ECONOMIC UPDATE

REGIONS

November 1, 2019

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October Employment Report: Better Than Expectations, And Better Than It Looks

- Nonfarm employment <u>rose</u> by 128,000 jobs in October; prior estimates for August/September were revised <u>up</u> by a net 95,000 jobs
- Average hourly earnings <u>rose</u> by 0.2 percent in October; aggregate private sector earnings were <u>up</u> by 0.3 percent (up 4.3 percent year-on-year)
- The unemployment rate <u>rose</u> to 3.6 percent in October (3.562 percent, unrounded); the broader U6 measure <u>rose</u> to 7.0 percent

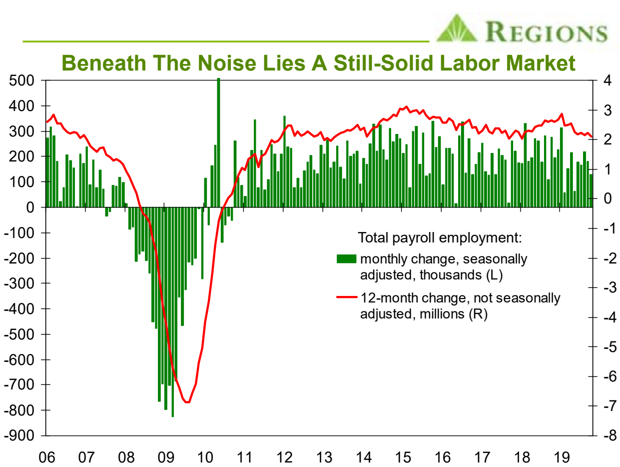
Total nonfarm employment rose by 128,000 jobs in October, much better than we and the consensus expected, with private sector payrolls up by 131,000 jobs and public sector payrolls down by 3,000 jobs. Not only is the October employment report better than expected, it is also better than it looks. The bar for the October employment report was set extremely low as, in keeping with BLS reporting practices, the 46,000 striking GM workers were not counted as employed given that they were not present at work at any point during the BLS's survey period, and layoffs at downstream parts suppliers also held down measured employment. Additionally, the temporary Census jobs that lifted job growth in August and September began to wear off in October – that they would do so at some point was not the question, when they would do so was the question. According to the BLS, the GM strike knocked 41,600 jobs off of the October total (much smaller than anticipated), while expiring Census jobs took off another 20,000 jobs. In that sense, then, the labor market was more robust in October than implied by the headline job growth number. Moreover, prior estimates of job growth in August and September were revised up by a net 95,000 jobs over the two-month period. On the whole, then, the labor market looks to be on much firmer footing than was the case a month ago, which should allay concerns that the broader economy is being dragged toward recession by the struggling industrial sector.

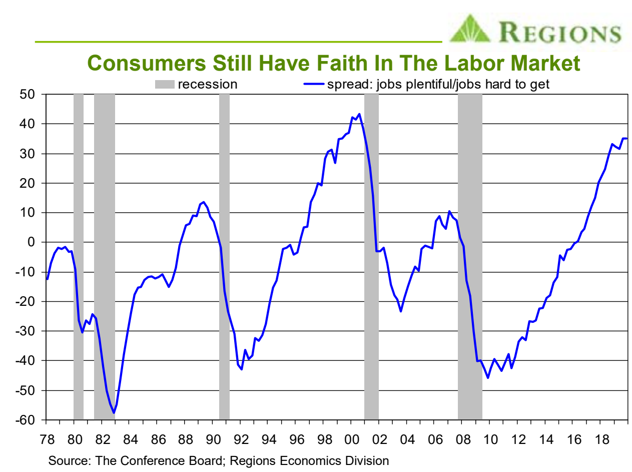
Both the headline unemployment rate and the broader U6 rate ticked higher by one-tenth of a point in October, to 3.6 percent and 7.0 percent, respectively. This could reflect the effects of the GM strike – while the striking workers were not counted as unemployed, workers of suppliers who were on temporary layoff were counted as unemployed, and to the extent suppliers cut hours rather than resorting to layoffs, this would help account for the increase in the number of people working part-time for economic reasons that pushed the U6 rate higher.

Keep in mind that measured job growth is not the only metric in the October data that is skewed by the GM strike, as hours worked and average hourly earnings will have also been impacted. Further keep in mind that to the extent these effects are present, to the downside, in the October data, they will be reversed in the November data. As such, both reports have to be assessed in the context of this noise, even if much of that noise is concentrated in the manufacturing sector. That said, other data are consistent with a still-solid labor market. The one-month hiring diffusion index held at 55.4 percent in October, lower than where it has been over much of the expansion but still indicating broad based job growth. Payrolls in leisure & hospitality services rose by 61,000 jobs in October, the largest of any industry group, though 47,500 of these jobs came in restaurants, an oddly strong number for the month of October. Education & health services added 39,000 jobs, business services added 22,000 jobs, and payrolls in the broad financial activities industry group were up by 16,000 jobs – within this broader group, hiring was strong in real estate, which is consistent with the stepped-up pace of activity in the housing market of late.

As seen in the not seasonally adjusted data, October hiring in retail trade was softer than typical for the month. October is typically the month when retailers begin ramping up for the holiday shopping season (which we preview in our upcoming *Monthly Economic Outlook* for November). But, given the ongoing struggles amongst brick and mortar retailers along with this year's late Thanksgiving, it is no surprise that retail hiring was weak in October. The November data will be a much better indicator of how retailers are approaching staffing for the holiday shopping season.

Given the noise in the data stemming from the GM strike, we've been more focused on other indicators of the health of the labor market. Weekly claims for Unemployment Insurance remain notably low and do not point to rising labor market stress. Data on labor force flows show over six million people per month continue to be drawn into the labor force, a notably high number. And, as shown in our chart below, consumers continue to feel very favorable about labor market conditions. This is a key reason we've not wavered in our view that, beneath the noise in the data lies a still-solid labor market.





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