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Consumer Checkpoint

Early Easter and hopped-up refunds

10 April 2024

Key takeaways

- Total card spending per household rose 0.3% year-over-year (YoY) in March, following the leap-year boosted 2.9% YoY increase in February, according to Bank of America aggregated credit debit card data. The early Easter holiday likely brought some spending from April into March. Controlling for these seasonal impacts, spending fell 0.7% month-over-month (MoM).
- While spending was soft on the month, the solid labor market continues to sustain consumer momentum. March saw strong jobs growth, and this appears to be reflected in strengthening after-tax wages and salaries growth in our data - with growth at the highest level since early 2023.
- Tax refunds may also provide additional support to households, with average refunds up by 5% this year through the end of March. While most consumers appear to be planning to save or pay down debt, there is a small rise in people saying they will go shopping.
- We are seeing signs that easing rent inflation is providing a tailwind to renters' spending. Renters' spending growth appears to be improving most in retail categories.

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 spending, but income growth is strengthening

Bank of America aggregated credit and debit card spending per household rose 0.3% year-over-year (YoY) in March, following the 2.9% YoY rise in February, which was boosted by the extra day due to the leap year. Looking through the monthly swings, Exhibit 1 illustrates that consumer spending momentum remained soft but stable.

Exhibit 1: Bank of America credit and debit card spending per household increased by 0.3% YoY in March

Total credit and debit card spending per household, based on Bank of America card data (%YoY, monthly)

Source: Bank of America internal data

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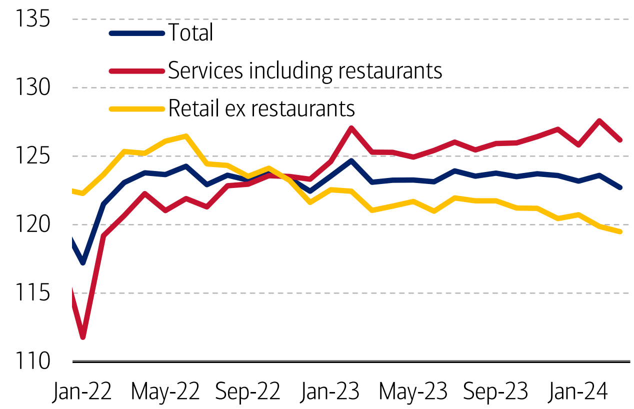
Exhibit 2: Despite the drop in March, services spending remained well above 2019 levels

Total credit and debit card spending per household (index, 2019 average = 100, seasonally adjusted, monthly)



Source: Bank of America internal data

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March was also impacted by calendar effects due to a relatively early Easter this year, as the holiday fell on March 31 compared to April 9, last year. This pulled some holiday-related spending into March from April, likely inflating spending somewhat at the expense of next month. In fact, on a seasonally adjusted (SA) basis, total card spending per household fell 0.7% month-over-month (MoM) in March, following the 0.4% rise in February.

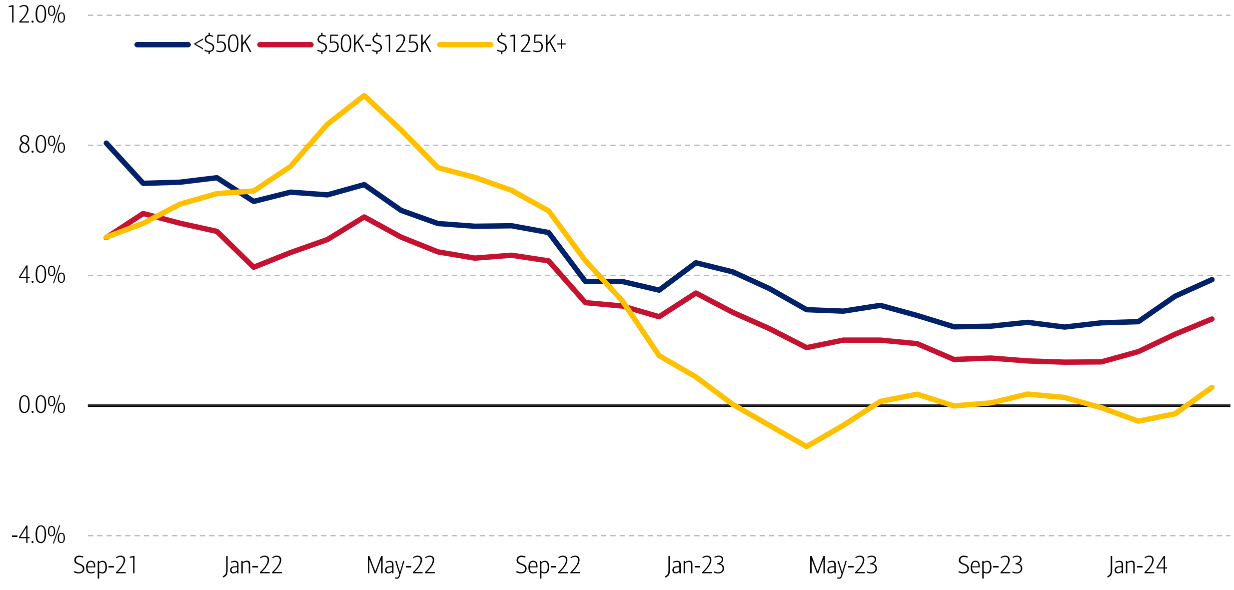
Spending on services fell 1.1% MoM SA in March, with weakness in both lodging and restaurant spending, while retail spending (excluding restaurants) decreased by 0.3% MoM. But looking at the level of spending over time, services spending still appears to be trending higher and was well above 2019 levels (Exhibit 2).

The solid labor market forms the bedrock on which consumer momentum is built. The March labor report from the Bureau of Labor Statistics (BLS) showed another strong month for jobs growth, with payrolls delivering a 303K rise and the unemployment rate at 3.8%.

According to Bank of America consumer deposit data, this strong labor market appears to be reflected in strengthening after-tax wages and salaries growth across all income cohorts (Exhibit 3). Wages and salaries growth for households with income above $125K was running at the highest rate of growth since January 2023, while the lowest-income households are seeing the fastest growth since February 2023.

Exhibit 3: Across all cohorts, households' after-tax income appears to be growing strengthening

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



Source: Bank of America internal data

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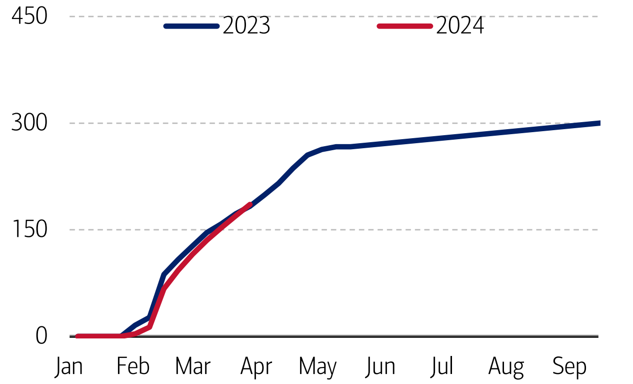
Average tax refunds see a jump

Alongside solid wage growth, it is possible that tax refunds will provide some useful additional support to consumers. This year, tax filings with the Internal Revenue Service (IRS) started six days later than last year, on January 29. As of March 29, the cumulative dollar amount of distributed tax refunds totaled was only 1% higher than this time last year, at $186 billion (Exhibit 4). However, the number of refunds processed was 3% lower than this time last year, suggesting the average amount received per refund is over 5% higher this year (Exhibit 5).

Exhibit 4: Cumulative amount of distributed tax refunds was $186 billion to March 29, a 1% increase YoY

Cumulative tax refund distributions ($billion)



Source: Internal Revenue Service

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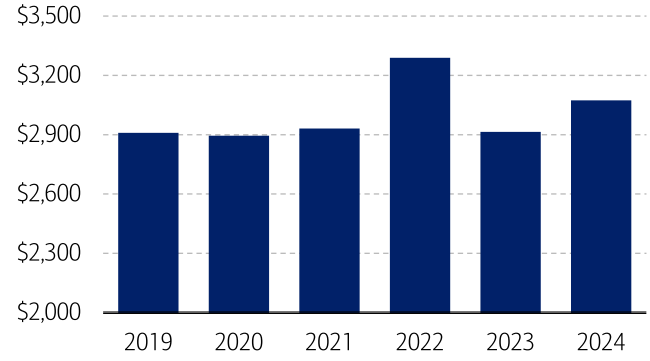
Exhibit 5: The average tax refund through March 29 was up over 5% YoY

Average federal tax refund per household, Jan 1 through March 29 (Actual)



Source: Internal Revenue Service

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There is likely a significant amount of refunds yet to be paid, and it could be these higher refunds are just due to timing, in which case they would be offset by lower refunds later in the filing season. Yet this may be unlikely for a number of reasons:

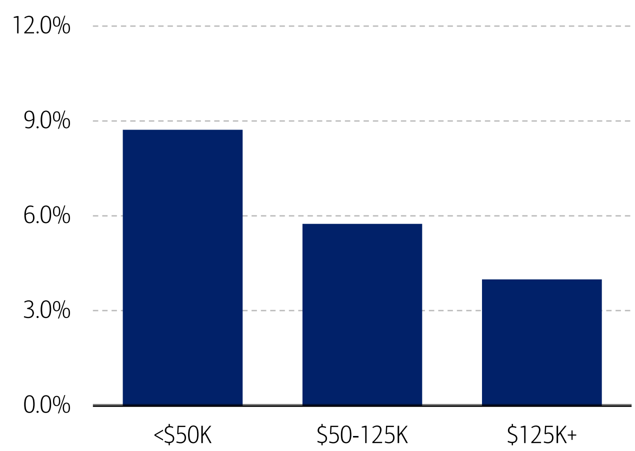
First, the IRS raised both federal income tax brackets and the standard deduction (the amount that tax filers who do not itemize can subtract from their income before taxes are applied), likely leading some taxpayers to have contributed excess withholdings for tax year 2023.

Second, our data also indicates customers earning less than $50K saw relatively larger growth in their tax refunds to March 31, 2024, than those in the high or middle-income bracket (Exhibit 6). We think this was likely due to an increase in the earned income tax credit (EITC), which applies to households whose earnings meet certain thresholds, typically applicable to households with lower or moderate incomes.

If tax refunds do run ahead of 2023 across the whole tax season, the question is what will people do with the money? According to a CivicScience survey, the largest share of respondents plan on paying debts or saving their refunds (Exhibit 7), although these shares dropped modestly YoY. However, plans to shop saw the largest increase relative to 2023 – almost doubling – suggesting a potential modest tailwind for consumer spending this spring.

Exhibit 6: On March 31, the average refund size for lower-income households (annual income <$50K) was up nearly 9%

Average tax refund per customer through March 31, 2024 (refunds include both federal and state refunds, %YoY)



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

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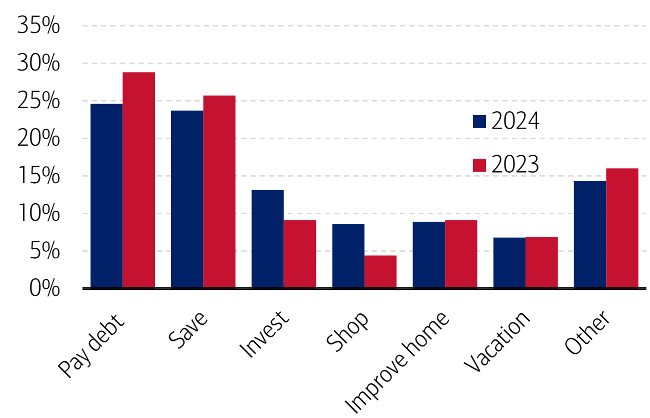
Exhibit 7: Most tax refund recipients plan to pay debt or save with their refunds, while shopping saw the largest increase in recipient response share

CivicScience survey results to the question: "How do you plan to spend your tax refund this year?"



Source: CivicScience

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Rent relief?

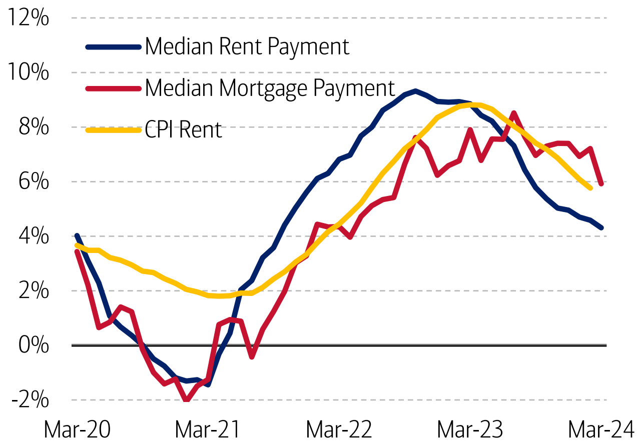
Signs that rent payment growth has slowed significantly…

Housing forms a large portion of the average households' monthly budget. Bureau of Economic Analysis (BEA) data suggests that both homeowners with a mortgage and renters paid around 15% of their total consumer spending on housing costs in 2022. For younger households on lower incomes these proportions will likely be higher still.

Given the importance of housing costs, a possible tailwind to consumer spending over the spring may come from easing rent inflation. Looking at Bank of America deposit account data on customer payments for monthly rent and mortgage payments, we find that the YoY growth in the median rent payment has slowed significantly over 2023-24, following the surge in 2021 and 2022 (Exhibit 8). Rent growth is now at levels not seen since mid to late 2021 – while still higher than overall CPI (Consumer Price Index) inflation, rent growth is more in line with wage growth.

Exhibit 8: Median mortgage payment YoY growth is now easing, while median rent payment YoY growth continues to slow

Median rent and mortgage payment, according to Bank of America internal data, and CPI for rent (%YoY of 3 month moving average)



Source: Bank of America internal data., Haver, BLS

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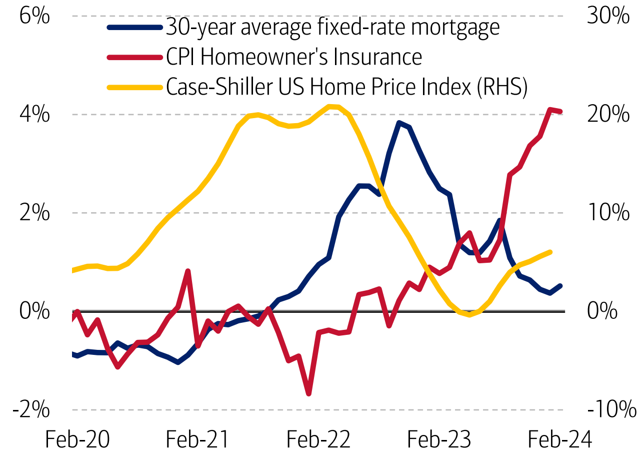
Exhibit 9: House price growth slowed over 2022-23, before a more recent uptick from the middle of 2023

Average 30-year fixed mortgage rate (YoY, absolute difference) and CPI homeowner's insurance (YoY%), Case-Shiller US Home Price Index (YoY%) (Right hand side=RHS)



Source: Haver, BLS

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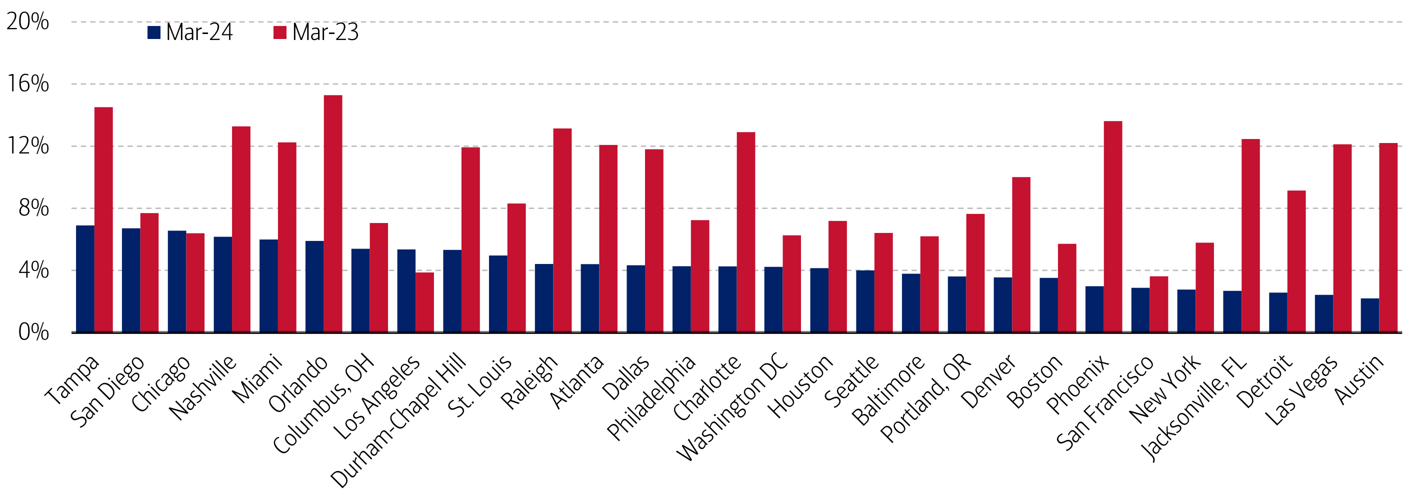
The decline in rent payment growth in Bank of America deposit account data is consistent with declining rent inflation as measured in the BLS' Consumer Price Index. Bank of America data may also be consistent with rent inflation measured in the CPI falling further in coming months.

Exhibit 10: Rent growth slowed across all select CBSAs, except for Chicago and Los Angeles

Median rent payment growth year over year by select CBSAs, March 2024 and March 2023



Source: Bank of America internal data

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Where is rent growth slowing the most? Bank of America data shows that it has slowed in all but two core-based statistical areas (CBSAs): Chicago and Los Angeles (Exhibit 10). In fact, the majority of CBSAs saw their March 2024 median rent payments grow at less than half of their growth rate in March of last year. The biggest drop-offs were in Austin, Phoenix, and Jacksonville.

This significant easing in median rent payment growth provides a potential tailwind for consumers. This is likely to be especially true in the Sun Belt where post-pandemic rent growth was highest in 2020 but, in the last year, has seen the biggest slowdown.

What about homeowners with a mortgage? Many of these households hold fixed rate mortgages (the Federal Reserve Bank of St. Louis estimates that 92% of US mortgages have fixed rates) and would likely not have seen a change in the payments related directly to their mortgage debt (interest and principal repayments) over the last year.

But property tax and insurance bills are often bundled with these mortgage payments into escrow accounts, and this means that previous home price growth can impact households' current overall mortgage payments (Exhibit 9). Bank of America data does suggest some easing in the overall median mortgage payment growth compared to late 2023 peaks (Exhibit 8), likely reflecting the impact of previous home price growth moderation. However, given a pick-up in home price inflation the second half of 2023, in our view, the slowdown in mortgage payment growth may remain fairly modest.

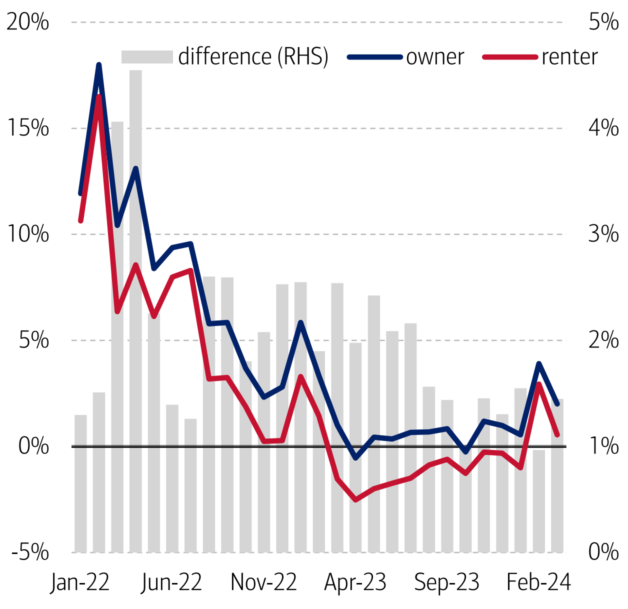
…potentially providing a tailwind to renters' spending

If the growth in renters' housing costs continues to ease by more than that of homeowners, it could be that renters' non-housing related spending may benefit relative to that of homeowners. And in Bank of America internal data, we are seeing signs of this. Exhibit 11 shows that while renters' non-housing spending growth remains below that of homeowners, the gap has been narrowing significantly and in March was 1.4 percentage points (pp), down from a peak of 2.5pp in 2023.

Looking at spending by renters across categories, there appears to be an improvement in spending growth in retail categories such as general merchandise and clothing compared to last year (Exhibit 12). Conversely, spending growth on restaurants, though still positive, has come down.

Exhibit 11: The gap between the growth in renters non-housing spending with that of homeowners has been narrowing since the middle of 2023

Total card spending per household excluding rent, of homeowners and renters (Monthly, %YoY)



Source: Bank of America internal data

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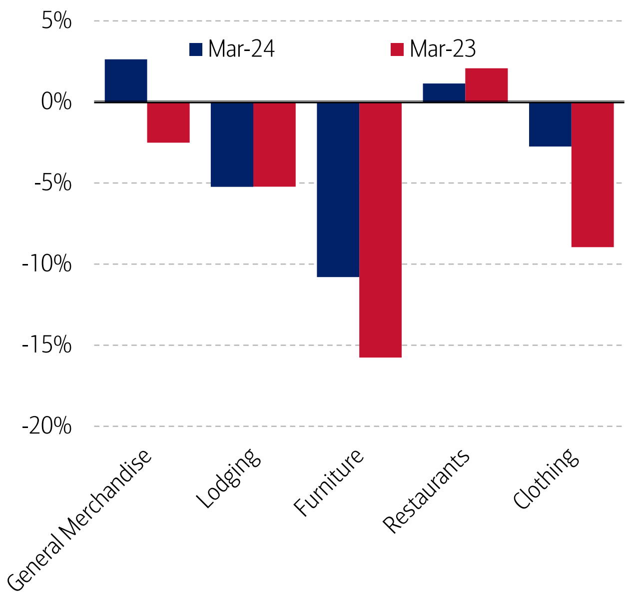
Exhibit 12: Renters' spending growth in retail categories has improved compared to March 2023

Total card spending per household of renters by category (monthly, %YoY)



Source: Bank of America internal data

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Monthly data update

As expected, total payment growth across all channels (ACH, Bill Pay, Credit and Debit Card, Wires, Person-to-Person, Cash and Check) fell 3% March due to calendar timing. Bank of America total credit and debit card spend, which comprises over 20% of total payments, increased 2.8% YoY in March.

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.

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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