

Consumer Morsel

Will silver spenders continue to outpace the young?

24 October 2023

Key takeaways

- Spending growth has been significantly stronger among older generations than younger cohorts in 2023. Bank of America internal data suggests this outperformance is still being driven by the 2023 cost-of-living adjustment (COLA) to social security incomes, which was the largest in 40 years and came as inflation was beginning to fall. As this impact fades and with the 2024 COLA significantly lower, we think the outperformance may narrow.
- But social security is not the only source of income for many retirees. This group also has a large stock of assets and Bank of America internal data suggests they have been relatively slow to draw on their savings buffers.
- So, while some narrowing of the outperformance of older generations' spending next year looks likely, there is unlikely to be a complete unwind, in our view.

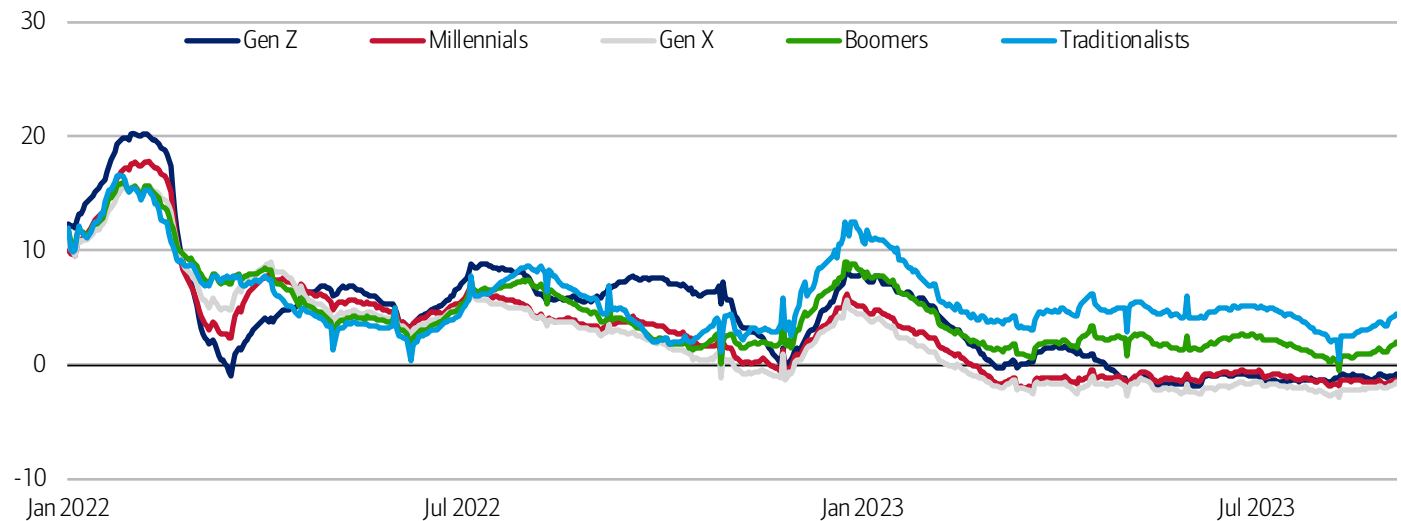
Older gen still outpacing the young on spending

One of the notable consumer spending trends of 2023 so far has been the marked divergence between younger and older generations' spending patterns.

Exhibit 1 shows that year-over-year (YoY) growth in Bank of America total credit and debit card spending per household has been significantly higher for the baby boomer (currently aged 59-77) and traditionalist generations (78 and older) than for younger cohorts. In fact, Bank of America internal data suggests these older generations are the only ones increasing consumer spending in YoY terms.

Exhibit 1: Bank of America total card spending per household by generation (28-day moving average, % YoY)

Baby boomer and traditionalist spending growth has been significantly higher than that of younger generations

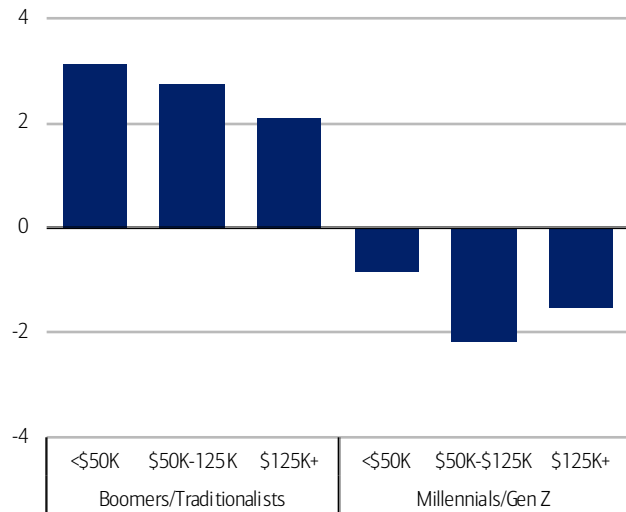


Source: Bank of America internal data

When we break down older and younger generations' spending by income (Exhibit 2) we find that the older generation outperformance is fairly consistent across income cohorts. And interestingly, stronger spending growth by the older generations appears to be both a services and retail story (Exhibit 3), while younger generation retail spending (ex-gasoline) has been declining.

Exhibit 2: Total card spending per household for Boomer/Traditionalist and Millennials/Gen Z by income (28-day moving average to 7th October 2023, % YoY)

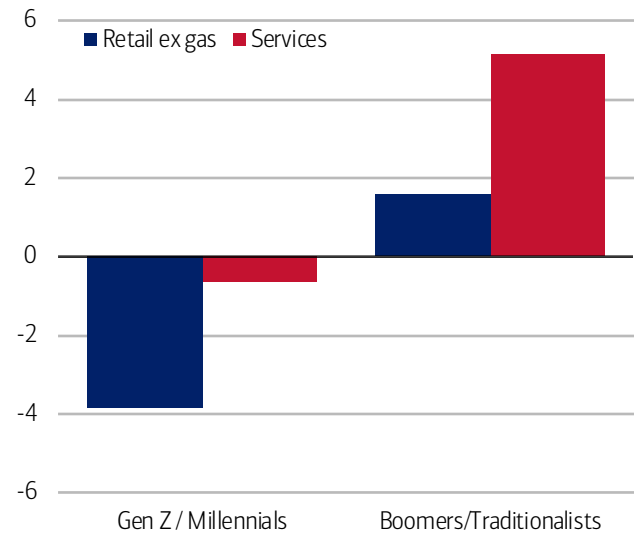
Older generations spending has outpaced younger generation across income cohorts



Source: Bank of America internal data

Exhibit 3: Total card spending per household for Boomer/Traditionalist and Millennials/Gen Z by retail (ex gas) and services (28-day moving average to 7th October 2023, % YoY)

Higher older generation spending growth is a feature of both retail and services



Source: Bank of America internal data

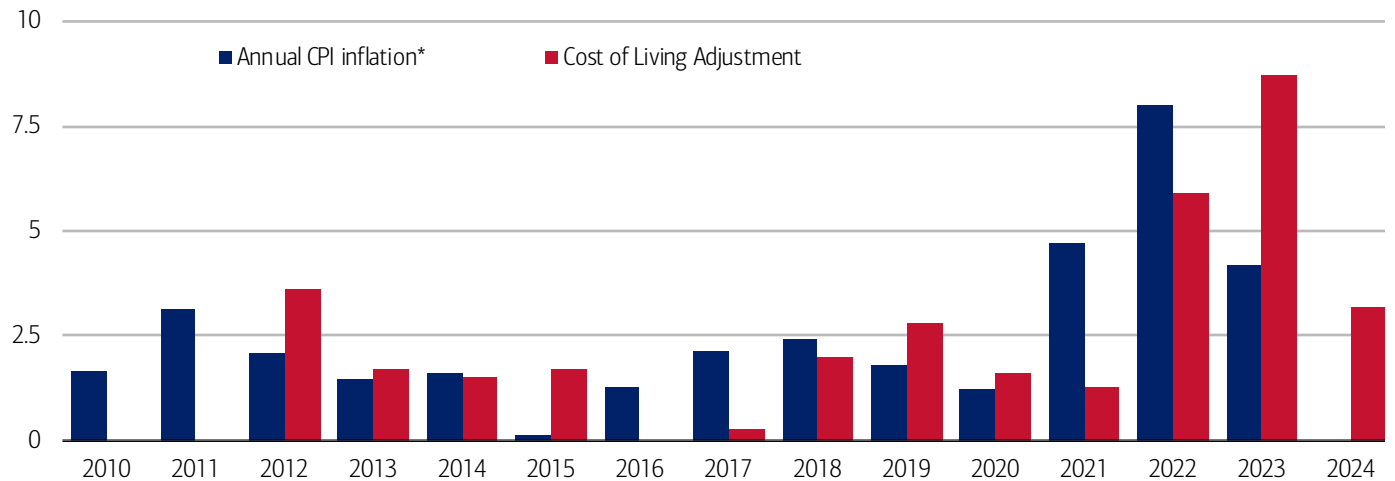
COLA still has some fizz in 2023...

In [March](#) we considered the impact of the 2023 cost-of-living adjustment (COLA) to social security payments on older generation spending. The 2023 COLA increase, announced in October 2022, was 8.7%, the highest increase in four decades. And with around three-quarters of social security recipients being over 65 years old, this rise was a significant boost to an important source of older generation income.

The annual COLA increase by the Social Security Administration (SSA) is meant to keep benefits in line with inflation, thereby preserving their purchasing power. But the 2023 adjustment was unusual in that it came at a time when inflation was high but had begun to fall. Exhibit 4 uses BofA Global Research’s current forecast for CPI inflation in 2023 and shows that the 2023 COLA rise looks like it will considerably exceed inflation for the full year.

Exhibit 4: Cost of Living Adjustments (COLA) and annual inflation (% YoY, annual)

The 2023 COLA was large relative to where inflation is expected to turn out over 2023 as a whole

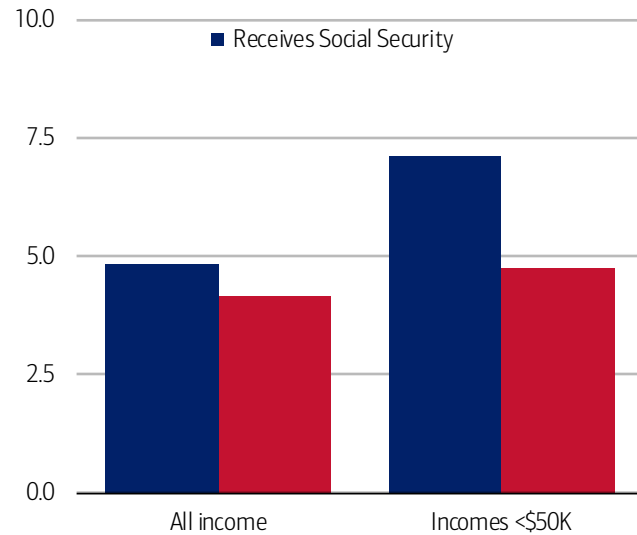


Source: BofA Global Research, Haver Analytics, Social Security Administration. * 2023 data uses BofA Global Research annual CPI forecast

In Exhibit 5, we split the older generation into those that, based on Bank of America internal data, receive social security payments into their deposit account and those that do not. This shows that, consistent with our earlier findings, card spending has grown by more in older generation households that receive social security payments. The growth differential is largest for lower-income groups, as one would expect given that social security is likely to be a higher proportion of their total income.

Exhibit 5: % change in card spending per household for boomer/traditionalist generations from November 1st 2022 (28-day moving average of daily data, to October 7th)

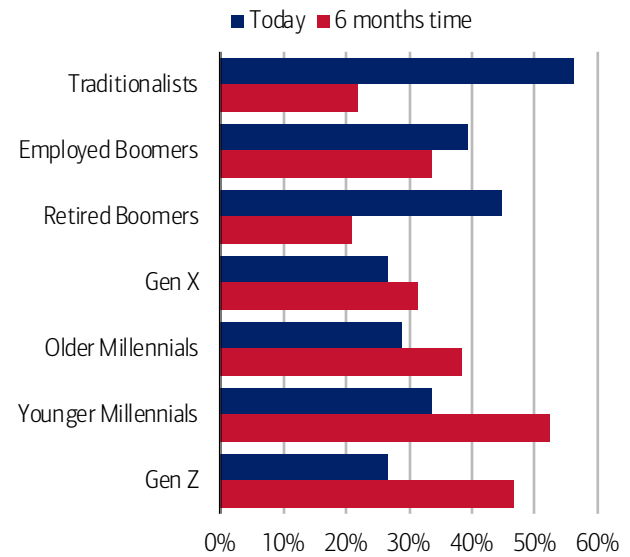
The 2023 COLA increase remains an important boost to older-generation spending



Source: Bank of America internal data

Exhibit 6: Survey responses to the question ‘How would you rate the state of your personal finances?’ (% responding ‘excellent’ or ‘good’)

Older generations feel more confident about their finances today, but less confident in 6 months’ time...



Source: Bank of America Proprietary Market Landscape Insights Study

We may have missed some social security recipients whose payments are deposited into another bank, so it is possible that the impact of COLA could be greater than depicted in Exhibit 5. But overall, we would argue that the COLA increase is still a significant reason for the faster growth in older generation spending.

...but will it go flat in 2024?

The 2024 COLA increase has been announced at 3.2%, effective from January. This is a smaller rise than the 2023 adjustment, and another big drop in inflation seems unlikely in 2024. We therefore think it is possible that some of the COLA-related older generation spending outperformance relative to other groups will fade next year.

Interestingly, the latest Bank of America Proprietary Market Landscape Insights Study (‘Insights Study’) is consistent with this story of older generations feeling in relatively good financial shape now, but with some anxieties about the future. Exhibit 6 shows the survey for August-October 2023 with a question on how respondents view the current state of their finances now and in six months.

The survey reveals that currently older generations appear to feel more confident about their finances than younger cohorts. And, interestingly, retired boomers feel more confident than employed boomers – again underlining that those who received the social security rise feel in comparatively better shape.

But when looking at expectations in six months’ time, we see a decline in older generations’ assessment of their likely finances. On the other hand, younger generations’ expectations are generally more positive in six months’ time than they are now.

Reasons for optimism remain

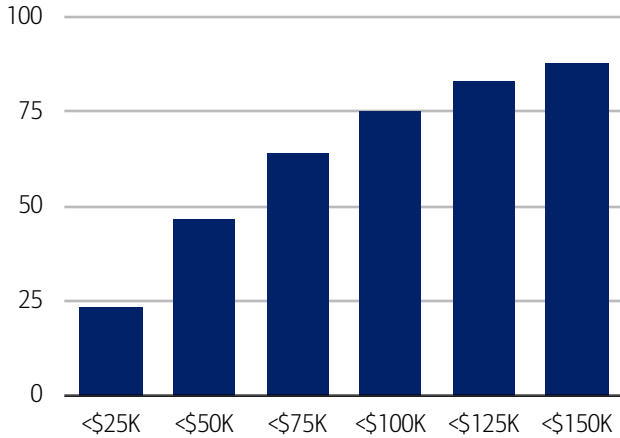
So, it looks plausible to us that some of the stronger spending among older generations may ease, especially relative to the spending of younger generations. But there are still reasons to be optimistic that older generation spending can stay relatively robust.

Older generations income is not all from social security

The average monthly retirement benefit for an individual is around \$1,800. Exhibit 7 indicates that a significant proportion of households aged over 65 years appear to have income well above levels from these social security payments alone, even if some households are receiving multiple social security payments. Exhibit 8 shows Federal Reserve data indicating that the sources of retiree income are diverse, with a fairly high percentage of respondents reporting income from pensions and interest, dividends or rent.

Exhibit 7: Cumulative distribution of annual income among households aged 65+ (% , 2022)

Some older households have income well above that which would come from social security payments alone



Source: Census Bureau (American Community Survey)

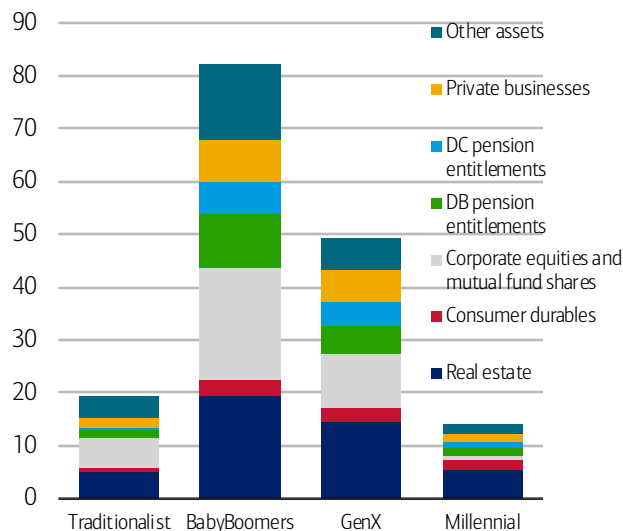
Some of these other sources of income could conceivably continue to support older generations' spending, even as the impact of an increase in social security cools off. Wages and salaries for those older workers still in the labor market can provide support. And for those receiving a private pension, Bank of America internal data currently indicates that the growth rate in median pension payments is around 8% YoY, above the 2024 COLA rise, which would be supportive of older spending, though this growth could also potentially fall back. Retiree interest income could also remain fairly robust given that interest rates have risen.

Older generations have a large cushion of assets

Exhibit 9 shows that baby boomers in aggregate had around \$80 trillion of assets in 2023 Q2, compared with \$14 trillion for millennials. Some of this asset stock may be passed on to younger generations in due course, which could support their spending and housing needs, but clearly some is available for older generations to draw upon themselves.

Exhibit 9: Total assets by generation (\$ trillions, 2023 Q2)

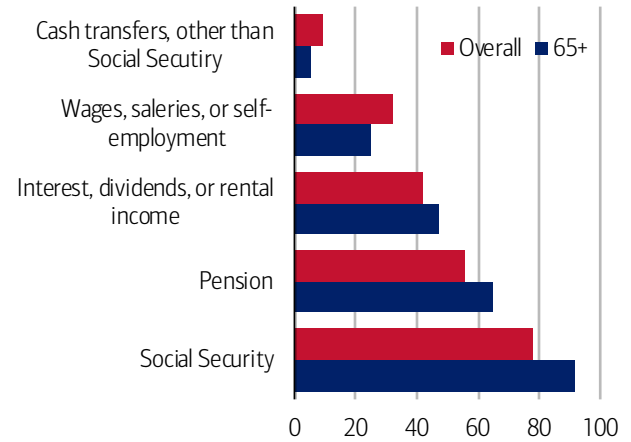
Older generations have a large proportion of the total wealth



Source: Federal Reserve (Distributional Financial Accounts)

Exhibit 8: Sources of income of retirees (%)

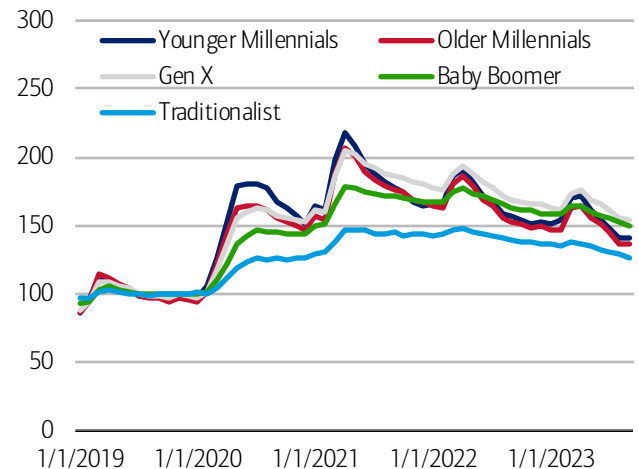
Sources of income in retirement are fairly diverse



Source: Federal Reserve (2022 Report on economic wellbeing of US households). Respondents are select more than one answer.

Exhibit 10: Monthly median household savings and checking account balances by generation 2019=100) for a fixed group of households through September 2023

Baby Boomers have been relatively slow to draw on savings balances



Source: Bank of America internal data

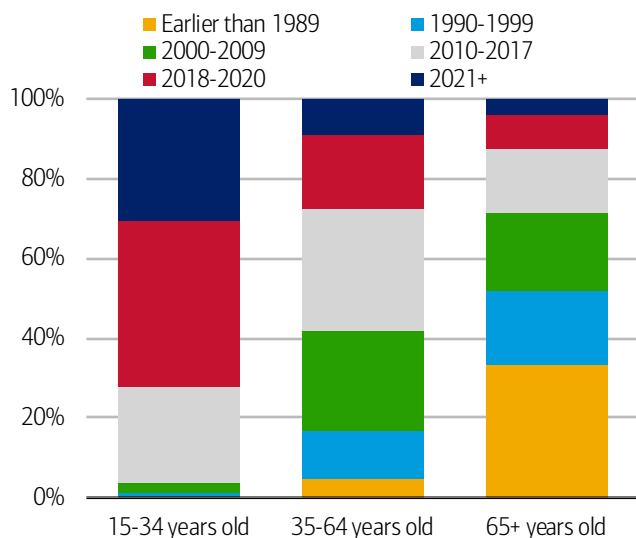
And within this healthy asset position, Bank of America internal data shows (Exhibit 10) that baby boomers, in particular, have drawn down their savings and checking balances more slowly than the younger generations, potentially giving them more 'firepower' going forward.

Older generations are much less exposed to higher rates

On the other side of the balance sheet, another reason to think that older generations' spending can continue to grow faster than that of younger generations is their more limited exposure to higher interest rates and higher housing costs. As we discussed in the [June Consumer Checkpoint](#), younger cohorts are much more likely to move than older generations. Exhibit 11 shows, using data from the 2022 American Community Survey (ACS) that just over 50% of owner-occupiers aged over 65 have not moved since the year 2000.

Exhibit 11: Year of last move, by generation (% owner occupiers)

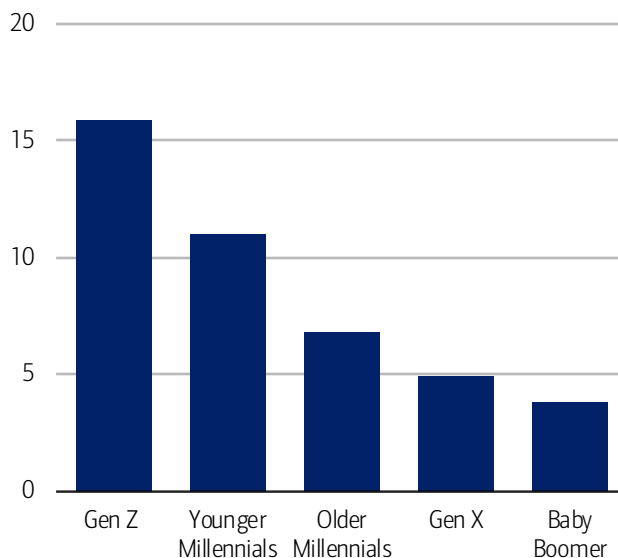
Over half of 65+ year olds have not moved this century



Source: Census Bureau, American Community Survey

Exhibit 12: Median mortgage payments by generation (% YoY, September 2023)

Older generation mortgage payments are rising much more slowly than younger generations'



Source: Bank of America internal data

This higher frequency of house moves for family, jobs and other reasons, exposes the young to recent house price inflation (or higher rent) and higher mortgage interest rates. In Bank of America internal data, we see this impact on median mortgage payments from customer accounts. Exhibit 12 shows the YoY growth in median mortgage payments is much lower for older generations. Moreover, some older generation moves may also be able to 'trade down' to a smaller house, which typically unlocks home equity, again providing firepower for spending.

So overall, while the positive impact from COLA in 2023 may fade into 2024, we suspect there are enough upside influences on older generations' spending for some outperformance to continue.

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 include all purchases at gasoline stations and might include purchases of non-gas items.

Bank of America conducts a Proprietary Market Landscape Insights Study in order to provide an ongoing pulse on consumer attitudes, insights, and trends to help understand consumer responses to an ever-changing external landscape. The bank's Culture and Trends team manages quarterly and monthly online quantitative surveys conducted among customers and non-customers that provide a representative view of the U.S. adult population. Insights are based on aggregated and anonymized responses to surveys.

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

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