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Regional Morsel

Reshoring grows roots in the South and Midwest

03 October 2024

Key takeaways

- The Infrastructure Investment and Jobs Act (IIJA), CHIPS and Science Act (CHIPS), and the Inflation Reduction Act (IRA) have spurred manufacturing and construction growth across the US. Within Bank of America small business account data, construction firms' average inflow-to-outflow ratio, which we view as a proxy for profits, has reached historically high levels for August.
- BofA Global Research estimates that for every $10 billion of manufacturing revenue that is moved back to the US, there is around $3.8 billion of capex spending. Our small business data shows notable payroll payment strength for manufacturing firms, with the South exhibiting the strongest growth in August. For construction firms, payroll growth was strongest in the Midwest.
- There are some signs that spending isn't robust across the board. Average credit card spending among small construction and manufacturing companies has fallen over the last year, a sign that the future growth of these sectors could be impacted by labor constraints and halted investment in clean energy manufacturing projects.

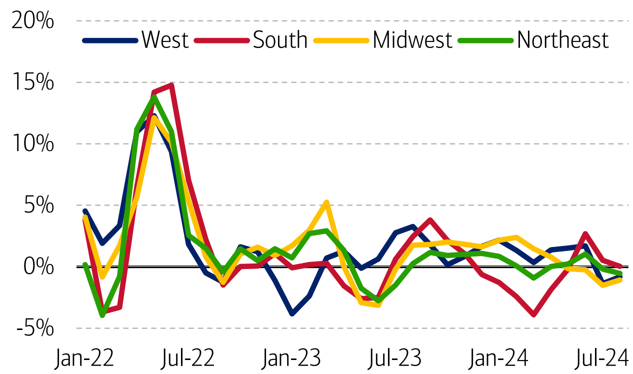
Regional spending update

As consumer spending and the labor market normalizes (see: September Consumer Checkpoint), Bank of America aggregated credit and debit card data finds that spending trends vary across regions. Looking at August data, spending growth in the Northeast and South has outpaced the Midwest and West, although the differences in growth are not large (Exhibit 1). However, when looking at levels of spending, the South and Midwest are up more than 25% compared to the 2019 average, significantly more than the West and Northeast (Exhibit 2).

The mixed spending trends may reflect variations in cost pressures and employment trends across regions. For example, recent economic trends in manufacturing investment are also differentiated across the country. Using Bank of America internal data, we focus on developments in small business manufacturing and construction growth stemming in part from the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act (CHIPS) and the Inflation Reduction Act (IRA).

Exhibit 1: Spending growth trends show a recent recovery in the South and a fall in the West

Credit and debit total card spending per household from Bank of America data (monthly, three-month moving average, seasonally adjusted annual rate (SAAR), %)



Source: Bank of America internal data

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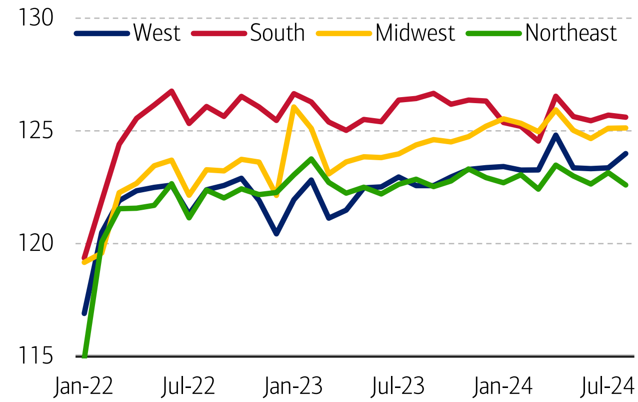
Exhibit 2: Spending levels in the South and Midwest are over 25% greater than the 2019 average for those regions

Credit and debit total card spending per household (monthly, indexed, 2019 average = 100, seasonally adjusted)



Source: Bank of America internal data

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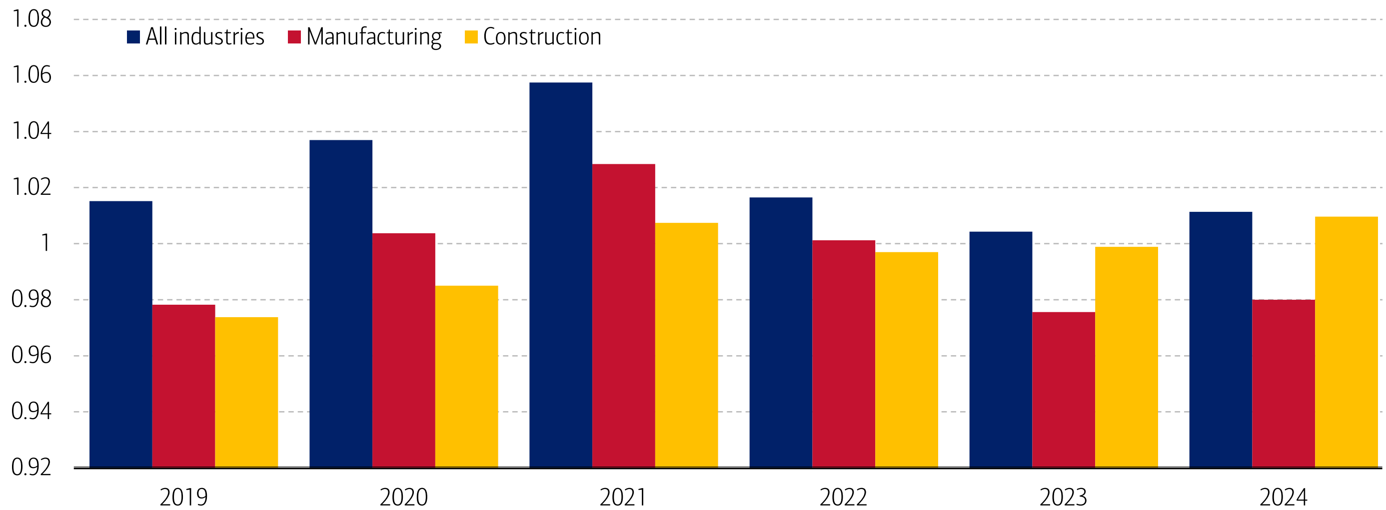
The CHIPS, IIJA and the Inflation Reduction Act drive increased investment

The IIJA has provided investment for US infrastructure projects, and, in August 2022, two major federal initiatives were enacted to increase research and investment in semiconductors and renewable energy: CHIPS and the IRA. An important element of the IRA is funding to increase domestic manufacturing, including reshoring. And that's already starting to bear fruit - BofA Global Research estimates that for every $10 billion of manufacturing revenue that is moved back the US, there is an approximate $3.8 billion in related capex spending.

Along with the IRA doubling the refundable research and development tax credit for small businesses, small firms may also take advantage of additional local 'spill over' benefits from these large investments. Using Bank of America internal data, we focus on two key sectors which may be benefitting from these policies: manufacturing and construction, a proxy for what is yet to come.

Exhibit 3: Though manufacturing and construction small businesses' inflow-to-outflow ratios remain below the aggregate, both industries' ratios are higher than August 2019

Inflow-to-outflow ratio of small business client accounts by industry in August of each year



Source: Bank of America internal data

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Within Bank of America small business account data, we find that the average inflow-to-outflow ratio, which we view as a proxy for profits, is above 2019 levels for both manufacturing and construction (Exhibit 3). Interestingly, construction small businesses are at a historically high level, whereas small business manufacturing firms' inflow-to-outflow ratio is below 2022 levels. And, according to the August Institute for Supply Management Manufacturing Index reading, the sector is showing signs of some moderation, with production and new orders rising, but remaining in contractionary territory.

We think this could be reflective of the sectors' business models. For example, if small manufacturing firms are investing to benefit, their outlays will be higher than revenue for a time, so their ratio will decline. On the other hand, construction firms are likely benefiting from nonresidential buildouts in capacity.

Manufacturing makes gains in the South

Spending and investment from CHIPS, IIJA and the IRA are spread across the US, with certain regions experiencing more growth than others. Using Bank of America internal data, we can better analyze and understand these differences beyond the national level, and the subsequent impact to regional economies.

A key input into manufacturing growth is labor. Since 2010, the Reshoring Initiative organization has been tracking US manufacturing job announcements tied to reshoring (based on a specific company making a specific product at a specific US location). Since 2020, reshoring jobs have averaged around 170,000 per year, with nearly 2 million reshoring and foreign direct investment (FDI) jobs announced since 2010 (Exhibit 4). For these jobs, 2022 was a record year and 2023 the second highest year since 2010. This represents an approximate 1.4% boost to the total US manufacturing labor force (12.9mn in 2023).

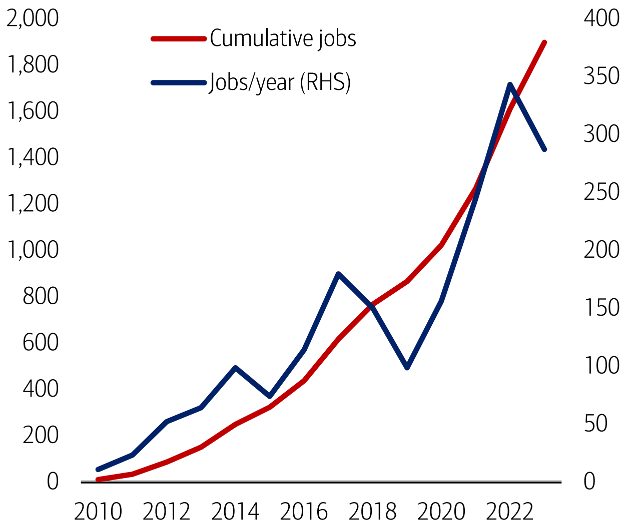
Jobs in small manufacturing firms are also benefiting from reshoring, according to Bank of America. Small firm payroll growth in manufacturing has seen a notable gain over the past several months and posted the strongest YoY% growth in August (see: September Small Business Checkpoint).

However, growth in small firm manufacturing jobs is not spread uniformly across the US. Within our data, the South had the strongest average manufacturing payroll payment growth in August on a three-month moving average (Exhibit 5).

It appears that small firm manufacturing jobs growth in the Midwest may have fallen back. But this region is still a major beneficiary of reshoring/FDI destinations, with nearly 60% of the jobs going to the South and another 22% in the Midwest. So it could be that this slowdown is temporary.

Exhibit 4: Nearly 2 million reshoring and foreign direct investment (FDI) jobs have been announced since 2010

Reshoring + FDI job announcements (thousands) 2010-2023 RHS (right hand side)



Source: Reshoring Initiative Library, BofA Global Research

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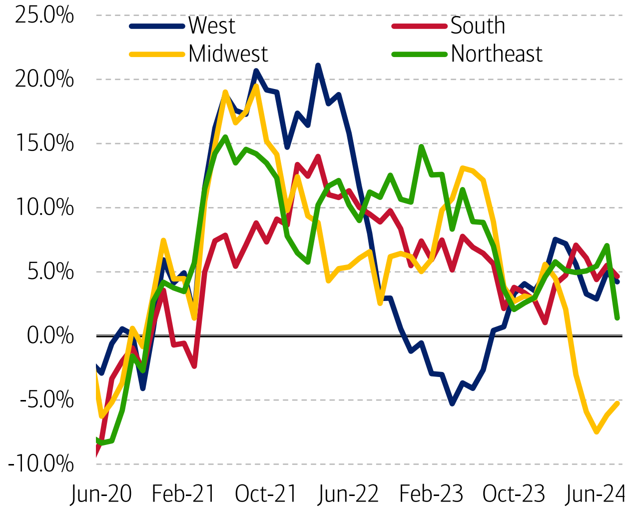
Exhibit 5: The South had the strongest average payroll payment growth in August, while the Midwest has fallen significantly since the start of the year

Average payroll payment for manufacturing small businesses by US Census region (monthly, three-month moving average, YoY%)



Source: Bank of America internal data

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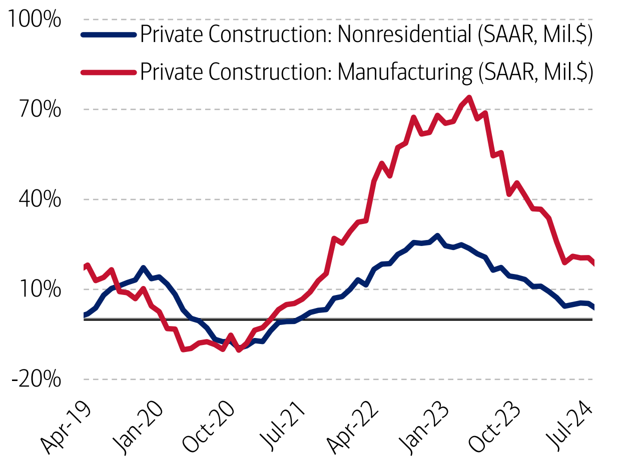
Hard hats at work: Construction payments up in the Midwest

In line with CHIPS and IRA priorities, nonresidential construction is currently concentrated in the computer, electronics, and electrical manufacturing sectors. Since the start of 2022, spending on construction for this sector has approximately quadrupled, according to the US Census Bureau.

However, nonresidential construction spending is moderating from record highs (Exhibit 6). BofA Global Research highlights that while higher rates have weighed on certain areas such as lodging and office, bright spots such as data centers and manufacturing continue to do well.

Exhibit 6: Nonresidential manufacturing construction spending has been moderating from 2023 record highs

Construction spending (monthly, YoY%, seasonally adjusted annual rate (SAAR))



Source: US Census Bureau

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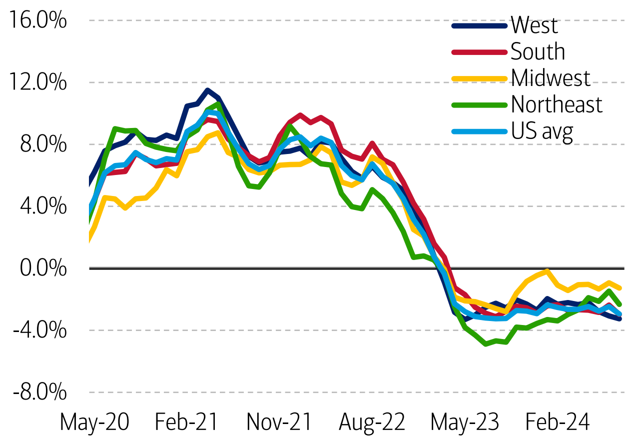
Exhibit 7: Average credit card spending growth remains negative across all regions, though the Midwest and the Northeast regions' growth is stronger than the overall trend

Construction and manufacturing average credit card spending by US Census region (monthly, three-month moving average, YoY%)



Source: Bank of America internal data

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Consistent with the slowdown in overall manufacturing construction, Bank of America small business card spending data shows construction and manufacturing average credit card spending for small businesses has been negative for over a year (Exhibit 7). The Midwest has maintained a relatively stronger YoY% growth rate than other regions but still fell 1% YoY in August.

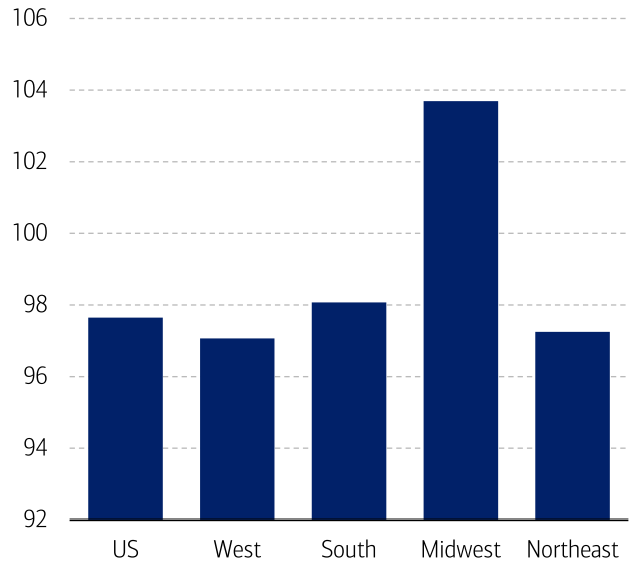
Our data suggests it's not just construction and manufacturing credit card spending which is highest in the Midwest. Average payments for construction small businesses were above the 2022 average only in the Midwest region in August, and more than 6pp greater than the US overall average amount (Exhibit 8).

Plus, payrolls' growth for construction was notably strong in the Midwest in August at 13.5% YoY, contrasting with the weak payrolls' growth for manufacturing firms in the Midwest (Exhibit 9).

This suggests construction projects are ramping up somewhat slower in the Midwest, or small firms are benefiting with a lag. And across all regions, the Midwest was also the only region to have stronger growth than the previous year, suggesting this boost in employment is possibly tied to booming manufacturing construction investment.

Exhibit 8: Average payments for construction small businesses were above the 2022 average only in the Midwest

Average payment amount in construction in August by US Census region (indexed, 2022 average = 100)



Source: Bank of America internal data

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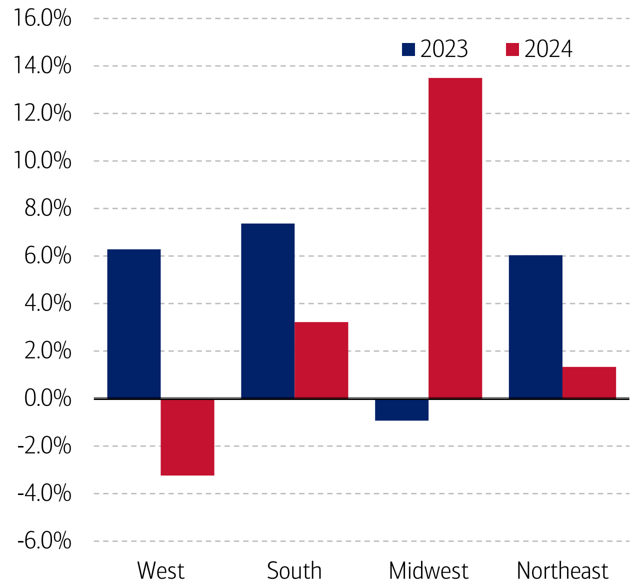
Exhibit 9: Across all regions, the Midwest was also the only region to have stronger payroll payment growth than 2023

Average payroll payment for construction small businesses in August of each year by US Census region (YoY%)



Source: Bank of America internal data

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Steamrolling ahead: What's next?

The Inflation Reduction Act has helped drive a manufacturing boom across the US, mobilizing billions of dollars of investment, and projects from CHIPS can support the creation of more than 115,000 direct construction and manufacturing jobs, according to the White House.

Bank of America data suggests that small firms in the South and the Midwest are notable beneficiaries. It appears that smaller manufacturing firms in the Midwest are currently benefiting less, possibly because projects are still under construction as we find relative strength for small construction firms in the region. With reshoring efforts continuing to materialize, in our view, CHIPS, IIJA and IRA investment should maintain a ripple effect in these regions over time.

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 **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 are 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.

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.

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

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Disclosures