

Consumer Morsel

Value shop ‘til you drop

06 June 2024

Key takeaways

- According to internal Bank of America data, consumers are spending more on groceries with inflation-adjusted growth in early 2024 positive for the first time in nearly three years. But Consumer Price Index (CPI) data shows grocery prices were still up nearly 30% in April 2024 compared to January 2020 levels, and we find that some consumers may be looking for ways to offset their relatively high grocery bills.
- Using Bank of America internal data we find that Gen Z and Millennials, faced with high grocery prices and rising costs for other necessities, join Gen X and Baby Boomers with increasing shares of grocery spending at value-tier stores.
- Notably, the percentage share changes for grocery tiers are relatively small, indicating that reports of large-scale trading down to value-tier grocery stores may be overstated. However, as long as prices remain high, in our view, consumers will search for opportunities to trade down, particularly younger cohorts as they age into more value shopping.

Grocery store sticker shock

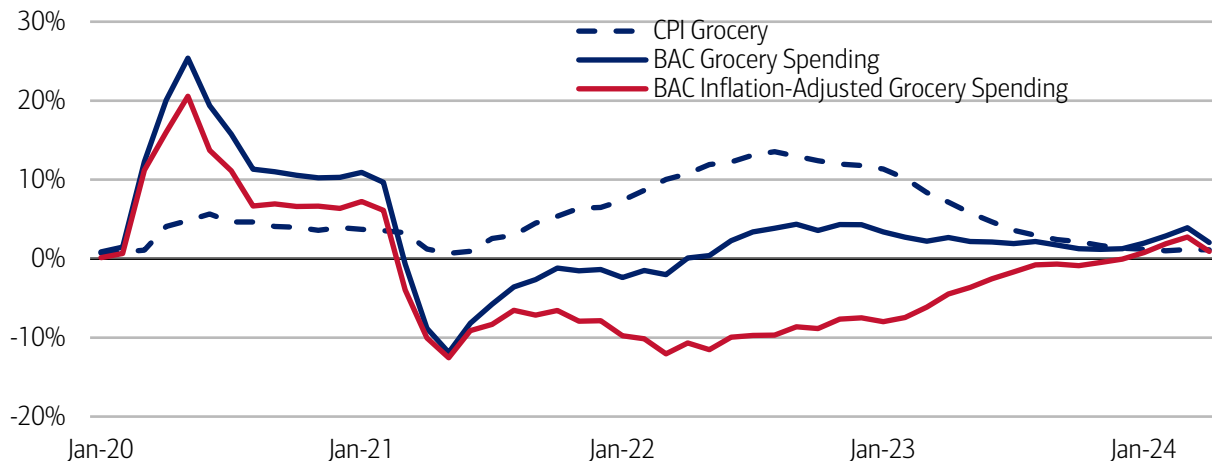
While Gen X and Baby Boomers were already value shopping for groceries prior to the pandemic, higher grocery prices and increasing necessity spending are leading some Gen Z and Millennials to “trade down,” both in-store and to value-tier grocery stores, according to Bank of America internal data.

After the onset of the pandemic, when restaurants were largely shuttered, and people remained home, food and beverage store (grocery) spending surged 25% year-over-year (YoY) (Exhibit 1). At the same time, the grocery industry experienced pandemic-related worker shortages and supply chain issues, which decreased supply.

In 2021, the economy began to reopen, and people started to eat out again. This increased restaurant demand, putting more pressure on an already constrained supply of food and beverages. This supply/demand imbalance, along with geopolitical issues and rising production costs, led to significantly higher grocery prices through 2022 and into 2023.

Exhibit 1: Inflation-adjusted grocery spending was positive for the first four months of 2024 and for the first time since February 2021 after nearly three years of negative growth

YoY growth for CPI for food at home (grocery), BAC grocery spending, and BAC inflation-adjusted grocery spending (three month moving average, %)



Source: Haver Analytics, Internal Bank of America data

More recently, “real” (inflation-adjusted) grocery spending growth has been positive for the first time in nearly three years, according to internal Bank of America aggregated credit and debit card spending data. However, absolute prices are still high, with April 2024 Consumer Price Index (CPI) data from the Bureau of Labor Statistics indicating grocery prices are nearly 30% higher compared to January 2020 levels.

So, how are consumers dealing with higher prices at the checkout line?

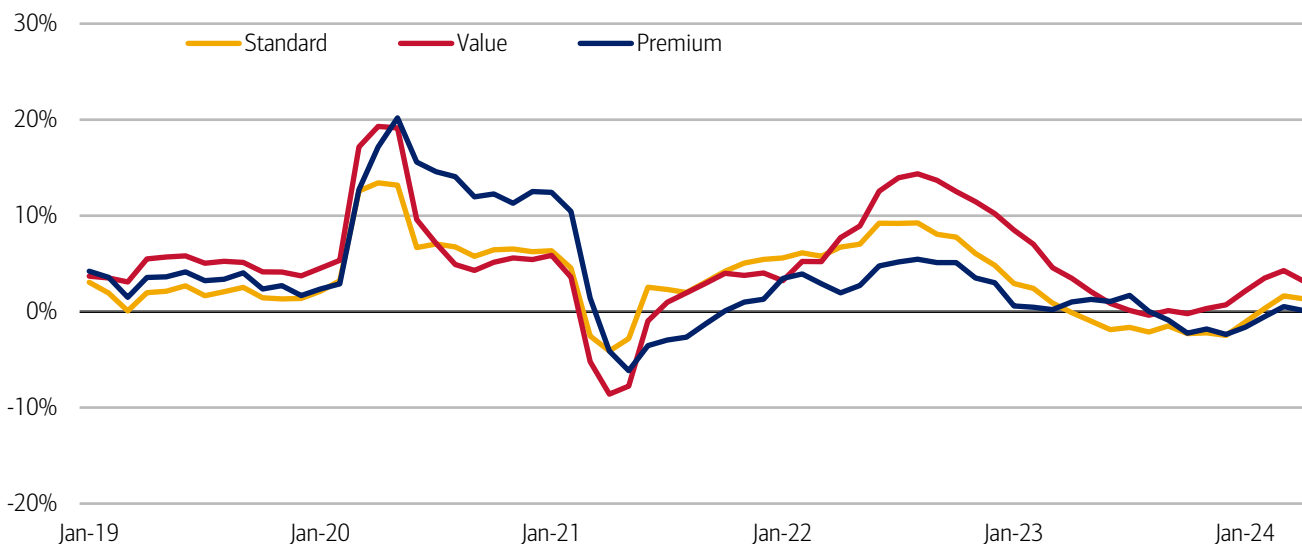
Trading places: From premium to value

Using internal Bank of America card data, we defined grocery store tiers (premium, standard and value) based on the median income of customers that frequently shop at those locations. For example, grocery stores with the lowest median-income customers were categorized as “value tier” likely reflecting, in our view, the outlets with the least expensive groceries.

Exhibit 2 shows that spending growth at value-tier grocery stores began to increase at faster rates than that of premium- and standard-tiers in April 2022, reaching its peak at the height of grocery inflation in August 2022, before easing in mid-2023. However, value-tier spending growth began to increase again in fall 2023, likely as more consumers “traded down” to save money in order to offset the high costs of groceries and rising costs of other necessities such as housing, insurance, and autos.

Exhibit 2: Aggregate YoY spending growth at value-tier grocery stores increased at higher rates starting in mid-2022, reflecting peak grocery inflation. The recent runup in spending growth is likely due to rising costs of other necessities such as housing, insurance, and autos

YoY aggregate card spending growth by grocery tier (three-month moving average, %)



Source: Internal Bank of America data

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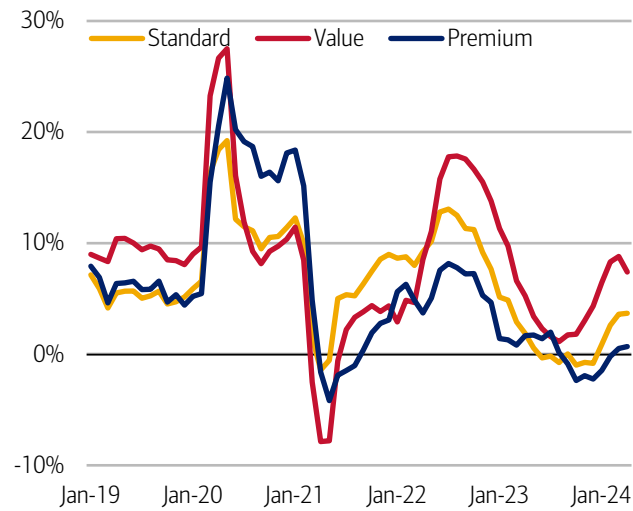
According to internal Bank of America card data, Millennials’ spending growth follows a similar pattern to the overall population (Exhibit 3), with spending growth at value-tier grocery stores strongest since May 2022.

But while Gen Z’s grocery spending growth has been very strong overall, it is not until fall of 2023 (Exhibit 4) that the growth in their spending at value-tier stores has been highest. So, why is Gen Z just now making the switch to value tiers?

It appears this switch is likely due, in part, to life stage changes. We noted in a [recent publication](#) that Gen Z’s spending might be softening as they begin to spend more on necessities such as: [autos](#), housing, and insurance. And until recently, higher wage growth relative to other generations might have allowed them to shop at premium-tier stores for longer. But we think it is possible that the Gen Z cohort recently traded down to value-tier grocery stores to alleviate some of the pressures from taking on more necessity spending as they grow older.

Exhibit 3: Millennials' YoY spending growth at value-tier grocery stores increased at higher rates starting in mid-2022, as this cohort was likely already spending on necessities

YoY aggregate card spending growth by grocery tier (three-month moving average, %)

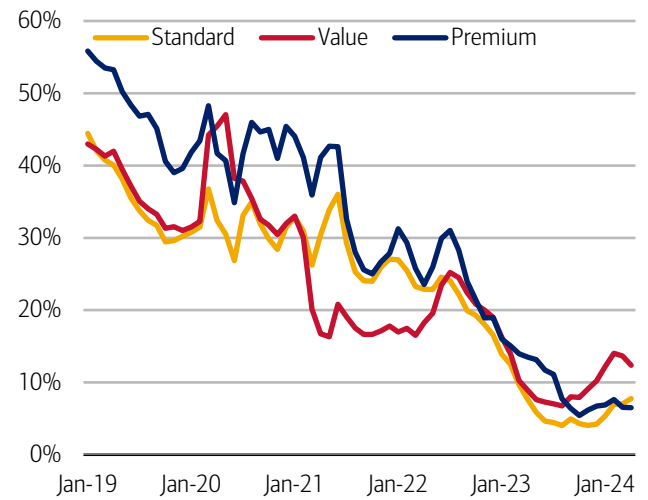


Source: Internal Bank of America data

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Exhibit 4: Gen Z's YoY spending growth at value-tier grocery stores surpassed that at standard and premium tiers in fall 2023, likely as these consumers take on more necessity spending

YoY aggregate card spending growth by grocery tier (three-month moving average, %)



Source: Internal Bank of America data

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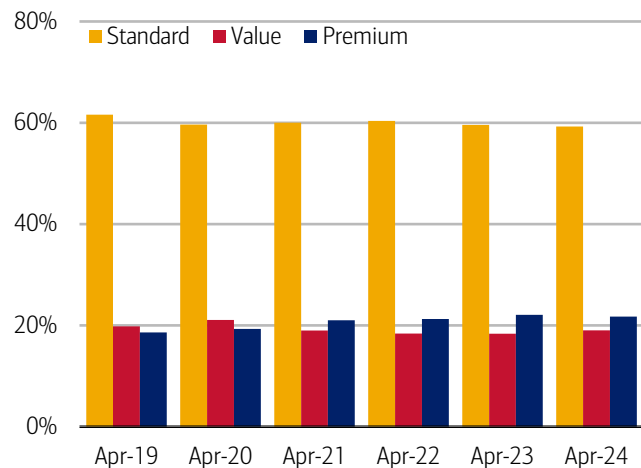
Millennials age into value-tier grocery spending

Internal Bank of America spending data is consistent with this life stage story. While most grocery spending occurs at the standard tier for all generations, Gen Z are the biggest spenders at premium stores, possibly due in part to their much higher wage growth. But this share decreased slightly this year after increasing for four years straight (Exhibit 5).

As shown in Exhibit 6, Millennials spent slightly more at value than premium grocers in 2022 and this difference has grown every year since, likely to offset higher expenses from life stage related financial burdens (e.g. housing, auto-related spending, childcare, etc.).

Exhibit 5: The share of grocery spending at premium-tier stores has exceeded the value share since April 2021. However, the share for premium tier stores decreased slightly in April 2024

Percentage share of card spending by grocery tiers for Gen Z (three-month moving average, %)

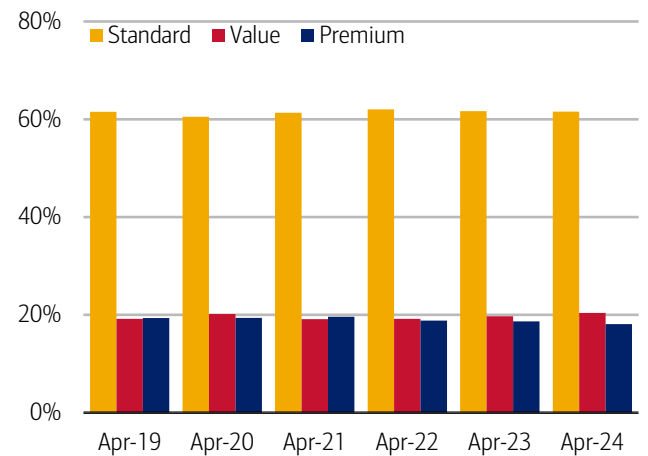


Source: Internal Bank of America data

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Exhibit 6: For Millennials, the share of grocery spending at value tiers was slightly larger than the premium share in 2022 and this difference has grown every year since.

Percentage share of card spending by grocery tiers for Millennials (three-month moving average, %)



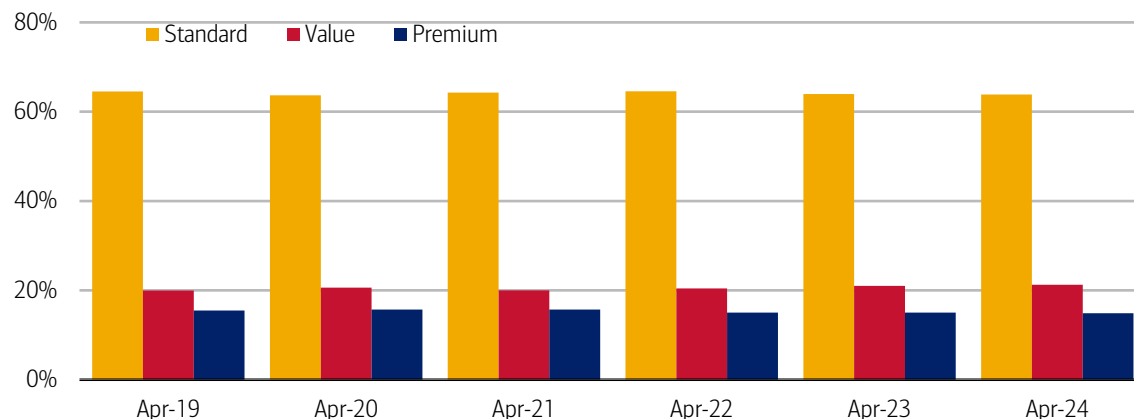
Source: Internal Bank of America data

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Furthermore, Gen X and Baby Boomers’ share of value-tier spending has remained steadily above their premium-tier share since 2019, as these customers are even further along in their life stage and already paying for more necessities than their younger counterparts (Exhibit 7).

Exhibit 7: Gen X and Baby Boomers’ share of value-tier spending has remained steadily above the premium share as these customers are even further along in their life stage and were value shopping before the onset of the pandemic

Percentage share of card spending by grocery tiers for Gen Xers and Baby Boomers (three-month moving average, %)



Source: Internal Bank of America data

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Notably, the percentage share changes for grocery tiers are relatively small, indicating that reports of large-scale trading down to value-tier grocery stores may be overstated. However, it is important to note that some Gen Z and Millennials may continue to trade down as they age into more value shopping, especially as prices for groceries remain significantly higher than pre-pandemic levels.

Trade down for what?

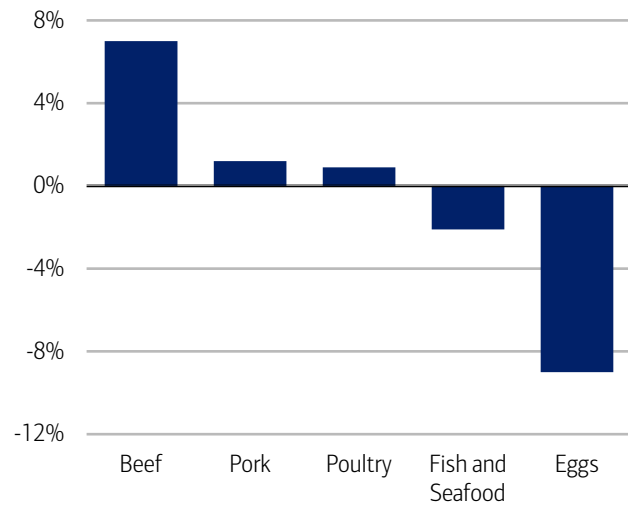
Trading down may also be occurring within each store. For example, CPI data from April 2024 for different meats shows that beef prices were up 7%, while prices for other meats were only up only slightly YoY, or even decreased. It is possible that some consumers are choosing chicken instead of beef to keep the lid on their food bills or may be purchasing smaller portions or even not buying meat altogether to save money.

It’s also possible that consumers may be “trading down” by choosing less expensive private label brands in lieu of brand-named goods. According to Bank of America Global Research, the percentage share of grocery spending on private labels has been above its pre-pandemic average since the second quarter of 2022.

And it’s not just groceries – a recent Bank of America proprietary Market Landscape Insights study found that nearly all the respondents that bought less but spent more in the first quarter of 2024 did so because prices increased, while over 60% reacted to these increases by changing what they bought. As long as prices remain high, in our view, consumers may continue to search for opportunities to trade down, both in-store and to lower tiers.

Exhibit 8: April 2024 price increases vary per item, with beef prices up 7% YoY while poultry is only up 1% and eggs are down 9%

Consumer Price Index YoY growth for varying grocery items (monthly, %)

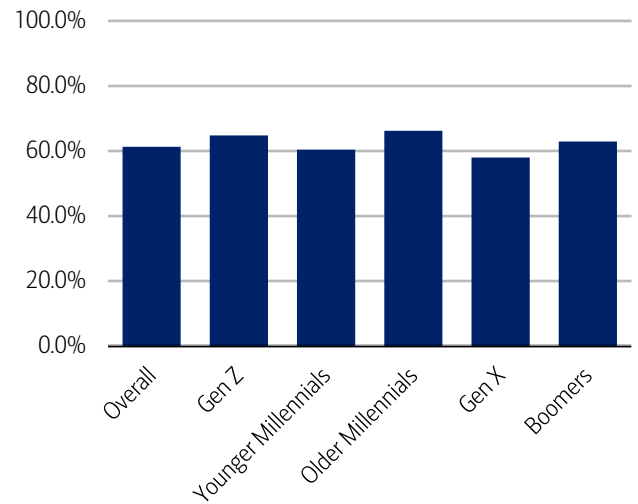


Source: Haver analytics

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Exhibit 9: Nearly all survey respondents that reported they bought less but spent more in the first quarter of 2024 did so because prices increased. As a result, over 60% of total respondents changed what they bought

Percentage share of survey respondents by age generation (first quarter 2024, %)



Source: Bank of America Proprietary Market Landscape Insights Study

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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.

Three grocery store 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 grocery store(s) (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 grocery store 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 static pool of customers that have a checking, a saving or a credit card account with BAC consecutively each month between October 2017 and April 2024.

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.

Bank of America Proprietary Market Landscape Insights Study

This online quantitative survey was fielded March 20 – April 3, 2024 among Bank of America customers and noncustomers sampled and balanced to provide a representative view of the U.S. adult population (n=9,143). Insights are based on aggregated and anonymized responses to surveys. Significance testing is done at the 90 percent confidence interval.

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