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Consumer Morsel

Can consumers escape inflation?

09 November 2026

Key takeaways

- Consumers appear increasingly focused on value. Derived from Bank of America deposit account as well as credit and debit card spending data, our proprietary Spending Tier Composite (STC) - a proxy for trade down activity - reached its lowest level since 2021, suggesting more households are shifting spending to value tier merchants.
- The ability to offset inflation differs across spending categories. Apparel and dining show clear signs of consumers trading down, but when it comes to travel, some households may be opting out of trips entirely rather than shifting to lower-cost options.
- Millennials are leading the move toward value-oriented spending. Since 2022, Millennials' spending tier has fallen faster than that of Gen X or Baby Boomers, particularly in apparel and groceries, suggesting greater sensitivity to rising costs.

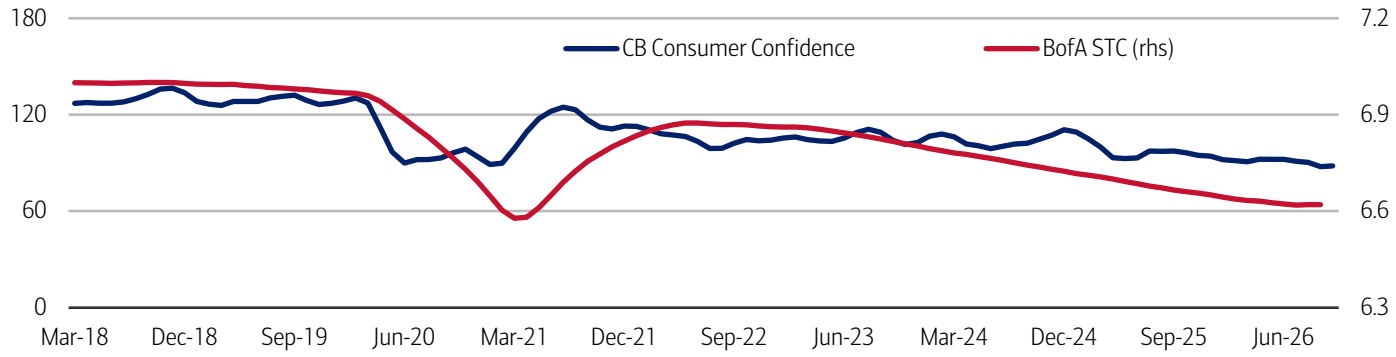
Consumer sentiment aligns with trading down

Consumer sentiment and spending often appear disconnected. While aggregate consumer spending has remained resilient (read more in the October Consumer Checkpoint), confidence remains relatively low. The reason may be that households are maintaining spending by becoming increasingly value conscious (read more on this in July's The rise of value). Rather than spending less, many appear to be changing where – and how – they spend.

The gap between sentiment and spending is not a recent phenomenon. New research from the Federal Reserve highlights that spending can provide a different perspective on household well-being than income or wealth alone. In other words, consumers may continue purchasing even when they feel financially constrained, particularly if they adjust their spending rather than cut back outright.[1]

October data offers further evidence of this, with The Conference Board (CB) Consumer Confidence Index® remaining well below pre-pandemic levels (Exhibit 1). Interestingly, spending growth has remained strong even as consumers continue to trade down. To measure the latter, we have developed a proprietary Spending Tier Composite (STC) based on Bank of America card data. The composite serves as a proxy for trade down activity among consumers.

Exhibit 1: As consumer confidence has fallen, so has our Spending Tier Composite (i.e. our measure of consumers trading down)
The Conference Board (CB) Consumer Confidence Index® (monthly, index 1985 = 100, seasonally adjusted, three-month moving average), Bank of America STC derived from credit and debit card spending on four spending categories (monthly, three-month moving average, y-axis on right-hand side (rhs))



Source: Bank of America internal data, Haver Analytics
Note: Spending Tier Composite is derived from card spending on apparel, dining, grocery and travel.

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[1] Aladangady, Aditya et al. (2026, October 9). *Measuring spending in the Survey of Consumer Finances*. Board of Governors of the Federal Reserve System.

Consumers are trading down at the highest level since 2021

To create the composite, we first rank consumer spending by tier (see Methodology). We then rank stores by the median income of their shoppers, with the top denoted as "premium," the middle as "standard," and the bottom as "value." For example, if a customer spends most of their money at premium stores, that equals a score of "3," while standard is a "2" and value equals "1."

A higher STC score means consumers are spending more at premium stores, while a lower STC means more outlays at discount or value stores. Furthermore, increases in the composite suggest consumers are trading up, while decreases imply the opposite.

The decline in the STC suggests consumers are becoming more price sensitive (Exhibit 1). While households continue to spend, they are increasingly seeking discounts as concerns about higher prices persist.

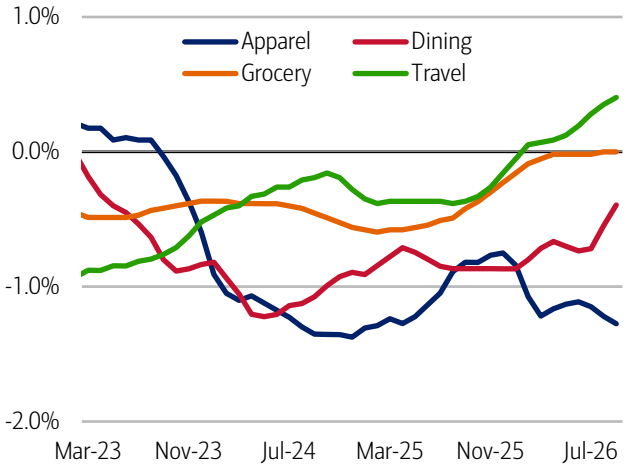
Apparel and dining show strongest trade down activity

Apparel is among the categories where consumers have the greatest flexibility to respond to inflation. They can switch brands, retailers, or delay purchases altogether. As a result, apparel shows some of the clearest evidence of trading down in our data, with the category's STC declining materially over the past several years (Exhibit 2). Dining's STC has also declined from the 2024 average level (Exhibit 3).

By contrast, unlike apparel and dining, travel has seen a reversal in trade-down trends. There has recently been renewed strength in hotel spending growth as well as robust cruise spending – the latter often a budget-friendly way to travel. Still, the increase in Bank of America's travel STC may reflect lower-budget travelers forgoing trips rather than becoming less price conscious given the decline in airline transactions growth in the past several months (read more on falling airlines transactions growth in the September Consumer Checkpoint).

Exhibit 2: The average STC for apparel has fallen this year, while travel has increased, up 0.4% YoY in September

STC by spending category (year-over-year (YoY)%, monthly, three-month moving average)

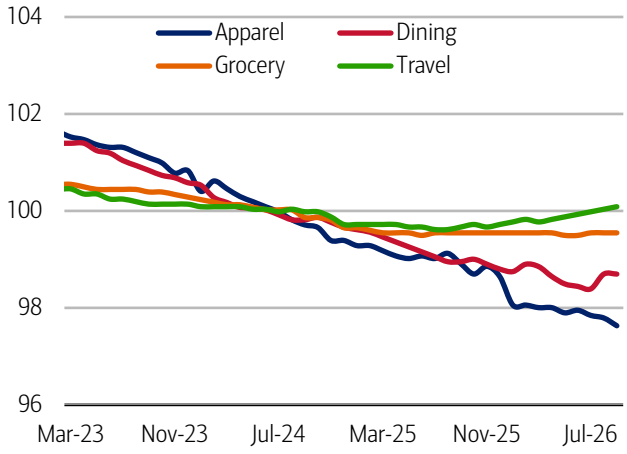


Source: Bank of America internal data

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Exhibit 3: Travel was above the 2024 average level in September, while all other spending categories remained below

STC by spending category (monthly, three-month moving average, indexed, 2024 average = 100)



Source: Bank of America internal data

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Can trading down insulate consumers from inflation?

While trading down can help consumers preserve purchasing power, its effectiveness depends on how easily spending can be shifted to lower-cost alternatives. A decline in the STC indicates consumers are moving toward value, though it does not demonstrate how much inflation they have avoided.

Apparel stands out. While apparel inflation has generally remained below the Bank of America overall after-tax wage growth, it has run closer to wage growth than either grocery or dining inflation in recent months (Exhibit 4).

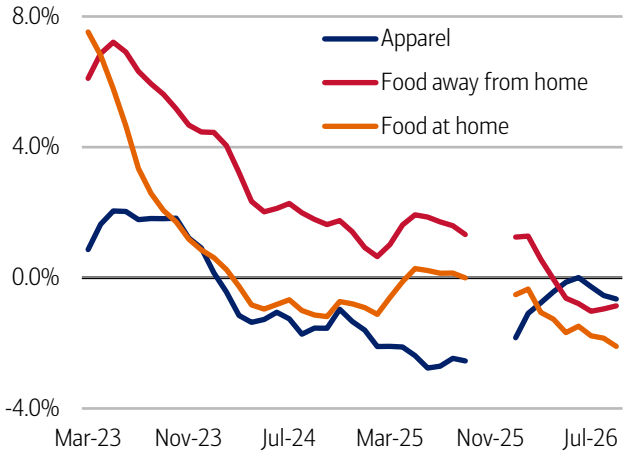
At the same time, apparel recorded the largest decline in the STC, suggesting consumers increasingly responded to rising prices by shifting purchases to lower-cost retailers. By contrast, grocery inflation has remained comparatively subdued and spending patterns in this category have been more stable, implying less need to seek out alternatives (read more on the affordability of everyday essentials in November's Inside the cost-of-living squeeze).

The relationship between apparel inflation and spending behavior is also evident over time. During the inflation surge of 2021 and 2022, apparel prices accelerated sharply while the STC for this category declined (Exhibit 5). More recently, as apparel

inflation has inched back up, the clothing STC has fallen. According to BofA Global Research, the increase reflects tariff-related price increases reaching consumers.

Consumers may be adjusting spending in other ways beyond shopping at discount retailers, according to BofA Global Research. Some households may also be delaying discretionary purchases and shopping closer to need, particularly in categories such as apparel where buying can be postponed. It is also likely, in our view, that this has led to an increase in thrifting and buying secondhand (read more on the growth in secondhand shopping in April's Secondhand fashion creates a closet refresh).

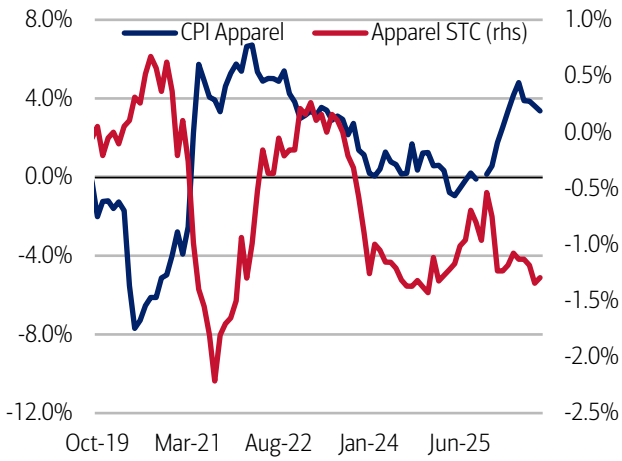
Exhibit 4: Apparel inflation is moving closer to exceeding wage growth
The difference between Bureau of Labor Statistics Consumer Price Index (CPI) by category and Bank of America after-tax overall wage growth (monthly, three-month moving average, percentage point difference)



Source: Bank of America internal data, Haver Analytics
Note: The gap in data reflects the government shutdown.

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Exhibit 5: During periods of peak apparel inflation, our apparel STC has declined
Apparel CPI (monthly, YoY%, y-axis left-hand side (lhs)) and apparel STC (monthly, YoY%, y-axis rhs)



Source: Bank of America internal data, Haver Analytics
Note: The gap in data reflects the government shutdown.

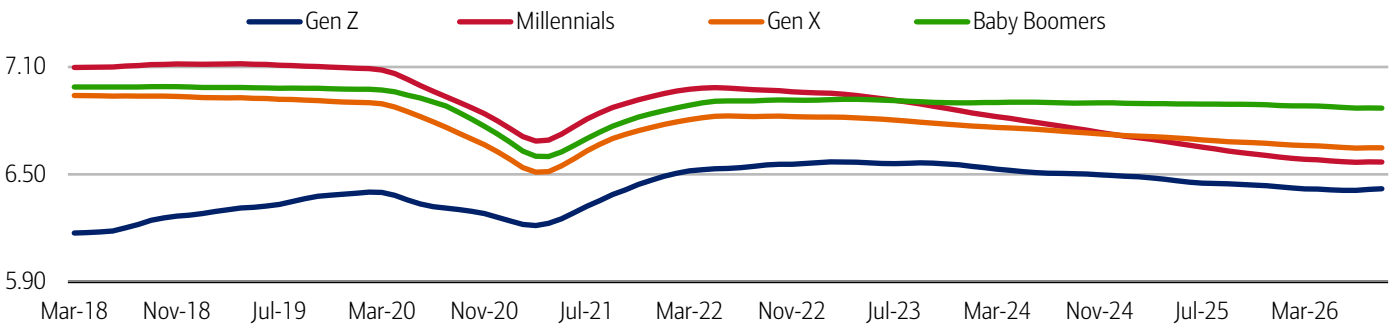
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Millennials trade down more than others

Using Bank of America card data and the Spending Tier Composite, we find that, across age generations, Gen Z continue to have the lowest STC (Exhibit 6). This likely reflects the fact that younger consumers typically have lower incomes and fewer accumulated assets.

Millennials tell a different story. Once the group with the highest STC, they've since reversed course as more trade down to lower-priced value tiers. That's likely because Millennials occupy a unique position in the consumer landscape. Many are simultaneously raising families while facing high housing, auto and child care costs (read more on child care costs in October's Kicking and screaming: Child care costs persist). As a result, they may have more incentive than older generations to seek savings.

Exhibit 6: The average STC for Gen Z remains the lowest among generations, Millennials have seen the steepest decline since 2018
Bank of America spending tier composite derived from credit and debit card spending on four spending categories (monthly)



Source: Bank of America internal data
Note: BofA's Spending Tier Composite is derived from card spending on apparel, dining, grocery and travel.

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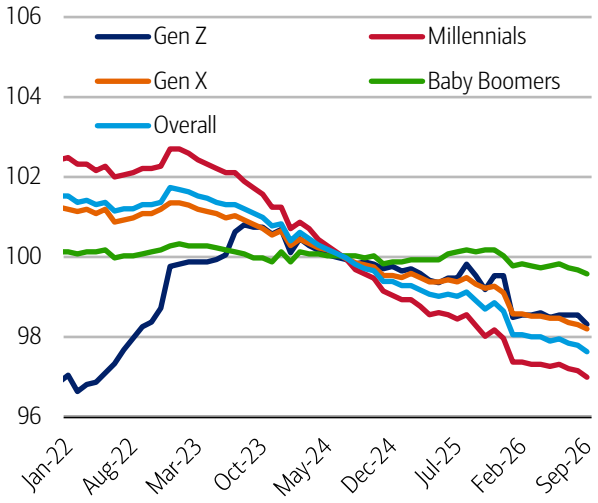
For Millennials, the value hunt centers on apparel and groceries

Millennials' shift to lower-cost merchants is most pronounced in apparel and grocery spending (Exhibits 7 and 8). This suggests that value-seeking is not limited to discretionary purchases, but has increasingly extended to everyday household spending. In contrast, grocery STC measures for Gen Z, Gen X and Baby Boomers has generally remained more stable.

While consumers can delay apparel purchases, trading down on groceries is notable because it suggests Millennials are looking for savings even in areas where spending is harder to avoid, like food.

Exhibit 7: Millennials have seen the sharpest trade down in apparel compared to other generations

Apparel STC by generation (monthly, three-month moving average, index 2024 average = 100)

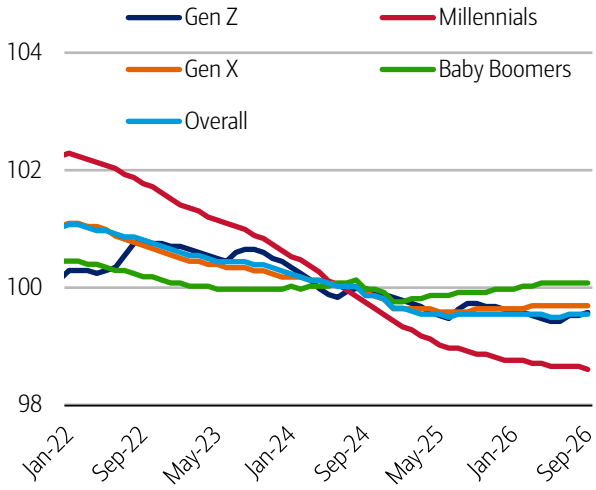


Source: Bank of America internal data

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Exhibit 8: Millennials' trade down activity when grocery shopping is continuing to decline even as it has remained fairly constant for other generations

Grocery STC by generation (monthly, three-month moving average, index 2024 average = 100)



Source: Bank of America internal data

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Methodology

Selected Bank of America (BAC) 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 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 stores. The stores were then ranked by the median income of their shoppers, with the top third denoted as "premium," the middle third as "standard," and the bottom third as "value." In our view, such categorization is a fair view of how expensive the items are at those stores. Any stores 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 dynamic pool of customers that have a checking, a saving or a credit card account with BAC each month. Each customer's tier was determined by taking customer spending during the past 12 months, across the three tiers. The tier with the highest percent of spending will determine the customer's tier for each category. For example, if the customer spent the majority of their apparel dollars at premium tier apparel stores, the customer's apparel tier is designated as premium tier, even though they might still have apparel spending at the value/standard tier. This is repeated for dining (restaurants, bars, etc.), travel (hotel lines, car rental agencies, airlines, etc.), and grocery stores.

For the "spending tier composite", or STC, if a person spends most of their money at the premium tier, that equals a score of "3," while standard is a "2" and value equals "1." This is done across four major spending categories: groceries, apparel, restaurants and/or travel. The highest score that can be achieved is a "12" (if someone spends the majority of their money at premium stores across all four categories), while the lowest is a "3" (if another person spends the majority of their money at value stores for groceries, restaurants, and apparel and has no travel spending). Then, we take the total to get a spending tier composite.

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.

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. However, some of the exhibits are still based on historical income ranges.

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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