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Consumer Morsel

Are young professionals spending more?

03 December 2024

Key takeaways

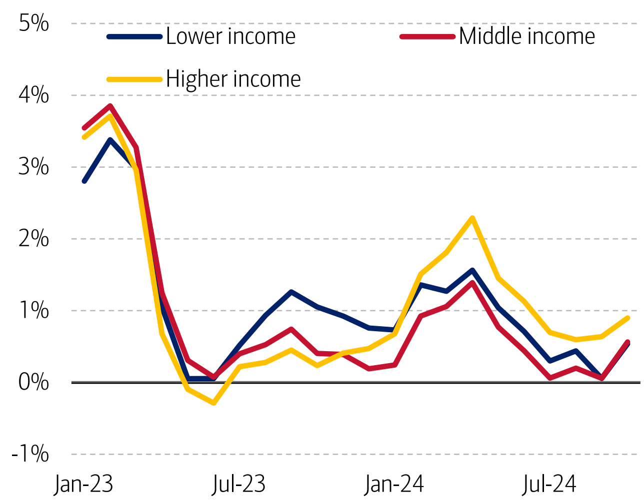
- The acceleration in higher-income spending growth seen in Bank of America aggregated credit and debit card data in 2024 has been accompanied by an acceleration in higher-income households' after-tax wages and salaries growth in 2024 compared to 2023. Consumer sentiment amongst higher-income households has also risen by more than other households, according to the University of Michigan sentiment survey.
- This acceleration in spending growth appears to partly reflect faster growth in the spending of higher-income younger generations (Millennials and Gen Z), and they may be using a strengthening in after-tax wage growth to increase spending on discretionary items.
- Findings from a recent Bank of America survey of young professionals are consistent with this picture. Young professionals are more upbeat on the economy over the next 12 months, and a large proportion of them have seen a salary increase over the last year.

Higher income spending growth has accelerated in 2024…

In the November Consumer Checkpoint (see: Consumer Checkpoint) we noted an acceleration in the credit and debit card spending growth of higher-income households this year compared to last, according to Bank of America aggregated card data (Exhibit 1). This was accompanied by a strengthening in higher-income households' after-tax wage and salary growth in 2024 compared to 2023 (Exhibit 2).

Exhibit 1: There has been a rise in spending growth among the top third of households by income, reaching 0.9% year-over-year (YoY) in October, while lower- and middle-income households grew by just over 0.5% YoY

Total credit and debit card spending per household based on Bank of America card data, by household income terciles (3-month moving average, YoY%)



Source: Bank of America internal data

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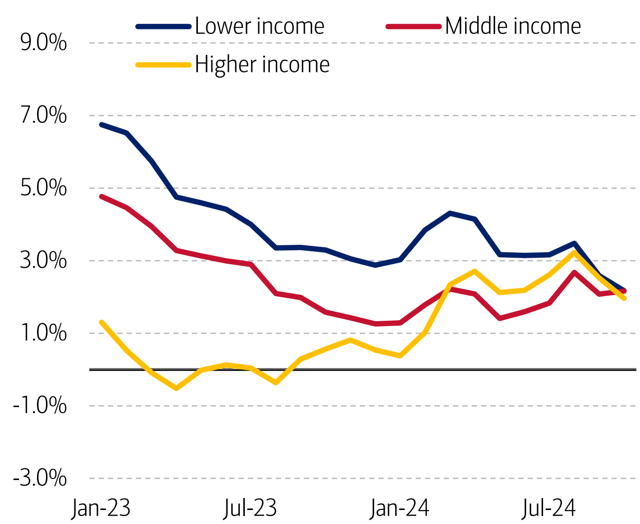
Exhibit 2: A the same time, higher-income wage growth was 2% YoY in October, significantly higher than 2023 growth rates

After-tax wage and salary growth by household income terciles, based on Bank of America aggregated consumer deposit data (3-month moving average, %YoY, seasonally adjusted (SA))



Source: Bank of America internal data

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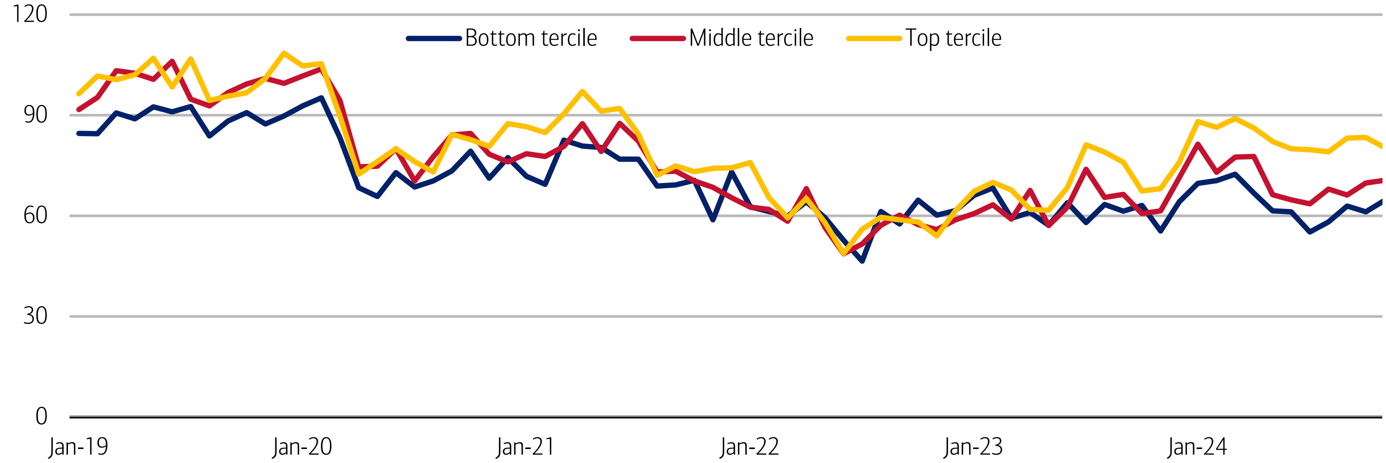
In fact, the rise in overall consumer sentiment also noted in the Consumer Checkpoint, has been somewhat skewed to higher-income households, too. Exhibit 3 shows the University of Michigan consumer sentiment index split by household income terciles – with the top tercile having increased the most in 2024.

Exhibit 3: There has been a larger rise in consumer sentiment in 2024 amongst higher-income (top tercile) households compared to middle- and lower-income households

University of Michigan Consumer sentiment split by household income terciles (1966 Q1=100)



Source: Haver Analytics

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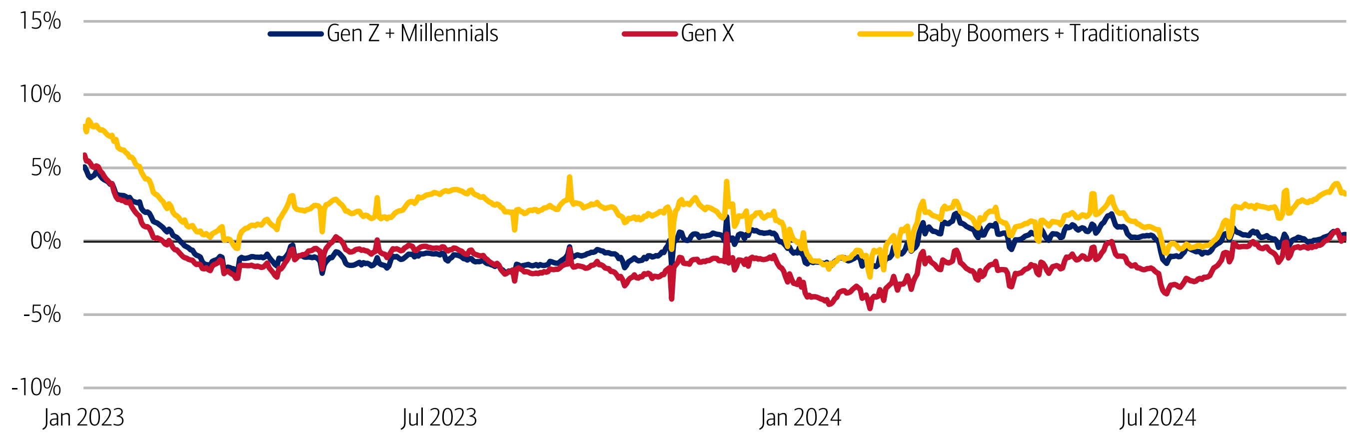
...but what households are driving this acceleration in spending growth?

Looking at higher-income spending growth by generation, Exhibit 4 indicates that while higher-income Baby Boomers and Traditionalists show robust growth, they also did so over much of 2023. In contrast, younger generations – Gen Z and Millennials – showed relatively weak (and negative) growth in 2023 and have seen something of a rebound in 2024.

Exhibit 4: Younger generations have seen an acceleration in spending growth, rising from around -1.5% YoY in 2023 to 0.5% YoY in October 2024

Total credit and debit card spending growth per household, for higher-income (top tercile) households by generation (28-day moving average of daily data, YoY%)



Source: Bank of America internal data

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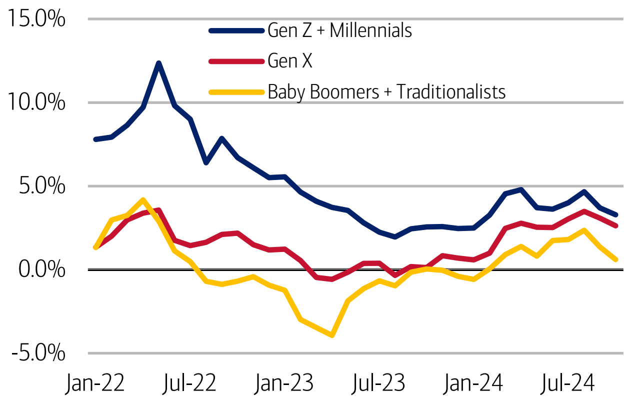
So, some of the acceleration in overall higher-income spending growth appears to be driven by the younger generations. What's behind this? One possible reason has been a rise in this cohort's after-tax wages and salaries growth over 2024 compared to the second half of 2023 (Exhibit 5).

It's true that higher-income Gen X households have also seen a significant rise in after-tax wage growth. However, it is likely that rising outlays on necessities (often not paid on credit or debit cards) as well as increased savings and investments have limited the extent to which strong wage growth has been reflected in a rise in card spending (see: [Gen X: The economy's struggling middle child]). But for younger generations, modestly higher wage growth has been mirrored in stronger discretionary spending (Exhibit 6).

Could wealth effects from rising financial assets also be part of the story? In our view, while rising financial wealth could be supporting the consumer spending of some, particularly older households, it seems fairly unlikely this impact would be significant for younger generations – simply because their share of financial assets is lower. According to the Federal Reserve Distributional Financial Accounts for 2024 Q2, Millennials only accounted for 10% of total financial assets.

Exhibit 5: After-tax wage growth has strengthened somewhat for younger generations in 2024, rising to 3.3% in October 2024
After-tax wage and salary growth for higher-income households (top tercile), based on Bank of America aggregated consumer deposit data (3-month moving average, %YoY, seasonally adjusted (SA))



Source: Bank of America internal data

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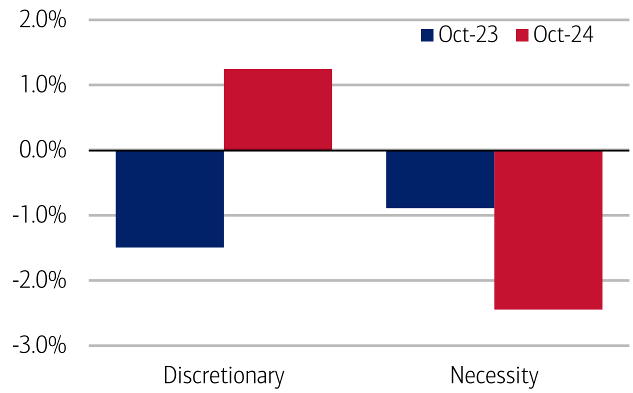
Exhibit 6: Higher-income younger gens are spending more on discretionary categories, with a rebound in the YoY growth rate of over 2.5 percentage points
Card spending growth per household on discretionary and necessity categories for higher-income (top tercile) Millennial and Gen Z households (October 2023 and 2024, % YoY)



Source: Bank of America internal data. Necessity categories are defined as spending on groceries, gasoline and utilities. Discretionary spending is defined as all other spending.

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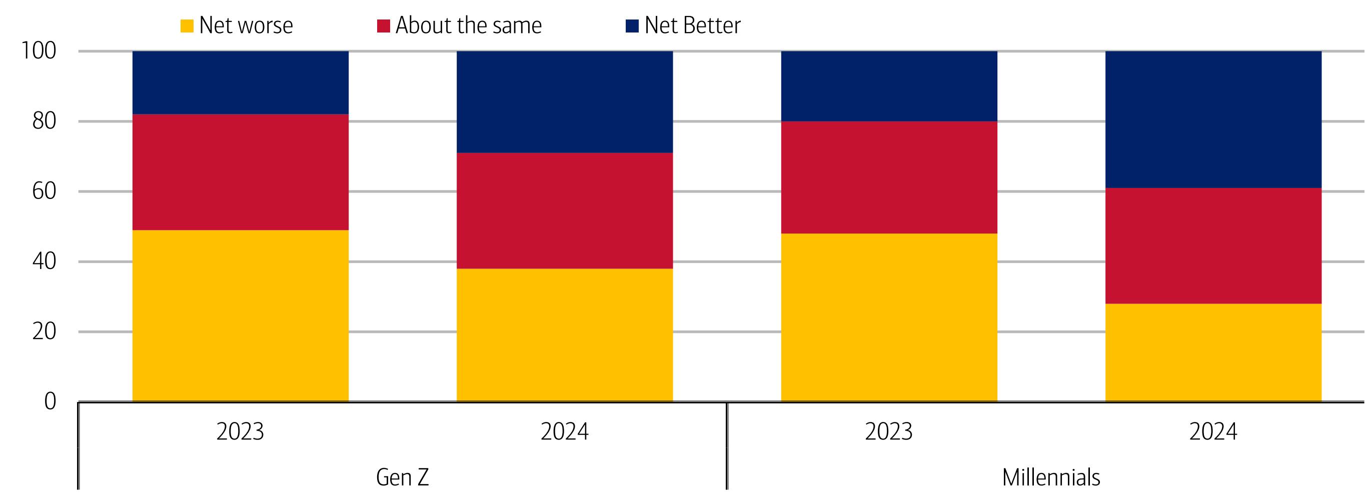
Survey of young professionals

The improvement in higher-income younger generations' spending and wage growth in Bank of America internal data is also being reflected in a recent Bank of America survey of young professionals, focused on relatively affluent younger generations (see Methodology). It found that respondents' views of the economy over the next year had improved compared to 2023 (Exhibit 7). In fact, around 10% more Gen Z respondents thought the economy would improve over the next year than they did in 2023, while for Millennials this figure was 20%.

Exhibit 7: Young professionals are feeling better about the economy in 2024, with 29% of Gen Z and 40% of Millennials expecting an improvement
Bank of America survey of young professionals, % responses to question, 'Over the next year, do you think the economy will be...'



Source: 2023 and 2024 Bank of America surveys of young professionals

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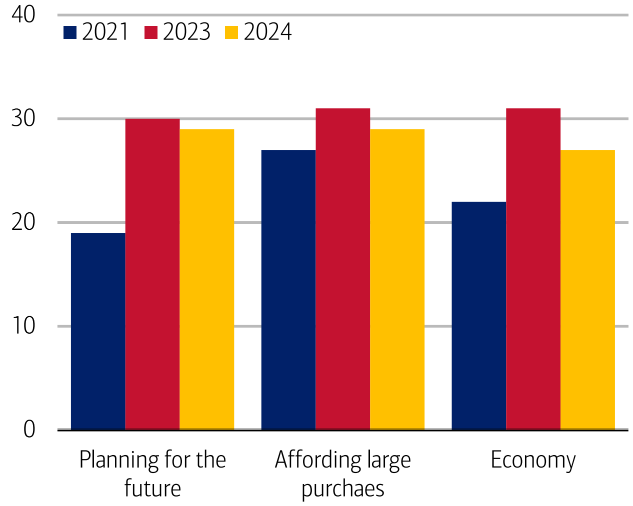
Looking at the top three concerns expressed by survey respondents, perhaps the most noteworthy change is that Millennials appear to be worrying significantly less about the economy than they were in previous years.

Exhibit 8: Gen Z's top three financial concerns have fallen a little in 2024 compared to 2023, but remain higher than in 2021

Bank of America survey of young professionals, Top three financial concerns of Gen Z respondents (%)



Source: 2021, 2023 and 2024 Bank of America surveys of young professionals

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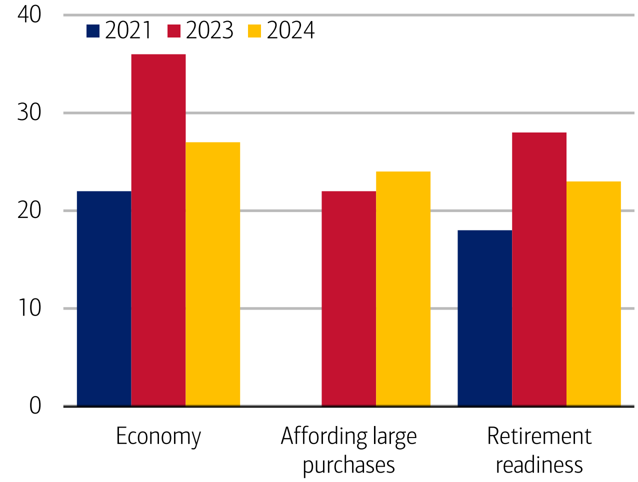
Exhibit 9: Millennials' concerns around the economy have fallen sharply, dropping by nine percentage points

Bank of America survey of young professionals, Top three financial concerns of Millennial respondents* (%)



Source: 2021, 2023 and 2024 Bank of America surveys of young professionals

*Affording large purchases did not appear in top 3 concerns in 2021

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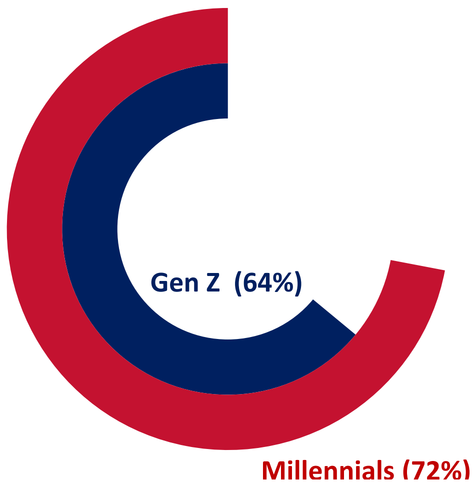
Interestingly, the survey also shows a healthy majority of young professionals reporting they received an salary increase over the past year (Exhibit 10), which is consistent with the improvement in after-tax wages and salaries reported in Exhibit 5.

Exhibit 10: 64% of Gen Z and 72% of Millennials reported getting a salary increase in the past year

Bank of America survey of young professionals, respondents reporting a salary increase in the last year (%)



Source: 2024 Bank of America survey of young professionals

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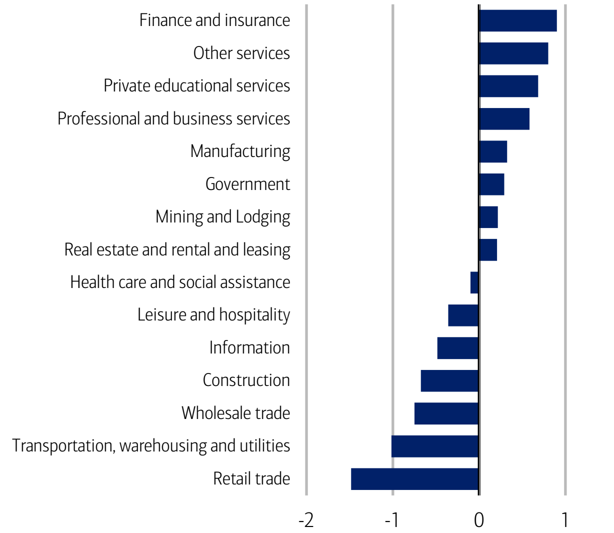
Exhibit 11: Some relatively higher wage industries, such as finance, have job openings rates above 2019

Job openings rate by industry relative to industry average in 2019 (percentage points)



Source: Bureau of Labor Statistics

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How might things progress from here? As always, developments in the wider labor market will likely be key. But interestingly, according to data from the Bureau of Labor Statistics (BLS), some industries with relatively higher incomes such as finance and professional and business services have job openings rates above their levels in 2019, while some other industries, such as retail trade and transportation appear to have rates below. This might suggest the pattern of labor demand in the near term, at least, may favor relatively higher wage jobs, which would likely support the spending and wages of higher-income younger generations for some time to come.

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.

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

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.

The 2024 Bank of America survey of young professionals consisted of 1,999 affluent respondents throughout the U.S. Respondents in the study were defined as aged 18 to 27 (Gen Z) with investable assets between $50,000 and $1,000,000 or aged 28 to 42 (Millennial) with investable assets between $100,000 and $1,000,000. For this purpose, investable assets consist of the value of all cash, savings, mutual funds, CDs, IRAs, stocks, bonds and all other types of investments, such as a 401(k), 403(B), and Roth IRA, but excluding primary home and other real estate investments. Similar surveys for previous years (2023 and 2021) are also reported.

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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