of 2,010 respondents throughout the U.S. Respondents in the study were age 18+ and were representative of the composition of the US Census for age, gender, household income and Census region.

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 includes 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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