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Regional Morsel

Midwestern Stars

05 April 2023

Key takeaways

- Bank of America credit and debit card spending per household got off to a strong start in 2023, but has been weakening of late. But, while in stark contrast to the South, the Midwest has not been a beneficiary of high domestic migration, yet a few Metropolitan Statistical Areas (MSAs) there stand out as showing continued growth in spending.
- Since 2019, Minneapolis and Cleveland are two midwestern cities where discretionary spending has been a 'star' performer. The strength appears to be more of a 'things' story in these areas, rather than due to 'experiences.'
- What could be driving this? Consumers in these cities appear a bit more chipper than the US average, helped by strong labor markets, lower inflation and more affordable housing markets. While forecasters are expecting a slowdown in the US, both cities may have an advantage in their relatively well-diversified economies.

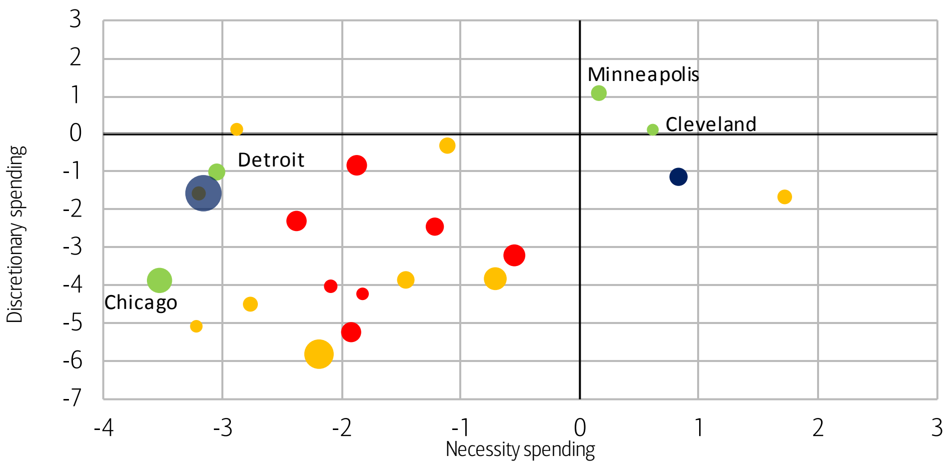
Looking for strength amongst weakening

As noted in our latest Consumer Checkpoint, there has been some slowing in Bank of America credit and debit card spending per household since the start of 2023. In February, total card spending per household increased by 2.7% year-over-year (YoY), compared to 5.1% YoY in January. While the year-over-year comparison exaggerates the weakening in growth due to 'base effects' from the re-opening of the economy in 2022, the month-over-month (MoM) growth rates have also shown some slowdown. Moreover, weekly data on card spending in March continues to show a decelerating tendency.

Against the backdrop of slowing aggregated spending, we do find a few bright spots: spending in some Metropolitan Statistical Areas (MSAs) in the Midwest are demonstrating relative strength. Exhibit 1 shows the %YoY growth in spending on necessities (groceries, utilities, and gasoline) and discretionary items across 22 large MSAs. The color of the bubbles represents which Census Bureau regions the MSA falls into: Blue: Northeast, Red: South, Yellow: West, Green: Midwest. Their size reflects how big that MSA is compared to the others.

Exhibit 1: Total credit and debit card spending per household by 22 MSAs (7-day moving average to March 25th 2023, 1 year % change)

The slowdown in total credit and debit card spending is broadly based, but Cleveland and Minneapolis are doing better than most

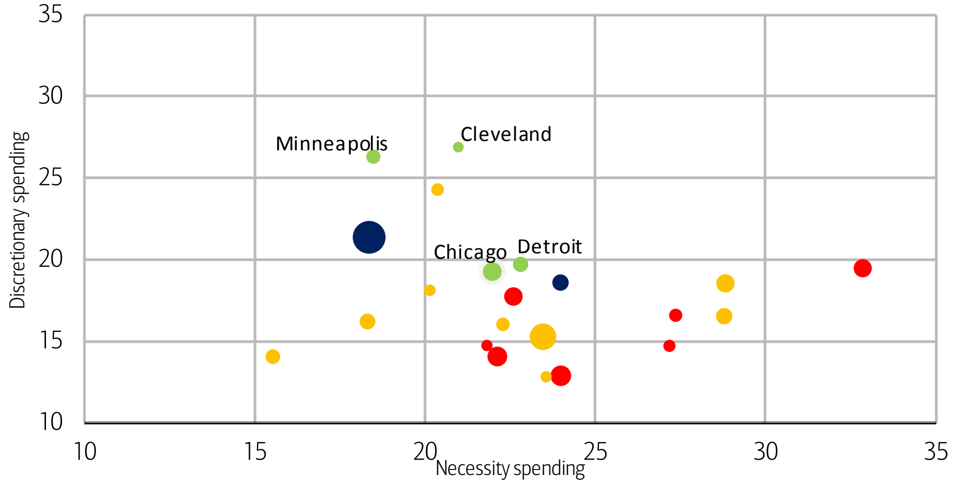


Source: Bank of America internal data.
Bubbles are proportionate to total population in 22 MSAs. Blue: Northeast, Red: South, Yellow: West, Green: Midwest

While there is a fairly consistent picture of slowing in the South and West, the situation is more nuanced in the Midwest. Minneapolis and Cleveland stand out as they are the only two MSAs where both discretionary and necessary spending per household was positive %YoY for the latest weekly data ending March 25. Importantly, even as we look through the YoY% change, which can be impacted by the timing of reopening, Cleveland and Minneapolis still show relative strength in spending compared with the same time in 2019. And interestingly, Chicago and Detroit aren't too far behind.

Exhibit 2: Total credit and debit card spending per household by 22 MSAs (7-day moving average to March 25, 2023, 4-year % change)

As far as discretionary spending growth goes, midwestern cities have experienced a relatively strong performance since 2019



Source: Bank of America internal data.

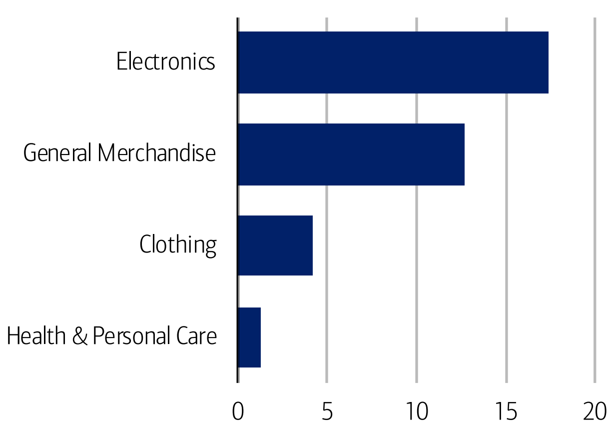
Bubbles are proportionate to total population in 22 MSAs. Blue: Northeast, Red: South, Yellow: West, Green: Midwest

It is a good(s) story

Digging into the drivers of outperformance in discretionary spending in the two strongest midwestern performers, Minneapolis and Cleveland, one commonality is that both are more of a 'goods' story than an 'experiences' one. In the case of Minneapolis, the growth since 2019 in electronics and general merchandise looks especially strong. While in Cleveland, general merchandise is also important, but is joined by furniture and miscellaneous store (which includes things like mobile phone dealers, gift shops and art dealers) spending as big drivers.

Exhibit 3: Difference in total spending per household since 2019 in certain categories between Minneapolis and average of 22 MSAs (pp)

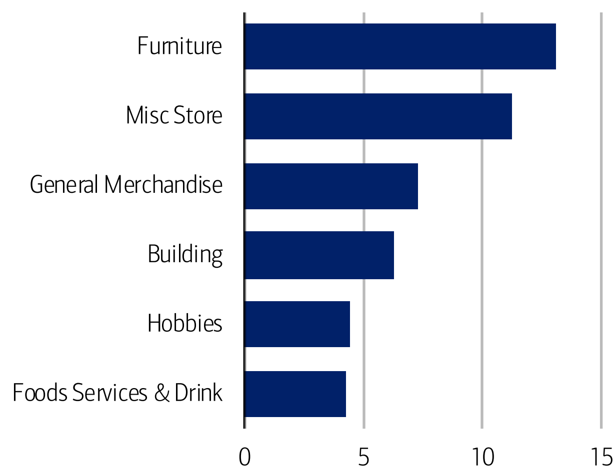
Minneapolis spending on electronics and general merchandise has been particularly strong compared to the average of 22 MSAs



Source: Bank of America internal data

Exhibit 4: Difference in total spending per household since 2019 in certain categories between Cleveland and average of 22 MSAs (pp)

In Cleveland, particularly strong spending has been seen in furniture, miscellaneous stores and general merchandise



Source: Bank of America internal data

Strong local labor markets help

Usually, we see cities in the South and West making the headlines as areas of faster growth, likely because the Midwest has not been the beneficiary of domestic migration over the last few years like the South, in particular. Because of that, the growth we

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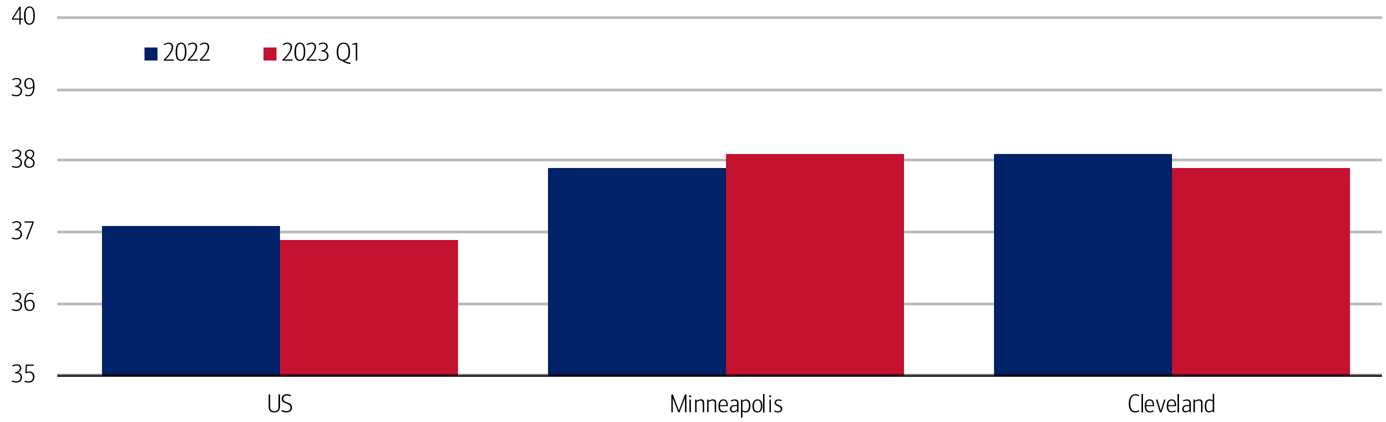
see has to come from 'per capita' sources rather than population growth. Still, according to the Census Bureau, the Midwest saw a decline of only around 49k (0.1%) people between the middle of 2021 and 2022, a drop that is a lot less than that in the Northeast at around 220k (0.4%).

What could be behind the stronger spending performance of these midwestern cities? One reason could be stronger consumer sentiment, which has long been a leading indicator for consumer spending. The Economic Sentiment Index (ESI) published by CivicScience shows that consumers in these cities feel a bit 'better' than the US average. Exhibit 5 shows the ESI for 2022 and the latest reading in 2023 Q1 for the US, Minneapolis, and Cleveland. Sentiment stands at a higher level in the two cities than the US average.

Exhibit 5: CivicScience Economic Sentiment Index (see methodology for details on construction)
Minneapolis and Cleveland have a higher ESI than the US average. In 2023 Q1 it rose further in Minneapolis.

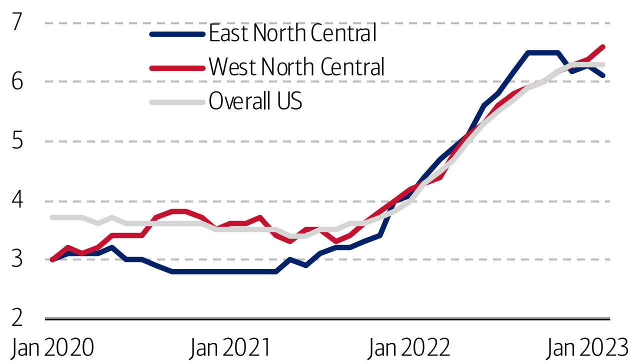


Source: CivicScience

So what could be keeping sentiment higher in these two cities? In our view, higher wage growth and lower inflation are helping. The Atlanta Fed Wage Tracker shows some tendency for the two divisions that make up the Midwest region to have shown favorable wage growth of late (Exhibit 6). Minneapolis and Cleveland are in the 'East North Central' division, where there was a period in 2022 when median wage growth appeared to have surpassed the US average, helping the division catch up after previously slower wage growth.

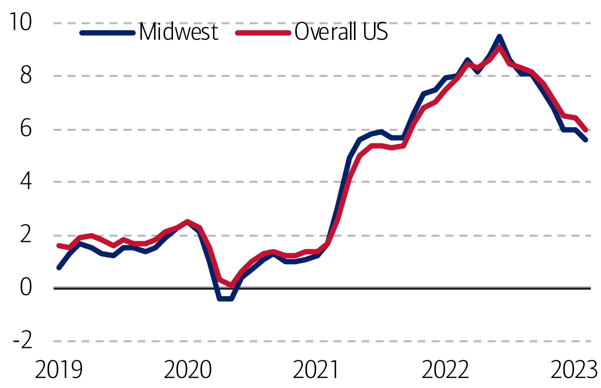
At the same time, Exhibit 7 shows that inflation in the Midwest region has been running just a little below the US rate. Taken together, these points aren't likely to be the whole story of why some parts of the Midwest are doing better than average, but they are indeed supportive.

Exhibit 6: Atlanta Fed Wage Tracker by Census Division three-month moving average of median wage growth, % y/y
For a time in 2022 the East North Central division appears to have had faster wage growth than the US average



Source: Federal Reserve Bank of Atlanta

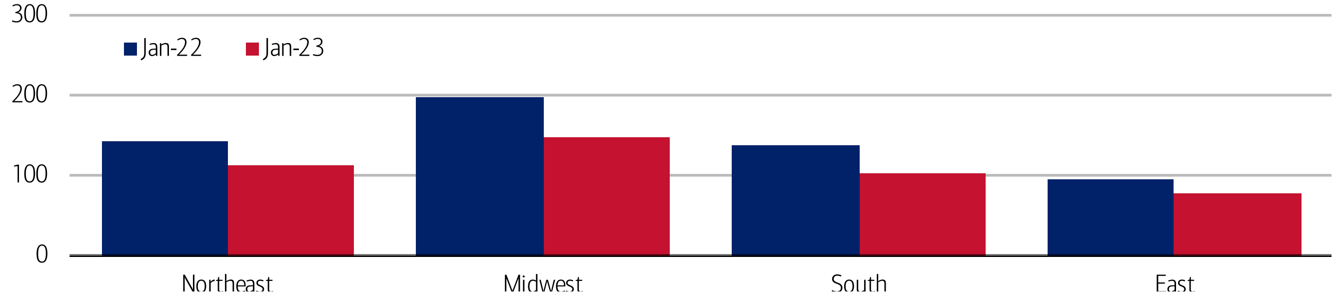
Exhibit 7: Consumer price inflation (% y/y)
Midwestern inflation is currently falling a little faster than in the overall US



Source: Bureau of Labor Statistics

Another factor may be lower housing costs. While the Midwest has seen housing affordability deteriorate in line with the rest of country, data from the National Association of Realtors indicates that the Midwest owner-occupied housing market is the most affordable of the four census regions. This reflects lower house prices and a smaller monthly mortgage payment as a share of income, meaning homeowners in the Midwest may have a little more spending power after paying their monthly mortgage.

Exhibit 8: Housing affordability index by census region (Higher value equates to more affordability)
Housing affordability in the Midwest, while deteriorating is the highest amongst the four census regions



Source: National Association of Realtors

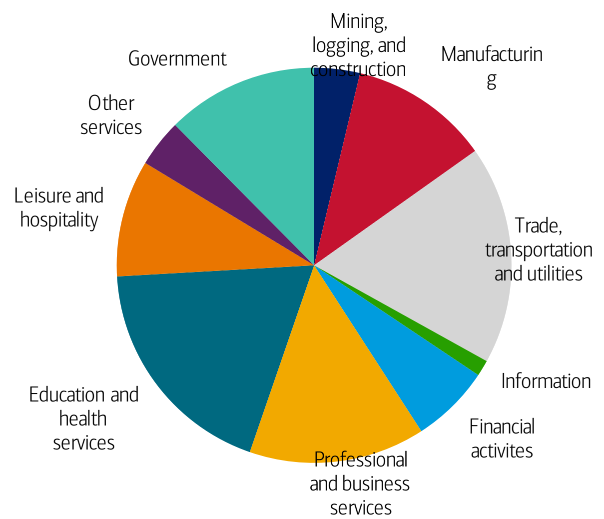
Affordability in the rental market also looks better than what is typical across the US. Looking at Bank of America internal data, we find 4.4% YoY rent payment growth in Minneapolis for the six-month period ended February 2023 – below the median for all Bank of America customers across the US and well below some of the high figures we have seen in the Sun Belt.

Diversification is also a strength

What does the future hold for these cities? Well, most forecasters are expecting a further slowdown in the overall US economy this year, with a potential shallow recession in the second half, according to BofA Global Research. Under these circumstances, most regions of the US would likely see a deterioration in growth.

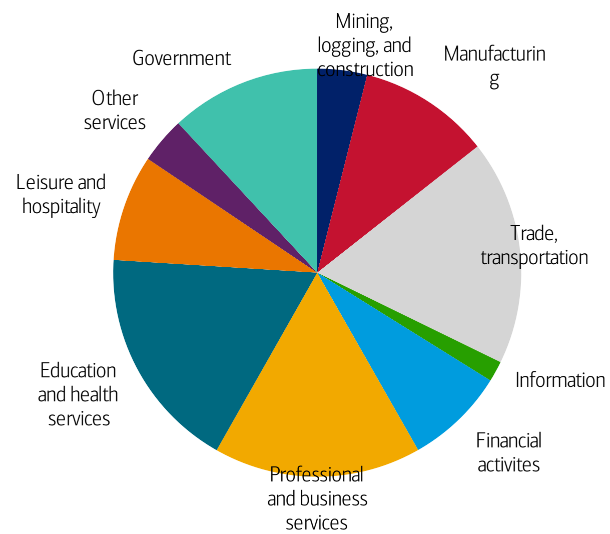
One thing in both Minneapolis and Cleveland's favor is that they have relatively well-diversified economies (Exhibit 9 and Exhibit 10), with no one sector, such as finance or tech, dominating. While both cities have a somewhat larger share of employment in manufacturing than the US average, they also have good representation in professional, education and health services. Interestingly, their employment shares in the Leisure and Hospitality sector are a little below the US average, which could work in their favor should consumer spending on 'experiences' soften as the economy slows. By having good exposure across a range of sectors, these 'midwestern stars' could also stand to benefit from an upswing in the US economy when it comes, regardless of which sectors may drive it at the time.

Exhibit 9: Share of non-farm employment as of December 2022: Cleveland (%)
Cleveland has a relatively broadly based economy...



Source: Bureau of Labor Statistics

Exhibit 10: Share of non-farm employment as of December 2022: Minneapolis (%)
...as does Minneapolis



Source: Bureau of Labor Statistics

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.

CivicScience Economic Sentiment Index (ESI) is a measure of consumer sentiment aggregated from five questions:

1. Looking ahead six months, do you think the U.S. economy will get better, stay the same, or get worse?
2. New Jobs: Over the next six months, do you think it will become easier or more difficult to find a new job?
3. Personal Finance: Over the next six months, do you expect your personal financial situation to get better, stay the same, or get worse?
4. Major Purchase: Given the current state of the economy, is now a good time or a bad time to make a major purchase like a new car or home improvements?
5. New Home: Given the current state of your local market, is now a good or bad time to purchase a new home?

The sample size is c 9250 monthly responses.

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Disclosures

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