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Consumer spending rises for big bank card issuers despite lower gas prices

By Tim Zawacki ***September 14, 2015***

Downward pressure on retail gasoline prices did not deter the nation's four largest banks from posting increases in purchase volumes in their domestic credit card businesses during the final three months of 2015.

AAA reported that the average U.S. retail gas price was $2.00 per gallon at the end of 2015, down 26 cents from year-end 2014. The average gas price for full year 2015 of $2.40 per gallon, according to AAA, marked a decline of 94 cents year over year. Americans spent $115 billion less on gas in 2015 than in 2014, the organization reported.

A review of the Dec. 31, 2015, statistical supplements of Citigroup Inc., Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co. finds that holders of the credit cards they issue spent more during the fourth quarter of 2015 than in the year-earlier period, but the banks continued to demonstrate mixed results in period-end card balances for a variety of reasons.

Year-over-year growth in purchase volumes ranged from 5.2% in the U.S. card business of Bank of America to 12.5% in Wells Fargo's consumer card business. While the growth rates were all positive, a look at data archived by SNL finds the historical significance and directionality of the individual results varied considerably.

For Bank of America, the 5.2% growth rate was the strongest it had achieved in any reporting period since the fourth quarter of 2013. The year-over-year growth rates at Wells Fargo, while remaining in the double digits, have declined since peaking at 17.3% in the fourth quarter of 2014. The Citi-branded cards business of Citicorp saw purchase sales rise 8.7% during the fourth quarter of 2015, marking its strongest rate of expansion in that measure in at least the past three years. Purchase sales were flat, however, in Citicorp's Citi Retail Services business. Chase's card business achieved sales volume of $130.8 billion during the fourth quarter of 2015, an increase of 5.8% year over year. The marked the slowest growth rate in that metric for Chase in at least the past four years, however.

Bank of America Chairman, President and CEO Brian Moynihan said during a Jan. 19 conference call, according to a transcript, that lower gas prices have been positive for consumers in that the reduction "gives them more money to spend." At the same time, he said, Bank of America has observed approximately "$20 million today less spending on gasoline by our consumers and our portfolios per day." He said the combined rate of increase in purchase volumes across Bank of America's U.S. debit and credit card portfolios of 4% year over year would have equaled 5.7% had gas prices been stable.

All three of the institutions that disclose the number of new accounts opened saw increases during the fourth quarter of 2015. Chase opened more new accounts during the fourth quarter of 2015 than in any reporting period since the first quarter of 2011. Its 2.5 million in new accounts represented an increase of 4.2% from the year-earlier period. Chase's number of open accounts slid to 59.3 million from 64.6 million, however.

Bank of America reported 1.26 million new accounts during the fourth quarter of 2015, up from 1.18 million in the year-earlier period. The pace of account openings was largely consistent with that reported in the third quarter of 2015. Wells Fargo opened 597,355 new consumer card accounts during the fourth quarter of 2015, up 18.9% from the year-earlier period. But the amount of accounts opened was the lowest the bank had reported since the fourth quarter of 2014. The bank attributed the account openings for increases of 56 basis points sequentially and 187 basis points year over year in its credit card household penetration rate to 43.4% as of November 2015. Wells Fargo defines the penetration rate as the number of retail banking households that have a credit card with Wells Fargo.

From the perspective of end-of-period account balances, Chase reported an increase of 0.3% year over year, while the Citi-branded card business and Bank of America's U.S. card business experienced declines of 0.4% and 2.5%, respectively. Bank of America executives said during the Jan. 19 call that the bank's sale of $1.7 billion in card receivables at the end of the fourth quarter of 2015 served to partially offset seasonal growth in balances.

At Wells Fargo, consumer card outstandings rose 9.4% to $34.04 billion during the fourth quarter of 2015. The year-over-year growth rates in the portfolio had ranged between 14% and 16% during the previous four quarters as the bank benefited from the impact of its November 2014 acquisition of the credit card portfolio associated with retailer Dillard's. The company cited growth in new and existing accounts for the higher fourth-quarter 2015 outstandings, including in the form of better activation rates on new accounts and more active users among existing customers.

Growth in branded card loans at Citi may be more of a 2016 story even as the bank saw traction in the fourth quarter of 2015.

"We achieved modest year-over-year loan growth this quarter in our core portfolios, which account for roughly 80% of our total U.S.-branded card loans, and with continued momentum, we believe we should return to growth in both total loans and revenues in the latter part of 2016," CFO John Gerspach said during a Jan. 15 call, according to a transcript of his remarks. He noted that the planned expansion did not take Citi's forthcoming acquisition of the co-branded card portfolio associated with Costco Wholesale Corp. from longtime issuing partner American Express Co.

Gerspach said Citi expects that closely watched acquisition to occur late in the second quarter.

Another large U.S. bank is poised to post growth in card loans as a result of M&A activity. U.S. Bancorp acquired at the end of the third quarter of 2015 a $500 million card portfolio from Auto Club Trust FSB and added a $1.6 billion portfolio at the end of the fourth quarter that had previously been associated with FMR LLC's Fidelity Investments in conjunction with a broader partnership agreement. The company reported $21.01 billion in card loans on its consolidated balance sheet as of Dec. 31, 2015, up from $18.52 billion on the same date in 2014.

U.S. Bancorp Chairman and CEO Richard Davis highlighted additional card portfolios as an area of interest when he was asked about the company's interest in M&A activity during a Jan. 15 call.

"First and foremost is what you see we've done is what we want to do more of," Davis said, according to a transcript of his remarks. "You saw these two fairly large portfolios in the card business that we continue to be attracted toward. ... They're picking up a high-quality portfolio that's at least as good, if not better, than the one we have at the prime level, and we're finding more and more people interested in allowing us to take a look at that. So I hope there will be more of those."

The market will get additional data points and anecdotal commentary regarding the state of the card business when American Express reports fourth-quarter 2015 earnings on Jan. 21, followed by Synchrony Financial on Jan. 22 and Capital One Financial Corp. on Jan. 26.