ECONOMIC UPDATE

REGIONS

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January Employment Report: A Stark Reminder Of The Downside Risks

- Nonfarm employment rose by 49,000 jobs in January. For full-year 2020, nonfarm employment declined by 9.337 million jobs
- Average hourly earnings rose by 0.2 percent while aggregate private sector earnings rose by 1.1 percent (up 0.6 percent year-on-year)
- The unemployment rate fell to 6.3 percent in January (6.325 percent, unrounded); the broader U6 measure fell to 11.1 percent

Total nonfarm employment rose by 49,000 jobs in January, with private sector payrolls rising by 6,000 jobs and public sector payrolls rising by 43,000 jobs. The January data incorporate the annual benchmark revisions to the recent historical data. As of March 2020, the new reference month for the BLS's establishment survey, the level of total nonfarm employment was revised down by 250,000 jobs. The revised data show that, as the economy was largely shut down over March and April 2020, total nonfarm employment fell by 22.362 million jobs, larger than the prior estimate of 22.160 million jobs. As of January 2021, the level of nonfarm employment is 9.892 million jobs below the level as of February 2020, the pre-pandemic peak, with payrolls in leisure and hospitality services 3.880 million jobs below last February's level. While the unemployment rate fell to 6.3 percent in January, this is largely due to a decline in labor force participation.

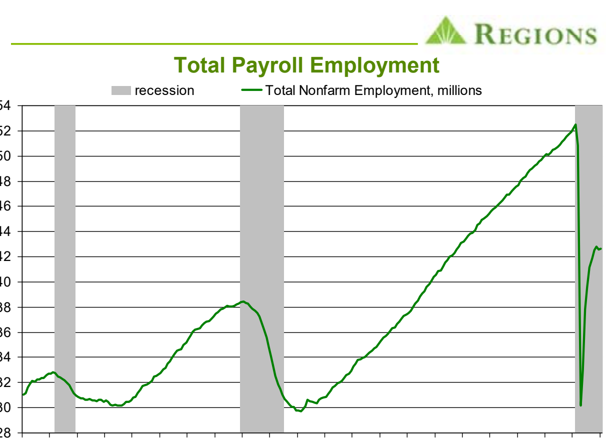
The January employment report was far weaker than we had anticipated. Our forecast was for private sector payrolls to have risen by 236,000 jobs in January. As we explained in our weekly *Economic Preview*, however, this wasn't because we thought there to have been meaningful improvement in labor market conditions in January, but instead because we expected a sizable boost from seasonal adjustment, which proved to not be the case. More specifically, not seasonally adjusted payrolls in leisure and hospitality services will fall by over 300,000 jobs in a "normal" January. But, after having declined by over 500,000 jobs in December – whereas a "typical" December sees little change – we thought this January's decline in leisure and hospitality services would be much smaller than usual for the month, hence our expectation of an artificial boost from seasonal adjustment. As it turns out, unadjusted payrolls in leisure and hospitality services fell by 361,000 jobs in January, meaning that over the past three months, payrolls in this industry group have fallen by a total of 1.11 million jobs. This is an indication of the toll taken by the surge in COVID-19 cases that led many state and local governments to impose new limitations on activity.

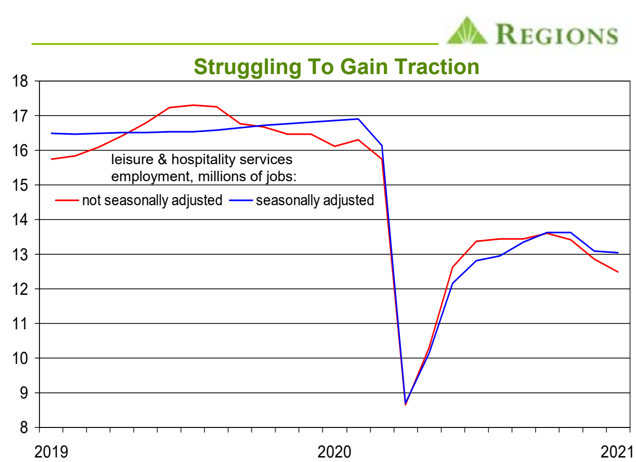
That wasn't the only surprise in the January employment report. While nonfarm employment fell by 227,000 jobs in December (a larger decline than initially estimated), that decline was more than accounted for by the decline in leisure and hospitality services payrolls, with broad based hiring across the rest of the private sector. The January data show a significant retreat. The one-month hiring diffusion index a measure of the breadth of hiring across private sector industry groups, fell to 48.1 percent in January from 61.9 percent in December and 64.4 percent in November. This is starkly at odds with the ISM's surveys, which indicated growth in payrolls across the manufacturing and non-manufacturing sectors in January. Indeed, were it not for temporary help payrolls having risen by 80,900 jobs, total private sector payrolls would have fallen in January.

The 1.1 percent increase in aggregate private sector wage and salary earnings is less impressive than it may seem. With another large decline in leisure and hospitality services payrolls – the industry group with the shortest average workweek and the lowest average hourly wage – the mix of jobs boosted average weekly hours and average hourly earnings, hence the sizable increase in aggregate wage and salary earnings.

The January employment report incorporates new population controls for the BLS's household survey, from which the data on the labor force are derived. In any given year, this can lead to sharp swings between the December and January data, and January data are not comparable with the data from prior months. There are signs of such discontinuities in the January 2021 data, including a decline in the level of unemployment of over 600,000 people. As such, the decline in the unemployment rate should be interpreted carefully, particularly as there are 4.3 million fewer people in the labor force than was the case last February.

While many analysts, and more than a few market participants, seem focused on the promise held out by a vaccine against the virus and further fiscal policy support, the January employment report is a stark reminder that the near-term risks to the U.S. economy are tilted to the downside.





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