

Regional Morsel

Not yet High Noon for the West

22 May 2023

Key takeaways

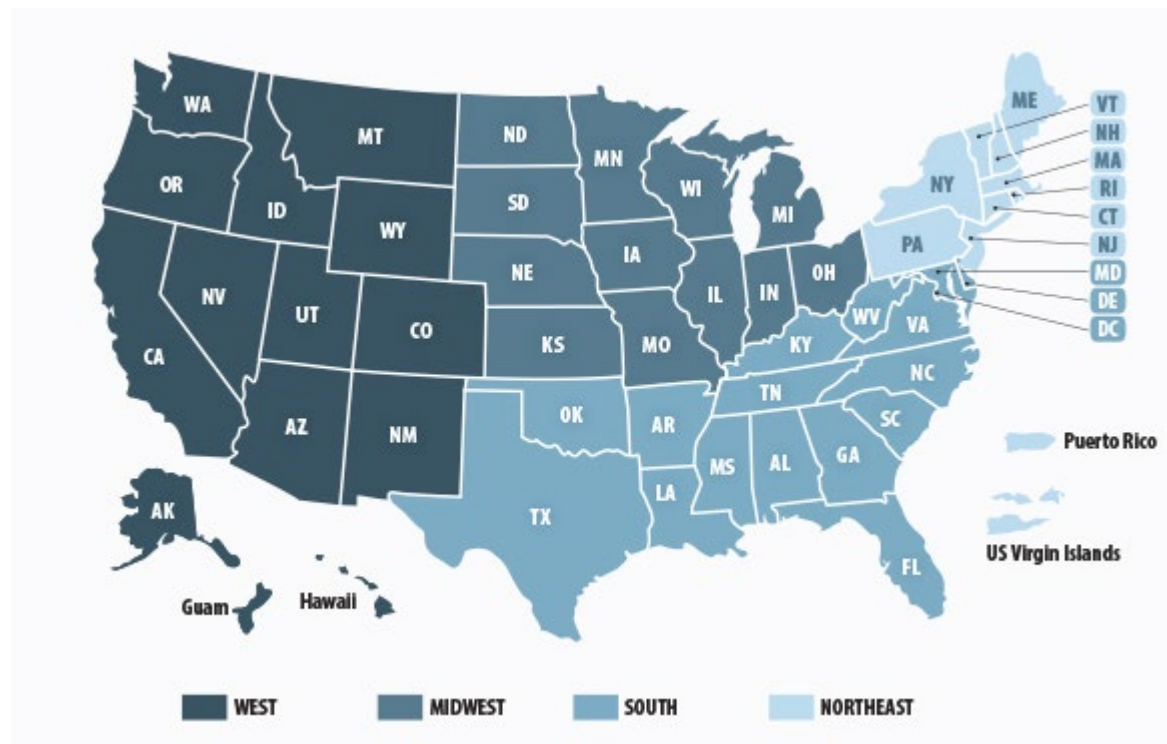
- The economy of the west slowed faster than the overall US in 2022, and in the final quarter its year-over-year (YoY) growth was slightly negative. So, has the West now entered recession ahead of the overall US?
- Based on our analysis, the West does not appear to be in a recession. Bank of America total card spending per household for the region has actually strengthened relative to the rest of the country. Additionally, the labor market in the West has not deteriorated relative to the broader US, despite headlines around tech layoffs.
- But the West does face more structural challenges, including population flows out of the region and a need to revitalize some of its cities. These could limit the upside when the US economy rebounds.

An American Tale

The US Census Bureau splits the nation into four large regions (Exhibit 1). On this basis, the West is made up of 13 states, stretching from the Pacific West Coast to the Rocky Mountains.

Exhibit 1: Census regions in the United States

The West region is made up of 13 states

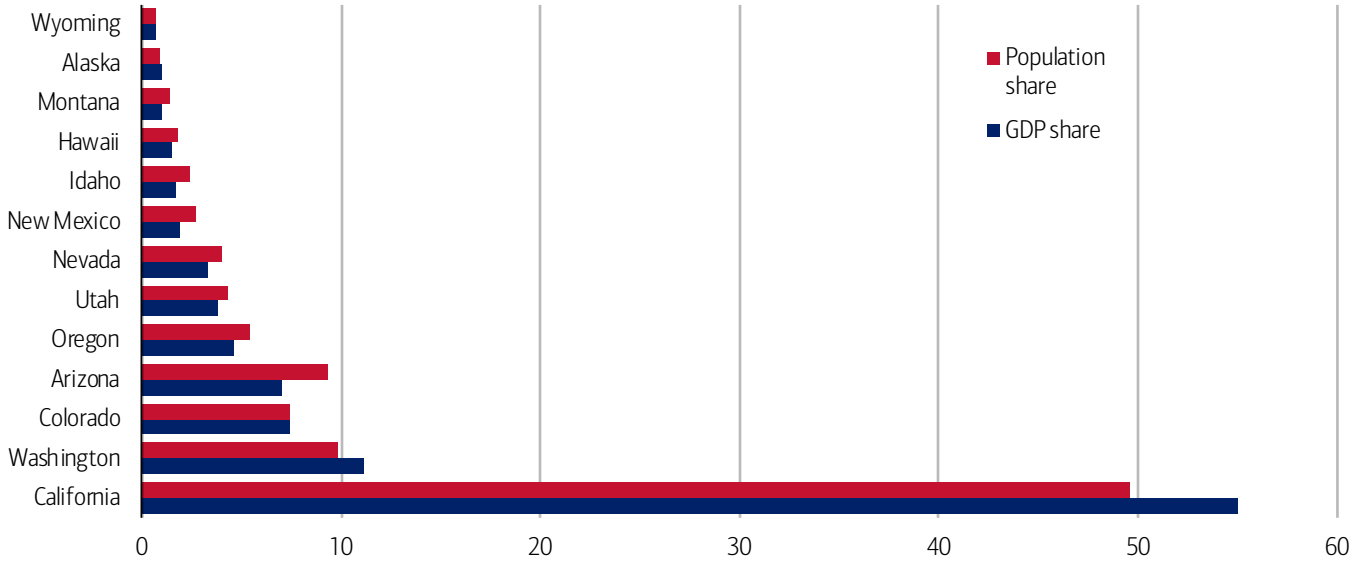


Source: U.S. Census Bureau

This very large land mass is also huge in economic and demographic terms. Across the 13 states of the West there are around 80 million people, with Gross Domestic Product (GDP) of around \$6.5 trillion in 2022. The region accounts for about a quarter of the US economy. California clearly dominates (Exhibit 2), accounting for around half of the region's population and more than that in GDP. Still, as a group, the other 12 states are certainly important in determining how the economy of the West will fare.

Exhibit 2: State share of GDP and population in the US Western Census Bureau Region (%)

California dominates the West from a GDP and population perspective



Source: U.S. Census Bureau, Bureau of Economic Analysis

Once upon a time in the West

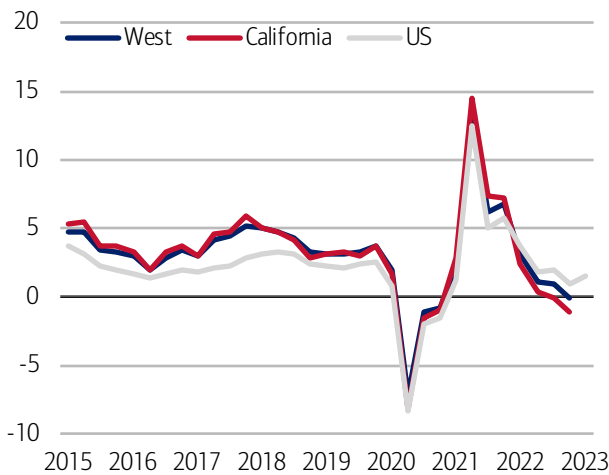
Media headlines this year might lead one to believe that the western US is struggling to a greater extent than the rest of the country. Layoffs in the tech sector, the housing market slowdown and, more recently, regional banking stress could all be potentially thought of as impacting the West the most.

GDP data is only available up to 2022 Q4 for the region, but up to 2023 Q1 for the US as a whole. Exhibit 3 shows that the latter part of 2022 may not bode well for our question, 'Is the West in recession?' In the final quarter of 2022, the GDP of the West was showing slightly negative year-on-year (YoY) growth, and the picture was a bit worse for California.

One reason for the West's disappointing GDP performance in 2022 may be the particularly sharp slowdown in the housing market (Exhibit 4). This may have hit consumer confidence, as well as reducing demand for housing-sensitive consumption, not to mention the impact on new home construction.

Exhibit 3: Real GDP (% YoY, quarterly)

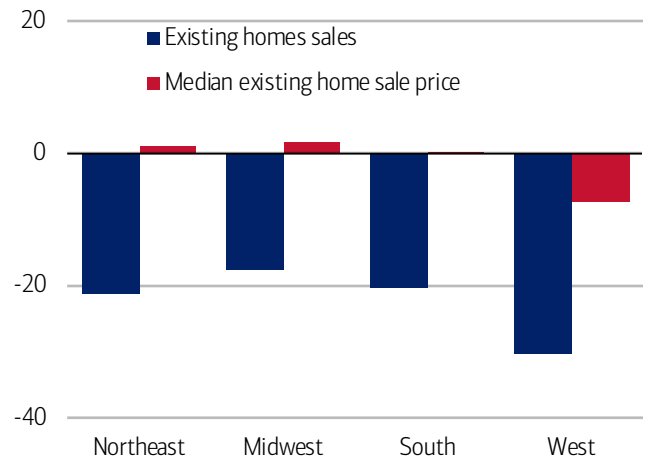
The West's economic growth slipped into negative territory at the end of 2022



Source: Bureau of Economic Analysis

Exhibit 4: Existing home sales and median sales prices (March 2023, % YoY)

The housing market in the West has been the weakest in the United States so far



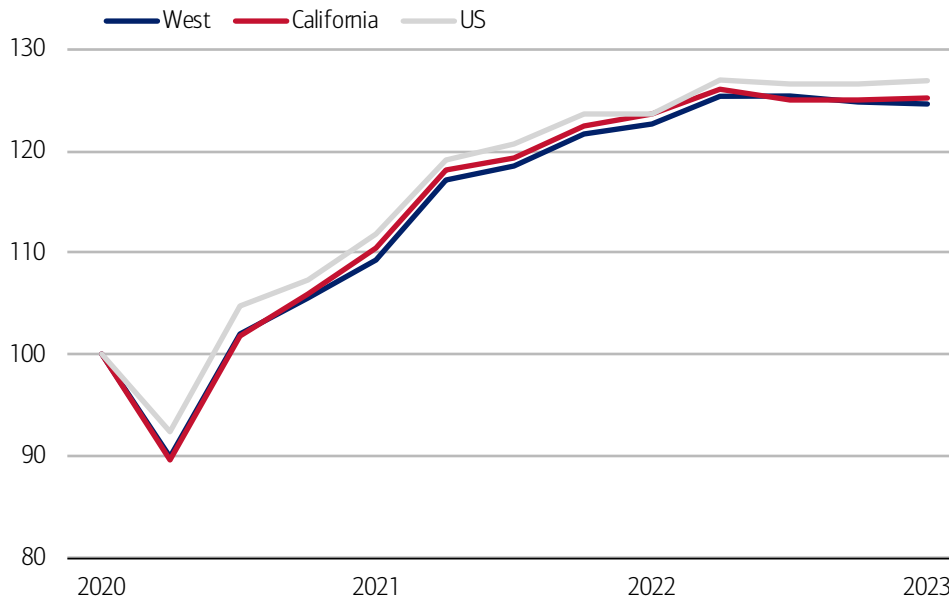
Source: National Association of Realtors

The good ...

We can use Bank of America aggregated credit and debit card data on total card spending per household to gain some insight into developments over the first quarter of 2023. As Exhibit 5 shows, over Q1, total spending levels in the West appear fairly flat. So, if this was reflected in GDP (and there may well be other influences on overall output), this might suggest some stabilization in the western economy.

Exhibit 5: Total credit and debit card spending per household across selected regions, based on Bank of America card data (2020Q1=100, quarterly seasonally-adjusted)

The good news is 2023 Q1 did not see a drop in spending in the West

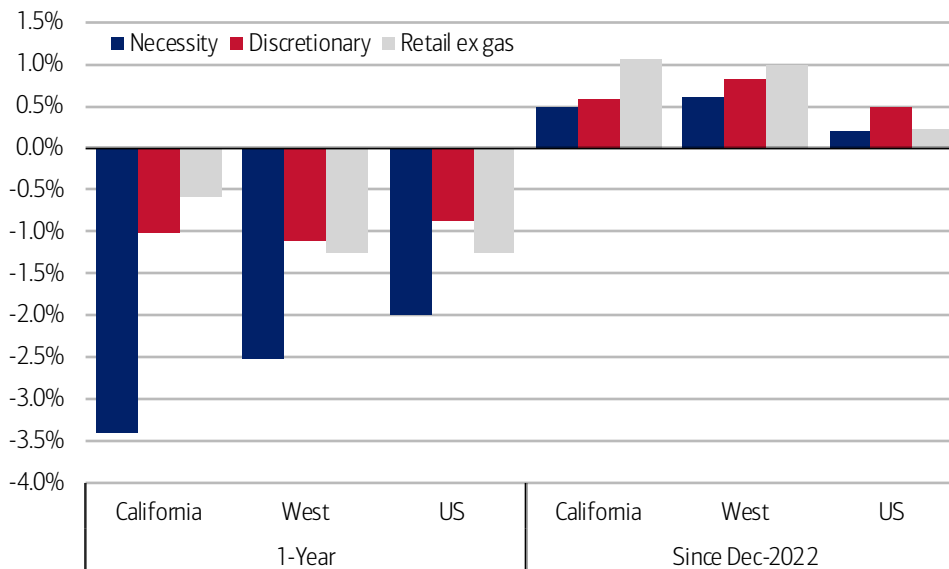


Source: Bank of America internal data

Moreover, when we roll our data forward to April we see some better news. Exhibit 6 shows that while spending in the West was weak in April 2023 relative to a year earlier, it has actually outperformed the US as a whole over 2023 so far. In particular, consumer discretionary spending (non-gas, grocery, utility) has been solid.

Exhibit 6: Total credit and debit card spending per household across selected regions and sectors (% YoY and % change from December 2022, monthly seasonally-adjusted)

The West appears to have had a positive bounce in spending at the start of 2023

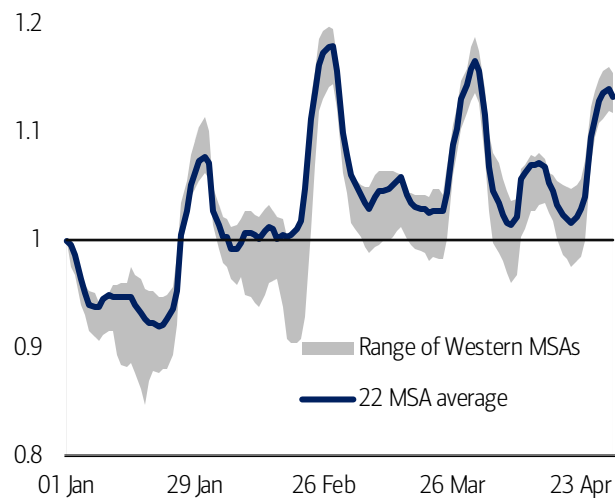


Source: Bank of America internal data . (Necessity spending includes grocery, gasoline and utilities. Discretionary is the remainder. Data up an including April 2023).

We can also use our daily data to look at major Metropolitan Statistical Areas (MSAs) in the West compared with a set of 22 MSAs across the US. The shaded grey area in Exhibit 7 shows the range of performance in MSAs in the West. Since the start of this year the spending of these MSAs has not been very different from that of the 22 MSAs across the US. Exhibit 8 shows the MSAs that are doing better than the 22-MSA average: San Diego, Phoenix and LA. Meanwhile, San Francisco, Denver, Las Vegas and Portland are only doing somewhat worse than average.

Exhibit 7: Daily card spending per household across MSAs to May 6, 2023 according to Bank of America card data (Index, 1st week of January 2023 =1, 7-day moving average)

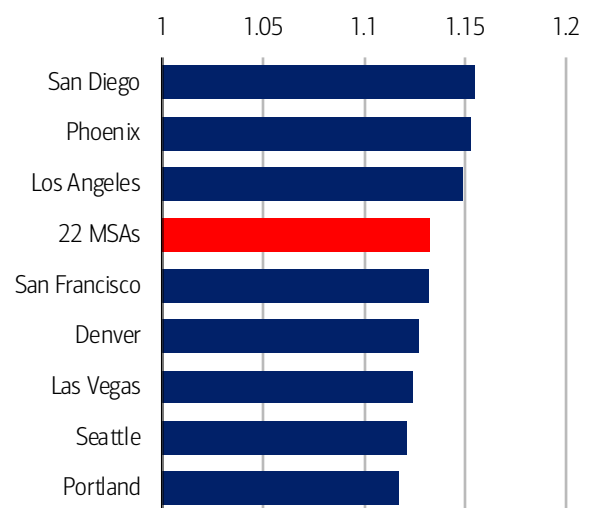
Since the start of 2023, MSAs in the West appear to be performing broadly in line with the average across 22 MSAs



Source: Bank of America internal data

Exhibit 8: Daily card spending per household across MSAs as of May 6, 2023 according to Bank of America card data (Index, 1st week of January 2023 =1, 7-day moving average)

No MSA in the West in our sample looks a long way from the 22-MSA average as of May 6



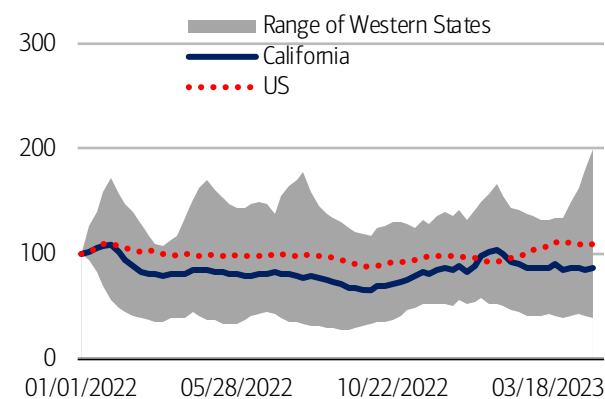
Source: Bank of America internal data

... the (potentially) bad ...

One important signal of a relative decline in the economy in the West would come from the labor market. But despite headlines around job losses in the tech sector, there is yet to be a strong signal that the labor market is deteriorating at a faster pace in the West compared to the remainder of the country. Certainly, initial jobless claims are not rising faster, for example, in California than in the rest of the country (Exhibit 9), and while there are some signs that job openings are falling faster in the West (Exhibit 10), they remain at pretty elevated levels overall.

Exhibit 9: US and state-level initial claims (index, 1st January 2023=100, 4-week moving average, state claims not seasonally adjusted (NSA))

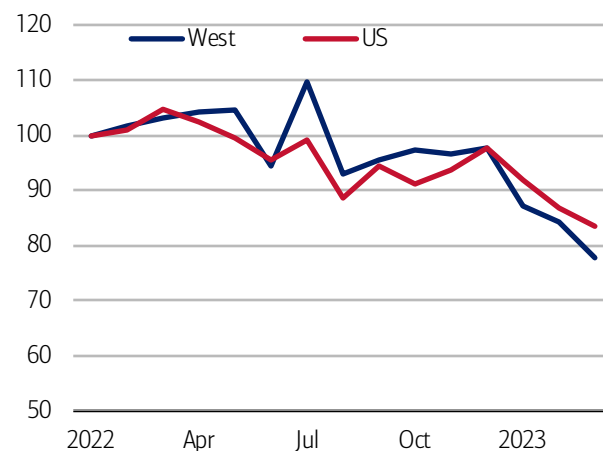
California labor market performance is not weakening relative to the US



Source: Department for Labor

Exhibit 10: Job openings in the West and US (January 2022=100)

Job openings in the West have fallen more than in the US as a whole



Source: Bureau of Economic Analysis

This warrants continued attention going forward for sure, given potential retrenchment in tech, which may also be higher paying jobs, and plausibly some relative credit tightening in the West given the regional banking challenges. But as our recent [Small Business Checkpoint](#) noted, we aren't yet seeing obvious signs of a significant acceleration in a tightening of lending conditions.

... and the ugly

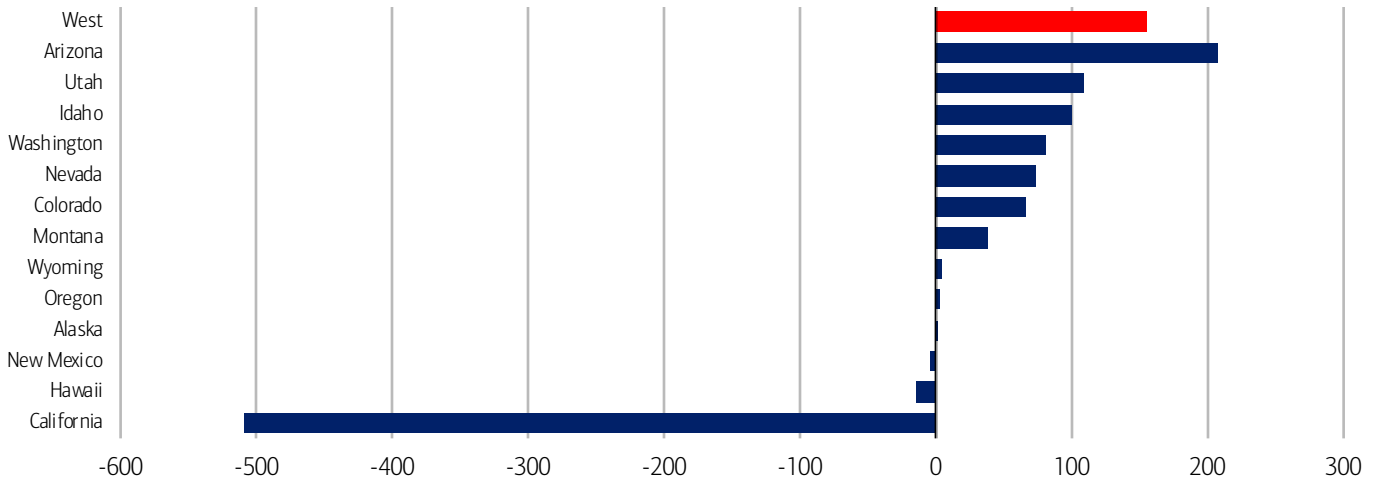
So the answer to our question, 'Is the West already in recession?' is 'No,' in our view, based on the data we have looked at. The performance of this region doesn't look too far off from the current US average. And if the broader US isn't in a recession, arguably the West isn't either. This is good news of course, but BofA Global Research and many other forecasters still expect a US recession in coming quarters, which will very likely impact the West too if it eventuates.

Moreover, the West faces a number of additional issues that could limit any subsequent recovery following any recession or slowdown. The largest of these may be population change. Exhibit 11 shows that while from April 1, 2020 to July 1, 2022 the population in the western region did rise in aggregate, the change was relatively low and very uneven across the states.

Most obviously, California is estimated to have seen a drop of around half a million people over this pandemic period. While some of these Californians may have moved to Arizona and other states in the West which saw a rise in population, around 490K people in the West are estimated by the Census Bureau to have moved to other US regions.

Exhibit 11: Population change in western states April 1, 2020 to July 1, 2022 ('000s)

Population growth in the West has been uneven, with a big decline in California holding back overall growth

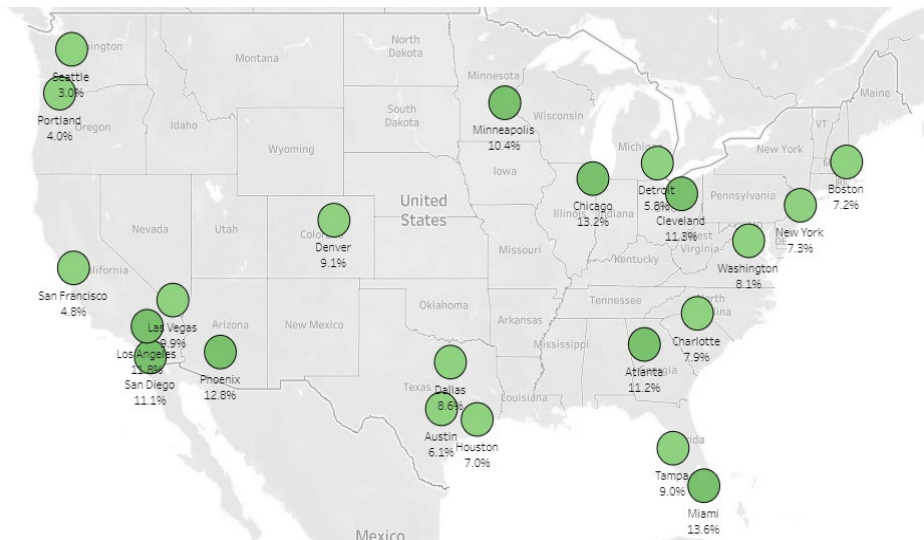


Source: U.S. Census Bureau

Ultimately, population growth underpins economic growth, for example, through expanding the demand for housing, goods and services, as well as providing a growing labor force. While the pandemic was an exceptional period, these slower population trends will be a headwind to longer-term growth in the West if they continue in the post-pandemic period.

Exhibit 12: Total credit and debit card on spending brick and mortar retail across 22 MSAs according to Bank of America card data (Yo4Y % change, 28-day moving average)

Some cities in the West have seen a rather muted rise in brick and mortar retail spending



Source: Bank of America internal data

Related to these population flows, along with trends in working from home and other structural changes, are challenges across several cities in the West. For example, looking at Bank of America internal data, Exhibit 12 shows a map on in-store 'brick and mortar' retail spending growth across MSAs for the four-years to May 6, 2023. The average growth across 22 MSAs in our sample over this period was 9%. However, several cities in the West are lagging this increase significantly, and a stronger performance in these cities would make a vital contribution to any re-acceleration of growth in the West in the coming years.

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.

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