BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Consumer Morsel

Gen X: The economy's struggling middle child?

26 September 2024

Key takeaways

- Bank of America internal card data shows that Gen X discretionary spending has been particularly weak compared to that of other generations, down 2% year over year in August 2024. This is important given the latest US Bureau of Economic Analysis data suggests that Gen X contributed the largest share of consumer spending through 2022.
- Why the slowdown? We find that rising outlays on necessities could be part of the explanation. But in our view, a key reason for this is that Gen X is saving more as they age. We find Gen X's investments per household are 40% higher than the overall population.
- Additionally, some Gen X households may be experiencing financial pressures from caring for their adult children, aging parents, or even both. While the "great wealth transfer" could be a much needed boost in the future, the current financial pressures may continue to dampen discretionary spending for now.

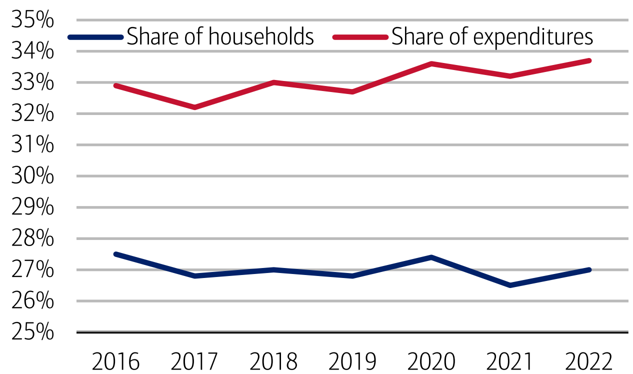
Gen X punches well above their weight in spending – are the gloves getting heavy?

Gen X, defined here as those born between 1965 and 1977 (currently aged between 47 and 59 years old) are sandwiched between an older Baby Boomer generation on one end, and Millennials on the other. As a relatively small generation in number, they are often overlooked. However, they play a pivotal role in the US economy. According to the US Bureau of Economic Analysis (BEA), they headed over 36 million, or 27%, of all US households in 2022, but made up more than 33% of consumer expenditures.

While Gen X's share of the population has shrunk since 2016 (Exhibit 1), their share of spending actually increased through 2022. This contrasts with Millennials, who made up 26% of households and 27% of total consumer spending, with both shares slightly increasing from 2016 to 2022, according to the BEA data.

Exhibit 1: Gen X made up a smaller share of households while contributing more to total consumer spending through 2022

Percentage share of US households and consumer expenditures (yearly, %)

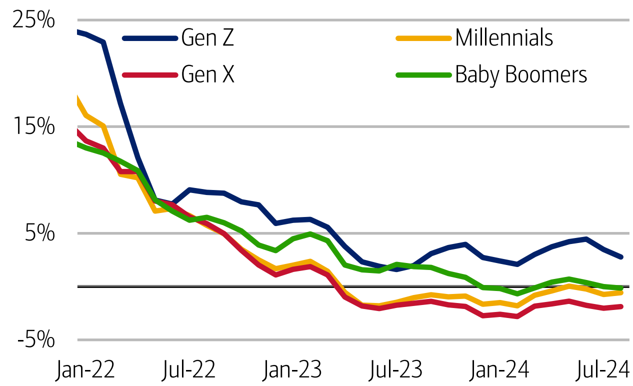


Source: US Bureau of Economic Analysis

BANK OF AMERICA INSTITUTE

Exhibit 2: But Gen X per household card spending has decreased over the last year

Total debit and credit card spending per household by generation (three-month moving average, %YoY)



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

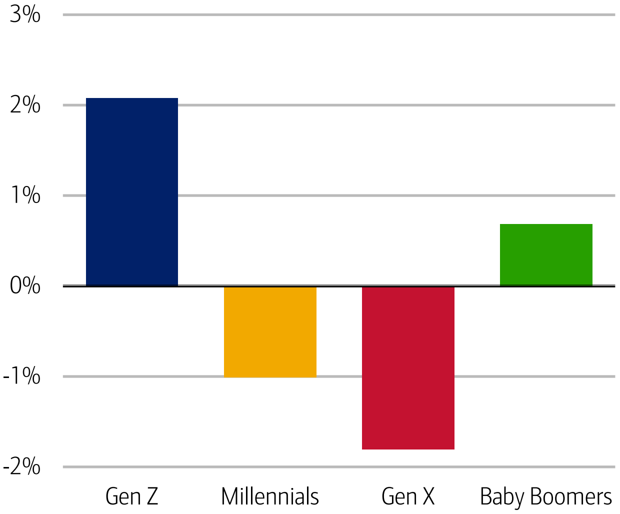
How has Gen X fared since 2022? Interestingly, Bank of America internal credit and debit card data shows that Gen X spending per household has been weaker than other generations as of late, down almost 2% year-over-year (YoY) in August, and declining since early 2023 (Exhibit 2).

Discretionary spending slows while necessities gain ground

In general, card spending tends to lean toward discretionary purchases, while necessities such as housing, utility bills and insurance payments are typically paid via ACH (automated clearing house) and Bill Pay. In examining discretionary spending trends of the "sandwich generation," we find that Gen X has seen the largest YoY decrease in average discretionary spending per household in August 2024 (Exhibit 3).

Exhibit 3: Gen X has seen the largest YoY decrease in discretionary spending through August 2024

Discretionary card spending per household by generation (August YTD, %)

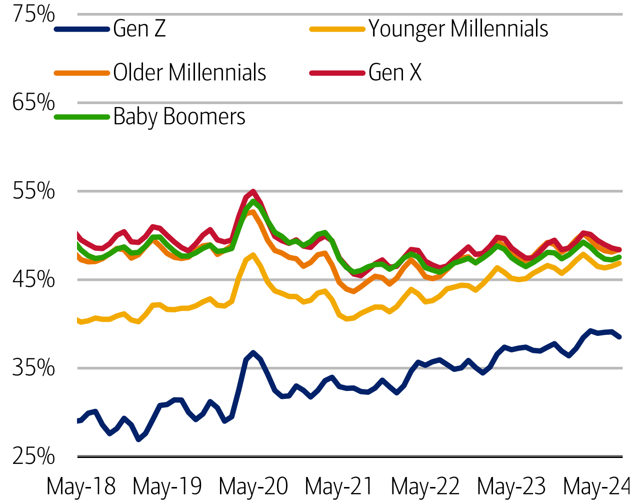


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

Exhibit 4: Gen X has seen the highest share of necessity outflows over the past several years

Discretionary outflows as a percentage share of total discretionary and necessity outflows across payments by age generation (3-month moving average, %)



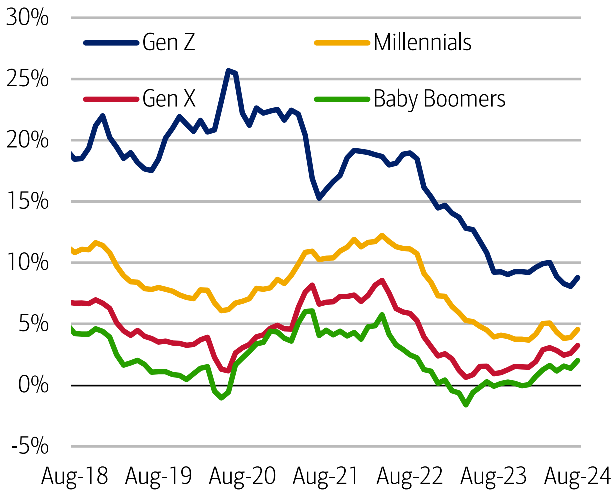
Source: Bank of America internal data. Total excludes transfers, cash, and investments.

BANK OF AMERICA INSTITUTE

One possible explanation for Gen X's weak discretionary card spending could be that rising necessity spending, including that via other payment channels, is squeezing this generation's finances. To better understand this, we used Bank of America internal data across payment channels (including ACH, as well as card payments) to construct a broader measure of necessity spending (see methodology). Exhibit 4 shows that necessity spending makes up a higher share of Gen X outflows than all other generations and has been increasing since 2021, while discretionary spending is making up a smaller share.

Exhibit 5: Gen X's wage growth has been slow relative to younger generations over the last several years

After-tax wage and salary growth by generation (3-month moving average, %YoY)

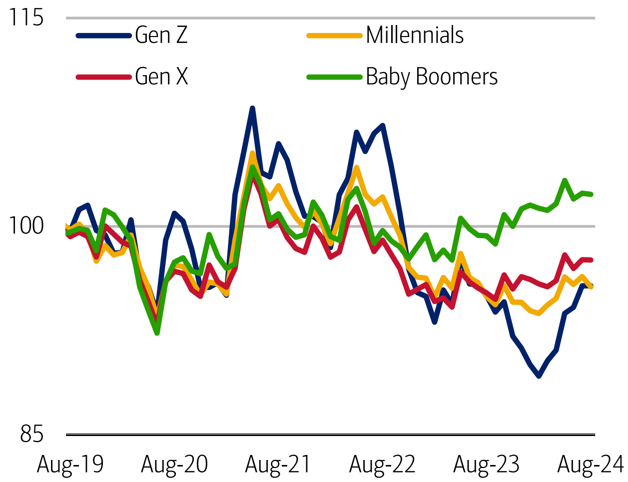


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

Exhibit 6: Gen X's expense-to-wage ratio has been relatively flat over the past few years, but there has been a slight increase YoY

Ratio of necessity outflows to wages per households (monthly index = 100)



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

While younger generations have also experienced a rising necessity share over the same time period, they have also enjoyed some of the fastest growth in wages and salaries in recent years, helping them to grow their discretionary spending. In the case of Gen X, however, Bank of America internal deposit data shows they have lagged younger generations on wage growth (Exhibit 5).

So, could it be that Gen X's wage growth is not increasing fast enough to offset their rising living costs? When we examine per household necessity spending as a share of income, while there does appear to be a slight rise over this year, the proportion of expenses to wages has been relatively stable for Gen X over the past few years (Exhibit 6). This suggests that Gen X has likely seen sufficient income growth to broadly cover their rising costs of living and sustain the same level of discretionary spending, but they are choosing to allocate their money elsewhere.

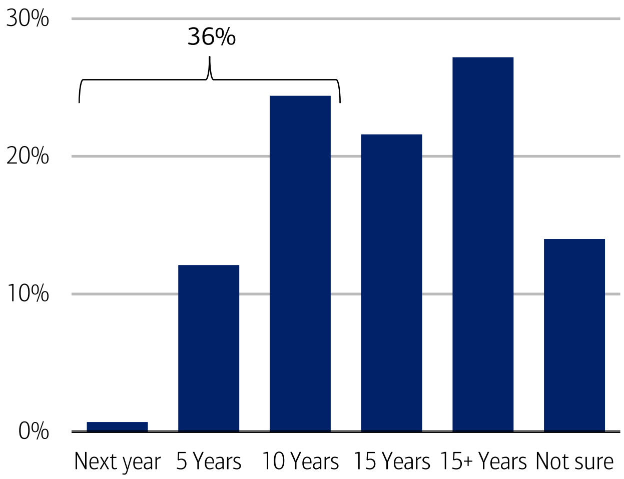
Gen X goes for gold, taking the top spot in investments per household

So where are Gen X allocating their money? In our view, it's likely in two places: 1) investing for retirement, and 2) supporting an increasingly dependent young adult population.

A recent Bank of America Market Landscape Insights (BAMLI) study found that over a third of Gen X respondents planned to retire in the next 10 years (Exhibit 7). Consistent with this, Bank of America's 2024 Q2 Participant Pulse shows that there has been slight year-over-year growth (0.6%) in the share of Gen X 401(k) participants that increased their contribution rates (Exhibit 8), likely as more Gen X households are eligible to increase their contribution amounts as they age past 50.

Exhibit 7: Over 36% of Gen X respondents plan on retiring in the next 10 years

Gen X plans to retire within each timeline (%)

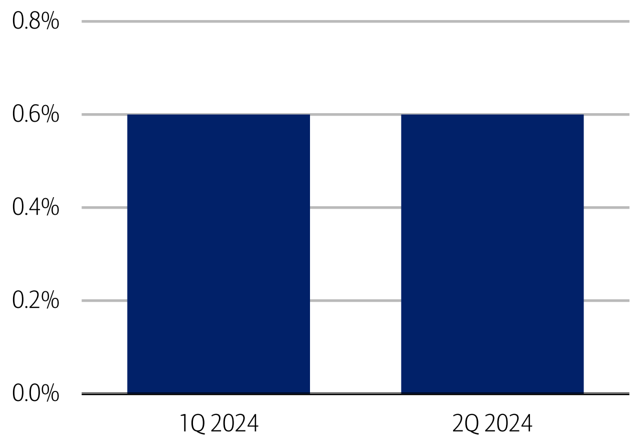


Source: Bank of America Market Landscape Insights Study (2Q 2024)

BANK OF AMERICA INSTITUTE

Exhibit 8: Slightly more Gen X 401(k) participants are increasing their contributions year over year

Change in share of participants who increased their contribution rates (quarterly, %)

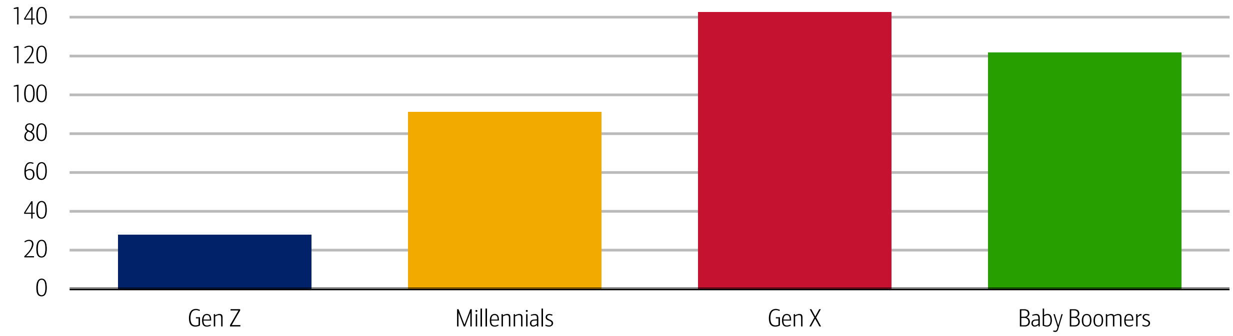


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

While 401(k) investments are taken out of pre-tax earnings, Bank of America internal payments data suggests that some Gen X households are investing relatively large quantities of their paychecks after receipt (after-tax) to fund additional investment accounts. In fact, the average amount invested by Gen X from after-tax earnings is over 40% higher than the overall population, and higher than all other generations (Exhibit 9).

Exhibit 9: Gen X invests a significantly higher amount of their paycheck (after-tax) than the overall population and their younger counterparts
Average investments per household by age generation (August 2024, index overall population = 100)



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

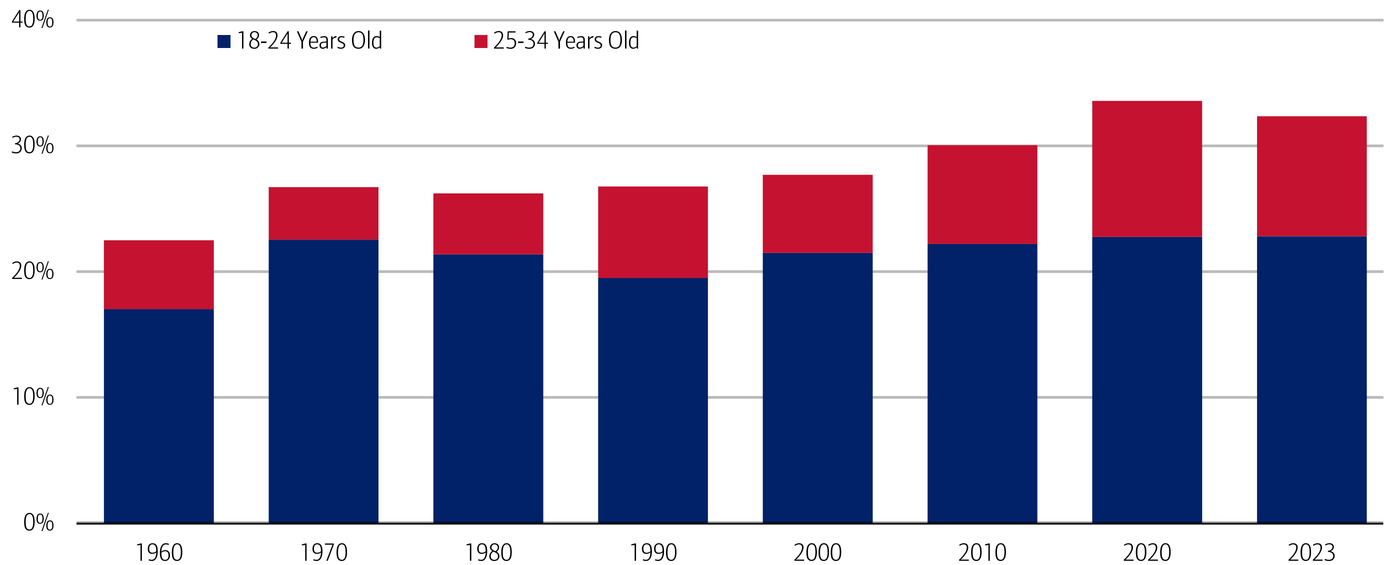
But dependents or financial independence? That is the question

Alongside preparing for their retirement, some Gen X households may also be shouldering the costs of their children.

The share of 18- to 24-year-olds that live at home (or attend college) remains large at 23%, according to US Census Bureau data. And a significant portion of this cohort also rely on family for financial support (see: The kids are alright (for now)). Further, there has been a rise in the share of adults aged 25 to 34 living at home with their parents (Exhibit 10). In 2023, 10% of this subset of the population lived at home, double the rate in 1960, but down slightly from the peak in 2020 during the pandemic. So, Gen X's necessity spending may be under pressure from covering the rising costs of increasingly older dependents.

Additionally, the BAMLI study found that Gen X respondents were slightly more likely than other generations to be taking care of an elderly relative, meaning that some Gen X households could be facing the particular financial pressure of supporting both their adult children and aging parents.

Exhibit 10: There has been a notable rise in the share of adults aged 18 to 34 that live at home since 1960
Share of population living with their parents by age range (yearly, %)



Source: US Census Bureau: Current Population Survey. Students attending school are considered to be living with their parents.

BANK OF AMERICA INSTITUTE

Looking ahead, Gen X is likely to be the biggest beneficiary of the trillions of dollars in assets flowing from Baby Boomers to their heirs, in what is known as the "great wealth transfer," according to a 2021 study by Cerulli Associates. But given that the majority of any windfall may be many years away, while the particular financial pressures facing this generation are occurring today, Gen X's contributions to discretionary spending may continue to be muted.

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.

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.).

Investments include transfers internally and externally to brokerage and wealth management firms.

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.

Bank of America's 2Q 2024 Participant Pulse monitors plan participants' behavior in Bank of America 401(k) recordkeeping and HSA clients' employee benefits programs, which comprise more than 4 million total participants with positive account balances as of June 30, 2024.

Bank of America Proprietary Market Landscape Insights Study is an online quantitative survey that was fielded between May 27 – June 11, 2024 among Bank of America customers and noncustomers sampled and balanced to provide a representative view of the U.S. adult population (n=8,599). Insights are based on aggregated and anonymized responses to surveys. Significance testing is done at the 90 percent confidence interval.

Additional information about the methodology used to aggregate the data is available upon request.

Contributors

Joe Wadford

Economist, Bank of America Institute

Sources

Li Wei

Director, Global Risk Analytics

Jon Kaplan

Senior Vice President, Digital and Data

Rachel Montgomery

Vice President, Data, Digital, and Global Marketing

Disclosures