Visa Business and Economic Insights

Economic Insight

June 2021

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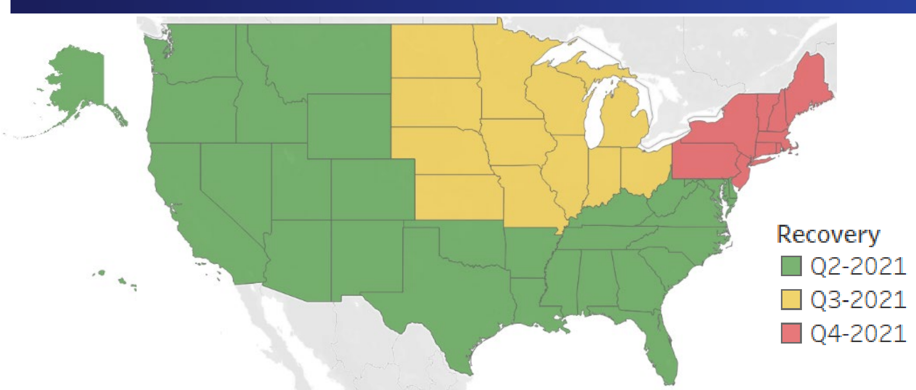
America in recovery: Why some regions are faring better than others

The U.S. economy is still recovering from a short, but very sharp recession in early 2020. Unlike previous recessions, this downturn was not caused by a breakdown in a particular industry, but a widespread shock that rippled through the entire economy, with some industries hit much harder than others.

While the effects of this recession were felt nationwide, the depth of the downturn and pace of the recovery have diverged significantly by state. This has large implications for issuers and merchants, since their regional footprints will determine how quickly they can expect their businesses to recover.

States with lower restrictions and higher employment in essential industries are expected to recover faster
(By GDP at recovery to pre-pandemic (Q4-2019) levels)



Source: Visa Business and Economic Insights analysis

According to our analysis, states with lower restrictions and higher employment in essential industries (i.e. construction and manufacturing) have had the lowest GDP and employment declines caused by the pandemic:

– The East South Central and Mountain West census divisions have been the quickest to recover, as these areas include states that have, in general, higher employment in essential industries. Their lockdown policies were also less strict during the pandemic than the rest of the nation.

– Our forecasts suggest the South will recover the quickest to the pre-pandemic level of gross state product (GSP) (map above), while the Northeast will recover the slowest due to higher restrictions and greater dependence on non-essential industries.

Key Points:

- The pace of recovery will vary widely by region
- Employment in essential industries and variation in COVID restrictions will determine each state's recovery
- Vaccine distribution will impact the pace of recovery significantly

Policy and employment dynamics that influence the recovery

There is a clear correlation between stringent COVID based lockdown policies (as measured by the Oxford University Stringency Index) and lower per capita COVID infection rates.

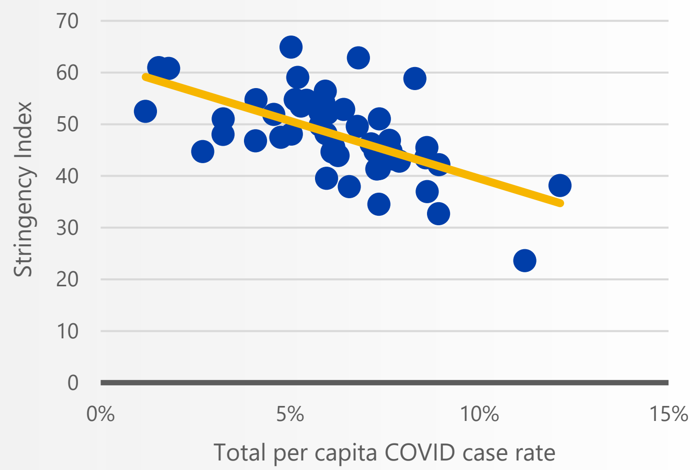
- Our analysis indicates the total case rate per capita at the end of 2020 was **higher in states that had lower average index levels**, meaning less restrictive.
- There is **no relationship between per capita COVID rates and employment growth**. That is because lockdown policies are public policy decisions that weigh both health and economic outcomes.

States impose restrictions to combat the pandemic, and thus some states weigh fighting the pandemic more heavily than others that are more sensitive to how those restrictions could hurt their state's economy.

- There is **a high correlation between the Stringency Index and employment growth**, with employment contracting more in areas that are more restrictive. States that fared better in 2020 were generally less restrictive in their COVID policies and tended to be concentrated in the Mountain West and South.

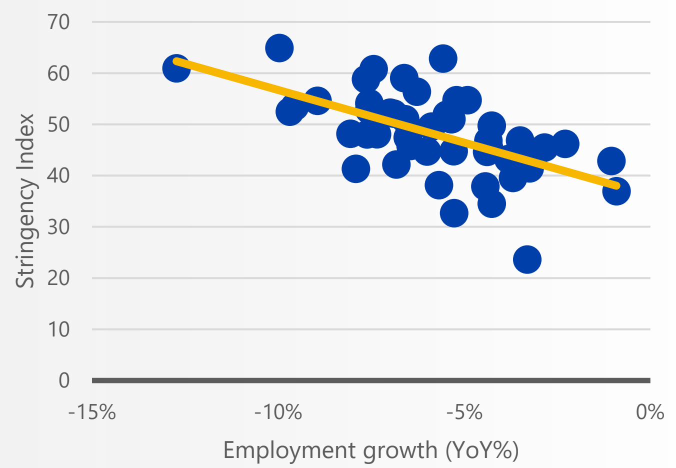
COVID infection rates decline when lockdown policies are more restrictive (Stringency Index vs. total per capita COVID infection rates, by state)

Last actual: December 2020



Employment growth rates decline when lockdown policies are more restrictive (Stringency Index vs. employment growth rates, by state)

Last actual: December 2020



Sources: Visa Business and Economic Insights, Oxford University Coronavirus Government Response Tracker and U.S. Department of Commerce

Vaccine deployment is another important factor.

Most states have administered at least one dose to 30 percent of their residents, but eight states are still below 30 percent (Alabama, Georgia, Idaho, Indiana, Mississippi, South Carolina, Tennessee and Wyoming) as of the date of this publication.

Not only are there differences in how states administered the vaccines, but also how they adjusted their lockdown policies in response to the vaccine deployment.

For example, Hawaii has the second highest vaccination rate in the nation (67% percent of the population has received at least one dose) and is ranked the highest on the Stringency Index. In Texas, on the other hand, only 44 percent of residents have received at least one dose, but the state has largely done away with restrictions and canceled the statewide mask mandate.

How are states recovering?

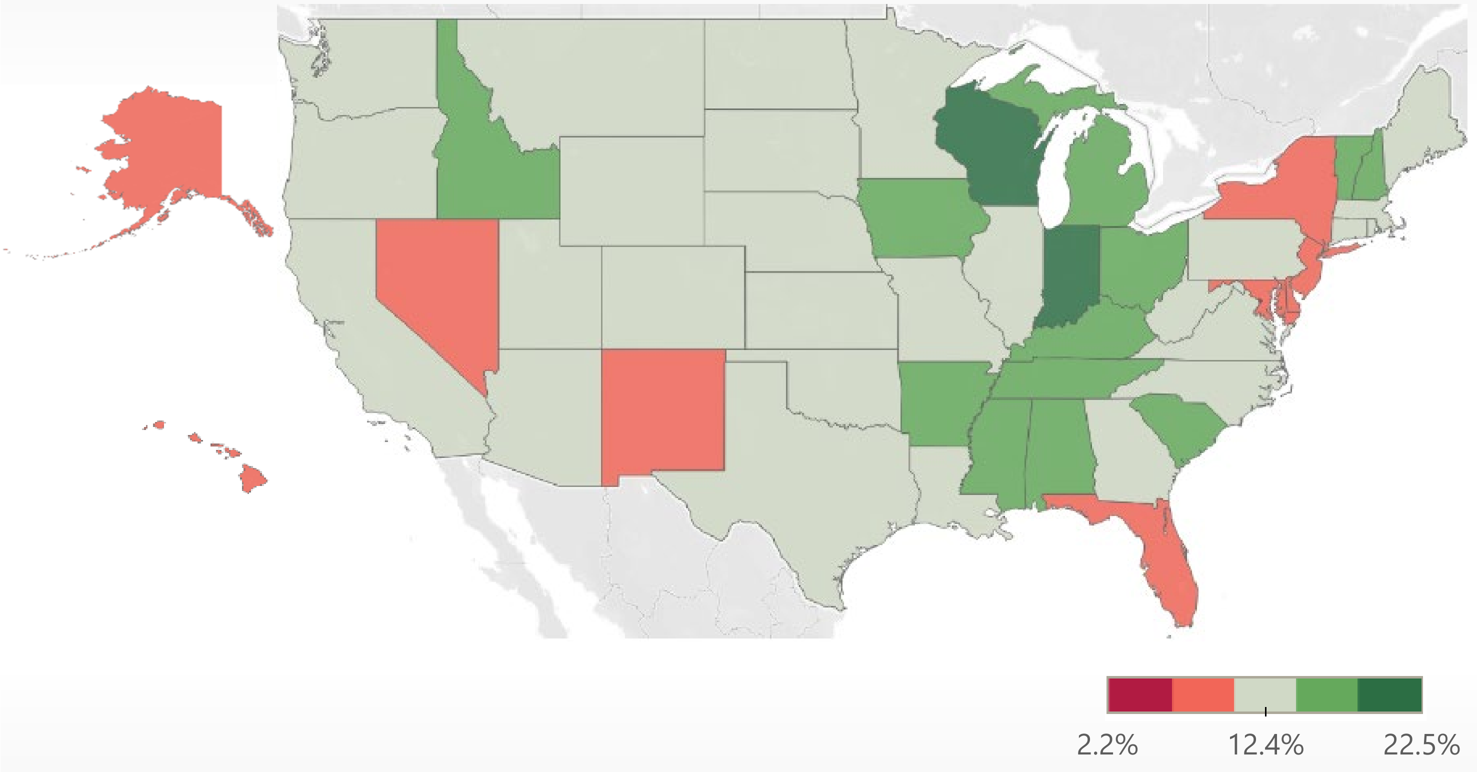
While COVID policy decisions are strong indicators of how states weathered the recession and are recovering, the pre-pandemic employment situation is also an important factor.

One big determinant is the share of workers in a state that are employed in essential industries (i.e. construction and manufacturing) versus the share employed in industries that were hard-hit by COVID (i.e. tourism, hospitality, entertainment, food service). For example, while Nevada shares many of the same COVID-related policy decisions of its Mountain West neighbors, it was also one of the hardest hit states and is still struggling to recover from the large drop in Gross State Product and employment. This is due to Nevada's share of employment in industries such as tourism and hospitality that were hardest hit by the recession.

On a regional basis, the South and Midwest have a higher share of people employed in the essential industries than the West or Northeast, which allowed them to better weather the worst of the employment losses due to the pandemic. The Northeast was the hardest hit by the pandemic and will have a harder time recovering since many states in the region are more dependent on industries that were deemed non-essential. As a result, states with fewer lockdowns and a higher share of people employed in essential industries have weathered the recession better and are recovering more quickly.

Areas of the South and Midwest had more essential workers and weathered the worst of the pandemic better
(Share of non-farm employees in construction and manufacturing)

Last actual: 2019



Source: Visa Business and Economic Insights and U.S. Department of Commerce

Based on their Gross State Product (GSP), most states are in the recovery phase with positive quarter-over-quarter (QoQ) numbers for Q4-2020, although year-over-year (YoY) growth is still negative. However, Washington, Utah, Iowa, and South Dakota have QoQ and YoY growth numbers that put them into the expansion category.

GSP contractions were at their lowest in the fourth quarter of 2020 in the South census region, but in the third quarter in the West. The West has benefited from a high share of people able to work from home in the Pacific states, whereas the South has a strong manufacturing base and booming residential construction sector, thanks to healthy net in-migration rates over the past two decades.

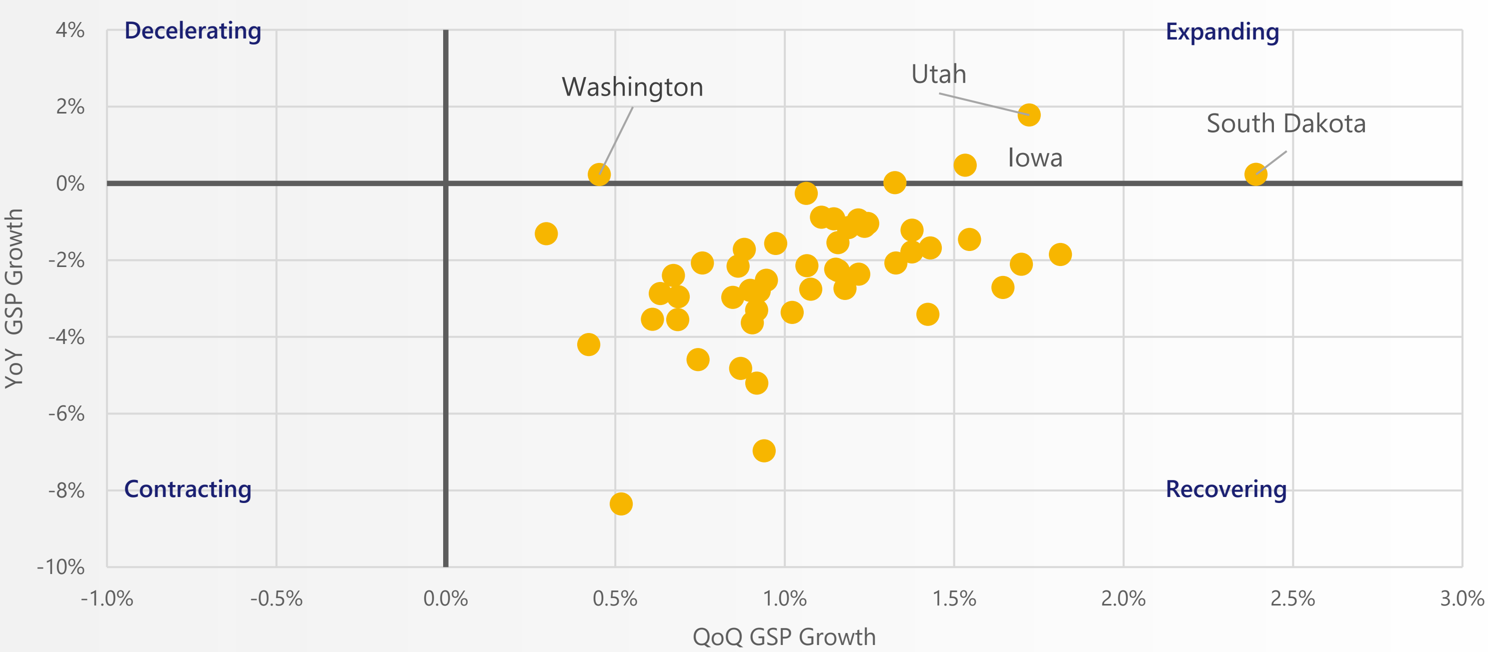
Many of the same long-run factors that benefited the South have also benefited the Mountain West states, where net in-migration numbers have been highly positive over the past two decades. This has led to a great deal of new residential construction that helped insulate these states from some of the worst economic effects of the pandemic.

In the Midwest, despite a high level of domestic net out-migration, a large share of people are still employed in essential industries like manufacturing and agriculture, keeping the Midwest states close to the GSP contractions of the South and West census regions.

Most states are in the recovery phase, with positive quarter-over-quarter numbers for Q4-2020.

Most states are recovering (Gross State Product growth rates, YoY vs QoQ)

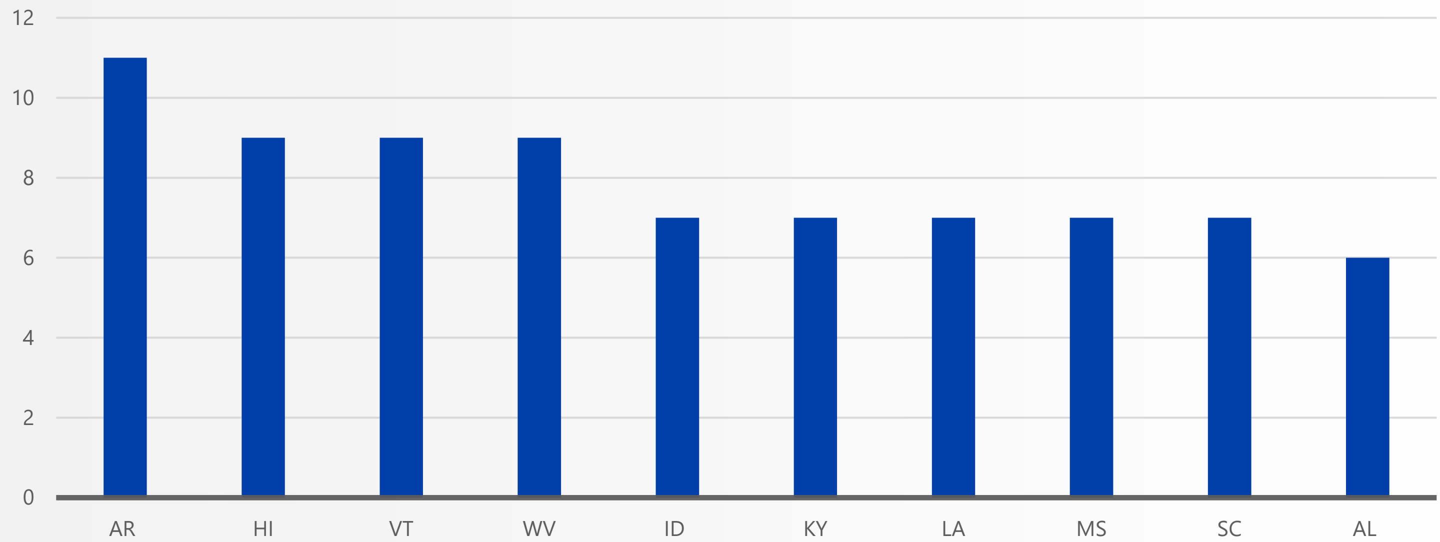
Last actual: Q4-2020



Source: Visa Business and Economic Insights, U.S. Department of Commerce and Opportunity Insights

Consumers in least impacted states had higher credit/debit spending during the pandemic (Months of avg. positive spend, Feb-2020 to Feb-2021 vs. Jan-2020)

Last actual: February 2021



Source: Visa Business and Economic Insights, U.S. Department of Commerce and Opportunity Insights

The West North Central census division fared particularly well compared to the East North Central division thanks to laxer pandemic restrictions.

The Northeast has endured the worst of the pandemic due to long-term issues such as high negative domestic net out-migration, as well as pandemic-related pressures such as strict lockdown measures and a large reliance on tourism as a source of GSP growth. It also has a relatively lower share of its employment base in essential industries. The Northeast has consistently been the region with the largest GSP contractions each quarter throughout 2020 and could be facing a tough recovery road ahead.

One way to identify the states where consumers were the least impacted by the pandemic is to compare the months where the average consumer credit and debit spending was higher than it was before the pandemic (January 2020).

Between February 2020 and February 2021, seven of the top 10 states that had months where the average was higher than in January 2020 were in the South census region. While some of that was due to stimulus effects, the more lax restrictions clearly allowed consumers in those states to spend more freely. This is also consistent with Idaho, which has had very lax restrictions and high employment in essential industries. Hawaii is somewhat of an outlier as it has had very high online spending, while its in-store retail sales have lagged all other states. Vermont had less of an interruption in spending for most residents due to its high employment in essential industries like forestry, healthcare, and manufacturing, unlike most other Northeast states that rely on tourism.

States in the South were far more likely to have months where the credit and debit spend was higher than pre-pandemic.

Forecasting the regional variation of the recovery

Our forecast indicates the South will lead the nation in terms of YoY growth in GDP and employment, with the South Atlantic and West South Central census divisions at the forefront and balancing out the projected losses in the East South Central division. While we expect that all regions will return to pre-pandemic levels of GDP at some point in 2021, no region will recover to pre-pandemic levels of employment until 2023.

South

The South was consistently less restrictive and is rapidly re-opening. Over the past decade, manufacturing industries have been lured into many of its states with lower taxes, lower costs of living, and more relaxed regulations. This led to strong positive in-migration and a boom in residential construction. Most areas in the South are not depending on tourism to come back, so they also will not have to wait for consumers to feel comfortable with traveling again.

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According to our forecasts, all regions of the country are expected to reach double-digit GDP growth this quarter following a lackluster Q1:

West

The Mountain West division likely had the highest growth rate among all census divisions in Q1, bringing the West into positive GDP growth territory despite negative GDP growth in the Pacific census division. The Mountain West was expected to have a similar employment growth level to the census divisions in the South census region in Q1; however, the much more populous and slower to recover Pacific division likely dragged down the West Census region. We forecast the South and West census regions to regain their pre-pandemic level of GDP in Q2-2021.

Northeast

The Northeast is expected to make a significant comeback in both employment and GDP growth this quarter, while still lagging all of the other census regions after a dismal Q1. The largest states in the region have been hard hit by the pandemic due to very stringent restrictions and a lower share of people employed in essential industries. Many of the states depend on tourism, putting their economies at the mercy of travelers feeling comfortable to take vacations. The Northeast should take the lead in Q2-Q4 employment growth rates. However, after having the largest losses of any region in 2020, the Northeast is unlikely to recover to pre-pandemic levels of GDP until Q4-2021. Issuers and merchants with large footprints in the Northeast should brace for a much longer road to recovery.

Midwest

Despite a high share of employment in essential industries, the high level of restrictions imposed by the states in this region caused a large drop in employment and GDP. As global trade rebounds throughout 2021, manufacturing exports will increase, enabling the Midwest to rapidly rebound. Our forecasts indicate that employment and GDP growth will ramp up significantly in Q2 and GDP will recover to pre-pandemic levels in Q3-2021.

Highest employment growth in the Northeast
(2021 employment forecast, YoY percent)

Region	Q1	Q2	Q3	Q4
Northeast	-8.37	9.68	2.11	1.71
Midwest	-5.57	6.36	1.60	0.51
South	-4.51	7.30	2.54	0.86
West	-7.26	7.54	4.41	3.59

Strongest GDP in the West
(2021 GDP forecast, YoY percent)

Region	Q1	Q2	Q3	Q4
Northeast	-0.76	12.47	4.90	5.79
Midwest	0.93	11.41	5.29	4.40
South	1.00	13.38	5.77	4.85
West	0.41	13.64	7.44	7.49

All regions of the country are expected to reach double-digit GDP growth this quarter, following a lackluster Q1.

Forward Looking Statements

This report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are generally identified by words such as “outlook,” “forecast,” “projected,” “could,” “expects,” “will” and other similar expressions. Examples of such forward-looking statements include, but are not limited to, statements we make about Visa’s business, economic outlooks, population expansion and analyses. All statements other than statements of historical fact could be forward-looking statements, which speak only as of the date they are made, are not guarantees of future performance and are subject to certain risks, uncertainties and other factors, many of which are beyond our control and are difficult to predict. We describe risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, any of these forward-looking statements in our filings with the SEC. Except as required by law, we do not intend to update or revise any forward-looking statements as a result of new information, future events or otherwise.

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