Regional Morsel

Regional Roundup: Renaissance out West?

05 December 2024

Key takeaways

- Spending growth in the West rebounded in 2024 after a lackluster 2023, according to Bank of America aggregated card data. This shift was partially driven by stronger wage growth as the region shook off the impact of tech job losses last year.
- Consequently, consumers appear to be easing back on 'trading down'. However, our data shows the proportion of westerners living paycheck to paycheck is also rising, which may reflect signs of renewed deterioration in the region's housing affordability.
- Median rents in the West and Northeast have become more expensive this year compared to the rest of the US. This is a reversal of a multi-year trend that started in 2020, when population shifts to the South ramped up after the onset of the pandemic.

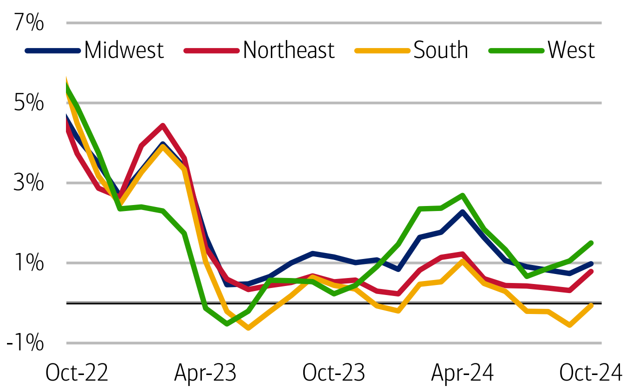
The West stands tall

Consumer spending in the West is finishing the year a head above the rest. After a comparatively weaker year in 2023, Exhibit 1 shows that the West recovered throughout 2024, with the region boasting the highest spending growth per household of all US regions[1] in October 2024, according to Bank of America aggregated credit and debit card data. Meanwhile, spending growth in the Midwest and Northeast has been comparatively steady over the past year and a half, while consumer spending in the South has recently lagged.

Discretionary spending alone (e.g., travel, restaurants, clothing and entertainment) follows a similar dynamic, with the West and Midwest showing the strongest growth in 2024. That said, we have seen a significant improvement across all regions since July (Exhibit 2). In our view, discretionary spending is likely growing faster as deflation and disinflation in gas and groceries have left more room in some consumers' budgets (see: Holiday spending unwrapped).

Exhibit 1: Spending growth in October 2024 has outpaced in the West and Midwest, up about 1% YoY, but lagged in the Northeast and South

Total credit and debit card spending per household (HH) (3-month moving average, year-over-year (YoY)% change, non-seasonally adjusted (NSA))



Source: Bank of America internal data

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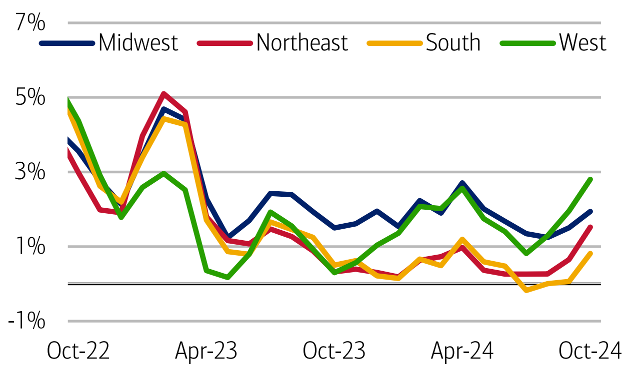
Exhibit 2: A similar dynamic is at play for discretionary spending, but there appears to be more improvement across all regions since July 2024

Credit and debit card discretionary spending per household (HH) (3-month moving average, year-over-year (YoY)% change, non-seasonally adjusted (NSA))



Source: Bank of America internal data. See Methodology for details on discretionary spending.

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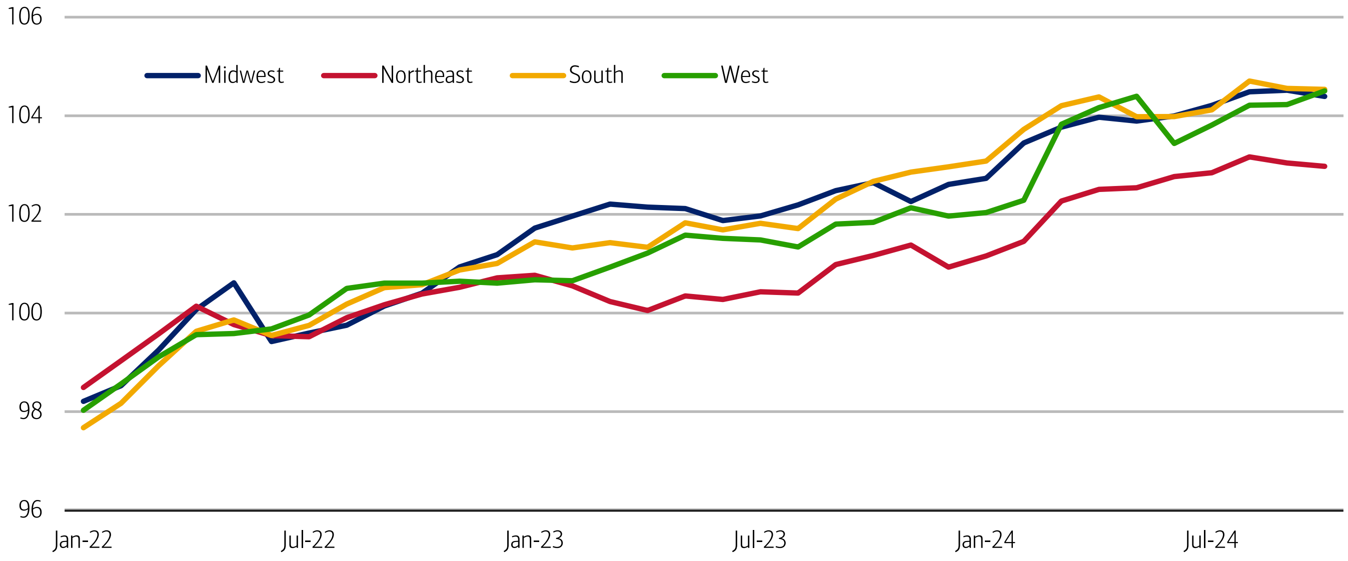
[1] As defined by the Census Bureau

Are rising wages helping the West?

What's behind this improvement in the West? We think the recovery in the labor market is key. Looking at after-tax wages and salaries based on Bank of America deposit account data across US Census regions, wage and salary growth in the West has now caught up with the South and Midwest, rising by a similar percentage relative to 2022 (Exhibit 3). This is a significant improvement from 2023, as the West lagged throughout that year, partly reflecting significant job losses in the tech sector. Notably, the Northeast remains a laggard, trailing all other regions since February 2023.

Exhibit 3: Wage growth in October 2024 was similar in the West, South, and Midwest, relative to 2022, with the West experiencing notable improvement. However, wages in the Northeast have lagged other regions since the start of 2023.

After-tax wage and salary growth by region, based on Bank of America aggregated consumer deposit data (3-month moving average, index 2022 = 100, seasonally adjusted (SA))



Source: Bank of America internal data

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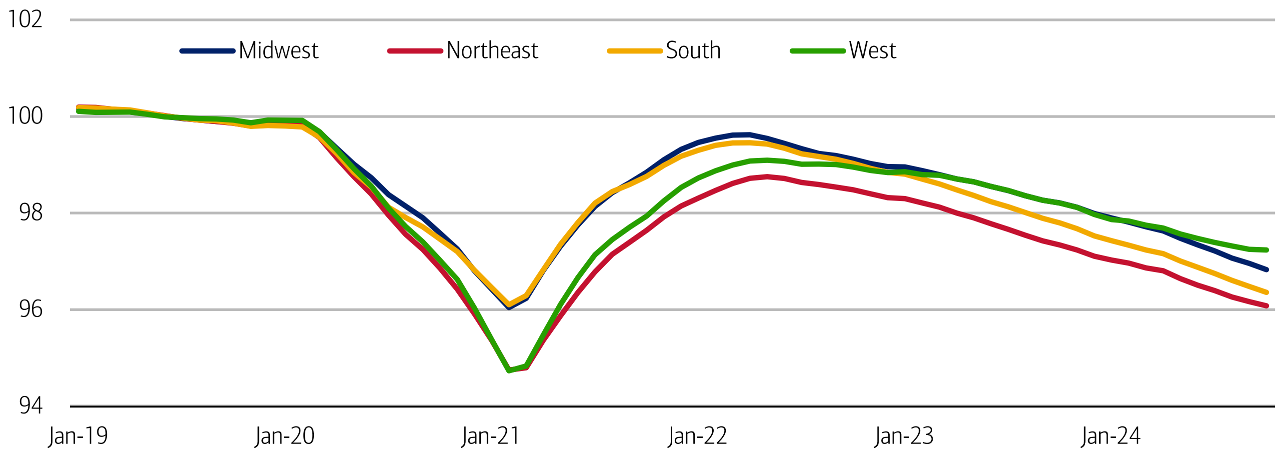
Trade-down is easing out West

The catch-up in wages in the West is not just reflected in stronger spending growth. Bank of America data also shows signs that consumers are easing back on their search for bargains.

Exhibit 4: The spending tier composite (STC) has trended down across all regions over the past two years, indicating that more consumers are switching to value tier stores across the nation. However, the Northeast and South has seen the largest declines, while the West appears to be flattening.

Bank of America spending tier composite derived from credit and debit card spending by region (monthly, index 2019 = 100)



Source: Bank of America internal data. Note: Spending tier composite is derived from card spending on apparel, dining, grocery, and travel

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Exhibit 4 shows a regional view of the propriety 'spending tier composite' (STC) previously published in Millennial, middle-income, and thrifty. This measure uses Bank of America card data to rank consumers' spending by tiers (see Methodology) to provide a view on the degree of consumer trade-down.

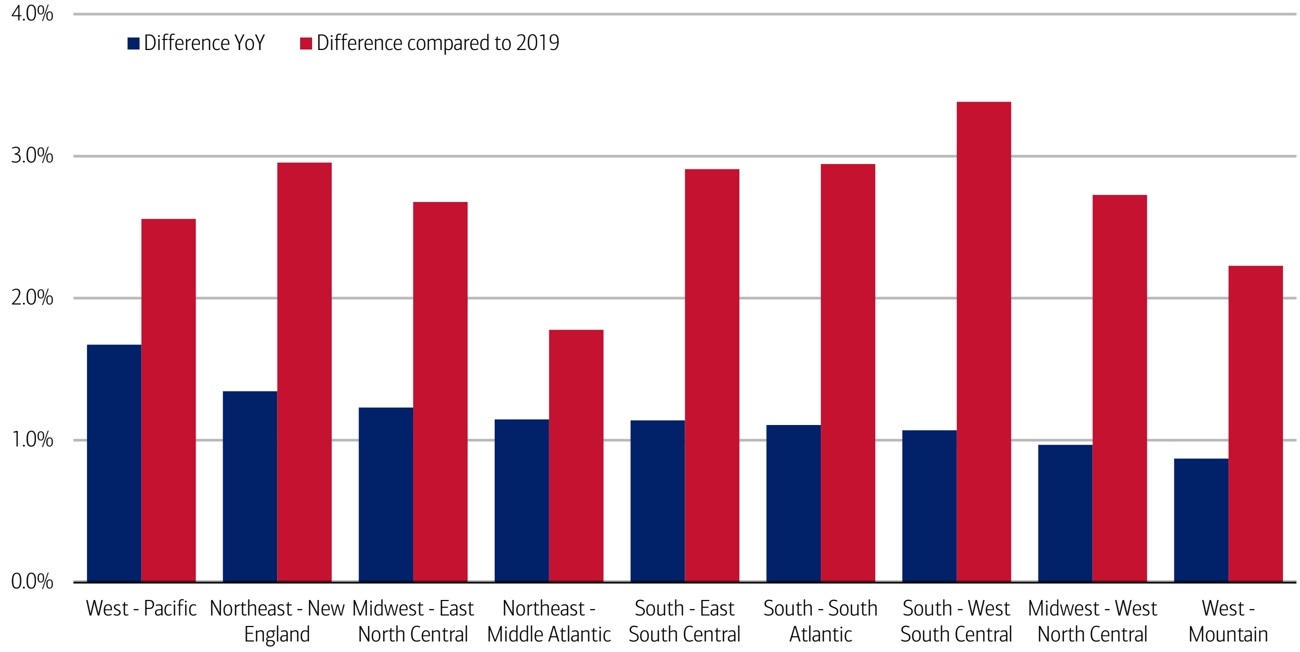
As of October 2024, consumers in the West have not only 'traded down' the least compared to other Census regions, but also over the past two months, the West's STC has flattened, indicating stability in consumer spending habits. Conversely, slower wage growth in the Northeast is being reflected in this region having 'traded down' the most over the past two years, with that trend continuing to accelerate.

Cost of living – rust in the armor?

So far, it's been good news for the West. However, in a recent publication (see: Paycheck to paycheck), we noted that a growing number of consumers are living paycheck to paycheck across the US (see Methodology) – and the West is no exception. In fact, the West-Pacific Census division specifically (Alaska, California, Hawaii, Oregon and Washington) has shown the largest percentage point increase year-over-year (YoY), with notable rises across the Northeast as well (Exhibit 5).

Exhibit 5: The West–Pacific Census division has seen the largest increase in the share of consumers living paycheck to paycheck YoY

Change in the proportion of households where necessity spending is above 95% of their income YoY (YoY, third quarter 2024) and compared to 2019, by Census division (% difference, third quarter 2024)



Source: Bank of America internal data. See Methodology

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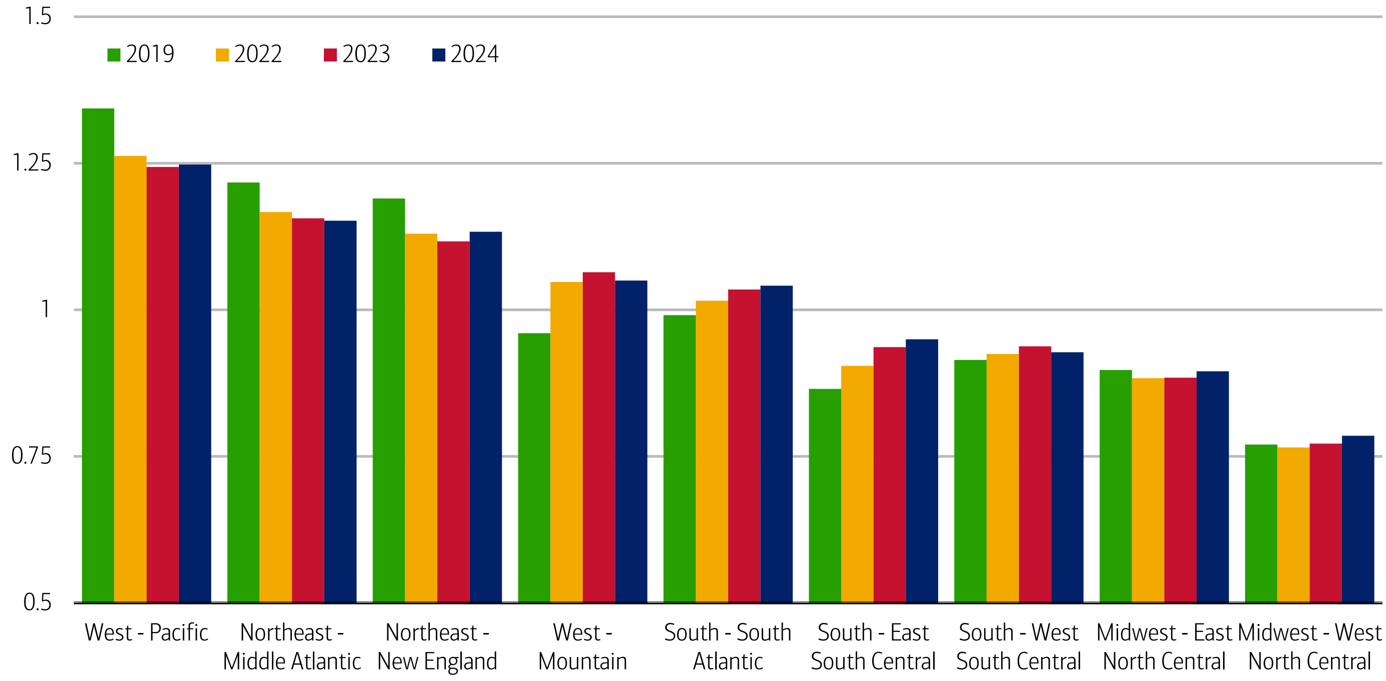
Why is the number of paycheck-to-paycheck households rising in the West, while wage and salary growth are relatively strong and trading-down is comparatively low? In our view, while wage growth may have strengthened for the *'average'* household out West, some may still not be benefiting. Furthermore, we are seeing signs in Bank of America data that housing costs, by far the biggest expense for many households, are moving higher in the West after a period of easing back.

While rents are least affordable in the West-Pacific region, they were at least easing back relative to the rest of the US in 2022 and 2023. However, the latest data for 2024 shows they are becoming less affordable again as shown in Exhibit 6, which uses Bank of America deposit account payments to compare the median rent payment in each Census region and division relative to the national figure. Above 1.00 indicates more expensive rents, while below suggests lower rents.

Exhibit 6: The West-Pacific and Northeast are the most expensive regions to rent and have become more so over the past year
Median rent payment in US Census region – division relative to US median (monthly average, October year-to-date)



Source: Bank of America internal data. Note: 2020 and 2021 excluded to allow for more space on the chart,

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This change in the dynamic in affordability out West could, in our view, be pressuring some households, particularly those already with below-average wage gains or those with already relatively little discretionary spending capacity. This could be what's tipping them into the 'paycheck-to-paycheck' position.

So, while we think the overall position of the West is encouraging, how these housing cost developments play out will be key to understanding how consumers in the region fare from here.

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.

For our paycheck-to-paycheck analysis we use a sample of households that appears to have their primary banking relationship with Bank of America. We look at households who reside in the United States and have had a checking account for at least the past 12 months. We consider a measure of necessity spending that includes but is not limited to childcare, external credit card payments, gasoline, general retail, grocery, housing (mortgage/rent), insurance, cable TV/broadband, public transportation, tax payments, vehicle costs and payments. We consider spending across payment channels (ACH, credit and debit card, bill pay). Income is defined as regularly recurring payments into accounts, such as payroll, social security, unemployment insurance pensions, and annuity income. Households are defined as living paycheck to paycheck if in the quarter their necessity spending exceeds 95% of their income. Note where individuals in a household bank with different banks it is possible not all of their spending and income could be captured, increasing the uncertainty around paycheck to paycheck estimates.

Three tiers (premium, standard and value) were based on after-tax median income derived from payroll direct deposit of individual customers who have shopped at such stores. The stores were then ranked by the median income of their shoppers, with the top third denoted as "premium," the middle third as "standard," and the bottom third as "value." In our view, such categorization is a fair view of how expensive the items are at those stores. Any stores included has had at least 100,000 individual Bank of America customers making at least one purchase during the past 12 months.

The sample of customers in this analysis includes a dynamic pool of customers that have a checking, a saving or a credit card account with BAC each month. Each customer's tier was determined by taking customer spending during the past 12 months, across the three tiers. The tier with the highest percent of spending will determine the customer's tier for each category. For example, if the customer spent the majority of their apparel dollars at premium tier apparel stores, the customer's apparel tier is designated as premium tier, even though they might still have apparel spending at the value/standard tier. This is repeated for dining (restaurants, bars, etc.), travel (hotel lines, car rental agencies, airlines, etc.), and grocery stores.

For the "spending tier composite", or STC, if a person spends most of their money at the premium tier that equals a score of "3," while standard is a "2" and value equals "1." This is done across four major spending categories: groceries, apparel, restaurants and/or travel. The highest score that can be achieved is a "12" (if someone spends the majority of their money at premium stores across all four categories), while the lowest is a "3" (if another person spends the majority of their money at value stores for groceries, restaurants, and apparel and has no travel spending). Then, we take an average of everyone in our sample to get a spending tier composite.

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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Disclosures