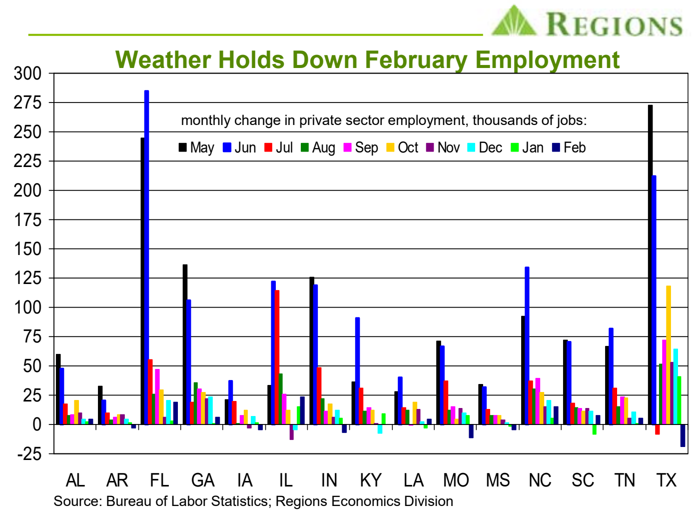
ECONOMIC UPDATE

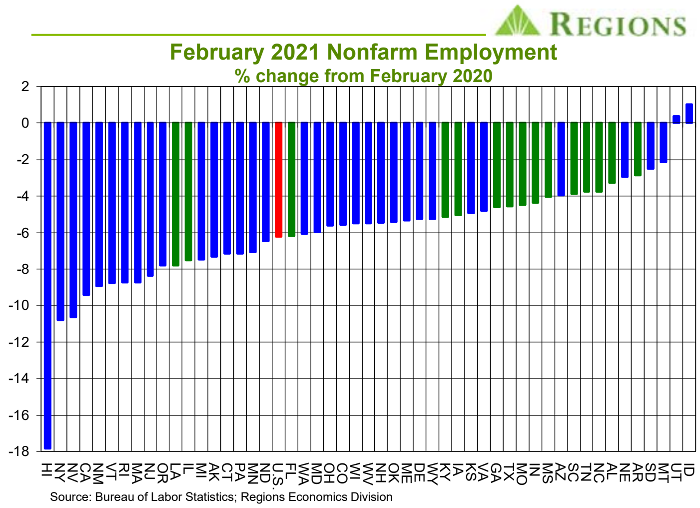
REGIONS

March 30, 2021

February 2021 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 21,500 jobs in February, with private sector payrolls up by 36,000 jobs and public sector payrolls down by 14,500 jobs. The paltry increase in nonfarm employment across the footprint stands out in light of nonfarm payrolls for the U.S. as a whole rising by 379,000 jobs in February, meaning the footprint's collective contribution to total job growth (5.7 percent of the U.S. total) was much smaller than is typically the case (around one-third of the U.S. total). This is, however, more a reflection of the unusually harsh winter weather that heavily impacted much of the South and Midwest, and hence much of the Regions footprint, in February as opposed to a more fundamental weakening in economic conditions. For instance, Arkansas, Iowa, Indiana, Missouri, Mississippi, and Texas all saw nonfarm payrolls decline in February while job gains in most of the remaining states were well below the recent run rate. It helps to recall that in the BLS's methodology, one has to be physically present at work during the survey period in order to be counted as employed in the establishment survey data which is used to measure nonfarm employment, and while it is not a strict comparison, in the household survey data (used to calculate the unemployment rate), there were 897,000 people reporting they were not at work due to weather, the most in any February since 2010. If weather effects were the primary culprit behind February's lackluster job growth, there will be payback in the March data, which we expect to see in the March employment report, covering the national-level data, upon its April 2nd release and the subsequent release of the state-level data on April 16th.





As of February, total nonfarm employment within the Regions footprint was 5.0 percent below the pre-pandemic peak, which occurred in February 2020, compared to the deficit of 6.2 percent for the U.S. as a whole. Even with the decline in nonfarm employment in February, Arkansas has the smallest deficit of the in-footprint states, at 2.6 percent, with the deficit of 7.9 percent in Louisiana the largest within the footprint and Illinois being the only other in-footprint state with an above-average deficit. We thought it would be of interest to see how the in-footprint states compare with the rest of the states, which we show in the second chart above, with the in-footprint states decked out in green. Idaho and Utah are the only states in which the level of nonfarm employment in February 2021 was higher than the pre-pandemic peak while in Hawaii the level of nonfarm employment is 17.9 percent below the pre-pandemic state, largely reflecting the significance of leisure and hospitality services in that state's industrial make-up.

Hawaii is by no means the only state in which leisure and hospitality services accounts for the largest portion of the gap between current levels of nonfarm employment and the pre-pandemic peak, but Hawaii's economy is much more reliant on this industry group than is the case in any other state. Still, this is the industry group in which we will see the biggest burst of job growth once the economy is more fully reopened. The February data, nationally and within the footprint, offer a peak of what we can expect along those lines; nationally, leisure and hospitality services accounted for 355,000 jobs of the net increase of 379,000 nonfarm jobs in February, reflecting early steps

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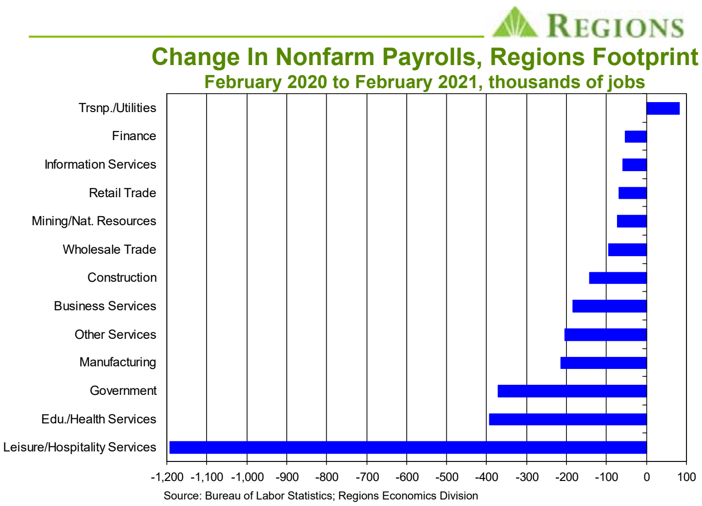
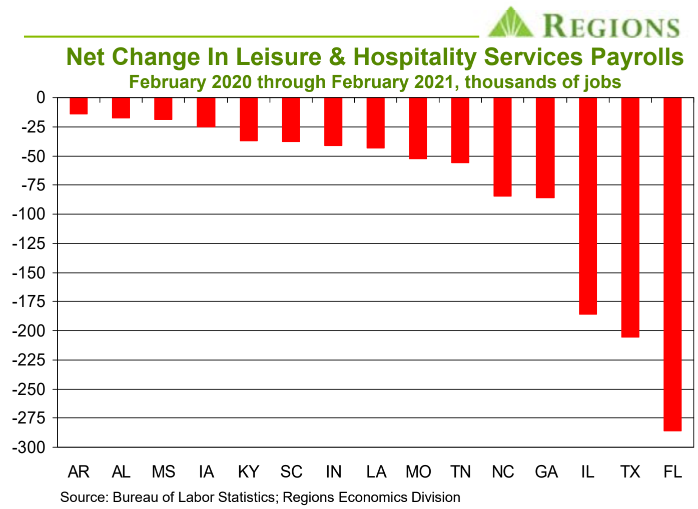
toward greater reopening in several states and service providers beginning to step up hiring ahead of an anticipated burst of demand over coming months. Within the footprint, payrolls in leisure and hospitality services rose by 35,000 jobs in February, accounting for almost the entire net 36,000-jobs increase in private sector payrolls, with weather effects almost surely holding hiring in leisure and hospitality services. Weather also accounts for construction payrolls within the footprint having declined by 26,400 jobs in February – in the national data, not seasonally adjusted construction payrolls posted their largest February decline since 2010. While government payrolls within the footprint fell by 14,500 jobs in February, this is little more than seasonal adjustment noise, as the increase in not seasonally adjusted payrolls was much smaller than the typical February increase. Manufacturing payrolls within the footprint rose by 3,400 jobs, but even here weather effects led to partial shutdowns, particularly amongst motor vehicle producers. It is worth noting that supply chain/logistics issues are causing increasing problems for manufacturers in terms of shortages of key inputs, such as semiconductor chips, which could lead to slowdowns in production that in turn could weigh on manufacturing payrolls. This will be something to watch in the months ahead, particularly given the significance of motor vehicle production across the Regions footprint.

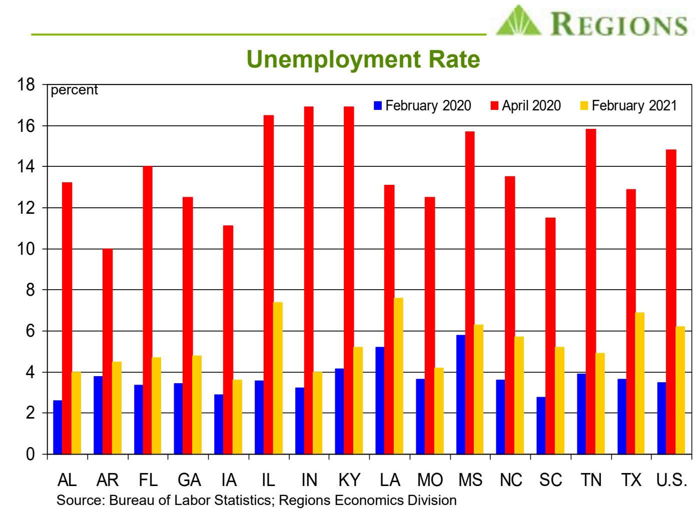


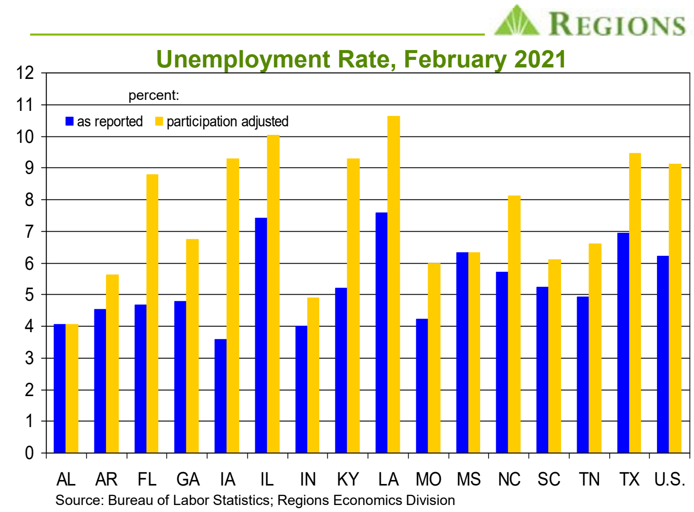


One industry group that stands out as having posted solid job growth, nationally and within the Regions footprint, is transportation and utilities. This broad industry group includes warehousing and delivery services, which have accounted for most of the job growth in the broader industry group over the past year. As seen in the first chart above, this is the only industry group in which the level of payrolls within the footprint as of February 2021 was above the pre-pandemic peak. At the other end of the spectrum is leisure and hospitality services, in which the level of employment in February 2021 was 1,191,600 jobs below the pre-pandemic peak. To the point made above, nationally and in most states this industry group accounts for the largest remaining gap in the labor market, which is consistent as this is the area of consumer spending in which the gap between the current and the pre-pandemic level of consumer spending is the largest. For instance, as of February 2021 the level of nonfarm employment in Florida was 560,000 jobs below that of February 2020, with leisure and hospitality services accounting for 286,200 jobs of this shortfall.

It follows that as greater shares of the population are vaccinated and the economy more fully reopens in the months ahead, leisure and hospitality services is where we will see the most significant upturn in hiring. That is not to say that the entire gap in employment will vanish at once, as not all businesses in this broad industry group will have survived the pandemic, nor is it clear how close consumer behavior – and spending – will come to pre-pandemic levels or how long that might take. That said, with the anticipated burst in activities such as travel, tourism, recreation, dining out, and entertainment once the economy is more fully reopened, these are the areas in which we expect to see the biggest job gains, and to some extent we are already seeing this as providers ramp up ahead of the anticipated increases in demand. It should also be noted that the remaining gaps in education and health services and in government are also tied to the economy not being fully reopened and activity not being back to pre-pandemic norms. For instance, most of the gap in the government sector comes specifically in the education segment of state and local government, reflecting the degree to which instruction has been conducted online as opposed to in-person, meaning that support staffs remain idled. This is another area in which a more fully reopened economy will coincide with rapid job gains in the months ahead, though in some places that won't be apparent until after the summer months.

The unemployment rate for the Regions footprint as a whole fell to 5.6 percent in February from 5.7 percent in January, though results were mixed across the individual states. In many cases, declining jobless rates in February resulted from a decline in the labor force, as was the case in Alabama, Illinois, Indiana, and Tennessee, while in other states such as Louisiana and Texas the labor force declined but so too did household employment, resulting in either no change in the unemployment rate (Louisiana) or a higher unemployment rate where the decline in employment topped the decline in the labor force (Texas). As is the case when examining the national-level data, when interpreting the path of the unemployment rate in a given state or metro area it is important to account for labor force participation given that participation rates are generally well-below those that prevailed prior to the pandemic. As such, measured unemployment rates are lower than would otherwise be the case, rendering the unemployment rate an incomplete measure of the degree of labor market slack. This is a point we have stressed often over the past year, and a point that Fed Chairman Powell and other FOMC members have stressed a good deal of late, as it will clearly impact how they view labor market conditions in the context of setting the course of monetary policy in the months ahead. The following two charts help illustrate the importance of accounting for labor force participation.





The first chart above shows reported unemployment rates in February 2020 (the pre-pandemic rate), April 2020 (last year's peak), and February 2021. Note that nationally and in each state, the unemployment rate has fallen significantly from the peak hit last April; at the same time, however, the level of employment, whether taken from the establishment survey or the household survey (the latter is used to calculate the unemployment rate) remains well below the pre-pandemic peak of February 2020. To some extent, the shortfall in the level of employment is accounted for by the February 2021 unemployment rate being higher than the February 2020 rate, but this does not fully account for the impact of the pandemic on the labor market. This gets us to the second chart above, which for each state and the U.S. as a whole shows the reported February 2021 unemployment and what we call the "participation adjusted" unemployment rate, i.e., the unemployment rate that would prevail were the labor force participation rate the same as it was in February 2020. For instance, while the unemployment rate for the U.S. as a whole was 6.2 percent in February, accounting for the decline in labor force participation over the last year would put the rate at 9.1 percent. The larger the gap between the two, the more dramatic has been the decline in the labor force participation rate, with Iowa, Illinois, Florida, Kentucky, and Louisiana seeing particularly large gaps. Note that for Alabama and Mississippi, the two rates are roughly the same as the participation rate in each state was unchanged between February of 2020 and 2021. If anything, our measure is on the conservative side, i.e., the participation adjusted rates would be even higher had we accounted for what prior to the pandemic had been steadily increasing participation rates in most states. This does not alter the broader point, which is that the labor market cannot be considered fully or even mostly healed until the participation adjusted rate falls to the pre-pandemic unemployment rate, which is likely to take considerable time even after the economy is more fully reopened.

So, along with the obvious markers such as the level of nonfarm employment and the unemployment rate, we will continue to monitor trends in labor force participation amongst the states in the Regions footprint in the months ahead. 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 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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