

Regional Morsel

The Regional Recorder: Midwestern progress?

03 April 2024

Key takeaways

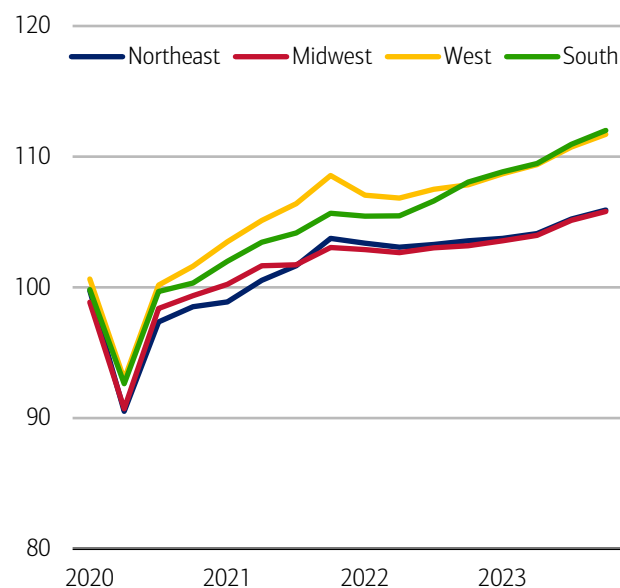
- The Midwest and the Northeast have been notable GDP laggards since the pandemic when compared to the West and South. However, Bank of America aggregated data on credit and debit card spending suggests a stronger performance by the Midwest of late, supported by the region's solid labor market.
- Breaking the data down by city/state reveals some variation, with Cleveland, Ohio, a standout success in terms of consumer spending. This is likely in part because investment in the construction of chip and battery plants is not uniform across the region.
- So can the Midwest close some of the GDP gap to the West and South? Probably, but not without access to skilled labor and affordable housing, which will both require close monitoring from here.

How are the respective US regions faring?

The Bureau of Economic Analysis (BEA) published state-level GDP through to the fourth quarter of 2023 at the end of March. When we aggregate these into regions consistent with the definition of the US Census Bureau (see methodology for details), we see a significant gap between the GDP performance of the Northeast and Midwest when compared to the West and the South, since the pandemic. The latter two regions have increased their GDP by around 5% more than the former two since the 2019.

Exhibit 1: The North and Midwest have done less well since 2019

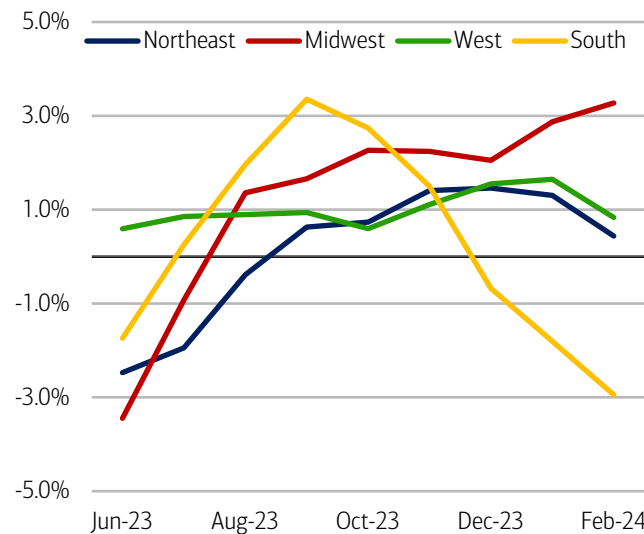
GDP by US Census Region (indexed, 2019=100)



Source: Bureau of Economic Analysis, Bank of America Institute
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Exhibit 2: Recent trends point to slower spending in the South, with a stronger trajectory in the Midwest

Credit and debit card spending per household from Bank of America data (three-month moving average, seasonally-adjusted annual rate (SAAR) %)



Source: Bank of America internal data
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Is this pattern continuing into 2024? Here we turn to Bank of America aggregated credit and debit card data, which can give us insights into how consumers are faring. As consumer spending is the largest part of overall GDP, this should provide a directional guide to relative overall economic performance for the regions.

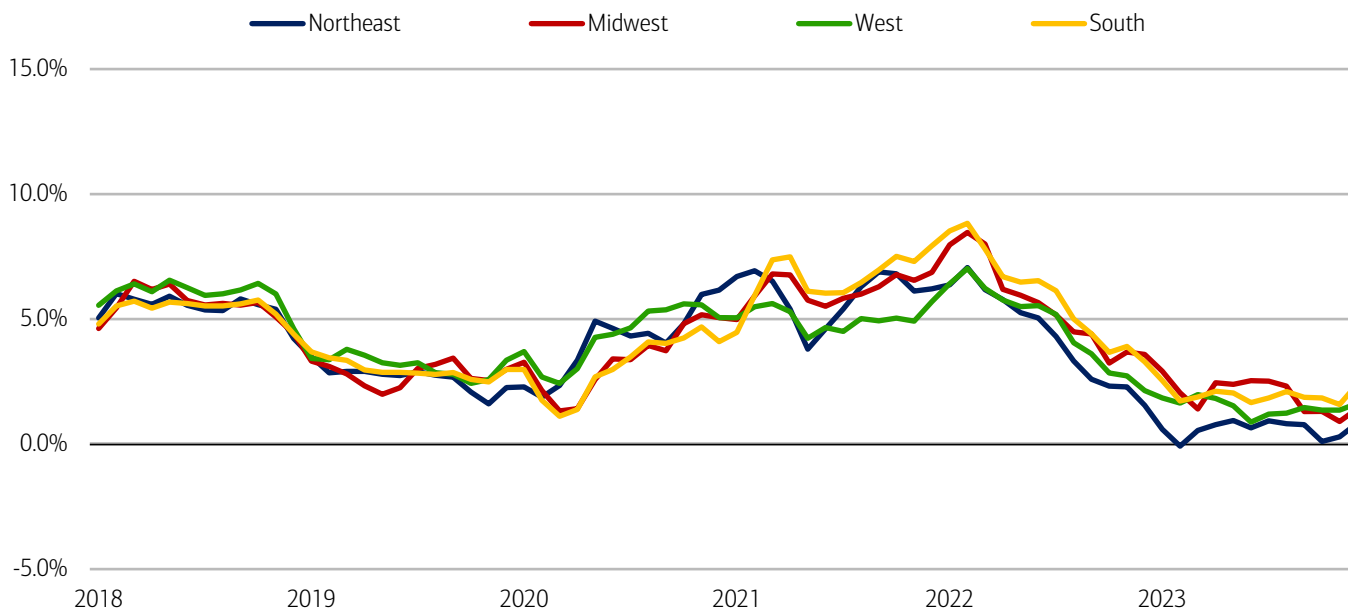
In terms of card spending per household, Exhibit 2 shows that the South has seen card spending per household decline in the first two months of 2024. While the weather provides some explanation – it was a particularly cold start to the year relative to ‘average’ in parts of the South, with Texas experiencing lower-than-average temperatures in January – it was not especially cold in February and the region has not yet rebounded strongly.

In the other regions, spending per household in the West and Northwest have both seen increases in 2024 broadly in line with their experience in the second half of 2023. The Midwest, on the other hand, seems to be experiencing a relative strengthening in its consumer spending momentum, which we discuss further.

Looking at Bank of America aggregated consumer deposit data on the growth in after-tax wages and salaries across the four regions (Exhibit 4), the South and the West are also showing relative strength. However, it appears that the income growth in the Northeast is notably weaker than the rest. In the three months through February, after-tax wage and salary growth in the Northeast was 0.8%. By contrast, wage and salary growth in the South was 2.4%.

Exhibit 3: The Northeast is showing the slowest labor income growth in 2023-2024, with the strongest in the South

After-tax wage and salary growth by income group, based on Bank of America aggregated consumer deposit data (%YoY, 3-month moving average, seasonally adjusted (SA))



Source: Bank of America internal data

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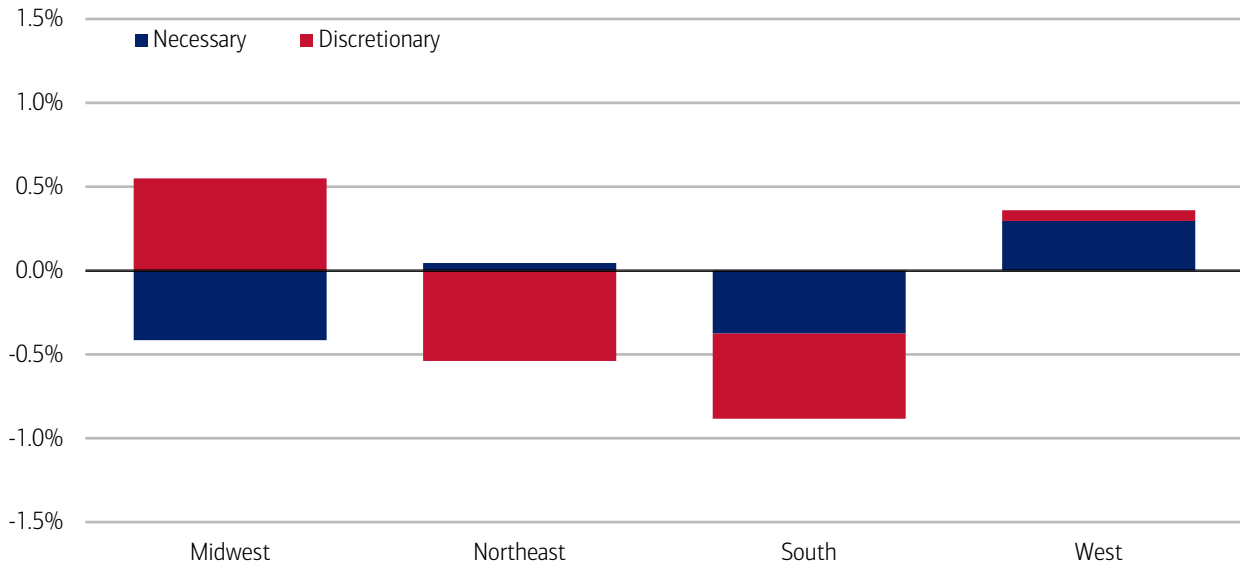
What’s behind the recent strength in the Midwest?

Perhaps the most interesting aspect of recent regional spending trends has been the Midwest’s relatively strong spending momentum. This begs the question as to whether the region could be poised to close more of the GDP gap that has opened up since 2019.

Exhibit 4 shows that when we look at Bank of America data over the last year, the Midwest region appears to be doing particularly well in terms of discretionary spending growth, perhaps suggesting consumers in the Midwest are indeed feeling in comparatively better shape economically.

Exhibit 4: The Midwest has relatively strong discretionary spending growth

Contributions to credit and debit card spending per household from necessary and discretionary spending (February 2024, percentage points contribution to YoY % change)



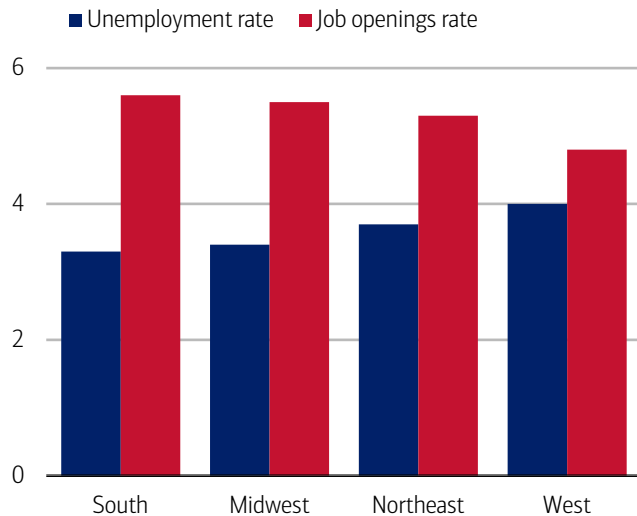
Source: Bank of America internal data (necessary spending is spending on gasoline, food, utilities. Discretionary is remaining spending after necessary).

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One positive driving this solid Midwestern spending picture is likely the labor market. Exhibit 5 shows that the Midwest had the second-lowest unemployment rate and second-highest job openings rate of all the regions. This strong labor market could potentially support consumer confidence and spending going forward.

Exhibit 5: The Midwestern labor market looks in fairly good shape

Unemployment rate (February 2024, %) and job openings rate by Census region (January 2024, %)

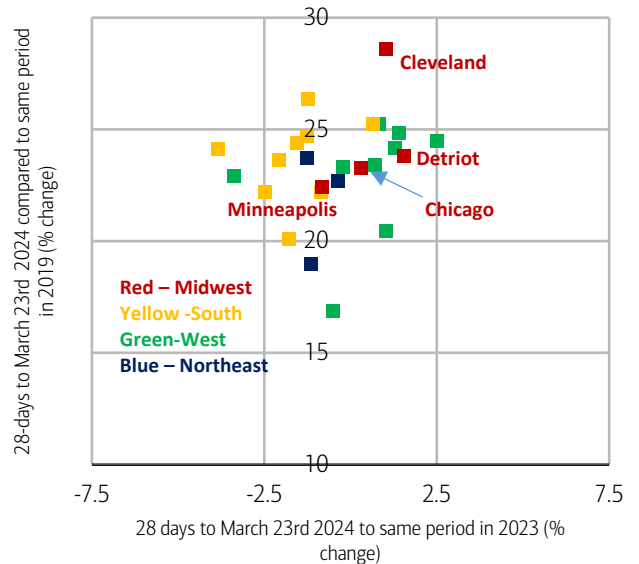


Source: Bureau of Labor Statistics

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Exhibit 6: Dispersion at the city level

Credit and debit card spending per household for 25 MSAs (% YoY and % 5YoY, 28-day average of daily data to March 23, NSA) (Red – Midwest, Yellow –South, Green–West, Blue – Northeast)



Source: Bank of America internal data

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We can also dig deeper into the cities within the region, using spending data by Metropolitan Statistical Area (MSA). This data is not seasonally-adjusted (NSA), which is a disadvantage, but one advantage is that we can look at daily data for 28 days up to March 23rd to get an up-to-date reading. Exhibit 6 shows that generally among the 25 MSAs we cover, the midwestern cities (Chicago, Cleveland, Detroit and Minneapolis) are reasonable performers. There is however some dispersion, with Cleveland the

most obvious stand-out, with strong spending growth particularly relative to 2019 but also a solid year-over-year (YoY) growth, too.

Build-out of manufacturing capacity is not uniform

What is driving the differential performance across the Midwest? One likely explanation is the manufacturing construction boom. The CHIPS Act (Creating Helpful Incentives to Produce Semiconductors Act) and IRA (Inflation Reduction Act) have fueled rapid investment in manufacturing capacity – in particular in batteries and semiconductors (see: [IRA ripple effect: 10 areas of impact](#)). Exhibit 7 shows that the Midwest has been a key recipient of manufacturing construction spending over the last year, second only to the South.

However, within the Midwest this construction investment is not equally distributed. The eastern part of the region (Indiana, Illinois, Michigan, Ohio and Wisconsin) has seen growth of over 50%, while the western part (Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota and South Dakota) has recorded a weaker 9.5%.

More granularly, BofA Global Research has identified several sizeable megaprojects that are benefiting parts of the region. For example, a large \$20bn semiconductor fabrication facility is being built in Columbus, Ohio. The original production date has been delayed from 2025 to 2026, but construction is ongoing. Large investments are also being made in the construction of battery plants in Kansas, Indiana, Michigan and Ohio, totaling over \$24bn. Most of these are scheduled to be completed between 2025 and 2027.

As long as this manufacturing construction story lasts, it appears that some parts of the Midwest stand to do well. Moreover, easing construction once the factories are built out should be replaced by actual manufacturing of batteries and semiconductors from the plants themselves. So, the next leg of the onshoring story has many years left to play out.

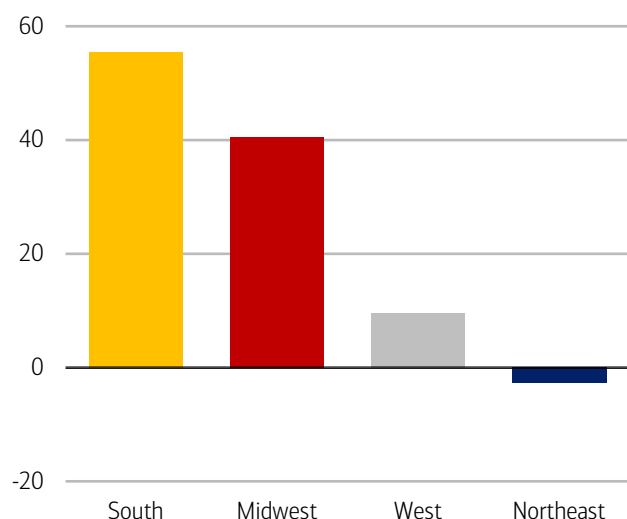
What are the risks?

For one, the build-out of construction plants and then the operation of these investments will require plenty of skilled labor. Our [March Small Business Checkpoint](#) notes that the percentage of small business owners that listed labor quality as their biggest problem has fallen back, suggesting this may not be an immediate problem. However, it certainly merits watching.

Another risk may be housing. The Midwest has relatively more affordable housing than other US regions (source: the National Association of Realtors). But Exhibit 8 shows that house price growth across a number of Midwestern states outpaced the overall US as of the final quarter of 2023.

Exhibit 7: The South and Midwest are big beneficiaries of the manufacturing construction boom

Value of private manufacturing construction put in place by Census region (January 2024. % YoY)

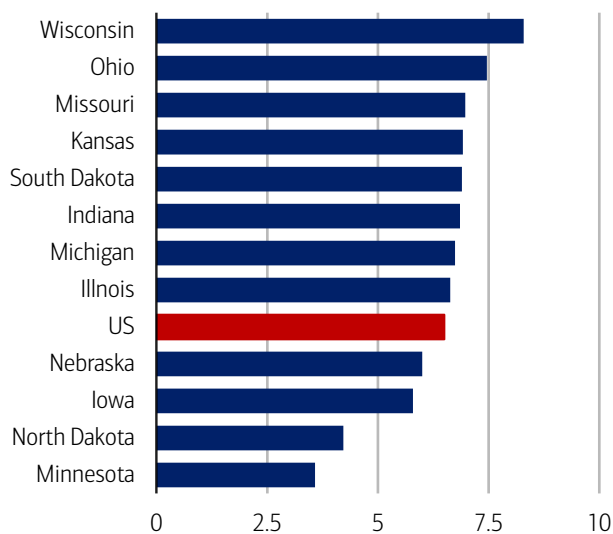


Source: Census Bureau

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Exhibit 8: A number of Midwestern states have higher house price growth than the US average

House price growth 2022 Q4 to 2023 Q4 by Midwestern state (% YoY)



Source: Federal Housing Finance Agency (FHFA)

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A growing economy will likely need a steady supply of new homes to help attract the workers needed – our [On the Move](#) publication noted the strong population growth in Columbus, Ohio, for example. While skills and housing don't appear to be binding constraints on midwestern growth yet, they will determine the region's ability to make continued progress in catching up with others and warrant monitoring.

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 aggregated 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 1995
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

6. Traditionalists: pre-1946

US Census Regions of the United States:

Northeast: Connecticut, New Jersey, Maine, New York, Massachusetts, Pennsylvania, New Hampshire, Rhode Island, Vermont

Midwest: Indiana, Iowa, Illinois, Kansas, Michigan, Minnesota, Ohio, Missouri, Wisconsin, Nebraska, North Dakota, South Dakota

South: Delaware, Alabama, Washington DC, Kentucky, Florida, Mississippi, Georgia, Tennessee, Maryland, Arkansas, North Carolina, Oklahoma, South Carolina, Texas, Virginia, West Virginia, Louisiana

West: Arizona, Alaska, Colorado, California, Idaho, Hawaii, New Mexico, Oregon, Montana, Washington, Utah, Nevada, Wyoming

Any reference to card spending per household on gasoline includes 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.

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Sources

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Disclosures

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