Consumer Spend Collective

Services inflation takes a toll on retail spending

18 March 2024

Equity
Global

BofA Data Analytics

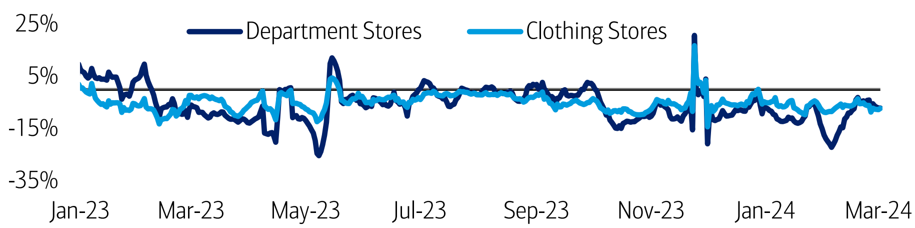
Goods deflation and sticky services inflation

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. Some categories such as gas also benefited from favorable base effects because of the winter storms in January. More broadly, 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. The risk is that sticky services inflation will further shrink retail's wallet share, to the extent that real spending also slows down.

Clothing spending remains negative

Lorraine Hutchinson notes clothing spending declined 2.0% y/y in February, compared to -5.3% y/y in January. All categories accelerated from the prior month given the extra day from leap year. Storm Lorraine hit the Northeast on February 13th, which likely curtailed last minute Valentine's Day jewelry spending. Spending declined 1.4% during the week ending February 18th, according to BAC aggregated credit and debit card data. Discount apparel spending inflected back to positive, with spending +2.8% y/y in February compared to -0.1% in January. Lorraine remains positive on the off-price retailers.

Exhibit 1: Card spending per HH at department and clothing stores
Y/y (% change of the 7-day ma of spending levels) clothing spending growth has generally been negative since 2023



Source: BAC internal data

BofA GLOBAL RESEARCH

Consumer & Retail Conference: What did we learn?

BofA Securities hosted 55+ companies at the [2024 Consumer & Retail Conference](). (1) Robby Ohmes says some broadlines retailers are seeing stable to improving performance in discretionary categories. (2) In Consumer Staples, Bryan Spillane, Pete Galbo and Anna Lizzul suggest that investors continue to await volume recovery before becoming more constructive. (3) The tone from most softlines companies was positive, according to Lorraine Hutchinson and Chris Nardone, with a particular focus on company-specific sales and margin opportunities rather than conversations about macro. (4) Sara Senatore and Katherine Griffin suggest the consumer continues to spend on restaurants, albeit somewhat more selectively. (5) Alex Perry suggests that leisure brands & retailers that attended the conference were more constructive compared to last year.

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Compilation of Industry Reports

We've included research notes from analyst teams that make use of the February BAC card spending data and were published over the last three trading days. The key takeaways are noted below from each report. The US Economics note is also linked below.

Aditya Bhave – BofA on USA: Services inflation takes a toll on retail spending 12 March 2024

- Total BAC card spending per HH was up 2.9% y/y in Feb. We forecast -0.1% & -0.3% for ex-auto & core control retail sales.
- Retail spending has turned softer over the last few months. Broad-based goods deflation is part of the story.
- Moreover, services inflation is weighing on retail's wallet share. The risk is that real retail spending could also weaken.

Lorraine Hutchinson – Specialty Retail and Department Stores: February shows some improvement, aided by an extra day 15 March 2024

- Total retail ex auto spending increased 1.7% y/y in February compared to -1.8% y/y in January
- The y/y improvement in February is due to the extra day from Leap Year
- Clothing spending declined 2.0% y/y in February, compared to -5.3% y/y in January

Robert Ohmes – Retailing - Hardlines: Monthly hardline retail spending snapshot: Hardline spending down 2.1% in Feb 14 March 2024

- In February, Hardlines spending declined 2.1% y/y (vs. -6.2% y/y in January).
- Most categories showed improvement or moderation in y/y declines, likely helped by an extra day because of the leap year.
- For February, spending at home improvement retailers declined 4.2% y/y, vs. -7.0% y/y in January.

Alexander Perry – Leisure: Local Leisure Spending Update through February 14 March 2024

- Golf course spending accelerated in Feb. and increased 4%. We expect Feb. rounds played to accelerate.
- Bike spend (correlated with FOXF SSG revenue) continues to decline y/y.
- Winter clothing spending declined in February following strong growth in January.

Curtis Nagle – Internet/e-Commerce: SMID cap eCommerce monthly; pockets of strength in Online jewelry and ticketing 13 March 2024

- February category trends (ex. Leap Day) generally decelerate vs. January, with a notable exception from ticketing.
- Premium furnishings spend outperformed Online & Total furnishings in Feb, improving 4.2ppts to -7.6% YoY, a positive for RH.
- Total pet spend continued to decline in Feb, now down 6.3% YoY, with weak pet adoption trends likely weighing on industry.

Justin Post – Internet/e-Commerce: Online spending up 1% in February 12 March 2024

- Online spending grew 1% y/y in February (ex-Leap Day), a slight slowdown vs. January at 2%.
- 1QTD data suggests y/y eCommerce spending is stable, while Street projects a 2pt deceleration for Amazon North America.
- Transit growth accelerated sharply in Feb, with 1Q's trends now more in line with our Uber Mobility projection

Rafe Jadrosich – Homebuilders and Building Products: Monthly building products spending snapshot: Feb improves on extra day 12 March 2024

- For February, spending in building products improved due to extra day in February YoY, but underlying trends still soft.
- Home improvement spending fell (4.2%) YoY, but up 5.6% MoM, and housing-related services spending rose 4.0% YoY and flat MoM.
- Weakest categories YoY: mattresses, lumber stores, floor coverings. Strongest: roofing/siding, concrete work, landscaping.

Shaun Calnan – Homebuilders and Building Products: February data deep dive: pool spending and channel trends 12 March 2024

- For February, spending at pool supplies merchants declined -0.2% YoY (+58% vs. Feb 2019), incl. the benefit of an extra day.
- 4Q23 manufacturer sales outpaced distributor/retail sales (lapping destock), but inventory days still above pre-COVID levels.
- LESL web traffic increased 4% YoY, but google trends for pools were down in February (trailing 4-week avg).

Sara Senatore – Restaurants Industry: Monthly restaurant spending: spend up across segments as headwinds dissipate 13 March 2024

- Aggregate restaurant spend turns positive post-weather. QSR accelerates, Pizza spend less negative.
- Fast Casual up, Casual Dining decline moderates. B&M turns positive, Online accelerates m/m.
- Sequential improvements across incomes. By MSA Portland strongest, Denver weakest y/y.

Jeffrey Spector – Self Storage REITs: Feb spending down -0.4% vs. Jan, slightly better than historic trends 13 March 2024

- Feb '24 storage spending across the U.S. declined -0.4% M/M (+0.5% Y/Y), slightly better than with the historical trend
- When weighted by the Storage REITs' portfolio exposure, spending was up +1.6% M/M in Feb (-0.7% Y/Y)
- Visibility for the Storage REITs into 2024 is still limited

Shaun Kelley – [Gaming and Lodging: February card spending and LV room survey: Lodging (=); Las Vegas (=) 13 March 2024]

- BAC aggregated credit and debit card spend on lodging accelerated 4pp to -3% Y/Y in February
- Retail ski town card spend was down -4% Y/Y in Feb. a modest improvement from -8% Y/Y in Jan. after accounting for leap year
- February data benefits from an extra day, but we think underlying trends are largely stable M/M

Mihir Bhatia – [Consumer Finance: Credit card spending rebounds in February 13 March 2024]

- February aggregated credit card data indicates spending increased 2.2% y/y, accelerating from January at -0.8% y/y. Leap day supported faster growth.
- Restaurant spending accelerated on a y/y basis, while Travel was down slightly. Goods and Services spend appears solid.
- Credit card spending by high-earners ($125K+) increased 2.4% y/y, an acceleration from -0.2% y/y in January.

Joanna Gajuk – [Death Care: Funeral spending has declined 1% y/y so far in Q1 but has growth 7% sequentially 13 March 2024]

- Spending on funeral services declined 10% m/m in February after +14% m/m growth in Jan.
- Based on the Jan-Feb data, 1Q24 spending is up 7% vs Q4, better than pre-COVID seasonality. CAGR +7% vs 2019.
- So far in 1Q24, funeral spending is -1% y/y, better than our 1Q24 SCI funeral rev est of -4% y/y.

Other reports may come over the next few days and weeks that use the February card data, but in the interest of keeping this as timely as possible, we only include notes out in the first few trading days after BofA on USA.

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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 may 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 and the 4-year % change by matching calendar days (Jan 1 2023 is matched to Jan 1 2022, and Jan 1, 2019, respectively). 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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