Navy Federal INSTITUTE

Consumer Intel

The Great Reallocation of Spending

November 2026

OVERVIEW

Key Takeaways

01

It's an E-shaped consumer economy
The top 33% are driving spending growth, especially on discretionary categories.

02

There's a significant reallocation of spending underway
Households are spending more on housing and gas, and less on food.

03

Housing and household bills are a rising expense
Higher electricity, rent, property tax and insurance bills are the No. 1 price pressure. Gas is second.

The Great Reallocation of Spending

The hidden story of 2026 is not how much households are spending, but where that money is going. Rising housing and fuel costs are taking a greater share of household budgets, while spending has declined in areas including groceries and restaurants.

Essential Costs Take a Bigger Share

Households are spending about $140 more a month than they did a year ago, driven largely by increases in essential expenses. They are paying $45 more a month on gas and over $120 more on housing and basic household bills such as electricity, property taxes and property insurance. Retail spending, by comparison, increased a modest $12.

Households Seek Savings on Food

As gas and housing costs have risen, households at all income levels have tried to cut back on grocery spending by shopping more at discount and warehouse stores and buying cheaper store brands. Grocery store spending has decreased nearly $30, on average, compared to a year ago, and restaurant spending has declined by $10. Navy Federal Credit Union's credit and debit card data show a migration of shoppers in the past two years toward grocery stores that are known for lower prices and buying in bulk. The rise of GLP-1 weight loss drugs may also be a factor in lower food expenditures. While all income levels have pulled back some on food, the bottom third of households have scaled back the most, especially on restaurant spend.

Rising Household Bills: The "Silent Squeeze"

Rising household bills are squeezing family budgets. Higher electricity bills account for about 10% of the increase in housing costs since last October. The rest is coming from higher rents or rising property taxes and property insurance for families with mortgages.

Property Costs Add Pressure

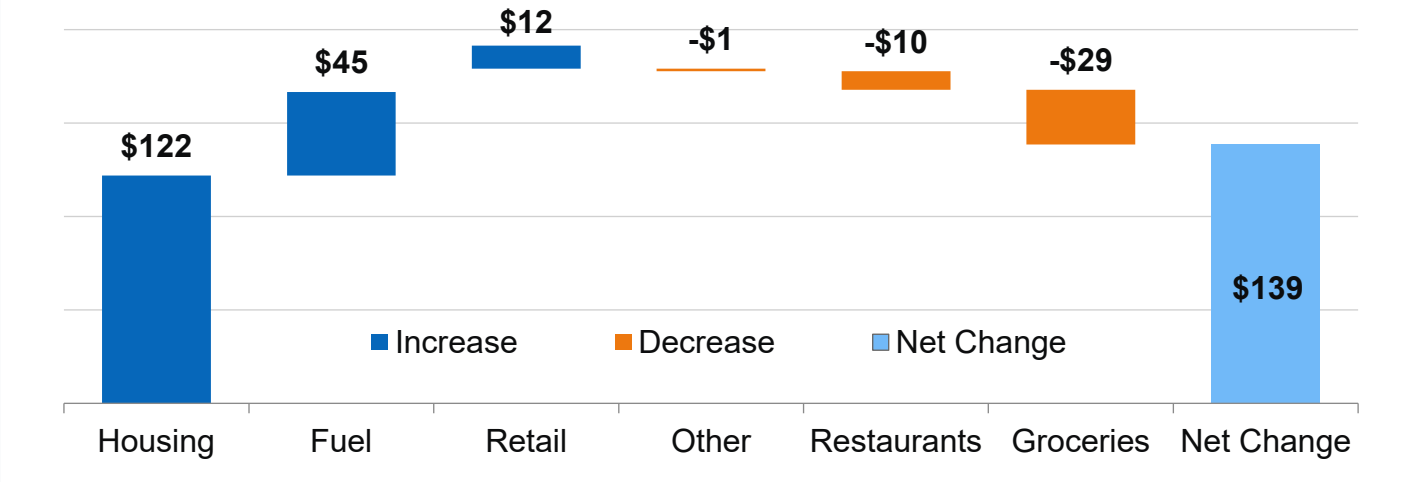
Property taxes and homeowners insurance vary greatly across the United States, and neither is directly tracked in CPI inflation. These increases remain significant for many households and may help explain why middle- and lower-income households are beginning to cut back on discretionary purchases.

About the Analysis

This analysis examined the spending habits of 6 million adults. Navy Federal Credit Union members are younger and more middle- and moderate-income than the U.S. population, offering an early look at where financial pressure may be emerging as inflation remains elevated. About 10% of households tracked have a military service member; the rest are veteran and civilian households.

Exhibit 1. How spending has shifted over the past year

Change in average monthly household spending, October 2025 to October 2026

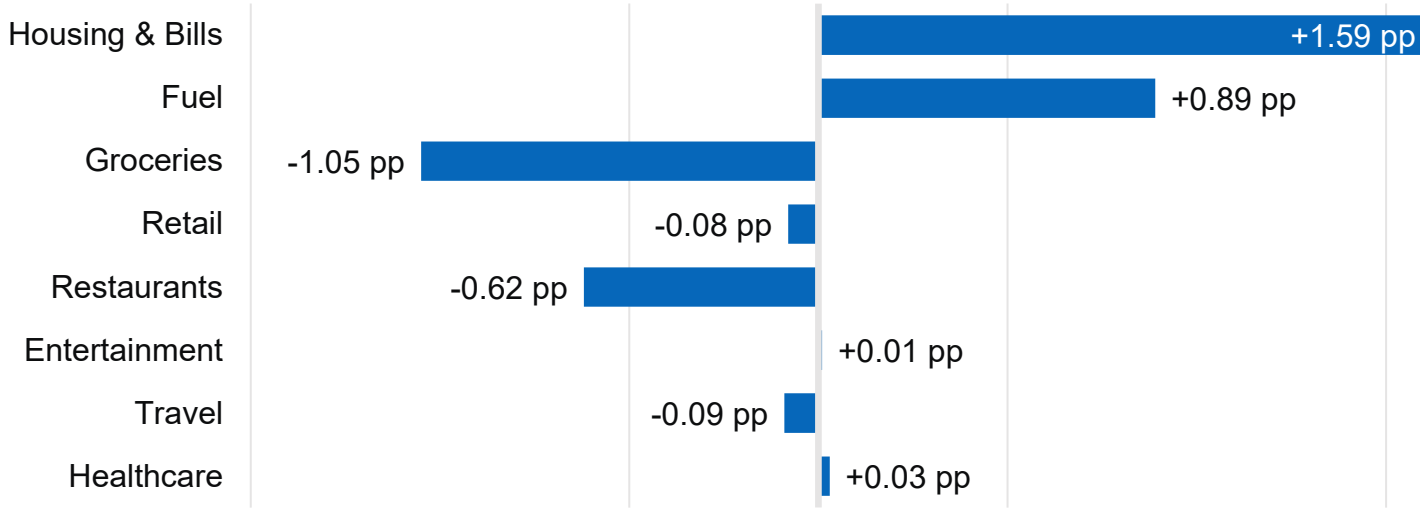


Source: Navy Federal Institute

It's not just gas. Household bills are also rising

Exhibit 2. How spending has shifted over the past year

Change in share of household spending from October 2025 to October 2026, percentage points (pp)



Source: Navy Federal Institute

Higher housing and gas expenses have forced households to cut costs elsewhere. Groceries and restaurants have seen the largest cutbacks.

Housing Takes a Bigger Share

Housing and household bills have been the No. 1 source of financial strain on households in the past year. Rising electricity bills, property taxes and property insurance, along with higher rent or mortgage costs for some families, have pushed housing expenses up more than 1.5 percentage points as a share of a typical family budget, leaving less room for other spending.

Gas Adds to the Pressure

Higher gas prices have added financial pressure since the war in Iran started. Together, fuel and housing costs take up 2.5 percentage points more of a typical household budget than a year ago.

To compensate, households have made efforts to reduce spending on food. Both grocery store spending and eating out at restaurants show a sizable decline in dollars spent and in the share of the household budget going toward food. In total, the average household is spending about 1.7 percentage points less on food.

Other Spending Holds Steady

Most other categories have not changed much for the average household, but breaking down the data by household income level reveals some notable differences in how the top third, middle third and lowest third of households have been handling rising costs. For example, while spending has grown $140 for the average household compared to a year ago, it's up $234 for the top third.

Lower-Income Households Pull Back More

There are early signs of a pullback in discretionary spending, especially among middle and lower-income households. The bottom 66% are cutting back more at restaurants than higher-income households, and the bottom 33% are reducing their retail spending. Middle and lower-income households have been impacted more by rising costs of fuel since they spend a greater share of their budgets on basic necessities.

It's an E-shaped economy in 2026

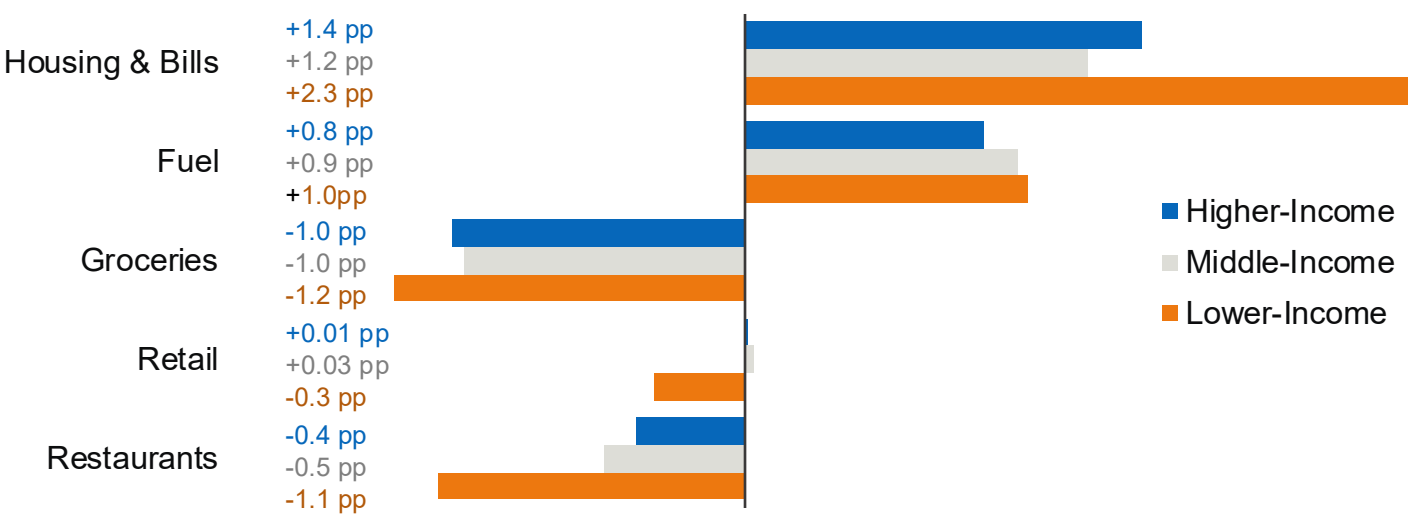
Growth is Uneven
The consumer economy remains a tale of different Americas. In 2026, that's mainly due to the heavier burden that inflation has had on middle and lower-income households. The rapid rise in gas prices and inflation created an “E”-shaped economy by mid-2026 that has continued into the fall.

Affluent Households Drive Growth
The “E”-shaped economy is characterized by strong spending growth among the richest third of households and more moderate growth among middle-income households, while the lowest-income households have seen little growth.

Restaurant Spending Shows the Divide
Spending at restaurants underscores the "E-shape" economy trend. Lower-income households are cutting back at double the rate of middle-income households, and three times the rate of higher-income households. Lower-income households are also the only group so far showing a pullback in retail spending.

Rising Costs Hit Lower Incomes Hardest
Higher gas prices have hit lower-income households the hardest, but rising housing expenses are a greater burden. The bottom 33% are spending over 2 percentage points more of their income on housing now.

Exhibit 3. The E-Shaped Spending Gap Continues
Change in share of average household spending from October 2025 to October 2026 by household income, percentage points





2x

The average household in the top third of the income spectrum spends nearly twice as much per month as the average household in the bottom 66%.

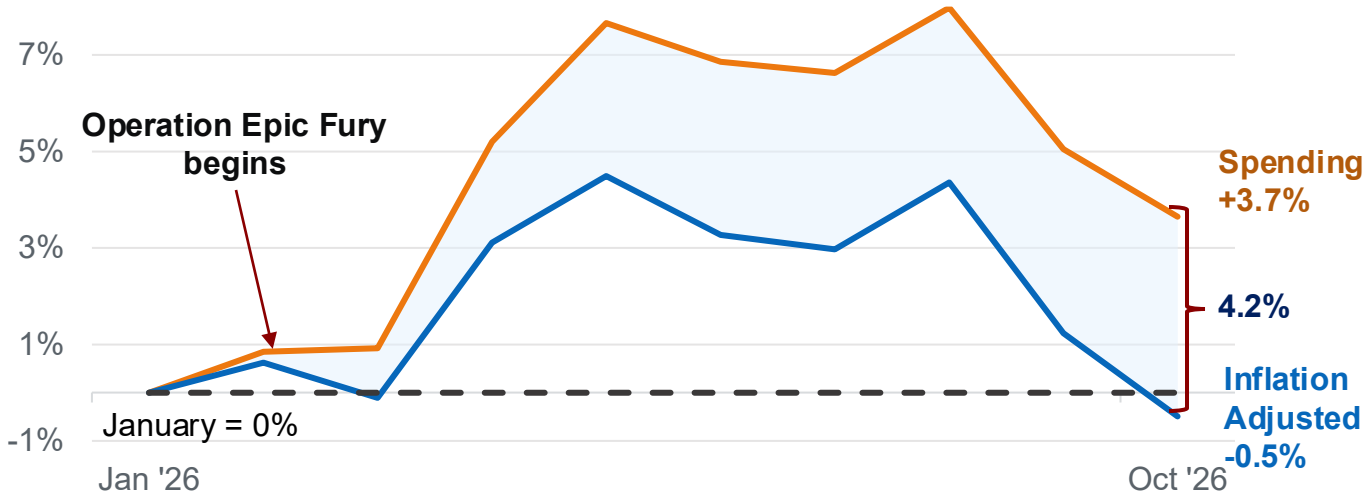


+$234

The top 33% of households increased their average monthly spend by $234 compared to a year ago. That's over three times the increase of the bottom 66%.

Exhibit 4. Real spending fell below January levels in October

Change in average household spending since January 2026, before and after inflation, 3MMA



Source: Navy Federal Institute

The Choosy Consumer Returns

The cautious consumer trend is back. While nominal spending remains robust, spending adjusted for inflation declined 0.5% in October. It was only the second month this year where spending dipped below January levels in inflation-adjusted terms (the other month was March).

Summer Gains Have Faded

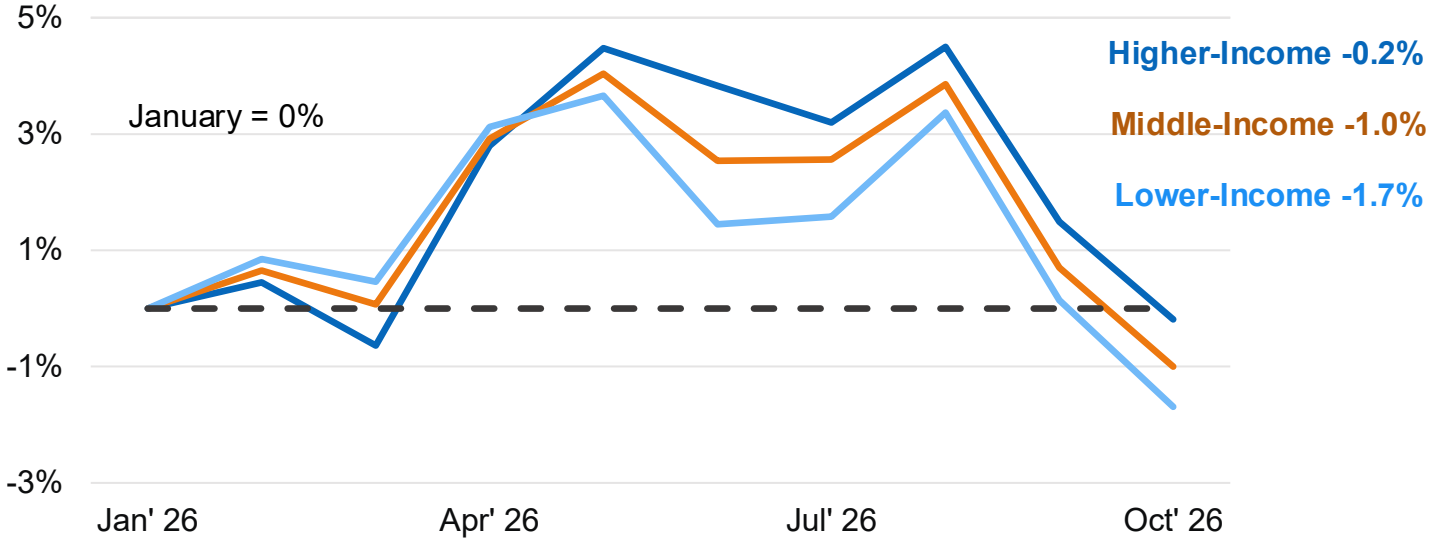
In the spring and summer, there was a noticeable spending boost across all income levels after most people received larger tax refunds. But when inflation pressures heated up again, many households had already spent their tax refunds, leaving less cushion to absorb higher costs. Spending slowed in September and October among the 6 million adults that the Navy Federal Institute tracks.

The "E"- Shape Remains

The "E"-shape economy remains evident. Inflation-adjusted spending by the richest third of households was roughly flat in October. That's almost a full percentage point better than the 1% real decline for middle-income households compared to January. The bottom third showed more struggle with a 1.7% decline in spending compared to January.

Exhibit 5. An 'E'-shaped spending trend has emerged in 2026

Change in real household spending since January 2026, 3MMA



Source: Navy Federal Institute

Holiday Spending 2026

A Mixed Start to the Holidays

The 2026 holiday spending season is off to an uneven start as American households grapple with high costs for gas, electricity, housing, and other necessities. Average retail spending increased by $270 between October 2025 and December 2025 to $783.

Rich Households Have Room to Spend

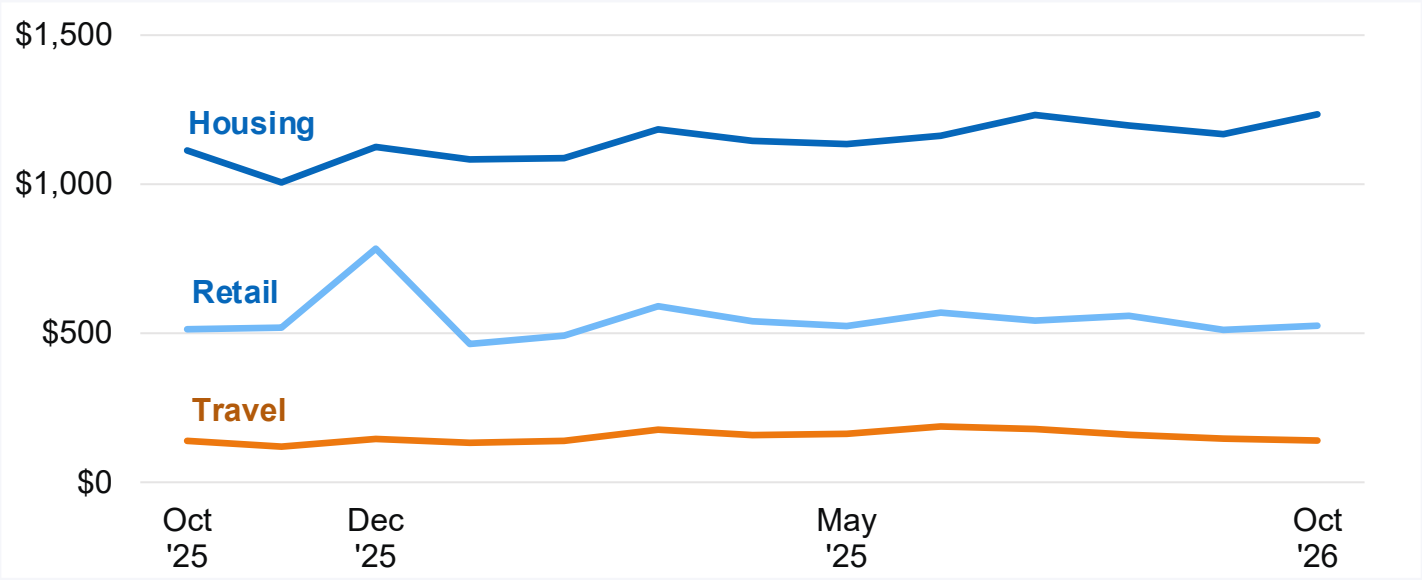
The top third of consumers have the capacity to boost their spending this holiday season and deliver another robust year for retailers. Middle-income households have shown deftness at scaling back in some areas to free up cash for small discretionary purchases. They will be hunting for deals. If gas prices remain below $4, it will offer additional relief.

The Bottom 33% Face Tough Choices

Lower-income households face tough choices this holiday season. They have already made sizable cuts to their budgets and may struggle to find money for additional discretionary purchases unless they turn to credit.

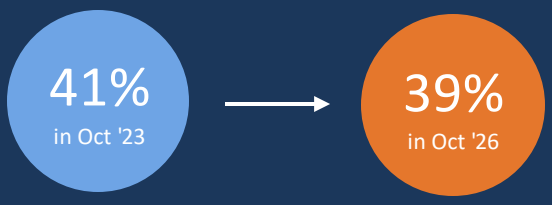
Exhibit 6. Spending trends across selected categories

Average household spending for select spending categories, by month



Source: Navy Federal Institute

Discretionary spending



In October 2023, the discretionary share of real household spending was 41%. Now it is 39%.

Discretionary spending has fallen among the 6 million adults the Navy Federal Institute tracks as many households are spending more on necessities.

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Methodology

The Navy Federal Institute conducts research on the economic trends and consumer behaviors shaping everyday financial life for Americans. The research is sponsored by Navy Federal Credit Union and conducted by the Navy Federal Institute, a research function of Navy Federal Credit Union.

Data and Population

The Navy Federal Institute analyzes Navy Federal Credit Union account and transaction data to measure household spending behavior and changes over time. The data are used to construct analytical households and measures of financial activity. Published results are aggregated and anonymized as described in the Privacy and Reporting section below. The data employ a nonprobability sample design.

- Only consumer accounts are included in the analysis. Business, commercial, organizational, custodial, trust, estate, and youth accounts are excluded.
- Unless otherwise specified, the primary unit of analysis is the household. Transactions are assigned to members and aggregated to consumer households that meet the following minimum requirements: at least one household member is age 18 or older; the household has an eligible Navy Federal Credit Union checking account; for longitudinal analyses, the household has qualifying transaction activity in 80% of the months; and for month-over-month and year-over-year comparisons, the household also has qualifying transaction activity in both the current and comparison months.
- Households are included in monthly spending and expenditure estimates when total spending is $500 or greater.
- Approximately 6 million eligible members are included in the analyses. The number of households included in a specific estimate may vary depending on the measure and applicable eligibility criteria. Results are unweighted unless otherwise specified.
- Household income is estimated using a model based on members' financial characteristics and activity.
- When reported, generations are defined as: Gen Z, Born 1997 or later (excluding members younger than 18); Millennials, Born 1981-1996; Generation X, Born 1965-1980; and Baby Boomers and Older Generations, Born in 1964 or earlier.

Spending, Expenditure, and Measurement

- Spending is money used that can be assigned to an economic category. It includes goods, services, housing, transportation, and other household needs. Examples include credit- and debit-card purchases, identifiable checking-account purchases, rent or mortgage payments, utilities, and identifiable loan payments.
- Expenditure is a broader measure of money leaving the household. It includes spending as well as transactions for which the final purpose cannot be reliably categorized. Examples include ATM withdrawals, external credit-card payments, cash advances, and other transactions.
- Transfers that primarily move money between accounts are excluded from both measures. Deposits, direct deposits, loan proceeds, and other funds entering the household are also excluded.
- When both a purchase and its associated repayment are observed, the purchase is retained and the repayment is excluded to reduce double counting. Spending and expenditure are reported net of identifiable refunds, returns, reversals, chargebacks, and credits.
- Spending categories are assigned using available transaction information, including merchant category codes and other classification approaches developed by the Institute. Transactions that cannot be reliably assigned to a spending category may be included in expenditure measures but not categorized spending measures.
- Spending categories generally reflect the merchant or payment destination associated with a transaction and may not always identify the specific goods or services purchased. For example, transactions classified as fuel spending may include convenience-store or other non-fuel purchases made at fuel merchants.
- Real spending is CPI-adjusted by component and aggregated, with missing CPI values interpolated.
- Spending composition is calculated at the household level. Each household's share of spending in a category is calculated separately and then averaged across eligible households. Households with no spending in a category contribute a zero share for that category.

Data Processing and Quality Controls

Transactions are processed and measures are calculated using PySpark. Documented rules are applied to determine household eligibility, distinguish spending from expenditure, assign eligible transactions to spending categories, aggregate activity to the household level, and calculate reported measures.

To reduce the influence of unusually large values on household averages, spending and expenditure measures are winsorized. Households with an unusually large number of members are excluded because they may not reflect the household unit intended for this research.
Research findings are reviewed prior to publication to promote accuracy, transparency, and methodological rigor.
Unless otherwise specified, results are not seasonally adjusted.

Privacy and Reporting

Keeping members' information safe and secure is a priority. Published results are aggregated and anonymized and do not identify individual members or households. Results are subject to minimum reporting thresholds and disclosure controls designed to limit the risk of reidentification before publication.

This report includes transactions from October 2023 through October 2026. Published research is based on data available at the time of analysis and may be revised.

The findings describe patterns in observed transaction activity and should not be interpreted as evidence of cause and effect. Financial activity conducted outside Navy Federal Credit Union may not be reflected in the estimates.

The Institute seeks to provide transparent documentation of the methods underlying its research. Additional methodological information may be available upon request.

Disclosures

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