

## BofA on USA

## Services inflation takes a toll on retail spending

**Leap day boosted y/y spending growth**

Total card spending per household (HH), as measured by BAC aggregated credit and debit cards, was up 2.9% year-over-year (y/y) in February, compared to a 0.2% decline in January. The large spike in the y/y rate is explained by the extra day this February because of the leap year. Card spending per HH rose 0.4% month-over-month (m/m) in February on a seasonally adjusted (SA) basis.

**We expect February retail sales to be below consensus**

We forecast a 0.1% decrease in the Census Bureau's retail sales ex-autos estimate for February (Exhibit 1). However, gas spending growth was strong in February, because of both the sharp increase in gas prices and the negative impact of the winter storms on spending in January (Exhibit 2). Therefore, we expect a bigger decline of 0.3% in the core control group (retail sales ex autos, gas, building materials and restaurants).

**Minor echo effects of winter weather**

Card spending was weak in several categories in February, with groceries and general merchandise stores seeing the biggest m/m decline. This was likely due to the base effect from the severe weather in January, when people stocked up on daily supplies. However, we do not see January weather disruptions as a drag on broad retail spending in February. Some categories such as gas (discussed above) also benefited from favorable base effects because of the winter storms in January.

**Retail spending has turned softer ...**

After the weaker-than-expected January retail sales report and the downward revisions to November and December, core control retail sales were up just 1.4% annualized from October 2023 to January 2024. This tepid spending growth rate was partly due to broad-based goods deflation. On a real (i.e., inflation-adjusted) basis, the corresponding growth rate was a solid 3.3%. However, if our forecast for February is correct, the three-month annualized growth rate would turn negative even in real terms (Exhibit 7).

**... As services command a greater wallet share**

Stepping back, retail (i.e., goods and food services) spending has been slowing down over the last few quarters, as goods inflation has fallen sharply and services inflation has remained elevated. Data from the Bureau of Economic Analysis (BEA) show that services spending has outpaced retail spending in nominal terms. Although real retail spending has held up well so far due to deflation in goods categories, as discussed above, the risk is that sticky services inflation will further shrink retail's wallet share, to the extent that real spending also slows down (Exhibit 8).

12 March 2024

Macro

United States

BofA

Data  
Analytics**Aditya Bhawe**

US Economist

BofAS

+1 646 855 9929

aditya.bhave@bofa.com

**Shruti Mishra**

US and Global Economist

BofAS

+1 646 855 1040

smishra44@bofa.com

**US Economics**

BofAS

[See Team Page for List of Analysts](#)

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# The month of February

## Exhibit 1: BofA forecast and Bloomberg consensus for February Census Bureau retail sales

We expect a soft retail sales report for February

% m/m	BofA forecast	Bloomberg consensus
Retail sales	0.4%	0.8%
ex-autos	-0.1%	0.5%
ex-autos and gas	-0.2%	0.3%
Core control	-0.3%	0.4%

**Source:** BAC internal data. The core control group is retail sales ex autos, gas, building supplies and restaurants.

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## Exhibit 2: Aggregated monthly card spending per HH by major category (%m/m, SA)

Card spending was weak in several categories in February

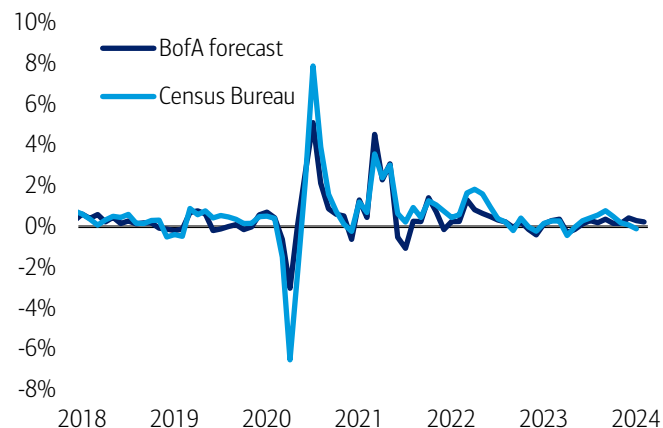
	Feb-24	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23
Gas	1.4%	-2.8%	0.8%	-3.8%	-3.1%	2.6%
Furniture	-0.4%	-1.9%	-5.3%	3.8%	-1.4%	-1.1%
Home improvement	-0.1%	-2.6%	-1.1%	-0.3%	0.4%	-1.4%
Clothing	-1.3%	0.7%	-1.9%	2.6%	-1.8%	-1.3%
Grocery	-1.8%	1.5%	-0.1%	-0.4%	0.9%	-0.3%
General Merchandise	-2.0%	2.4%	0.7%	0.3%	0.0%	-0.5%
Department Store	0.1%	-1.8%	-1.1%	1.4%	-1.4%	0.0%
Restaurants	0.3%	-0.1%	0.3%	0.1%	0.5%	0.0%
Lodging	-0.3%	-2.5%	1.5%	-0.3%	0.1%	0.0%
Airlines	-1.8%	4.6%	1.8%	3.7%	-4.9%	-0.9%
Total online retail (card not present)	0.2%	-0.5%	0.0%	-0.2%	-0.3%	0.9%

**Source:** BAC internal data. Card not present is largely online but could include purchases made over the phone.

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## Exhibit 3: Retail sales ex-autos: Census Bureau vs. BofA forecasts (%m/m, SA, 3-month moving average (ma))

We are expecting retail sales ex-autos to decrease by 0.1% in February, which would lower the three-month average growth rate

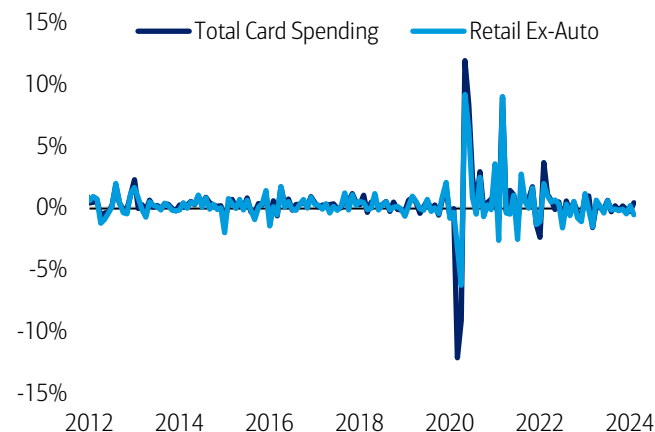


**Source:** BAC internal data, Census Bureau

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## Exhibit 4: BAC aggregated monthly card spending per HH (%m/m, SA)

Total card spending per HH was up 0.4% m/m in February on a SA basis

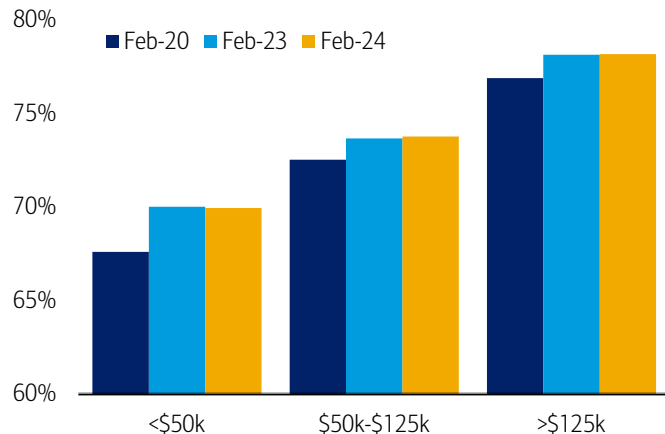


**Source:** BAC internal data

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### Exhibit 5: Share of discretionary spending in total card spending per HH by income (%)

Discretionary spending remained resilient across income cohorts in February, accounting for nearly 70% of spending by lower-income HHs

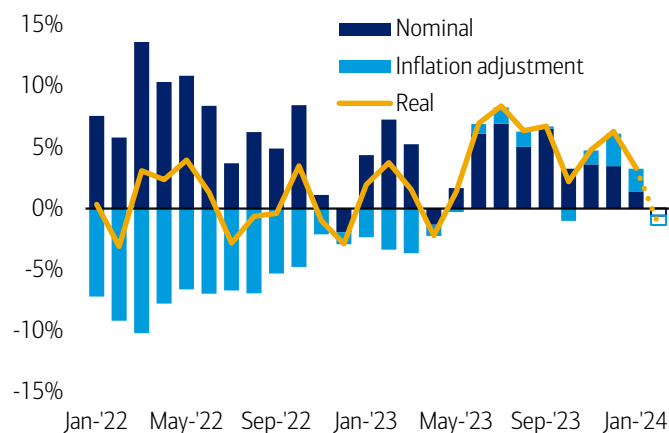


**Source:** BAC internal data. Discretionary spending is total spending ex gas, groceries and utilities. We exclude 2021 and 2022 to simplify the chart.

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### Exhibit 7: Core control retail sales (3 month annualized % change)

Real core control retail sales increased 3.3% annualized from Oct 2023 to Jan 2024. The three-month growth rate would turn negative in Feb if our forecast is correct

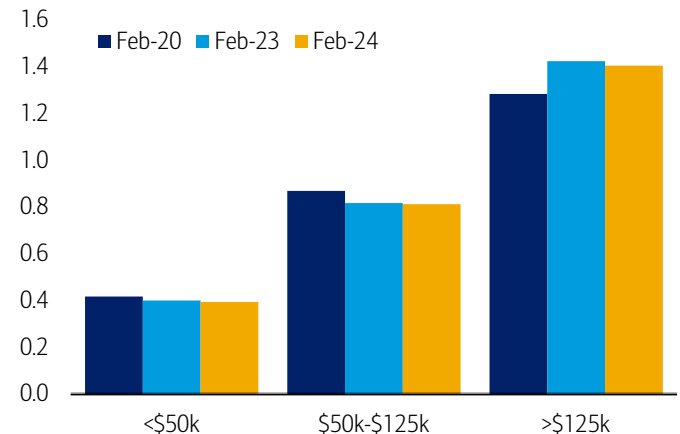


**Source:** BAC internal data, Bureau of Economic Analysis, Census Bureau, Haver Analytics. The inflation adjustment uses a price index reported by Haver Analytics. It converts nominal spending into real spending, so it is negative when inflation is positive and vice versa. BofA projections for February are represented by the dotted line and white boxes above. We assume nominal core control sales are in line with our forecasts, and inflation is the same as it was in February.

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### Exhibit 6: Ratio of credit card spending per HH to debit card spending per HH by income group

For lower- and middle-income HHs, we do not see signs of increased reliance on credit cards relative to before the pandemic

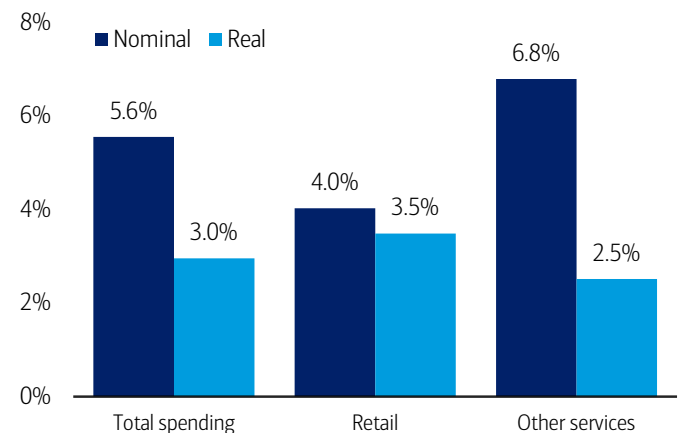


**Source:** BAC internal data. We exclude 2021 and 2022 to simplify the chart.

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### Exhibit 8: Nominal and real spending growth by category (avg. of Nov 2023-Jan 2024 vs. avg. of Nov 2022-Jan 2023)

Services inflation has eaten into the wallet share of retail



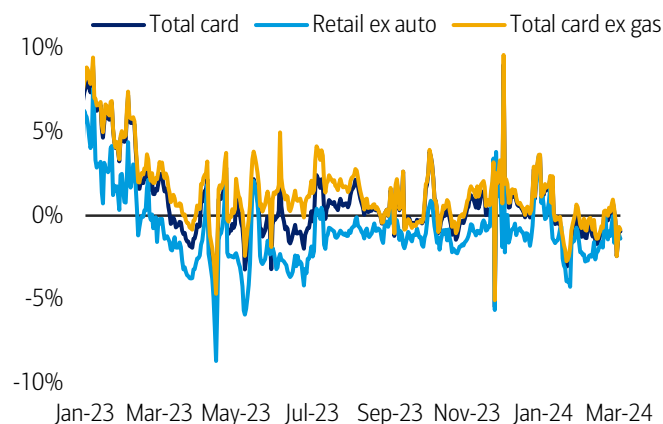
**Source:** BofA Global Research, Bureau of Economic Analysis, Haver Analytics. For this analysis we only look at "market-based" personal consumption expenditures. We define "retail" as goods and food services. "Other services" are total services ex food services.

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# The big picture

## Exhibit 9: Total card, retail ex auto and total card ex gas spending, per HH, based on BAC aggregated card data (y/y %change of the 7-day ma of spending levels)

Total card spending ex gas came in at -0.9% y/y in the week ending Mar 2

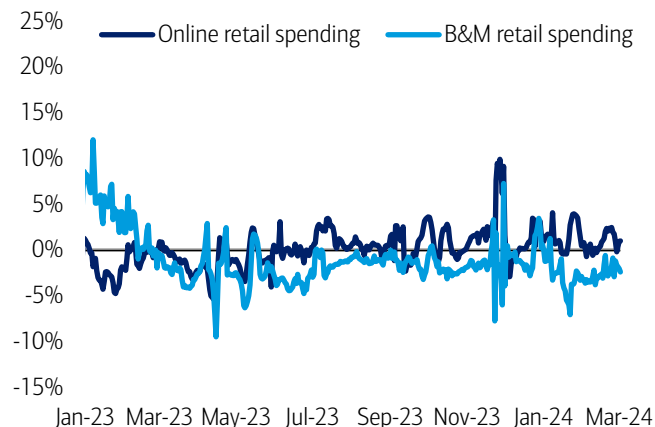


Source: BAC internal data

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## Exhibit 11: Online (card not present) and B&M retail card spending, per HH (y/y %change of 7-day ma of spending levels)

Online retail spending was up 1.0% while B&M retail spending was down 2.4% on a y/y basis in the week ending Mar 2

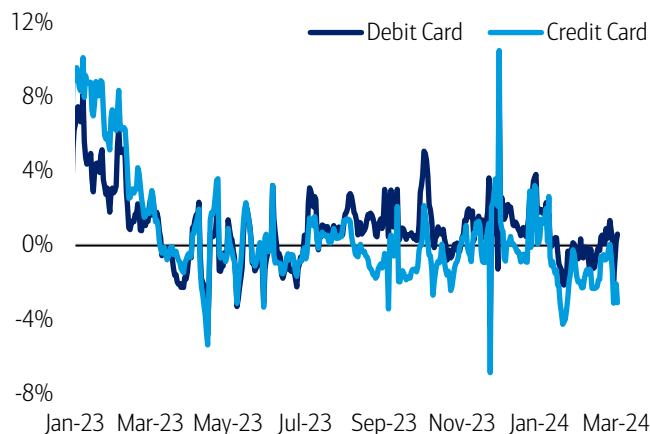


Source: BAC internal data. Note: B&M retail means retail purchases at the store. Card not present is largely online but could include purchases made over the phone.

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## Exhibit 10: Total credit card and total debit card spending, per HH (y/y %change of the 7-day ma of spending levels)

Y/y debit card spending growth (0.6%) significantly outpaced credit card spending growth (-3.1%) in the week ending Mar 2



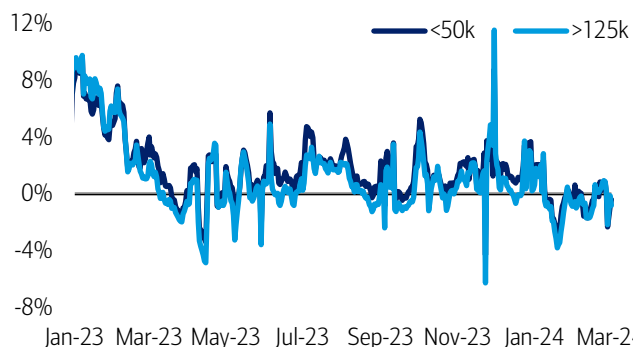
Source: BAC internal data

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# Income-based trends

**Exhibit 12: Total spending ex groceries and gas, per HH by income group, based on BAC aggregated card data (y/y % change of the 7-day moving average of spending levels)**

Y/y total spending ex groceries & gas was stronger (-0.4%) among lower income HHs than higher income HHs (-0.8%) in the week ending Mar 2

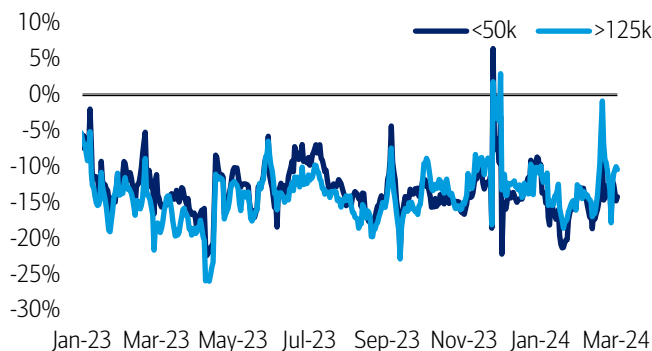


Source: BAC internal data

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**Exhibit 14: Card spending on furniture, per HH by income group (y/y % change of the 7-day ma of spending levels)**

Furniture spending growth remained largely negative on a y/y basis for both income groups since 2023

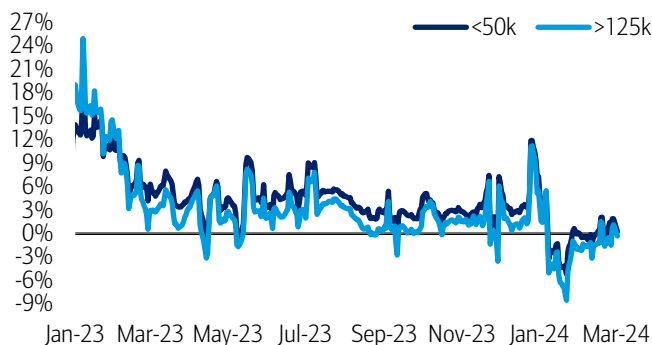


Source: BAC internal data.

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**Exhibit 16: Card spending on restaurants, per HH by income group (y/y % change of the 7-day ma of spending levels)**

Y/y restaurant spending growth was stronger among lower-income HHs than higher-income HHs in the week ending Mar 2

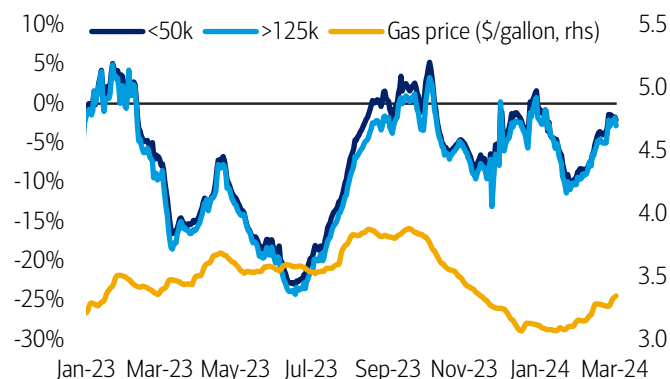


Source: BAC internal data

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**Exhibit 13: Card spending on gas, per HH by income group, vs. retail gas price per gallon (y/y % change of the 7-day ma of spending levels)**

Y/y gas spending remained negative for both income cohorts in the week ending Mar 2

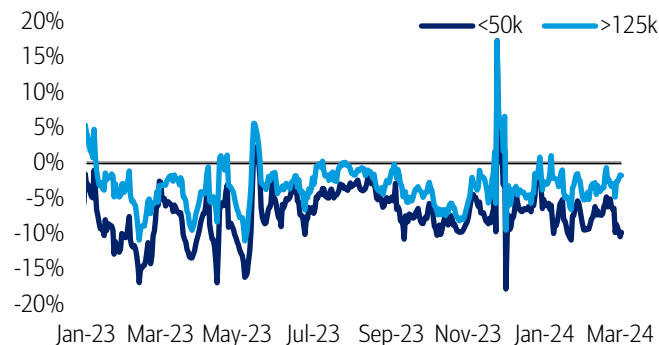


Source: BAC internal data, American Automobile Association

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**Exhibit 15 Card spending on clothing, per HH by income group (y/y % change of the 7-day ma of spending levels)**

Y/y clothing spending growth has also been mostly negative for both income cohorts since 2023 and remained so in the week ending March 2

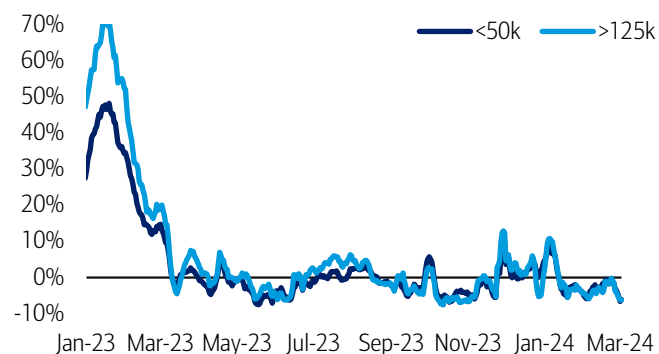


Source: BAC internal data

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**Exhibit 17: Card spending on airlines, per HH by income (y/y % change of the 7-day ma of spending levels)**

Y/y airline spending growth was down about 6.0% for higher- and lower-income HHs in the week ending Mar 2

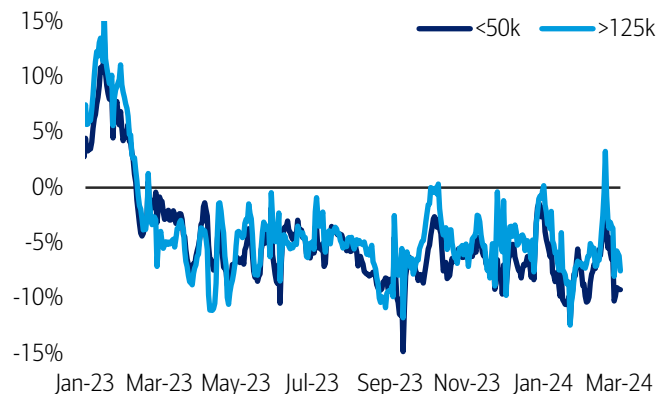


Source: BAC internal data

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**Exhibit 18: Card spending on lodging, per HH by income group (y/y % change of the 7-day ma of spending levels)**

Y/y lodging spending growth has largely been negative for both income cohorts since early 2023

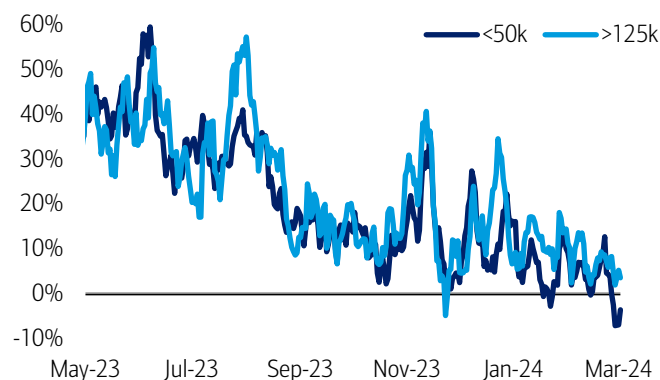


Source: BAC internal data

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**Exhibit 20: Card spending on cruises, per HH by income group (y/y % change of the 7-day ma of spending levels)**

Cruise spending growth for higher-income HHs also significantly outpaced that for lower-income HHs in the week ending Mar 2

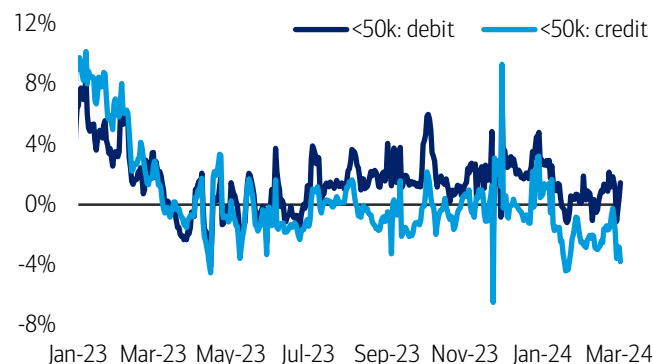


Source: BAC internal data

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**Exhibit 22: Total credit card and total debit card spending per HH for lower-income group (y/y % change of the 7-day ma of spending levels)**

Lower-income debit card spending growth significantly outpaced credit card spending growth on a y/y basis in the week ending Mar 2

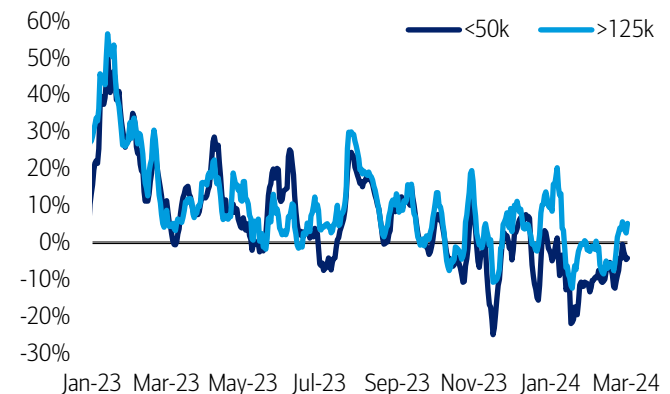


Source: BAC internal data

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**Exhibit 19: Card spending on entertainment, per HH by income group (y/y % change of the 7-day ma of spending levels)**

Y/y entertainment spending for higher-income HHs (5.2%) significantly outpaced lower-income HHs (-4.2%) in the week ending Mar 2

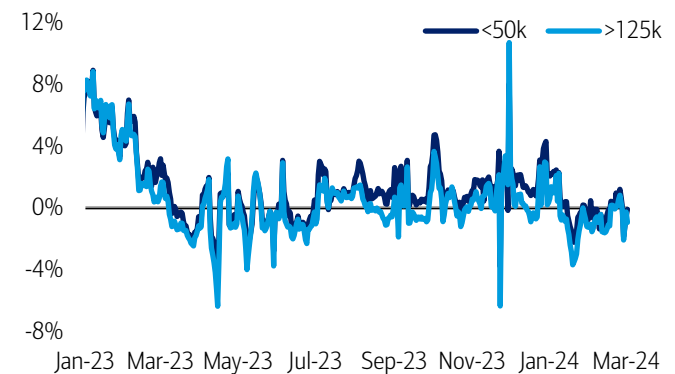


Source: BAC internal data

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**Exhibit 21: Total card spending per HH by income (y/y % change of the 7-day ma of spending levels)**

Total card spending growth for lower income HHs (-0.1% y/y) slightly outpaced higher income HHs (-0.9% y/y) in the week ending Mar 2

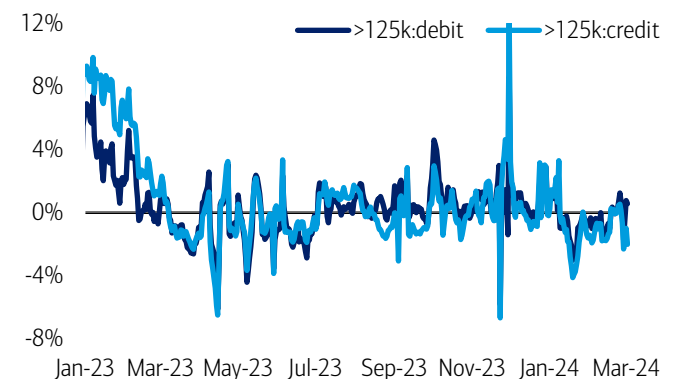


Source: BAC internal data

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**Exhibit 23: Total credit card and total debit card spending per HH for higher-income group (y/y % change of the 7-day ma of spending levels)**

Y/y higher-income debit card spending growth also outpaced credit card spending growth in the week ending Mar 2



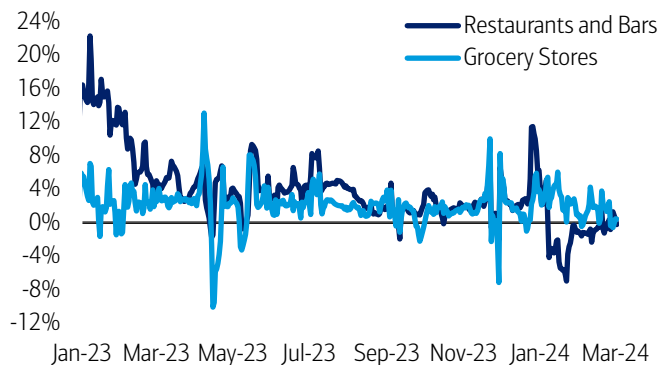
Source: BAC internal data

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## Sector trends

### Exhibit 24: Card spending per HH at restaurants and bars and grocery stores, based on BAC aggregated card data (y/y % change of the 7-day ma of spending levels)

Y/y spending growth at restaurants & bars was -0.2% while y/y spending growth at grocery stores was 0.4% in the week ending Mar 2

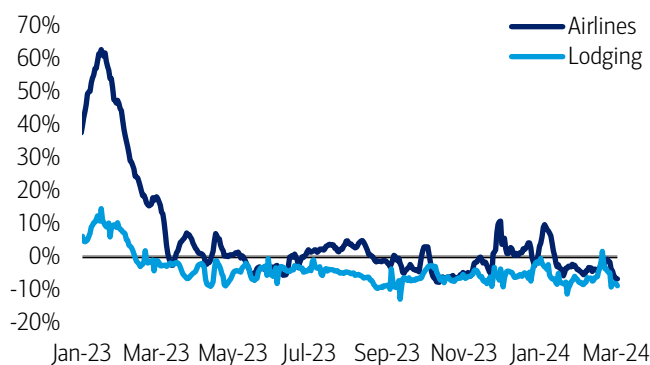


Source: BAC internal data

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### Exhibit 26: Card spending per HH on airlines and lodgings (y/y % change of the 7-day ma of spending levels)

On a y/y basis, lodging and airline spending growth were negative in the week ending Mar 2

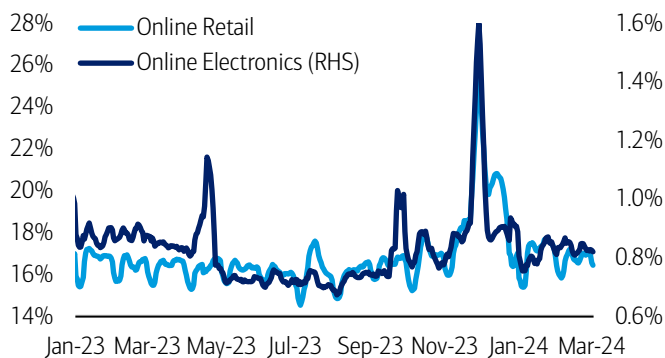


Source: BAC internal data

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### Exhibit 28: Online retail and online electronic (card not present) spending per HH as a share of total card spending (% , 7-day moving average)

The share of online retail spending was 16.4% in the week ending Mar 2

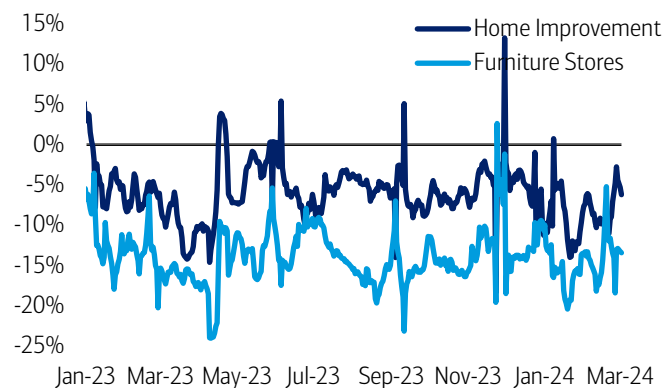


Source: BAC internal data

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### Exhibit 25: Card spending per HH at home improvement and furniture stores (y/y % change of the 7-day ma of spending levels)

Furniture and home improvement spending growth remained negative on a y/y basis in the week ending Mar 2

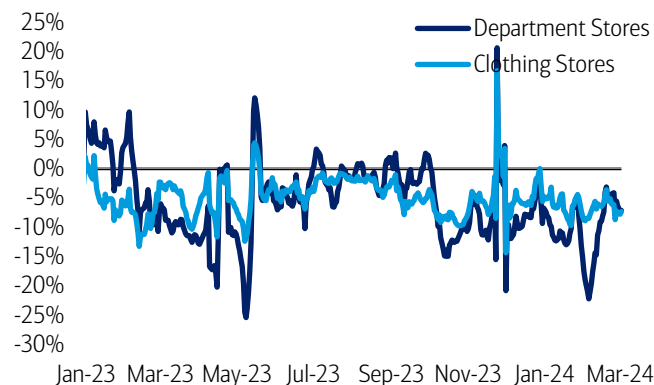


Source: BAC internal data

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### Exhibit 27: Card spending per HH at department and clothing stores (y/y % change of the 7-day ma of spending levels)

Y/y clothing spending growth has generally been negative since 2023

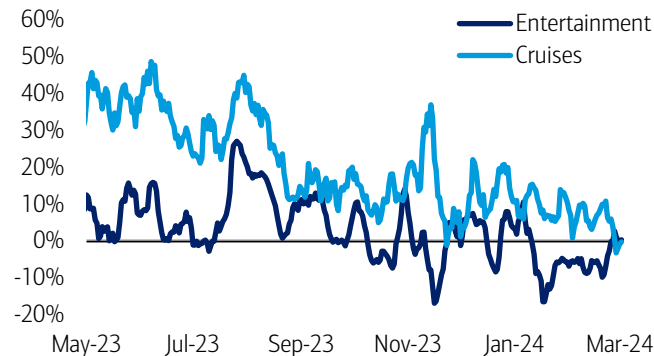


Source: BAC internal data

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### Exhibit 29: Card spending per HH on entertainment and cruises (y/y % change of the 7-day ma of spending levels)

In the last few days, y/y spending growth on cruises has turned negative after stabilizing from the reopening spike



Source: BAC internal data

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**Exhibit 30: Aggregated daily card spending growth per HH by major category, Feb 17 – Mar 02 (ex Feb 29) (y/y % change of the 7-day ma of spending levels)**

Total card spending per HH was down 1.0% y/y in the week ending Mar 2

	3/2	3/1	2/28	2/27	2/26	2/25	2/24	2/23	2/22	2/21	2/20	2/19	2/18	2/17
<b>Total card spending</b>	-1.0%	-0.8%	-2.4%	-0.4%	0.3%	0.8%	0.4%	-0.1%	0.2%	-0.3%	-0.1%	0.0%	0.0%	-1.0%
<b>Retail ex auto</b>	-1.4%	-1.2%	-1.2%	-0.6%	-1.6%	0.0%	-0.6%	-1.2%	-1.0%	-1.4%	-1.2%	0.2%	-0.7%	-1.9%
Airlines	-6.6%	-6.7%	-5.5%	-4.2%	-3.8%	-1.5%	-1.3%	-0.7%	-1.0%	-1.9%	-1.9%	-1.4%	-1.9%	-3.3%
Lodging	-8.7%	-8.1%	-7.9%	-8.2%	-9.1%	-4.8%	-4.7%	-4.3%	-3.5%	-3.5%	-1.8%	1.7%	-1.5%	-3.3%
Entertainment	0.4%	-0.7%	1.2%	2.8%	-0.1%	-0.1%	-2.6%	-4.0%	-6.9%	-9.1%	-9.8%	-7.4%	-6.4%	-5.3%
Restaurants & bars	-0.2%	0.4%	1.3%	1.1%	-0.8%	0.4%	-0.1%	-0.7%	-0.7%	-1.3%	-0.7%	1.4%	1.6%	-0.5%
Transit	10.1%	10.0%	9.9%	10.1%	10.4%	8.3%	6.1%	4.9%	5.1%	3.7%	3.0%	1.4%	2.1%	2.4%
Gas	-2.6%	-2.0%	-2.3%	-2.0%	-2.2%	-1.8%	-3.3%	-4.5%	-4.2%	-4.5%	-4.4%	-4.3%	-4.0%	-4.2%
Clothing	-7.3%	-7.7%	-7.6%	-7.2%	-8.7%	-6.1%	-6.1%	-5.9%	-5.1%	-5.4%	-5.5%	-3.6%	-4.4%	-5.7%
Furniture	-13.4%	-13.3%	-12.9%	-13.0%	-18.4%	-14.0%	-13.5%	-12.6%	-11.6%	-12.0%	-11.0%	-5.2%	-8.7%	-12.1%
Department store	-7.1%	-7.2%	-6.4%	-5.5%	-7.9%	-4.1%	-4.2%	-5.0%	-4.4%	-4.7%	-4.8%	-3.1%	-4.0%	-7.4%
Home improvement	-6.2%	-5.3%	-4.4%	-2.8%	-4.8%	-6.0%	-7.1%	-9.0%	-9.2%	-11.0%	-11.4%	-10.1%	-9.2%	-9.3%
Online electronics	-8.3%	-7.5%	-8.9%	-5.6%	-3.8%	-5.5%	-5.6%	-6.4%	-6.8%	-7.7%	-8.5%	-8.7%	-8.3%	-7.5%
Grocery	0.4%	0.4%	-0.6%	-0.1%	-0.4%	2.5%	1.6%	1.3%	1.9%	1.9%	2.3%	3.8%	0.4%	-0.1%
General Merchandise	-2.5%	-3.2%	-1.8%	-0.9%	-2.6%	0.7%	0.1%	-0.6%	-0.3%	-1.3%	-1.3%	0.6%	-0.6%	-3.0%
Total B&M retail	-2.4%	-2.0%	-1.6%	-1.2%	-2.9%	-0.9%	-1.8%	-2.6%	-2.3%	-2.8%	-2.6%	-0.6%	-1.6%	-3.1%
Total online retail	1.0%	1.0%	-0.2%	0.9%	1.8%	1.9%	2.5%	2.3%	2.4%	2.1%	2.4%	2.0%	1.3%	1.0%
Total card debit	0.6%	0.2%	-1.9%	0.4%	0.8%	1.3%	0.8%	0.4%	0.9%	0.1%	0.2%	0.5%	0.4%	-0.3%
Total card credit	-3.1%	-2.1%	-3.1%	-1.4%	-0.5%	0.1%	-0.2%	-0.6%	-0.8%	-0.8%	-0.5%	-0.7%	-0.6%	-1.8%

**Source:** BAC internal data. Note: The 1-yr % change shows the change between the current date at the head of the table column and its comparable date a year ago. Total card spending includes total BAC card activity, which captures retail sales and services that are paid with cards. Does not include ACH payments. B&M (Brick & Mortar) retail means retail purchases at the store. Online electronics and total online retail correspond to purchases in which the card was not present. These are largely online purchases but could include purchases made over the phone. Y/y growth in General Merchandise spending jumped in late Dec 2023. This was because of a change in Merchant Category Codes (MCC) for a significant portion of transactions from a major retail merchant. We have adjusted for the recategorization for the daily data from Feb 4 onwards. We excluded Feb 29<sup>th</sup> 2024 from the y/y calculations because there is no comparable date in 2023.

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## Methodology explained

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

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 February also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households (HHs) only. Spending from corporate cards are excluded.

Our methodology for calculating the growth rates for daily data: we calculate the %y/y growth rate by matching calendar days (Jan 1 2024 is matched to Jan 1 2023). The % change is calculated based on the 7-day moving average of spending levels.

Unless otherwise noted, the monthly subsector data are adjusted to control for seasonality and other factors.

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# Research Analysts

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## US Economics

### Michael Gapen

US Economist

BofA

[michael.gapen@bofa.com](mailto:michael.gapen@bofa.com)

### Aditya Bhawe

US Economist

BofA

[aditya.bhawe@bofa.com](mailto:aditya.bhawe@bofa.com)

### Stephen Juneau

US Economist

BofA

[stephen.juneau@bofa.com](mailto:stephen.juneau@bofa.com)

### Shruti Mishra

US and Global Economist

BofA

[smishra44@bofa.com](mailto:smishra44@bofa.com)

### Jeseo Park

US Economist

BofA

[jeseo.park@bofa.com](mailto:jeseo.park@bofa.com)