# U.S. Regional Economic Outlook

## Storm clouds brewing

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The intense atmospheric storms that swept in at the end of 2022 may be in the rearview mirror, but a new storm is brewing in the economy. GDP growth in the fourth quarter of 2022 remained strong, but clear signs of a possible slowdown in 2023 are starting to appear. Recent softness in the housing market has translated into a slowdown in the construction sector. Our forecasts indicate that this housing market weakness will continue into 2023. Additionally, the last few months of 2022 pointed to a decline in future output and investment in the manufacturing and tech sectors. Finally, Visa's newly developed SMI Recession Nowcast* showed a rising share of the population living in an area that is likely already in recession (Fig. 1).

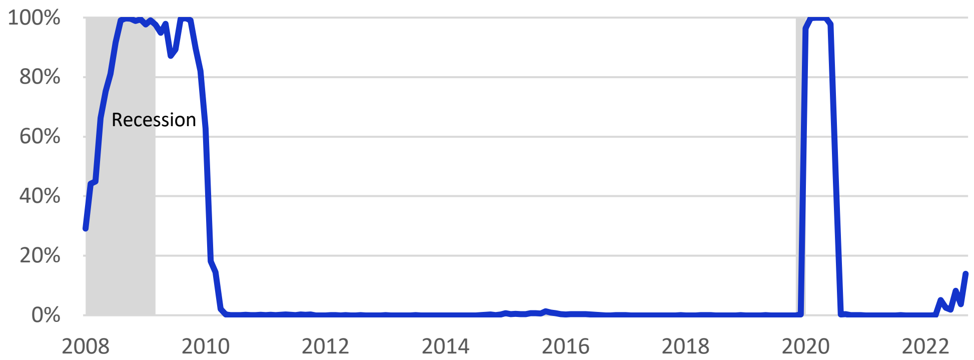
The construction, tech and manufacturing slowdown will likely have the biggest impact on the West and Midwest. Los Angeles, Phoenix and Minneapolis are the largest metro areas likely already in recession. Many states in the West benefitted from the COVID construction boom, but high home prices and the current mortgage rate environment have eroded affordability for consumers and caused a steep decline in demand. High borrowing costs are also hurting tech hubs in California and Washington, leading to a surge in layoff announcements in November, December and January. For much of 2022, the manufacturing sector struggled to keep up with demand due to supply chain issues, but the industry now faces the opposite problem—declining demand and large amounts of unsold inventory. We expect these pressures to have a disproportionate impact on gross domestic product (GDP) and employment in both the West and Midwest. The Northeast's high concentration of employment and output in education and health services and the South's high concentration of employment in government should shield these regions from the worst effects of the coming slowdown, as these sectors will likely be less harmed.

### Key Points:

- The Midwest and West contain the largest metro areas likely already in recession
- Job loss in the tech sector is an early sign of weakness in the West
- Last year's industrial production slowdown is likely to continue, heavily affecting the Midwest and the South

**Fig. 1: Fourteen percent of the population lives in an area likely already in recession**

(SMI Recession Nowcast share of population)



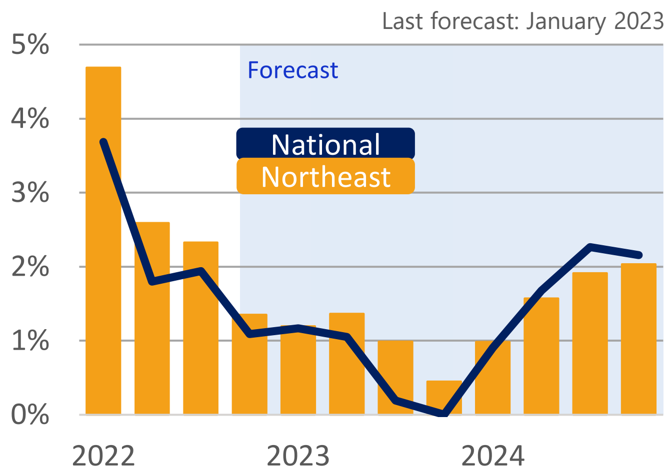

Sources: Visa Business and Economic Insights and VisaNet

*SMI Recession Nowcast model is available for purchase. Please contact your VCA representative for more information.

# Visa's Regional Economic Forecasts

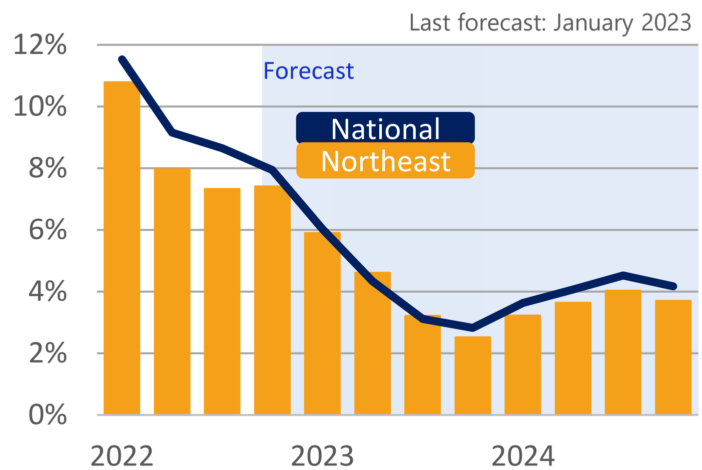
## Northeast

**Fig. 2: Real gross domestic product (GDP) by region (SA, YoY* percent change)**




* Seasonally adjusted (SA), year-over-year (YoY)

**Fig. 3: Nominal personal consumption expenditures by region (SA, YoY* percent change)**




### Mostly clear skies ahead

The Northeast trailed only the South in GDP growth in the third quarter, thanks mainly to continued strength in the Mid-Atlantic (New York, New Jersey, Pennsylvania). Employment growth was also strong in the Mid-Atlantic, with New Jersey becoming the first state in the census division to fully regain its level of pre-pandemic employment. Along with New York and Pennsylvania, New Jersey saw a robust increase in leisure and hospitality jobs as tourism led to a large uptick in hotel occupancy. New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont) also saw impressive Q3 growth in leisure and hospitality employment. In fact, leisure and hospitality was the fastest-growing industry in all Northeast states. Employment growth in this sector likely remained strong throughout the Northeast in the fourth quarter and should continue to be a source of strength for the region in 2023.

While signs of an economic slowdown have emerged nationwide, the Northeast so far appears to have been far less impacted. Recent regional data from John Burns Real Estate Consulting LLC on home builder price reductions shows that the Northeast had the highest share of new home sales without a price reduction (35 percent). The Northeast's relatively low exposure to the declining construction sector is expected to be an important benefit through the first half of this year. Our forecasts indicate that the Northeast's employment decline will be milder than the national average, mitigating negative impacts to GDP and consumer spending growth. Additionally, the large share of employment in the education and healthcare sectors (especially in New England) will be an important bulwark against the coming slowdown. As such, we expect the Northeast to lead all other regions in consumer spending growth on a YoY basis in 2023.

### Northeast

| | 2022 | | | | 2023 | | | | Actual | Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2021 | 2022 | 2023 | 2024 |
| Gross Domestic Product (YoY % Chg.) | 4.7 | 2.6 | 2.3 | 1.4 | 1.2 | 1.4 | 1.0 | 0.4 | 5.8 | 2.7 | 1.0 | 1.6 |
| Nominal Personal Consumption (YoY % Chg.) | 10.8 | 8.0 | 7.3 | 7.4 | 5.9 | 4.6 | 3.2 | 2.5 | 11.4 | 8.4 | 4.1 | 3.6 |
| Consumer Confidence Index | 106.7 | 101.1 | 103.5 | 111.5 | 96.4 | 92.6 | 94.6 | 97.4 | 110.7 | 105.7 | 95.3 | 104.8 |
| Employment (YoY % Chg.) | 4.7 | 4.4 | 3.9 | 3.3 | 2.2 | 0.7 | -0.4 | -0.9 | 3.6 | 4.1 | 0.4 | 1.1 |

Forecast as of: January 19, 2023

Sources: Visa Business and Economic Insights analysis of data from the U.S. Department of Commerce, U.S. Department of Labor, John Burns Real Estate Consulting LLC and The Conference Board.

# Visa's Regional Economic Forecasts

## South

**Fig. 4: Real gross domestic product (GDP) by region (SA, YoY* percent change)**

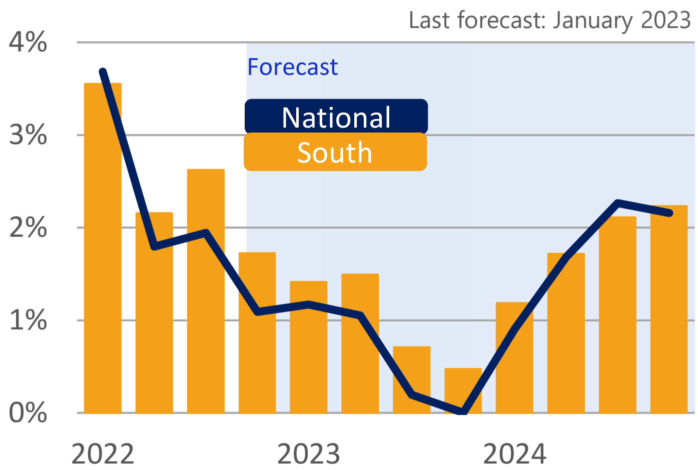
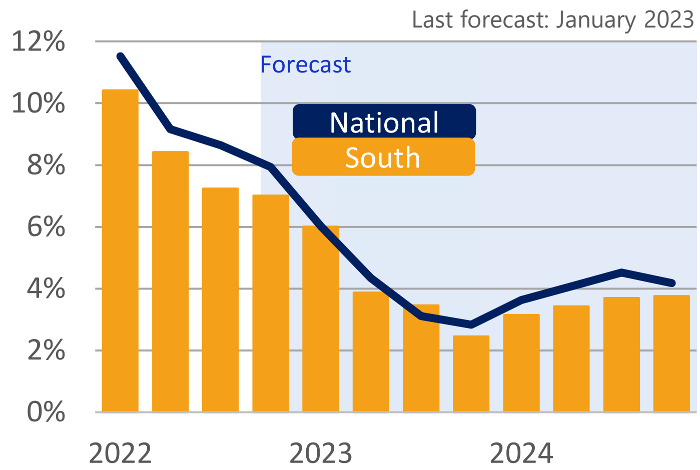



**Fig. 5: Nominal personal consumption expenditures by region (SA, YoY* percent change)**




* Seasonally adjusted, year-over-year (YoY)

### Leaving 2022 on a high note

The South remained a powerhouse of economic growth for the country in the third quarter, leading all other regions in GDP and employment growth. Despite continued oil and natural gas price declines in the third quarter, the West South Central Division (Texas, Louisiana, Oklahoma, Arkansas) led all other census divisions in both GDP and employment growth. According to data from the Visa International Travel platform (VISIT), Orlando and Miami had the second- and sixth-highest international visitor numbers, respectively, of any city in the U.S. or Canada in 2022. Strong fourth-quarter tourism growth in the South Atlantic (Delaware, D.C., Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia) and continued strength in the mining sector in the West South Central likely resulted in the South leading all other regions in GDP and employment growth in the final quarter of 2022.

While we expect the South to weather this year's anticipated slowdown better than the West and Midwest, a great deal of uncertainty remains. The South has a significant amount of exposure to both the construction and manufacturing sectors, which are expected to be hit hard by the slowdown, suggesting downside risk to our forecast. The manufacturing and construction downturn will be particularly challenging for the East South Central (Alabama, Kentucky, Mississippi, Tennessee), which has recently enjoyed strong growth in those sectors. However, high energy demand from Europe is expected to prevent a major decline in the West South Central's energy sector in 2023. The South Atlantic is also expected to fare better than most areas due to a high concentration of its employment and GDP in sectors that are likely to be less impacted by the slowdown, including government and healthcare. We believe these mitigating factors will help consumer spending growth remain robust in the South. Additionally, we expect the South to lead all other regions in GDP and employment growth in 2023.

### South

| | 2022 | | | | 2023 | | | | Actual | Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2021 | 2022 | 2023 | 2024 |
| Gross Domestic Product (YoY % Chg.) | 3.6 | 2.2 | 2.6 | 1.7 | 1.4 | 1.5 | 0.7 | 0.5 | 5.5 | 2.5 | 1.0 | 1.8 |
| Nominal Personal Consumption (YoY % Chg.) | 10.4 | 8.4 | 7.2 | 7.0 | 6.0 | 3.9 | 3.5 | 2.4 | 13.9 | 8.3 | 3.9 | 3.5 |
| Consumer Confidence Index | 107.6 | 99.5 | 98.7 | 102.5 | 97.3 | 93.5 | 95.5 | 98.3 | 111.0 | 102.1 | 96.2 | 105.8 |
| Employment (YoY % Chg.) | 4.5 | 4.4 | 4.2 | 3.9 | 2.8 | 1.3 | -0.1 | -0.6 | 3.4 | 4.2 | 0.8 | 1.1 |

Forecast as of: January 19, 2023

Sources: Visa Business and Economic Insights analysis of data from the U.S. Department of Commerce, U.S. Department of Labor, Visa International Travel (VISIT) platform and The Conference Board.

# Visa's Regional Economic Forecasts

## Midwest

**Fig. 6: Real gross domestic product (GDP) by region (SA, YoY* percent change)**

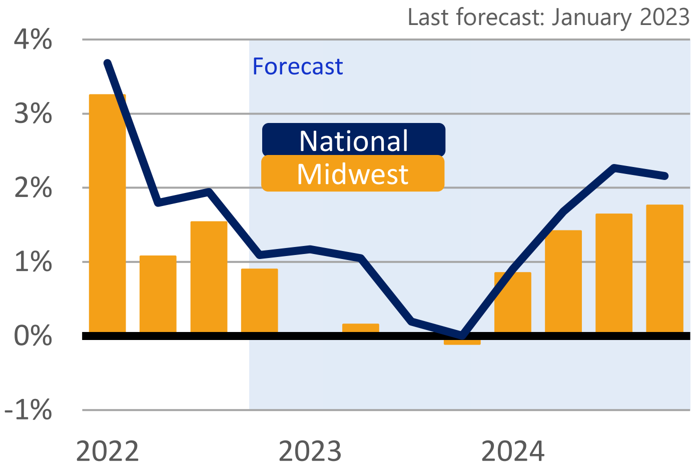
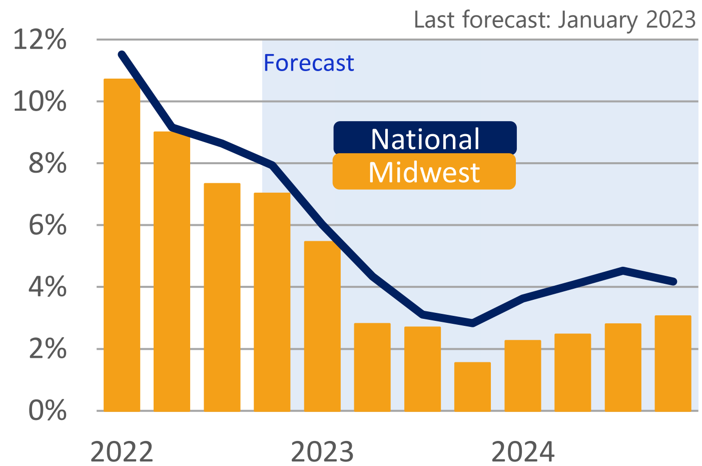



**Fig. 7: Nominal personal consumption expenditures by region (SA, YoY* percent change)**




* Seasonally adjusted, year-over-year (YoY)

### The Midwest can't catch a break

After trailing most major regions during the U.S. economic expansion, the Midwest continues to lag the national average. However, the Midwest has begun to outperform the West, which is already succumbing to weakness in the housing market and the tech sector. Through the third quarter of the year, consumer spending in the Midwest continued to decelerate. In part, this deceleration was due to lower inflation levels. After experiencing some of the fastest inflation in the U.S., due largely to elevated food prices, Midwest inflation has improved more quickly than other regions, removing some of the pressure on household budgets. But the downshift in consumer spending was also the result of slower job creation, among other factors. The Midwest still has the lowest unemployment rate of any region, making it difficult for companies to hire and ultimately limiting the potential consumer spending growth.

With an economic slowdown likely approaching in 2023, the Midwest will be impacted most acutely in its labor market and GDP, with both underperforming the broader U.S. Net job losses will begin in the first half of the year, leading to YoY declines in the second half. Sharp losses are expected in manufacturing, which plays a large role in the Midwest economy, but the pent-up demand for cars could help cushion the blow. In a typical downturn, big-ticket items like cars are the first thing cut from consumer budgets, leading to very steep job losses in the Midwest manufacturing industry. But due to the 2021-2022 supply chain disruptions and the exorbitant increase in vehicle prices, a large number of households are still driving older vehicles. In 2023, many of them may need to be replaced, meaning that vehicle production might not fall as far as some observers anticipate.

### Midwest

| | 2022 | | | | 2023 | | | | Actual | Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2021 | 2022 | 2023 | 2024 |
| Gross Domestic Product (YoY % Chg.) | 3.2 | 1.1 | 1.5 | 0.9 | 0.0 | 0.2 | 0.0 | -0.1 | 5.7 | 1.7 | 0.0 | 1.4 |
| Nominal Personal Consumption (YoY % Chg.) | 10.7 | 9.0 | 7.3 | 7.0 | 5.5 | 2.8 | 2.7 | 1.5 | 11.9 | 8.5 | 3.1 | 2.6 |
| Consumer Confidence Index | 104.3 | 99.3 | 100.1 | 103.7 | 97.1 | 93.3 | 95.3 | 98.1 | 111.6 | 101.8 | 96.0 | 105.6 |
| Employment (YoY % Chg.) | 3.1 | 2.9 | 2.6 | 2.7 | 1.7 | 0.6 | -0.3 | -0.7 | 2.6 | 2.8 | 0.3 | 0.9 |

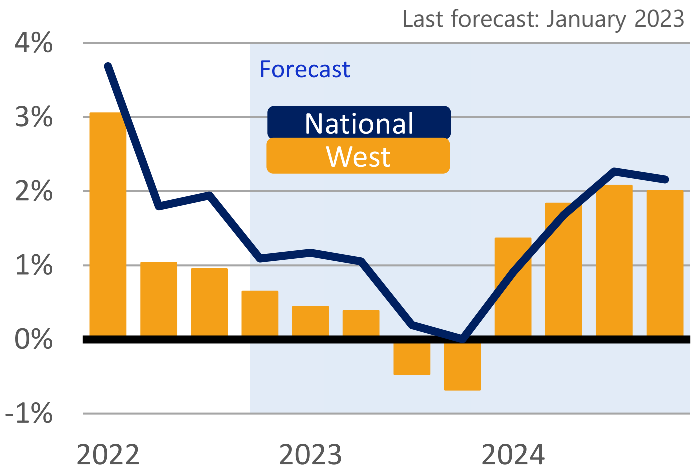
Forecast as of: January 19, 2023

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.

# Visa's Regional Economic Forecasts

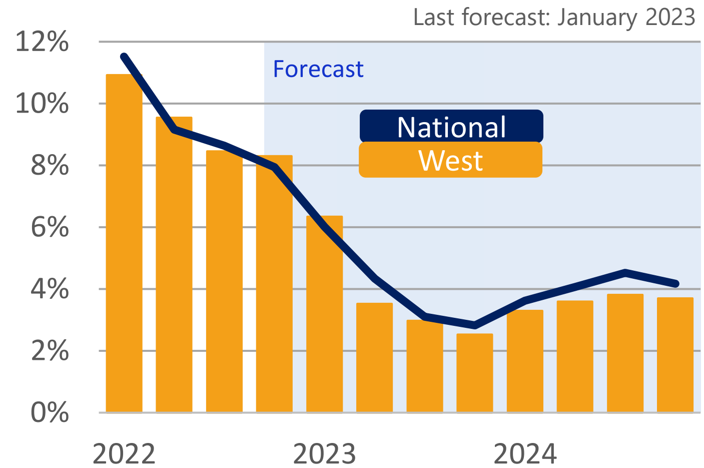
## West

**Fig. 8: Real gross domestic product (GDP) by region (SA, YoY* percent change)**




* Seasonally adjusted, year-over-year (YoY)

**Fig. 9: Nominal personal consumption expenditures by region (SA, YoY* percent change)**




### The tech wreck is just beginning

Job growth in the West has slowed dramatically, decelerating to 4 percent YoY in Q3-2022. It is expected to slow even further, and ultimately decline as layoffs hit the tech and construction industries. In late 2022 and early 2023, tech companies announced a new wave of layoffs, indicating that job cuts could exceed any we've seen since the early months of the pandemic. Many tech firms still rely on business loans and investment capital, and both are drying up. Interest rates have reached cycle highs, making it much more expensive to borrow money, and loan officers are turning down more applications, according to data from the Federal Reserve. Investors appear to be more risk-averse, according to data from PitchBook, depriving startups of the funding needed to maintain their payroll expenses. Many of these layoffs are expected to impact California, Oregon and Washington, shaking up the West's job market in ways that could resemble the dot-com bust of 2001.

A similar disruption is under way in the housing and construction sectors. Nationwide, housing affordability has become stretched, and in 2022 the median-priced home was less affordable than during the pre-2007 housing bubble. Housing conditions are most extreme along the West Coast, providing homebuyers incentive to exit the market at a rapid rate. At the same time, demand for office buildings has failed to recover in the West's major cities, reducing construction activity on new facilities and leading to slower growth in construction jobs. With out-migration expected to accelerate, the West's housing and construction industries could struggle into 2024. A unique dynamic is also impacting the West's GDP, which has underperformed all other major regions. Regional GDP is highly sensitive to changes in capital gains, and the West derives a high share of its income from capital markets. A re-pricing of asset valuations will likely lead a sharp slowdown in the West's GDP, followed by a meaningful post-recession recovery.

### West

| | 2022 | | | | 2023 | | | | Actual | Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2021 | 2022 | 2023 | 2024 |
| Gross Domestic Product (YoY % Chg.) | 3.1 | 1.0 | 0.9 | 0.6 | 0.4 | 0.4 | -0.5 | -0.7 | 7.1 | 1.4 | -0.1 | 1.8 |
| Nominal Personal Consumption (YoY % Chg.) | 10.9 | 9.5 | 8.5 | 8.3 | 6.3 | 3.5 | 3.0 | 2.5 | 13.2 | 9.3 | 3.8 | 3.6 |
| Consumer Confidence Index | 113.8 | 103.7 | 102.9 | 109.2 | 94.7 | 91.0 | 93.0 | 95.7 | 113.6 | 107.4 | 93.6 | 105.7 |
| Employment (YoY % Chg.) | 6.1 | 4.9 | 4.0 | 3.7 | 2.4 | 0.7 | -0.6 | -1.3 | 3.7 | 4.7 | 0.3 | 0.9 |

Forecast as of: January 19, 2023

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

# Accessibility notes

Fig. 1: Line chart showing the percent of the population likely already in a recession starting at 29 percent in Apr-2008 then steadily increasing to reach 99 percent in Nov-2008 and remaining there for most of the next two years until declining to zero by Aug-2010. The Nowcast remained below 1 percent for the next 10 years until shooting up to 99.9 percent in May-2020, then quickly returning to less than 1 percent by the end of that year. The Nowcast finished 2022 at 14 percent.

Fig. 2: Bar chart showing the Northeast's year-over-year (YoY) Gross Domestic Product (GDP) growth ranging from a high of 4.7 percent in Q1-2022 to a low of .5 percent (forecast) in Q4-2023 and rebounding to 2 percent by the end of 2024. The bar chart is combined with a line chart showing national YoY GDP growth ranging from a high of 3.7 percent in Q1-2022 to low of 0.0 percent (forecast) in Q4-2023 before steadily increasing again to reach 2.2 percent by year-end 2024.

Fig. 3: Bar chart showing the Northeast's year-over-year (YoY) Nominal Personal Consumption Expenditure (NPCE) growth ranging from a high of 10.8 percent in Q1-2022 to a low of 2.2 percent (forecast) in Q4-2023 before steadily increasing again to 3.7 percent at year-end 2024. The bar chart is combined with a line chart showing national YoY NPCE growth ranging from a high of 11.5 percent in Q1-2022 to a low of 2.8 percent in Q4-2023 before steadily increasing again to reach 4.2 percent (forecast) by year-end 2024.

Fig. 4: Bar chart showing the South's year-over-year (YoY) Gross Domestic Product (GDP) growth ranging from a high of 3.6 percent in Q1-2022 to a low of 0.5 percent (forecast) in Q4-2023 before slowly recovering to 2.2 percent by year-end 2024. The bar chart is combined with a line chart showing national YoY GDP growth ranging from a high of 3.7 percent in Q1-2022 to low of 0.0 percent (forecast) in Q4-2023 before steadily increasing again to reach 2.2 percent (forecast) by year-end 2024.

Fig. 5: Bar chart showing the South's year-over-year (YoY) Nominal Personal Consumption Expenditure (NPCE) growth ranging from a high of 10.4 percent in Q1-2022 to a low of 2.4 percent (forecast) in Q4-2023 before steadily increasing again to 3.8 percent (forecast) by year-end 2024. The bar chart is combined with a line chart showing national YoY NPCE growth ranging from a high of 11.5 percent in Q1-2022 to a low of 2.8 percent (forecast) in Q4-2023 before steadily increasing again to reach 4.2 percent (forecast) by year-end 2024.

Fig. 6: Bar chart showing the Midwest's year-over-year (YoY) Gross Domestic Product (GDP) growth ranging from a high of 3.6 percent in Q1-2022 to a low of -0.02 percent (forecast) in Q1-2023 before slowly improving to reach 1.8 percent by year-end 2024. The bar chart is combined with a line chart showing national YoY GDP growth ranging from a high of 3.7 percent in Q1-2022 to low of 0.0 percent (forecast) in Q4-2023 before steadily increasing again to reach 2.2 percent (forecast) by year-end 2024.

Fig. 7: Bar chart showing the Midwest's year-over-year (YoY) Nominal Personal Consumption Expenditure (NPCE) growth ranging from a high of 10.7 percent in Q1-2022 to a low of 1.5 percent (forecast) in Q4-2023 before steadily increasing again to reach 3.0 percent (forecast) by year-end 2024. The bar chart is combined with a line chart showing national YoY NPCE growth ranging from a high of 11.5 percent in Q1-2022 to a low of 2.8 percent (forecast) in Q4-2023 before steadily increasing again to reach 4.2 percent (forecast) by year-end 2024.

Fig. 8: Bar chart showing the West's year-over-year (YoY) Gross Domestic Product (GDP) growth ranging from a high of 3.1 percent in Q1-2022 to a low of -0.7 percent (forecast) in Q4-2023 before slowly recovering to 2.0 percent by year-end 2024. The bar chart is combined with a line chart showing national YoY GDP growth ranging from a high of 3.7 percent in Q1-2022 to low of 0.0 percent (forecast) in Q4-2023 before steadily increasing again to reach 2.2 percent (forecast) by year-end 2024.

Fig. 9: Bar chart showing the West's year-over-year (YoY) Nominal Personal Consumption Expenditure (NPCE) growth ranging from a high of 10.9 percent in Q1-2022 to a low of 2.5 percent (forecast) in Q4-2023 before steadily increasing again to reach 3.7 percent (forecast) by year-end 2024. The bar chart is combined with a line chart showing national YoY NPCE growth ranging from a high of 11.5 percent in Q1-2022 to a low of 2.8 percent (forecast) in Q4-2023 before steadily increasing again to reach 4.2 percent (forecast) by year-end 2024.

# Forward Looking Statements

This report may contain 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, statement 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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# Visa International Travel (VISIT) Methodology

Visa International Travel (VISIT) platform is a proprietary model that combines Visa's transaction data with publicly -available cross-border arrival statistics. The database provides a comprehensive view into high-frequency cross-border travel flows, currently encompassing over 100 origin and destination countries (based on information from the United Nations), which collectively account for more than 85 percent of global travel. VISIT combines unique counts of Visa credentials that register a face-to-face transaction at a merchant outside their home country in a given calendar month with other transaction data such as average spend per credential, card usage patterns at lodging merchants and others. Visa uses this depersonalized and aggregated data to model official arrival statistics compiled by various government sources and to generate estimates that fill in the large gaps existing in the cross-border travel data.

# Visa U.S. Spending Momentum Index Recession Nowcast

The Visa U.S. Spending Momentum Index (SMI) Recession Nowcast is a proprietary Visa model that calculates the SMI in multiple ways to predict whether a census-based statistical area (CBSA) is currently in a recession. A recession, for this purpose is, defined by the unemployment rate increasing by half of a percentage point compared to the lowest unemployment rate value within the last 12 months.

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