

Regional Morsel

Northeast: Present imperfect, but a ‘fab’ future?

06 October 2023

Key takeaways

- The Northeast economy has the smallest population of the US regions, but the most high-density cities. In many respects it defies easy categorization, with a significant financial sector accompanied by a strong manufacturing base.
- On a per household basis, Bank of America internal credit and debit card data shows somewhat stronger spending growth in the Northeast than the overall US. Northeast spending appears particularly strong among the higher-income cohort, while this group's share of the overall population in this region is above the US average.
- Signs that the higher-end of the labor market is slowing, along with continued population losses are headwinds to growth in this region. The better news is that growing investments in the semiconductor industry stand to benefit the Northeast, which should help drive growth in the medium term.

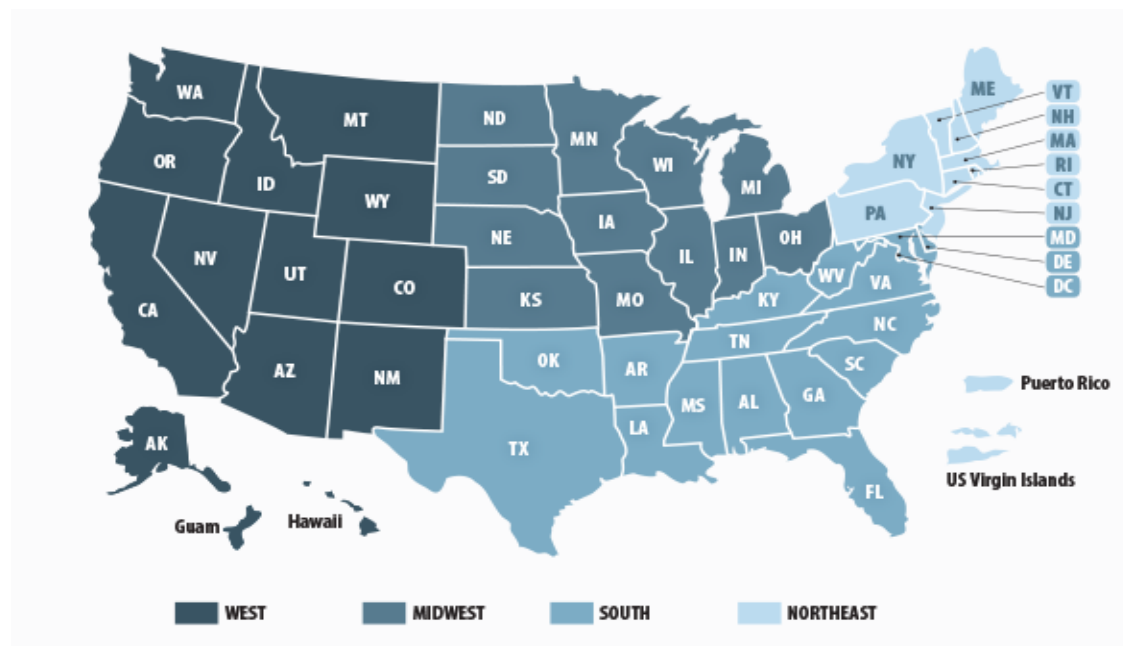
More difficult to categorize than first appears

The US Census Bureau splits the nation into four large regions (Exhibit 1). We have previously published on the [West](#) and [Midwest](#) regions, and now turn our attention to the Northeast.

The Northeast is made up of nine states (in addition, the Census Bureau includes the US Virgin Islands and Puerto Rico, but in this publication, we focus only on the nine states of the northeastern US). With around 57 million residents in the nine states, representing 17% of the US population, it is the region with the smallest population. It is also geographically the smallest region, but has the highest share of densely populated cities (Census Bureau). Overall, the Northeast accounts for around a fifth of US GDP.

Exhibit 1: Census regions in the United States

The Northeast region is made up of nine states

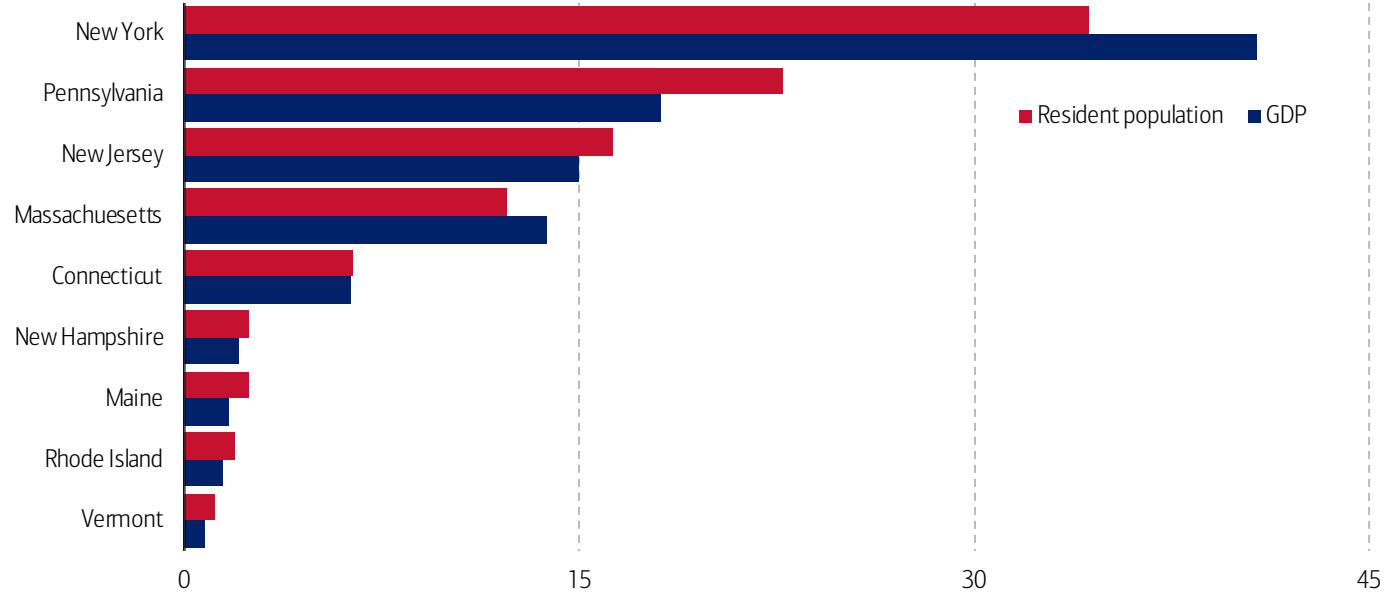


Source: U.S. Census Bureau

Looking at the states in the Northeast, it is not surprising that New York is the largest from a population and GDP perspective. But, as Exhibit 2 illustrates, New York is not the only story – Pennsylvania, New Jersey and Massachusetts also make up significant shares of population and GDP. Note that likely due to commuting into New York City, the GDP share of New York outstrips its share of resident population by some margin.

Exhibit 2: Northeast region by share of state GDP and resident population (%)

New York State has the highest population and GDP share in the Northeast region

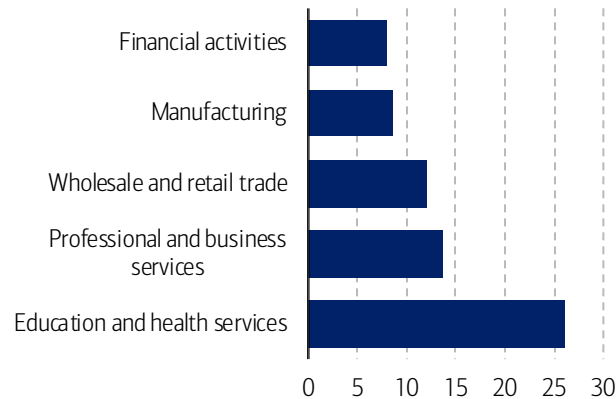


Source: Haver Analytics

The Northeast defies easy categorization. For example, the presence of New York City and Boston might lead one to believe that financial activities would make up a dominant share of employment. But, as Exhibit 3 shows, this is not the case. Financial activities in the Northeast account for around 8% of total employment, which compares to 6% for the US as a whole. The Northeast also has a relatively large share of manufacturing employment – around 8.5%, close to the US average.

Exhibit 3: Employment share of Northeast population by sector (%)

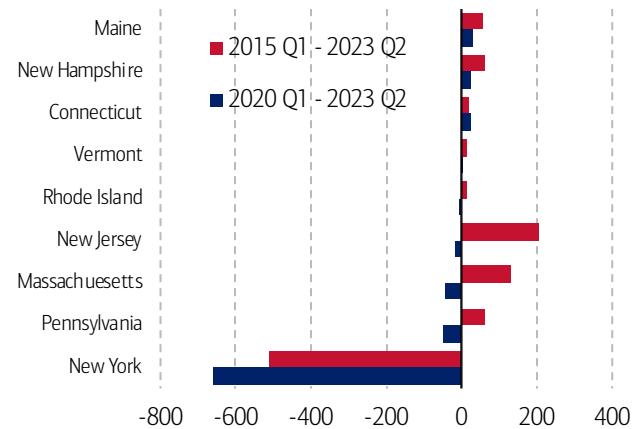
Financial services and manufacturing make up similar shares in overall employment in the region



Source: Bureau of Labor Statistics

Exhibit 4: Change in resident population by Northeast state ('000s)

Population loss is largely a New York story



Source: Haver Analytics

Population loss in the Northeast, which has been discussed extensively in media and also in our own [On the Move](#) analysis, is also not a uniform story. As Exhibit 4 illustrates, by far the largest drop in population in the Northeast states has occurred in New York, while most other states have seen small rises in population compared to 2015.

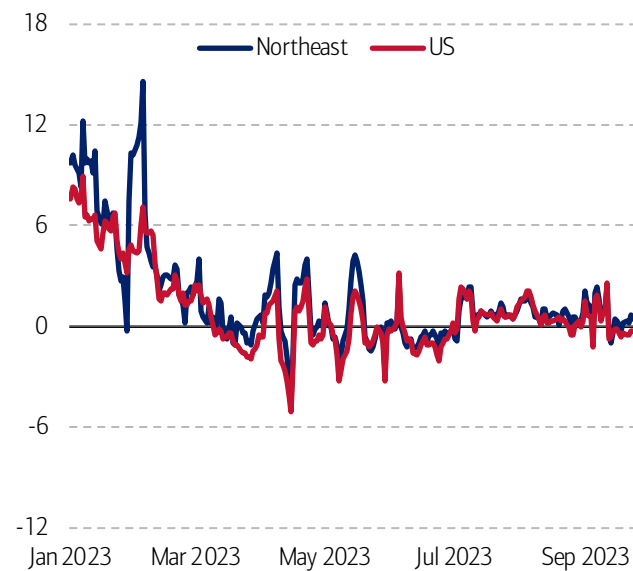
Northeastern spending per household outstripping the broader US

How is the Northeast faring right now? We can use Bank of America internal data to provide some perspective here.

Exhibit 5 shows that total card spending per household in the Northeast has been growing at rates slightly above the US over 2023. In the most recent data, to 23rd September, we see total card spending per household was up 0.4% year-over-year (YoY) in the Northeast, while overall US spending was down 0.3% YoY. Note this data stops before the recent flooding impacting New York and other areas of the Northeast.

Exhibit 5: Total card spending per household, Northeast and US (7-day moving average of daily data of spending levels, % YoY)

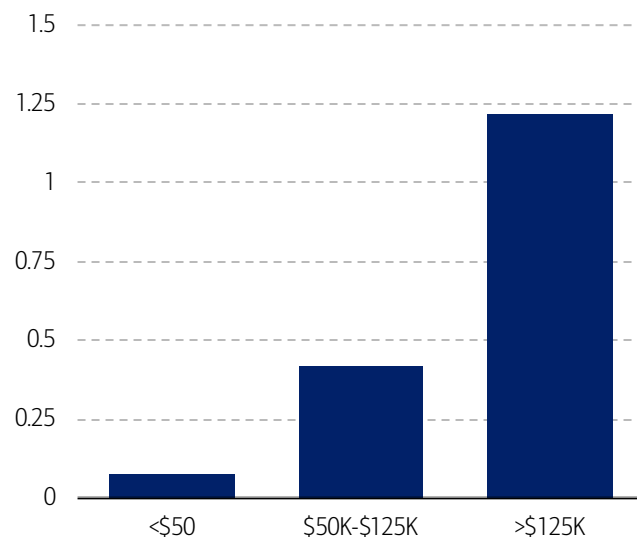
Spending per household in the Northeast has recently been growing just a little above the overall US spending



Source: Bank of America internal data

Exhibit 6: Difference in growth of total card spending per household between Northeast and US, as of 23rd September 2023, by income (percentage points, 7-day moving average of spending levels)

Northeast spending has seen stronger growth, particularly at the upper end of the income distribution

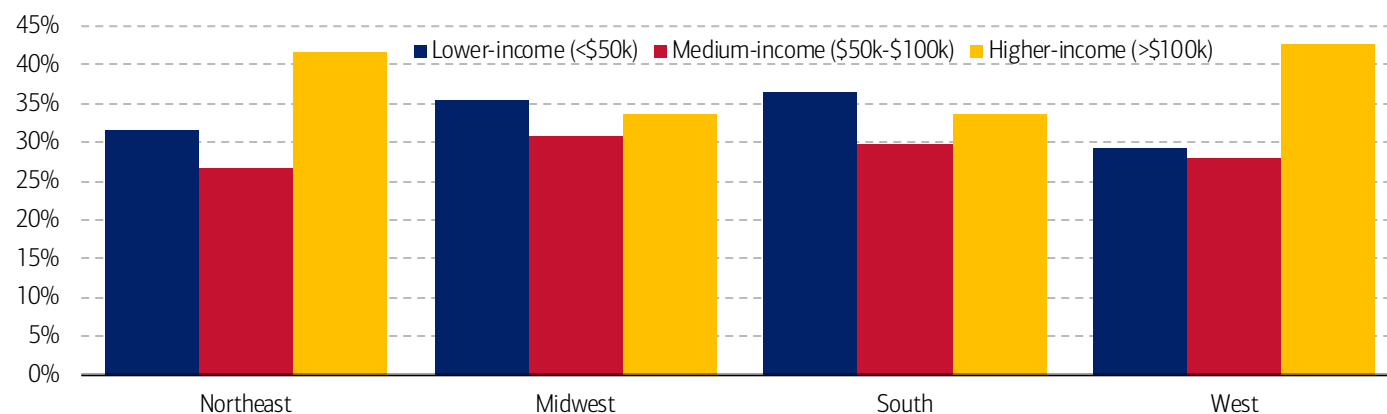


Source: Bank of America internal data

Across income cohorts, Exhibit 5 shows that total card spending per household has been stronger in the Northeast than in the aggregate US. The biggest difference in year-on-year growth rates emerges at the upper end of the income distribution (Exhibit 6). US Census Bureau data indicates that the Northeast has a large share of higher-income households (Exhibit 7). So, the stronger showing in spending growth in this cohort in the Northeast is likely currently a positive for overall economic momentum for the region.

Exhibit 7: Share of households by income in each Census region (%)

The Northeast region has the smallest share of middle-income consumers

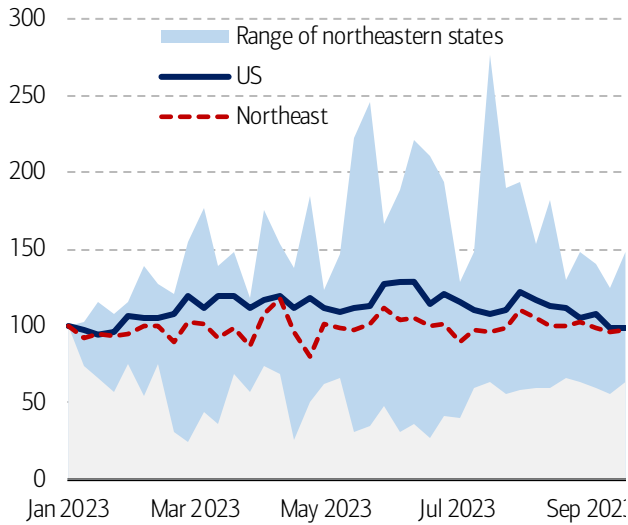


Source: American Community Survey, US Census Bureau

But, on the other hand, previous [Consumer Checkpoints](#) have noted some signs that higher-income consumers are experiencing a faster deterioration in the labor market, albeit from a base of low unemployment. Given the relatively larger share of higher-income consumers in the Northeast, this relative deterioration in the labor market could represent a headwind to growth in the region if it continues. For now, as Exhibit 8 shows, the northeastern labor market, as evidenced by weekly initial jobless claims, is not performing that differently from the overall US.

Exhibit 8: Initial jobless claims: range of Northeastern states and US aggregate (Weekly, January 7th 2023=100)

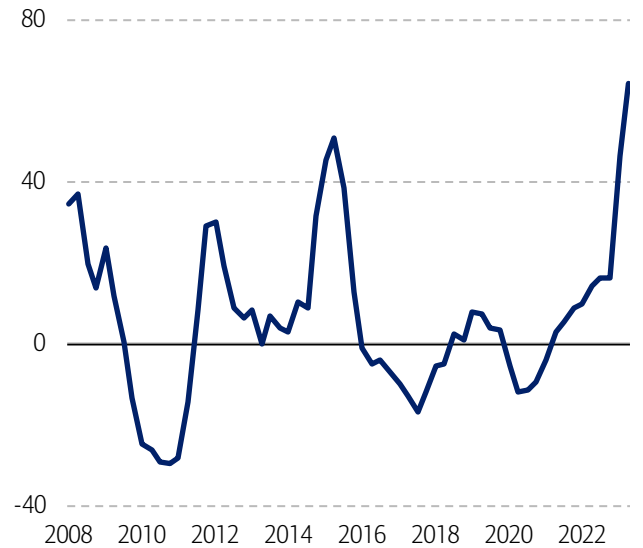
The Northeastern labor market does not appear to be doing that differently from the overall US



Source: Haver Analytics

Exhibit 9: US investment in manufacturing structures (Quarterly, % YoY)

Investment in manufacturing structures is currently rising strongly



Source: Bureau of Economic Analysis

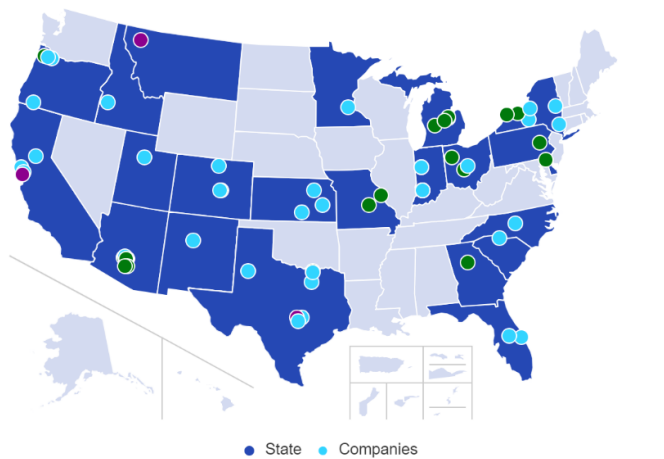
While our per-household measures of spending show a relatively decent performance, the overall growth of the Northeast will also be impacted by whether population loss (and therefore a falling number of households) continues. The evidence presented in [On the Move](#) is consistent with some continued loss, but at a slowing rate. In order to reduce the outflow of people, stretched housing affordability, among other areas, may need to be addressed.

A ‘fab’ future?

Beyond the near term, an important development across the United States, including the Northeast, is growth in manufacturing capacity in semiconductors and also ‘clean tech’ such as electric vehicles (EVs). In part, such growth has been stimulated by the CHIPS Act (Creating Helpful Incentives to Produce Semiconductors Act) and the Inflation Reduction Act (IRA) (see also [IRA ripple effect: 10 areas of impact](#)). This is leading to a ‘boom’ in investment in manufacturing capacity.

Exhibit 10: Semiconductor-related announced investment (blue=semiconductor, green=materials, purple = equipment)

The Northeast has seen several investment announcements related to semiconductor manufacturing



Highcharts.com © Natural Earth

Source: Semiconductor Industry Association

Can the Northeast also benefit from this renaissance in manufacturing in the US? The good news is that the region has already reported some large investments in semiconductor fabrication plants (fabs) and related supply chain investments (Exhibit 10). The announcements suggest around 10,000 people could be employed in this area by the end of this decade, with a multiple of that in subsequent decades. With the benefits of a local-supply chain including university research and development (R&D) partners, these investments could offer a boost to the Northeast economy in the medium term.

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.

Any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash and checks.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and generally defined as under \$5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

The differences between the total and per household card spending growth rate can be explained by the following reasons:

1. Overall total card spending growth is partially boosted by the growth in the number of active cardholders in our sample. This could be due to an increasing customer base or inactive customers using their cards more frequently.
2. Per household card spending growth only looks at households that complete at least five transactions with Bank of America cards in the month. Per household spending growth isolates impacts from a changing sample size, which could be unrelated to underlying economic momentum, and potential spending volatility from less active users.
3. Overall total card spending includes small business card spending while per household card spending does not.
4. Differences due to using processing dates (total card spending) versus transaction date (per household card spending).
5. Other differences including household formations due to young adults moving in and out of their parent's houses during COVID.

Any 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. Whenever

median household savings and checking balances are quoted, the data is based on a fixed cohort of households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through the most current month of data shown.

Bank of America credit/debit card spending per household includes spending from active US households only. Only consumer 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 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.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1996
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977
5. Baby Boomer: 1946-1964

Any reference to card spending per household on gasoline include all purchases at gasoline stations and might include purchases of non-gas items.

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

Contributors

David Michael Tinsley

Senior Economist, Bank of America Institute

Taylor Bowley

Economist, Bank of America Institute

Sources

Li Wei

Senior Vice President, Global Risk Analytics

Kimberly Warren

Senior Vice President, Global Risk Analytics

Disclosures

These materials have been prepared by Bank of America Institute and are provided to you for general information purposes only. To the extent these materials reference Bank of America data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America. Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, sustainability and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular client and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular client. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice. Copyright 2023 Bank of America Corporation. All rights reserved.