ECONOMIC UPDATE

REGIONS

December 21, 2020

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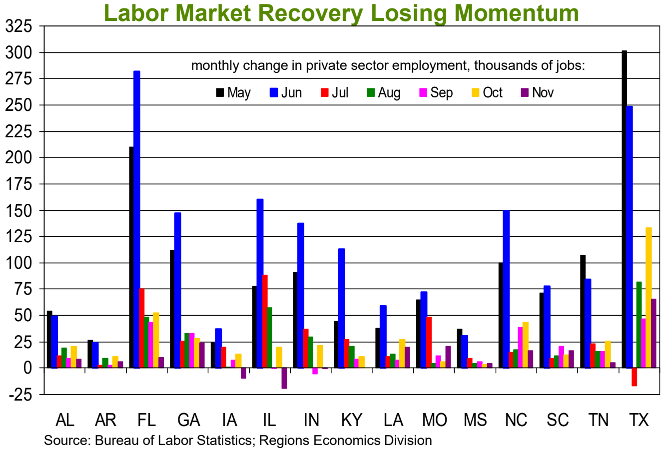
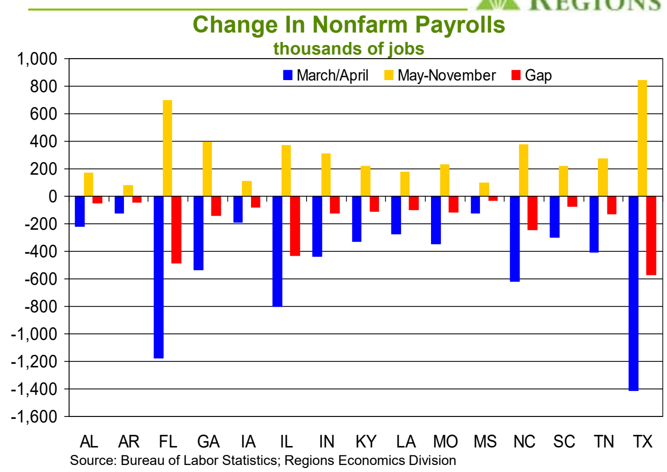
November 2020 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 141,500 jobs in November, with private sector payrolls up by 168,500 jobs and public sector payrolls down by 27,000 jobs. The initial estimate of job growth in September was revised higher; nonfarm payrolls within the footprint are now reported to have risen by 365,400 jobs in October, up from the initial estimate of an increase of 357,600 jobs. As was the case in the October data, November's decline in public sector payrolls is consistent with the national level data and largely stems from temporary jobs tied to the 2020 Census running off the books. As was also the case in the October data, the November nonfarm employment data are somewhat distorted by seasonal adjustment noise. For instance, the increase in not seasonally adjusted retail trade payrolls in November was smaller than is typical for the month in the historical data, as there was less seasonal hiring in retail trade this year than is typically the case in the month of November. As a result, even though not seasonally adjusted retail trade payrolls rose, this is turned into a decline in the seasonally adjusted data; on a seasonally adjusted basis, retail trade payrolls within the Regions footprint declined by 6,400 jobs in November, and there is likely to be a larger decline reported in the seasonally adjusted data for the month of December.





Of even more significance, however, is that the recovery in the labor market is losing momentum over the final weeks of 2020. The ongoing surge in COVID-19 cases has led a growing list of state and local governments to impose new restrictions on economic and social activity. While these restrictions are not nearly as sweeping as those imposed in the early phases of the pandemic, they are still having an impact, particularly amongst service providers. There are also signs, as conveyed in the ISM's November surveys of the manufacturing and non-manufacturing sectors, that firms are facing growing absenteeism tied to COVID-19 cases. Workers are missing time because they have tested positive, have been exposed to someone who has tested positive, are having to care for someone who has tested positive, or are having to stay at home to tend to children impacted as schools switched from in-person instruction to remote instruction. The incidence of absenteeism stemming from these reasons will be more pronounced in the December labor market data; keep in mind that in order to be counted as employed in the nonfarm employment data, being present at work matters. There is also evidence from the weekly data on initial claims for unemployment insurance that the incidence of layoffs is again rising. For instance, within the Regions footprint, the 211,219 claims filed during the week of November 14 were the fewest in any week since the pandemic struck, but since that week claims have risen sharply, with 317,827 initial claims filed in the week ending December 5. Note that the state level claims data lag the national data by a week, but the national data show a further increase in the week ending December 12, which leads us to expect a decline in total nonfarm employment in December, nationally and within the Regions footprint. Thus, even as the prospect of an effective vaccine holds out hope for a meaningful boost to the economy over late-2021/early-2022, the ongoing surge in case counts is clearly acting as a drag on near-term growth, and that will be reflected in the December labor market data.

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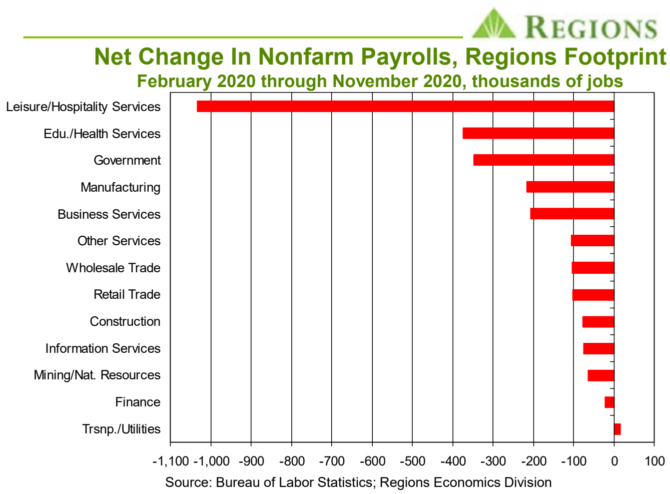
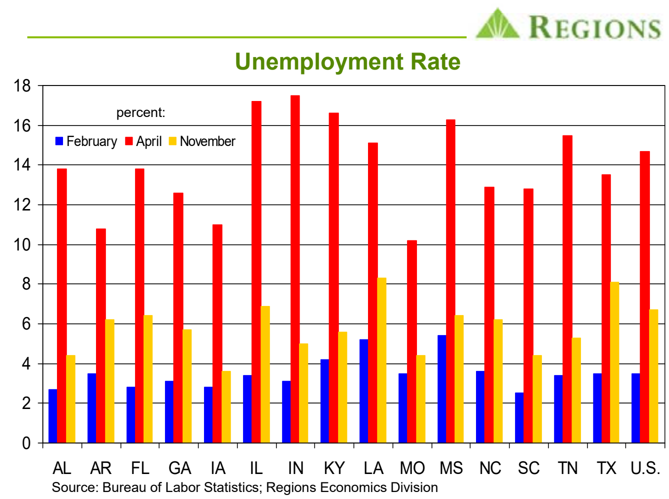
Iowa, Illinois, and Indiana all saw nonfarm payrolls decline in November, while payrolls were flat in Kentucky and the remaining states saw a slowdown in the pace of job growth. As of November, the level of total nonfarm employment within the Regions footprint was 2.703 million jobs below that of February, a gap of 4.6 percent. At 7.0 percent, Illinois has the biggest gap in the level of nonfarm employment of any in-footprint state, followed by Florida's gap of 5.3 percent and North Carolina's gap of 5.2 percent. In Alabama and Mississippi, the level of nonfarm employment as of November was 2.4 percent below that of February, the smallest gaps within the footprint. In terms of the broad industry groups, payrolls in leisure and hospitality services within the Regions footprint were 1.033 million jobs lower in November than was the case in February, with the next largest gap coming in education and health services (374,000 jobs lower in November) and government (348,100 jobs lower in November). Conversely, November saw payrolls in the broad transportation and utilities group rise back above the pre-pandemic peak; this industry group added 61,800 jobs in November, leaving the level of employment 16,000 jobs above the level as of February. This reflects strong growth in warehousing/storage and courier/delivery services, which includes residential and business delivery services. While consumer shopping patterns had for several years been changing prior to the pandemic, the past several months have seen a more intense shift toward online shopping and away from in-store shopping, and the ongoing spike in COVID-19 cases and restrictions on activity are adding further fuel. That said, it is likely to be late-2022/early-2023 before the level of nonfarm employment returns to the pre-pandemic peak; while some industry groups will easily beat that mark, others will take much longer to fully recapture the ground lost to the pandemic.





The unemployment rate for the Regions footprint as a whole edged up to 6.4 percent in November from 6.3 percent in October, as the national rate fell from 6.9 percent to 6.7 percent. While a handful of in-footprint states saw their unemployment rate decline in November, with Alabama and Louisiana posting the largest declines, other states saw either no change (such as Florida) or an increase (such as Texas) in their unemployment rate, with the net result a modest increase in the footprint-wide rate. Even should the level of employment decline in December, we could also see a further decline in labor force participation, which would mitigate the degree of upward pressure on the unemployment rate. We will also reiterate a point we've made often, which is that even in the most normal of times, the state and metro area level data on the labor force and household employment are inherently volatile, which can result in sizable month-to-month swings in the reported unemployment rate. The degree of volatility has been even greater during the pandemic, which continues to distort the signal being sent by changes in the unemployment rate. As such, we continue to look to the payroll employment data as a more reliable guide to how the labor market is faring.

Not only was hiring less intense in November than was the case in October, it was also less geographically dispersed, as indicated by our Metro Area Employment Diffusion Index. After having risen to 81.9 percent in October, the index fell to 67.8 percent in November, still consistent with broad based hiring across the metro areas within the Regions footprint. But, the number of metro areas recording declines in nonfarm employment rose in November and was the highest in any month since April. This raises another important point, which is that while the growth in jobs in warehousing/distribution/delivery is impressive, it is not as geographically dispersed as are the job losses being seen in retail trade. In other words, the number of metro areas gaining jobs in warehousing/distribution/delivery is smaller than the number of metro areas losing jobs in retail trade, so the offset implied in the aggregated data is not being experienced by all metro areas. This goes to the point that the industrial composition of a given state or metro area is a key determinant of the pace of growth, or in this case the pace of recovery, over time.

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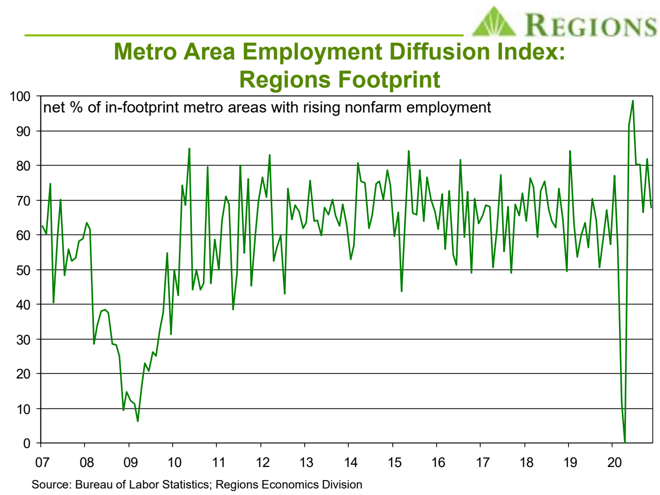

Given that the BLS's November survey period ended prior to the middle of the month and that the surge in COVID-19 cases mostly came over the second half of the month, the impacts on the November labor market data were less visible than is likely to be the case in the December data. The weekly data on initial claims for unemployment insurance are a more timely indicator and, as noted above, the number of claims filed has risen sharply over the past several weeks. As such, we have marked down our expectations for the December employment report, and at this point expect the BLS to report a decline in nonfarm employment nationally and within the Regions footprint. The weekly claims data will soon begin to shape our expectations for the January labor market data. As noted earlier, the prospect of an effective and widely available vaccine offers hope that the economy will be performing strongly over late-2021/early-2022, things are likely to get worse before they begin to get better.

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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