Consumer Morsel

Restaurants: Quantity is the new quality

25 July 2024

Key takeaways

- Bank of America internal card data suggests that a higher number of customers are choosing more convenient and less expensive dining options as consumers face rising prices and financial obligations. According to Bank of America internal data, transactions at limited-service restaurants (LSRs) are up 10% compared to pre-pandemic levels and have been growing faster than full-service restaurants (FSRs) since fall 2023.
- For six years, customers pivoted the majority of their restaurant spending to standard tier restaurants, taking market share from both premium and value tier restaurants, according to Bank of America internal data. But this trend has reversed since fall 2023, as the market share of value tier restaurants has increased, while that of premium fell and standard flattened.
- And this trend is being driven by younger consumers, as they take on more financial obligations and face rising costs, with their market share of premium tier restaurants disproportionately low likely due to choosing quantity over quality.

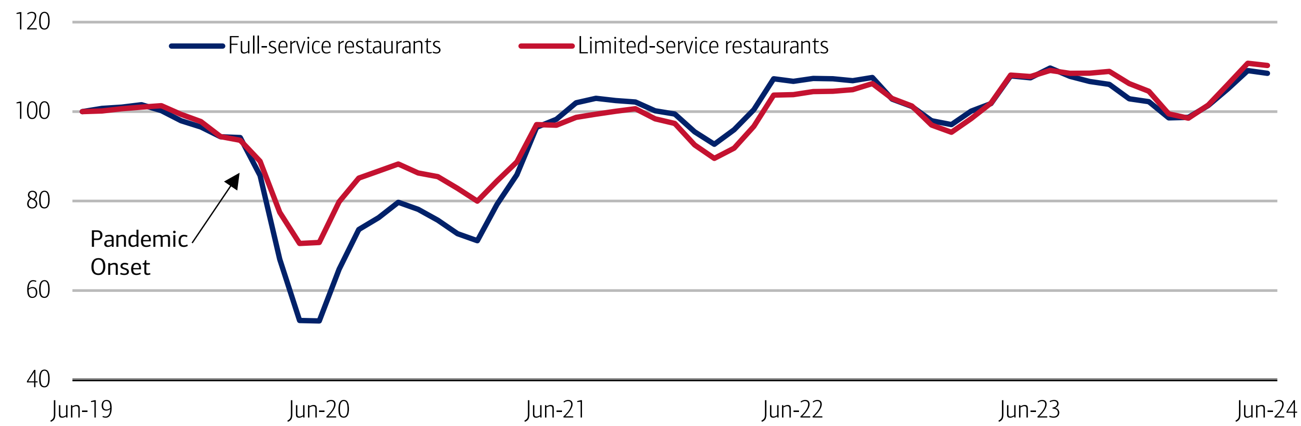
Consumers are choosing convenience and affordability

Bank of America internal card data suggests that a higher number of consumers are choosing less expensive and more convenient dining options as they face rising prices alongside financial obligations.

Restaurants can be divided into two categories: 1) full-service restaurants (FSR), where food is ordered and delivered to the table and payment comes after the meal; and 2) limited-service restaurants (LSR), where consumers pay before their meal (i.e., fast food, pizza, or fast casual (pricier and relatively higher-quality fast food)).

Unsurprisingly, Bank of America internal credit and debit card spending data shows that the number of restaurant purchases at both FSRs and LSRs declined significantly when the pandemic started, as restaurants closed for indoor dining. FSRs rebounded strongly in 2021 due to the reopening of the economy and the expansion of outdoor dining. However, since fall 2023, growth in the number of transactions at LSRs has outpaced that at FSRs, relative to June 2019 levels (Exhibit 1).

Exhibit 1: The number of transactions at limited-service restaurants has been increasing faster than at full-service restaurants since fall 2023
Aggregate number of transactions at full-service restaurants compared to limited-service restaurants (three-month moving average, index June 2019 = 100, non-seasonally adjusted (NSA))



Source: Bank of America internal data. The number of purchases at FSRs briefly surpassed that of LSRs in Feb 2024 due to winter holiday seasonality.

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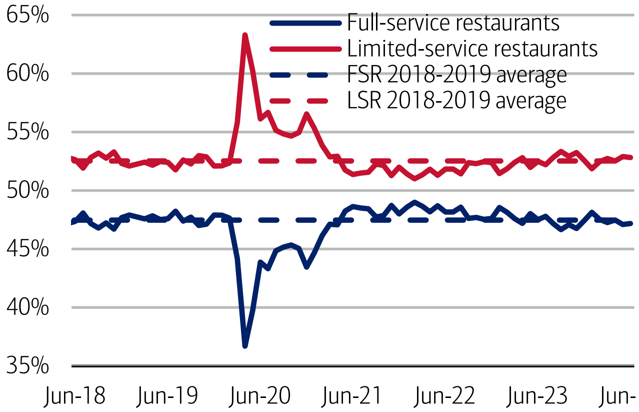
Also, Bank of America internal data indicates that in 2018/2019, the share of restaurant transactions at LSRs was slightly higher than at FSRs. However, the difference between the two categories reached 20 percentage points during the early months of the pandemic (Exhibit 2). LSRs' purchase share returned to pre-pandemic levels in fall 2022 and has increased since.

Exhibit 2: Limited-service restaurants' share of all restaurant purchases has been above 2018/19 levels since fall 2023
Percentage share of full-service restaurants compared to limited-service restaurants and corresponding 2019 averages (monthly, %, NSA)



Source: Bank of America internal data. The share of restaurant purchases at FSRs briefly surpassed that of LSRs in Feb 2024 due to winter holiday seasonality.

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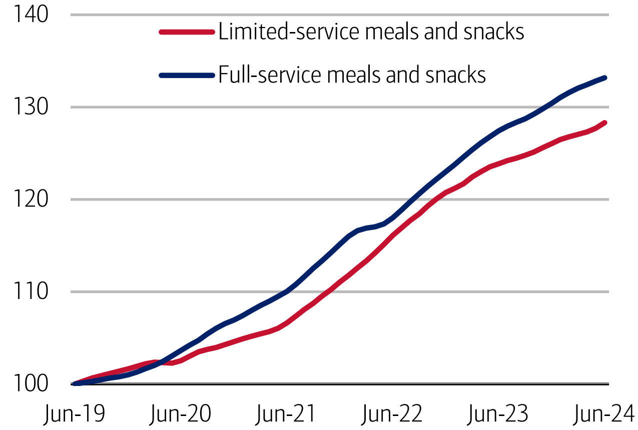
Exhibit 3: Full-service restaurant prices are increasing faster than those of limited-service restaurants
Consumer price indexes of limited-service and full-service meals and snacks (monthly, index June 2019 = 100)



Source: Haver Analytics

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One reason consumers are be pivoting further to limited-service restaurants may be inflation. Consumer Price Index (CPI) data from the Bureau of Labor Statistics indicates that prices at these restaurants are increasing relative to June 2019 levels, but not as fast as at full-service restaurants (Exhibit 3). So, consumers are choosing more convenient options, but are they choosing cheaper options? It appears so.

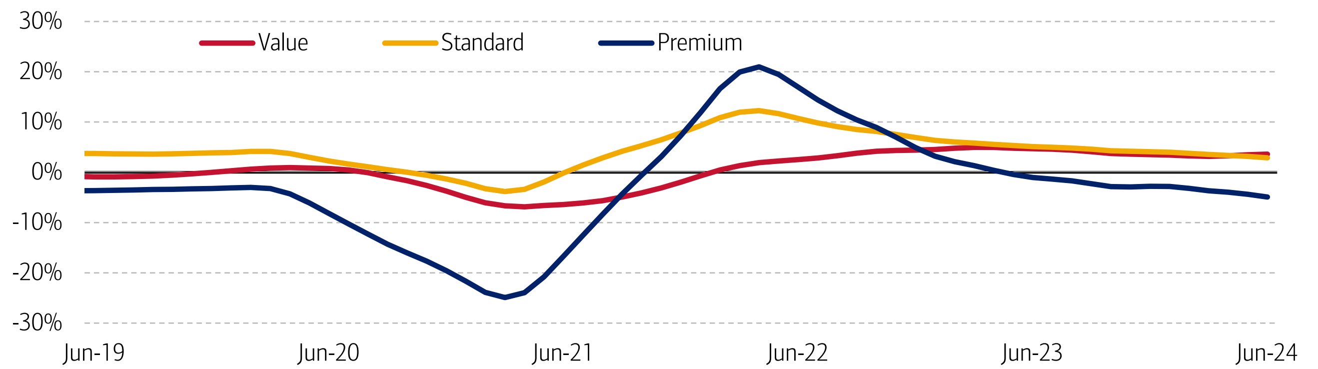
Restaurant goers trade down as prices rise

Some consumers also appear to be favoring less expensive dining options after years of balancing affordability and quality.

Using Bank of America internal card data, we define restaurant tiers (value, standard and premium) based on the median income of customers that frequently visit those establishments (see methodology). For example, restaurants with customers with the lowest median income were categorized as "value tier" likely reflecting, in our view, restaurants with the least expensive menus.

Furthermore, we determine each customer's restaurant tier based on where they typically allocate the majority of their restaurant spending. We find that the year-over-year (YoY) percentage change in customers with most of their spending in the premium tier decreased nearly 25% YoY during the pandemic but rebounded by over 20% in 2022 (Exhibit 4). However, this growth has been slowing, decreasing every month since May 2023 and as of June 2024 is now down nearly 5% YoY.

Exhibit 4: The percentage (%) growth in the number of customers with the majority of their monthly spending in the premium tier is decreasing YoY, while the % growth in the number of customers spending most of their monthly restaurant budgets at standard and value tiers is increasing
The YoY % growth of the number of customers by restaurant tier (monthly, %)



Source: Bank of America internal data

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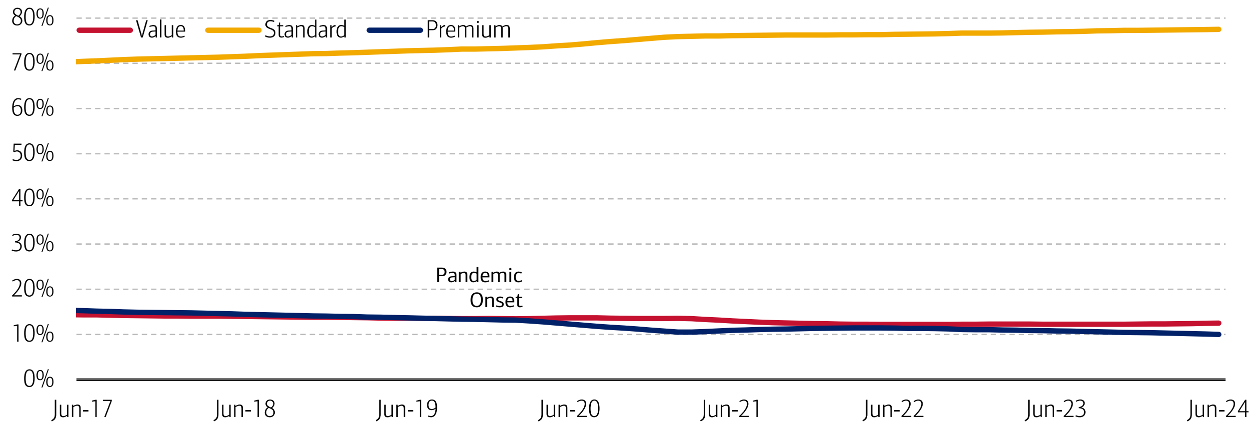
By using Bank of America internal card data, we determine each restaurant tier's percentage share of total customers – our proxy for market share. Exhibit 5 shows that the share of customers who spent the majority of their monthly restaurant budget at standard tier restaurants in June 2024 was nearly 80%. In other words, the market share for the standard tier was nearly 80%.

Bank of America internal card data shows that the standard tier's market share has increased by almost seven percentage points since June 2017. The shift to standard tier restaurants sped up after the pandemic, likely as consumers turned to moderately less expensive LSRs while FSRs dealt with pandemic-related dine-in restrictions.

Exhibit 5: The share of customers with most of their spending in the standard tier has increased compared to pre-pandemic, while the share at value tier and premium tiers has decreased. Although, the share of customers with most of their spending in the value tier has increased since October 2022

Percentage share of customers by their restaurant spending tier (monthly, %)



Source: Bank of America internal data

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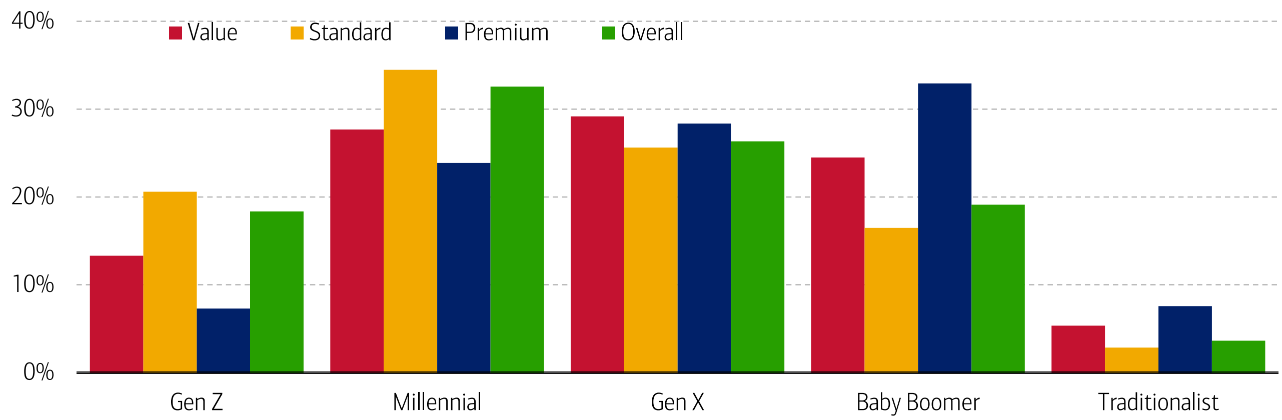
Historically, this pivot to standard tier restaurants pulled market share from both value and premium tiers, with the premium and value tiers experiencing a five and two percentage-point decrease since June 2017, respectively. However, the market share of the value tier has been increasing over the past two years, and in June of this year, it rose to a level not seen since November 2021.

Younger generations trade down for quantity over quality

More consumers are choosing less expensive restaurants, but are there differences by age? Bank of America card data suggests that younger generations make up a disproportionately low share of customers who spend the majority of their restaurant budget at premium tier restaurants (Exhibit 6). Gen Z accounted for 18% of the sample, but only 7% of customers in the premium tier. Conversely, Traditionalists and Baby Boomers made up 23% of the sample, but account for nearly 40% of customers in the premium tier.

Exhibit 6: Older generations make up a disproportionately high share customers in the premium tiers, while Gen Z and Millennials have a disproportionately lower share in the premium tier

Share of customers in each restaurant tier and overall, by generation (June 2024, %)



Source: Bank of America internal data

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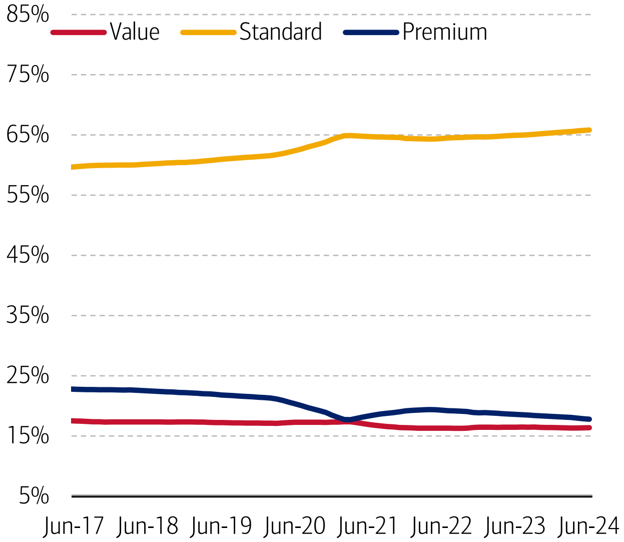
Bank of America internal card data shows that the market share (using our proxy) for premium and value tiers has decreased since April 2022 among older generations (Baby Boomers and Traditionalists). However, their share of premium tier restaurants is still higher than for value tier restaurants (Exhibit 7). Conversely, all other generations have a higher market share for value tier restaurants than premium (Exhibit 8). Also, the market share of the premium tier is only 8% for these combined generations, less than half the share for older generations at 18%.

Exhibit 7: Market share for premium tier restaurants is above that of value tiers for older generations, but in recent years the premium market share is declining while the value tier has flattened

Percentage share of customers by their restaurant spending tier for older generations (monthly, %)



Source: Bank of America internal data. Older generations include Traditionalists and Baby Boomers.

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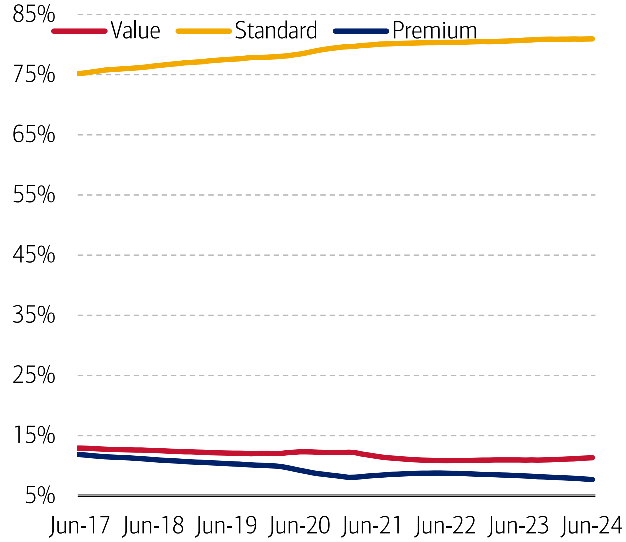
Exhibit 8: The market share for value tier restaurants is above that of premium tiers for Gen X, Millennials, and Gen Z, and the value tier's market share appear to have increased since November 2021

Percentage share of customers by their restaurant spending tier Gen X, Millennials, and Gen Z (monthly, %)



Source: Bank of America internal data

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Notably, the value tier's market share has flattened for older generations but has been increasing slightly for all other generations since June 2022, with the largest increases in market share being for Gen Z and Millennials, reversing a multi-year decline that started before the pandemic.

In our view, it could be that the higher wage growth for households at the lower end of the income spectrum has allowed these households to trade up to the standard tier from the value tier, while slower wage growth at the higher end has left less room for spending at the premium tier. But rising costs for restaurants and necessities (see: The kids are alright (for now) and When we were young) seem to be reversing the trade-up portion of this trend, at least for younger generations.

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 restaurant 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 restaurants (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 restaurants included has had at least 100,000 individual Bank of America customers making at least one purchase during the past 12 months. This analysis includes both full-service and limited-service restaurants.

The sample of customers in this analysis includes a dynamic pool of customers that have a checking, a saving or a credit card account with BAC consecutively each month between October 2017 and May 2024. Each customer's restaurant tier was determined by taking customer spending on dining during past 12 months, across the three restaurant tiers. The tier with the highest percent of spending will determine the customer's restaurant tier. For example, if the customer spent the majority of their restaurant dollars at premium tier restaurants, the customer's tier is designated as premium tier, even though they might still have dining spending at the value/standard tier.

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.

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Sources

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Disclosures