Accessible version

BANK OF AMERICA INSTITUTE

BANK OF AMERICA

Regional Morsel

Southern comforts

07 December 2023

Key takeaways

- The South of the US, as defined by the Census Bureau, is a huge region of nearly 129 million people, covering 16 states and the District of Columbia (D.C.). Almost half of the population growth in the US since 1960 has come from the South, supported by inward migration and a relatively high birth rate.
- The South as a region outgrew the overall US economy between 2017-22, according to GDP data from the Bureau of Economic Analysis. In 2023 the South's economic performance also appears robust, with Bank of America data suggesting solid consumer spending growth in the third quarter. Our data also suggests the smaller southern states have recently been performing well.
- Can we expect a similar constructive performance into next year? Well, the southern consumer appears fairly upbeat according to the November 2023 Bank of America Market Landscape Insights Survey and the regional labor market is arguably in the best shape of any US region. So, while the US economy and consumer may experience a 'soft landing' in 2024, we see reason to be optimistic that the South could modestly outperform.

The South is vast and its population is growing...

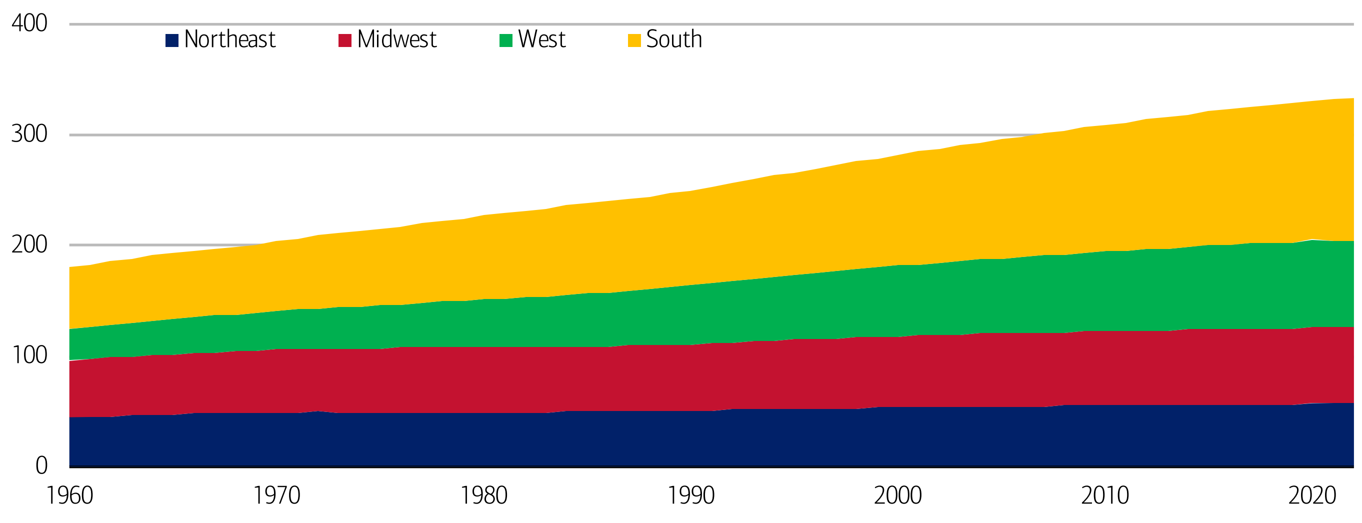
Throughout this year we have taken a look at each of the Census Bureau's regions. In this final report, it's the South's turn in the spotlight.

The first striking thing about this region is its vast size – and it's growing. Geographically, the South is made up of 16 States (Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia) and the District of Columbia (D.C.) – more than any of the other four census regions. Its population accounts for 39% of the whole of the US – 128.7 million in 2022, according to Census Bureau estimates.

As seen in Exhibit 1, the population of the South has been growing quickly. Since 1960, its population has increased by 73.5 million – accounting for almost half of the increase in the US over this period.

Exhibit 1: Population of the United States by Census region (millions)

The population of the South has been the largest source of growth of the US population since 1960

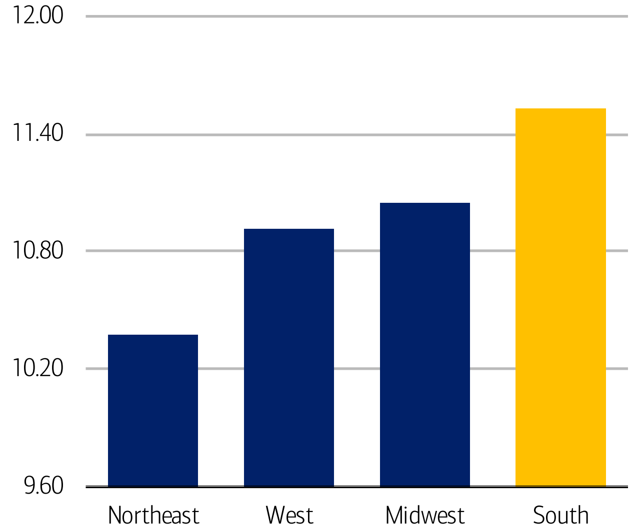


Source: Haver Analytics

The population story is familiar – we have covered recent trends extensively this year in our On the Move publications. People have been moving to the South over a long period, with the pace accelerating during the pandemic. In recent internal data, covering 2023 Q3, we see a continued strong inflow into southern Metropolitan Statistical Areas (MSAs), such as Austin, San Antonio, Jacksonville and Tampa. And, on top of the migration story, Exhibit 2 illustrates that the South has a higher birth rate than other census regions, too.

Exhibit 2: Birth rate in US Census Regions (per 1000 persons, 2022))

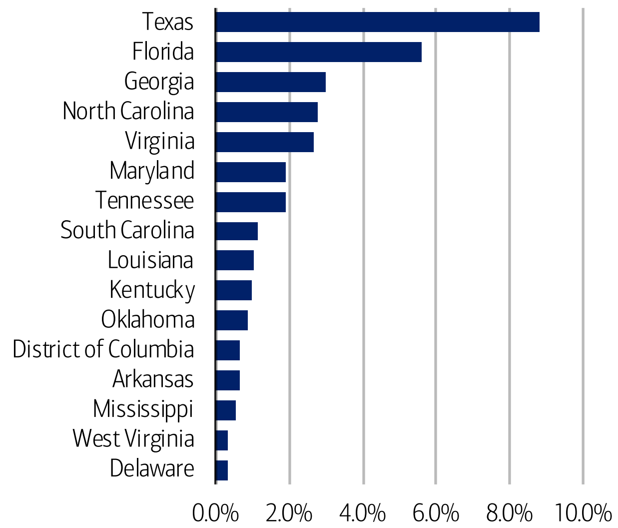
The South has the highest birth rate of the US Census Regions



Source: Haver Analytics

Exhibit 3: GDP of States in the South as a share of overall US GDP (%, 2022)

Texas is the largest state in the South by GDP, followed by Florida



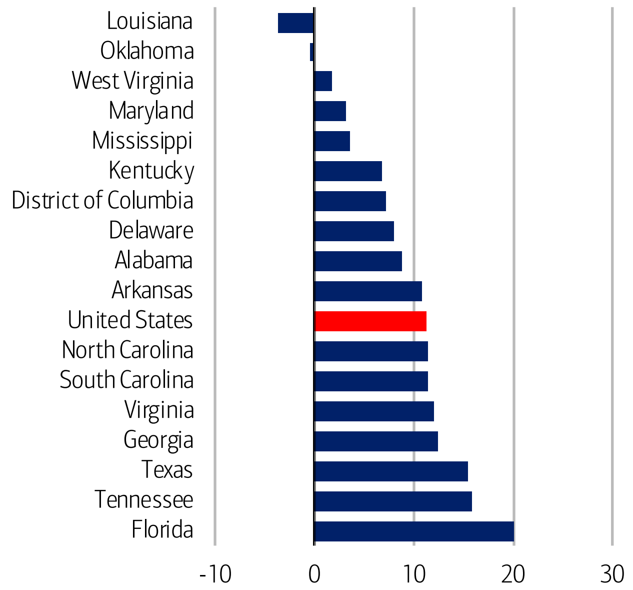
Source: Bureau of Economic Analysis (BEA)

...with a huge role in the US economy

The South's weighty demographics mean it is also represents a huge part of the broader US economy. Overall, the South accounts for around one-third of US GDP, with Texas as the largest state by GDP, followed by Florida (Exhibit 3).

Exhibit 4: GDP growth 2017-2022 (%)

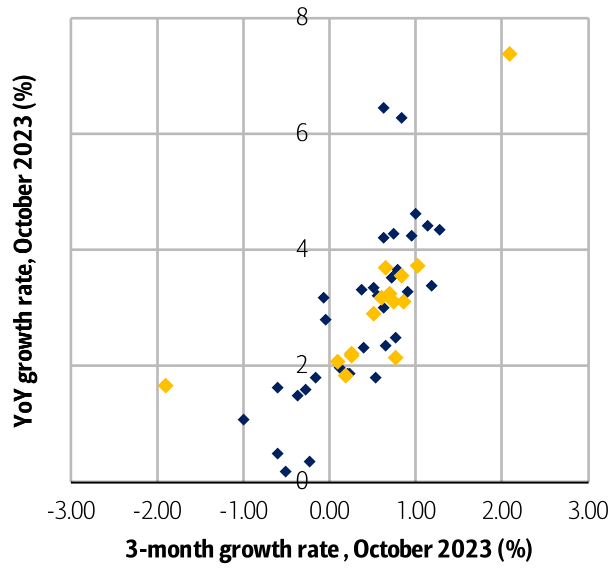
Between 2017-2022 GDP increased faster in seven southern states compared to the US overall



Source: Bureau of Economic Analysis

Exhibit 5: YoY and 3-month growth rates in the Philadelphia Fed's state coincident indices (5, southern states = yellow diamonds)

All but one of the southern states appear to have increased economic activity in the third quarter



Source: Federal Reserve Bank of Philadelphia

But GDP growth across the South has not been even. Between 2017 and 2022, seven southern states had a larger increase than the average US rise of 11%. Of these, Florida showed the biggest jump in GDP, by 20%, followed by Texas and Tennessee, growing by 15% (Exhibit 4). However, over the same period, nine others and D.C. expanded more slowly, with Oklahoma and Louisiana showing negative growth.

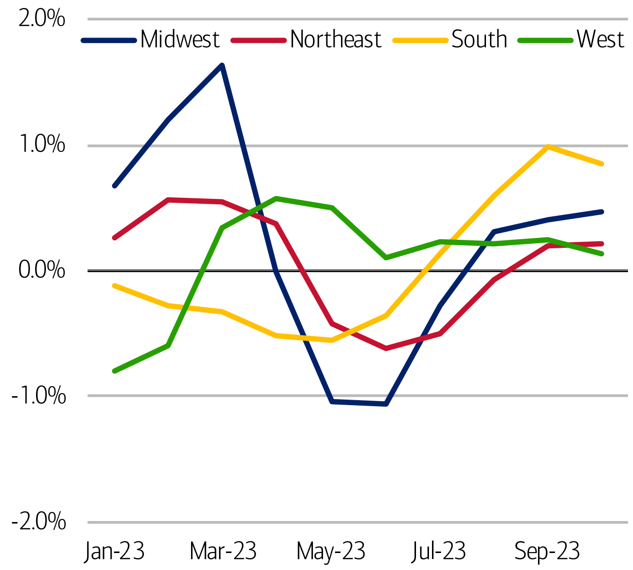
Southern consumers: big spenders?

Quarterly state-level GDP has been published only up to Q1 2023, but the Federal Reserve Bank of Philadelphia publishes a useful monthly index which tracks economic conditions by state, using statistical techniques. The index is set for each state, according to the trend in that state's GDP, so the long-term growth in the state's index matches the long-term growth in its GDP.

In the latest release covering October, the Philadelphia Fed's state index increased over the past three months, consistent with rising activity in Q3 in 33 US states and showed a decrease in 16. The good news is that all states in the South, except West Virginia, showed a rise (Exhibit 5).

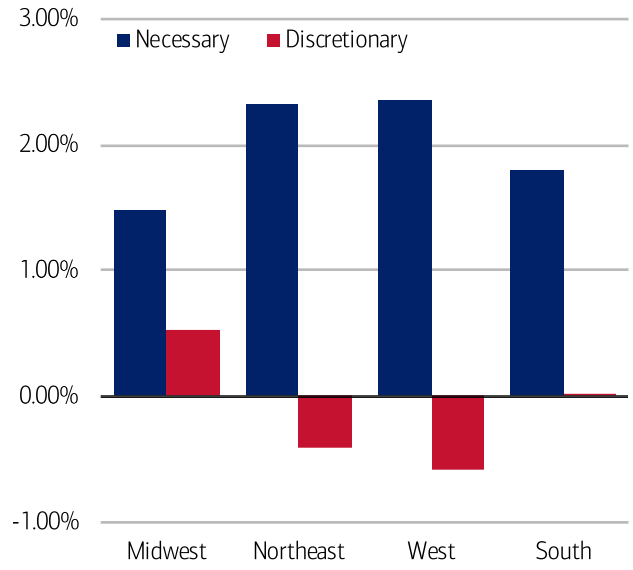
We can also consider Bank of America aggregated and anonymized credit and debit card spending per household to assess how the southern states' consumers are doing. Exhibit 6 shows that growth in Bank of America total card spending per household in the three months to October in the South was stronger than in any of the other census regions on a seasonally-adjusted basis. Looking at the three months to October, it appears that spending growth in the South was stronger on discretionary items than in the West and Northeast. Growth in necessary spending (such as food, gasoline and utilities) was also robust in the South.

Exhibit 6: Total card spending per household three-month growth rate (seasonally-adjusted, %)
In the three months to October total card spending per household in the South outpaced other regions



Source: Bank of America internal data

Exhibit 7: Discretionary and Necessary spending growth, three months to October (seasonally-adjusted, %)
The South had stronger spending on discretionary items in the three months to October than the Northeast or West

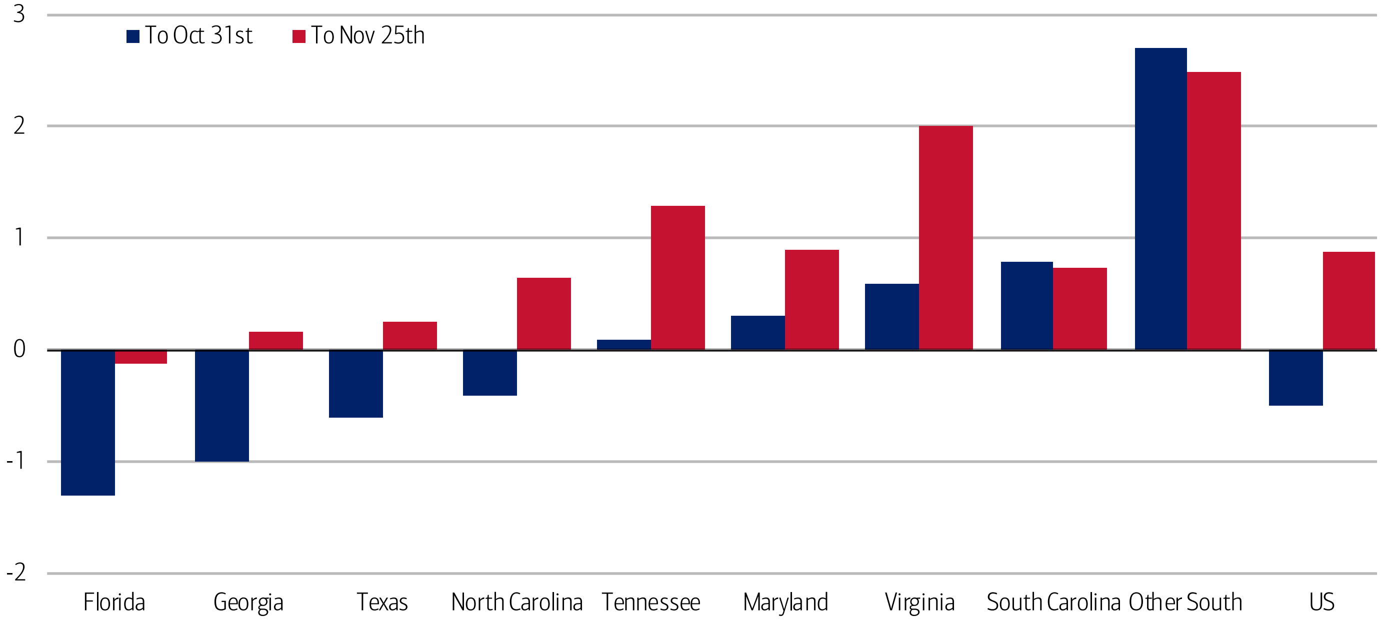


Source: Bank of America internal data. Necesssary spending is defined as spending on food. beverages, utiliites and gasoline. Discretionary spending is defined as all other spending.

Non-seasonally adjusted state level data shows that some of the smaller southern states are doing better than the larger ones – a welcome trend given their past lagging performance. Exhibit 8 shows that, in the 28 days to October 31, card spending per household was stronger than the US average in Tennessee, Maryland, Virginia, South Carolina and the other smaller southern states. By contrast, card spending was weaker in Florida and Georgia and more or less in line with the US average experience in Texas and North Carolina. Some of the apparent weakness in Florida likely reflects the impact on year-over-year (YoY) growth rates from Hurricane Ian at the end of September 2022.

Looking at the latest data to November 25, which will include some seasonal 'holiday shopping,' we find a fairly similar pattern – with strong spending growth in Tennessee, Virginia and the smaller southern states in particular.

Exhibit 8: Total card spending per household by state (28-day average of daily data, not seasonally adjusted)
South Carolina, Tennessee. Maryland, Virginia and other smaller southern states appear to be spending faster than the US average

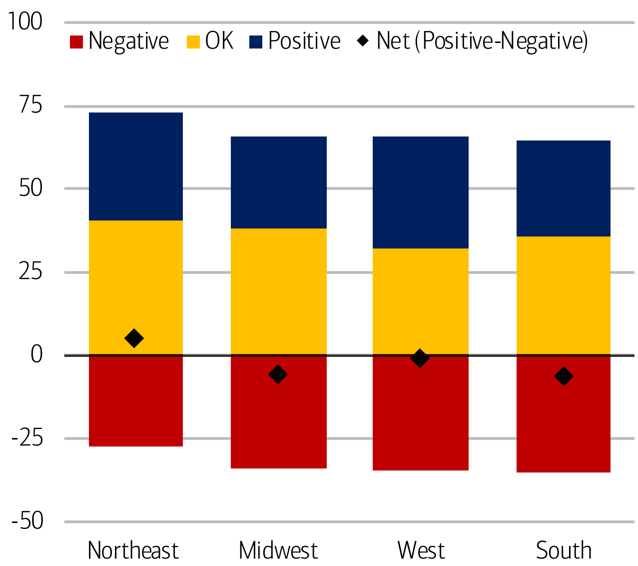


Source: Bank of America internal data

What's the outlook?

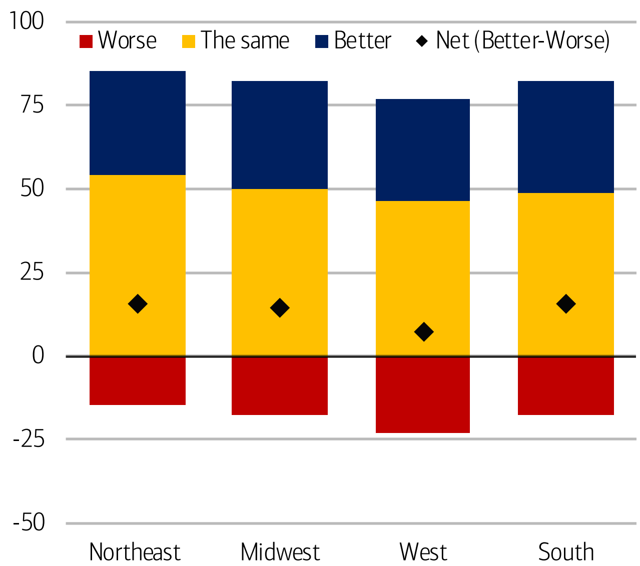
So, what's the outlook for the southern consumer? One way to find out is to ask southern consumers what they think, and the November 2023 Bank of America Proprietary Market Landscape Insights Study ('Insights Study') did just that (Exhibit 9 and Exhibit 10).

Exhibit 9: Survey responses to the question 'Thinking about how things are today, how would you rate the state of your personal finances?' (%)*
Survey respondents in the South felt a little downbeat about their finances



Source: Bank of America Proprietary Market Landscape Insights Study. * Terrible/Poor responses are multiplied by -1.

Exhibit 10: Survey responses to the question 'Six months from now, do you think your finances will be...?' (%)*
But respondents in the South feel more optimistic about their finances in six months' time

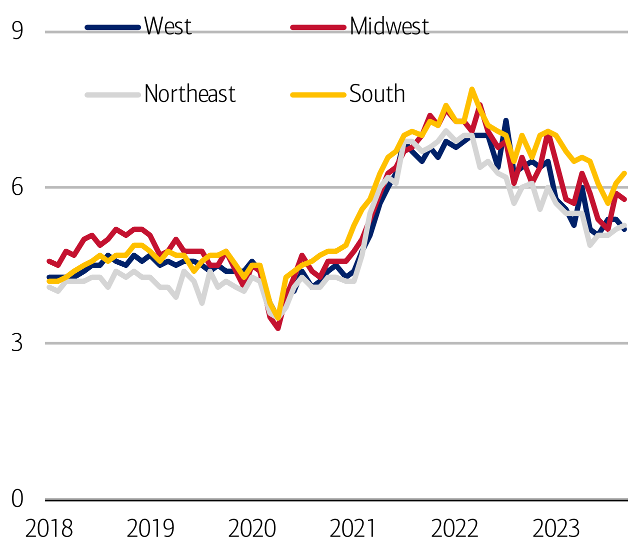


Source: Bank of America Proprietary Market Landscape Insights Study

When asked how they view the current state of their finances, southerners seem to be feeling a little downbeat: more respondents are negative than positive. But respondents feel better about the future (Exhibit 10). There is a net positive balance between those in the South stating they feel better about the next six months than those who say they worse.

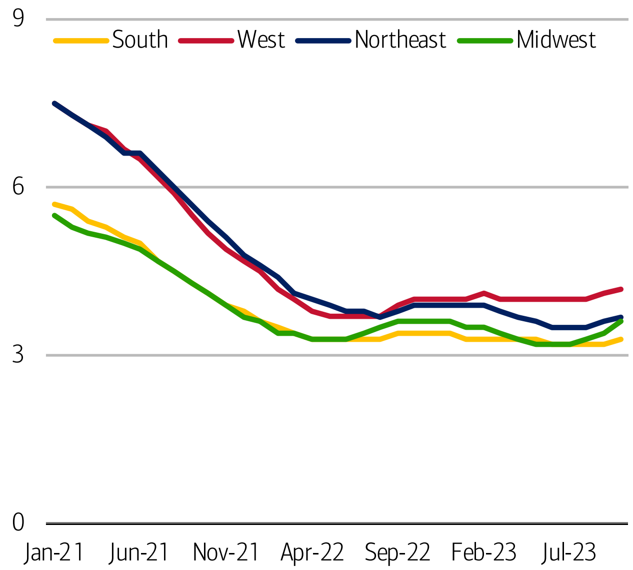
In our view, the resilient jobs market is likely supporting this somewhat optimistic outlook. In particular, job openings by region (Exhibit 11) suggests that the labor market is the South is potentially decelerating at a slower pace than that in the other regions – it has the highest job openings rate in the latest data from the Bureau of Labor Statistics. The South also has the lowest unemployment rate of any region (Exhibit 12).

Exhibit 11: Job openings rate by Census Region (%)
Job openings in the South look relatively stronger than other regions



Source: Haver Data Analytics

Exhibit 12: Unemployment rate by Census Region (%)
The South has the lowest unemployment rate of any region



Source: Bureau of Labor Statistics

BofA Global Research expects the US economy to undergo a 'soft landing' in 2024, in which overall US GDP growth will slow but not fall into negative territory. Consistent with this, US consumer spending is expected to cool and reach its slowest point in the third quarter of 2024.

Given the size of the southern economy, it may be hard for the South to diverge significantly from this picture (partly because the region makes up such a large share of US GDP). But the momentum of the southern consumer looks reasonable, while the labor market in the South looks in arguably better shape than any other region in the US. Alongside favorable demographics, with people still moving to the South and thereby bringing housing and other demand, the southern economy's strength could likely continue next year, in our view.

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 in 1989-1995

3. Older Millennials: born in 1978-1988

4. Gen Xers: born in 1965-1977

5. Baby Boomers: born in 1946-1964

6. Traditionalists: born pre-1946

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

Bank of America conducts a Proprietary Market Landscape Insights Study in order to provide an ongoing pulse on consumer attitudes, insights, and trends to help understand consumer responses to an ever-changing external landscape. The bank's Culture and Trends team manages quarterly and monthly online quantitative surveys conducted among customers and non-customers that provide a representative view of the U.S. adult population. Insights are based on aggregated and anonymized responses to surveys.

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

Contributors

David Michael Tinsley

Senior Economist, Bank of America Institute

Sources

Li Wei

Senior Vice President, Global Risk Analytics

Kimberly Warren

Senior Vice President, Global Risk Analytics

Riley Fillius

Market Information Manager, Analytics, Modeling and Insights

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.