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Regional Morsel

Regional Roundup: Will the West take flight?

25 June 2024

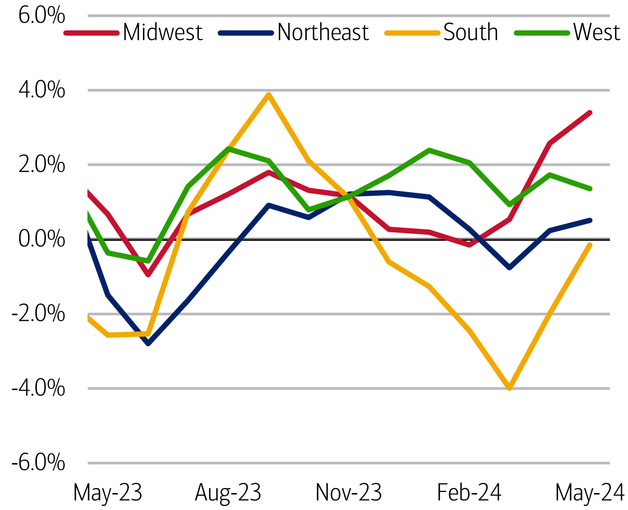
Key takeaways

- Bank of America internal card and deposit data shows that discretionary spending growth is picking up momentum in the West, boosted by the highest employment income growth of all regions.
- Income growth is up nationally but highest in the West, supported by leisure and hospitality gains from domestic tourism and a possible lift from AI-related investments.
- But rising necessity costs and population shifts in the region put pressure on local businesses and future investments. And while California is showing signs of recovery, its large economy, fragile employment situation and high cost of living provide a potential headwind to the West's overall GDP.

Spending across regions is mostly steady

In our most recent regional publication, (see: Midwestern progress?), we showed that GDP growth has been particularly strong in the West and South since the pandemic, while the Midwest and Northeast lagged. We also noted that consumer spending is the largest part of overall GDP and, therefore, Bank of America aggregated credit and debit card data can give us a directional guide to overall economic performance of the four US regions (regions defined by Census Bureau). So, what's the latest position?

Exhibit 1: Spending trends show continued strength in the Midwest, a recovery in the South, and steadiness in the West
Credit and debit total card spending per household (HH) from Bank of America data (three-month moving average, seasonally-adjusted annual rate (SAAR) %)



Source: Bank of America internal data

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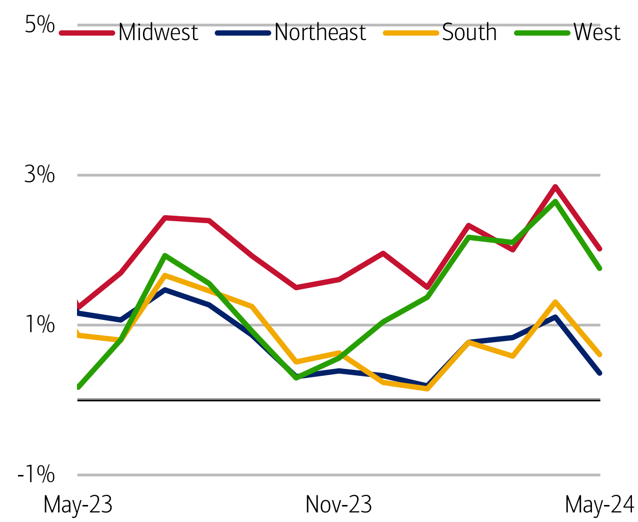
Exhibit 2: Discretionary spending momentum has been rising fast in the West
Credit and debit card discretionary spending per household (HH) (three-month moving average, year-over-year (YoY)% change, non-seasonally adjusted (NSA))



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

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Looking at the most recent data – Bank of America card spending per household through May 2024 – spending growth in the Northeast and South continues to trail the Midwest and West (Exhibit 1). However, on a positive note, the South has largely recovered from cold weather-related spending declines in late 2023 despite a slew of severe storms affecting Houston in mid-

May. Bank of America card data also shows continued strength for the Midwest, and looking to the West, spending remains sturdy, with relatively stable growth compared to the other regions since mid-2023.

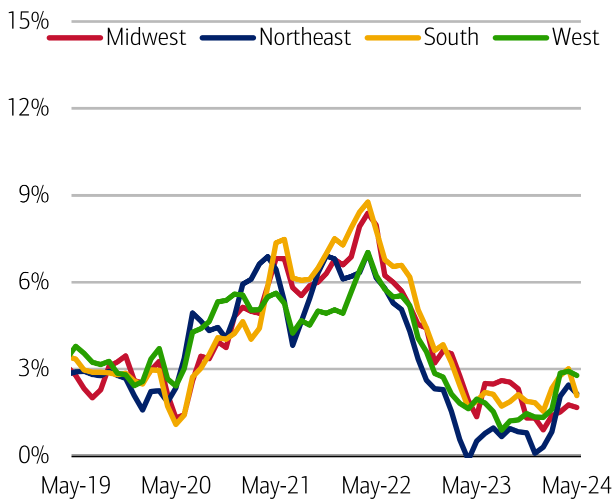
Labor markets are fueling the West, for now

Bank of America internal card data also shows that discretionary spending growth momentum in the West has picked up significantly (Exhibit 2). Why?

One part of the story is the labor market. Using Bank of America aggregated consumer deposit data to analyze the growth in after-tax wages and salaries across the four regions (Exhibit 3), we find that increases in employment income in the West have accelerated sharply recently. And in the most recent data, the West is showing stronger growth in after-tax wages and salaries than any region.

Exhibit 3: The West showed the highest increases in employment income in May 2024, but all regions have experienced rises since the beginning of the year through May

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



Source: Bank of America internal data

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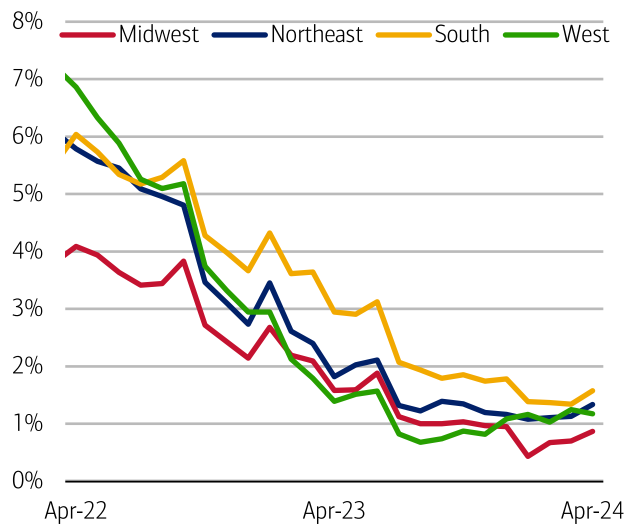
Exhibit 4: Employment growth has started to flatten across most regions since early 2024, but employment growth momentum in the West appears to be increasing since Fall 2023

Total nonfarm private payrolls (three-month moving average, YoY%, NSA)



Source: Bureau of Labor Statistics

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Across the regions, this growth in income is likely due to tightness in the labor market. However, growth in job openings across the US is largely flat, a potential headwind for future labor markets. And while total nonfarm private payrolls data from the Bureau of Labor Statistics (BLS) shows that job growth has been slowing since April 2022 (Exhibit 4), momentum does appear to be increasing slightly in the West since Fall 2023 compared to other regions.

BLS data details that this jobs growth was due, in part, to gains in the leisure and hospitality industry. In fact, in a recent publication, (see: Travel trends to watch for in summer '24), we found that domestic tourism growth was particularly strong in California, with the number of out-of-state visitors up from last year and especially high compared to pre-pandemic levels. So, the West may be continuing to benefit from its strong position in the tourism sector.

Wild, wild tech

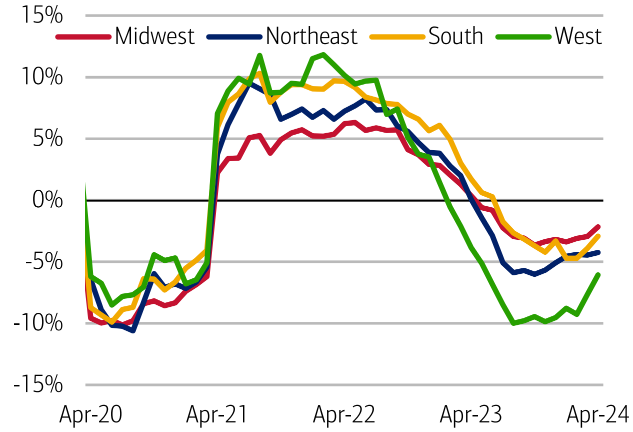
Additionally, reports of wide-spread layoffs in the tech sectors made headlines throughout 2022 and 2023. This was particularly stark for the West, with employment declining sharply compared to other regions in the information industry, our proxy for tech employment, before reversing course in early 2024 (Exhibit 5). Digging deeper, Exhibit 6, shows that the year-over-year (YoY) decline in employment for California's tech sector appears to follow a similar pattern.

An important caveat for California lies with the latest JOLTS release from the BLS, showing that job openings have seen relatively large decreases. in our view, this reversal is partly a balancing act between tech sector employers being largely through with job cuts that started in 2023, while more broadly national and regional labor markets cool down.

However, it could also be that this trend marks the beginning of an AI hiring boost. As AI technology spreads, it will create more demand for computing power and storage space, leading to more capital expenditures and hiring in the data center and cloud computing space.

Bank of America Global Research notes that total cloud industry capex is projected to grow through at least next year. They also note that rising utility costs (see: Feeling the Heat) and limited availability of land may pressure capex investments in Silicon Valley, leading to more investments throughout smaller markets, like Phoenix and Portland, in the West.

Exhibit 5: The decline of employment in the information industry seems to be reversing in the West and flattening in other regions
Total information industry payrolls (three-month moving average, YoY%)



Source: Bureau of Labor Statistics

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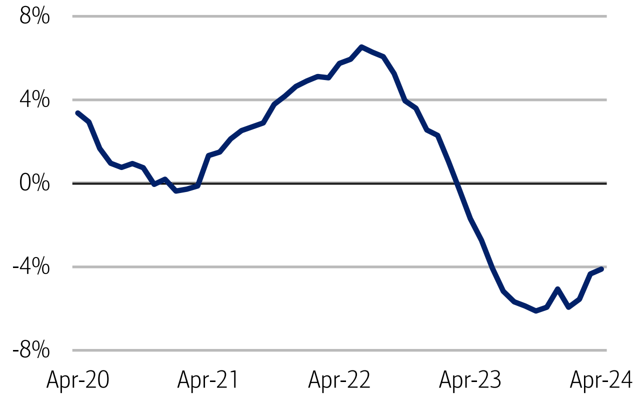
Exhibit 6: Declines in tech sector employment has begun to reverse in California since October 2023
The number of payrolls for tech sectors: computer systems design, software publishers, streaming, computer infrastructure, data processing, and web search portals (three-month moving average, YoY%)



Source: Bureau of Labor Statistics

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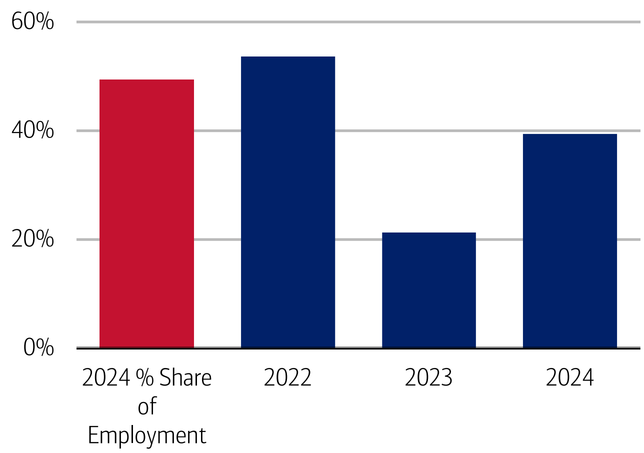
California's large economy still currently steers the West

But currently, there's no doubt that California's recovery will be a key component to the West's strength. In 2023, California only accounted for 20% of the YoY job gains for the region despite being responsible for nearly half of the West's total employment (Exhibit 7). Positively, employment appears to be reversing significantly through April of this year, with California responsible for nearly 40% of job increases for the West, much more in line with its share of employment.

Similarly, California accounts for over half of the West's GDP and, as a result, California's economic declines can drag the West with it. This is best illustrated by YoY GDP growth in the fourth quarter of 2022, where negative growth for California offset positive growth for the rest of the West, resulting in a decline in overall GDP YoY for the entire region (Exhibit 8).

Exhibit 7: California's contribution to employment increases have been more in line with its share of total employment after underperforming in April 2023
April 2024 % share of employment and contribution to employment growth (three-month moving average, yearly, California % share of West employment and % points contribution to YoY% employment change in the West) (2024 is April YTD)



Source: Bureau of Labor Statistics

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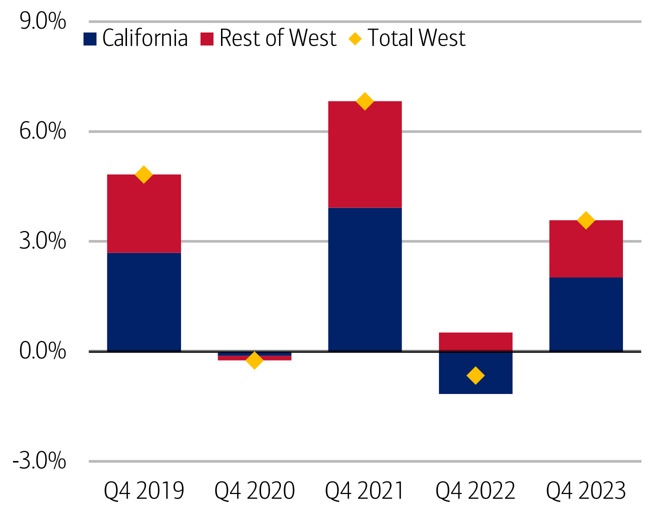
Exhibit 8: California is a large contributor to the western region's overall GDP and declines in the state pulled down the overall GDP in Q4 2022
California, Rest of Western Region, and Total West (quarterly, percentage points contribution to YoY% change and YoY% change)



Source: Bureau of Labor Statistics

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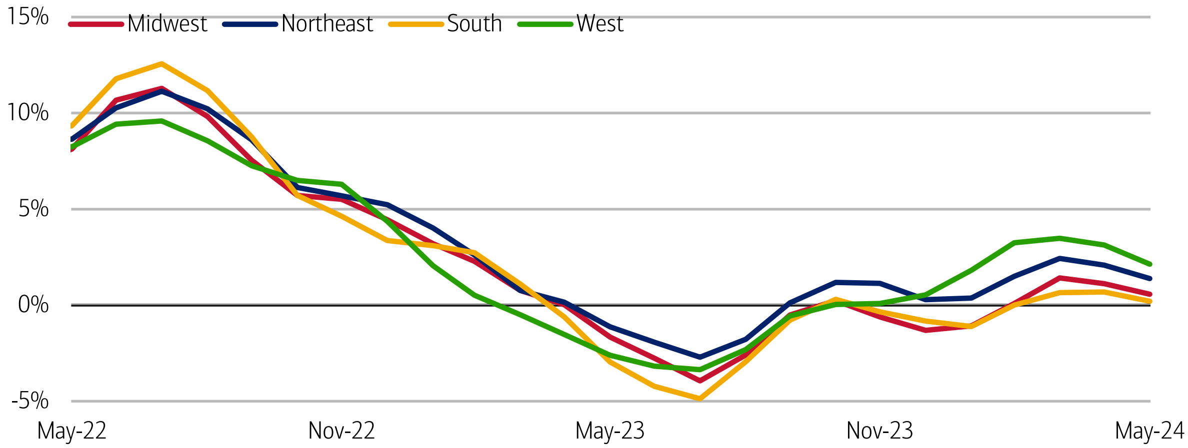
Local businesses face potential headwinds

And rising costs are impacting more than just future investment decisions. For consumers, Bank of America card data shows that spending growth on necessities like utilities and food is rising faster in the West than in all other regions since May 2023 (Exhibit 9). But it is not just consumers bearing the brunt, in a recent publication, (see: [Small Business Checkpoint: Rent pains and payroll relief]), we found that small businesses were also experiencing pressure from rent and payroll cost increases related to population shifts.

Exhibit 9: Necessity spending growth was higher in the West and has increased since July 2023

Credit and debit card spending per household on necessities (three-month moving average, YoY% change, NSA)



Source: Internal Bank of America data. (Necessity spending is spending on gasoline, food, utilities.)

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Cost of living pressures are one reason the western cities continue to see outward domestic migration. In our recent report on domestic migration (see: [On the move: Homebuyer insights and the housing challenge]) we found that residents continued to leave western cities in the year to first quarter 2024. This trend has largely been driven by younger people seeking to lower their cost of living, particularly for housing.

Overall, the West appears to be on track on the economic front. But given the delicate balance of employment, population shifts, and rising costs, the trip ahead may be turbulent.

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