

## Consumer Morsel

# Caution on the road ahead

17 September 2024

### Key takeaways

- Higher car prices and financing rates mean auto loan repayments have risen significantly since the pandemic. In Bank of America internal data the median auto loan repayment is up 30% compared to 2019 levels.
- Lower-income households have seen a particularly large increase in their monthly auto payments and the majority of these households now make regular auto payments above \$500 a month. That said, strong wage and salary growth for lower-income households has kept pace with higher auto payments.
- However there are risks. As a share of their median deposits, auto payments have risen significantly and households with the largest rises might need to pare back their other spending significantly in adverse economic scenarios.

### Auto loan payments: Pedal to the metal

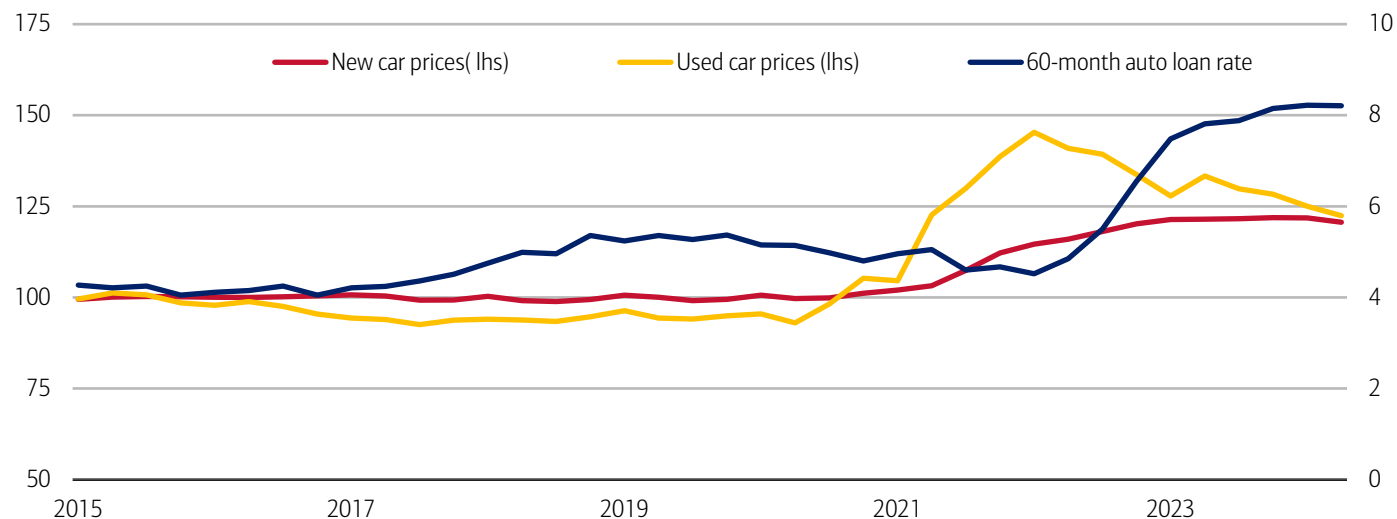
As we discussed in the [September Consumer Checkpoint](#), vehicle buyers in the US in recent years have been confronted by multiple developments that have made purchasing a car more expensive.

First, car prices, both new and used, rose significantly over the 2021-2022 period (Exhibit 1), reflecting the pandemic supply disruptions that occurred at the time. It became difficult for buyers to source a new vehicle as inventory ran low. As a result, consumers entered the used car market, which saw dramatic price rises. As supply disruptions have eased over the last few years, car prices have dropped back, but still remain in excess of 20% over 2019.

A second confounding factor has been the rising interest rates attached to automotive borrowing, which rose to above 8% by early 2024. This rising cost of finance has been largely due to the tightening in monetary policy by the Federal Reserve, which raised its policy rates since early 2022 in order to contain overall US inflation.

#### Exhibit 1: Auto prices are up around 20% compared to before the pandemic.

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



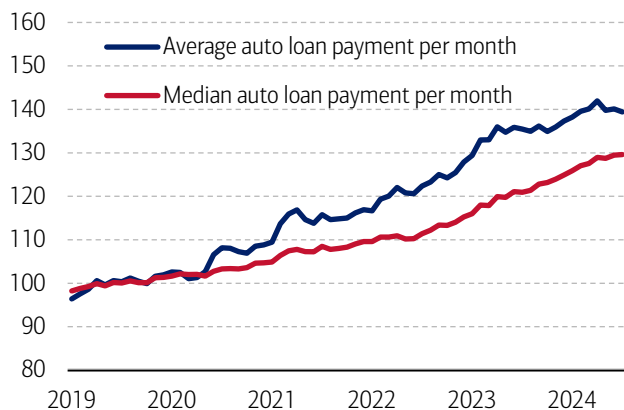
Source: Bureau of Labor Statistics, Board of Governors of the Federal Reserve System

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Higher prices and financing rates also mean that the median monthly auto loan payment has increased around 30% compared to 2019, around 7% in inflation-adjusted terms, according to Bank of America US deposit account data covering households' auto loan payments to many different loan providers (ie not just auto loans with Bank of America) (Exhibit 2).

**Exhibit 2: Median monthly auto loan repayments are up around 30% compared to 2019, with nearly 10% of this growth occurring in the last year**

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

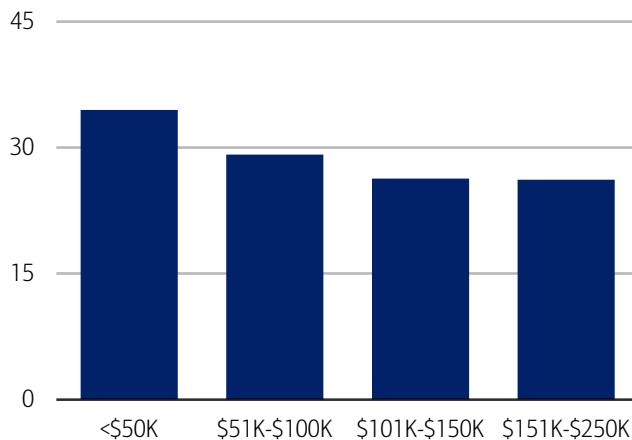


Source: Bank of America internal data

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**Exhibit 3: Median monthly auto loan repayments are up most for lower-income households**

Change in median auto loan payment 2019 to August 2024(%) by household income



Source: Bank of America internal data

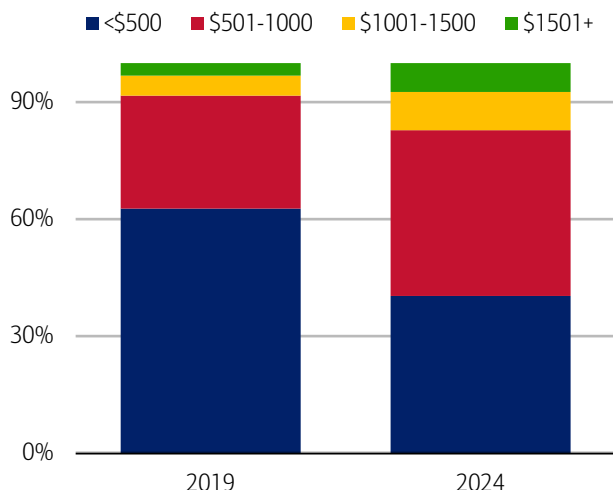
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**Lower-income households: hazards on?**

Is the impact of higher auto loan payments felt similarly across the income distribution? Here, we dig a bit deeper into these payments and find that auto loan payments have risen most for lower-income households (Exhibit 3). The median auto loan payment for this group has increased by 34%, almost 10 percentage points above that seen by the highest income households.

**Exhibit 4: For lower-income households there has been a sharp rise in auto payments above \$500 a month to around 60% of households**

Distribution of households with incomes below \$50K by average monthly auto payments (%)

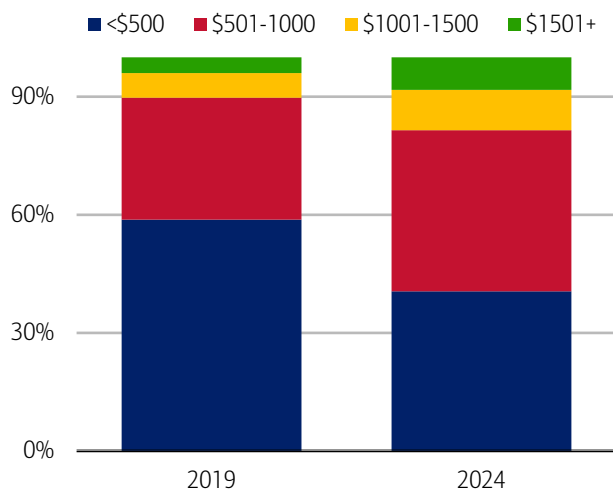


Source: Bank of America internal data

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**Exhibit 5: There has been a similar rise amongst households with incomes in the \$51K to \$100K income range**

Distribution of households with incomes between \$51K-\$100K by average monthly auto payments (%)



Source: Bank of America internal data

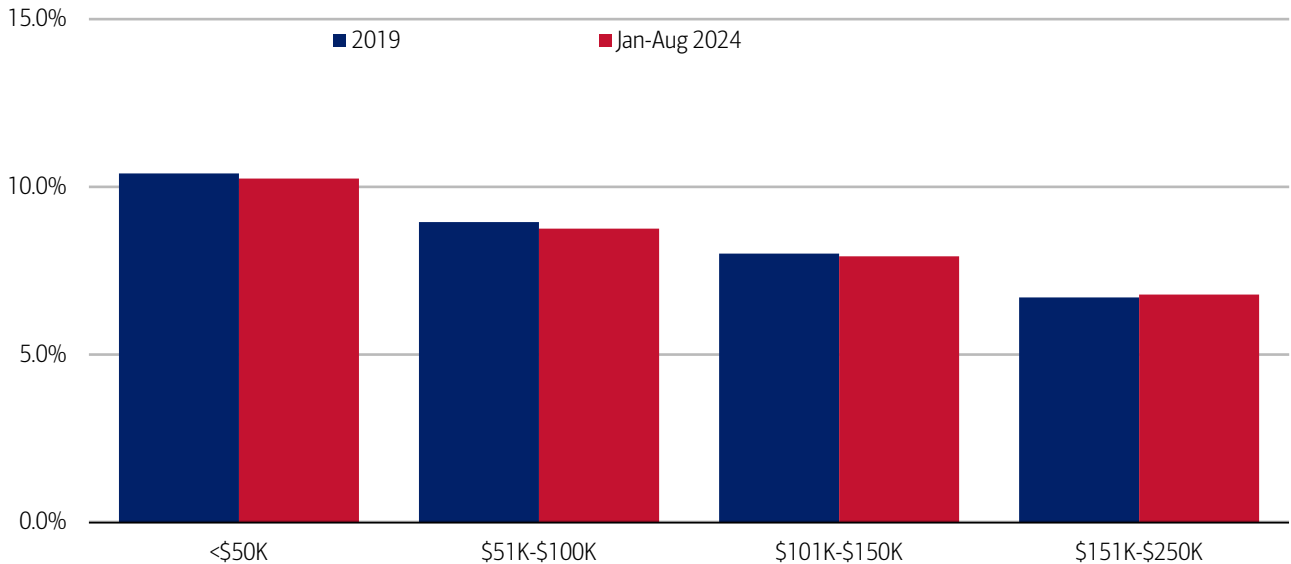
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And when we look at the distribution of payments, Exhibit 4 shows that since 2019 there has been a sharp rise in the proportion of households with incomes below \$50K who have a regular auto loan payment above \$500. A similar, though slightly lower, rise can be observed for households with incomes in the \$51K to \$100K range (Exhibit 5).

## Please drive carefully

A piece of good news is that wage and salary growth has been fastest at the lower-income end of the distribution since the pandemic. This has helped balance the higher auto loan payments, so that as a share of income, some lower-income households have not seen a rise in their regular payments (Exhibit 6), and, in fact, the average loan payment as a percentage of income has declined for all income cohorts except for the highest-income households.

**Exhibit 6: There has been very little change in auto loan repayments as a percentage of income compared to 2019, remaining around 10%**  
Average auto loan payment as a percentage of income, by household income (%)



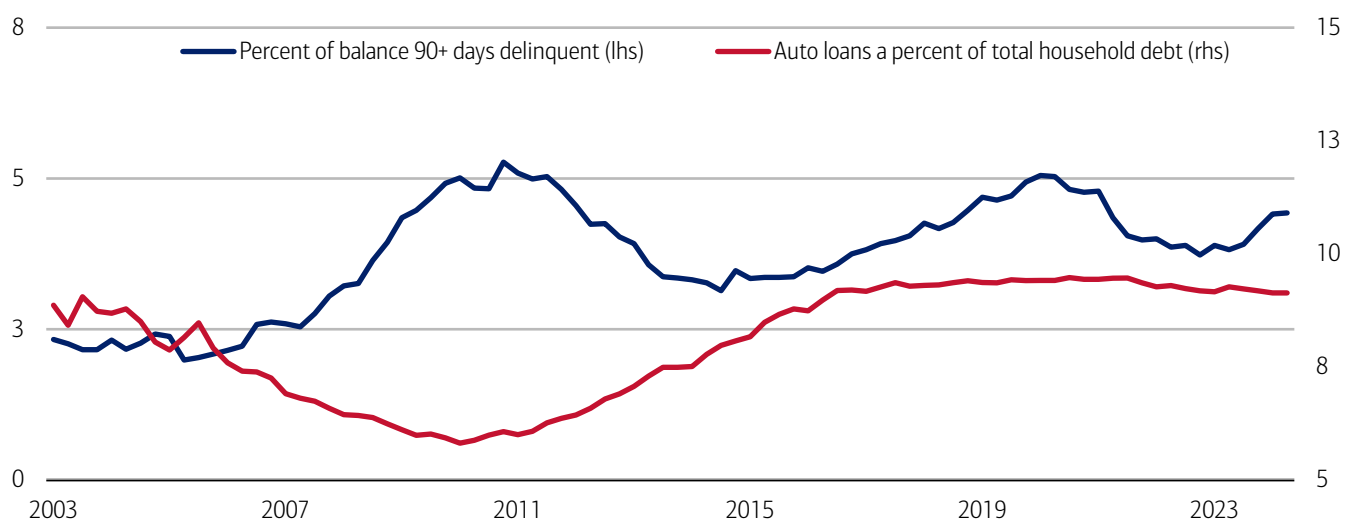
Source: Bank of America internal data  
Sample includes those households where loan repayments are observed continuously since January 2021

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Even with these wage increases, it's clear some tensions have emerged for a portion of auto loan borrowers. For example, the New York Federal Reserve Household Credit and Debit report for Q2 2024 indicated that the share of auto loans delinquent for 90 days or more has been rising (Exhibit 7), though the total share of autos loans to overall household debt is fairly small.

**Exhibit 7: There has been a rise in 90+ day auto loan delinquencies according to New York Fed data, though the rate remains around the level of 2019**

Percent of auto loan balance 90+ days delinquent and share of auto loans as a percentage of household debt (%)



Source: New York Fed Consumer Credit Panel/Equifax

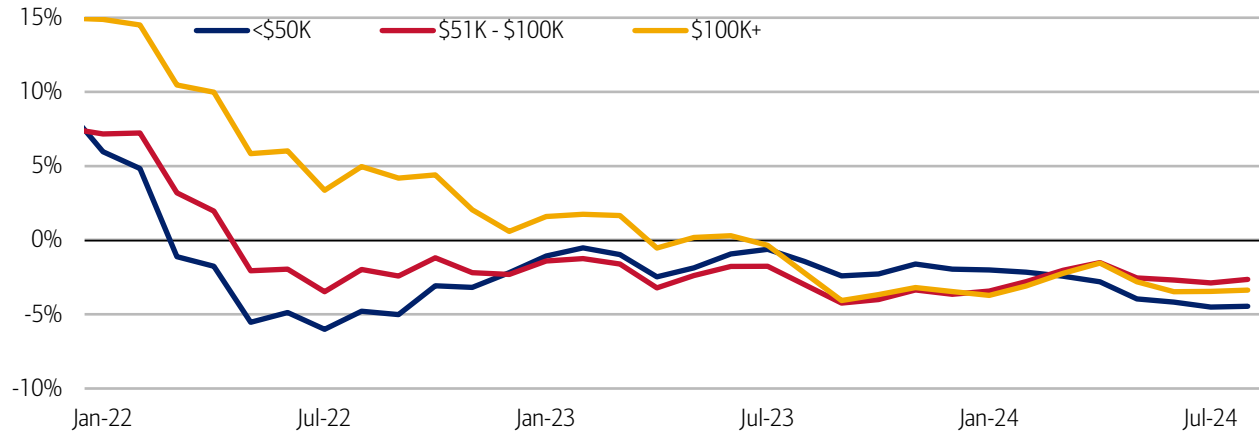
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Some of these tensions likely reflect the fact that households have been experiencing rising cost pressures across a range of areas such as housing, childcare, insurance, and even car maintenance itself. In fact, one emerging risk we find is the possibility

that some consumers are deferring auto repairs, as they juggle these rising costs along with price increases elsewhere. Bank of America aggregated credit and debit card data suggests that lower-income consumers began cutting back on visits to auto service and repair shops when CPI inflation was rising in peaking in 2022, although consumers across all income groups have seen a decrease in the past year. If drivers let their vehicle’s health decline for too long, it’s possible they’ll face major repair costs down the road.

**Exhibit 8: Lower-income consumers have seen a sharper decline in transactions at auto service and repair shops since mid-2022**

Total card spending at auto service and repair shops by income (three-month moving average, YoY%)



Source: Bank of America internal data

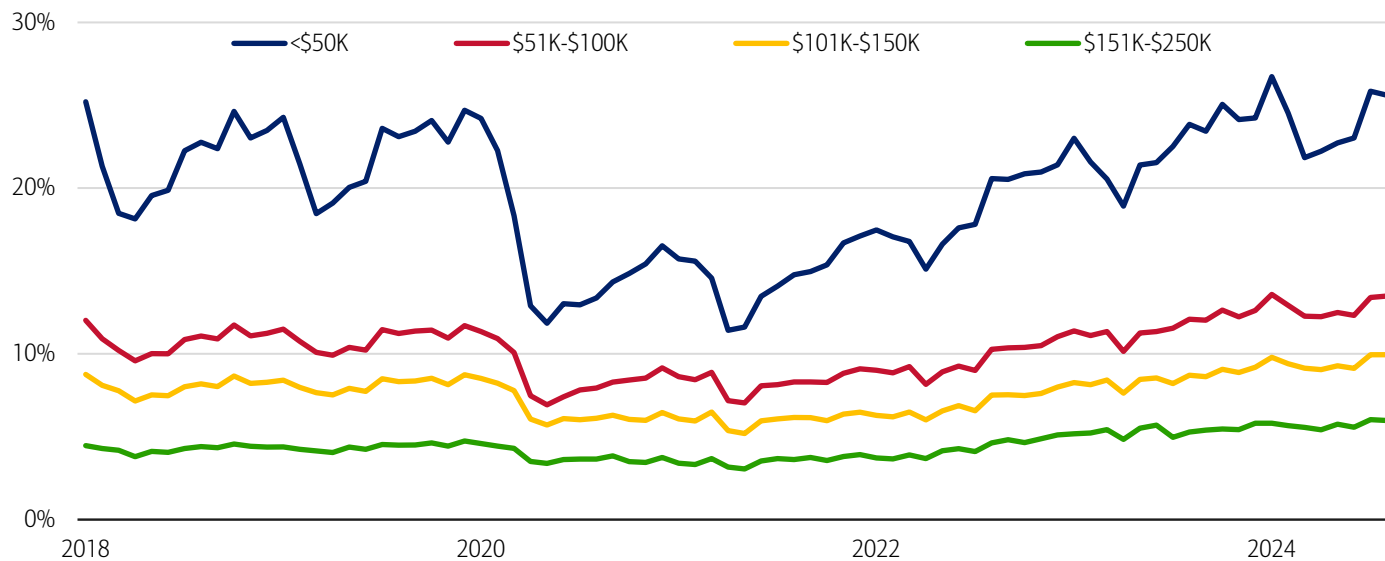
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In our view, the larger risks are in the event the economy deteriorates sharply. For example, if there were a significant weakening of the labor market, higher auto loans may represent a strain on some lower-income households’ budgets. Exhibit 9 shows that as a percentage of their deposit balances, the rise in auto loan payments is particularly sharp for lower-income households. A household that found itself with a disruption to their regular income may find auto-related expenses unaffordable, especially given all their other competing expenses.

Moreover, auto loan payments are fairly large relative to a household’s average monthly spending, especially for lower-income households. So, in the event of a sharp deterioration in the economy and rise in unemployment, some households may be faced with making significant cuts to their spending as they balance their overall financial commitments.

**Exhibit 9: Lower-income households have seen a significantly larger rise in auto payments as a percentage of their deposits. The median auto payment is around 25% of their median deposits as of August 2024.**

Median auto payment as a percentage of median deposit balance by income (%)



Source: Bank of America internal data

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## 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.

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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## **Sources**

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