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Consumer Checkpoint

Tapping the brakes?

10 September 2024

Key takeaways

- Bank of America aggregated credit and debit card spending per household rose 0.9% year-over-year (YoY) in August, rebounding from the 0.4% YoY decline in July. On a month-over-month (MoM) basis, spending in August decreased 0.2% after rising 0.3% in July. In our view, this reflects a normalization of consumer spending as opposed to a weakening. Within the total, services spending momentum remains stronger than goods.
- Housing cost inflation is easing for both homeowners and renters. Bank of America data on 'new rents' for people who move within the same city indicates that rental payments have flattened out. Over time, this may mean renters have more to spend on other things and further close the gap to homeowner spending.
- However, one risk to consumer spending emerges from the small proportion of households that have seen significant rises in their monthly auto loan repayment as a result of higher car prices and financing rates.

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 normalizes, with consumers supported by wage gains

Bank of America aggregated credit and debit card spending per household rose 0.9% in August, following a fall of 0.4% year-over-year (YoY) in July (Exhibit 1). The timing of Labor Day, with more shopping days in the holiday run-up falling in August this year, partly explains the recovery. On a monthly, seasonally adjusted (SA) basis, spending in August declined 0.2% MoM, following the July increase of 0.3% month-over-month (MoM). In our view, consumer spending is normalizing rather than weakening more significantly.

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

Total 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

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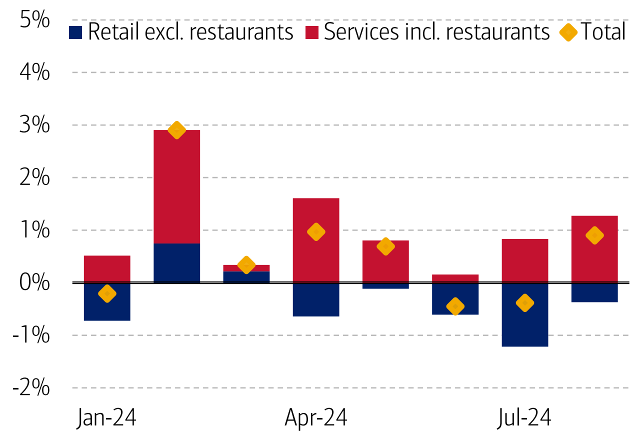
Exhibit 2: Services spending contributed most, if not all, of the growth in total card spending this year

Total card spending per household (monthly, seasonally adjusted, % growth YoY) and contribution to growth from retail and services (percentage points, pp)



Source: Bank of America internal data

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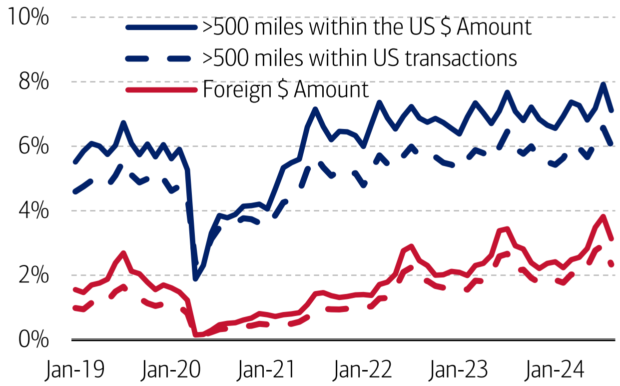
A familiar picture of services strength and relative retail weakness persisted in August. Services spending (including restaurants) contributed over a percentage point to total card spending growth YoY, while retail was a slight drag (Exhibit 2).

Travel-related spending remains a bright spot, according to Bank of America internal card data. Looking at travel-related restaurant spending this month, we find that the percentage share that occurred in another country or 500 miles or further from home (our proxy for long-distance domestic travel) continued to grow, although at a slower pace than this time last year (Exhibit 3).

We usually see a bump in spending in the build-up to back-to-school season, however, this year the trend is slightly more muted compared to 2023 (Exhibit 4). Some of this is likely due to deflation in certain key back-to-school items (e.g., children's apparel). In our view, consumers are also likely trading down to more value apparel (see: [Trading down is the new dressing up]).

Exhibit 3: The August 2024 share of transactions and spending amounts for domestic travel greater than 500 miles and foreign travel is increasing, but at a slower rate than last year

Percentage share of travel-related restaurant spending transactions and amounts for trips greater than 500 miles from home and foreign trips (monthly, %)



Source: Bank of America internal data

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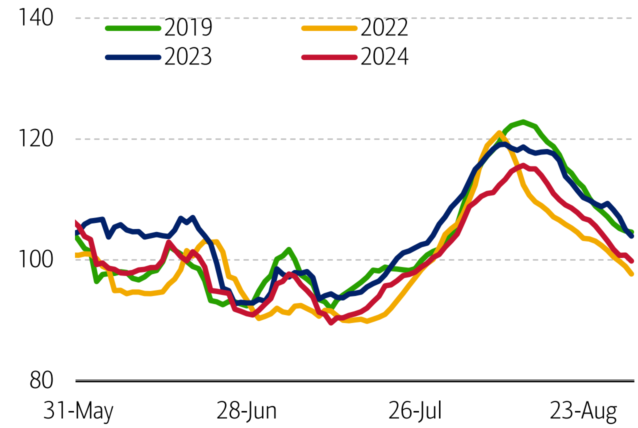
Exhibit 4: This year's back-to-school spending is lower than 2023, likely as consumers trade down

Card spending per household for back-to-school centric categories (7-day moving average, index May 2024 = 100)



Source: Bank of America internal data

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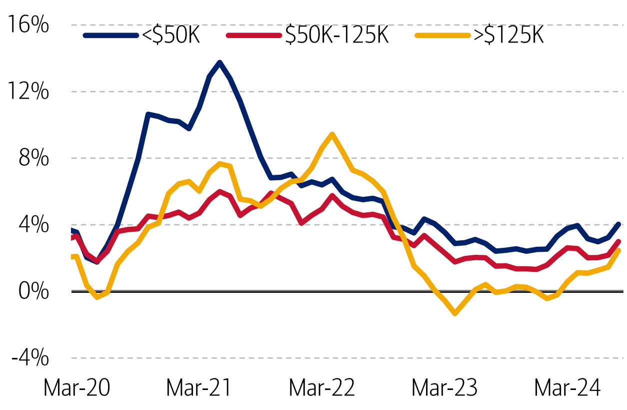
Looking at the underpinnings of the US consumer, the picture remains fairly healthy. While data from the Bureau of Labor Statistics (BLS) shows that jobs growth is cooling, with nonfarm payrolls growth of 142K in August 2024 compared to the 2023 average of 251K, our Bank of America internal data on after-tax wages and salaries growth is not showing signs of a slowdown (Exhibit 5), and, in fact, accelerated in August for all income groups. After-tax wage growth remains highest for lower-income households in August 2024, though there has been some notable acceleration in higher-income wage growth since last year.

Exhibit 5: Wage growth is improving across all income groups, with lower-income households still outpacing other cohorts

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

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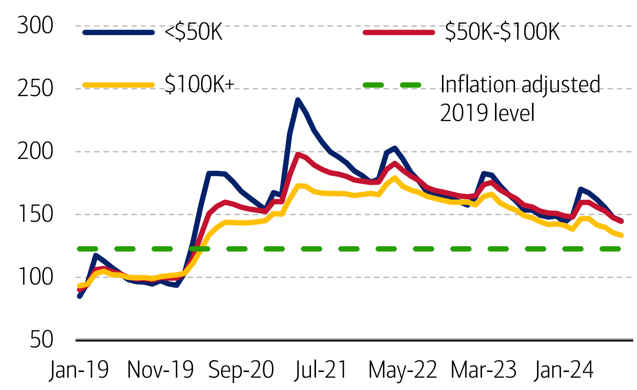
Exhibit 6: August 2024 deposits remain more than 33% above 2019 nominal levels for all income cohorts

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

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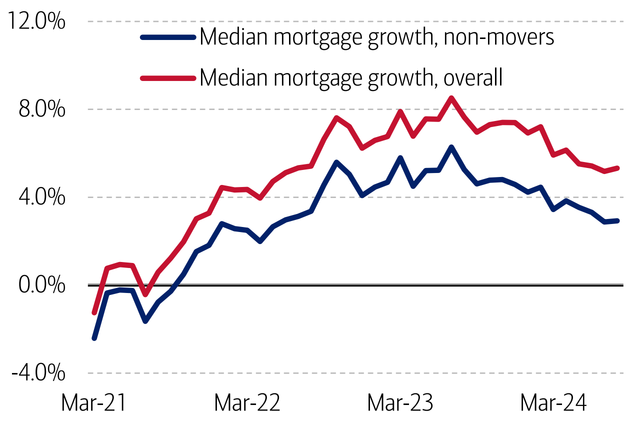
Meanwhile, Bank of America internal data on households' savings and checking balances continues to show that median balances, while well off their highs, remained up at least 10% in inflation-adjusted terms, with nominal growth up over 33% (Exhibit 6). And while some headlines have speculated that uncertainty around the upcoming US election will stifle consumers in the coming months, a study from the University of Chicago finds that while the election may affect consumer sentiment, spending plans typically aren't impacted.

Housing: Easy does it

According to Bank of America internal data, the biggest single expense for households – housing costs – is exerting a little less cost pressure. Median mortgage payment growth peaked in July 2023, according to Bank of America internal deposits data, largely due to a combination of house moves, higher mortgage rates and rising housing prices (Exhibit 7). But even households that didn't move saw rises in their monthly payments, likely reflecting more 'hidden' costs including property insurance and taxes (see: Hidden costs and slowing spending). However, in August 2024 this growth rate has fallen to less than half of the July 2023 peak, with the median rise in mortgage payment growth for non-movers currently just under 3% YoY.

Exhibit 7: Customers who have not moved saw median mortgage payment growth of around 3% YoY in August 2024

Monthly median mortgage payment growth YoY% overall, compared to households who have not moved (three-month moving average, %)



Source: Bank of America internal data

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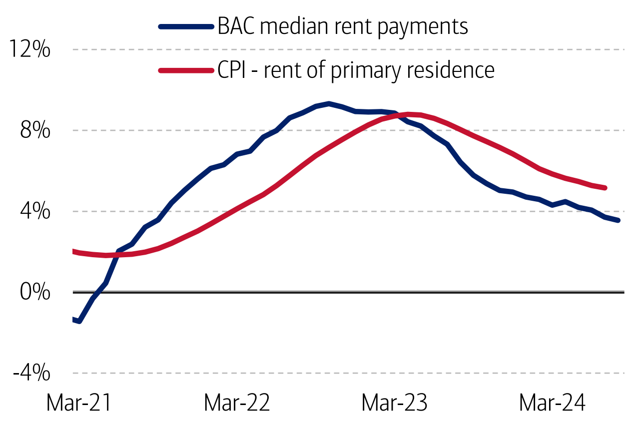
Exhibit 8: August 2024 rent growth is slowing YoY according to Bank of America internal data

Median rent payment YoY growth compared to rent of primary residence CPI (three-month moving average, %)



Source: Bank of America internal data

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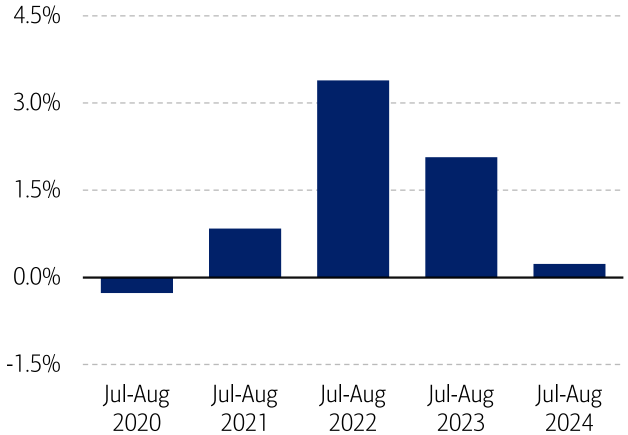
Of course, not everyone owns their home: 34% of US households rent according the US Census Bureau. The good news for renters? The latest data from Bank of America and the BLS suggests that rental payment growth is also slowing (Exhibit 8).

Exhibit 9: Average new rents have nearly flattened for households that moved in Q2 2024

Average rent in the period after a move in April, May, or June of 2024 compared to the average rent before (two-month moving average, %)



Source: Bank of America internal data

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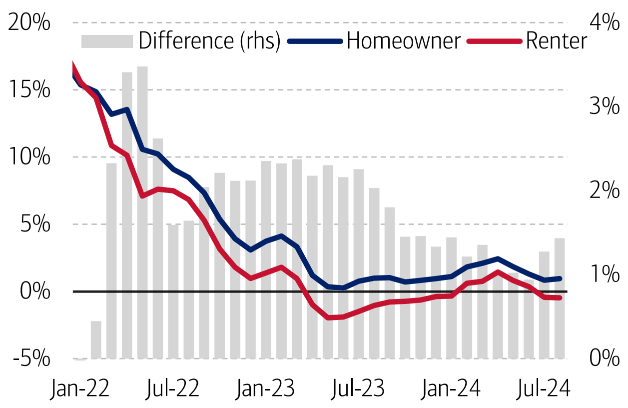
Exhibit 10: The gap between the growth in renters' non-housing spending with that of homeowners has been relatively constant since the fall of 2023

Total card spending per household excluding rent, of homeowners and renters (monthly, %YoY) and their difference (right hand side)



Source: Bank of America internal data

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Overall rent payments reflect the rents of households in existing leases as well as those moving and agreeing to new rents. To look only at "new" rents, we compare the average rent payments before and after an observed move using Bank of America internal data (see methodology for details). We focus on people who stay in the same MSA (metropolitan statistical area), to control for costs of living between MSAs. Exhibit 9 shows that recent movers are paying nearly the same amount for rent on average. This suggests further declines in BLS overall rent inflation measures are likely, as these lower rent payments eventually take up a larger share of total rent payments over time.

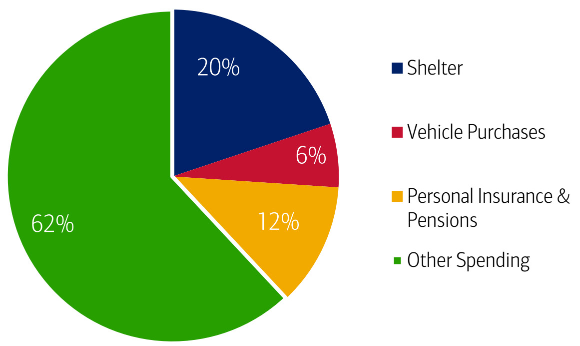
Cooling housing costs may help both homeowners' and renters' non-housing spending. The spending growth of renters continues to lag that of homeowners in Bank of America credit and debit card data (Exhibit 10), but falling new rents suggests scope for renters' spending to further close the gap.

Auto payments: hazard in the road ahead?

While shelter (housing or rent) makes up a significant portion of consumer spending on vehicle purchases is also significant, accounting for around 6% of household expenditures for consumers (Exhibit 11).

Exhibit 11: Shelter and vehicles make up 26% of consumer spending

Share of household expenditure by category (%)



Source: Bureau of Labor Statistics

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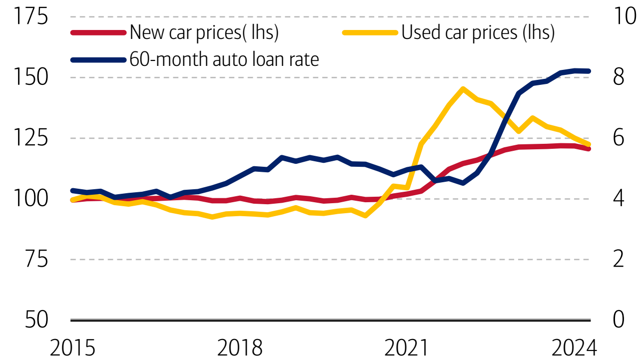
Exhibit 12: Both auto prices and financing rates are significantly higher than before the pandemic

Consumer price index for new and used cars (2015=100) and the finance rate on new 60-month auto installment loans at US commercial banks



Source: Bureau of Labor Statistics, Board of Governors of the Federal Reserve System

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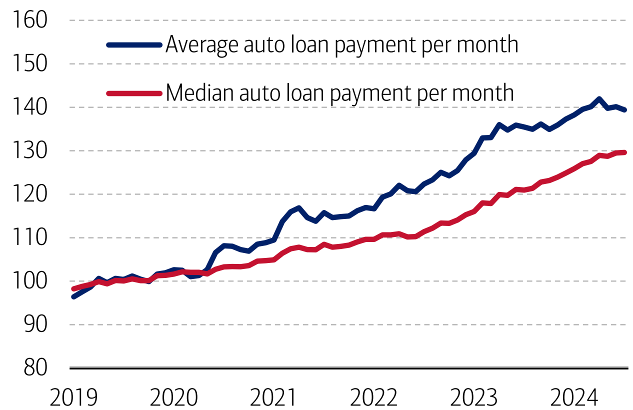
Two factors have pushed up the cost of buying a vehicle since the pandemic. First, the prices of both new and used cars rose significantly over the 2021-2022 period of acute supply bottlenecks. And even though car prices, especially used ones, have eased back, they remain significantly higher than in 2019 (Exhibit 12). Second, the interest rates attached to automotive borrowing have generally risen significantly as the Federal Reserve has raised policy rates.

Exhibit 13: Median monthly car loan repayments are up around 30% compared to 2019

Average and median monthly auto loan repayments (three-month moving average, 2019=100)



Source: Bank of America internal data

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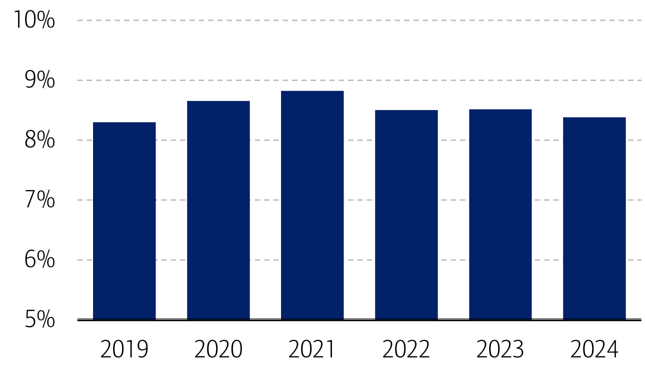
Exhibit 14: Overall loan repayments have not risen as a percentage of income over the last few years

Loan repayments as a percentage of observed income, annual averages January-August (%)



Source: Bank of America internal data

Sample includes those households where loan repayments are observed continuously since January 2021

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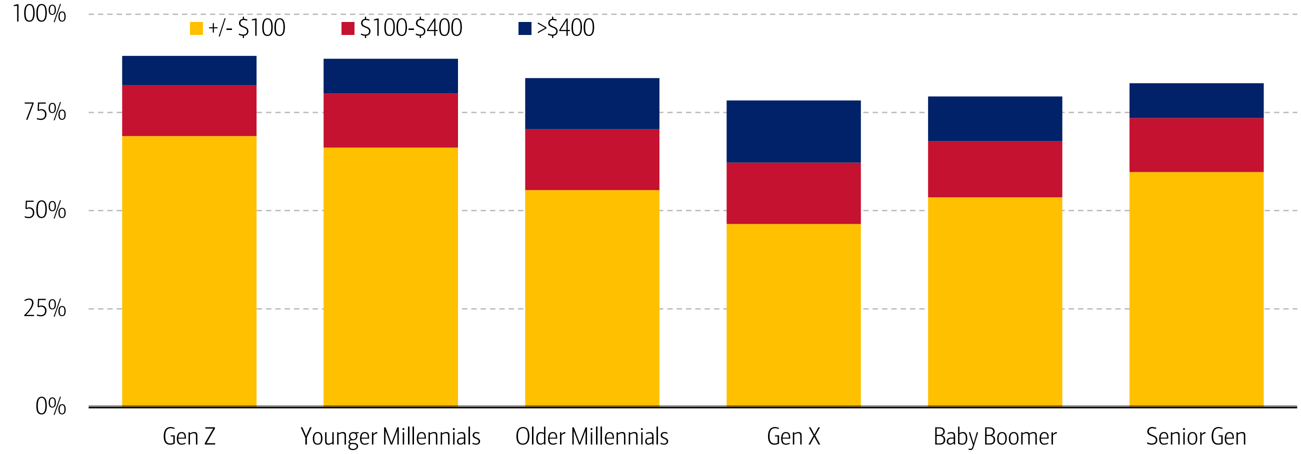
The median monthly auto loan payment has risen around 30% compared to 2019 as a result of higher car prices and financing rates, according to Bank of America internal data covering households' auto loan payments to many different loan finance providers (Exhibit 13). But despite these sharp rises in monthly repayments, there has been little increase in loan repayments as a percentage of income (Exhibit 14), reflecting strong income growth over this period.

However, many consumers do not buy a new or used car every year or even every decade, and as a result, many households may not have incurred these higher auto loan repayments at all. Exhibit 15 uses Bank of America internal data to look at the proportion of households that have seen their monthly loan repayments increase between 2022 and 2024. We find a large majority of households with regular auto loan repayments have seen very little change over this period, likely because they did not change their vehicles.

Exhibit 15: A small proportion of households have seen changes in auto loan payments over $400 a month

Percentage of households with a specified change in auto loan payments from January-August 2022 to January-August 2024 by age generation



Source: Bank of America internal data

Sample includes only those households where vehicle loan repayments are observed continuously since January 2021. Bars do not sum to 100% as some households saw payment declines over the period.

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The exhibit also shows that a small proportion of households with loan repayments – just over 10% across all households – have seen their monthly auto loan repayments rise by over $400 a month, likely reflecting the purchase of a new vehicle. Older Millennials and Gen X have the highest share of households with these jumps in payments. If the economy and labor market were to deteriorate sharply, the spending of this small group of households could be vulnerable, as their need to keep servicing these larger auto loans might imply they would have to cut back significantly elsewhere.

Monthly data update

Total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) rose 2.2% in August. Bank of America total credit and debit card spend, which comprises around 20% of total payments, increased 3.2% YoY in August.

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.

New rents were derived by comparing the average rent for all movers during the period before and after a move that occurred in April, May and June. Movers were identified based on changes in customers' home addresses. Rent payments during February or March were taken as "before", while July or August served as the "after." If multiple rent payments existed in the two months before or after, the largest rent was chosen. Then, the percentage change was computed using the average rent for all movers in the same MSA before a move, compared to the average rent for these same households after the move.

Back to school items include merchants likely to be associated with "back to school" spending, such as children's or teenagers' apparel stores.

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 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.

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Disclosures