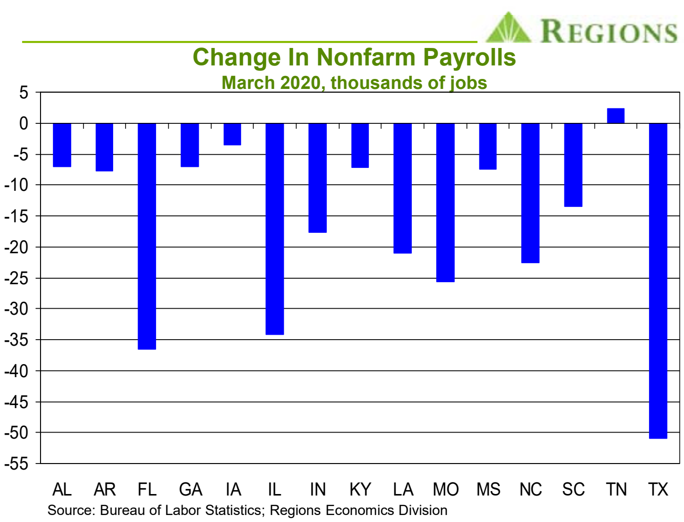
ECONOMIC UPDATE
REGIONS
April 20, 2020

March 2020 Nonfarm Employment: Regions Footprint

In normal times, our practice has been to provide monthly updates of the in-footprint state level and metro area level employment data while providing analysis of the broader trends in the data on a less frequent basis. As we have often discussed, the sub-national data are more volatile than the national data, and initial estimates of nonfarm employment and the unemployment rate are prone to sizeable revision. For instance, it is not uncommon for implausibly large swings in the reported size of the labor force from one month to the next to cause sizable changes in the unemployment rate that tell you nothing about underlying economic conditions, and this is even more common on the metro area level than on the state level. This is largely a function of what for the states and metro areas are smaller sample sizes than those used to produce the national data. As a general rule for the sub-national data, the household employment data, from which the unemployment rate is estimated, are more volatile than the nonfarm employment data, and the metro area level data for both series are more volatile than the state level data. As such, while we think it important to track the broader trends in the state level and metro area level data, we have little confidence in the initial estimates of the monthly changes in nonfarm employment, household employment, and the labor force on the sub-national level, as it is often difficult to separate the signal from the noise in the data.

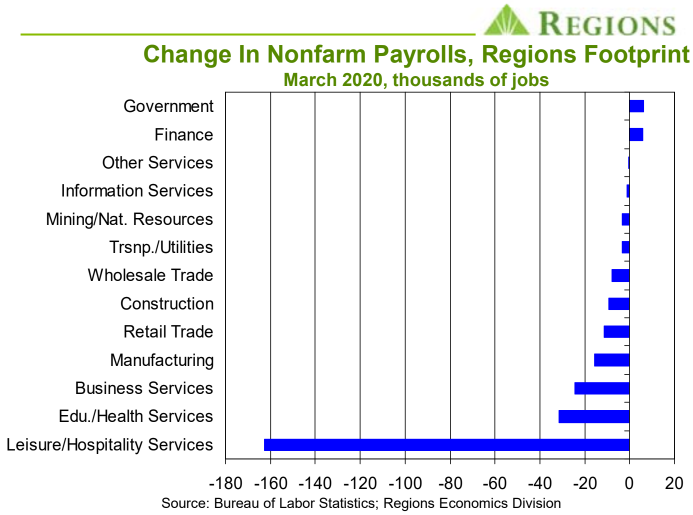
By now, however, it is abundantly clear that these are not normal times. The COVID-19 virus and the efforts to contain its spread have exacted a harsh toll on the U.S. economy, which is reflected in the data on the labor market. For instance, total nonfarm employment in the U.S. declined by 701,000 jobs in March, with private sector payrolls falling by 713,000 jobs. But, as unsettling as these numbers may be, they do not begin to reveal the extent of the impact of the virus on the labor market. Over the past four weeks, more than 20 million Americans filed initial claims for Unemployment Insurance (UI), but this number is understated because in many states the volume of applicants has overwhelmed their capacity to process claims. That the massive spike in UI claims came after the March establishment survey, from which the BLS estimates changes in total nonfarm employment, means the layoffs that occurred over the back half of March are not accounted for in the March employment report. They will be accounted for in the April employment report, as will layoffs that occurred over the first three weeks of April.



On Friday, the BLS released the March state and metro area data on nonfarm employment, along with the state level data from the household survey (the March household survey data on the metro area level are not yet available). Total nonfarm employment fell in 14 of the 15 states in the Regions footprint in March. Total nonfarm employment for the footprint as a whole declined by 259,200 jobs, with private sector payrolls falling by 265,300 jobs. Nonfarm employment fell by 50,900 jobs in Texas in March, with Florida seeing a decline of 36,600 jobs and Illinois seeing a decline of 34,100 jobs. Tennessee is the only in-footprint state to have escaped March without a decline in nonfarm employment, though, again, we'll offer the usual caveat about the initial estimate of job growth in any given month. As with the national data, however, the reported declines in state level and metro area level employment in March pale in comparison to what will be reported in the April data.

This is apparent from the data on initial claims for Unemployment Insurance benefits. Over the past three weeks (covering the last two weeks of March and the first week of April), over 4.7 million people within the Regions footprint filed initial claims for UI benefits. Note that the state level data on UI claims lag the national data by one week, so we do not yet have state level data for the second week of April. As with the national data, the reported number of state level UI claims over the past few weeks is understated due to many states running into capacity constraints in processing applications. Still, taking the 4.7 million filings in the three-week period that ran through the first week of April and assuming similarly large numbers through mid-April, it is clear that the April employment data will show job losses for the 15-state Regions footprint running into the millions.

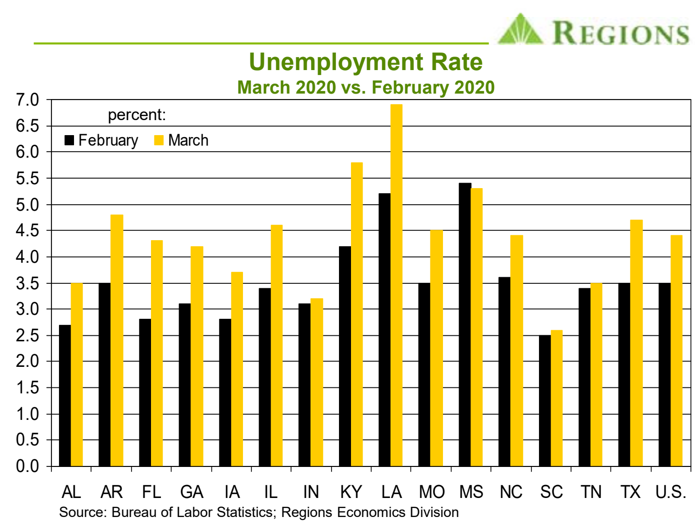
Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com



Amongst the broad industry groups, job losses across the Regions footprint in March were the most severe in leisure and hospitality services. This comes as no surprise, given that the first segments of the economy to scale back operations or shut down completely were consumer facing services such as travel, tourism, lodging, restaurants, and entertainment/amusement. Within the Regions footprint, payrolls in leisure and hospitality services fell by 162,700 jobs in March. With this industry group accounting for over 14 percent of total nonfarm employment in the state, easily above the national average, it is not surprising that Florida saw the biggest decline, 38,600 jobs, in leisure and hospitality services of any of the in-footprint states in March. Again, the timing of the layoffs means that the March data don't begin to cover the full extent of job losses seen in this industry group, but that will be apparent in the April data. Texas (25,900 jobs), Missouri (15,700 jobs), Illinois (15,000 jobs) and North Carolina (13,600 jobs) were the other in-footprint states seeing the largest declines in leisure & hospitality services in March.

Finance and government were the only industry groups to register increases in employment in March in the Regions footprint. But, with state and local governments having laid off parts of their workforces, government payrolls will decline in April. While this will almost surely be the case across all industry groups, construction, manufacturing, and retail trade are other industry groups (in addition to leisure and hospitality services) in which exposure within the Regions footprint is above the national average, so layoffs in these industry groups will be felt more acutely within the footprint.

On the metro area level, amongst the group of 104 in-footprint metro areas which we track and for which we provide monthly data updates, nonfarm employment fell by a total of 191,700 jobs in March. The metro areas seeing the largest declines in nonfarm payrolls in March were Chicago (38,400 jobs), Fort Worth (19,900 jobs), Houston (18,200 jobs), Tampa (11,700 jobs), Dallas (11,100 jobs), and St. Louis (11,000 jobs). Clearly, scale is an issue here, as in the state level data, as these are amongst the largest in-footprint metro areas. As we have more data, we'll be better able to put the number of job losses in each state and metro area in proper perspective. There were eighteen in-footprint metro areas registering increases, albeit very modest, in nonfarm payrolls in March, with Miami (2,400 jobs) posting the largest increase. Again, though, keep in mind these initial estimates are prone to even larger revision on the metro area level than is the case on the state or national levels.



The unemployment rate for the Regions footprint as a whole (based on the state level data) rose to 4.4 percent in March from 3.3 percent in February. Louisiana (170 basis points), Florida (150 basis points), Kentucky (150 basis points), and Texas (130 basis points) saw the largest over-the-month increases in their jobless rates. While Mississippi's jobless rate fell from 5.4 percent in February to 5.3 percent in March, this is because the decline in the state's labor force was larger than the decline in household employment. As with the U.S. as a whole, the size of the labor force within the Regions footprint contracted sharply in March, falling by 657,850 persons.

There are a few points to keep in mind when assessing the data from the household survey. For the U.S. as a whole, BLS estimates the March jobless rate was understated by roughly 90 basis points due to reporting inconsistencies (people who had been laid off incorrectly reporting they were absent from work). While we do not have comparable data on the state or metro area levels, we can assume reporting errors of similar magnitude. Also, while there is a state level version of the broader U6 measure, which also accounts for underemployment, the state level series comes on a quarterly frequency and with lengthy lag. But, we know that for the U.S. as a whole, the number of people who were working part-time for economic reasons rose by roughly 1.5 million people in March, while there

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Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

was a significant increase in the number of "discouraged workers," i.e., people who wanted but did not have jobs but who had given up looking for work because they felt there were no jobs available for them. Again, the household survey data on the state and metro area levels is not detailed enough for us to know the number of people in each group within the footprint, but we can assume each measure rose sharply in March and will rise by an even greater amount in April, in a manner consistent with the national data.

Also, keep in mind that in order for an unemployed person to be counted as being in the labor force they must either be on temporary layoff or be actively looking for work. With so much of the economy having been shuttered since mid-March, it is highly likely that many of those recently having been laid off will have begun actively looking for work and, as such, will not be included in the calculation of the unemployment rate. While some may turn up in the "discouraged workers" category, not all of them will. In other words, the unemployment rate understates the degree to which the labor market has been impacted by the COVID-19 virus and the efforts to contain its spread, and while the broader U6 measure is a better approximation, it also does not fully capture the extent of the impact on the labor market. This is true on the state and metro area levels as well.

It is worth keeping in mind that, nationally, of those who lost jobs in March, a greater number reported that they were on temporary layoff as opposed to having lost their job permanently, which is the first time in the life of the data this has been the case. While this offers a glimmer of hope that many, if not most, of these people would be recalled to their jobs once we are on the other side of the virus, there are a number of contingencies that should temper expectations of the extent to which and the speed with which this may be the case. First, the businesses that have laid these workers off must make it through the downturn; while the aim of much of the government aid directed at small and mid-sized businesses is to help these firms survive, not all of them will. Second, there will surely be differences across geographies, and in turn across industries, as to when economic activity begins to normalize. It follows that the rate at which laid off workers will be called back to work will be uneven and will not come close to matching the rate at which these workers were laid off. Third, as economic activity does begin to normalize, it could be that some businesses return in a smaller scope than had been the case prior to the downturn, meaning that they will not need to call back as many workers as they let go upon being shut down. Finally, it is also possible that this episode may cause at least some businesses to reconsider the degree to which they desire to be, or need to be, labor intensive relative to the degree that prevailed prior to the downturn. In short, there is no guarantee that all those workers who report being on temporary layoff will get their jobs back once economic activity does begin to normalize.

As noted at the outset, our practice has been to provide the monthly state and metro area labor market data while providing less frequent analysis or commentary, which reflects the limitations of the sub-national data. But, as these are anything but normal times, we think it important to provide regular updates such as this one and will do so each month upon the release of the sub-national data on nonfarm employment. Though the data will be subject to the same caveats we offered at the outset, concerns about the quality of the data are of secondary importance right now. In addition to these updates, we will of course continue to do our regular updates of state level claims for Unemployment Insurance upon the release of the data each Thursday, and will continue to provide our regular monthly updates of state and metro area labor market, housing market, and personal income data, updates which can be found at either of the following sites:

https://www.regions.com/about-regions/economic-update or http://lifeatregions/Finance/MonthlyEconomicReports.rf

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