ECONOMIC UPDATE

REGIONS

January 27, 2021

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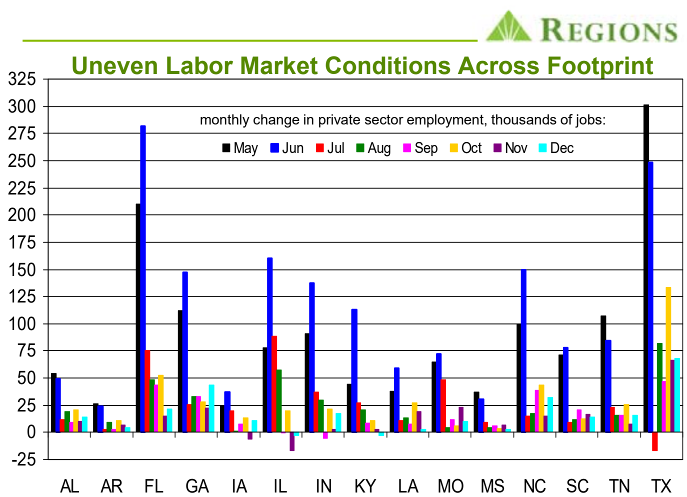
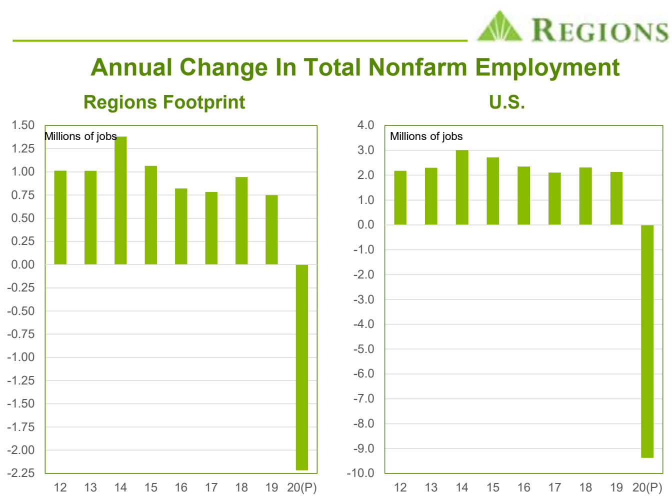
December 2020 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 233,500 jobs in December, with private sector payrolls up by 250,200 jobs and public sector payrolls down by 16,700 jobs. The initial estimate of job growth in November was revised higher, with job growth now put at 172,100 jobs rather than the initial estimate of an increase of 141,500. The increase in nonfarm payrolls within the Regions footprint in December is in stark contrast to the decline of 140,000 jobs for the U.S. as a whole. Recall, however, that the decline in nonfarm payrolls for the U.S. as a whole was more than accounted for by payrolls in leisure and hospitality services declining by 498,000 jobs, which masked what was broad based job growth across much of the private sector, including surprisingly strong job growth in retail trade. Those same patterns held for the Regions footprint in December. While leisure and hospitality services declined within the footprint, at 35,300 jobs the decline was fairly small, at least in proportion to the footprint's share of national employment, and was more than offset by broad based job gains across the remaining private sector industry groups, including surprisingly robust hiring in retail trade. Still, it should be noted that labor market conditions varied sharply across the in-footprint states, with nonfarm employment declining in Illinois and Kentucky. Similarly, while the unemployment rate for the Regions footprint as a whole declined to 6.1 percent in December from 6.4 percent in November, results varied sharply across the individual states.



Source: Bureau of Labor Statistics; Regions Economics Division



Source: Bureau of Labor Statistics; Regions Economics Division

With the release of the December data, we now have a preliminary estimate of the change in employment for full-year 2020. Nonfarm payrolls across the Regions footprint fell by a total of 2,216,500 jobs in 2020, leaving them down by 3.8 percent between December 2019 and December 2020. Nationally, nonfarm payrolls were down by 9,374,000 jobs, a December/December decline of 6.2 percent. Again, these are preliminary estimates pending the annual benchmark revision process, with the revised estimates to be released with the January 2021 data – which occurs on February 5 for the national level data, on March 15 for the state level data, and on March 19 for the metro area level data. As we've discussed before, the magnitude of the benchmark revisions tends to increase as we move from the national data to the state and metro area data, often significantly so.

As such, other than presenting some broad results, we'll hold off on doing any detailed analysis of the state level data, particularly breakdowns by industry groups, until the benchmark revisions have been released. One thing that does stand out to us, however, is that reported job losses in leisure and hospitality services within the Regions footprint seem oddly mild relative to the job losses reported nationally. Prior to the pandemic, the footprint accounted for roughly 40 percent of all jobs in leisure and hospitality services in the U.S., but job losses since last spring seem disproportionately light. One factor could be that the pandemic-related restrictions imposed in many of the Southern states tended to be less rigorous than were those imposed in other states, so establishments such as casinos, restaurants, and entertainment venues across the footprint states may have held on to more of their workers. But, even accounting for this, the job

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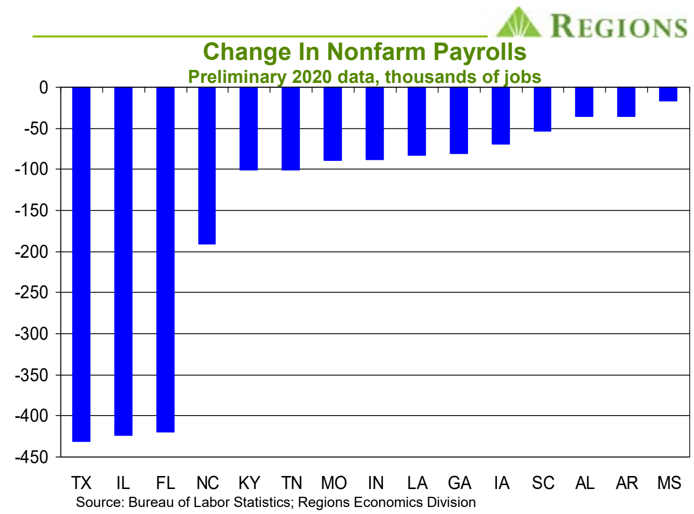
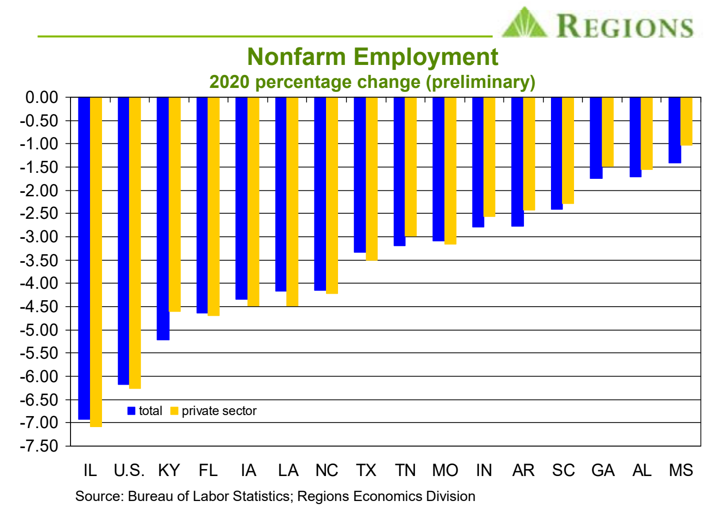
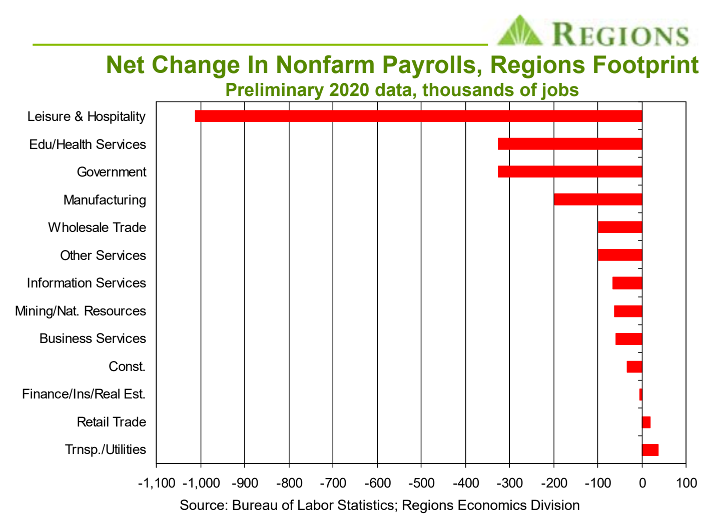
losses in this industry group reported in the preliminary 2020 data still seem a bit light to us, and given that leisure and hospitality services is far and away the industry group most impacted by the pandemic and the efforts to stem its spread, any revisions to the preliminary estimates of job losses in this industry group will have an outsized impact on revisions to the initial estimate of overall job losses. As such, this is one of the elements of the benchmark revisions that we'll be the most interested in.





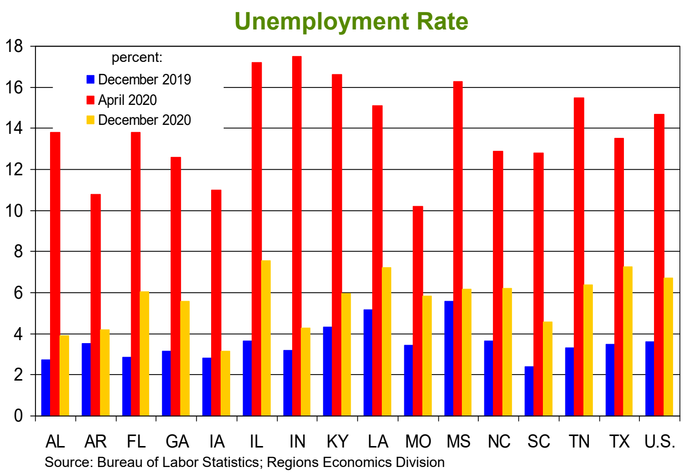
The first chart above shows the change in total nonfarm employment in 2020 for each of the states within the Regions footprint. That on a number of jobs basis the largest job losses come in Texas, Illinois, and Florida is no surprise given the relative sizes of the states, but we nonetheless thought it worth showing the absolute numbers. The second chart shows the 2020 changes in both total nonfarm and private sector employment on a percentage change basis; nationally, total nonfarm employment fell by 6.2 percent and private sector employment fell by 6.3 percent. Illinois fared the worst of the in-footprint states, with total employment falling by 6.9 percent and private sector employment falling by 7.1 percent, but in each of the remaining states the preliminary data show the decline in employment was less harsh than that seen nationally. Again, with the caveat that the data are subject to potentially significant revision in the annual benchmarking process, we can pick out several details that seem a bit off. For instance, over half of the decline in total nonfarm employment in Kentucky is accounted for by two sectors – leisure and hospitality services and government. The former stands out given that Kentucky's exposure to leisure and hospitality services is significantly below the U.S. average. In contrast, Mississippi's exposure to leisure and hospitality services is slightly above the U.S. average but the state's job losses in this sector were substantially smaller than those seen in other states, which helps account for why the decline in total nonfarm employment in Mississippi was relatively mild.

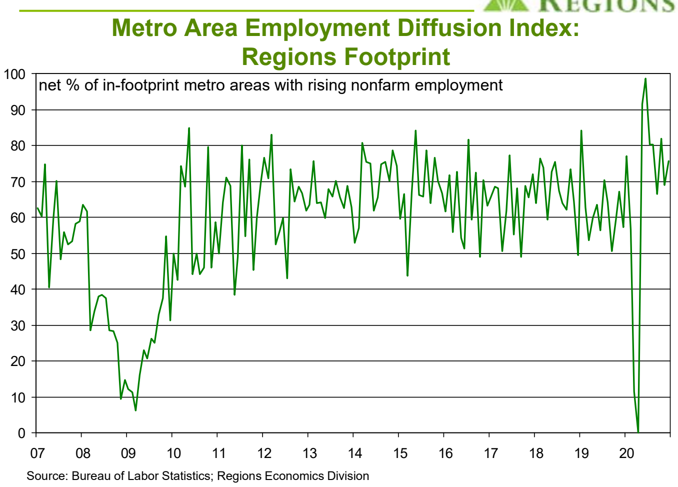


The chart to the side breaks down the change in total nonfarm employment within the Regions footprint across the broad industry groups. It comes as no surprise that the largest decline was in leisure and hospitality services, which for the footprint as a whole accounted for 1,012,500 jobs lost out of a total decline of 2,216,500 jobs. Payrolls in this industry group had been rebounding strongly as the economy began to reopen after last spring's shutdowns, but that rebound was halted by the spike in COVID-19 cases that began in mid-November, to the point that leisure and hospitality services lost jobs in December. The education and health services industry group was also hit hard by the pandemic and the efforts to stem its spread, and while job counts are rising, the rebound is likely to remain slow and uneven until the economy is more fully reopened. Public sector payrolls recovered a bit over the summer months, but then began falling again as revenue shortfalls became more pronounced, and December marked the fourth consecutive month in which public sector payrolls declined. Though revenue flows from sales taxes and property taxes remain steady, revenue from taxes on services, including dining out and travel, and from entertainment/sports/recreation venues continues to lag, acting as a source of financial stress on many state and local governments. As such, the decline in public sector payrolls likely has further to run.

At the other end of the spectrum, the increase in retail trade payrolls within the Regions footprint seems somewhat suspect. Even with stronger than expected hiring in December, retail trade payrolls for the U.S. as a whole fell by 410,900 jobs in 2020, a decline of 2.6 percent. Within the Regions footprint, however, retail trade payrolls are reported to have risen by 19,100 jobs, an increase of 0.3 percent, which is even more at odds with the national level data considering the above-average exposure to retail trade for the footprint as a whole. It will also be interesting to see if the increase in payrolls in transportation/utilities reported in the preliminary data survives the benchmark revision process. While employment in warehousing/distribution/delivery operations grew solidly, increases in employment from those areas was more than offset in the national level data by job losses in other areas of transportation, such as air travel. Less exposure to these other areas of transportation may help account for why payrolls in the broad transportation/utilities category are reported to have risen within the footprint, but, again, whether this will be the case in the revised data is an open question.

Turning to the household survey data, Illinois, Kentucky, Missouri, South Carolina, and Tennessee saw their unemployment rates rise in December, North Carolina's rate was unchanged, and each of the remaining states saw their unemployment rate fall. At 3.9 percent, Alabama posted the lowest unemployment rate of any in-footprint state, while at 7.6 percent Illinois had the highest rate. While each state has seen a substantial decline in their rate following the spike seen in April, unemployment rates ended 2020 well above where they ended 2019. It is important to remember, however, that one reason unemployment rates have fallen since spiking sharply higher in April is that labor force participation declined, in some cases sharply, over the course of 2020. With the exception of Tennessee, the labor force participation rate in each in-footprint state ended 2020 below where it started 2020, with Iowa, Florida, Illinois, and Kentucky posting the largest declines. The data for Tennessee look more than a bit suspect – the participation rate is reported to have risen by over 450 basis points between July and August, which hardly seems plausible but which nonetheless accounts for the higher rate at year-end 2020 relative to the January 2020 rate. The broader point is that the unemployment rate in and of itself is an inadequate gauge of the degree of slack remaining in the labor market, on the metro area, state, and national levels. Instead, it will be necessary to consider the unemployment rate in conjunction with the labor force participation rate to form a more complete view of labor market conditions.





On the metro area level, hiring was notably broad based in December. Our one-month hiring diffusion index, a measure of the breadth of hiring across metro areas, rose to 75.7 percent in December from 69.1 percent in November. So, not only was hiring across the footprint broad based across private sector industry groups in December, it was also very broad based geographically. Obviously, those metro areas more exposed to leisure and hospitality services will not have fared as well in December with renewed restrictions on activity amid the surge in COVID-19 case counts. This no doubt contributed to the Orlando FL metro area seeing a decline in nonfarm employment in December. More broadly, while the level of nonfarm employment remains far below the pre-pandemic level, it is nonetheless encouraging that job growth is as broad based as it is across industries and geographies. This suggests that conditions are in place for a meaningful pick-up in the pace of economic growth once there has been more progress on the vaccine front. Though our baseline forecast anticipates a faster rate of economic growth over the second half of 2021 and into early 2022, the specific timing of any acceleration in growth is contingent upon progress on the vaccine front and, as such, remains highly uncertain.

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Based on the preliminary data, the table to the side highlights the twenty mid-size-to-larger metro areas within the Regions footprint that saw the smallest declines in nonfarm employment in 2020 (the "top" twenty) and the twenty that saw the largest declines. Though we base these comparisons on the percentage change in nonfarm employment to make them meaningful comparisons, we nonetheless do not include the smaller metro areas, in which a very small change in the level of employment can yield an outsized percentage change. As always, our monthly data summaries (link below) provide data updates for each of the 104 in-footprint metro areas we track on a regular basis. Again, the data used to construct the table to the side are preliminary, and the relative rankings will likely change upon the release of the benchmark revisions. Still, it does stand out that the Orlando FL metro area posted the largest decline in nonfarm employment amongst the in-footprint metro areas in 2020. Total nonfarm employment in the metro area declined by 130,400 jobs in 2020, and 87,508 of these job losses came from leisure and hospitality services. This reflects the combination of the metro area's outsized exposure to this industry group and the effects of the pandemic and the efforts to stem its spread, and also suggests that employment in the metro area will remain well below the pre-pandemic level until the economy is much closer to being fully reopened than is the case at present.

REGIONS

Total Nonfarm Employment, Regions Metro Areas
2020 percentage change (preliminary)

Top Twenty	% change	Bottom Twenty	% change
Chattanooga, TN-GA	-0.34	Raleigh, NC	-4.42
Savannah, GA	-0.59	Baton Rouge, LA	-4.42
Fayetteville, AR-MO	-0.82	Bristol, TN-VA	-4.47
Indianapolis, IN	-0.85	Gainesville, FL	-4.48
Austin, TX	-0.98	St. Louis, MO-IL	-4.57
Knoxville, TN	-1.06	Champaign, IL	-4.79
Greenville, SC	-1.43	Charlotte, NC-SC	-4.86
Macon, GA	-1.55	Louisville, KY-IN	-5.09
Palm Bay, FL	-1.58	Spartanburg, SC	-5.13
Gulfport-Biloxi, MS	-1.59	Charleston, SC	-5.41
Huntsville, AL	-1.71	Miami, FL	-5.53
Dallas, TX	-1.82	West Palm Beach, FL	-6.05
Lakeland, FL	-2.07	Bloomington, IL	-6.15
Daytona Beach, FL	-2.18	Fort Lauderdale, FL	-7.32
Naples, FL	-2.35	Chicago, IL-IN-WI	-7.36
Atlanta, GA	-2.58	Wilmington, NC	-7.38
Memphis, TN-MS-AR	-2.58	Tallahassee, FL	-7.68
Fort Walton Beach, FL	-2.70	New Orleans, LA	-7.74
Fort Worth, TX	-2.73	Peoria, IL	-9.64
Shreveport, LA	-2.82	Orlando, FL	-9.73

Source: Bureau of Labor Statistics; Regions Economics Division

We of course will continue to track the labor market data in the months ahead, including the release of the annual benchmark revisions in March. 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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