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Consumer Morsel

Central business districts: City strugglers

06 September 2023

Key takeaways

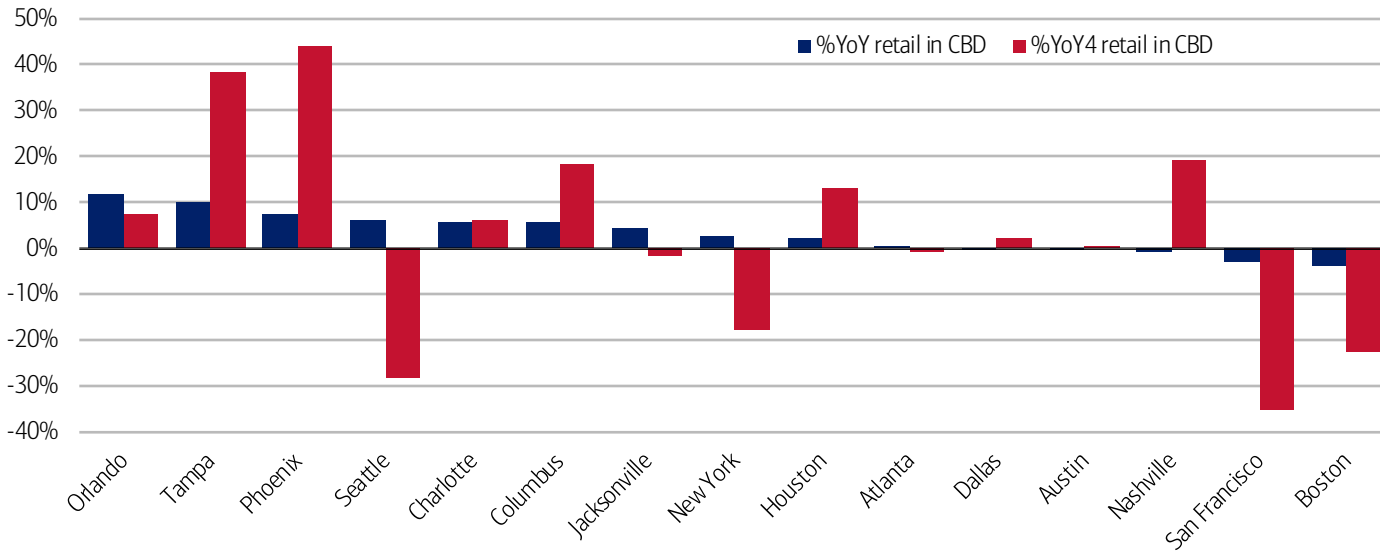
- Central business districts (CBDs) in the northern and western US continue to see consumer spending below pre-pandemic levels. However, there is a glimmer in New York City and Seattle that the situation is not continuing to deteriorate.
- On the other hand, when looking at an expanded set of cities across the US, those in the south are seeing strong growth in their city centers.
- The difference in performance is largely driven by migration patterns as working from home doesn't necessarily vary across cities. For example, southern cities with increased population growth also seem to be capturing more of the increasing spend in their city centers.

Overview

Earlier this year we discussed how central business districts (CBDs) have faced a slower rebound in consumer spending than the overall US. There appeared to be two major reasons for this. One was the rise of remote work, or working from home (WFH), which started during the pandemic but has persisted since and in turn, displaced consumer spending away from CBDs into areas closer to people's homes. The second, which impacted northern and western cities in particular, was outward migration trends, accelerated by the pandemic. This movement saw large outflows of people from impacted cities, further drain spending in the CBDs from which they left. We revisit this analysis to understand the current state of central business districts and add a further nine cities, selected from our recent Housing Morsel, to our analysis.

In Exhibit 1, we analyze total credit and debit retail spending per household for 'brick and mortar' retail, located in large cities' CBDs, identified by merchant zip codes. For such cities, we identify an area "in the CBD" and an area "outside the CBD."

Exhibit 1: Total retail spending per household as measured by Bank of America debit and credit card data in select central business districts as of July 2023 (%YoY, 3-month moving average)
Cities with net population loss in 2Q 2023 have spending growth still well below 2019



Source: Bank of America internal data

New York, Boston, San Francisco and Seattle saw large drops in spending in their CBDs relative to four years ago, highlighting the lasting impact of the pandemic. On the other hand, cities mainly in the southern US have seen big rises in spending in their CBDs, although the experience is varied. For example, Tampa and Phoenix have seen a rise in spending of around 40%, while the increase is a more modest 6% in Charlotte and 7% in Orlando.

Interestingly, some cities that lost out in the pandemic may be showing some signs of stabilization. In New York and Seattle, total retail spending per household over a three-month moving average ending July 31is actually up compared to a year ago. Meanwhile, for the big advancers since the pandemic, the recent performance of late is patchier. In a few CBDs, such as Dallas, Austin and Nashville, total retail spending appears to be weaker than a year earlier.

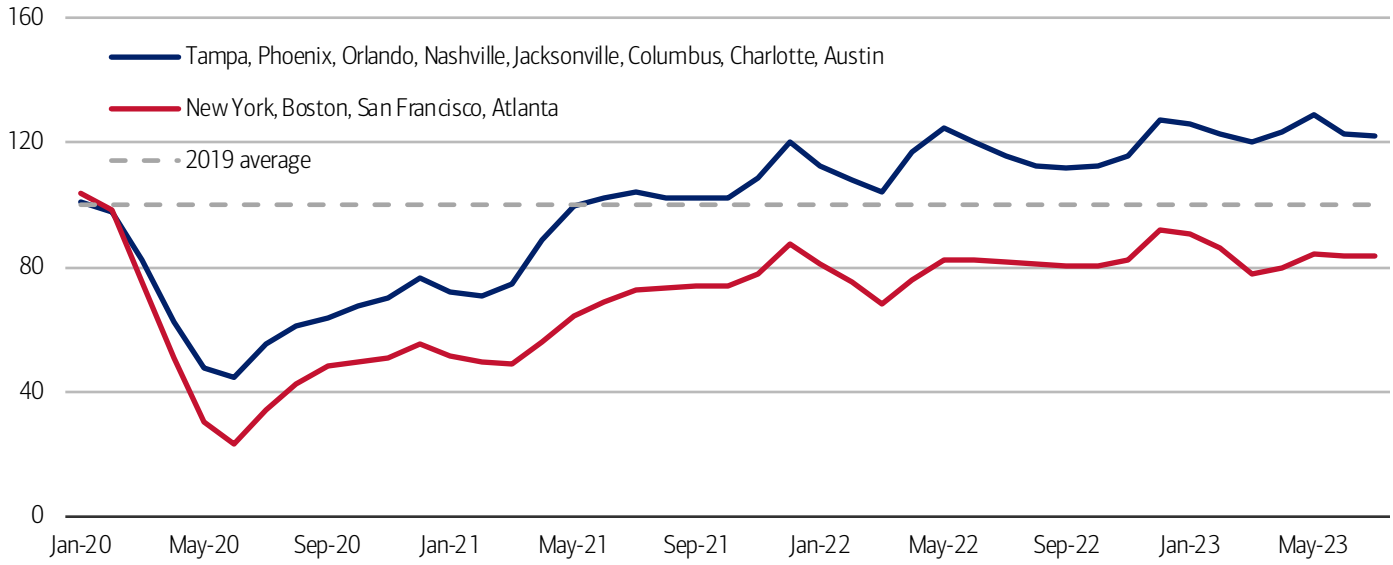
Population flows remain a big driver of divergences...

In our latest Housing Morsel, we identified major metropolitan statistical areas (MSAs) experiencing continued net positive and negative growth (year-over-year) YoY as of 2Q 2023. To see how these changes are impacting CBDs, we group our cities into those that are continuing to experience the largest rises in population and those that are experiencing the biggest declines.

Exhibit 2 shows that cities with population gains %YoY as of 2Q 2023 (Tampa, Phoenix, Orlando, Nashville, Jacksonville, Columbus, Charlotte and Austin) are seeing spending relative to pre-pandemic up around 20%. On the other hand, cities with net population losses over this period (New York, Boston, San Francisco and Atlanta) have spending down around 20%.

Exhibit 2: Total retail spending per household as measured by Bank of America debit and credit card data in select, combined CBDs as of July 2023 (indexed, 2019 average = 100, 3-month moving average)

Spending in select, combined CBDs with net population losses as of 2Q 2023 has lagged



Source: Bank of America internal data

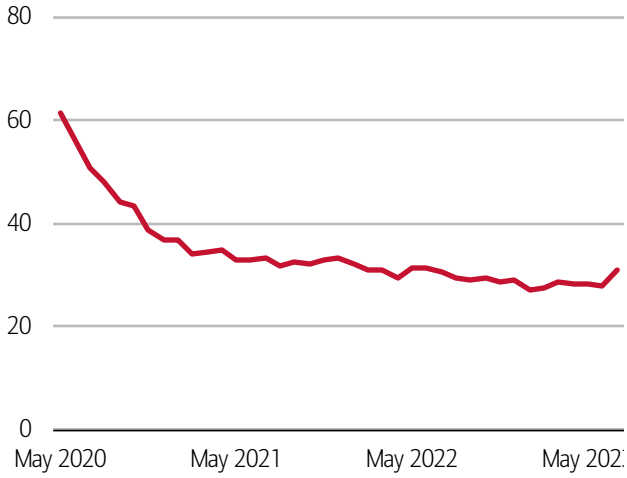
...with WFH pervasive

Exhibit 3 shows that the average percentage of paid working days from home hasn't changed a great deal over the last year or so, following the larger decline earlier in the pandemic. Moreover, Exhibit 4 shows that by city there doesn't appear to be a lot of differentiation in 2023[1]. All MSAs in the sample appear to have around a third of current paid workdays spent at home.

On this basis, while WFH can help explain a lot of the change in spending compared to before the pandemic, it doesn't seem to explain much of the relative differences between cities.

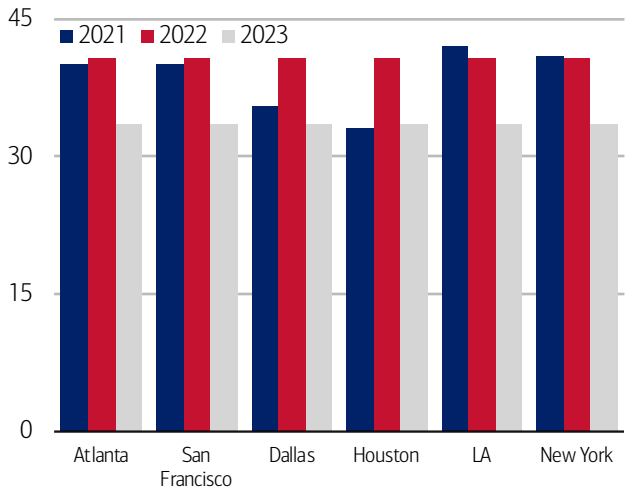
[1] See, Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

Exhibit 3: Percentage of paid full days worked from home
The share of paid working days at home remains fairly flat after the earlier decline



Source: Survey of Working Arrangements and Attitudes

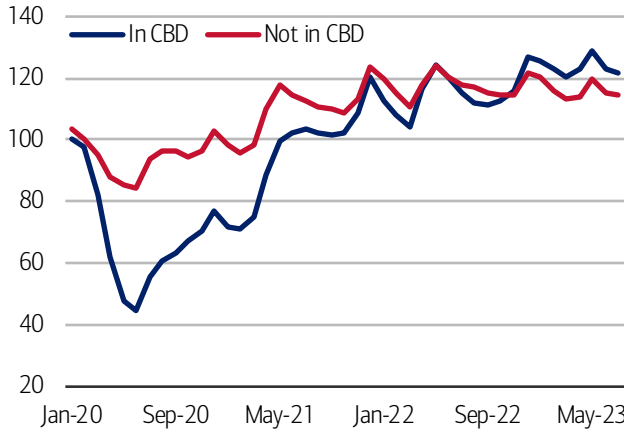
Exhibit 4: Percentage of paid full days worked from home by city (%)
There isn't much differentiation in working from home across cities



Source: Survey of Working Arrangements and Attitudes

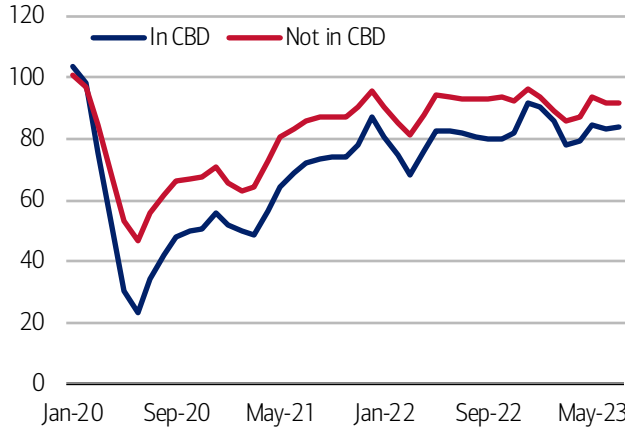
However, when we compare spending both inside and outside the CBDs, we find it is better in the CBDs than outside for those cities that have experienced strong inward population growth (Exhibit 3). For those cities which lost population in 2Q 2023, there has not been spending above 2019 levels, either within or outside the CBD (Exhibit 4).

Exhibit 5: Total aggregated retail spending in Tampa, Phoenix, Orlando, Nashville, Jacksonville, Columbus, Charlotte, Austin within and outside CBDs (indexed, 2019 average = 100, 3-month moving average)
CBD spending has outpaced spending outside CBDs since the beginning of 2023



Source: Bank of America internal data

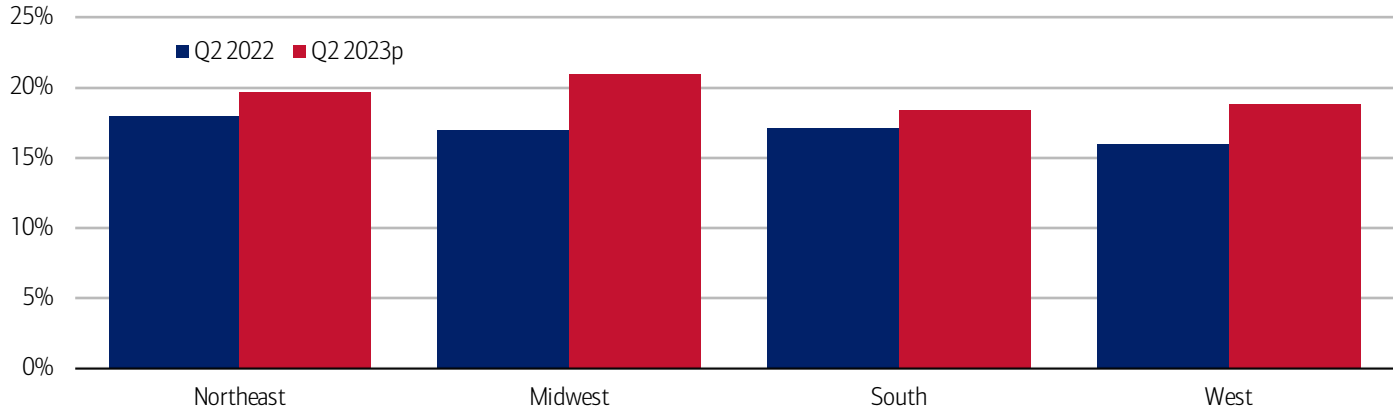
Exhibit 6: Total aggregated retail spending in New York, Boston, San Francisco, Atlanta within and outside CBDs (indexed, 2019 average = 100, 3-month moving average)
Both spending within and outside of CBDs has not risen above 2019 levels



Source: Bank of America internal data

What might be the reason for the stronger performance of the CBDs of growing cities? One obvious explanation is that employment growth naturally happening within these cities is benefiting the CBDs in particular. One indication for this is the lower vacancy rates in offices seen in the southern US (Exhibit 7).

Exhibit 7: U.S. office markets' vacancy rates by Census region (%)
Vacancy rates have increased across all regions in Q2 2023 predictions



Source: Cushman & Wakefield Research

A new urban – what's next for the city centers?

While there may be some slowdown in domestic migration, according to Bank of America data, there is no evidence of a reversal. At the same time, while trends in flexible or remote work are likely unpredictable, continued advances in technology along with worker preferences make it plausible that some level of this arrangement will persist.

For northern and western cities, the outlook for city center demand therefore continues to look very challenging. But southern cities are benefiting from a double effect, which may persist as people are continue to move to these cities, driven by housing affordability and employment gains. And, at the same time, these cities appear to be doing a good job at capturing more of this boost to spending in their city centers.

Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

The household consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level.

Bank of America credit/debit card spending per household includes spending from active US households only. Only card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by 7 financial services companies. The data is 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.

Additional information about the methodology used to aggregate the data is available upon request.

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Disclosures

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