

Consumer Morsel

Will rising utility bills increase the heat on consumers?

21 February 2025

Key takeaways

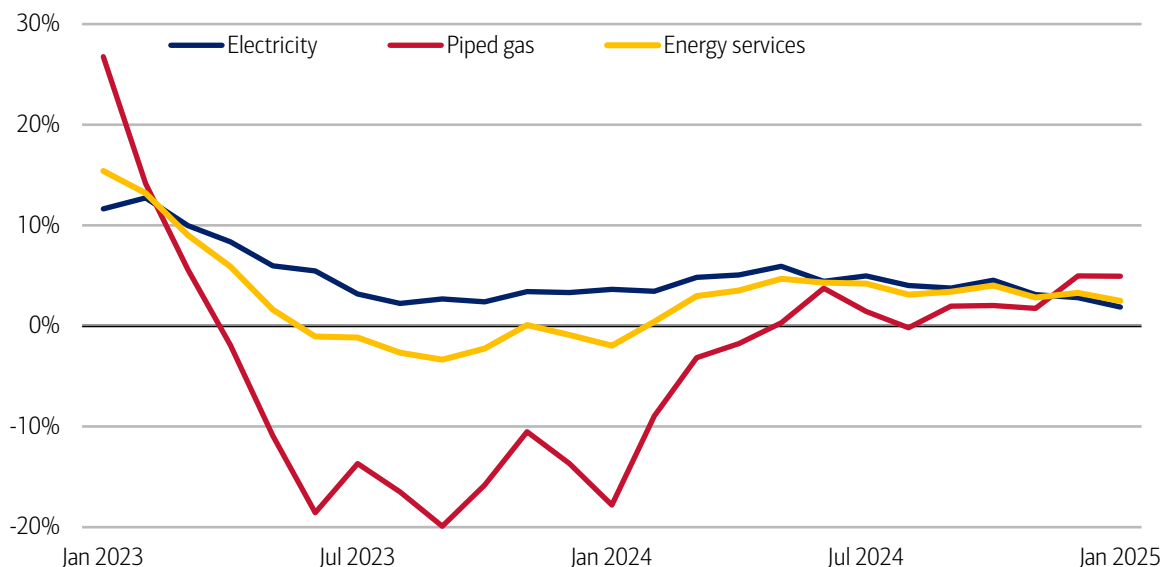
- Higher U.S. wholesale natural gas prices have been pushing up the price of gas piped to the home. The January year-over-year (YoY) rate of inflation in piped gas stands at 4.9% compared to 1.9% for electricity, according to the Bureau of Labor Statistics (BLS). And with 40% of electricity generation still from natural gas, electricity prices could face upward pressure too.
- Bank of America internal deposit account data shows that the median customer utility bill payment rose 6% in January, well above the rate of inflation in utilities, likely reflecting higher usage. And that's before heating bills from the unseasonably chilly January have even hit the doormat.
- Rising utility bills tend to impact lower-income households disproportionately. As utility and other bills start to bite, lower-income households in particular could respond by pulling back on their discretionary spending.

Up, up and away?

Consumers enjoyed some relief on the prices they were paying to power and heat their homes in 2023. The price of 'energy services' declined year-over-year (YoY) in the second half of that year (Exhibit 1), according to the Bureau of Labor Statistics (BLS). But since then, the price of these energy services has been rising. By January 2025, the YoY rate of inflation was 2.5%. While both electricity and household piped gas prices were up in January YoY, the rate of inflation in piped gas is currently significantly greater than for electricity at 4.9% compared to 1.9%.

Exhibit 1: Piped gas prices rose 4.9% YoY in January 2025

Consumer prices for electricity and piped gas (monthly, % YoY)



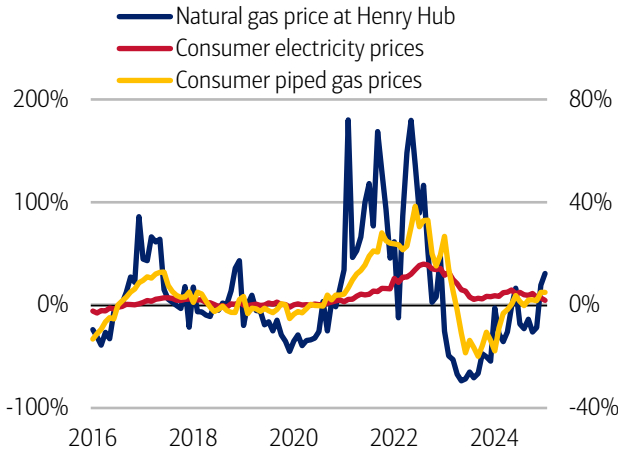
Source: Haver Analytics

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Residential piped gas prices follow the wholesale price of gas fairly closely. And the recent sharp upward movement in the wholesale price of natural gas at the Henry Hub major gas supply point have been reflected quickly in consumer prices (Exhibit 2).

Exhibit 2: In January, consumer gas prices have followed a 30% YoY rise in wholesale natural gas prices

Consumer prices for electricity and piped gas (% YoY, rhs) and the Henry Hub price of natural gas (% YoY, \$/one million British thermal units, lhs)

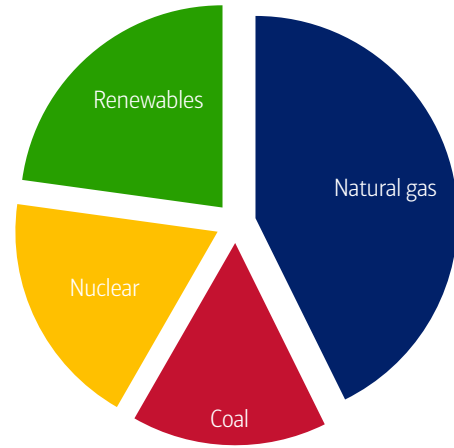


Source: Haver Analytics

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Exhibit 3: Natural gas accounts for around 40% of US electricity generation

Share of US electricity generation in 2024 by source (%)



Source: Energy Information Administration

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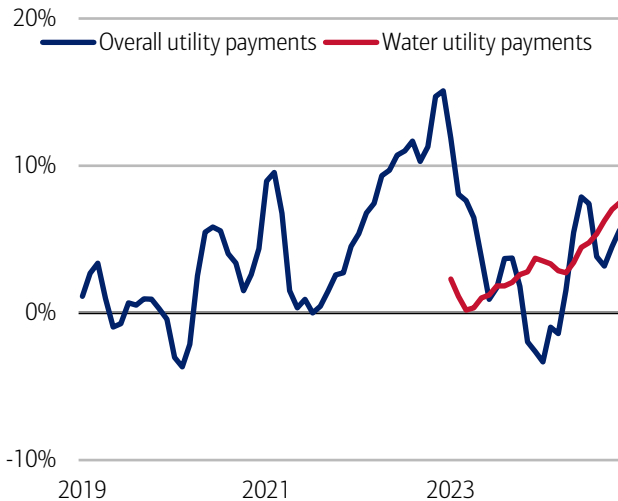
Despite the rise of renewables, a large portion of electricity is still generated using natural gas (Exhibit 3), so electricity prices often follow the wholesale gas price too, albeit with a longer lag. The implications are that unless wholesale gas prices drop back significantly, retail electricity prices may face near-term upward pressure at the very least. The US Energy Information Administration (EIA), for example, currently projects US residential electricity prices to average around 3% higher in 2025 than in 2024.

And bills are outrunning rising prices

When we look at households’ overall utilities payments – covering electricity, gas and also water utilities – in Bank of America aggregated deposit account data (Exhibit 4), it appears they are actually growing faster than the consumer price of energy services might imply. In January 2025, the YoY increase was 6%, 3.5 percentage points faster than the rise in the price of energy services in the Consumer Price Index (CPI).

Exhibit 4: In January 2025 overall utility payments per customer were up 6% YoY, while water was up 7.5%

Median monthly overall utility payments per customer and water utility payments, based on Bank of America deposit data (three-month moving average, YoY%)

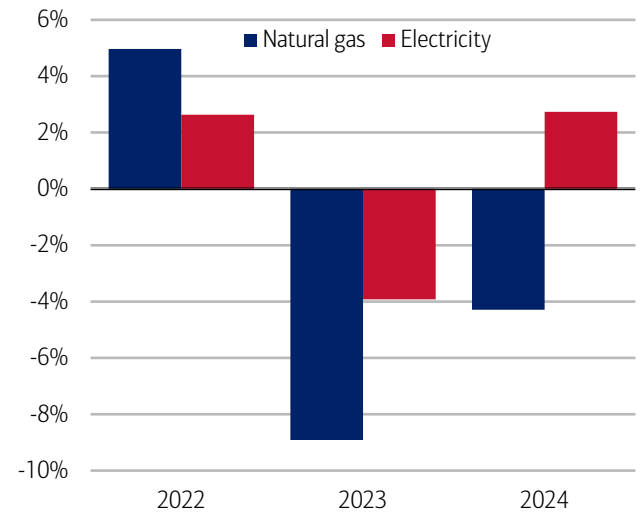


Source: Bank of America internal data

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Exhibit 5: Residential electricity consumption rose 2.7% in 2024, with natural gas down 4.3%

% YoY change in residential natural gas (bn cubic ft per day) and electricity consumption (bn Kiliowatthours)



Source: EIA

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Why are these payments rising faster than prices? One contributory factor appears to be water utility payments. While we can't easily separate customer payments for electricity and gas with Bank of America data, as they are often supplied by the same firm, we can separate some water utility payments. When we do this, we find the median water payment is showing a YoY rise of around 7.5%, adding upward pressure to overall utility payment growth. However, the absolute dollars spent on water bills are typically significantly less than on energy, so this on its own is not enough to account for why overall utility payments are rising so briskly.

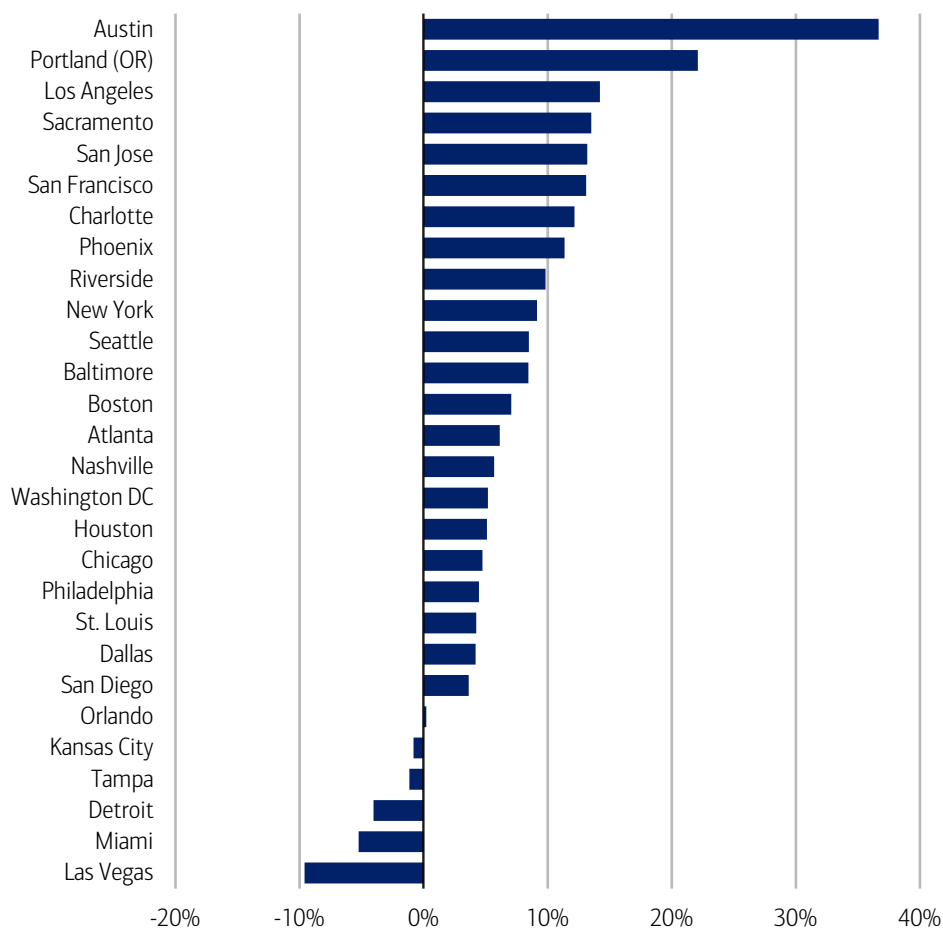
But another significant reason for the increase is that households are consuming more electricity. The EIA estimates that residential electricity consumption rose 2.7% in 2024, while natural gas consumption declined 4.3% (Exhibit 5). For consumer bills, it's the rise in electricity consumption that matters more because the average household spends over three times as much on electricity than on gas. The EIA forecasts a further rise in electricity demand in 2025, potentially leading to more upward pressure on bills.

Turning up the thermostat may add to the squeeze

Looking at the rise in median utility payments across the country to date there has been a range of experiences, though the cities with increases above 10% YoY are all in the West and the South (Exhibit 6).

Exhibit 6: Across cities, many in the South and the West have seen increases in utility payments above 10% YoY in the last three months

Median monthly overall utility payments per customer by Core Based Statistical Area (November-January 2024 compared to November-January 2023, % YoY)



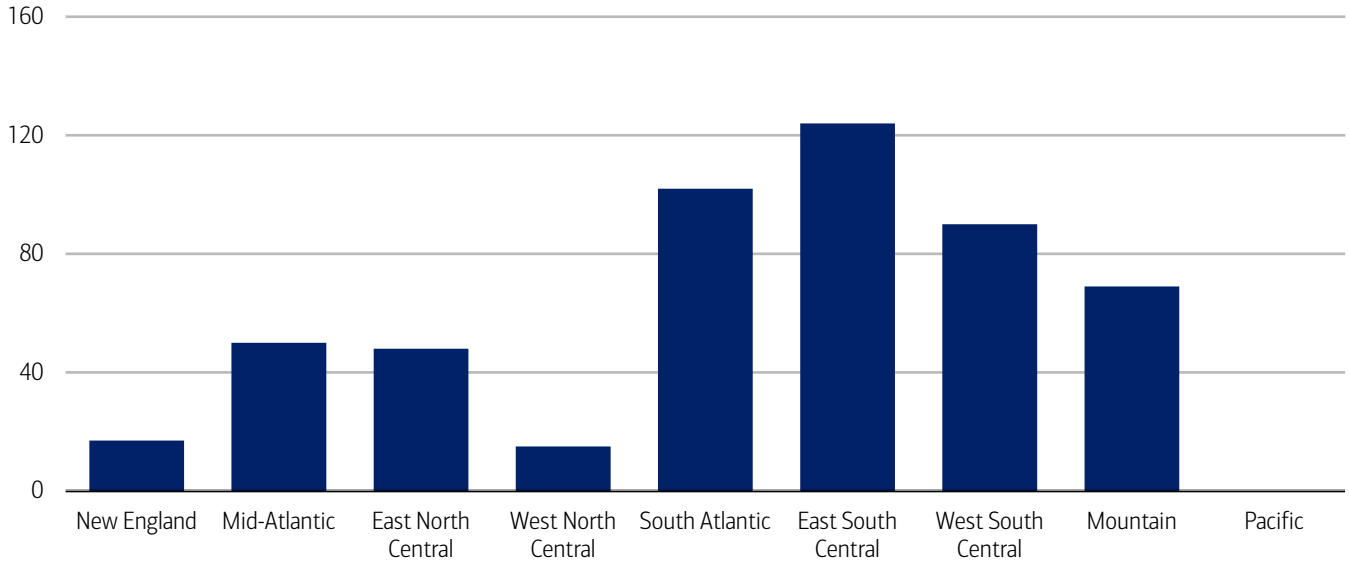
Source: Bank of America internal data

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And in the shorter term, recent cold weather will only have added pressure. Exhibit 7 shows the 'heating day deviation' for census divisions. This measures the extent to which temperatures were below 65 degrees Fahrenheit compared to what is normal for the time of year. Clearly southern areas of the US, which were impacted by snow and ice, were particularly cold relative to their 'norm' in January. Consequently, consumers likely needed to use more energy to heat their homes than they might have expected. And as we write, February looks to be another frigid month, with cold temperature records being broken across central and southern regions.

Exhibit 7: Southern areas of the country were particularly colder than usual in January

Heating days deviation from normal for January 2025 by census division (heating days deviation from January average)



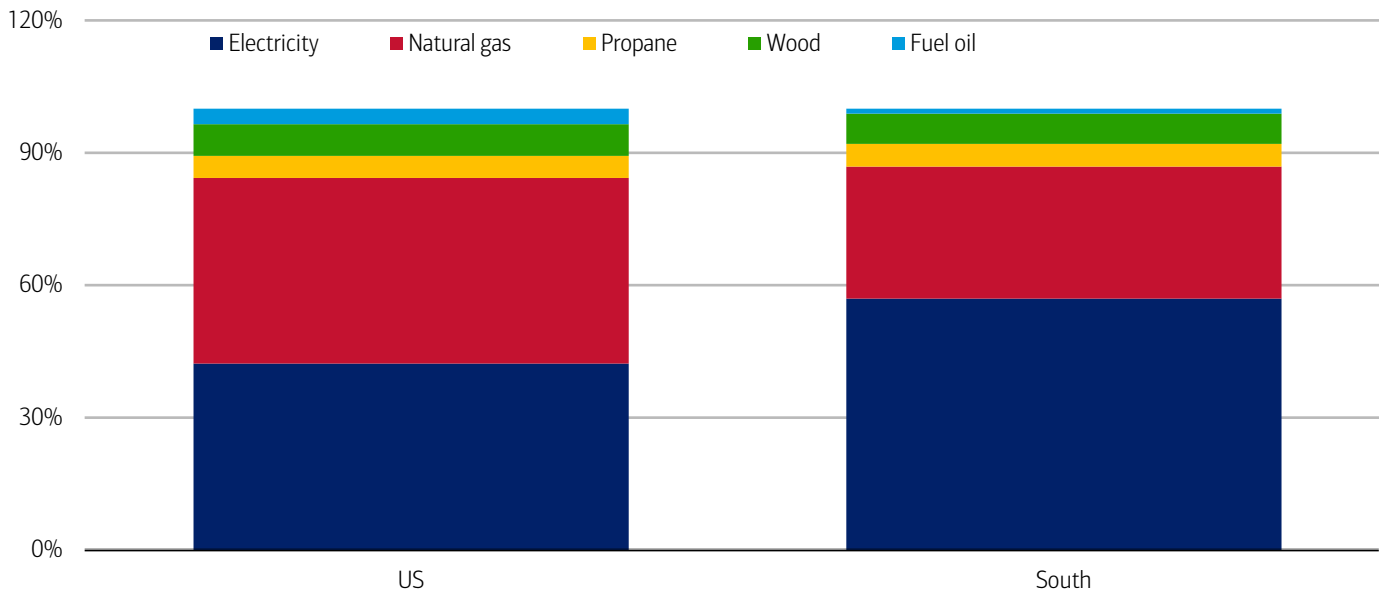
Source: Haver Analytics

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One saving grace perhaps for many southerners may be that they tend to heat their homes more by electricity than gas (Exhibit 8) relative to the typical US household, so many may avoid a double whammy from the sharp rise in bills from piped gas prices.

Exhibit 8: Use of gas or electricity to heat homes splits equally in the US, but in the South electricity is used in two thirds of homes

Space heating by type of fuel used (2020, %)



Source: EIA, Residential Energy Consumption Survey

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Hot air or a drag on spending?

What's the broader impact of rising utility bills? Well, for one, they hit lower-income households proportionately harder. Exhibit 9 shows that lower-income customers with income below \$50K pay around 80% of the median US customer on utilities, according to Bank of America data. Meanwhile, customers with income above \$250K pay around 150% of the US median.

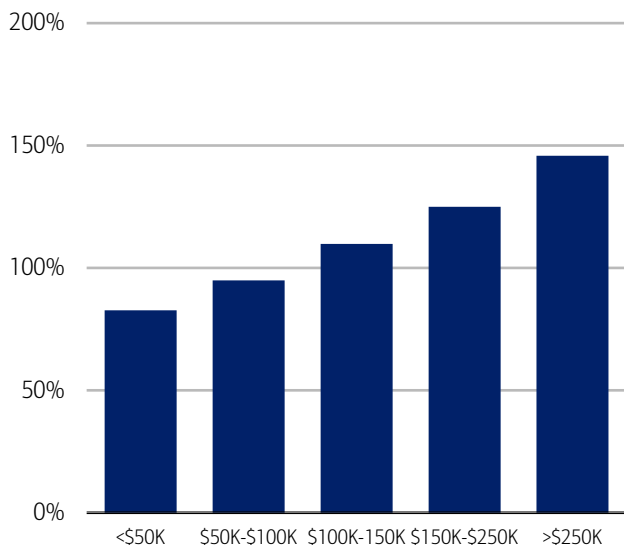
So, while higher earners pay more, it is far from a proportional rise, and as a result, lower-income households pay more as a percentage of their income. In BLS data, for example, households with income below \$50K paid around 6.8% of their income on natural gas and electricity in 2023, while households with income above \$150K paid just 1.2%.

And if utility bill payments continue to grow at elevated rates, then it is possible households, particularly lower-income ones, might need to reduce their spending on discretionary items to cover their bills. Exhibit 10 shows that utility payments per customer have been rising relative to discretionary card spending since 2021. In 2024, they were equivalent to around a fifth of credit and debit card spending on discretionary items, according to Bank of America aggregated debit and credit card data.

Over the past few years, a strong labor market and growth in after-tax wages and salaries has allowed consumers to ride out some cost pressures, including rising utility bills. But if the labor market were to cool – and job openings are well down on their previous levels – then consumers may increasingly feel the need to ease back on discretionary spending to keep the lights (and the heat) on.

Exhibit 9: Utility bill payments rise with income, but not proportionately – a customer with income below \$50K pays around half that of a customer with income above \$250K

Median monthly utility payment per customer by income relative to overall US median utility payment in 2024 (%)

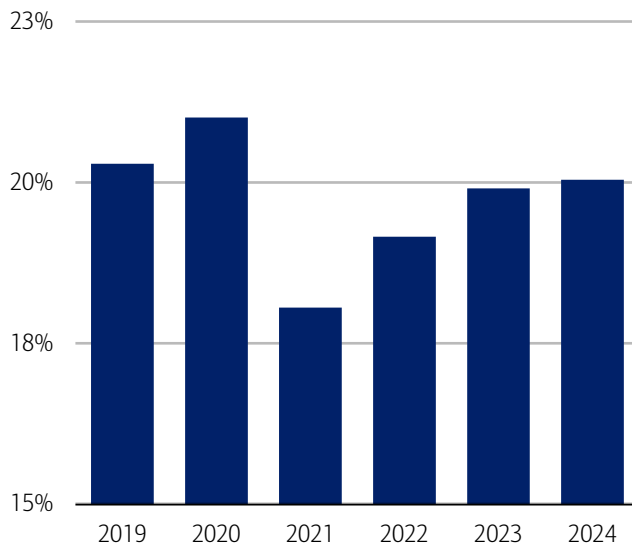


Source: Bank of America internal data

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Exhibit 10: Utility payments were equivalent to around 20% of discretionary card spending in 2024

Average annual utility payment as a percentage of credit and debit card spending per customer on discretionary items (%)



Source: Bank of America internal data

Discretionary spending categories include card spending that is not for grocery, gasoline, TV and internet subscriptions, utility bills, phone bills, rent, child care and tax payments.

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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 (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.

We consider a measure of services necessity spending that includes but is not limited to childcare, rent, insurance, insurance, public transportation, and tax payments. Discretionary services includes but is not limited to charitable donations, leisure travel, entertainment, and professional/consumer services. Holiday spending is defined as items in which spending in the November-December period is usually at least 20% of total annual spending on the category.

For analysis looking at higher value transactions (including durables), we consider a value per transaction threshold estimated with reference to the top 30% of transactions by value in 2024. The share of higher value transactions is then the number of transactions above this threshold as a percentage of total transactions over time.

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:

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.

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

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Disclosures

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