

Consumer Checkpoint

Will home equity make consumer spending more durable?

10 October 2024

Key takeaways

- The consumer continues to show modest forward momentum. Bank of America aggregated credit and debit card spending per household fell 0.9% year-over-year (YoY) in September compared to the 0.9% rise in August. Seasonally adjusted spending rose 0.6% month-over-month (MoM).
- Homeowners currently have a historically large share of equity in their homes, providing potential upside to spending if they tap this through a home equity line of credit (HELOC). But home equity is not evenly distributed and a significant share of HELOC borrowing appears on our estimates associated with debt consolidation, so the impact on spending should not be exaggerated.
- Durable goods spending has been robust, according to Bureau of Economic Analysis data. However, we find the share of higher-value durable transactions in Bank of America internal data has declined, with a corresponding rise in some services categories. This suggests consumers may be prioritizing value categories and experiences over big-ticket purchases.

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 relatively steady, wage growth still supportive

Overall, in our view, the consumer continues to show modest forward momentum. Bank of America aggregated credit and debit card spending per household fell 0.9% year-over-year (YoY) in September, following a 0.9% YoY rise in August (Exhibit 1). But the timing of Labor Day impacted the YoY comparisons over August and September. Seasonally adjusted spending rose 0.6% month-over-month (MoM) in September, following a 0.2% decline in August. Looking at quarterly averages, Exhibit 2 shows that services spending growth remains very persistent, with no clear direction to retail spending growth.

Exhibit 1: Bank of America credit and debit card spending per household decreased by 0.9% YoY in September

Total aggregated credit and debit card spending per household, based on Bank of America card data (monthly, %YoY, non-seasonally adjusted (NSA))

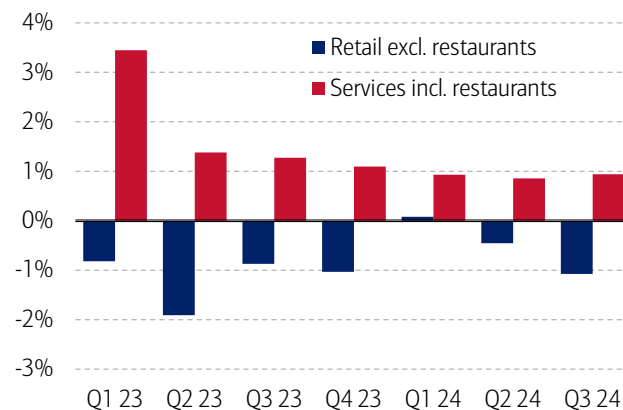


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

Exhibit 2: Both retail and services spending growth is down from Q3 of last year, though services spending remains relatively persistent

Total card spending per household (quarterly average, non-seasonally adjusted, % growth YoY)



Source: Bank of America internal data

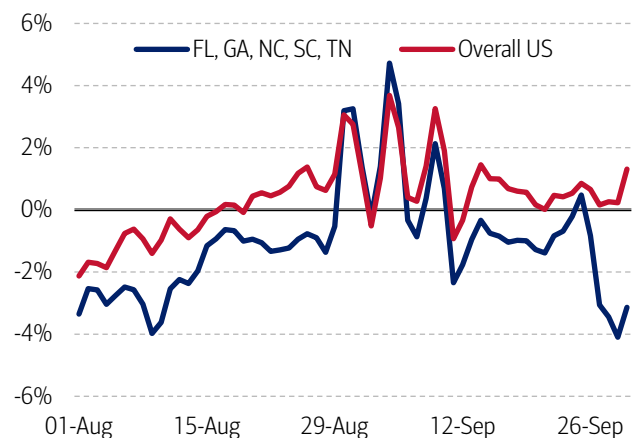
BANK OF AMERICA INSTITUTE

Hurricane Helene, which resulted in a tragic loss of life and widespread displacement of communities, occurred relatively late in the month, so the impact on overall credit and debit card spending was limited at the national level. However, in the last week of September, card spending was down sharply in impacted states (Exhibit 3).

Official data from the Bureau of Labor Statistics (BLS) showed strong jobs growth in September (+254K) and a rise in average hourly pay growth. Consistent with this solid picture, Bank of America internal data on after-tax wages and salaries growth continues to be supportive of consumer spending (Exhibit 4). Though higher-income growth has made notable gains over the past six months, lower-income wage growth remains strongest at 3.5% YoY in September.

Exhibit 3: In states strongly impacted by Hurricane Helene, total card spending dropped sharply at the end of the month

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

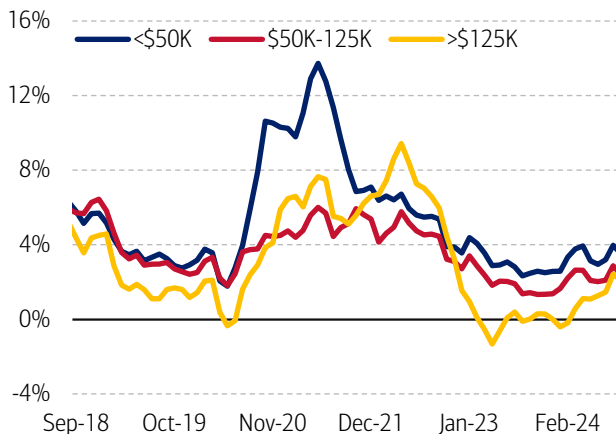


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

Exhibit 4: Across all income cohorts, wage growth decelerated in September, though higher-income growth has notably increased over the past six months

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



Source: Bank of America internal data

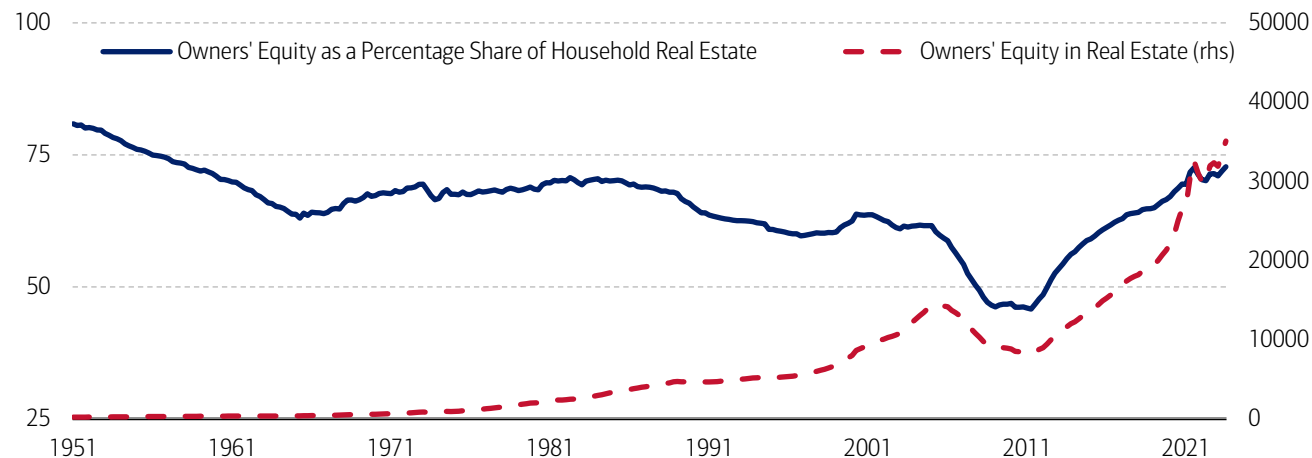
BANK OF AMERICA INSTITUTE

The home as piggy bank?

Americans' home equity as a percentage of home values is at its highest since the 1950s, according to Federal Reserve data (Exhibit 5). This is a product of many factors. For one, house prices have increased sharply over the past five years. And at the same time, the level of housing transactions has been low, with many homeowners reluctant to move given rising mortgage rates and often being 'locked in' to much lower, fixed rates (see: [Hidden costs and slowing spending](#)).

Exhibit 5: Homeowners' equity is at its highest level since the 1950s as house prices have risen sharply

Households: Owners' Equity in Real Estate as a Percentage of Household Real Estate (quarterly, left hand side, %) and Households: Owners' Equity in Real Estate (quarterly, \$ Billions)



Source: Board of Governors of the Federal Reserve System

BANK OF AMERICA INSTITUTE

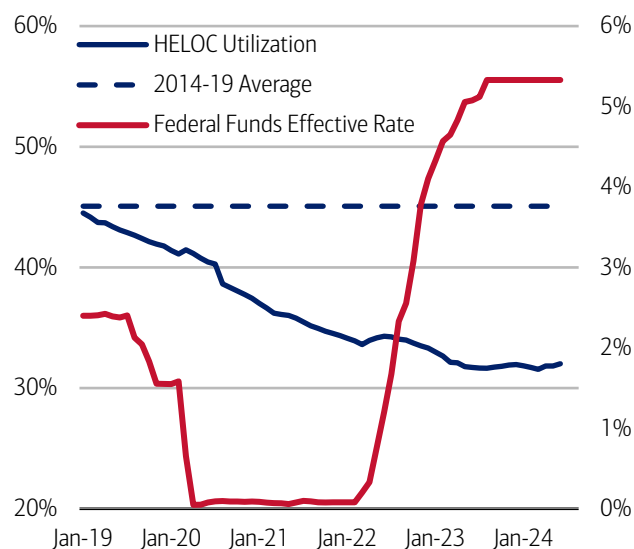
In theory, the relatively large amount of equity in people’s homes could support consumer spending. For example, homeowners could use this equity as collateral and borrow using home equity lines of credit (HELOCs). HELOCs provide consumers with flexible borrowing typically at lower rates than other forms of consumer credit.

Bank of America internal data on HELOC utilization rates indicates these dropped significantly post-pandemic and are well below the 2014-2019 average (Exhibit 6). However, the decline in HELOC utilization appears to have flattened out recently. Could HELOC borrowing provide more significant support to consumer spending going forward?

We are cautious of expecting a large direct effect on consumer spending from this channel, at least immediately because for one, home equity is not distributed equally among income cohorts. Many households do not own real estate, with renting relatively more common among younger and lower-income households. Those with the most home equity will likely have moved some time ago, which means the largest equity will be held by older and higher-income households. In fact, almost 60% of home equity is held by the top income quintile of households (Exhibit 7). As some of these households likely skew older, they may have a somewhat lower propensity to consume than others as their horizons will be set more on saving and investing than immediate spending.

Exhibit 6: HELOC utilization has fallen over 10 percentage points below the 2014-2019 average

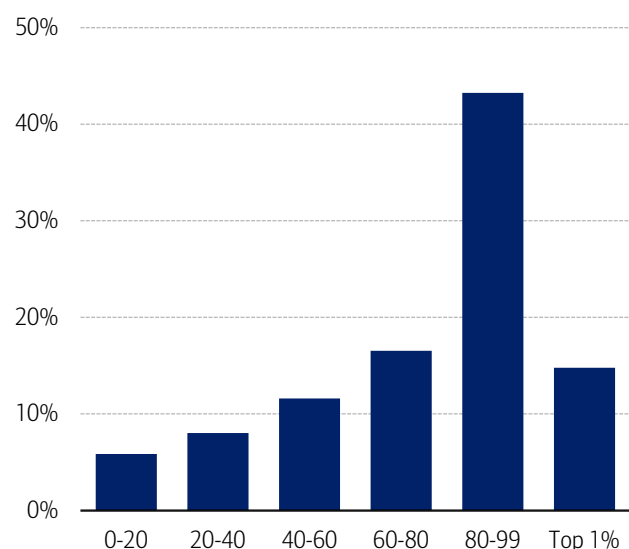
HELOC utilization rates compared to the 2014-2019 average (monthly data, %, left hand side) and the federal funds effective rate (monthly, %, right hand side)



Source: Bank of America internal data and Board of Governors of the Federal Reserve System
BANK OF AMERICA INSTITUTE

Exhibit 7: The distribution of real estate equity is skewed towards higher-income households

Distribution of household real estate assets, less mortgage debt, by income quintiles and top 1% (Q2 2024, %)



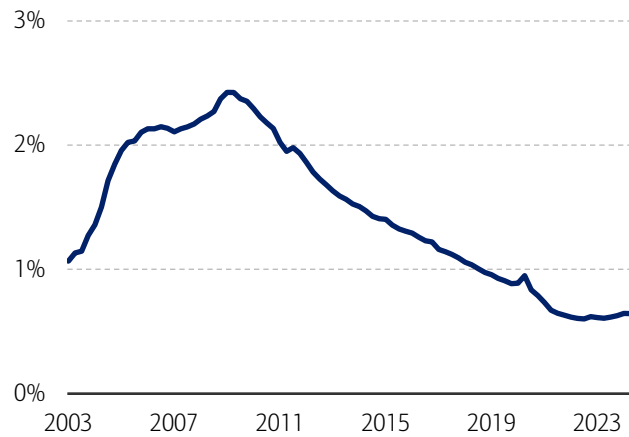
Source: Board of Governors of the Federal Reserve System
BANK OF AMERICA INSTITUTE

Another reason for our caution is that while total HELOC borrowing as a percent of all US consumer spending has stabilized in the past three years, it is still a very small proportion of overall consumer spending, especially compared to the early 2000s, according to data from the Federal Reserve and US Bureau of Economic Analysis (Exhibit 8).

Additionally, through June of this year, Bank of America internal payments data suggests that estimated debt repayments (see methodology) have made up nearly a quarter of HELOC-funded spending (Exhibit 9). While cheaper debt payments benefit those households affected, it means that not all HELOC borrowing has a direct impact on aggregate consumer spending, further muting the effect on total consumer spending.

Exhibit 8: Home equity revolving debt has stabilized in recent years, but is still a much smaller percentage of total US consumer spending than in 2009

Total household home equity revolving debt as a percentage of total personal consumer expenditure (quarterly, %)

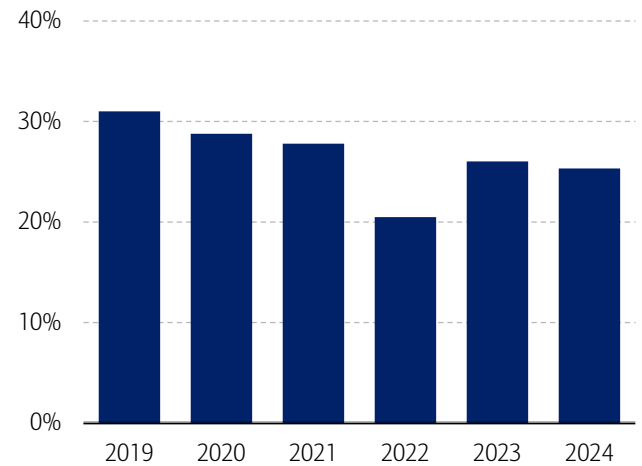


Source: Board of Governors of the Federal Reserve System and US Bureau of Economic Analysis

BANK OF AMERICA INSTITUTE

Exhibit 9: June 2024 year-to-date (YTD) estimated debt payments made up a larger proportion of estimated HELOC-funded spending than in 2022, but the share is down compared to 2019

Estimated debt repayments as a share of estimated total HELOC-funded spending amounts (June YTD, %)



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

Signs that higher-priced durables are giving up share to services?

If a rise in HELOC-funded spending were to boost consumer spending to any extent, it is plausible we would see this in consumer durables. Durables tend to be ‘big-ticket’ purchases with a relatively large upfront cost in exchange for a stream of services from them over time (e.g., car parts, appliances and consumer electronics). One way to finance such purchases could be by withdrawing home equity.

As Exhibit 10 shows, in recessionary periods, consumer durables spending tends to slow earlier and by more than overall consumer spending. Importantly, there is little sign today of any recessionary warning lights from durables: in Q2 2024 such spending was up by an annualized rate of 5.4% and was 2.6% higher YoY, according to Bureau of Economic Analysis data (BEA).

Exhibit 10: Durable goods spending slows sharply in recessions

Year-over-year (YoY) growth in real total consumer expenditures and durable goods (2017 prices, % YoY). Shaded grey bars mark recessionary periods



Source: Bureau of Economic Analysis (BEA)

But beneath the surface, a few things are worth watching, in our view. For one, when asked about their *feelings* towards buying large household goods, consumers are not talking the talk. In fact, the University of Michigan Survey (Exhibit 11) shows that more households think it is a ‘bad’ time to buy household goods than those that think it’s a ‘good’ time.

One reason for this disconnect is likely that consumers are still feeling the impact of past inflation. While prices of consumer durables have been falling for almost two years, they are still up over 8% on 2019 levels as of Q2 2024, according to BEA data.

Exhibit 11: Households have not felt like it’s a good time to buy household goods this year

% of respondents saying now is a good time to buy large household items less those saying it is not, according to University of Michigan Survey of Consumers (monthly, index 0 = same amount of respondents answering positively and negatively)

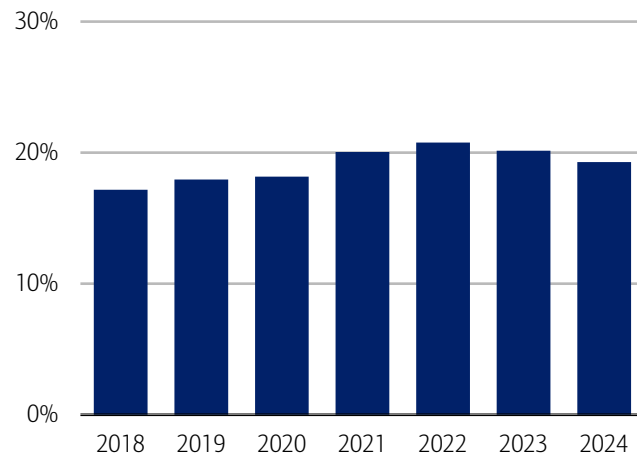


Source: Haver Analytics

BANK OF AMERICA INSTITUTE

Exhibit 12: The share of spending on higher-value durables has declined since 2022

Share of ‘high-value’ transactions in overall durables transactions (sequential Septembers, %)



Source: Bank of America internal data

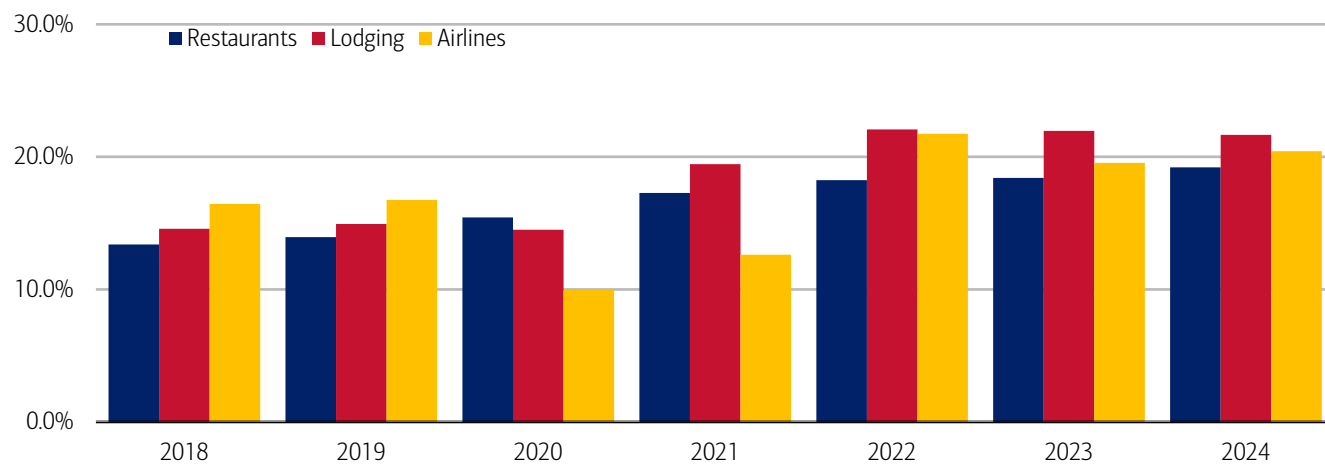
BANK OF AMERICA INSTITUTE

In Bank of America internal data we also find evidence that consumers are pulling back on relatively higher-priced durables. To explore this, we create a proxy for durables spending from credit and debit card data that focuses on auto parts, furniture, electronics and building materials (see methodology for more details) and then look at the distribution of ‘durables’ transactions within this data that are of relatively higher dollar value.

Exhibit 12 shows evidence that households have pulled back on the share of durables transactions that are ‘high value.’ Some of this decline could reflect falling prices of durables, but across the distribution of transactions the declines in spending per transaction are relatively larger at the top end. This suggests to us that consumers may be making a conscious decision to rein in relatively expensive durable purchases, possibly as they skew their spending towards more ‘value’ products.

Exhibit 13: The share of higher-value transactions has risen in airlines and restaurants, and remained flat in lodging

Share of ‘high value’ transactions in overall transactions in restaurants, lodging and airlines (sequential Septembers, %)



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

Interestingly, the reverse appears to be true for restaurant spending, with the share of higher-value transactions rising (Exhibit 13). So, it could also be that consumers are partly trimming their high-value durable spending to free up cash for experiences such as dining out.

Overall, in our view, while durables spending may currently have forward momentum, the trend for consumers to seek ‘bargains’ and their favoring of experiences over ‘things’ injects a note of caution to the outlook for durables going forward. It also provides another counterpoint to expectations that home equity withdrawals will provide a significant boost to spending.

Monthly data update

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 4.8% in September. Bank of America total credit and debit card spend, which comprises around 20% of total payments, increased 1.8% YoY in September.

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. This includes rent payments, although wires, cash, and some (mostly paper) checks intended for rent payments may be excluded.

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.

Home equity lines of credit (HELOC) utilization rates are calculated based on snapshots of each loan in the Bank of America HELOC loan portfolio, taken on the last day of each month. We define utilization as the aggregate of these balances divided by the aggregate of total HELOC line sizes, data is to end June 2024. HELOC-funded spending is calculated by identifying households with a HELOC loan that has been transferred to their deposit accounts. Using the subsector/category methodology above, average spending values from customers who have received a HELOC loan are compared to average values from the overall customer population, with excess outflows to select categories deemed HELOC funded spending. Debt repayments include, but are not limited to, credit card, student and auto loan balances while they exclude mortgage and HELOC debt repayments.

Discretionary spending consists of total payments across credit card, debit card, ACH, wires, bill pay, business/peer-to-peer and checks. minus necessities (food at home, childcare, housing, autos, etc.) and other outflows (transfers, debt payments, cash, etc.).

The threshold for higher value transactions in categories (including durables) is estimated with reference to the top 30% of transactions by value in 2024. The share of higher value transactions is then the number of transactions above this threshold as a percentage of total transactions over time.

The data on inflows and outflows into direct deposit accounts data is based on BAC internal data, it is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US at a highly aggregated level. Inflows and outflows are calculated as six-month averages.

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.

Contributors

David Michael Tinsley

Senior Economist, Bank of America Institute

Joe Wadford

Economist, Bank of America Institute

Liz Everett Krisberg

Head of Bank of America Institute

Taylor Bowley

Economist, Bank of America Institute

Vanessa Cook

Content Strategist, Bank of America Institute

Sources

Li Wei

Director, Global Risk Analytics

Jon Kaplan

Senior Vice President, Digital and Data

Ana Maxim

Senior Vice President, Consumer and Small Business

Chuck Seiler

Senior Vice President, Consumer and Small Business

Marcus Starnes

Senior Vice President, Consumer and Small Business

Spencer Boone

Senior 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. These materials do not make any claim regarding the sustainability of any product or service. Any discussion of sustainability is limited as set out herein. 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 person and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular person. 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 2024 Bank of America Corporation. All rights reserved.