

US Economic Viewpoint

Consumer health check: Gloom to boom

Time to get bulled up?

We have maintained a base case of consumer resilience for over three years, pushing back against various “doom and gloom” forecasts. While that view remains unchanged and more constructive than market expectations, we now believe the distribution of risks has shifted to the upside. In this piece, we lay out the drivers of our growing optimism and the lingering concerns preventing us from moving to a more bullish base case.

Robust spending, narrowing K

The consumer continues to defy gravity. Real spending is tracking close to 3.5% q/q saar in 3Q and has barely missed a beat despite a 1pp rise in headline inflation in the last year. BAC aggregated credit and debit card data show i) continued consumer strength growth through Sep, and ii) fading K-shaped spending dynamics due to a pickup in y/y lower-income spending. Increased breadth in spending growth makes it more sustainable, in our view.

For the love of labor

The labor market is the strongest force supporting income-group spending convergence. After-tax wage growth for lower-income households reached 4.7% y/y in Aug, exceeding the 3.5% pace for higher-income, extending the reversal of the wage-growth “K” that had persisted since late ‘24. Job growth increased and broadened in 2026. Job-switching activity and associated pay gains improved most among lower-income HHs. Also, recent GDP and income revisions suggest a larger HH savings cushion than previously thought.

Balance sheets: a “perfect 10”

Surging equity wealth pushed HH assets above 10x of liabilities in 2Q26, providing a continued tailwind for spending. While equity ownership is highly concentrated among higher-income HHs, balance sheet gains may not be as narrow as widely believed. Liquid assets (checking / savings accounts & MMMFs), which should be more evenly distributed across the population, are also very elevated relative to liabilities, by historical standards.

Gas prices temper our optimism

So, what’s holding us back from going all in on a consumer boom? Three things. First, the latest surge in gas prices could weigh on discretionary spending, particularly with the fiscal impulse fading. Higher energy costs are likely to hit lower-income households hardest and could slow the recent convergence in spending growth. They may also feed through to food inflation, creating an additional headwind for lower-income consumers.

Cooling wages, lower-income credit a concern as well

Second, total income growth is falling due to moderation in wages. Spending is unlikely to accelerate much unless wages re-accelerate. Third, credit stress remains elevated among lower-income HHs with thinner financial cushions. Evidence that delinquencies have peaked would bring us closer to forecasting a full-fledged demand boom.

AI-related equity market risks bear watching

Strong equity markets have supported higher-income spending. An AI-related shake-out, higher long-term rates or a more significant oil price shock could weaken that tailwind, though we see this as a potential risk rather than our base case.

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Timestamp: 01 October 2026 03:25AM EDT

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01 October 2026

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u-rate: Unemployment Rate

LFPR: Labor Force Participation Rate

AHE: Average Hourly Earnings

PCE: Personal Consumption
Expenditure

NFP: Nonfarm Payrolls

IEEPA: International Emergency
Economic Powers Act

HH: Household

NIPA: National Income and Product
Accounts

SA: Seasonally Adjusted

NSA: Non-Seasonally Adjusted

BLS Bureau of Labor Statistics

CES: Current Employment Statistics

BED: Business Employment Dynamics

BEA: Bureau of Economic Activity

MMMFs: Money Market Mutual
Funds

APR: Annual Percentage Rate

MoU: Memorandum of
Understanding

Time to get bulled up?

The consumer continues to defy gravity

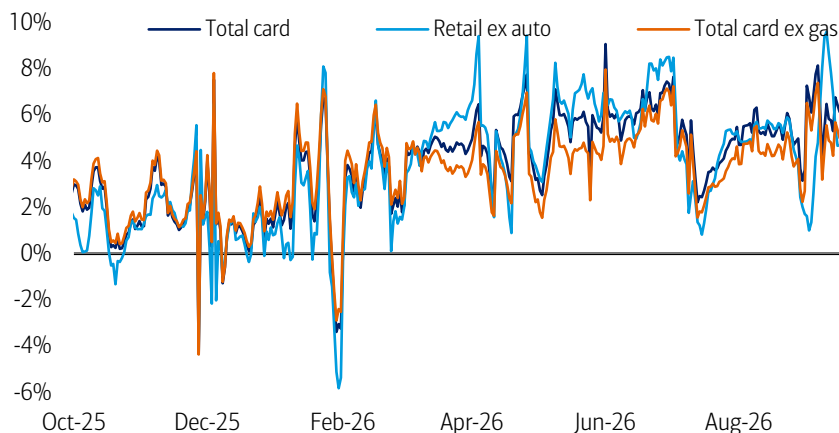
For much of the past three years, we have argued that the U.S. consumer would prove more resilient than many expected. That base case remains intact. What has changed is our degree of conviction: recent developments have left us incrementally more optimistic about the consumer outlook, with the balance of risks now tilted more to the upside. In this report, we discuss the factors underpinning that view, while also highlighting the risks that keep us from adopting a fully bullish baseline.

The consumer continues to defy gravity. In the final estimate of 2Q GDP, real consumer spending was revised up to a robust 3.8% q/q saar, reflecting stronger spending on both goods and services. Looking ahead, real consumer spending is tracking close to a solid 3.4% q/q saar in 3Q and has barely missed a beat despite a roughly 1pp increase in headline inflation over the last year.

BAC aggregated credit and debit card nominal spending data tell a similar story. Spending growth remained strong through late September, even as the boost from tax-refund season faded and gasoline prices remained elevated. BAC card data show total spending per household up about 6.9% y/y in the week ending September 19, with spending excluding gasoline also up 5.7% (Exhibit 1). Taken together, the official data and card spending data continue to point to a highly resilient consumer sector.

Exhibit 1: Total card and ex-gas spending were up a robust 6.9% and 5.7% y/y in the week ending Sep 19

Total card, retail ex auto and total card ex gas spending, per HH, based on BAC aggregated credit and debit card data (y/y % change of the 7-day MA of spending levels)



Source: BAC internal data

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Robust spending, narrowing K

The more important development, in our view, is not simply that spending remains strong, but that it has become more broad-based. Income group dynamics have been central to the consumer outlook. Since late 2024 and early 2025, spending growth had been distinctly K-shaped, with higher-income households outperforming as wealth gains accrued disproportionately to higher-income consumers, while lower-income households faced greater pressure from housing, food, energy and borrowing costs.

However, that gap narrowed meaningfully over the last few months (Exhibit 2 and Exhibit 3). Lower-income spending improved across both total card and total card ex gas spending, moving consumer spending away from a pronounced K-shaped pattern toward something closer to a C, with the two arms beginning to converge.

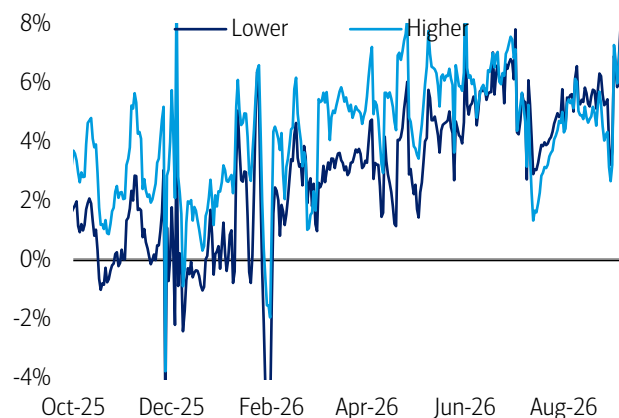


Discretionary spending joins the recovery

The improvement in lower-income spending was not confined to essentials. In BAC monthly card data through August, lower-income households saw a notable improvement in discretionary spending growth alongside steady growth in nondiscretionary outlays (Exhibit 4 and Exhibit 5). That combination suggested that lower-income consumers were not merely spending more on necessities. Discretionary demand was also beginning to recover, an indicator of underlying momentum.

Exhibit 2: The gap in higher and lower-income total card spending growth narrowed over the course of the summer

Total card spending per HH by income group (y/y % change of the 7-day MA of spending levels)

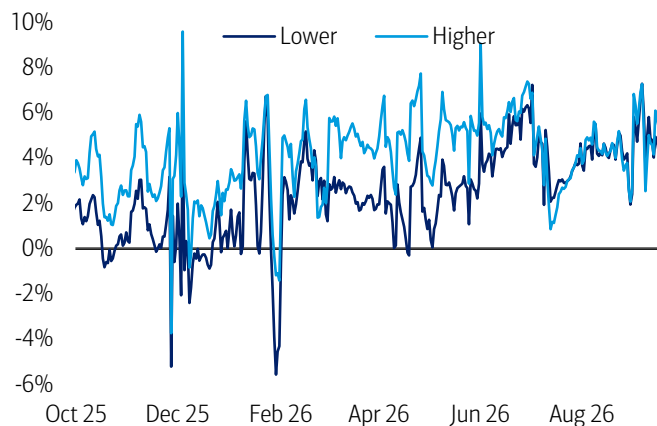


Source: BAC internal data

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Exhibit 3: This is true even for ex gas spending, where the K narrowed significantly in the last few months

Total card ex-gas spending per HH by income group (y/y % change of the 7-day MA of daily spending levels)



Source: BAC internal data

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Through August, the rise in lower-income spending was broad enough to include a meaningful pickup in discretionary categories, providing some of the clearest evidence that the earlier K-shaped spending pattern was becoming less pronounced. Put differently, the consumer appeared to be moving from a pronounced K toward something closer to a C, with spending growth becoming more evenly distributed across income groups.

That increased breadth in spending growth makes the expansion more sustainable, in our view. Consumer activity becomes less dependent on equity-wealth-driven spending by higher-income households and more supported by a broader set of consumers. A recovery led by discretionary spending among lower-income households is particularly encouraging because it points to a broader-based consumer expansion.

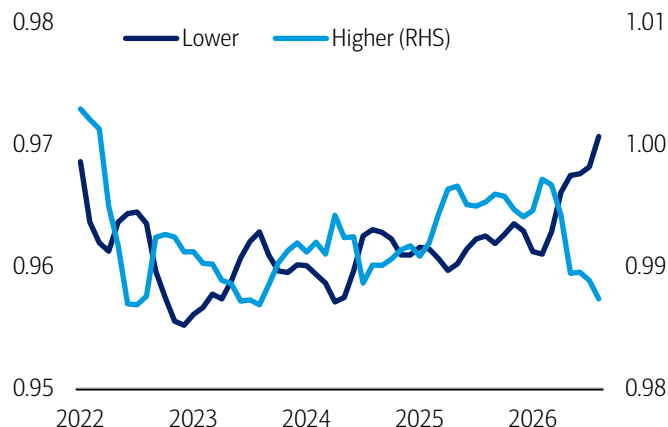
Big ticket spending remains K-shaped

Not every spending category experienced this income convergence. As noted in a [Bank of America Institute report](#), auto spending has consistently displayed a K-shaped dynamic. Demand is supported disproportionately by higher-income HHs, which account for an outsized share of new and used vehicle purchases, based on Bank of America internal data on auto loan originations and loan repayments. The same is likely true for several other big ticket and higher-end discretionary goods and services categories.

Affordability constraints remain elevated, and it may take time for the improvement in lower-income spending to broaden to bigger-ticket categories, especially now, after the recent rise in gas prices.

Exhibit 4: Lower-income HHs saw a disproportionate rise in non-discretionary (or necessity) spending in August

Ratio of lower- and higher-income spending to middle-income non-discretionary spending (3m average of monthly levels, SA)

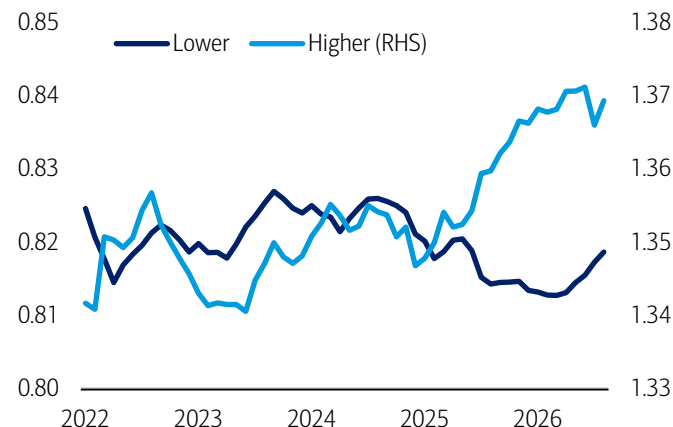


Source: BAC internal data. Non-discretionary (or necessity) spending is spending on gas, groceries and utilities.

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Exhibit 5: Nonetheless, discretionary spending also continued to rebound among lower-income HHs. The K turned into a C recently.

Ratio of lower- and higher-income spending to middle-income discretionary spending (3m average of monthly levels, SA)



Source: BAC internal data. Discretionary spending is total spending excluding gas, groceries and utilities.

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Why we're not fully bullish yet

That said, we are not ready to go all in on a consumer boom. The recent leg up in gas prices poses a risk to discretionary spending, particularly for lower-income households. Higher energy costs could slow or temporarily reverse the recent convergence in spending growth and may eventually pass through to food inflation, creating an additional headwind for lower-income consumers. These risks, along with several others, are discussed in detail later in the report.

What determines whether the K keeps narrowing?

The recent data leave a more nuanced picture than either "the K is closing" or "the K is widening". Aggregate consumption remains robust, and the improvement in lower-income spending growth through the summer and early September was genuine. Stronger labor market outcomes and healthy household balance sheets helped narrow the gap in spending growth across income groups and move consumption away from a pronounced K-shaped pattern.

At the same time, the recent rise in gasoline prices highlights how sensitive lower-income spending remains to shocks in essential expenses. Whether the K continues to narrow will depend on the balance between these supportive forces and headwinds from higher energy costs, slowing wage growth, lingering credit stress, and potential financial market risks from higher long-term rates or a reversal in AI-driven equity gains. We examine these factors below.

For the love of labor

The labor market is the strongest force supporting income-group spending convergence. After-tax wage growth for lower-income households exceeded the pace for higher-income households in August according to Bank of America aggregated consumer deposit account data, reversing a wage-growth "K" that had persisted since late 2024. Job growth has also increased and broadened this year, while job-switching activity and the associated pay gains have improved most among lower-income workers.

Also, recent GDP and income revisions suggest households have a larger savings cushion than previously thought and may be drawing on it to support spending. All through 2025, labor market dynamics reinforced spending divergence. Today, they appear to be driving spending convergence.

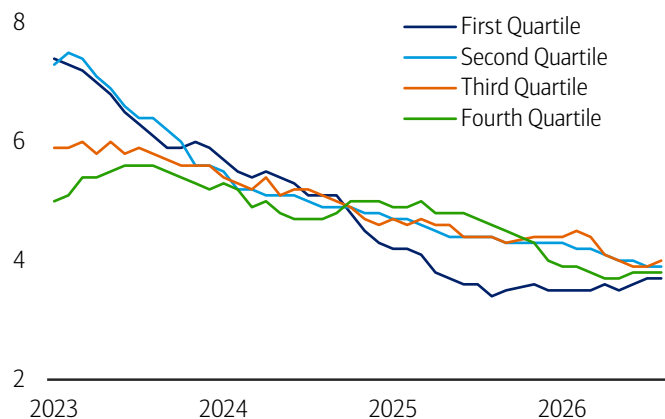


Stronger take-home pay for lower-income households

Last year, wage growth for higher-income households began to outpace that of lower-income households, and that divergence widened over time. The pattern was evident in both Bank of America customer deposit account data and Atlanta Fed wage measures. In other words, wage growth itself became increasingly K-shaped.

Exhibit 6: Gap between higher & lower-income wage growth has reduced in the Atlanta Fed data

Atlanta Fed wage growth tracker: median wage growth by wage quartile (12 month moving average, NSA, y/y % change)

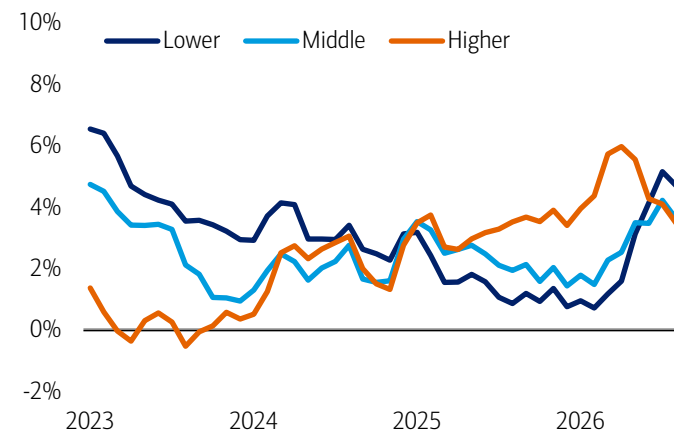


Source: Federal Reserve Board of Atlanta, Haver Analytics

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Exhibit 7: In August, after-tax wage growth for lower-income households continued to outpace that of higher-income households

After-tax wage and salary growth by household income tercile (three month moving average, YoY%, SA))



Source: Bank of America internal data

Because lower-income households rely much more heavily on labor income to finance consumption than higher-income households, this divergence in wage growth translated directly into divergence in spending growth.

In recent months, however, that pattern has begun to reverse. According to Bank of America aggregated consumer deposit account data, the longstanding wage-growth "K" reversed in July after persisting since December 2024. In August, after-tax wage growth for lower-income households reached 4.7% YoY, compared with 3.5% YoY for higher-income households (Exhibit 7). Similarly, Atlanta Fed wage data suggest the gap between higher- and lower-income wage growth has narrowed meaningfully (Exhibit 6).

Part of the recent improvement reflects lower tax withholding following the implementation of the One Big Beautiful Bill Act (OBBBA). However, the more important and sustainable story appears to be improving labor market conditions for lower-income workers.

Job growth has broadened

The more durable development is a labor market that is becoming increasingly balanced.

Throughout much of 2025, labor markets were characterized by a low-hiring, low-firing environment. While layoffs remained subdued, hiring activity was also weak. That dynamic likely disproportionately affected younger workers, who are more likely to fall into lower-income cohorts and are typically more reliant on job mobility and new hiring opportunities than higher-income workers with stronger job attachment.

This year, the picture has improved. Hiring activity has picked up more consistently while layoffs have remained low. The three-month average pace of payroll growth is now running near 70k, comfortably above estimates of labor-market breakeven.

One reason may be reduced policy uncertainty. While trade-related volatility has not disappeared, uncertainty surrounding the IEEPA tariffs eased considerably after they were struck down. Businesses that had postponed investment and hiring decisions amid elevated uncertainty appear increasingly willing to move forward with those plans. Also, consumer demand has remained robust for a long time now along with strong equity markets, essentially countering the impact of oil price volatility from the Iran conflict.

As a result, labor-market breadth has improved (Exhibit 8).

Unlike in 2025, when employment gains were concentrated in a relatively narrow group of industries, primarily education and health services, job growth now appears more broadly distributed across sectors, particularly those sectors that matter disproportionately for lower-income workers (Exhibit 9).

Construction employment remains healthy, supported by continued strength in data-center investment, particularly in civil engineering construction and nonresidential specialty trade contractors categories. Manufacturing employment has also improved after several years of weakness and layoffs, on the back of firm demand, AI momentum, receding tariff uncertainty and defense spending. Employment growth in trade, transportation and utilities has accelerated since spring (Exhibit 9). The sharp rise in goods imports during 2Q could support labor demand across logistics / transportation sectors.

Even professional and business services appears to be improving (Exhibit 9). Particularly notable is temporary-help employment within professional & business services, a traditionally more blue-collar segment of the sector, which was shedding jobs last year but has recently turned positive.

Collectively, gains in these relatively blue-collar industries matter because labor income, rather than wealth, remains the primary driver of spending decisions for most lower-income households.

Consumers have more cushion than previously thought

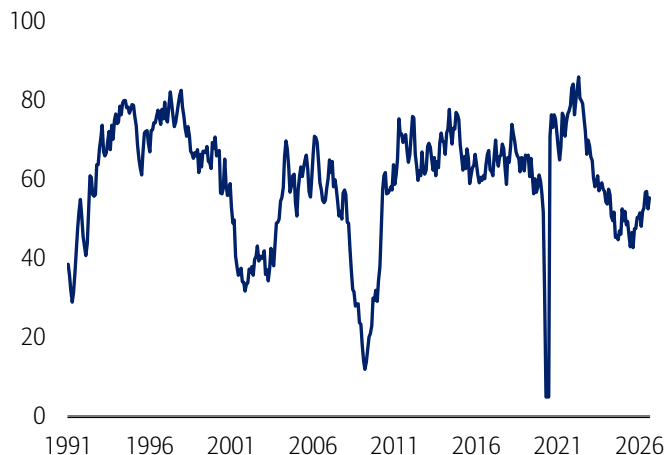
Recent GDP and income data revisions from the BEA suggest households accumulated substantially more savings than previously estimated. Personal saving since mid-2021 was revised up sharply, with savings over the past 12 months marked higher by roughly \$320bn (39%), mainly due to higher estimates for private wage & salary income, and downward revisions to tax payments and nominal spending. As a result, the July 2026 saving rate was revised up to 4.6% from 3.0% previously.

We'd also note that the nominal spending revision was mostly due to the methodological changes for inflation, rather than weaker real spending. The latter was minimally affected by the revisions and came in at a strong 2.6% y/y in Aug '26.

More recently, the personal saving rate fell to 4.1% in August, its lowest level since 2022. This coincided with strong consumer spending and flat real disposable income. Together, these data suggest households have a larger financial cushion than previously believed, potentially providing an additional buffer for consumer spending.

Exhibit 8: Labor-market breadth has improved this year

Nonfarm payroll diffusion index based on 3m change

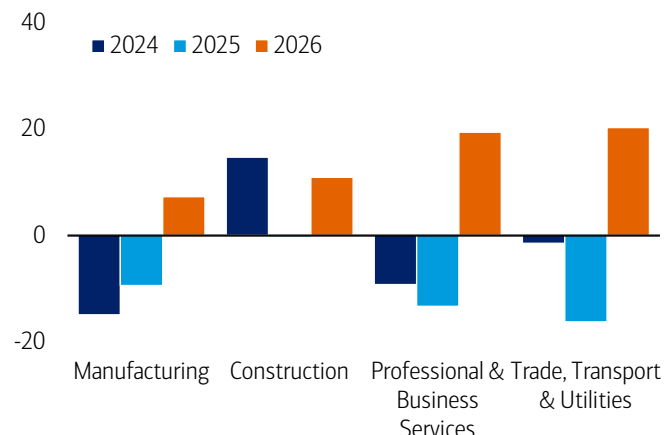


Source: BLS, Haver Analytics

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Exhibit 9: Construction, manufacturing, trade & transport and professional & biz. services saw an increase in job growth vs last year

Monthly job growth by sector (yearly average, SA, thous)



Source: BLS, Haver Analytics

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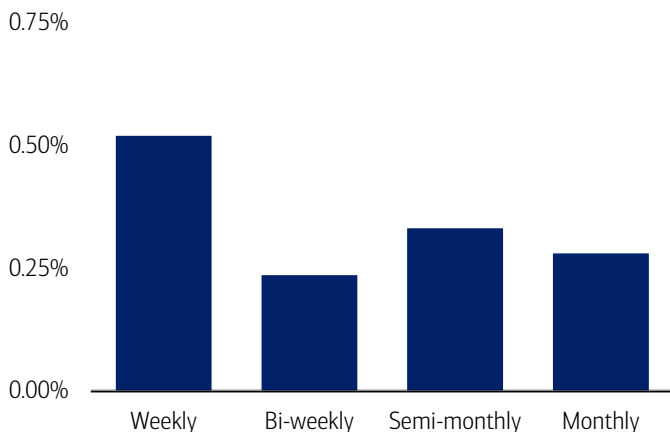
Lower-income workers are switching jobs more actively

The labor market improvement is also showing up in worker behavior. A recent [Bank of America Institute employment report](#) shows that job-switching activity in July 2026 was materially higher than during 2025, although still below the levels reached during the Great Resignation period of 2022.

Perhaps more importantly, the increase appears concentrated among workers paid weekly. This group often consists of hourly and lower-income workers, suggesting job mobility has improved most for the very cohort that was previously struggling (Exhibit 10). Also, the jump in pay associated with a job change has been strongest year-to-date in jobs with weekly paychecks, most likely lower-income occupations (Exhibit 11).

Exhibit 10: The job change rate has risen the most for weekly-paid customers

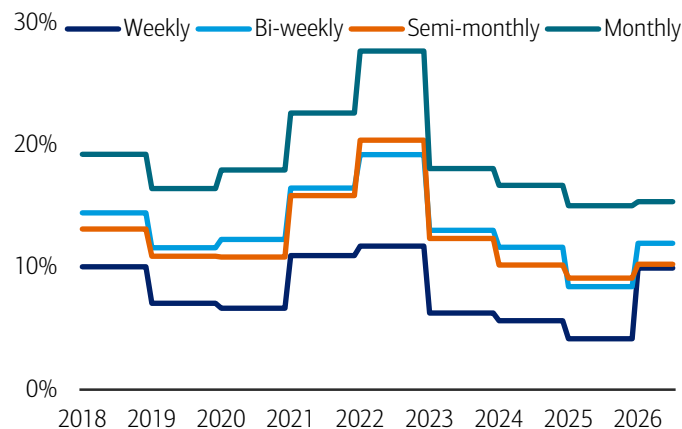
Job change rate by pay frequency in July (three-month average, YoY percentage point change)



Source: Bank of America internal data

Exhibit 11: The jump in pay associated with a job change has been strongest year-to-date in jobs with weekly paychecks

Pay change associated with a job change by pay frequency (% annual average)



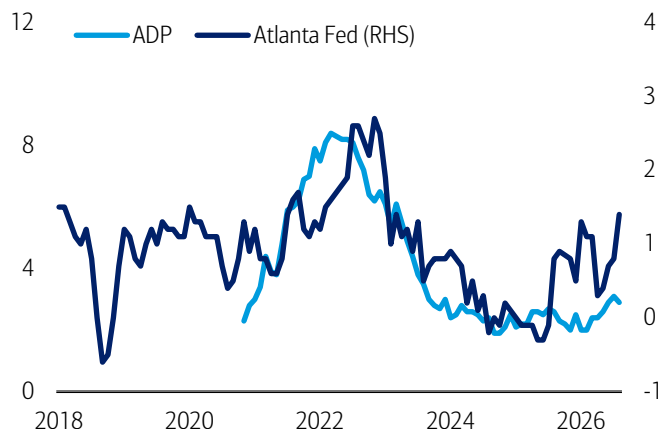
Source: Bank of America internal data

External measures tell a similar story. Both Atlanta Fed and ADP data point to a widening wage premium for job switchers relative to workers who remain with the same employer (Exhibit 12).



Exhibit 12: Both Atlanta Fed and ADP data point to a widening wage premium for job switchers relative to workers who stay put

Wage premium for switching jobs: difference between wage growth for job switchers and stayers (% y/y)



Source: ADP, Federal Reserve Bank of Atlanta

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Taken together, rising job mobility, larger job-switching wage gains, and a healthier labor market overall are likely contributing to the recent narrowing in wage-growth gap across income groups and, by extension, the recent convergence in spending growth over the summer.

Unemployment rate for younger workers has peaked

Unemployment among younger workers had increased more significantly than among older cohorts (Exhibit 13), weighing disproportionately on spending at the lower end of the income distribution. Younger workers are more likely to be concentrated in lower-income brackets and to rely heavily on labor income to support consumption, making them particularly sensitive to changes in employment conditions.

In a low-turnover labor market, firms tend to slow hiring at the entry level. This dynamic limits opportunities for younger, lower-income workers, who tend to switch jobs more often, including college-educated workers seeking employment, even when aggregate employment remains relatively stable and layoffs remain subdued.

In addition, AI-related efficiency gains in sectors such as professional and business services may have reduced demand for some junior roles, further constraining employment prospects at the lower end of the wage distribution. The unemployment rate for 20-to-24-year-olds reached a decade high of 9.2% in 2H 2025 (Exhibit 14).

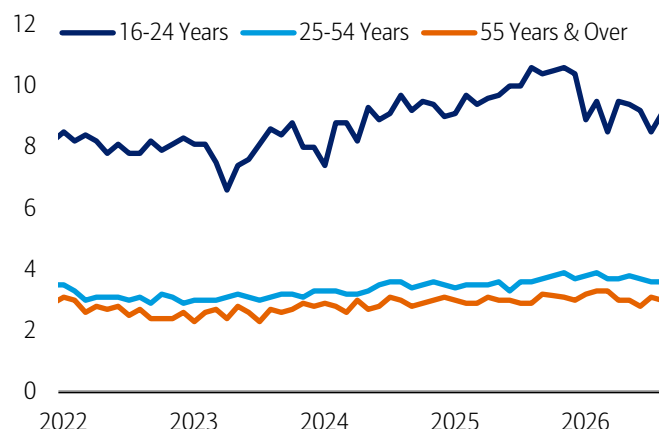
The good news is that the unemployment rate for this group now appears to be past its peak. The unemployment rate among 20-to-24-year-olds with a bachelor's degree or higher has also eased from recent highs (Exhibit 14), suggesting that the worst of the pressure associated with post-pandemic overhiring normalization and a low-hiring labor market may have passed.

In our view, AI was not the sole driver of the rise in unemployment among younger workers last year. Had it been, we likely would have seen labor market outcomes for young college-educated workers deteriorate progressively this year as new AI models were adopted in the workplace. We expect AI's labor market impact to remain relatively limited through 2026, with broader reallocation more likely in 2027.

However, the 25-to-34-year-old cohort remains under pressure, including among college-educated workers (Exhibit 14). Unemployment rates have not declined to the same extent as for 20-to-24-year-olds, reflecting softer demand for early-to-mid-career roles. This may be an area where AI-driven efficiency gains are playing a more meaningful role.

Exhibit 13: Unemployment for younger workers had been increasing more noticeably than for older cohorts. But it looks like it has peaked.

Unemployment rate by age (SA, %)



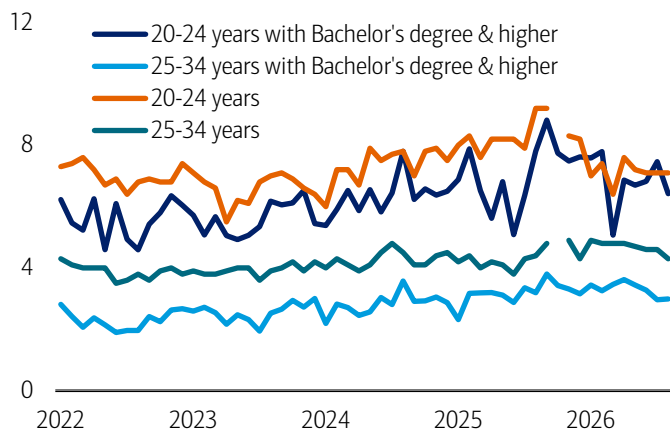
Source: Bureau of Labor Statistics, Haver Analytics

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Exhibit 14: Entry level unemployment also shows signs of stabilization from 2H25 highs, but early careers workers face persistent pressure

Unemployment rate by age and education (SA, %)

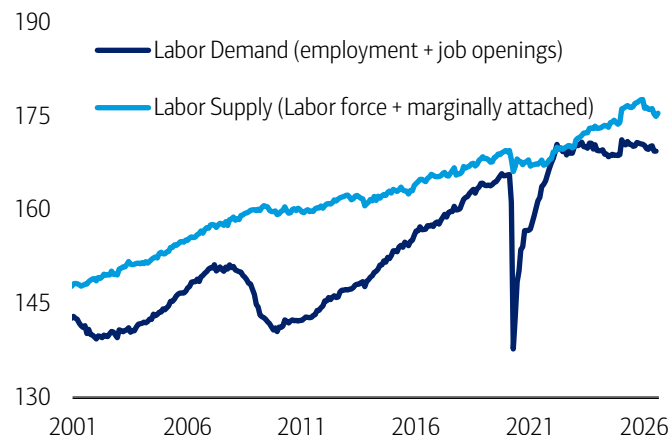


Source: BLS, Haver Analytics. Note: We have used the seasonal adjustment function in Haver for NSA unemployment rate with education & age.

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Exhibit 15: Labor supply has been declining, while demand has been steady

Labor demand v labor supply (thous. SA)



Source: BLS, Haver Analytics, BofA Global Research

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Labor supply is likely a secondary factor

Reduced immigration and slower labor force growth (Exhibit 15) should, in theory, have tightened labor markets in certain lower-wage occupations. However, empirical evidence suggests that the resulting wage effects depend importantly on worker characteristics, labor market adjustment, and the degree of substitutability between immigrant and native-born workers, making broad-based wage gains unlikely (National Academies of Sciences, Engineering, and Medicine, 2017; Ottaviano and Peri, 2012; Clemens et al., 2018)¹. Labor supply dynamics could therefore be one contributor to recent spending convergence but are unlikely to provide a complete explanation.

For that reason, we view labor supply dynamics as a supporting factor rather than the primary driver. The more convincing story remains improved labor demand, especially in blue-collar sectors, stronger wage growth among lower-income households and a labor market whose benefits are becoming more broadly distributed across workers and industries.

These developments have supported the narrowing in spending growth, but the durability of that convergence depends on employment gains remaining broad-based. A deterioration in lower-wage hiring, hours worked or job transitions, whether due to renewed tariff uncertainty, a re-escalation of the Iran conflict or an AI-optimism-driven equity market correction, would disproportionately weaken lower-income spending, especially if gasoline prices remain elevated.

¹ National Academies of Sciences, Engineering, and Medicine (2017), *The Economic and Fiscal Consequences of Immigration*, Washington, DC: National Academies Press; Ottaviano, G.I.P. and Peri, G. (2012), "Rethinking the Effect of Immigration on Wages," *Journal of the European Economic Association*, 10(1), 152-197; Clemens, M.A., Lewis, E.G. and Postel, H.M. (2018), "Immigration Restrictions as Active Labor Market Policy: Evidence from the Mexican Bracero Exclusion," *American Economic Review*, 108(6), 1468-1487

Balance sheets: a “perfect 10”

Surging equity wealth pushed household assets above 10x of liabilities in 2Q 2026. We see this as a continued strong tailwind for consumer spending. While equity ownership remains highly concentrated among higher-income households, balance sheet gains may not be as narrow as they first appear. Liquid assets, including checking accounts, savings accounts and money market mutual funds, which are likely more evenly distributed across the population, also remain elevated relative to liabilities by historical standards.

Although there are persistent signs of credit stress among lower-income and younger households, who have thinner financial cushions, aggregate household balance sheets remain remarkably healthy. Liquidity positions remain well above pre-pandemic norms, credit utilization has generally improved relative to 2019, and household assets continue to provide substantial buffers against potential shocks.

In our view, balance sheets remain supportive of consumer spending overall. While rising equity values and the associated wealth effects continue to disproportionately benefit higher-income households, healthy liquidity positions and strong aggregate household finances suggest the balance sheet tailwind extends beyond the top of the income distribution.

Wealth remains heavily concentrated

The balance sheet K has remained largely intact since, on the assets side, the underlying distribution of wealth has not changed significantly (Exhibit 16).

Despite oil prices rising above \$100 per barrel, the 10-year Treasury yield approaching 5%, and persistent uncertainty shocks, including from the trade war, equity markets have continued to march higher, helped in part by ongoing optimism surrounding AI and potential productivity gains. These gains continue to disproportionately benefit higher-income households because equity ownership remains heavily concentrated at the top of the income distribution (Exhibit 17). Recent distributional wealth data provide little evidence that lower-income households have meaningfully narrowed the wealth gap relative to higher-income cohorts.

As a result, the equity market wealth effect remains skewed toward higher-income households, with financial asset appreciation continuing to provide greater spending support to higher-income consumers than to lower-income ones.

At the time of this writing, the S&P 500 was up about 10% from its pre-war high in January. But what threshold could change these dynamics? Based on the experience around “Liberation Day” – when the higher-income consumer held up remarkably well despite the stock sell-off – we think it could take a sustained bear market to meaningfully translate into negative wealth effects for the higher-income consumers.

This does not preclude renewed convergence in spending if lower-income real incomes and purchasing power improve, but it creates structural support for the upper arm of the K, especially in the face of other shocks in the labor market or affordability space.

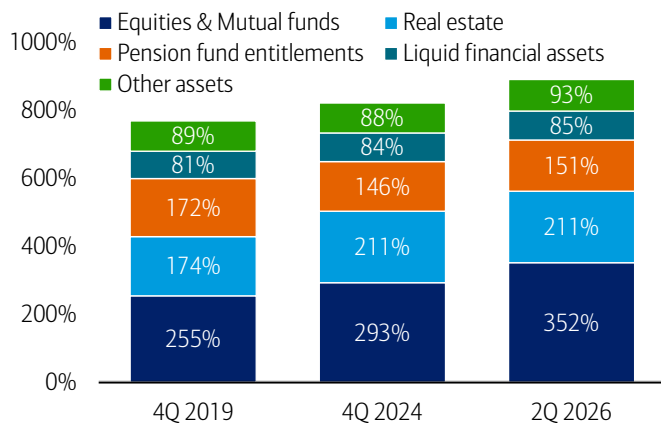
Could the equity wealth effect be broadening?

One candidate explanation for the recent convergence in spending growth is that equity market gains may be reaching a broader set of households than in previous cycles. As housing affordability has become more challenging, some lower- and middle-income households may be increasingly turning to equity markets as an alternative vehicle for wealth accumulation. Consistent with this possibility, Survey of Consumer Finances (SCF) data show that stock ownership has increased across nearly every income group since 2010, including among lower-income households. However, the available evidence remains suggestive rather than conclusive, and the latest SCF data are only available through 2022.



Exhibit 16: Household wealth has been surging since the start of the pandemic, with gains being led by equities

Household assets as a share of disposable income (%)

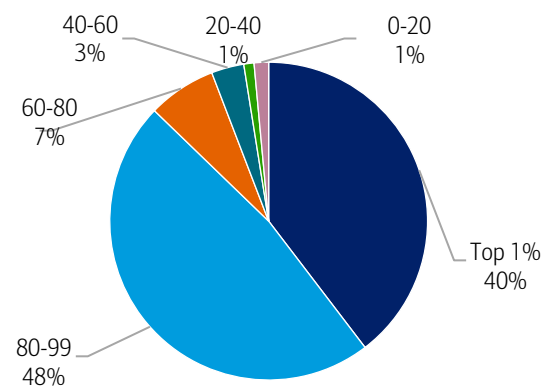


Source: Federal Reserve Board, Haver Analytics, BofA Global Research

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Exhibit 17: Equity holdings are concentrated among the highest income cohorts

Corporate equities and mutual fund assets held by income (2025 Q3, %)



Source: Federal Reserve Board, Haver Analytics, BofA Global Research

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Credit stress hasn't materially improved

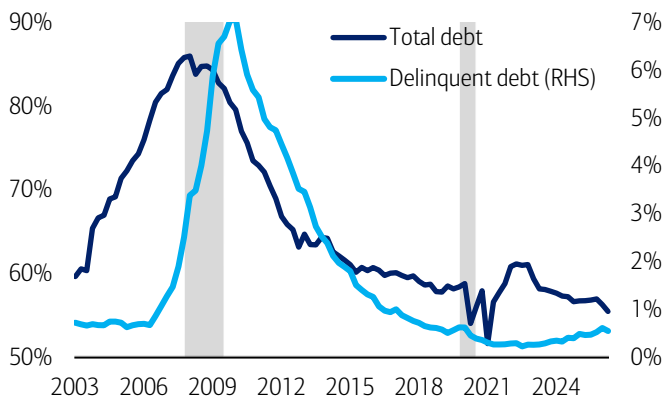
While the asset side of household balance sheets has changed little, the liability side tells a similar story.

Aggregate household debt declined modestly in 2Q, according to the latest Household Debt and Credit Report. Aggregate debt levels are not especially informative. More relevant for consumer health is delinquent debt as a share of disposable income. In addition, mortgage debt accounts for roughly 70% of total household debt and therefore remains the important component of household leverage.

On that metric, the picture is somewhat mixed. Delinquent mortgage debt as a share of disposable income improved in 2Q and remains broadly comparable to pre-pandemic levels (Exhibit 18). However, mortgage debt transitions into serious delinquency are starting to get closer to pre pandemic levels (Exhibit 19).

Exhibit 18: Delinquent mortgage debt as a share of disposable income improved in 2Q and remains comparable to pre-pandemic levels...

Total and delinquent mortgage debt as a share of disposable income (%)

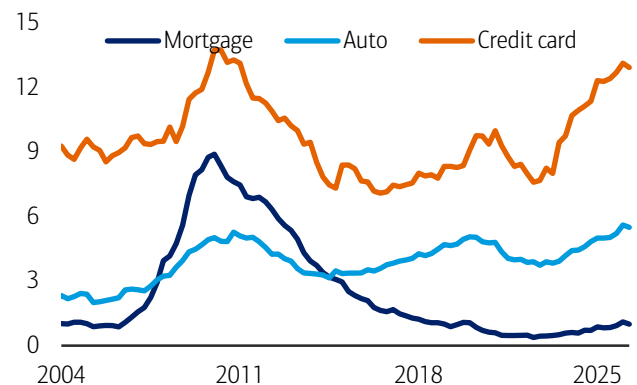


Source: Federal Reserve Board, Haver Analytics, BofA Global Research

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Exhibit 19: ... However, mortgage debt transitions into serious delinquency are starting to get closer to pre pandemic levels

Transition into serious (90 day +) delinquencies (percent of balance, %)



Source: Federal Reserve Board, Haver Analytics, BofA Global Research

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More broadly, by age, since the onset of post-pandemic monetary tightening, serious delinquency rates have remained elevated for younger and more likely to be lower-income borrowers rather than showing meaningful improvement. In recent 2Q data, serious delinquency transitions increased for mortgages and credit cards (Exhibit 22 and Exhibit 20) while declining for auto loans (Exhibit 21) for younger / lower-income cohorts. The increase in mortgage delinquency transitions (Exhibit 22) is the development we find slightly concerning and will continue to monitor closely.

That said, the predominance of fixed-rate mortgages in the U.S. housing market has helped insulate many households from higher interest rates in the mortgage side of the balance sheet. A large share of homeowners refinanced during the pandemic at historically low mortgage rates and therefore remain largely shielded from the post pandemic increase in policy rates. Because higher-income households are disproportionately homeowners, this has likely been an important factor supporting higher-income consumption and, by extension, overall consumer resilience. The same dynamic should continue to provide support even as interest rates move higher from here.

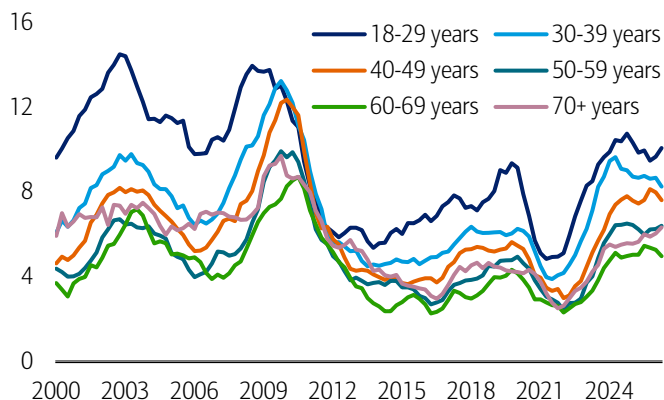
However, that protection does not extend to all forms of consumer credit. As the Fed resumes hiking, financing conditions could become more challenging for households that rely on variable-rate borrowing. Credit card interest rates move closely with the federal funds rate and rose sharply during the last tightening cycle. A recent Boston Fed note showed that a 1pp increase in credit card APRs reduced aggregate card spending by almost 9% in the following month.

The reduction in spending was about twice as large among account holders who carry a balance on their card & with low credit scores, likely lower-income consumers. Spending among those who pay off their balance each month, as well as those with high credit scores, likely higher-income consumers, was unaffected by the higher rates.

The latest Senior Loan Officer Opinion Survey reinforces this theme. While banks have largely stopped tightening credit for businesses, consumer credit remains restrictive. Banks reported tighter credit card lending standards in 2Q and indicated that standards for consumer loans, particularly subprime credit card and auto lending, remain near the tight end of their historical ranges.

Exhibit 20: Transitions into serious delinquencies have been led by younger, lower-income cohorts for credit cards...

Transition to serious delinquencies (90 days +) for credit cards by age (four quarter moving sum, %)

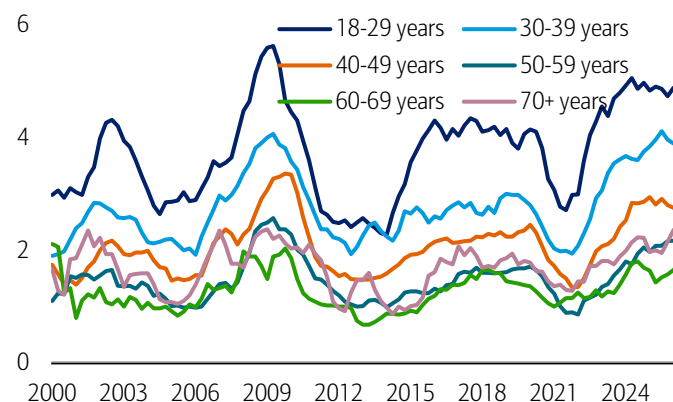


Source: Federal Reserve Board of New York, Equifax, Haver Analytics

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Exhibit 21: ... as well as auto loans...

Transition to serious delinquencies (90 days +) for auto loans by age (four quarter moving sum, %)



Source: Federal Reserve Board of New York, Equifax, Haver Analytics

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That suggests financing conditions remain most challenging for lower-credit-score borrowers, consistent with the evidence that higher interest rates weigh more on lower-income households while higher-income consumers remain relatively insulated.



Maybe there is enough wealth for a rainy day for everyone

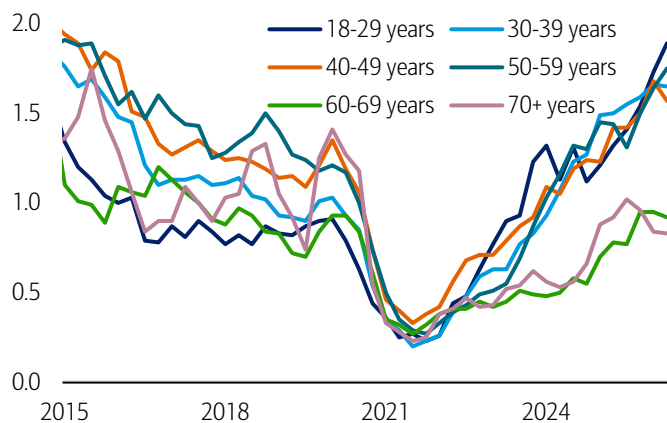
However, aggregate household balance sheets remain far healthier than headline delinquency data or age- / income-based dynamics might suggest.

Surging equity wealth pushed household assets above 10x of liabilities in 2Q 2026 (Exhibit 23). We see this as a continued tailwind for spending. But what would happen if there were a hiccup in stocks? In our view, balance sheets have plenty of buffer. If stocks were to fall 20%, the asset/liability ratio would only drop to 9.5, which is still higher than levels seen before 2H 2025. Additionally, liquid assets, including checking accounts, savings accounts and money market mutual funds, which should be more evenly distributed across the population, also remain elevated relative to liabilities by historical standards.

Bottom line, the balance sheet picture is not one of broad-based household deterioration. Rather, aggregate household finances remain healthy even as pockets of stress persist among lower-income households that are more dependent on labor income and consumer credit. While this remains an important risk to monitor, aggregate consumption is still disproportionately driven by higher-income households, suggesting the macro implications are likely limited unless credit stress broadens materially.

Exhibit 22: ... and is increasingly rising for mortgages

Transition to serious delinquencies (90 days +) for mortgages by age (four quarter moving sum, %)

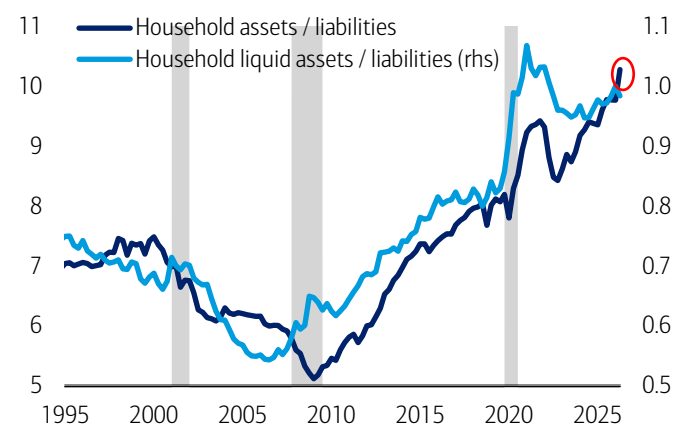


Source: BofA Global Research, Federal Reserve Board, Haver Analytics

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Exhibit 23: However, household assets are now more than 10x of liabilities

Ratios of household assets and liquid assets to liabilities



Source: BofA Global Research, Federal Reserve Board, Haver Analytics. Note: Starting from the flow of funds data on the assets and liabilities of households and nonprofit organizations, we make the following modifications. From the asset side, we omit real estate assets of nonprofits, equipment, intellectual property products, loans and trade receivables. On the liability side, we omit debt securities, commercial mortgages and trade payables. We define liquid assets as the sum of checkable deposits and currency, time and savings deposits and money market fund shares.

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But liquidity is improving

Another important aspect within the balance sheet story is liquidity conditions have improved modestly for lower-income households.

Bank of America deposit data from the [Bank of America Institute Consumer Checkpoint](#) report suggest that checking and savings account balances remain supportive of consumer health. Lower- and middle-income households continue to hold substantially higher median deposit balances than before the pandemic across all age cohorts (Exhibit 24). By contrast, higher-income households have lower deposit balances, likely reflecting a shift toward investment in less liquid assets.

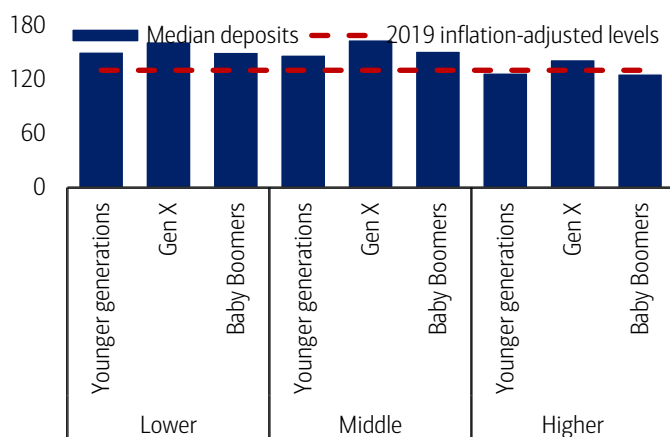


Higher tax refunds and improving wage growth appear to be supporting deposit accumulation among lower- and middle-income households, with those groups seeing some of the strongest year-over-year increases in deposit balances heading into the holiday season.

Credit utilization data point in a similar direction (Exhibit 25). Although lower-income revolving credit users remain more financially stretched than higher-income households, utilization rates have largely declined relative to 2019 levels. In other words, available borrowing capacity has improved modestly compared with the pre-pandemic period.

Exhibit 24: Lower- and middle-income households have seen the largest increases in household deposits across all age groups compared to pre-pandemic levels

Monthly median household savings and checking balances, based on Bank of America deposit data, by income and age generations for a fixed group of households through November 2024 compared to August 2026 (monthly, indexed 2019 = 100) and Consumer Price Index inflation data, based on Bureau of Labor Statistics data (monthly, indexed 2019 = 100)



Source: Bank of America internal data Note: Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through August 2026. Younger generations are Gen Z and Millennials.

Taken together, deposit balances and credit utilization data as well as the increase in ratio of liquid assets to liabilities suggest liquidity conditions for lower- and middle-income households have improved meaningfully since the pandemic and likely contributed to the recovery in spending observed through the summer.

Gas prices temper our optimism

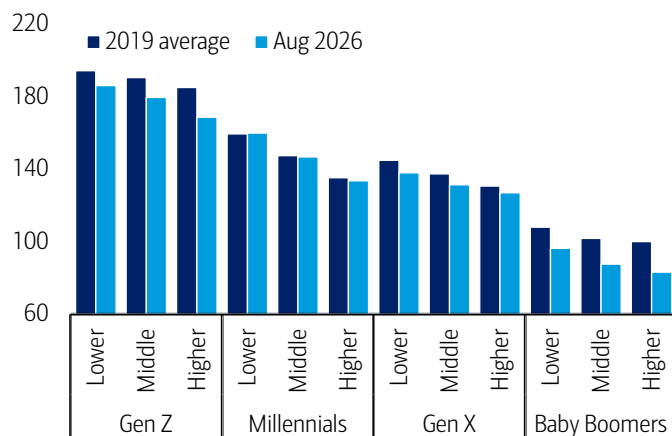
Higher energy costs could weigh on discretionary spending

So, what's holding us back from going all in on a consumer boom? Our first concern is the latest rise in gasoline prices. Energy costs matter disproportionately for lower-income households because gasoline and utilities account for a larger share of their spending basket than they do for higher-income consumers (Exhibit 26). As a result, swings in energy prices have a much larger effect on lower-income purchasing power.

Earlier this year, the decline in gasoline prices following the MoU announcement effectively acted as a tax cut for lower-income households. Combined with improving labor market breadth, lower fuel costs likely contributed to the spending convergence observed through the summer by freeing up income for other purchases. Given their greater exposure to energy costs, lower-income households likely benefited disproportionately from that improvement in affordability.

Exhibit 25: Credit card utilization rates suggest older generations have more capacity to borrow across all income cohorts

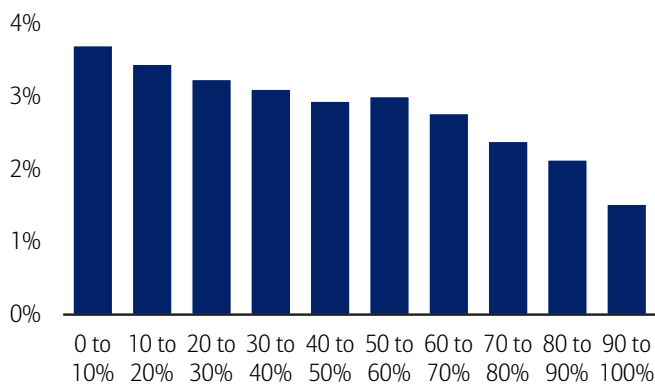
Median credit card utilization for credit card revolvers by age and income group (monthly, index Baby Boomer's 2019 average = 100, below 100 means there has been a decrease relative to 2019 levels)



Source: Bank of America internal data

Exhibit 26: Lower-income households spend a greater share on energy

Share of energy goods spending in total consumption by income decile in 2023

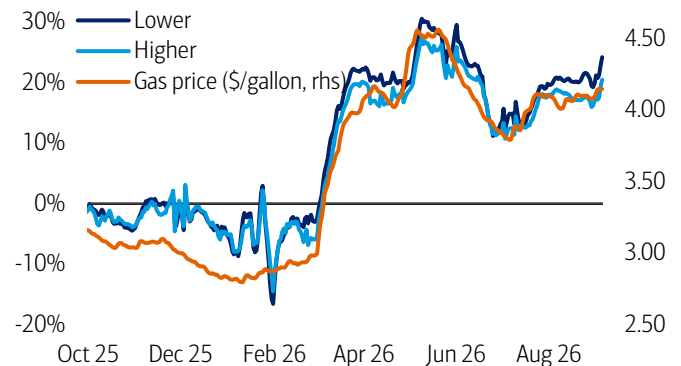


Source: BLS, BEA, Haver Analytics

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Exhibit 27: With gas prices taking another leg up, lower-income HHs saw stronger y/y spending growth on gas than higher-income HHs in the week ending Sep 5

Gas spending per HH by income group vs. retail gas price per gallon (y/y % change of the 7-day MA of spending levels)



Source: BAC internal data, Bloomberg, American Automobile Association. Note: Gas includes some convenience store purchases at gas stations

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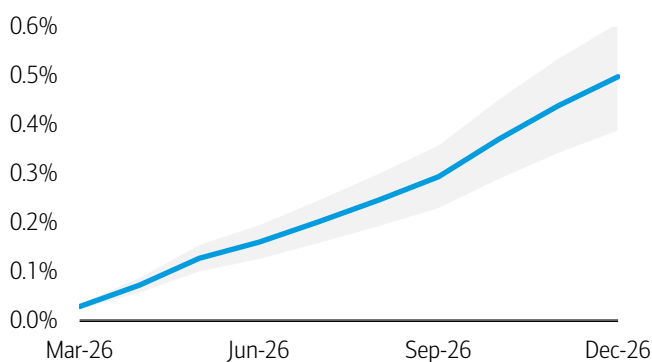
Income-based spending convergence could get tested

The encouraging development in recent months was that spending growth became more broad-based. Lower-income households saw improving discretionary spending alongside continued growth in nondiscretionary categories, helping narrow the gap with higher-income consumers and reducing the degree of K-shaped spending dynamics (Exhibit 4 and Exhibit 5).

However, the energy price backdrop has become less supportive. Gasoline prices have moved higher in recent weeks following the escalation in the conflict, and spending growth on gasoline has risen among lower-income households per BAC card data (Exhibit 27).

Exhibit 28: Realized and future gas prices suggest a drag of 0.5pp to growth this year

Cumulative cost of higher gas prices from Iran War based on current market pricing (% of 1Q 26 GDP)



Source: Bloomberg, BofA Global Research

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Exhibit 29: Valuations have held up until the ten year Treasury yield hit 7%

Median monthly S&P 500 Forward P/E by 10 year Treasury yield (1986 – 8/31/2026)

10yr range	Average		Median		% positive	
	Rising	Falling	Rising	Falling	Rising	Falling
0% - 2%	1.3%	1.2%	2.1%	1.4%	70.8%	61.8%
2% - 3%	1.3%	1.7%	1.0%	2.3%	66.4%	74.7%
3% - 4%	0.8%	0.2%	1.4%	1.4%	67.7%	60.0%
4% - 5%	1.1%	0.9%	1.3%	1.4%	67.8%	68.2%
5% - 6%	0.8%	0.3%	0.8%	0.3%	61.9%	51.5%
6% - 7%	0.0%	2.8%	0.2%	3.3%	53.8%	85.7%
7% - 8%	-0.5%	1.3%	-1.1%	1.6%	39.0%	56.3%
Over 8%	-0.1%	2.6%	0.0%	3.1%	49.4%	76.7%

Source: BofA US Equity and Quant Strategy, FactSet, Bloomberg

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If sustained, higher fuel costs could weigh more heavily on lower-income purchasing power and discretionary spending. Given the outsized role energy plays in lower-income household consumption, the recent convergence in spending growth could slow or partially reverse if gasoline prices remain elevated.



Risks extend beyond gasoline

Looking ahead, oil prices remain sensitive to geopolitical developments and potential supply disruptions (Exhibit 28). Indeed, our commodity strategists now expect higher oil prices over 2026-27 than previously anticipated. Higher energy costs could also eventually feed through into food inflation, creating an additional headwind for lower-income households that devote a larger share of income to both energy and food.

Consequently, if gasoline prices remain elevated, the recent broadening out in consumer spending could prove temporary. We could potentially see a renewed K-shaped pattern, particularly within discretionary spending categories, making aggregate consumption growth once again more dependent on higher-income, wealth-supported consumers. Conversely, if geopolitical tensions ease and gasoline prices retrace, the convergence in spending growth across income groups could resume.

Cooling wages and lower-income credit a concern as well

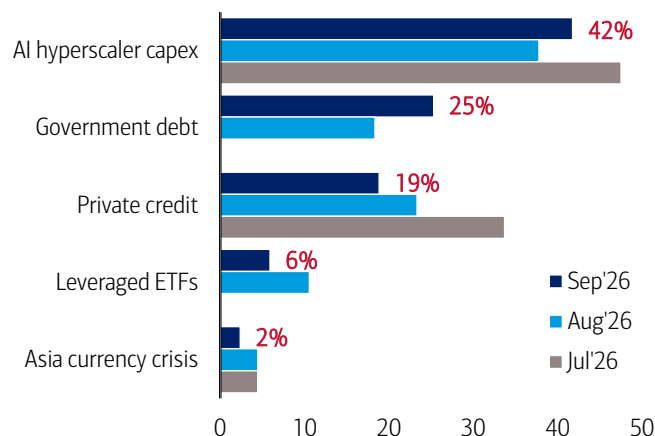
The second concern stems from cooling wages. Despite the pickup in job growth and decline in the unemployment rate, total income growth is slowing as wage gains moderate. While labor market breadth has improved materially, spending is unlikely to accelerate much further unless wage growth re-accelerates.

The third concern is that credit conditions also remain uneven. Delinquency rates remain elevated among younger and lower-income households, while banks continue to report relatively restrictive standards for consumer lending, particularly in credit card and lower-credit-score segments. Although aggregate balance sheets remain healthy and liquidity conditions have improved, pockets of financial stress remain concentrated among households with thinner financial cushions and greater reliance on consumer credit.

Clear evidence that wage growth is stable/reaccelerating and delinquency trends have peaked would increase confidence that the recent broadening in consumer spending can continue and would push us closer to forecasting a full-fledged demand boom.

Exhibit 30: Most likely source of a systemic credit event = "AI hyperscaler capex"

What is the most likely source of a systemic credit event?



Source: BofA Global Fund Manager Survey

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AI-related equity market risks bear watching

Finally, much of the consumer's resilience over the past year has occurred alongside an equity market that has continued to grind higher despite repeated macro shocks. Oil prices moved above \$100 per barrel, the 10-year Treasury yield approached 5%, and trade and geopolitical uncertainty remained elevated. Yet equity markets continued to advance, helped in large part by optimism surrounding AI-related investment and productivity gains.

For consumption, that matters because equity wealth remains heavily concentrated among higher-income households. Strong market performance has therefore provided an important spending tailwind for the upper arm of the K. If that tailwind were to weaken materially, the impact would likely be felt first through higher-income consumer spending.

So, one potential risk in our view is not necessarily higher interest rates themselves, but rather a reassessment of expectations surrounding AI investment. Investor enthusiasm around AI has supported both equity valuations and an extraordinary wave of capital spending by hyperscalers. If expected returns on those investments were called into question sooner than anticipated, or if evidence of monetization failed to keep pace with spending, market sentiment could shift.

Notably, investor concerns around AI-related capital spending are not entirely hypothetical. The recent BofA Global Fund Manager Survey (see report: [Global Fund Manager Survey: Racing the Frontier](#)) continues to identify AI hyperscaler capex as one of the leading potential sources of a future systemic credit event. That said, we are nowhere close to this scenario yet. Large technology firms generally remain lightly levered, and our credit strategists do not view borrowing costs as a binding constraint on investment. In other words, the AI story appears more dependent on eventual monetization than financing risk.

A broader AI-related correction, if it does happen, could affect consumers through two channels. First, it would weaken equity market wealth effects, which have disproportionately supported higher-income households. Second, a reassessment of AI investment plans could weigh on hiring and labor demand in sectors currently benefiting from the AI investment cycle, creating headwinds for lower-income consumption through weaker labor-income growth.

Long-term interest rates present a related risk for the equity market as well. While there is no single threshold of long end yields at which equity valuations come under pressure, as per our equity strategists (see report: [FAQs: Stuck in a 5% world](#)), history suggests that ten year yields around 5% is where investors grew agnostic between bonds and stocks, > 6% is where bond yields/stock correlations shifted negative and >7% is where PE multiples have dropped. Currently, we are close to 5% on ten year yields, so we are some ways away from ten year yields reaching a point where equity markets have tended to go into doom scenarios (Exhibit 29).

Finally, significant and sustained increase in oil prices could reinforce these pressures. Higher energy costs would not only weigh directly on lower-income consumers through affordability channels but could also pressure profit margins, inflation expectations and broader equity market sentiment.

These risks are worth monitoring, but they are not part of our base case. The interaction between AI investment, equity markets, credit markets and the broader economy is a much larger topic that merits its own discussion. We simply highlight it here as a potential downside risk to an otherwise constructive consumer outlook.

See the [Bank of America Institute Consumer Checkpoint](#) report for methodology, limitations, and disclaimers related to Bank of America card data.



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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 is excluded.

Our methodology for calculating the growth rates for daily data: we calculate the %y/y growth rate by matching calendar days (Jan 1, 2026 matched to Jan 1, 2025). The % change is calculated based on the 7-day moving average of spending levels.

Lower, middle and higher household income cuts in Bank of America credit and debit card spending per household, and consumer deposit account data are based on quantitative estimates of each households’ income. These quantitative estimates are bucketed according to terciles, with a third of households placed in each tercile periodically.

The lowest tercile represents “lower income”, the middle tercile represents “middle income” and the highest tercile “higher income”. The income thresholds between these terciles will move over time, reflecting any number of factors that impact income, including general wage inflation, changes in social security payments and individual households’ income. The income and tercile in which a household is categorized are periodically re-assessed.

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