BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Consumer Checkpoint

No madness in March spending

12 April 2023

Key takeaways

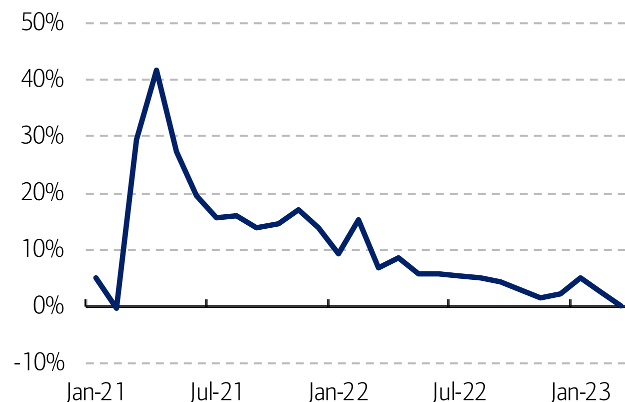
- After a strong start to the year, Bank of America credit and debit card spending per household moderated further in March, to 0.1% year-over-year (YoY), the slowest pace since February 2021. Sequentially, card spending per household fell 1.5% month-over-month (MoM), seasonally adjusted.
- In our view, slowing wages, a drag from lower tax refunds, and the expiration of Supplemental Nutrition Assistance Program (SNAP) emergency allotments are driving the slowdown. Bank of America data shows after-tax wage and salaries growth slowed to just 2% YoY, down from the peak of 8% in April 2022. Meanwhile cumulative tax refunds are tracking around 10% lower than last year.
- How concerned should we be about spending going forward? The good news is that consumers still have financial buffers as suggested by lower credit card utilization rates compared to 2019. However, signs of a cooling labor market and a sustained deceleration in wages could tilt the risks to the downside.

Consumer Checkpoint is a regular publication from Bank of America Institute. It aims to provide a holistic and real-time estimate of US consumers' spending and their financial well-being, leveraging the depth and breadth of Bank of America proprietary data. Such data is not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America.

A soft month for card spending

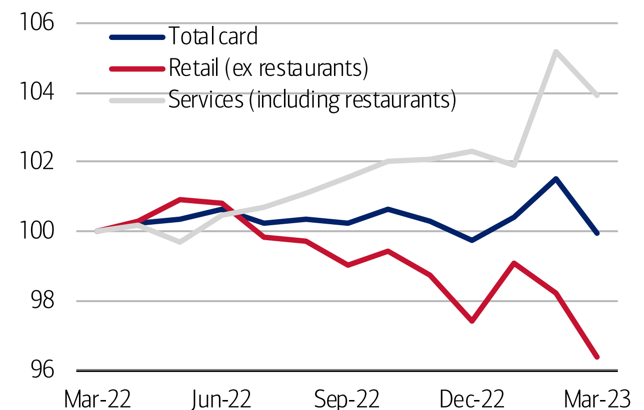
After starting the year on a strong footing, Bank of America aggregated credit and debit card spending per household moderated in March to 0.1% YoY growth, the slowest pace since February 2021 (Exhibit 1). On a seasonally adjusted (SA) basis, card spending per household contracted by 1.5% month-over-month (MoM), although the three-month annualized growth was 0.9%.

Exhibit 1: Total credit and debit card spending per household, based on Bank of America internal data (%YoY, monthly)
Bank of America credit and debit card spending per household increased by just 0.1% YoY in March



Source: Bank of America internal data

Exhibit 2: Total credit and debit card spending per household (index, January 2020=100, seasonally adjusted, monthly)
Despite the drop in March, services spending remained well above 2022 levels



Source: Bank of America internal data

The relative weakness in card spending in March was broad-based across retail and services. Retail spending (excluding restaurants) declined by 2% MoM SA, while services spending (including restaurants) dropped 1% MoM. Looking at data for the past 12 months, we find that despite the decline in March, services spending remained well above 2022 levels, though retail spending continued on a downward trend (Exhibit 2).

It is important to note that Bank of America credit and debit card spend comprises just over 20% of total consumer payments data. Broader consumer payments continue to grow more strongly. Total payments growth across all channels (Automated Clearing House (ACH), Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) increased 9% YoY. Specifically, ACH services payments, which include rent, utilities and childcare, were up 10% YoY. The caveat is that some consumer payments tend to go towards necessities and increases are more likely to be driven by rising prices and interest rates, with debt payments such as credit card repayments, mortgages and auto payments, up 13% YoY, for example.

Reasons for a weak March: slowing wages and fiscal headwind

How worried should we be about weaker spending in March? In our view, the main two reasons for the slowdown in card spending per household are:

1) slowing wage growth, and

2) the net drag from fiscal impacts including lower tax refunds and expiration of SNAP emergency allotments.

Lower wage growth as labor markets soften

Extraordinary wage growth was one of the main drivers behind the resiliency in consumer spending in 2022, allowing consumers to keep spending even in the face of higher inflation. However, the latest Bank of America internal data suggests the boost from wages might be fading.

In March 2023, the growth in after-tax wages and salaries, based on Bank of America aggregated consumer deposit data, slowed to just 2% YoY on a three-month moving average basis, down from the peak of 8% in April 2022, and representing the lowest rate since June 2020. A decline was also seen in the Bureau of Labor Statistics (BLS) payroll report, which shows that average hourly earnings moderated to 4.2% YoY in March from the peak of 5.9% in March 2022.

The sharper slowdown in wage growth in Bank of America data could be partly attributed to sample differences: Bank of America data likely captures a bigger share of higher-wage earners than the BLS jobs report and it is the higher-income households that are seeing the fastest slowdown in wage growth (Exhibit 4). Where people are paid by the hour, Bank of America data also captures the impact of falling average hours on total pay packets.

It is worth noting that, according to Bank of America internal data, higher-income households saw wages contracting by 0.5% YoY in March 2023, the first negative growth reading since May 2020. In our view, this could be due in part to hiring freezes or job cuts in industries such as tech and financial services, which are putting downward pressure on wages in these sectors.

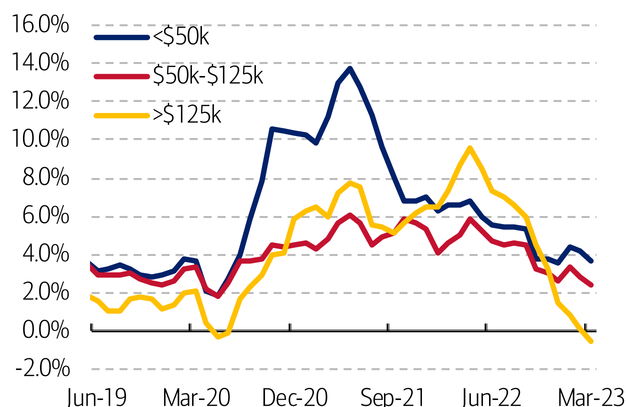
Exhibit 3: After-tax wages and salaries growth, based on Bank of America aggregated consumer deposit data (%YoY. 3-month moving average)

After-tax wages and salaries growth, based on Bank of America aggregated consumer deposit data, slowed to just 2% YoY

Source: Bank of America internal data

Exhibit 4: After-tax wages and salaries growth by income group, based on Bank of America aggregated consumer deposit data (%YoY. 3-month moving average)

Higher-income households are seeing the fastest slowdown in wage growth



Source: Bank of America internal data

Lower tax refunds and SNAP expiration further headwinds

Besides moderating wage growth, lower tax refunds this year might be a mild drag on consumer spending. According to weekly data from the Internal Revenue Service (IRS), the cumulative amount of distributed tax refunds amounted to $183 billion for the week of March 31, a 10.4% drop compared with a year ago (Exhibit 5). Meanwhile, the IRS reported that the number of refunds processed was 3% higher than the same period last year, suggesting lower average refund sizes.

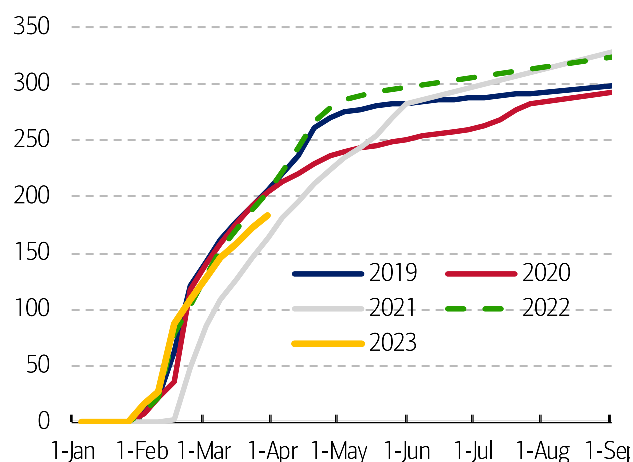
Why are tax refund sizes smaller this year? We see two main reasons for this. First, last year many people received the third stimulus payment of $1,400 through a tax refund, which increased the average refund size. Second, the enhanced Child Tax Credits expired in 2022, so families with two children under 6 years old won't receive the extra $3,200 worth of tax credit.

Since the IRS data only provides an aggregated account, we've looked at Bank of America data to determine the group of consumers with the biggest drop in tax refunds. Our data shows lower-income households experiencing the biggest drop. As Exhibit 6 shows, on March 31 the average refund size for lower-income households (annual income <$50k) was down 8% YoY, the largest decline across income groups.

For middle-income households ($50k-$125k), the average refund size was also down but to a smaller degree of -2% YoY. In contrast, for the higher-income group (>$125k), the average refund was 5% bigger than a year ago. In our view, this could be due to realized losses in capital markets for higher-income households.

Exhibit 5: Cumulative of tax refund payments ($billion)

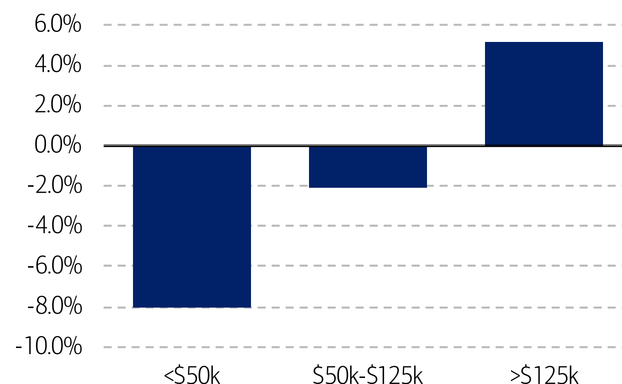
Cumulative amount of distributed tax refunds was $183 billion for the week of March 31, an 10.4% drop compared with a year ago



Source: Internal Revenue Service

Exhibit 6: Average tax refund per household through March 31 (refunds include both federal and state refunds, %YoY)

On March 31 the average refund size for lower-income households (annual income <$50k) was down 8% YoY



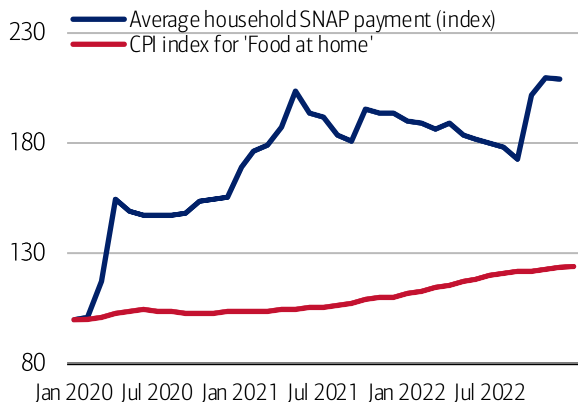
Source: Bank of America internal data. **Note** that Bank of America tax refund data only captures those that are processed through direct deposit and does not include refunds through checks.

Another headwind for lower-income households could be the expiration of increased benefits under the SNAP in most states at the end of February. Over the pandemic, the United States Department of Agriculture (USDA) permitted states to provide increased SNAP benefits, or "emergency allotments" (EAs) through February 2023. These emergency allotments ensured a minimum SNAP benefit rise of $95 per household per month.

Some states stopped these extra payments before they were required to, but 32 states continued payments through the end of the authorization period. March was the first month when all SNAP benefits returned to "normal" amounts without the EA, although a few states are looking at ways to continue to provide enhanced support.

Exhibit 7: Average SNAP payments per household (HH) and CPI for "at home" food prices (index January 2020=100)

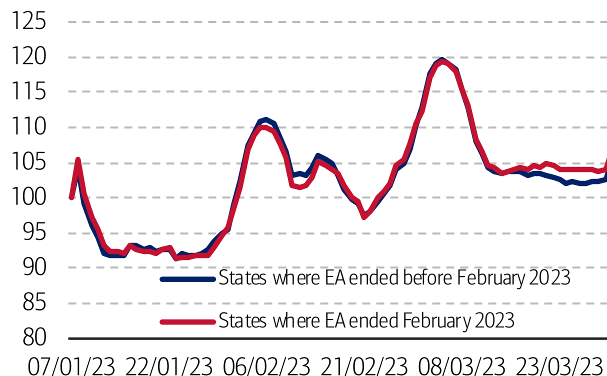
The adjustments to SNAP payments had ensured benefits were rising faster than inflation



Source: Haver Analytics, USDA

Exhibit 8: Credit and debit card spending per household on groceries for households with income <$20K (7-day moving average of daily data, Index Jan 8 =100)

There are signs of a relative rise in spending on groceries amongst lower-income households in states where EA ended in February 2023



Source: Bank of America internal data

With expired EAs, households – especially those near the lower end of the income distribution – may come under additional strain, particularly given ongoing high food price inflation (Exhibit 8).

The latest Bank of America card data through March 31st suggests that lower-income households, particularly those with earnings below $20k per year, might have turned to their personal credit and debit cards for food purchases (Exhibit 8). As a result, the worry is that consumer spending in other discretionary areas could see a further squeeze. However, at this stage, Bank of America data only shows a limited aggregated impact. Nonetheless, with media stories highlighting a rise in food pantry use, many families may be struggling.

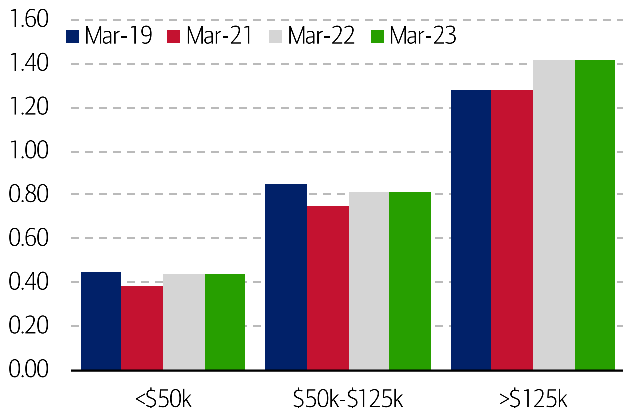
Consumers still have some resilience

Some of the reasons for the slowdown in spending (and decline on a MoM basis) may be temporary. In particular, the impact of lower refunds and SNAP payments may not last too long as consumers readjust. However, the signs of a slowdown in the labor market and likely weakening of wage growth will probably prove a more persistent drag on consumer spending in the coming months.

One thing in the consumer's favor, even as the economy slows, is that they still have financial buffers, including credit availability. The ratio of credit card to debit card spending per household for lower- and middle-income households remains below March 2019 (Exhibit 9). For higher-income households, greater credit card usage isn't generally viewed as a sign of leveraging, but instead a function of higher spending demand. Similarly, credit card utilization rates (Exhibit 10), remain below 2019 levels.

Exhibit 9: Ratio of credit card spending per household to debit card spending per household by income group

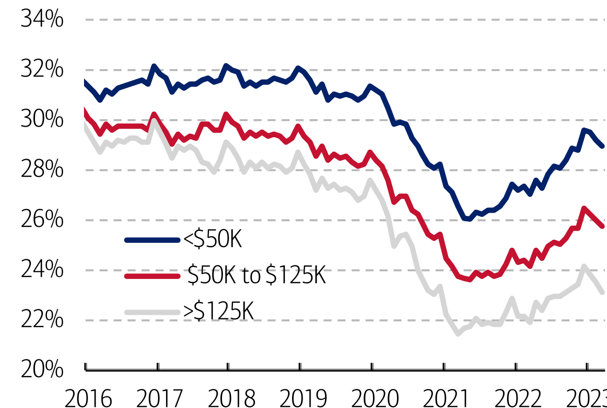
For lower- and middle-income households, we do not see signs of increased reliance on credit cards compared to 2019



Source: Bank of America internal data

Exhibit 10: Average credit card utilization rates by household income based on Bank of America internal data (%)

Credit card utilization rates also remain below 2019 levels across income cohorts



Source: Bank of America internal data

Monthly data update

Overall, Bank of America credit and debit card spend, which makes up over 20% of total payments, was up 3% YoY in March, as total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) increased 9% YoY.

The YoY growth in card spending *per household*, which measures average spending for Bank of America customer households, was up 0.1% YoY in March, a deceleration from 2.7% YoY in February.

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 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.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1996
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

Any reference to card spending per household on gasoline include 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.

Contributors

David Michael Tinsley

Senior Economist, Bank of America Institute

Anna Zhou

Economist, Bank of America Institute

Taylor Bowley

Economist, Bank of America Institute

Liz Everett Krisberg

Head of Bank of America Institute

Sources

Li Wei

Senior Vice President, Global Risk Analytics

Kimberly Warren

Senior Vice President, Global Risk Analytics

Jonathan Kaplan

Senior Vice President, Digital and Marketing

Ana Maxim

Senior Vice President, Consumer and Small Business

Disclosures

These materials have been prepared by Bank of America Institute and are provided to you for general information purposes only. To the extent these materials reference Bank of America data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America. Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, Environmental, Social and Governance (ESG) and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular client and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular client. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice.

Copyright 2023 Bank of America Corporation. All rights reserved.