ECONOMIC UPDATE

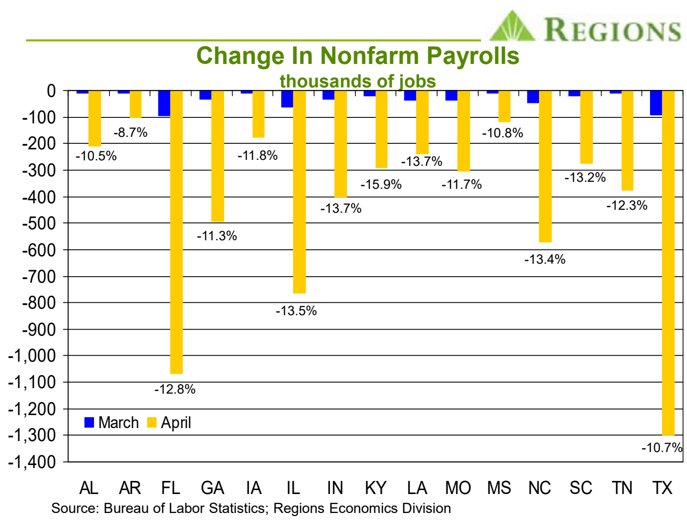
REGIONS

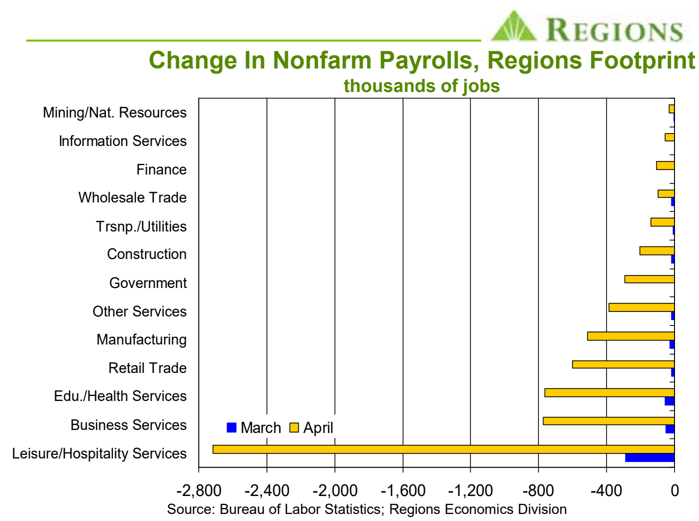
May 22, 2020

April 2020 Nonfarm Employment: Regions Footprint

For the Regions footprint as a whole, total nonfarm employment fell by 6.684 million jobs in April, while what was originally reported as a decline of 259,200 jobs in March is now reported to be a decline of 510,300 jobs. In keeping with the severity of the declines in employment, unemployment rates rose sharply in April, though it must be noted that were it not for significant declines in labor force participation, the increases in unemployment rates across the individual states in April would have been much more pronounced. We know from the weekly state level data on initial claims for Unemployment Insurance benefits that layoffs continued through mid-May, which covers the survey period for the BLS's establishment survey. As such, nonfarm payrolls fell further in May, nationally and across the Regions footprint, though the magnitude of job losses in May will not approach that seen in April.

That the declines in nonfarm employment in April were the most severe in Texas (down by 1.299 million jobs) and Florida (down by 1.066 million jobs) is no surprise given that these are the states with the highest levels of employment. One way of putting the job losses in March and April into perspective is to look at the percentage decline in nonfarm employment from February, which will prove to have been the cyclical peak in nonfarm employment. For the U.S. as a whole, nonfarm employment has fallen 14.1 percent from February, while for the Regions footprint as a whole there has been a decline of 12.2 percent. Kentucky has seen nonfarm employment decline by 15.9 percent, easily the largest decline of any in-footprint state, while the 8.7 percent decline in Arkansas is the smallest of any in-footprint state. In first chart below, the blue and gold bars show the declines in nonfarm employment in terms of thousands of jobs, and the figure beneath each state's April bar reflects the percentage decline in nonfarm employment between February and April.





As was the case nationally, employment fell in each of the 13 broad industry groups for the Regions footprint in April. As a sort of grim side note, payrolls in the transportation & utilities industry group rose by 300 jobs in Iowa in April, which is the only instance in which employment in any of the broad industry groups increased in any of the in-footprint states in April. For the footprint as a whole, payrolls in the leisure and hospitality services industry group declined by 2.716 million jobs in April, bringing the combined total of job losses in this group for March and April to 3.003 million jobs. Job losses in the broad education and health services industry group reflect the closings of offices of non-hospital medical care providers (physicians, dentists, eye doctors, . . .). As with job losses across states, the declines by industry group should be put in the context of the relative share of overall employment accounted for by each industry group. For the Regions footprint as a whole, education and health services, business services, leisure and hospitality services, retail trade, and manufacturing account for the largest shares of total nonfarm employment, and of these industry groups leisure and hospitality services is the only one in which job losses over the past two months have been in outsized proportion to the share of total employment.

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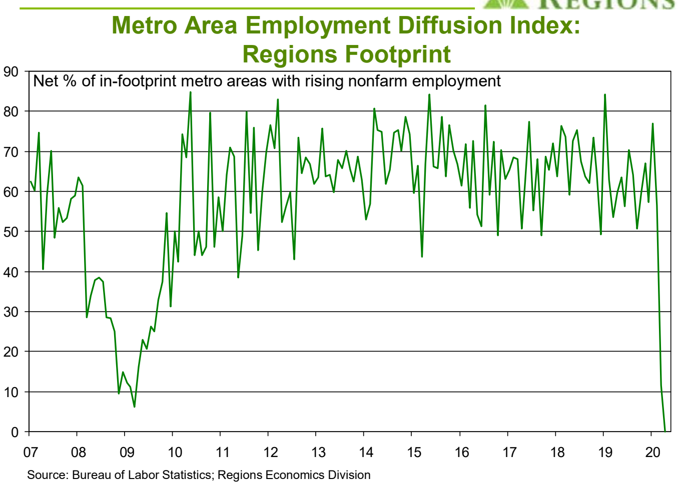
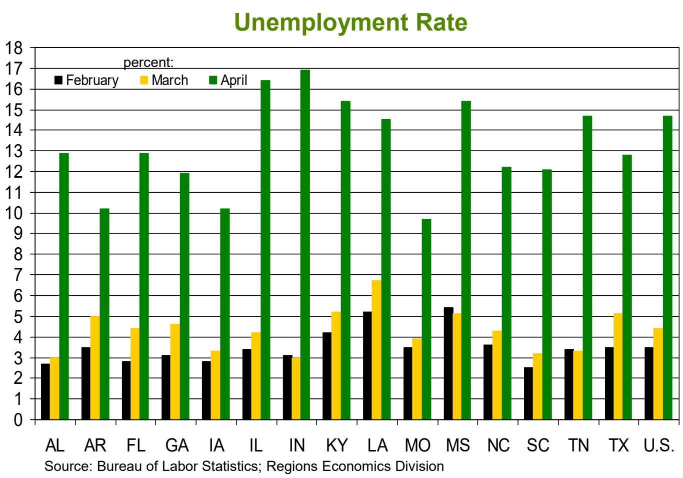
The story is no different on the metro area level, with nonfarm employment declining sharply across the Regions footprint. Of the large metro areas within the footprint, Louisville saw total nonfarm employment decline by 17.7 percent between February and April, with New Orleans seeing a decline of 17.5 percent, while the 8.4 percent decline in the Birmingham metro area is the least severe amongst the larger in-footprint metro areas. It should be noted that the nonfarm employment data do not capture those who are self-employed or "gig workers," with many in these categories having seen jobs vanish over the past two months. As such, measured job losses in the payroll data do not fully capture the extent of job losses, and this is true on the national, state, and metro area levels. It should also be noted that in the metro area level data, we do not have a complete breakdown across the 13 broad industry groups as we do on the state and national levels. While the industry level data are generally available for the larger metro areas, this is not the case for the mid-sized and smaller metro areas, meaning we cannot do a comparable industry breakdown of job losses on the metro area level. It is unlikely, however, that if complete metro area data on employment by industry were available, the distribution of job losses across industry groups would look much different on the metro area level than is the case on the state level.



Another way to grasp the effects the COVID-19 virus and the efforts to stem its spread have had on the metro area level is with our metro area employment diffusion index, a measure of the breadth of hiring across metro areas within the Regions footprint. We use this chart in our regular updates of metro area employment, but normally show the three-month moving average of the index, as a means of controlling for the inherent month-to-month volatility in the data. In this case, however, we think it worth showing the monthly data, which we do in the chart to the side. As seen in the chart, the metro area employment diffusion index fell to zero in April which, while perhaps not surprising, is nonetheless striking. Of the 152 in-footprint metro areas that go into our diffusion index, not a single one saw nonfarm employment so much as stay the same, let alone increase, in April. As we have often noted, whether discussing the data on the national level, the state level, or the metro area level, one of the hallmarks of the recently ended expansion was how broad based job growth had been over the life of the expansion. As if in an instant, we went from that to employment falling in every single metro area.



Unemployment rates rose sharply in April, nationally and within the Regions footprint. At 16.9 percent, Indiana posted the highest April unemployment rate of any in-footprint state, followed by Illinois, at 16.4 percent. At 9.7 percent, Missouri posted the lowest April unemployment rate of any of the in-footprint states. Aside from the unemployment rate itself, what is striking is the speed with which the unemployment rate shot up, which is consistent with the sudden stop across a wide swath of economic activity in mid-March. As a side note, while the metro area level data on nonfarm establishment are released along with the state level data, the household survey data on the metro area level are lagged, and we will not have April unemployment rates on the metro area level until June 3.

Difficult as it may be to process, measured unemployment rates are understating the extent of the damage done to the labor market by the COVID-19 virus and the efforts to stem its spread, and this is true on the national, state, and metro area levels. BLS reports that reporting errors, specifically, people who had lost jobs incorrectly reporting their status as "absent from work" rather than "unemployed," led to the national unemployment rate being understated by roughly five percentage points in April. Though not possible to make similar estimates on the sub-national level, there is no reason to think the degree of understatement is materially different on either the state or metro area level. Additionally, were it not for significant declines in labor force participation, measured unemployment rates for both March and April would be meaningfully higher. For instance, the unemployment rate for the Regions footprint as a whole rose to 13.3 percent in April, but the labor force for the footprint as a whole declined by 3.411 million persons (which accounts for over half the decline seen nationally). Had the size of the labor force remained constant between March and April, April's unemployment rate for the entire footprint would have been 17.9 percent. Florida, Texas, North Carolina, and Louisiana have seen the largest declines in the labor force (measured as the percentage decline since February), and absent these declines each state's April unemployment rate would be materially higher than the measured rate. It is also worth noting that, for the U.S. and the Regions footprint as a whole, the declines in household employment over the past two months have been larger than the declines in payroll employment (Iowa, Kentucky, Missouri, and South Carolina are exceptions). This is because the self-employed and "gig workers" who are not captured in the establishment survey data are captured in the household survey data, so it follows that the decline in household employment would be larger than the decline in payroll employment. But, to the extent people left the labor force over the past two months, they are not counted as unemployed in the household survey data, so even that series does not fully capture the extent of job losses over the past two months.

Even if completely accounted for, the number of jobs lost would not be a complete measure of the damage done to the labor market. Significant numbers of people have remained employed but have had their hours cut, typically pushing them down to part-time status as opposed to their regular full-time status. Unfortunately, the numbers are not broken out in the state level and metro area level data, but we do know that, nationally, there were 10.887 million people working part-time for economic reasons in April, an increase of 5.122 million people from March. Diminished hours worked in turn mean that total labor earnings are lower, even though people in this category are still counted as employed. The broader U6 measure accounts for those working part-time for economic reasons, as well as for those only marginally attached to the labor force, and in many senses is a better measure of the damage done to the labor market than is the U3 (or, "headline") unemployment rate. As of April, the U6 measure stood at 22.8 percent, up from 8.7 percent in March and 7.0 percent in February. Again, the U6 measure is not reported in the state level or the metro area level data, so while we know there is suddenly more slack in these labor markets than implied by the headline unemployment rate, we are unable to quantify it.

Another relevant metric available on the national level but not on the state level or the metro area level is the percentage of job losers who report being on temporary layoff as opposed to having lost their jobs permanently. Nationally, 88 percent of those who lost their job in April reported they were on temporary layoff, which is the first time in the life of the data (which go back to 1967) that the number reporting they were on temporary layoff exceeded the number reporting they had lost their job permanently. What remains to be seen, however, is the share of what started out as temporary job losses which will morph into permanent job losses. It seems clear that not every business will survive the downturn, and a rising number of corporate bankruptcies across industry groups, though particularly within retail trade, suggest a higher number of permanent job losses – even when companies do emerge from bankruptcy, in many cases they do so with smaller workforces.

Another concern is that, even though economic activity is beginning to open back up, it is doing so at a very uneven pace from state to state. This is clearly a factor that will influence firms' decisions on when and to what extent they will call workers back. Additionally, it is still not clear how this experience will change consumer behavior or how lasting any such changes will be. Those states and metro areas more dependent on travel/tourism/recreation and the provision of personal services as sources of employment would clearly be impacted by changing consumer behavior, and the recovery in these states and metro areas could lag that of other areas and the U.S. as a whole.

Again, it is too soon to draw any conclusions on these matters, as only time will tell. More immediately, we know that while April will have marked the worst of the job losses related to the COVID-19 virus and the efforts to stem its spread, April did not mark the end of the job losses. This is apparent in the weekly data on initial claims for Unemployment Insurance (UI). For instance, between the April and May establishment survey periods, for the U.S. as a whole almost 11 million more people filed claims for UI benefits – between the March and April survey periods, the number was just over 24 million (we refer to the not seasonally adjusted data on UI claims, as the seasonally adjusted data cannot be considered reliable given the speed and magnitude of job losses over the past two months). As such, it is reasonable to assume nonfarm employment will have declined by between five and ten million jobs in May. Moreover, the data on continuing claims show just under 23 million people drawing UI benefits – note that the data on continuing claims come with a one-week lag, so we do not have the number that corresponds to the May establishment survey week. But, that roughly 23 million people were drawing UI benefits in the week prior to the May survey period suggests the U3 unemployment rate will top 20 percent in May.

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