

## Consumer Morsel

# Central business districts continue to face challenges

30 January 2023

### Key takeaways

- Since the pandemic, central business districts have faced a slower rebound in consumer spending than the overall US.
- In BAC internal data we find the rebound in post-pandemic brick and mortar spending is still lagging in northern central business districts.
- The increase in working from home is one driver of this, but also the large domestic migration flows that occurred during the pandemic. Will cities find a way to bring consumers back?

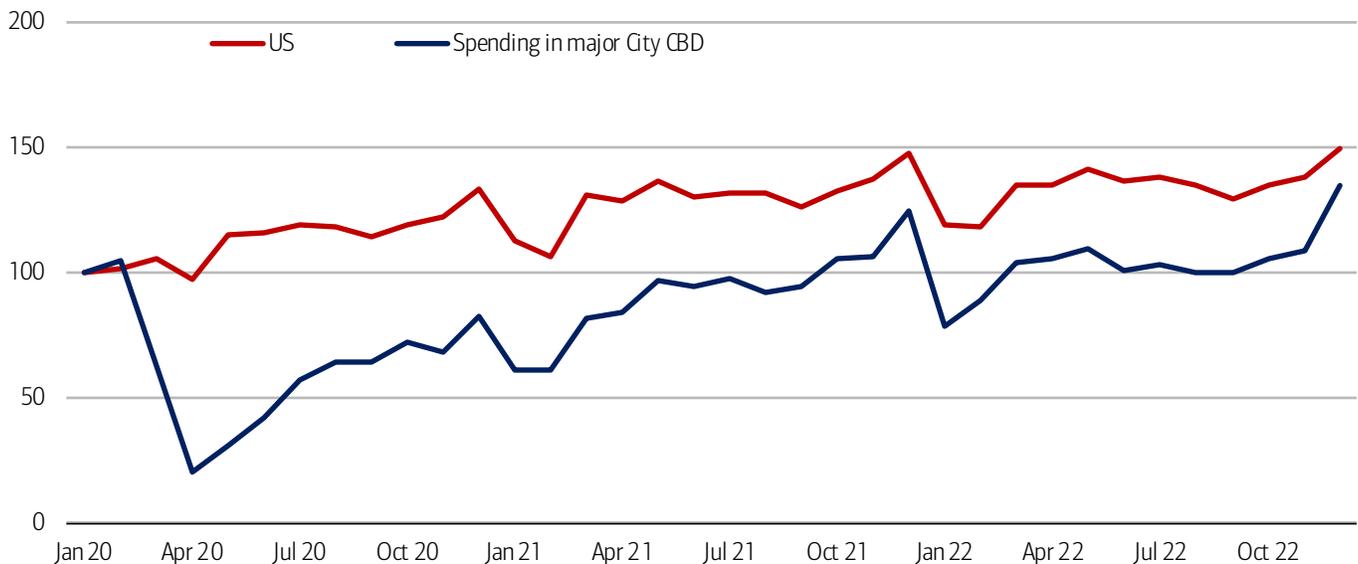
### Is the city center rebounding?

With the pandemic hopefully continuing to fade as a major economic headwind, it's worth asking whether some of the geographic demand shifts we saw over lockdowns are reversing. In particular, has demand for 'brick and mortar' (B&M) retail in city centers rebounded? And is the story consistent across the US?

To take a look at this, we use Bank of America internal data. In particular, aggregated credit and debit card retail spending per household indexed to January 2020 for the US as a whole and for 'brick and mortar' retail spending located in an aggregated set of large cities' central business districts identified by zip codes. For each city we look at, we identify an area 'in the central business district' and an area 'outside the central business district'.

**Exhibit 1: Total retail spending per household as measured by BAC aggregated debit and credit card data in the US and combined B&M spending in Atlanta, Boston, Dallas, Houston, New York, and San Francisco Central Business Districts (January 2020=100)\***

B&M spending in central business districts has lagged the overall US



Source: Bank of America Internal Data

\* Central Business Districts are identified by zip codes with the highest office densities. Includes bricks and mortar retail spending.

Exhibit 1 compares spending for US as a whole and B&M retail spending located in an aggregated set of large cities' central business districts. It shows that B&M retail spending in these major cities (Atlanta, Boston, Dallas, Houston, New York, and San Francisco) lagged overall US total retail spending per household throughout much of the last three years.

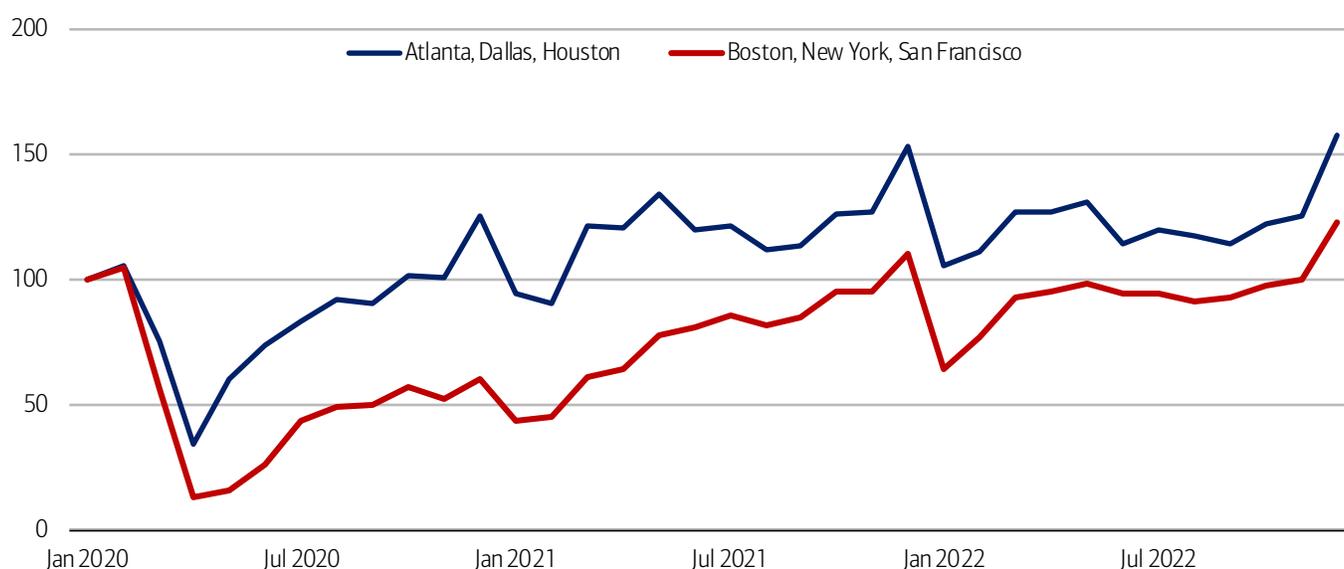
Interestingly, it appears that the gap is narrowing of late, with a larger increase in November and December in the central business district data than in the total US. But caution is probably needed here. Seasonal shopping is likely to favor some central business districts due to the agglomeration of prime retailers in these areas, and seasonal events, which may also draw people into the center. So, we think the narrowing is likely seasonal: in 2019 there was a larger rise in spending in the central business districts too.

It therefore looks likely that a fairly large gap between the overall US picture and central business districts is likely to remain into early 2023.

Is this lagging in consumer spend a feature of all cities? We break our data down into 'northern' and 'southern' cities to see if there's a difference.

**Exhibit 2: Total retail spending per household as measured by BAC aggregated debit and credit card data on B&M retail in Atlanta, Boston, Dallas, Houston, New York, and San Francisco central business districts (January 2020=100)**

Northern cities appear to have seen much less of a rebound in B&M retail spending



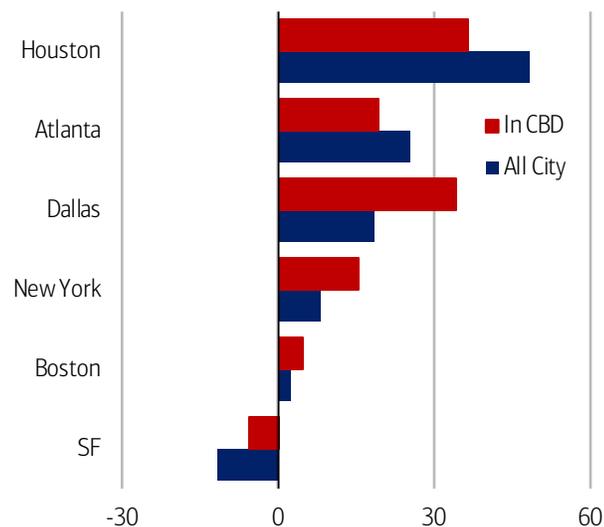
Source: Bank of America Internal Data

When we do this, we find it's the B&M spending in the central business districts of the northern cities (Boston, New York and San Francisco) that look particularly weak (Exhibit 2). The better performance of southern city central business districts looks fairly persistent.

Exhibit 3 shows the change in total card spending on B&M retail per household for each of the cities we are looking at. We use three-month averages here to try and avoid some volatility that may impact the numbers particularly in the run up to the holidays. It shows a fairly consistent story: the central business districts of the southern cities are doing a lot better than the northern central business districts. Moreover, if we look at all the zip codes in the cities and not just the central business districts we continue to find the same result.

### Exhibit 3: Percentage change in Total B&M retail spending per household between January 2020 and December 2022 (three-month average of monthly data)

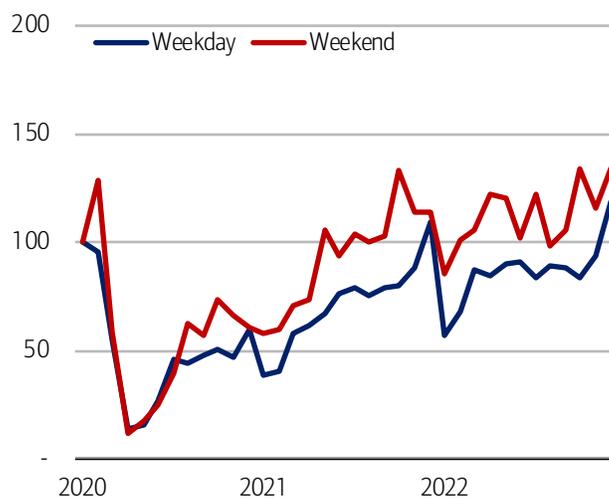
The outperformance of southern cities is true across the three in our sample



Source: Bank of America Internal Data

### Exhibit 4: Total B&M retail spending per household in Boston, New York, and San Francisco central business districts (January 2020=100) by weekday or weekend

Weekday central business district retail spending looks particularly weak in the northern cities



Source: Bank of America Internal Data

## Home remedies

An obvious explanation for the fact that central business districts are struggling relative to overall US spending is the trend of working from home (WFH). As the pandemic ramped up, many employees and employers deployed working from home at scale for the first time. And even though the pandemic is now largely waning, the shift to hybrid or remote work for many seems to endure.

One authoritative source here is the Survey of Working Arrangements and Attitudes<sup>1</sup> (SWAA), from the WFH Research Project. This survey has tracked working from home since early 2020.

Exhibit 5 shows that according to the SWAA, the percentage of paid full days people are working from home is around 30% as of December 2022, broadly where it has held fairly steady since 2021 and 2022. This level of remote work means many central business districts will have less people coming into them on any given weekday and their demand may be displaced to locations closer to where people live.

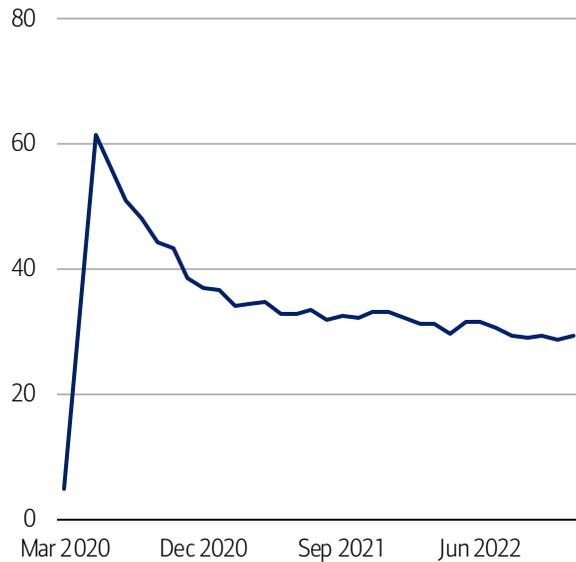
It is noteworthy in the BAC internal data that in the northern central business districts it is weekday B&M retail spending that has appeared to be softer than weekend card spending (Exhibit 4), which is consistent with the WFH story. One puzzle in the SWAA though is that there isn't a huge difference between the prevalence of WFH across the cities reported in the survey, and no obvious north-south story. There also appears to have been a small but consistent decline in WFH across all cities - Exhibit 6 shows the December percentages below the 2022 average - although its early to see if this will become more of a trend.

So WFH likely explains a good part of the *overall* reason why city centers are lagging the US as a whole, but it might not be all of the story as to why some cities are doing better than others.

<sup>1</sup> See, Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

**Exhibit 5: Percentage of paid full days worked from home**

The share of paid working days at home has been fairly steady at around 30% through 2021 and 2022



Source: Survey of Working Arrangements and Attitudes (SWAA)

**Exhibit 6: Percentage of paid full days worked from home by City**

The proportion of time working from home tends to be around 30 to 40% across the cities in the survey

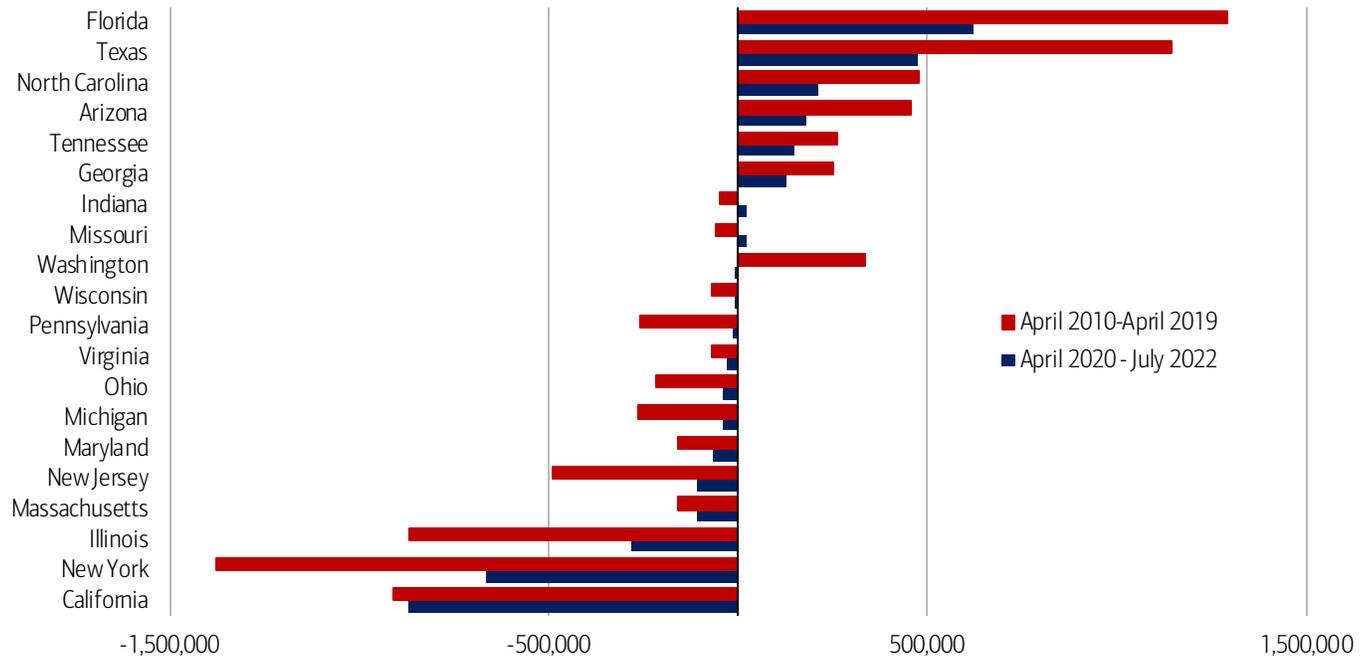


Source: Survey of Working Arrangements and Attitudes (SWAA)

Another key factor is the large domestic migration flows in the United States during the pandemic. Exhibit 7 shows that the US Census Bureau estimates that internal net migration flows between April 2020 and July 2022 have been very large. For example, Florida's positive inflow over those years was almost half of the total net inward internal migration it saw over the 2010-2019 period. Meanwhile, the outflow from California is almost the same over the pandemic period as the state saw over the whole of the previous decade.

**Exhibit 7: Cumulative domestic net migration between the top 20 US states by population size**

The pandemic appears to have accelerated the previous trend towards migration into southern states



Source: U.S. Census Bureau

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## **Central business districts are feeling the impact and must face a challenge**

Overall, it appears likely that central business districts will continue to face significant challenges. This could have important implications for the whole economy, raising questions around the location of businesses, housing and where public investment should flow.

What's next for the city centers? While trends in flexible or remote work are likely unpredictable, continued advances in technology along with worker preferences make it plausible that some level of this arrangement will persist. At the same time, particularly for northern cities, migration flows have likely exacerbated the remote work trends.

The drivers of domestic migration are complex, and not just down to economics, but northern cities and in particular their central business districts will need to focus on what they can do to attract businesses, workers and consumers if they are to face these challenges.

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## Sources

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## 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.

Bank of America credit/debit card spending per household includes spending from active US households only. Only 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 7 financial services companies. The data is 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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