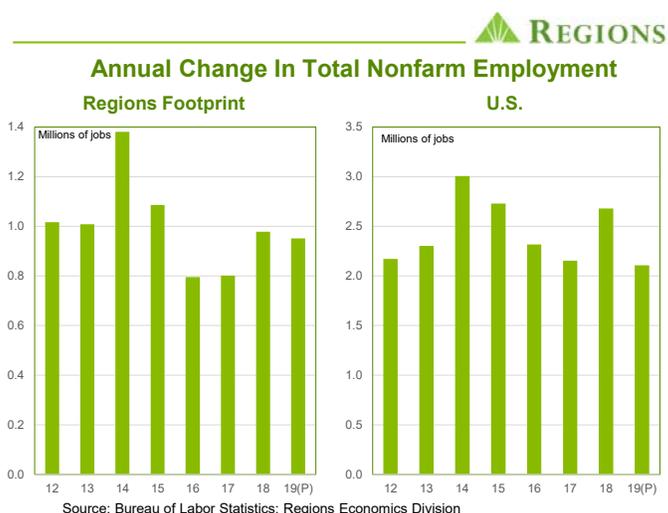




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2019 Nonfarm Employment: Regions Footprint

The Bureau of Labor Statistics (BLS) recently released the state-level labor market data for December 2019, meaning that we can put a wrap on the 2019 labor market data. At least for now. As with the data for the U.S. as a whole, the state level and metro area level data on nonfarm employment are still subject to the annual benchmark revision process. As such, the 2019 data must still be considered to be preliminary; the revised national data will be released on February 7, the revised state and metro area level data will be released in mid-March. While we'll offer a more thorough discussion upon the release of the revised data, we think it worthwhile to summarize the main themes in the preliminary data. The preliminary data show total nonfarm employment in the Regions footprint increased by 952,000 jobs in 2019, slightly below the increase of 978,400 jobs in 2018. The slowdown in the pace of job growth in 2019 was less pronounced within the Regions footprint than was the case for the U.S. as a whole. Still, despite the slower pace, job growth nonetheless remains more than sufficient to keep the unemployment rate flat-to-slightly lower, nationally and across the footprint. As is the case in any given year, there was considerable variation in rates of job growth across the individual states and metro areas within the footprint in 2019.

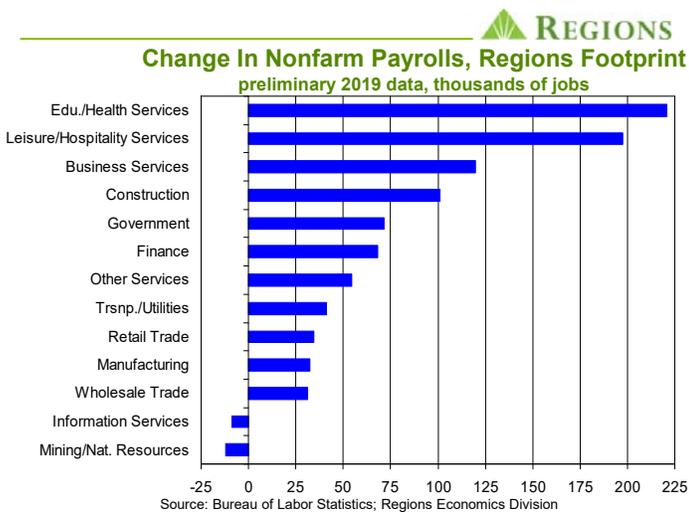


For those unfamiliar with how estimates of nonfarm employment are produced or with the benchmark revision process, we offer a brief primer. The nonfarm employment data provided by the BLS are based on a survey (the "Establishment Survey") of approximately 142,000 businesses and government agencies across the U.S., which represent over 689,000 separate worksites. The primary metrics derived from the Establishment Survey are monthly estimates of employment, hours worked, and earnings on the national, state, and metro area levels, though the level of detail reported narrows as one moves down the geographic levels. Note that the unemployment rate is estimated from a separate survey of households. During any given year, response rates to the Establishment Survey vary from month to month, and the universe of firms changes as either new firms come into existence or established firms cease to exist, and these are sources of error in the monthly estimates. The annual benchmark revision process is intended to correct for any such errors. The annual benchmark adjustment in any given year is a re-anchoring of the sample-based estimates to full population counts for the month of March of the prior year, which mainly come from Unemployment Insurance tax records filed by employers with state labor market agencies. As a general rule, in any given year the benchmark revisions to the national level data do not result in significant changes in estimates of job counts, but 2019 could be an exception, as the BLS has indicated the revisions to the 2019 data will be larger than normal. Regardless of the size of the revision to the national level data, as one goes down to the state level and then the metro area level, the magnitude of the benchmark revisions tends to increase, often significantly so on the metro area level. As such, we are hesitant to draw too many conclusions from the preliminary data on the state level and are even more hesitant to do so on the metro area level.

As noted above, initial comments from the BLS indicate that the magnitude of the benchmark revision to the initial estimate of 2019 job growth will be larger than is normally the case and will be to the downside, meaning that for the U.S. as a whole and the Regions

footprint, nonfarm employment increased by less in 2019 than the initial estimates suggest. Our sense, however, is that even with the downward revision we expect, the footprint will still have added more jobs in 2019 than in either 2016 or 2017 as the preliminary data suggest (see the chart on Page 1). Rather than focusing on total job growth, however, the pending revisions to preliminary estimates of 2019 job growth can best be understood in the industry level employment data. As we discussed in our analysis of the monthly employment reports for the U.S. as a whole over the course of 2019, there were patterns in the job growth data that seemed a bit, well, off. For instance, we consistently noted the strength of hiring amongst restaurants over the back half of 2019. In some sense that may have been “catch up” for restaurant hiring having been slow over the opening months of the year, but, even allowing for this, restaurant hiring was still oddly strong. As we noted, this meant one of two things – the monthly estimates of restaurant hiring were inflated by sampling error and/or seasonal adjustment issues and, as such would be marked down in the benchmark revisions, or, America was really, really hungry and just didn’t feel like cooking. It was a close call, but we went with the first explanation, and this proved to be the right call. In their initial summary of the benchmark revisions, BLS reports that the largest (in percentage terms) downward revision to preliminary estimates of 2019 job growth will come in leisure & hospitality services – restaurants roll up into this broad category.

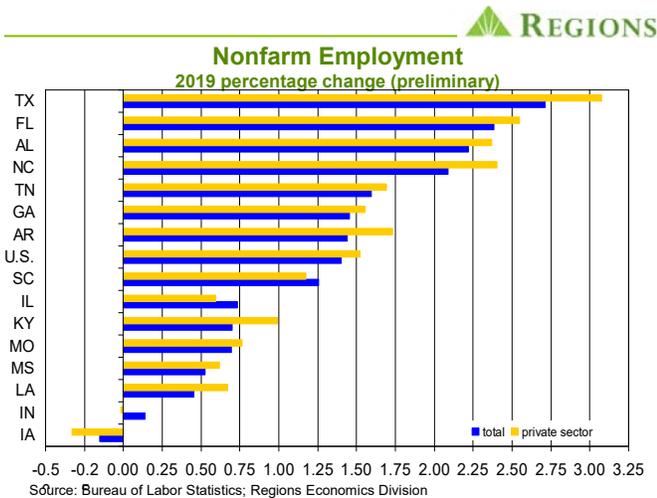
We also noted over the course of 2019 that reported job growth in retail trade seemed oddly resilient while hiring in transportation, warehousing, and distribution seemed less robust than we would have expected. Our view has been that estimates of job growth were not keeping pace with shifting patterns of consumer spending that favor faster job growth in warehousing and delivery oriented industry groups at the expense of job growth in retail trade. We made this same point in our write-up of the preliminary 2018 job growth data, and the subsequent benchmark revision affirmed our view. From the initial BLS comments, the benchmark revisions of the 2019 data will correct for this, with a significant downward revision in job growth in retail trade while the upward revision to job growth in transportation & warehousing will be the largest upward revision to any industry group.



These patterns will be apparent in the data on job growth within the Regions footprint. The chart to the side shows preliminary estimates of 2019 job growth across the major industry groups for the Regions footprint as a whole. The preliminary data peg the increase in payrolls in leisure & hospitality services within the Regions footprint at 197,400 jobs in 2019, but it is reasonable to assume that this gain will be marked down in the coming benchmark revisions. At the same time, the preliminary estimate of job growth in retail trade will be marked down – it also bears noting that the initial estimate shows retail trade payrolls within the Regions footprint rose by 34,400 jobs in 2019, considerably larger than the increase of 8,500 jobs for the U.S. as a whole. Education & health services payrolls within the Regions footprint rose by 220,900 jobs in 2019 according to the preliminary estimate, and we look for a modest downward revision to this estimate. In one sense, that education & health services, leisure & hospitality services, and business services posted that largest job

gains of any private sector industry groups in 2019 makes perfect sense, as these industry groups account for the largest shares of private sector employment (government, at 14.97 percent, accounts for the largest block of nonfarm employment in the Regions footprint). That makes the growth in construction employment all the more impressive – construction accounts for 5.10 percent of nonfarm employment in the Regions footprint, yet construction payrolls rose by 100,900 jobs in 2019 according to the preliminary data.

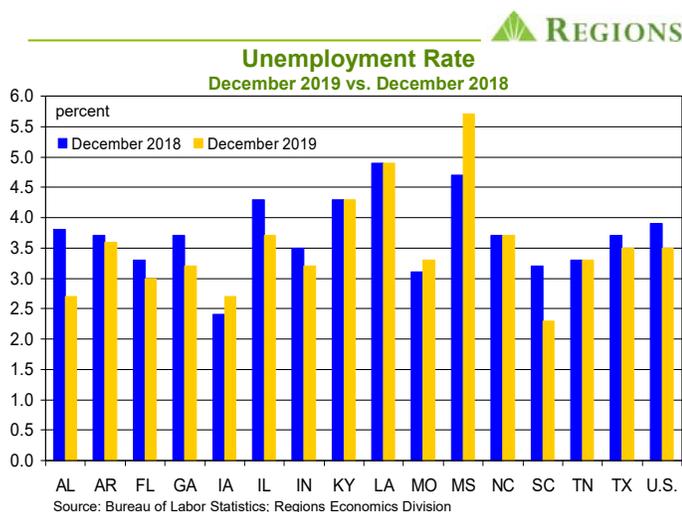
Though the numbers will change, one broad pattern seen in the preliminary data will surely survive the benchmark revisions. The goods producing industries – construction, manufacturing, and mining – accounted for only 13.8 percent of job growth in the Regions footprint in 2019, down from 24.7 percent in 2018 and 25.4 percent in 2017, and the lowest annual share since 2013. Though, as noted above, construction posted strong job growth in 2019, payrolls in the mining industry group fell by 12,200 jobs while manufacturing payrolls rose by only 32,000 jobs, down from increases of 112,700 jobs in 2018 and 91,800 jobs in 2017. As such, the increase in employment amongst the goods producing industries within the footprint in 2019 was barely half as large as the increase posted in 2018, while job growth amongst the service providing industries in 2019 was much larger than that seen in 2018. As it turns out, the preliminary estimates of job growth amongst the goods producing industries figure to be little changed in the revised data, but the preliminary estimates of job growth amongst the service providing industries will be revised lower. So, while the goods producing industries will have accounted for a larger share of overall 2019 job growth than implied by the preliminary data, that share will still be much lower than had been the case over the prior two years.



To the surprise of absolutely no one (at least no one who has paid any attention at all over the past several years) Texas and Florida top the rankings of 2019 job growth across the individual states within the Regions footprint. Note the rankings are based on the percentage change in total nonfarm employment, not on the number of jobs added, as the sheer size of Florida and Texas gives them a built-in advantage in terms of level changes. The chart to the side shows the percentage changes in total nonfarm employment and in private sector employment in 2019 for each state in the footprint. What may come as a surprise is that Alabama posted the third largest increase in employment in 2019 after having lagged the national and footprint averages over most of the current expansion. The preliminary data show Alabama saw sizable job gains across the service providing industries in 2019, which offset virtually flat payrolls across the goods producing industries. Iowa saw nonfarm employment decline in

2019, and whole Indiana notched an increase in total nonfarm employment, that is only because job growth in the government sector was sufficient to negate a decline in private sector payrolls, with particular weakness in manufacturing, wholesale trade, and leisure & hospitality services. As we do each year, we'll devote more attention to the industry composition of job growth across the individual states in the Regions footprint once the benchmark revisions are released.

As noted earlier, while estimates of employment, hours worked, and earnings are derived from the Establishment Survey, the various labor force metrics, such as the civilian labor force, household employment, and the unemployment rate, are derived from a different survey. The federal government conducts a monthly survey – the Current Population Survey (CPS) – of roughly 60,000 households (the majority of households are surveyed in consecutive months, so the group of respondents does not entirely refresh each and every month). While the scope of the survey goes far beyond labor force participation, this is one of the topics on which respondents are queried, and it is from the CPS (often referred to in this context as “the household survey”) that estimates of the main labor force metrics, including the unemployment rate, are derived. We offer this explanation in part because we know that you’re really, really eager to know but too reticent to ask, but more importantly to set up the following discussion of unemployment rates on the state level. As anyone who follows the data on the labor force and household employment on a month-to-month basis knows, the levels of these metrics tend to swing sharply, but the estimate of the unemployment rate tends to be more stable. At least on the national level. On the state level, reflecting what are much smaller sample sizes in any given state, and even smaller in any given metro area, not only do we tend to see sharp swings in the level of the labor force and the level of household employment from one month to the next, we often see sharp monthly swings in the unemployment rate. This is a useful point to keep in mind when assessing changes in reported unemployment rates on the state or metro area level over time, particularly since the unemployment rate is typically the only one of these metrics that people see.



The chart to the side compares the unemployment rate for each state in the Regions footprint and for the U.S. as a whole as of December 2019 and December 2018. The December 2019 rate is lower than or equal to the December 2018 rate for most states, higher only in Iowa, Missouri, and Mississippi. That Mississippi’s jobless rate is reported to risen over the latter months of the year and ended 2019 at 5.7 percent, which would be a 39-month high, is somewhat suspect, as it reflects what for the state would be abnormally rapid growth in the labor force. The decline in Indiana’s jobless rate reflects a decline in the size of the labor force as the level of household employment in the state fell during the year. Year-end 2019 jobless rates in Alabama, Florida, Georgia, Illinois, and South Carolina are the lowest rates on record in the data that go back to 1976. As with the data on nonfarm employment, the 2019 data from the household survey are preliminary, but our broader point remains the same – care must

be taken in interpreting changes in the unemployment rate and a decline (increase) in the unemployment rate may not be as positive

(negative) as the move itself implies. That is particularly true on the metro area level, where the monthly estimates of household employment and the size of the labor force come with a very low degree of reliability.



Total Nonfarm Employment, Regions Metro Areas			
2019 percentage change (preliminary)			
Top Twenty	% change	Bottom Twenty	% change
Wilmington, NC	4.38	Evansville, IN-KY	0.24
Punta Gorda, FL	4.27	Terre Haute, IN	0.14
Fayetteville, AR-MO	4.08	Fort Smith, AR-OK	0.00
Dallas, TX	4.05	Alexandria, LA	0.00
Raleigh-Cary, NC	3.84	Columbia, MO	0.00
Gainesville, GA	3.70	Jefferson City, MO	0.00
Cape Coral, FL	3.45	Springfield, MO	-0.05
Champaign, IL	3.45	Memphis, TN-MS-AR	-0.08
Austin, TX	3.40	Albany, GA	-0.16
Naples, FL	3.27	Panama City, FL	-0.59
Orlando, FL	3.24	Lafayette, IN	-0.67
Jacksonville, FL	3.14	Monroe, LA	-0.76
San Antonio, TX	3.12	Iowa City, IA	-0.80
Spartanburg, SC	3.09	Peoria, IL	-1.08
Houston, TX	2.89	Waterloo, IA	-1.09
Charlotte, NC-SC	2.85	Longview, TX	-1.13
Huntsville, AL	2.67	Columbus, GA-AL	-1.13
Palm Bay, FL	2.64	Houma, LA	-1.41
Rome, GA	2.63	Shreveport, LA	-1.55
Gulfport-Biloxi, MS	2.58	Cleveland, TN	-4.38

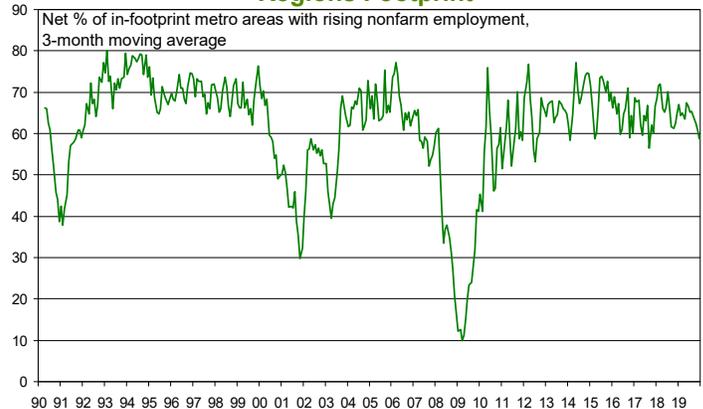
Source: Bureau of Labor Statistics; Regions Economics Division

On the metro area level, the preliminary 2019 data from the establishment survey are available but the household survey data are not. As with the national and state level data, the preliminary 2019 metro area data are still awaiting the annual benchmark revision process and we will again caution that the metro area data are prone to substantial revision. As such, we'll go no further at present that to show what, based on the preliminary data, are the 20 in-footprint metro areas posting the fastest growth in payroll employment in 2019 and the 20 in-footprint metro areas showing the slowest growth/outright declines in payroll employment. Once the revised metro area data are available in March, we'll go more into detail in terms of job growth and the composition of job growth across major industry groups in more detail. That said, the list of metro areas posting the fastest job growth tends to be heavy on Florida and Texas metro areas, and the list for 2019 is no exception. We will, however, note that interpreting these lists can at times be tricky in that, even though our rankings are based on the

percentage change in nonfarm employment, in the smaller metro areas a move of just a few hundred jobs can yield outsized percentage changes, which in turn can cloud the rankings.

One metric we like to track is our Metro Area Employment Diffusion Index, which is a measure of the breadth of job growth across a group of 152 in-footprint metro areas. In order to remove some of the month-to-month volatility inherent in the series, we show the three-month moving average in the chart to the side. As seen in the chart to the side, hiring remains fairly well dispersed across the footprint, though to a lesser degree as 2019 wore on. More broadly, the breadth of hiring geographically across the footprint has not matched that of the expansion of the 1990s. One trait of the current expansion, particularly early on, is that there have been stretches during which one or more of the major industry groups has been out of synch with the others. Also, what has been a persistent drag on overall job growth from local and state government is felt more acutely on the metro area level. More broadly, economic activity has become somewhat more concentrated geographically in the post-recession years. Each of these factors has worked to hold down our measure of the breadth of employment growth across the Regions footprint.

Regions
Metro Area Employment Diffusion Index:
Regions Footprint



Source: Bureau of Labor Statistics; Regions Economics Division

The diffusion index for the month of December came in at 55.92 percent, the second lowest reading of 2019 and below the 66.78 percent reading from December 2018. Again, the month-to-month values of the diffusion index can be jumpy, which makes interpreting the index a bit tricky at present. Despite the decline in December, hiring remains fairly well dispersed both geographically and across industry groups; that this is still the case this deep into an economic expansion suggests that the current expansion has longer to run. At the same time, our baseline 2020 forecast anticipates a slower pace of job growth in 2020, and it would figure that job growth would be less broad based both across industry groups and across geographies, which would be consistent with a lower level of the hiring diffusion index shown here. But, were we to see a meaningful and sustained reduction in the number of industries and/or geographies carrying job growth, that would be, at least to us, a clear warning sign of an expansion on its last legs. In any event, as the benchmark revisions roll out on the state and metro area levels, we'll report back and provide a more thorough analysis of labor market patterns across the Regions footprint. For now, though, we thought this summary of the preliminary data would be of interest.