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Consumer Morsel

Gen Z: A new economic force

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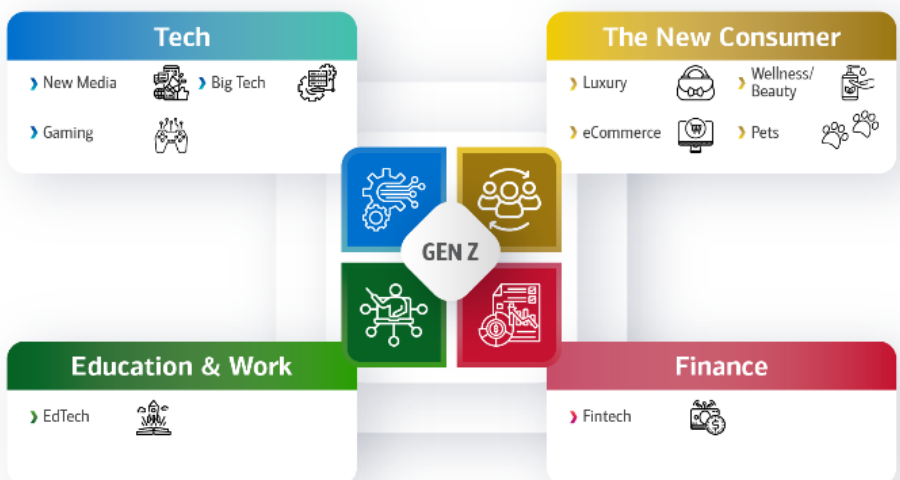
Key takeaways

- Between significant wealth and increased spending levels over the next 10 years, the consumption patterns of Gen Z will have a strong influence on the global economy. In roughly the next five years, they will have globally amassed $36 trillion in income and that figure is expected to surge to $74 trillion by around 2040, per BofA Global Research.
- Spending growth on necessary and discretionary items among Gen Z has been faster than the overall population, according to Bank of America credit and debit card data. While their bank deposit balances provide a buffer, Gen Z spending was nearly twice as much as they had in savings, possibly as the high cost of living exerts financial pressure.
- While increased wage growth helps ease some of this pressure, Bank of America data also suggests Gen Z is facing an increasingly difficult labor market. The number of Gen Z households receiving unemployment grew nearly 32% year-over-year in February and unemployment among new entrants to the labor market is on the rise.

Gen Z: The largest and richest generation by ~2035

It looks like Generation Z (Gen Z) is on the cusp of making its mark on the global economy. Not only is this group expected to be the largest cohort of the global population over the next 10 years at ~30%,[1] but their income is also expected to surge. In roughly the next five years, Gen Z will have globally amassed $36 trillion in income and that figure is expected to surge to $74 trillion by around 2040.[2] Consider that in 2023 it was just $9 trillion.

Exhibit 1: Gen Z's key consumer characteristics are sustainability, insularity, and product over experience
Gen Z related areas include tech, the New Consumer, education & work, and finance



Source: BofA Global Research

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[1] BofA Global Research, United Nations (UN)
[2] BofA Global Research, Euromonitor

In our view, this means that their consumption decisions and patterns will have a strong influence on the economy. That's particularly notable given that this group's preferences are shifting away from the old economy towards tech-compatibility and eCommerce (Exhibit 1).

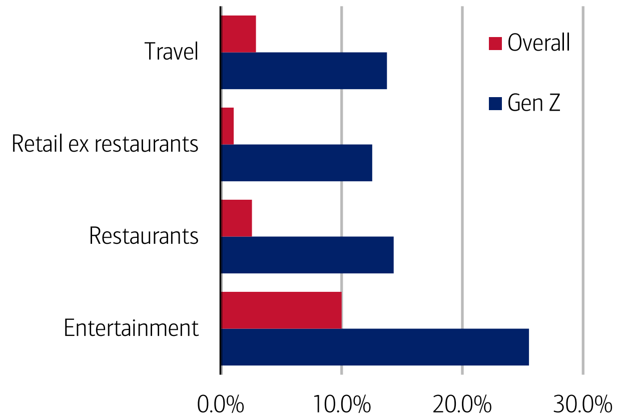
A generation of spenders, but not savers?

Gen Z has higher discretionary and necessity spending growth than the average consumer

Beyond income levels, Gen Z could also see the largest increase in spending. By 2030, their global spending is expected to reach rea$12.6 trillion[3] compared to $2.7 trillion as of 2024. Thus, it's likely they will be among the most disruptive generations to economies, markets and social systems. Whether it's due to changing diets or reduced alcohol consumption (see our recent publication Raising the bar or last call?) or saving and housing, Gen Z will redefine what it means to be a US consumer.

Within Bank of America aggregated credit and debit card data, Gen Z's spending growth per household has been stronger than the overall population for both necessary and discretionary spending. For discretionary categories such as entertainment and travel, Gen Z spending growth is notably stronger, up 25.5% year-over-year (YoY) and 13.8% YoY on a six-month moving average in February, respectively (Exhibit 2).

Exhibit 2: Gen Z spending on discretionary items like travel and entertainment was much stronger than the overall population
Credit and debit card spending by category for Gen Z and overall population in February (six-month moving average, YoY%)



Source: Bank of America internal data

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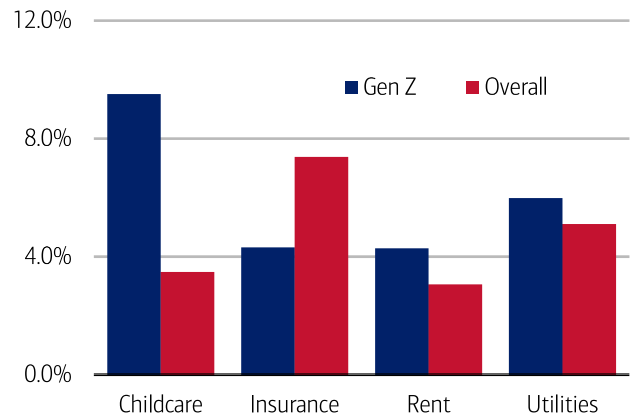
Exhibit 3: Gen Z spending on childcare was well above the overall population, whereas spending on insurance was the reverse
Credit and debit card spending by category for Gen Z and overall population in February (six-month moving average, YoY%)



Source: Bank of America internal data
Note: This includes payment channels such as ACH, debit and credit card, and wires.

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In February, their spending on non-discretionary items such as rent and utilities was higher than the overall population. Notably, Gen Z's outlays on childcare rose 500bps (Exhibit 3), likely due in part to changing family dynamics like having kids themselves as well as the stubbornly high cost of childcare (see our recent analysis on Labor pains or labor gains?).

Perhaps more concerning is that over half (52%) of Gen Z respondents reported that they aren't making enough money to live the life they want and that the high cost of living is one of their main financial challenges, according to the 2024 Better Money Habits Gen Z report (see here to read).

Gen Z's savings don't stack up to their spending levels

The survey also found that, compared to their parents, almost a third (32%) feel they are behind where their parents were at the same age in meeting financial goals. And while Gen Z understands the importance of saving, many are not able to put aside as much money as they'd like.

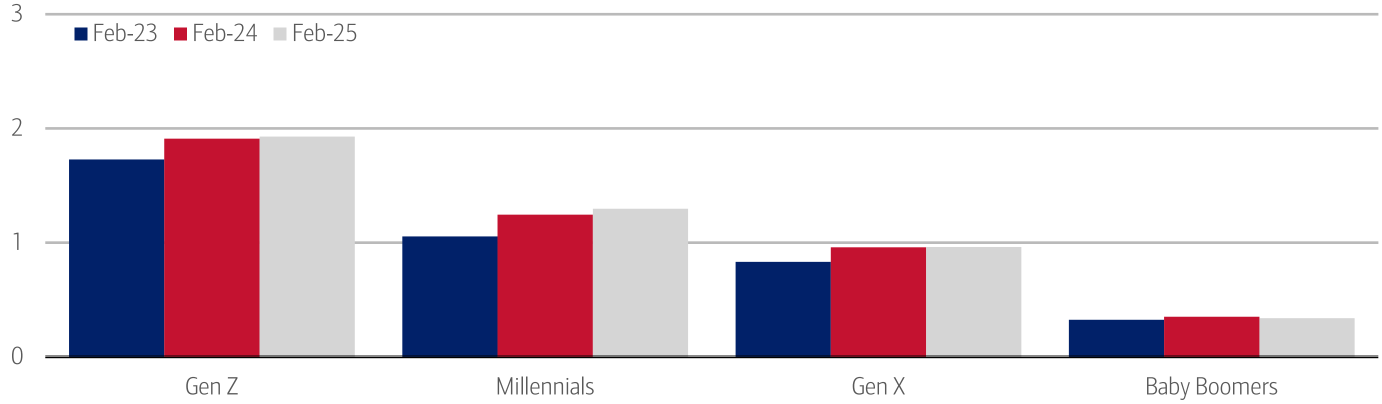
Using Bank of America internal deposit account data, we find that Gen Z, on average, does not have enough in balances to cover a month of spending. In February, their spending-to-savings ratio (see Methodology) was 1.93, meaning they were spending nearly twice the amount that they had in savings (Exhibit 4). This has increased since 2023 and remains much higher than other generations. However, there's some evidence that they are making strides to improve their financial position. In fact, their median deposit balances remain well above the inflation-adjusted rate, although they did start from a much lower level (see last month's Consumer Checkpoint publication).

[3] BofA Global Research, World Data Lab, Generations Forecasts, UN

To offset growing expenses, two-thirds of Gen Z reported in the 2024 Better Money Habits survey that making lifestyle changes including cutting back on dining out and skipping events with friends. In the short term, the economic impact of these choices will be limited as younger people still account for a relatively small share of total US consumer spending, approximately less than 20% (see our previous publication When we were young).

Exhibit 4: Gen Z spending was nearly twice as much as they had in savings in February, whereas Gen X and Baby Boomers had more in savings than they spent

Spending-to-savings ratio by generation in February (annual)



Source: Bank of America internal data

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However, that may change in years to come. BofA Global Research has noted that a huge transfer of wealth is expected as Baby Boomers pass down assets to younger generations, meaning that Gen Z and Millennials are increasingly likely to be making key spending and saving decisions.

Overeducated and underemployed

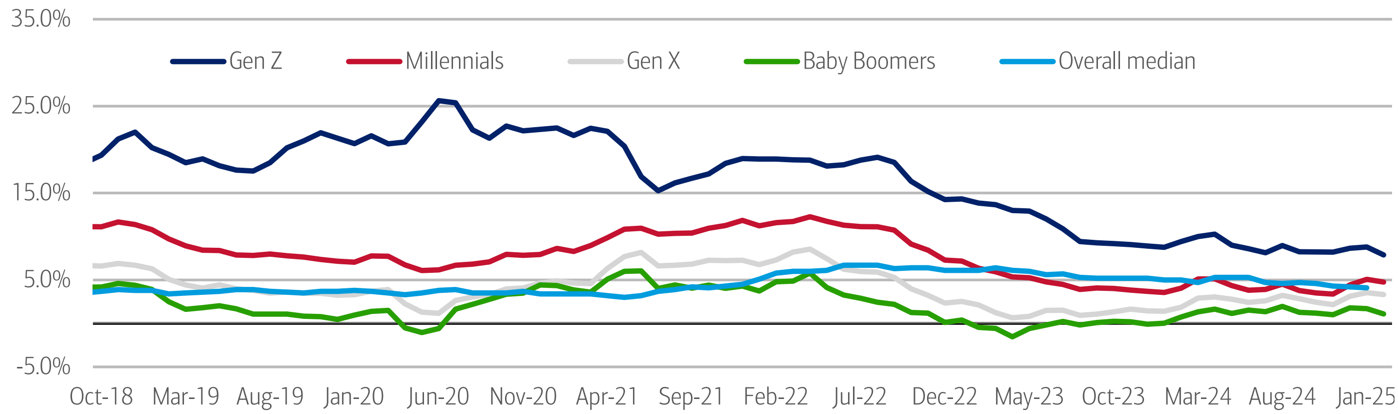
Of those that are employed, Gen Z has much higher wage growth than other generations

Among 18- to 21-year-olds who were no longer in high school in 2022, 57% of Gen Z were enrolled in a two-year or four-year college.[4] In comparison, 52% of Millennials in 2003 and 43% of Generation X in 1987 were enrolled in college at the same age, indicating Gen Z is achieving higher levels of education compared to previous generations.

Ultimately, that can lead to higher employment rates and increased median earnings. In fact, using Bank of America deposit account data, we found wage growth for Gen Z was up nearly 8% YoY in February – the most among all generations – and about twice as high as the overall median (Exhibit 5). Part of this is because Gen Z job seekers largely are entering the labor market for the first time compared to other generations.

Exhibit 5: Gen Z and Millennials were above the overall median wage growth as of February

After-tax wage and salary growth by generation, based on Bank of America aggregated consumer deposit data (3-month moving average, YoY%, seasonally adjusted, monthly) and median wage growth tracker (3-month moving average, YoY%, non-seasonally adjusted, monthly)



Source: Bank of America internal data, Federal Reserve Bank of Atlanta, Haver Analytics

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[4] Market.us Media, Pew Research Center

But there's evidence of growing difficulty for Gen Z finding and keeping a job

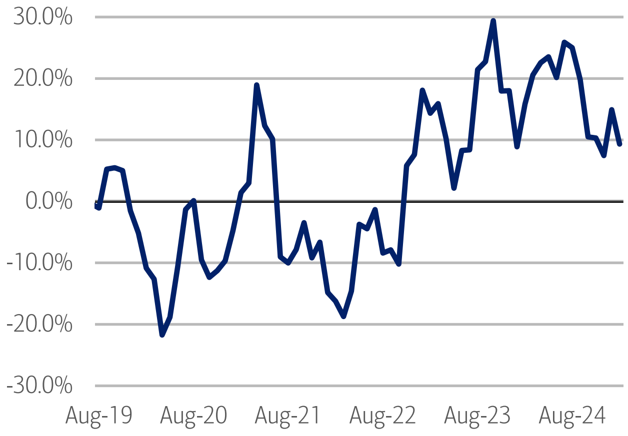
However, unemployment for new entrants was up more than 9% YoY in February (Exhibit 6). This cohort is likely to be overrepresented by Gen Z, and overall growth has been trending upwards since 2023 – peaking in October of that year at 29.4% YoY – suggesting that Gen Z is facing an increasingly difficult labor market.

Furthermore, the figures are worse for those who lost their jobs. The number of Gen Z households receiving unemployment grew nearly 32% YoY in February and is above the 2024 average, according to Bank of America deposit account data (Exhibit 7). However, the absolute levels remain lower than other generations.

There is also another sign that the job market is less than robust. The March jobs report from the Bureau of Labor Statistics reported a surge in the underemployment rate, implying some workers are taking whatever jobs they can find in this low-churn labor market. For Gen Z, this could have long-term career implications as they struggle to find roles. It could also have ramifications for US productivity.

Exhibit 6: Though down from February 2024's 15.8%, unemployment for new entrants was up 9.3% in February

Civilians unemployed: new entrants (seasonally adjusted, YoY%, monthly, 3-month moving average)



Source: Bureau of Labor Statistics

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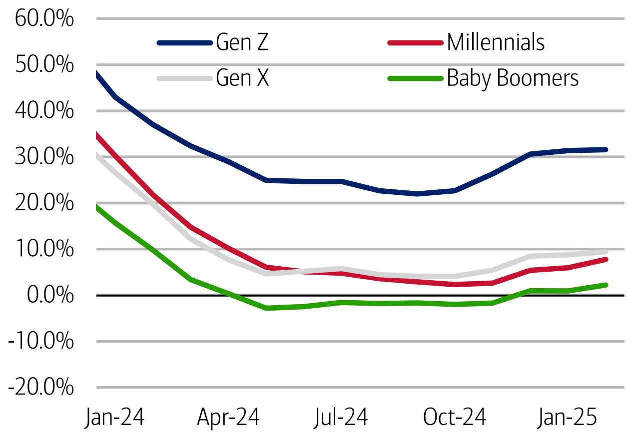
Exhibit 7: The growth in the number of Gen Z households receiving unemployment income was almost 4x the growth of Gen X

Number of households receiving unemployment benefits through direct deposit (monthly, 3-month moving average, %YoY)



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.

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.).

The spending-to-savings ratio is total card spending over median deposit balances (checking and savings). A perfect ratio of 1 implies the spending to savings amount is equal. Note only those with a deposit account were included.

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.

2024 Better Money Habits study methodology

This survey was conducted April 17 – May 3, 2024, by Ipsos in both English and Spanish and is based on nationally representative probability samples of 1,097 general population adults (age 18 or older) and a partially overlapping sample of 1,091 Gen Z adults (age 18-27), including 37 Gen Z adults from a non-probability sample. This survey was conducted primarily using the Ipsos KnowledgePanel®, the largest and most well-established online probability-based panel that is representative of the adult US population. The margin of sampling error for the general population sample is +/- 3.1 percentage points at the 95 percent confidence level.

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

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