Economy

Inside the cost-of-living squeeze

04 November 2026

Key takeaways

- Not every essential has become less affordable. Despite the cumulative rise in prices, households are spending a slightly smaller share of income on gas and groceries than they did several years ago. That suggests the affordability squeeze is less broad-based than the inflation headlines alone might imply.
- Housing is the major exception, and the pressure extends beyond lower-income households. Both mortgages and rent have increased since 2019. Some lower-income renters look particularly stretched, but around one in four higher-income mortgage holders also spend more than half their income on housing.
- Wage gains and changing behavior have helped households absorb higher prices. But real wage growth has mostly softened, which may help explain why sentiment remains weak even as consumer spending continues to grow. In fact, declining sentiment likely reflects the sacrifices consumers have to make in order to keep spending.

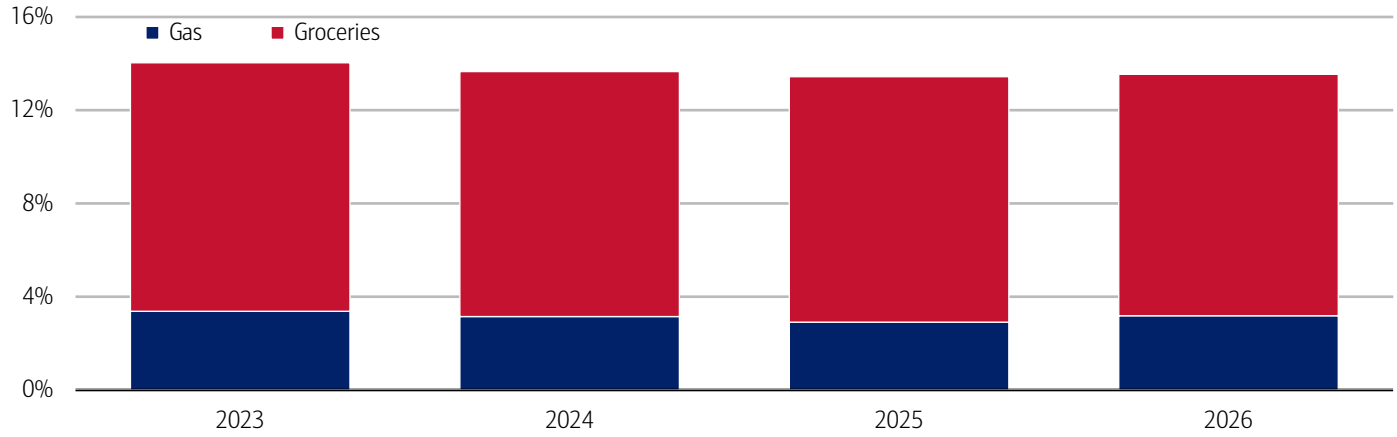
Everyday essentials take up less income than they did four years ago

Higher prices are still top of mind for consumers, especially when it comes to affordability. But just how stretched are households? Using Bank of America internal data, we look at how much of their income households are spending on everyday essentials like gas, groceries, mortgages and rent, and how that has changed over the past four years across income groups. We also explore how wage growth and shifts in spending habits have helped households cope with higher prices, and why consumers still feel downbeat even as they keep spending.

For example, while consumers overall spent slightly more of their income on gas and groceries compared to last year, outlays for these necessities are still below what they were four years ago, according to Bank of America payment and deposit data (Exhibit 1). Combined, gas and groceries accounted for nearly 13.5% of income in 2026, 10 basis points more than last year, but almost half a percentage point less than four years ago. And even with price increases over the past year, most consumers only spent 3.2% of their income on gasoline, up from 2.9% a year ago and below the 3.4% from four years ago.

Exhibit 1: Consumers overall spent slightly more of their income on gas and groceries compared to last year, though spending on these necessities is still below pre-pandemic levels

Median gas and grocery spending as a share of median income (annually, %)

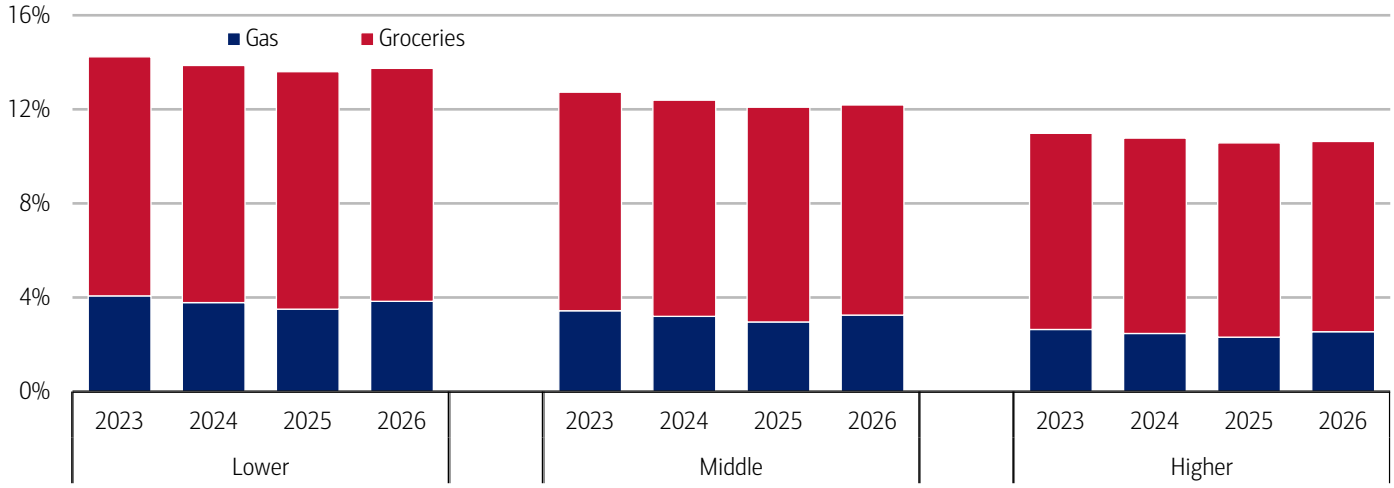


Source: Bank of America internal data
Note: 2026 data is through September.

BANK OF AMERICA INSTITUTE

Across income groups, each cohort follows a similar pattern, though lower-income households do allocate the highest share of their income to gas and groceries (Exhibit 2).

Exhibit 2: All income cohorts have experienced an increase in gas spending as a share of income, offsetting a decrease in grocery spending in 2026
Median gas and grocery spending as a share of income by household income tercile (annual, %)



Source: Bank of America internal data

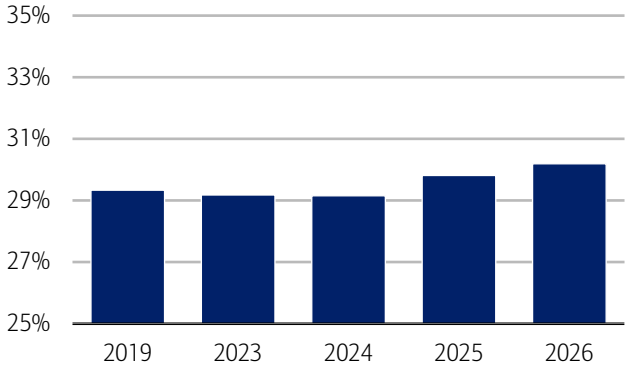
BANK OF AMERICA INSTITUTE

Housing stress isn't just a low-income story

Housing is an altogether different picture. Whether you're a homeowner or a renter, housing is often the biggest expense of any consumer, accounting for around 30% of income. Median mortgage payments have steadily risen over the past two years and now account for more than 30% of a homeowner's income, according to Bank of America internal data (Exhibit 3).

While renters have experienced some easing, they tend to set aside more of their income to housing costs (Exhibit 4). Rents as a share of income peaked in 2025, with renters spending more than 32% of their income on shelter. Even so, a small improvement helps. Due to declines in housing payments, renters have seen a significant improvement in discretionary spending over the past year (read more in On the move: Renovation over relocation?). Also, some housing related costs have also eased in the past year (read more in Energy bills: Short-term relief, longer-term challenges and Insurance costs hit the brakes).

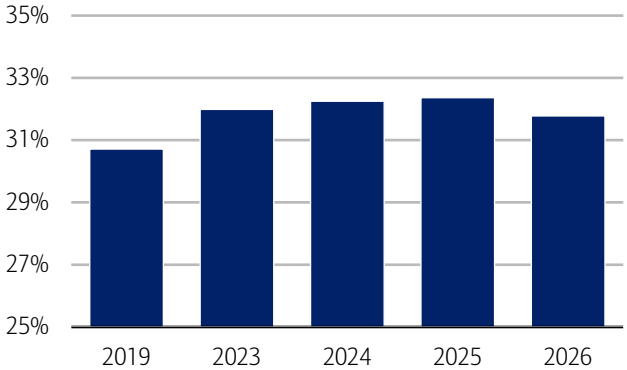
Exhibit 3: Mortgage payments as a share of income have risen over the past two years…
Median mortgage payments as a share of median income (annually, %)



Source: Bank of America internal data
Note: Includes both internal (BofA) and external (non-BofA) mortgage payments.

BANK OF AMERICA INSTITUTE

Exhibit 4: …while rent payments have eased over the same time period
Median rent payments as a share of median income (annually, %)



Source: Bank of America internal data

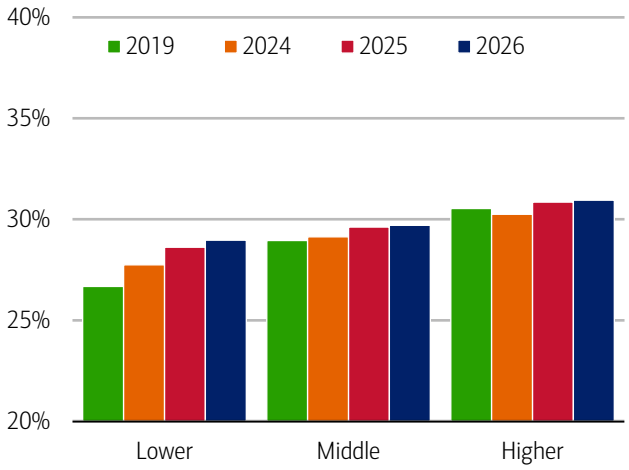
BANK OF AMERICA INSTITUTE

Also, when it comes to housing, higher-income families typically spend more of their wages on mortgages than lower-income households (Exhibit 5). The converse is true for renters, with lower-income families spending around 35% of their paychecks on rent, five percentage points more than higher earners (Exhibit 6).

This suggests to us that despite higher mortgage rates, most homeowners are relatively insulated from increasing housing costs than renters, possibly because many purchased their house before prices and interest rates began rising sharply post-pandemic. Additionally, this buffer from housing inflation seems to skew more toward higher-income households.

Exhibit 5: Mortgage payments as a share of income have increased the most for lower-income households

Median mortgage payments as a share of income by household income tercile (annual, %)

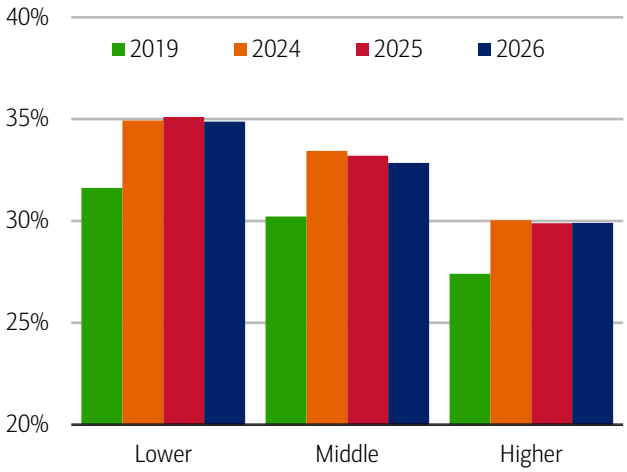


Source: Bank of America internal data
Note: 2026 data is through September. It includes both internal and external mortgage payments.

BANK OF AMERICA INSTITUTE

Exhibit 6: Lower earners spend a much larger share of their income on rent

Median rent payments as a share of income by household income tercile (annual, %)



Source: Bank of America internal data
Note: 2026 data is through September.

BANK OF AMERICA INSTITUTE

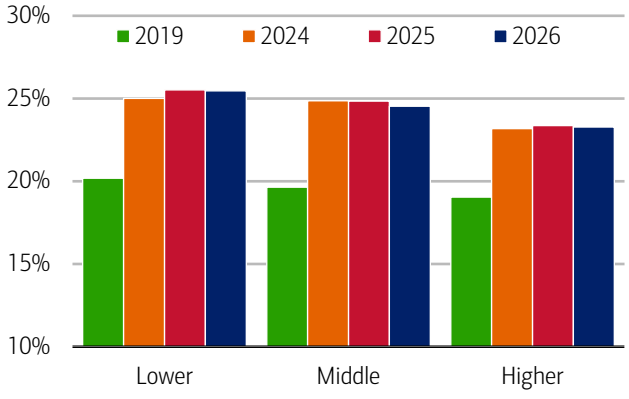
Some financially stretched households may be particularly affected by rising housing costs

Notably, in the first nine months of the year, roughly one in four lower-income renters spent more than half of their income on rent, up from about one in five in 2019 (Exhibit 7). One positive note, the share of renters who spend most of their income on rent does seem to have declined slightly in 2026.

Financial pressure from housing is not limited to lower-income households. Around one in four higher-income mortgage holders spend more than half of their income on home payments (Exhibit 8). And while only slightly more than one in five lower-income mortgage holders spent half of their income on housing, this is a nearly five percentage point increase compared to pre-pandemic levels.

Exhibit 7: Nearly one in four lower-income households spend at least half of their income on rent…

Share of households who spend more than 50% of their income on rent by household income tercile (annual, %)

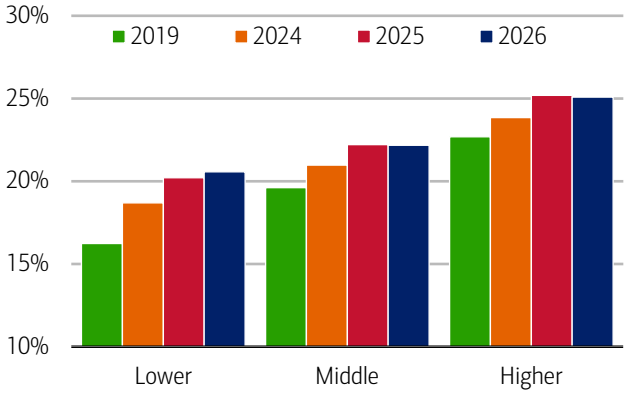


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

Exhibit 8: …whereas one in four higher-income households spend at least half their income on their mortgage

Share of households who spend more than 50% of their income on mortgages by household income tercile (annual, %)



Source: Bank of America internal data
Note: Includes both internal and external mortgage payments.

BANK OF AMERICA INSTITUTE

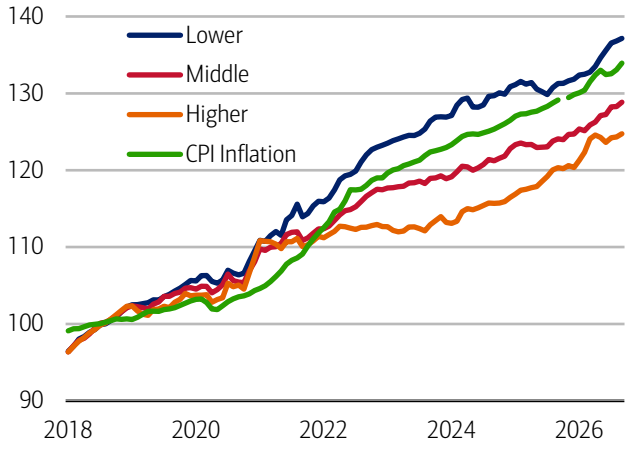
Wage growth and changing habits are insulating some households from inflation

Still, some families have not seen their bills, as a share of income, rise alongside inflation. Why is this? In our view, this is likely because after-tax wages have increased significantly for these people. This is especially true for some lower-income households that have landed steady employment since the pre-pandemic era, according to Bank of America internal data and the Consumer Price Index (CPI) (Exhibit 9).

Additionally, consumers have adjusted their behavior in response to higher prices. For one, we may be driving less than before the pandemic. Despite some increases in vehicle miles driven per capita over the past four years, we're still getting behind the wheel less on average compared to 2019 levels, according to the US Census Bureau and Bureau of Transportation (Exhibit 10). At the same time, some households have "traded down" to less expensive stores or items and services (read more in The rise of value).

Exhibit 9: Some lower-income households have seen their wages grow faster than inflation since 2019

After-tax wages, based on Bank of America deposit data (three-month moving average, index 2019 = 100) compared to CPI inflation, based on Bureau of Labor Statistics (BLS) data (monthly, index 2019 = 100)



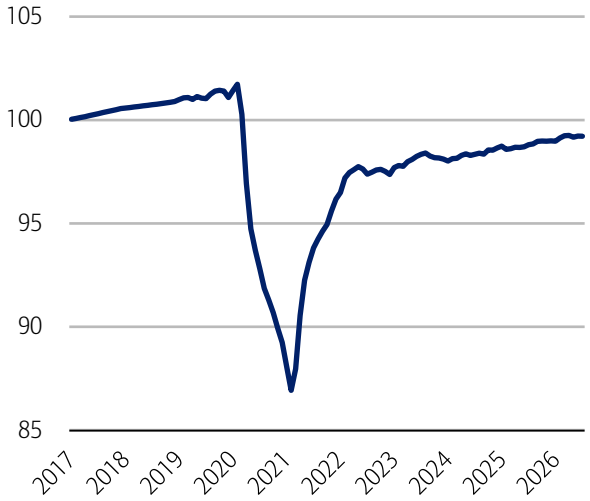
Source: Bank of America internal data, BLS

Note: Data not available for October 2025 due to federal government shutdown.

BANK OF AMERICA INSTITUTE

Exhibit 10: Vehicle miles driven per capita have not returned to pre-pandemic levels

Total vehicle miles traveled per total resident and civilian population estimates (monthly, index 2017 average = 100)



Source: US Census Bureau, Bureau of Transportation

BANK OF AMERICA INSTITUTE

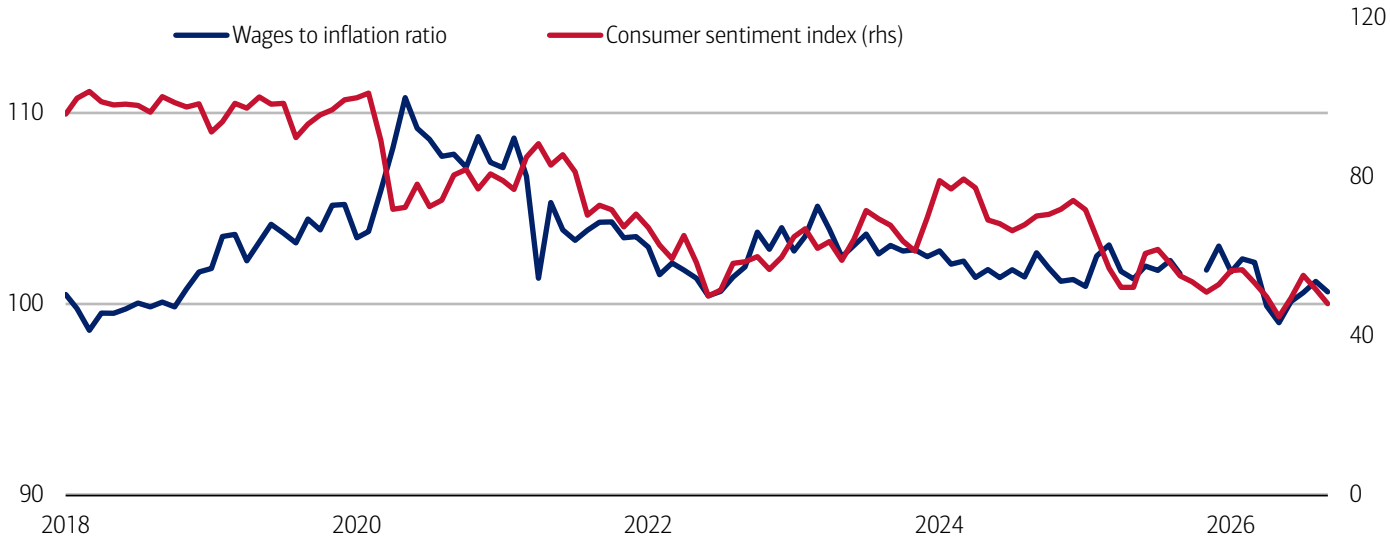
Inflation is driving households to make more sacrifices

There is one caveat to the affordability picture: wage growth among lower-income households slowed significantly throughout 2025, though they've recovered since then. Furthermore, some middle- and higher-income families have not seen their pay keep up with inflation, at least compared to 2019 levels.

In fact, using the ratio of after-tax wages to inflation as a proxy for "real wages," we can see they largely declined throughout 2022 and then again since mid-2023, according to Bank of America internal and BLS inflation data (Exhibit 11). Additionally, the drop in real wages is largely mirrored by a decline in the University of Michigan's Index of Consumer Sentiment. This suggests that people have been feeling worse about their finances and the broader economy as their purchasing power has declined. Consumers are spending more than they did last year (read more in Consumer Checkpoint: Strength in numbers), but sentiment likely reflects the sacrifices consumers have made in order to keep spending.

Looking ahead, in our view, the outlook for affordability is relatively encouraging: wage growth remains firm and has picked up for lower-income houses. That said, there are risks. BofA Global Research notes the potential for gasoline and grocery prices to increase. And higher mortgage rates make it difficult for those looking to make the jump from renting to homeownership.

Exhibit 11: The Consumer Sentiment Index has declined along with real wage growth since the post-pandemic period
The ratio of after-tax wages (year-over-year (YoY) %), based on Bank of America internal data, to CPI inflation, based on BLS data (monthly, index 2018 = 100) compared to Index of Consumer Sentiment (monthly, index Q1 1966 = 100, right-hand side (rhs))



Source: Bank of America internal data, BLS, University of Michigan
Note: October 2025 is missing due to the government shutdown.

BANK OF AMERICA INSTITUTE

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 (if discussed) 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.

Grocery, as discussed in this analysis, includes spending at grocery stores, warehouse clubs and dollar/discount stores.

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.

Generations, if discussed, are defined as follows: Gen Z, born after 1995; Younger Millennials: born between 1989-1995; Older Millennials: born between 1978-1988; Gen Xers: born between 1965-1977; Baby Boomer: 1946-1964; 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

Joe Wadford

Economist, Bank of America Institute

Sources

Jon Kaplan

Senior Vice President, Consumer and Small Business Product Analytics

Stephen Juneau

Senior Research Analyst, BofA Global Research

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 2026 Bank of America Corporation. All rights reserved.