

U.S. Regional Economic Outlook

August 2021

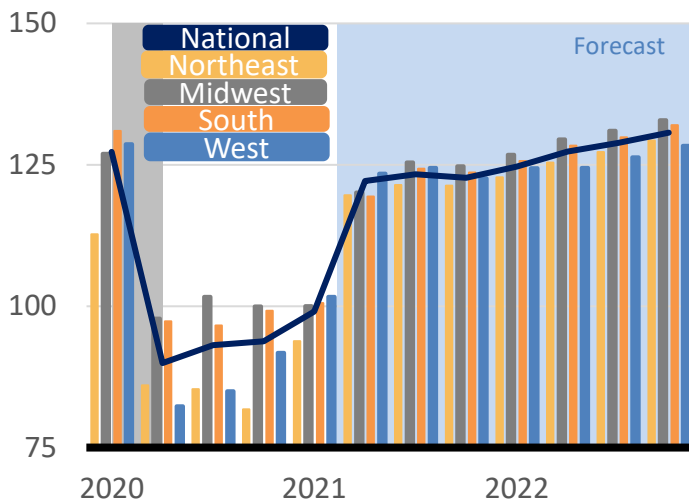
Full steam ahead for the South and the West

U.S. GDP growth reached full recovery in the second quarter of this year, but some parts of the country are contributing to the rebound more than others. The South region and Mountain West division have benefited from both an earlier lift in restrictions than some other parts of the country and having some of the hottest housing markets in the U.S., which will help support construction and real estate jobs going forward. As a result, the South and West will likely return to pre-pandemic levels of employment by the end of 2022. While much of the Midwest relaxed restrictions early as well, its reliance on manufacturing has left the region very susceptible to recent international supply chain disruptions. The Northeast was hit hardest by the pandemic with very tight restrictions on tourism and retail businesses. Thus, the Midwest and Northeast are not expected to reach pre-pandemic levels of employment until 2023. In terms of GDP growth, the Northeast is the only region that will likely not recover until Q3-2021.

The Northeast was also the only region where nominal consumer spending did not fully recover in the first quarter of this year. However, a recent acceleration in the reopening process likely led to a full recovery in consumer spending in the Northeastern states in the second quarter. The South is experiencing the strongest consumer spending recovery among the four regions, with spending 7.7 percent above its pre-recession peak. As the Delta variant continues to surge in less vaccinated areas of the U.S., regional consumer confidence will be a key indicator of how much the new surge in cases is impacting the regional consumer spending outlook.

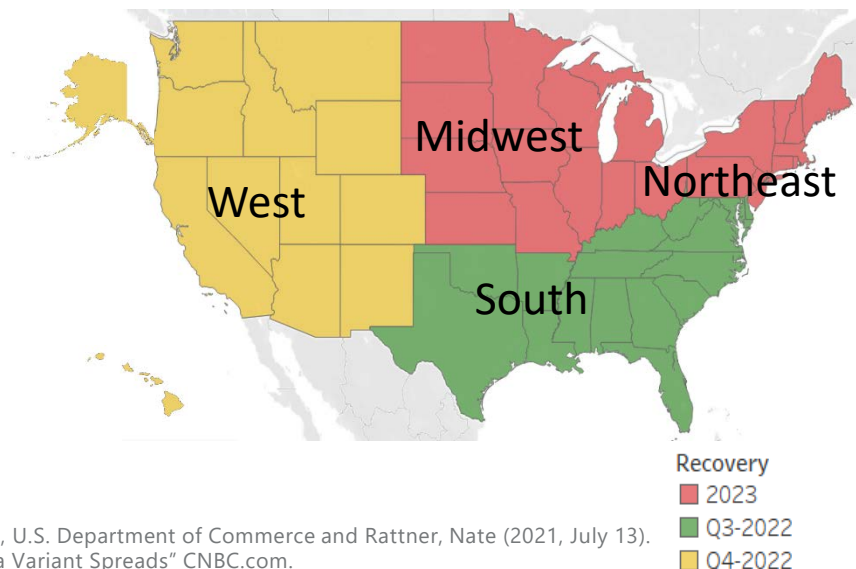
Midwest and South to lead nation in confidence (Consumer Confidence by region)

Last forecast: July 29, 2021



The South will recover employment losses first (Employment recovery, by region)

Last forecast: July 29, 2021



*Sources: Visa Business and Economic Insights The Conference Board, U.S. Department of Commerce and Rattner, Nate (2021, July 13). "Covid Cases Rise in US Counties with Low Vaccination Rates as Delta Variant Spreads" CNBC.com.

<https://www.cnbc.com/2021/07/13/covid-cases-rise-in-us-counties-with-low-vaccination-rates-as-delta-variant-spreads.html>

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Key Takeaways

Consumer spending growth likely spiked in Q2-2021

South and Midwest will lead in consumer confidence

South and West should recover pre-pandemic employment levels by the end of 2022

Northeast expected to lag all other regions in recovery

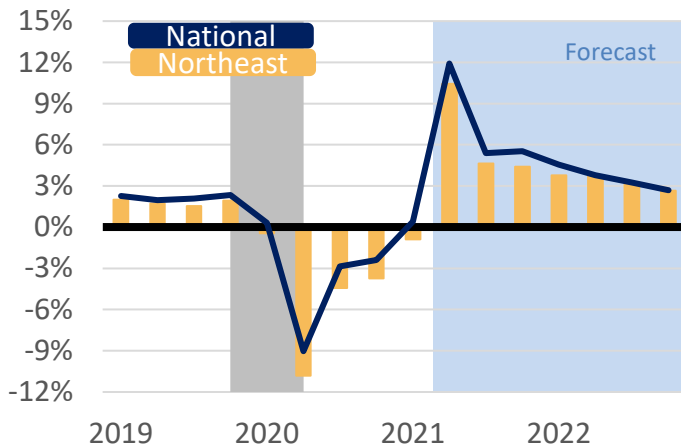
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Northeast

Real gross domestic product (GDP) By region (SA*, YoY percent change)

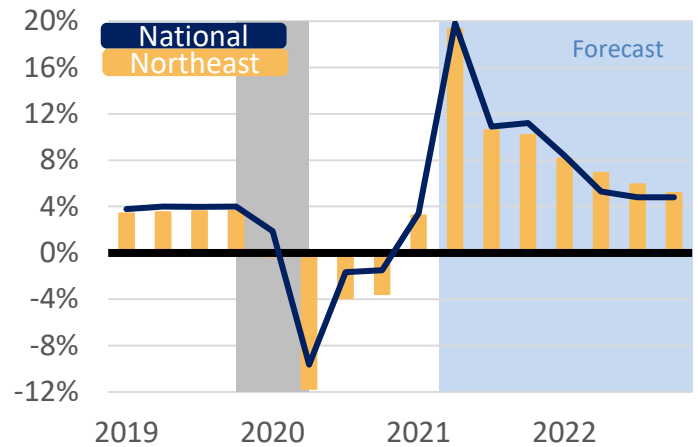
Last forecast: July 29, 2021



* SA = seasonally

Nominal personal consumption expenditures By region (SA*, YoY percent change)

Last forecast: July 29, 2021



A long road to recovery

The Northeast bore a disproportionate amount of the damage from the COVID recession, with declines in nominal consumer spending, employment, GDP and consumer confidence that were far more pronounced than in other regions. The Mid Atlantic (New York, New Jersey, Pennsylvania) was the only census division in which GDP contracted on a year-over-year (YoY) basis in Q1-2021, which led to a fifth consecutive quarter of YoY GDP contraction for the Northeast region. Consumer confidence surging back in Q2-2021 was a welcome sign, and likely accounted for a return to pre-pandemic levels of consumers spending in Q2-2021.

Going forward, we expect the Northeast to post strong YoY growth in GDP, consumer spending and employment. However, much of that is due to the large drop-off in those indicators during the pandemic. Our forecast indicates a return to pre-pandemic levels of GDP in Q3-2021, due in large part to relative weakness in the Mid Atlantic Division. Large job losses during the pandemic and unfavorable migration patterns will likely lead to a slow employment recovery for the region overall, but we are expecting a more robust recovery for New Hampshire, Vermont, Connecticut and Maine. These states are less reliant on tourism, which means a lower impact from pandemic travel restrictions. They also will be less impacted if the Delta variant proves to be a major stumbling block later this year.

Northeast Region

| | 2020 | | | | 2021 | | | | Actual | Forecast | |
|---|-------|-------|-------|------|------|-------|-------|-------|--------|----------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2020 | 2021 | 2022 |
| Gross Domestic Product (Yr/Yr % Chg.) | -0.5 | -10.8 | -4.4 | -3.7 | -0.9 | 10.4 | 4.6 | 4.4 | -4.9 | 4.6 | 3.3 |
| Nominal Personal Consumption (Yr/Yr % Chg.) | -0.4 | -11.7 | -3.9 | -3.6 | 3.2 | 19.3 | 10.6 | 10.2 | -4.9 | 10.8 | 6.5 |
| Consumer Confidence Index | 112.7 | 86.0 | 85.3 | 81.8 | 93.8 | 119.6 | 121.4 | 121.3 | 91.5 | 114.0 | 126.2 |
| Employment (Yr/Yr % Chg.) | 0.5 | -16.2 | -10.6 | -9.0 | -8.4 | 10.6 | 5.9 | 4.5 | -8.8 | 3.2 | 3.3 |

Forecast as of: July 29, 2021

Sources: Visa Business and Economic Insights analysis of data from the U.S. Department of Commerce, U.S. Department of Labor and The Conference Board.

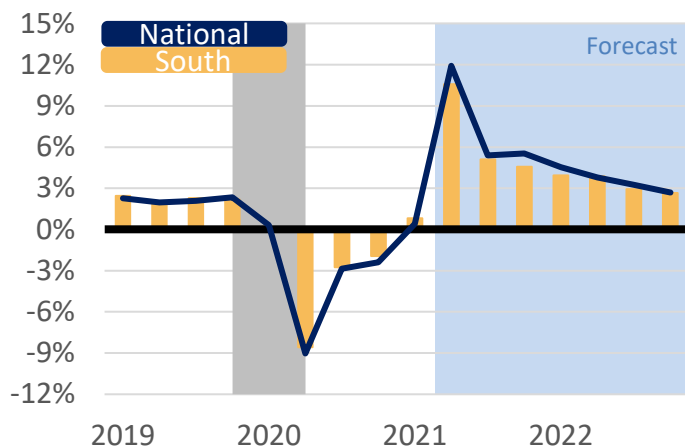
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South

Real gross domestic product (GDP) By region (SA*, YoY percent change)

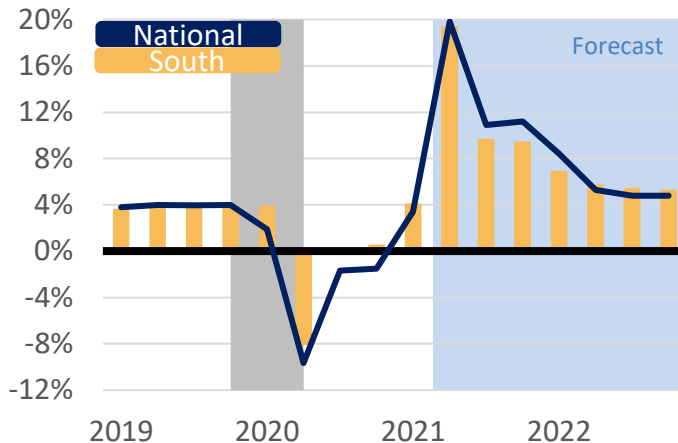
Last forecast: July 29, 2021



* SA = seasonally

Nominal personal consumption expenditures By region (SA*, YoY percent change)

Last forecast: July 29, 2021



Leading the recovery

The South has been leading the nation in the recovery from the recession and is poised to continue that streak through 2022. Even before the pandemic, large scale moves of manufacturers and business services away from the Midwest and Northeast paved the way for large-scale migration into Austin, Houston, Atlanta, Charlotte, Raleigh-Durham, Nashville, Miami and other Southern metro areas. That, in turn, started a trend of people moving from high-cost areas in the Northeast and West to relatively lower cost places in the South. The result was a housing boom that has provided a strong base of employment and overall economic growth in the construction industry. The relatively quick exit from harsh restrictions only intensified this trend and significantly softened the blow to the economy dealt by the pandemic.

Consumer confidence has increased every quarter from Q4-2020 onward, and all indications are that the region should be in store for consistent growth in GDP and consumer spending through 2022. While the general outlook for the region is very bright, it is important to note that oil-dependent states like Texas, Oklahoma, and Louisiana might face some challenges due to the slow recovery in the energy sector and, in the case of Florida, the emergence of the Delta variant possibly leading to a decline in travel. Louisiana reinstating its statewide mask mandate may foreshadow some bumps in the road, but in general this region should remain resilient due to a large employment base in essential industries such as manufacturing and construction.

South Region

| | 2020 | | | | 2021 | | | | Actual | Forecast | |
|---|-------|------|------|------|-------|-------|-------|-------|--------|----------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2020 | 2021 | 2022 |
| Gross Domestic Product (Yr/Yr % Chg.) | 0.1 | -8.6 | -2.7 | -1.9 | 0.8 | 10.6 | 5.1 | 4.6 | -3.3 | 5.3 | 3.3 |
| Nominal Personal Consumption (Yr/Yr % Chg.) | 3.8 | -8.0 | 0.2 | 0.5 | 4.0 | 19.3 | 9.6 | 9.4 | -0.9 | 10.6 | 5.8 |
| Consumer Confidence Index | 131.0 | 97.3 | 96.6 | 99.2 | 100.6 | 119.4 | 124.3 | 123.7 | 106.0 | 117.0 | 129.0 |
| Employment (Yr/Yr % Chg.) | 1.1 | -9.5 | -6.1 | -5.0 | -4.5 | 7.2 | 5.1 | 4.1 | -4.9 | 2.9 | 2.6 |

Forecast as of: July 29, 2021

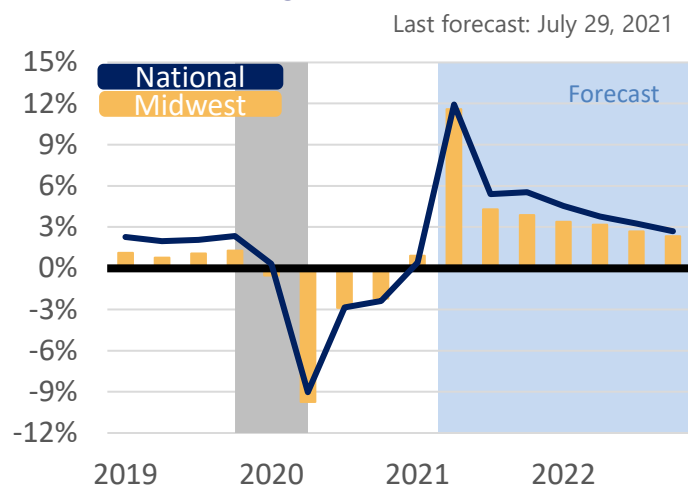
Sources: Visa Business and Economic Insights analysis of data from the U.S. Department of Commerce, U.S. Department of Labor and The Conference Board.

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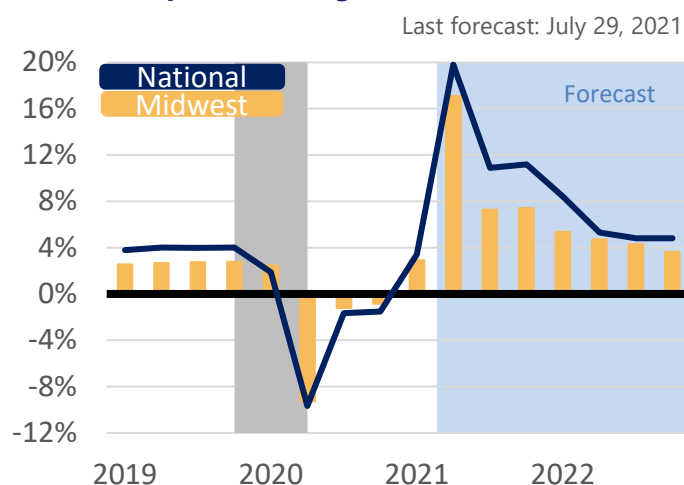


Midwest

Real gross domestic product (GDP), by region (SA*, YoY percent change)



Nominal personal consumption expenditures, by region (SA*, YoY percent change)



* SA = seasonally

High upside, but questions remain

While tougher restrictions in the East North-Central Division (Michigan, Wisconsin, Ohio, Indiana, Illinois) certainly hampered the Midwest region overall, the high share of employment in manufacturing throughout the region and low reliance on tourism shielded this region from the worst of the economic fallout. Thanks to a high share of employment in essential industries, consumer confidence remained relatively stable throughout the pandemic. Furthermore, the West North-Central Division (Iowa, Kansas, Missouri, Minnesota, Nebraska, North Dakota, South Dakota) has an outsized share of GDP coming from the agriculture and forestry industries, which were less affected by the pandemic and received a lot of government support to ensure a stable food supply. The division was also among the first to reduce restrictions related to COVID, which led to a relatively subdued negative impact on consumer spending and GDP growth.

Our forecasts suggest that consumer confidence in the Midwest will likely remain robust for the next two years and even lead all others in 2022. The main issue facing this region is supply chain disruptions that have inhibited a more robust employment recovery. With a shortage of essential materials, many factories cannot produce manufacturing goods fast enough to keep up with demand. Additionally, very unfavorable net migration patterns in the East North-Central Division and a slow energy sector recovery will likely prevent this region from regaining pre-pandemic levels of employment until 2023. However, pre-pandemic levels of GDP likely returned in Q2-2021 and we expect consumer spending growth to remain solid through 2022.

Midwest Region

| | 2020 | | | | 2021 | | | | Actual | Forecast | |
|---|-------|-------|-------|-------|-------|-------|-------|-------|--------|----------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2020 | 2021 | 2022 |
| Gross Domestic Product (Yr/Yr % Chg.) | -0.5 | -9.7 | -2.9 | -2.2 | 0.9 | 11.6 | 4.3 | 3.9 | -3.8 | 5.2 | 2.9 |
| Nominal Personal Consumption (Yr/Yr % Chg.) | 2.4 | -9.3 | -1.2 | -0.9 | 2.9 | 17.1 | 7.3 | 7.4 | -2.2 | 8.7 | 4.5 |
| Consumer Confidence Index | 126.9 | 97.8 | 101.7 | 100.0 | 100.0 | 120.1 | 125.4 | 124.7 | 106.6 | 117.6 | 130.0 |
| Employment (Yr/Yr % Chg.) | 0.2 | -12.3 | -6.9 | -6.2 | -5.6 | 8.4 | 3.5 | 3.2 | -6.3 | 2.4 | 2.1 |

Forecast as of: July 29, 2021

Sources: Visa Business and Economic Insights analysis of data from the U.S. Department of Commerce, U.S. Department of Labor and The Conference Board.

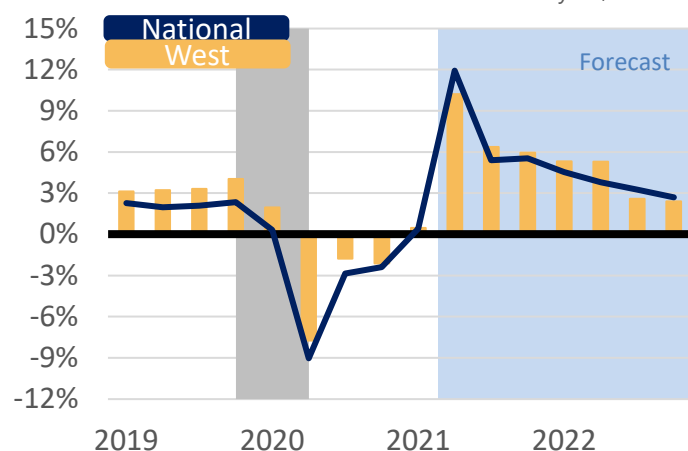
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West

Real gross domestic product (GDP) By region (SA*, YoY percent change)

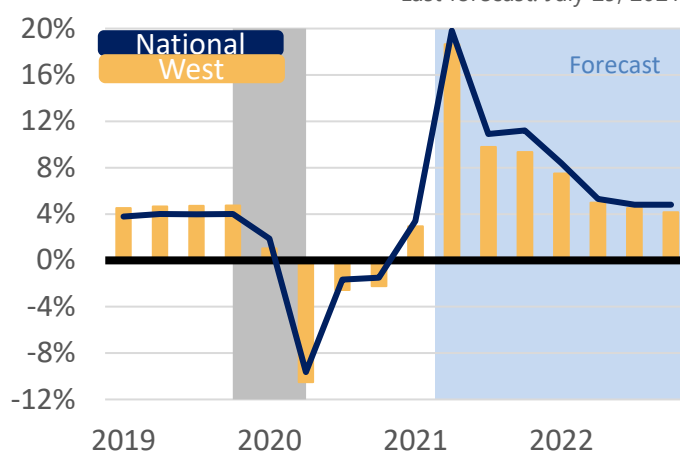
Last forecast: July 29, 2021



* SA = seasonally

Nominal personal consumption expenditures By region (SA*, YoY percent change)

Last forecast: July 29, 2021



A tale of two divisions

The divergent experiences of the Pacific (Alaska, California, Hawaii, Oregon, Washington) and Mountain West (Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming) census divisions since the downturn are indicative of a long-term outmigration from California that has been going on for at least a decade. The high cost of living is driving people to Arizona, Utah, Idaho, Colorado, Nevada, Oregon and Washington. Metro areas such as Salt Lake City, Phoenix, Denver, Seattle, Portland and Boise have been growing for years, but the pandemic turned these areas into some of the hottest housing markets in the country. This led to a boom in construction that allowed the Mountain West, Oregon and Washington to weather the pandemic particularly well. While YoY GDP growth in the Mountain West led all other census divisions in Q1-2021, the Pacific's GDP growth was anemic, only outperforming the Mid Atlantic.

While we expect the West regained pre-pandemic levels of GDP in Q2-2021 and will regain pre-pandemic levels of employment before the close of 2022, our forecasts indicate that the Mountain West Division will significantly outperform the Pacific. The more tourism-dependent Pacific will likely lag the Mountain Division, as we do not expect a robust tourism recovery there until Q3-2022. Additionally, very unfavorable migration trends in California and the reimposing of mask mandates in the state's largest metro areas in response to the Delta variant may signal more significant challenges ahead. Furthermore, high gas prices and a slow employment recovery in California may hamper consumer confidence in the Pacific relative to the strong consumer confidence levels we expect in the Mountain Division over the next two years.

West Region

| | 2020 | | | | 2021 | | | | Actual | Forecast | |
|---|-------|-------|------|------|-------|-------|-------|-------|--------|----------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2020 | 2021 | 2022 |
| Gross Domestic Product (Yr/Yr % Chg.) | 1.9 | -7.7 | -1.8 | -2.1 | 0.5 | 10.2 | 6.4 | 5.9 | -2.4 | 5.7 | 3.9 |
| Nominal Personal Consumption (Yr/Yr % Chg.) | 1.0 | -10.5 | -2.6 | -2.2 | 3.0 | 18.7 | 9.8 | 9.4 | -3.6 | 10.2 | 5.3 |
| Consumer Confidence Index | 128.6 | 82.3 | 85.0 | 91.8 | 101.7 | 123.4 | 124.4 | 122.6 | 96.9 | 118.0 | 125.9 |
| Employment (Yr/Yr % Chg.) | 1.7 | -11.3 | -8.3 | -7.6 | -7.2 | 7.7 | 6.3 | 5.6 | -6.4 | 3.1 | 3.8 |

Forecast as of: July 29, 2021

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Forward Looking Statements

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