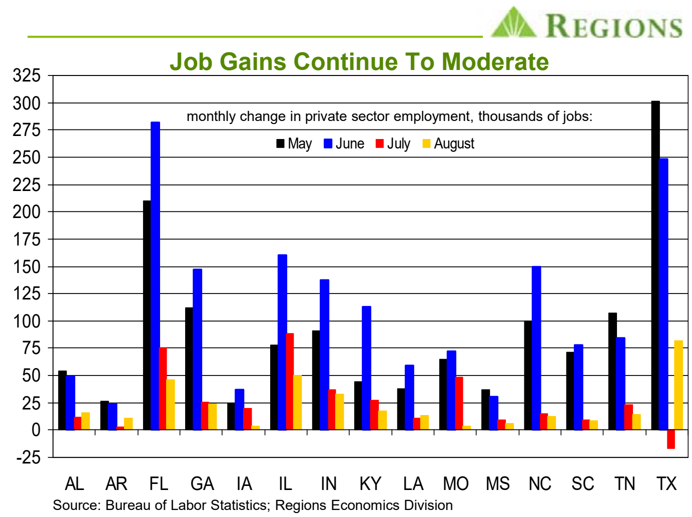
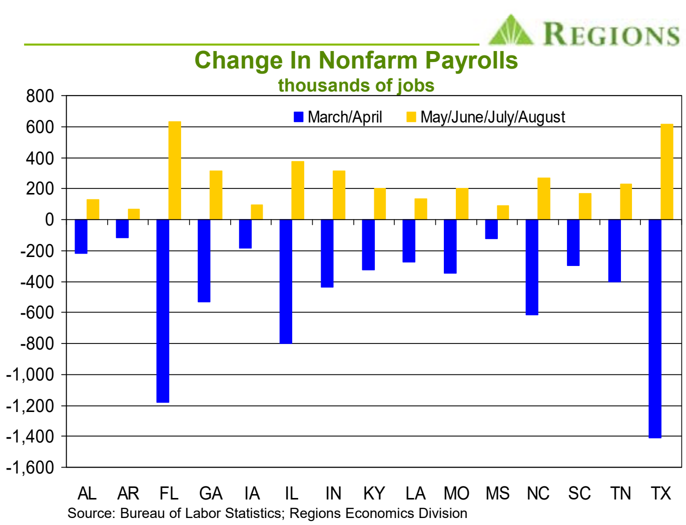
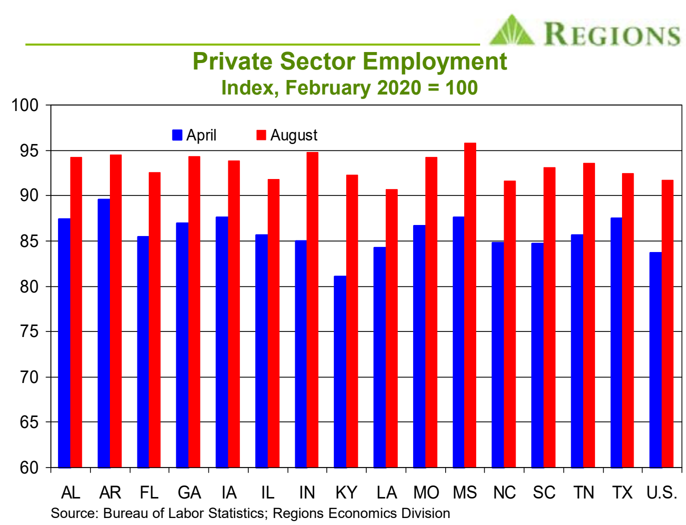
ECONOMIC UPDATE
REGIONS
September 21, 2020

August 2020 Nonfarm Employment: Regions Footprint

For the Regions footprint as a whole, total nonfarm employment rose by 466,200 jobs in August, with private sector payrolls up by 341,300 jobs and public sector payrolls up by 124,900 jobs. What was originally reported as an increase of 535,100 jobs in July is, upon revision, now reported to be an increase of 498,200 jobs. As with the national level data, there is some degree of seasonal adjustment noise in the state level data, which results in job growth being overstated. Additionally, a large portion of the increase in public sector payrolls comes from temporary hiring by the Census Bureau, hiring that would have taken place in the spring but which was pushed back due to the pandemic. As these are temporary jobs, they will run off the books later in the fall, which will likely lead to one or two monthly declines in public sector payrolls. As such, private sector job growth will, in the months ahead, be a better gauge of the progress being made in the labor market than will total nonfarm job growth. Either way, though, the road ahead to a full labor market recovery appears to be getting longer and bumpier.







With August's increase, private sector payrolls amongst the 15 in-footprint states have risen by 3.759 million jobs over the past four months. The pace of job growth has slowed, but to some extent that was to be expected. The initial gains made as economic activity began to come back online were naturally going to be the largest, with successive increases becoming smaller as activity continues to normalize. Still, the extent to which private sector job growth slowed in August is a bit surprising, across industry groups and across states – Florida, Illinois, and Texas combined to account for over one-half of August's increase for the footprint as a whole. While Texas saw private sector payrolls increase by 81,800 jobs in August, this followed a decline of 16,800 jobs in July, a decline more than accounted for by mining and natural resources and leisure and hospitality services.

As noted above, private sector payrolls amongst the 15 in-footprint states have risen by 3.759 million jobs over the past four months. With private sector payrolls having declined by 6.983 million jobs over March and April, as of August they stand 3.224 million jobs below the level of February. Using the level of private sector payrolls in each state as of February as the benchmark, the second chart above

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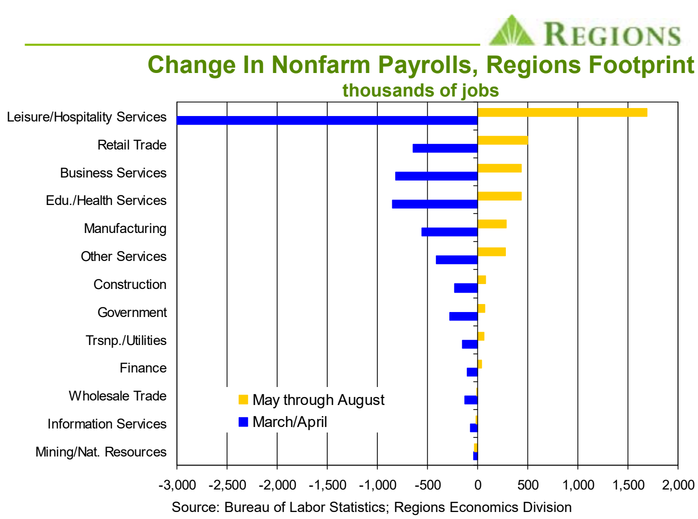
shows the magnitude of the decline seen over March and April and the extent of the subsequent rebound. Nationally, the level of private sector payrolls as of August was 8.26 percent below that of February, while for the Regions footprint as a whole the gap was 6.43 percent. As seen in the chart, Kentucky saw the most severe decline in private sector employment, with a decline of 18.93 percent as of April, but as of August the level of private sector employment stood 6.62 percent below that of February. Arkansas saw the least severe decline – 10.47 percent – in private sector employment, while as of August private sector payrolls in Mississippi were 3.35 percent below the level as of February, the smallest gap amongst the in-footprint states.

The severity and timing of restrictions placed on economic activity in the early phases of the pandemic will have obviously impacted the degree to which employment declined in any given state. For instance, when a given state imposed restrictions or how a given state defined "essential" businesses (construction activity was halted in some states but allowed to continue in others) will have helped determine the path of employment, as standards were determined by the individual states or, in some cases, by individual counties. The industrial make-up of each state also played a role, such as the degree of exposure to jobs that can be done remotely and the degree of exposure to industry groups hit the hardest by pandemic-related shutdowns, such as leisure and hospitality services and non-hospital health care services. For instance, leisure and hospitality services account for a much lower share of private sector jobs in Arkansas than is the case nationally or for the footprint as a whole, while manufacturing accounts for a much higher share of private sector jobs, factors that likely mitigated the decline in employment seen in the state. That Kentucky's exposure to transportation/distribution and manufacturing is, in each case, well above-average helps account for what has been a relatively strong bounce back from the severe decline in employment through April. Additionally, the extent to which a given state experienced an upturn in COVID-19 cases during the summer months will have had an impact on the magnitude and composition of changes in employment in the most recent months.



The chart to the side compares the number of jobs lost over March and April to the net change in the number of jobs from May through August in each of the broad industry groups for the footprint as a whole. Leisure and hospitality services was clearly the hardest hit industry group, having shed 2.997 million jobs over March and April but has recouped 1.689 million of those jobs over the past four months. Education and health services, retail trade, and leisure and hospitality services combined to account for 64.26 percent of all private sector jobs lost across the Regions footprint over March and April, and accounted for 72.32 percent of all private sector jobs added over May, June, and July. That contribution was much smaller in August, however, with leisure and hospitality services and education and health services posting significantly smaller increases in employment. While retail trade payrolls posted a much larger increase in August than in July, August's increase was inflated by seasonal adjustment noise, as was the increase in employment in leisure and hospitality services.

While not absolute proof, these patterns are consistent with our premise that the Paycheck Protection Program (PPP) was playing a role in measured job growth in May, June, and July. Recall that recipients of PPP funds were incented to either keep workers on their payroll or to recall previously laid off/furloughed workers to help satisfy the conditions under which loans made under the PPP would be converted into grants, regardless of whether or not those on the payroll were actually working. As we have discussed in prior editions of this update, one of our ongoing concerns has been that the PPP would initially make a contribution, perhaps a sizable one, to job counts but as PPP funds were exhausted, firms would assess staffing needs based on the level of demand for the goods/services they were providing, which could result in job cuts amongst recipients in the post-PPP environment. It is too soon to draw any definitive conclusions, but the August data at least suggest our concern was not unfounded.

Regardless of whether it is a boost from the PPP or simply a function of the economy having opened back up, the concentration of job growth amongst the few industry groups cited above, along with business services, stands out. While it is not surprising that the industry groups hit the hardest by and pandemic-related shutdowns have added the most jobs over the past four months, it is notable that hiring amongst other industry groups has been so subdued. There are three industry groups – wholesale trade, information services, and mining and natural resources – that have actually seen declines in employment over the past four months, adding to the jobs lost over March and April; were it not for the burst of Census hiring in August, employment in the government sector would have also declined over the past four months. Job growth amongst the industry groups having posted the largest gains over the May through July period is slowing

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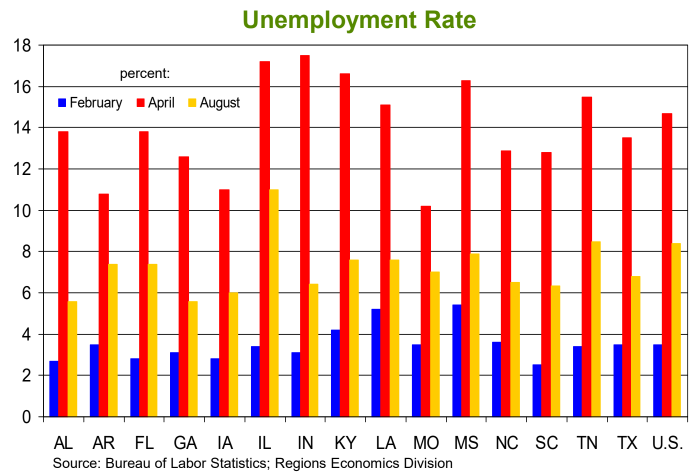
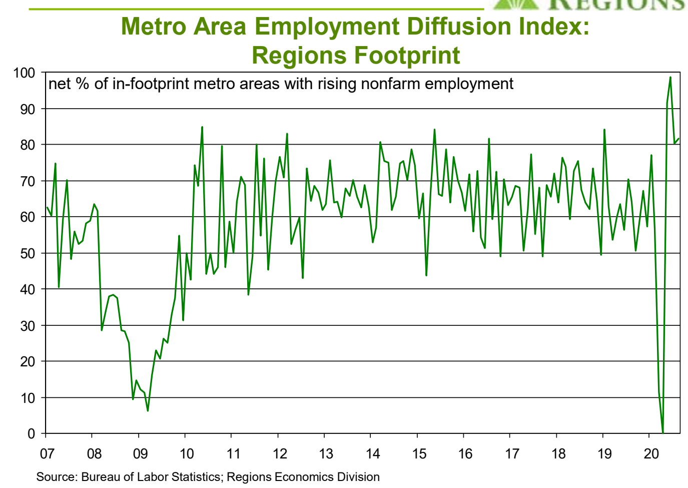
markedly while job growth amongst most of the remaining industry groups remains somewhat slow, which is one reason the pace of total private sector job growth is expected to slow further in the months ahead. At the same time, initial claims for Unemployment Insurance benefits continue to run about four times the pre-pandemic rate, and a number of large corporations have announced plans to cut jobs. This is why we noted at the outset the road to a full labor market recovery is getting longer and bumpier.



That is not necessarily the signal being sent by the unemployment rate. Though having fallen sharply from the peaks seen in April, unemployment rates in each of the in-footprint states have fallen sharply over the past four months, as has the rate for the U.S. We will, however, point out that even during the most normal of times, the household survey data on the state and metro area levels is very noisy and very volatile, and large changes in the size of the labor force, the level of household employment, and the unemployment rate from one month to the next are the rule rather than the exception. This is mainly a function of what, on the sub-national levels, are small sample sizes in the surveys used by the BLS to estimate the labor force data, including the unemployment rate. As such, our general rule has been to never put too much emphasis on the unemployment rate in any given month for any given state or metro area, but instead to focus on the longer-term trends. So, this isn't to say that unemployment rates have not fallen over the past four months, but to instead point out that some of the declines reported for August may overstate the case. Kentucky is a prime example of the volatility in the state level data – Kentucky's unemployment rate is reported to have risen by 310 basis points in August, courtesy of a jump in the size of the state's labor force which seems curiously large. Then again, this could simply be payback for an implausibly large decline in Kentucky's unemployment rate in June. Recall that for the U.S. as a whole, the level of household employment is reported to have risen by 3.756 million people in August, while nonfarm payrolls rose by 1.371 million jobs. This is the largest disparity between the two series on record, and while the reported August increase in household employment may seem suspect, it does leave the level of household employment as of August 11.471 million people below that of February, very close to the gap – 11.549 million jobs – in nonfarm employment. If we are correct in our assessment that increases in nonfarm employment rate will be significantly smaller going forward, the flip side of that is that declines in unemployment rates will also be smaller in the months ahead.

The metro area data for August exhibit the same general patterns seen in the national and state level data. Nonfarm payrolls rose further amongst the group of in-footprint metro areas we track each month, August's increase was much small that that seen in July. Our metro area employment diffusion index shows that job gains were again very broad based across the footprint in August, but the much smaller increase in total employment amongst this group of metro areas tells us hiring was not as deep in the individual metro areas as was the case in July. If we are correct in our assessment of how the labor market will evolve in the months ahead, on the metro area level that could leave us with job growth that is broad based across geographies, i.e., our metro area employment diffusion index would remain elevated, but is much shallower in any given metro area.



We will of course continue to monitor trends in labor market conditions on the state and metro area levels. In addition to these monthly updates of the state level employment data, we continue to produce our regular Thursday updates of state level claims for Unemployment Insurance, 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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