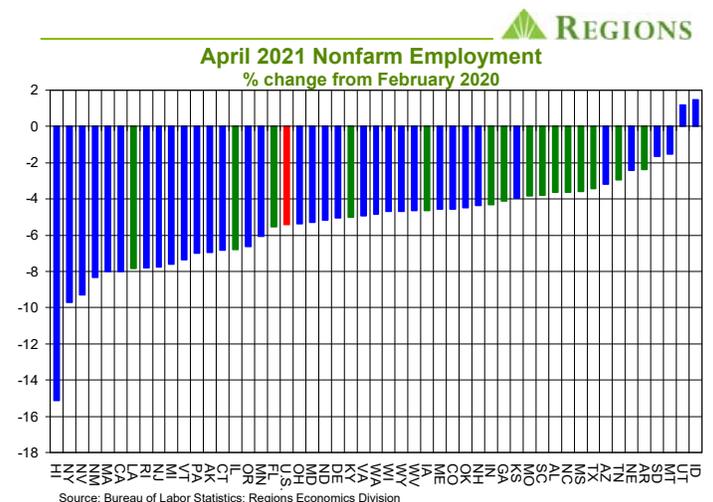
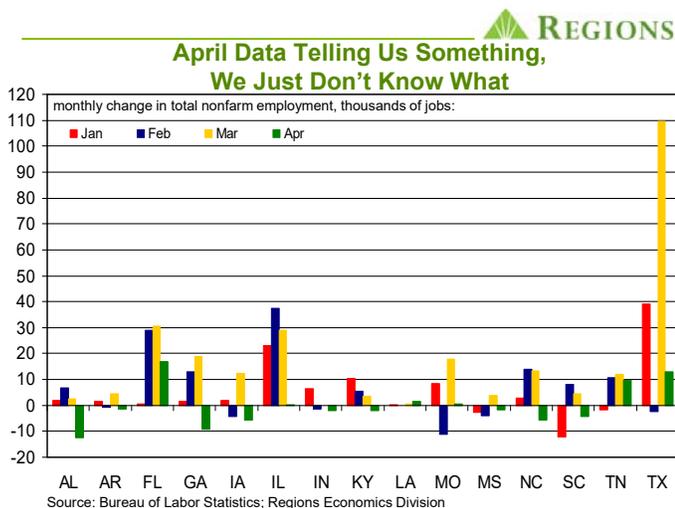


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April 2021 Nonfarm Employment: Regions Footprint

Wait, what? That is the considerably sanitized version of our reaction to the April employment report, which showed total nonfarm payrolls for the U.S. as a whole rose by "only" 266,000 jobs in April. While in more normal times that would have been cheered as a strong number, in these not so normal times, not so much. We and many others expected an increase of over one million jobs in April, reflecting the further reopening of the economy as greater numbers of people were vaccinated and households were flush with cash thanks largely to the third round of Economic Impact Payments hitting bank accounts in March. While there are, perhaps somewhat fortunately, no official records tracking these things, the April employment report is easily the largest discrepancy between actual and expected numbers we can ever recall seeing, which naturally led to a scramble to explain an epic (forecasting) fail. Some pointed to faulty seasonal adjustment, and others pointed to labor supply issues triggered by expanded unemployment insurance benefits as the most likely culprits. We saw nothing in the not seasonally adjusted data that made us think faulty seasonal adjustment was masking a meaningfully larger job gain, while labor force participation rose in April. So while perhaps the most popular explanations, these are not necessarily the correct explanations for April's surprisingly small increase in nonfarm payrolls.



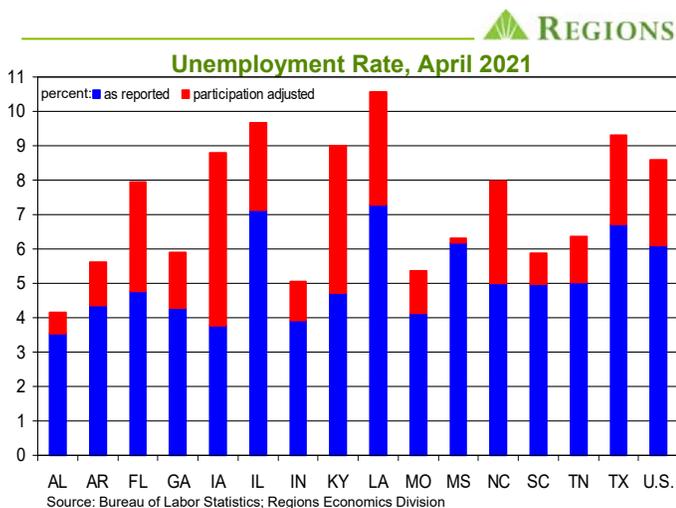
Our alternative explanation is sometimes, that's just how it goes. Sometimes the numbers surprise you, sometimes the numbers just don't seem to make sense but, either way, the numbers are what the numbers are. That holds for the state level and metro area level labor market data, which show that nonfarm payrolls within the Regions footprint fell by 2,400 jobs in April, while the initial estimate of March job growth was revised down to show a net increase of 262,600 jobs rather than the 269,500 jobs first reported. Florida, Illinois, Louisiana, Missouri, Tennessee, and Texas saw increases in nonfarm payrolls in April but each of the remaining in-footprint states saw nonfarm payrolls decline. Private sector payrolls within the Regions footprint fell by 20,300 jobs in April while public sector payrolls rose by 17,900 jobs, with much of that increase reflecting support staff being called back to work by school districts returning to in-school instruction. Florida, Louisiana, Missouri, Tennessee, and Texas were the only in-footprint states to see private sector job gains in April.

Only 24 states posted nonfarm job gains of over 1,000 jobs in April, with 17 states seeing nonfarm payrolls decline. As has been the case over the past few months, Idaho and Utah are the only states in the U.S. in which the level of nonfarm employment has surpassed the pre-pandemic peak. Note from the second chart above, however, that most of the in-footprint states are bunched together in the group of states closest to that point. The questionable April data notwithstanding, how close states are to returning to their pre-pandemic level of employment is a function of many factors, including the extent to which activity is still restricted and each state's industrial make-up. A number of in-footprint states were less restrictive over much of the pandemic and have been quicker to lift remaining restrictions, which has helped support the rebound in employment. Florida, though no longer under restrictions, remains somewhat disadvantaged

by a well above-average exposure to leisure and hospitality services, particularly with international travel still substantially impaired while domestic travel is picking up. That disadvantage, however, is nowhere near as pronounced as is the case in Hawaii, where the level of nonfarm employment as of April remains 15.1 percent below the level as of February 2020, easily the largest gap in the nation.

Within the Regions footprint, payrolls fell in seven of the thirteen broad sectors in April. Though payrolls in leisure and hospitality services rose, they did so by a smaller than expected 33,100 jobs, with Florida adding only 9,000 jobs in this industry group. Within the Regions footprint, the level of employment in leisure and hospitality services is 1.098 million jobs below the pre-pandemic peak, and this is the industry group in which job growth is expected to be the fastest in the months ahead as the economy more fully reopens and more and more people are vaccinated. Manufacturing payrolls fell by 18,500 jobs, with most of the in-footprint states posting declines. One factor dragging down manufacturing payrolls is diminished motor vehicle production due to the global shortage of semi-conductor chips that has led to an increasing number of plants either shutting down or operating at only limited capacity – in the establishment data, workers furloughed due to plants being idled are not counted as employed. Nationally, payrolls amongst motor vehicle producers fell by 27,000 jobs in April but a comparable figure for the Regions footprint is not available. Despite a significant presence of producers of motor vehicles and motor vehicle parts, reporting limitations mean much of the data on the state and metro area levels is suppressed. For instance, if there is a single producer in a given state, that data will not be reported due to privacy concerns, as no one looking at the data should be able to draw inferences about a specific firm. Obviously, this is not an issue on the national level, but is on the state and metro area levels, to the point that for most of the in-footprint states data on the industry level are simply not reported. In any event, with the chip shortage unlikely to be resolved any time soon, motor vehicle production could remain a drag on manufacturing employment in the months ahead, and other industry groups, such as computer equipment, communications equipment, and electronics products, could also be impacted.

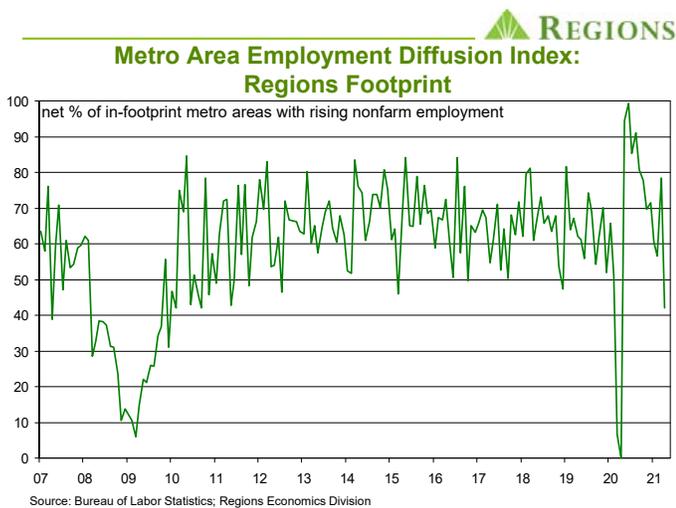
Construction payrolls within the footprint are reported to have declined by 15,200 jobs in April, though this is one area in which seasonal adjustment issues are in play. Recall that in March construction payrolls rose significantly, which reflected the typical strong March increase on top of payback for February, when unusually harsh winter weather pushed construction payrolls significantly lower. As such, the not seasonally adjusted data show a smaller increase than is typical for the month of April, hence the decline reported in the seasonally adjusted data. Still, in the national data there was a significant decline in aggregate hours worked in construction in April (the national data show no change in the level of construction employment in April) which, again, could reflect some settling back from March’s sizable increase. Why the April data should not simply be dismissed out of hand, however, is that materials shortages are becoming a drag on the pace of single family residential construction, which could account for some of the softening in the April data, so this is clearly something to be monitored in the months ahead. Also standing out in the April data is the sizable decline in transportation and warehousing payrolls, as this had been one of the industry groups posting the most significant job gains in prior months. Some have speculated that the April data reflect paring down of payrolls in this industry group to reflect further reopening of physical retail stores, though they might have a more plausible argument had not retail trade payrolls also declined in April.



Unemployment rates were little changed in April, nationally and within the Regions footprint. The declines in Alabama, Kentucky, and North Carolina – each of which saw their unemployment rate drop by at least two-tenths of a point – came about in part due to a decline in labor force participation. That is a theme we’ve touched on in past months, and expectations of strong growth in nonfarm employment over the next few months are predicated on a meaningful increase in labor force participation. Moreover, as the FOMC has made clear, their assessment of labor market conditions accounts for not only the level of employment and the “headline” unemployment rate, but also for labor force participation. As of April, there were roughly 3.5 million fewer people in the labor force than there were in February 2020, with a gap of 1.016 million people within the Regions footprint. Lower labor force participation is holding down the measured unemployment rate, as one must be in the labor force and actively looking for a job to be included in

the calculation of the unemployment rate. In the chart above, the blue bar shows the reported U3 unemployment rate, while the red bar represents where that rate would be were labor force participation at pre-pandemic rates. With the exception of Mississippi, where the difference is only one-tenth of a point, the gaps between the reported and participation adjusted unemployment rates are meaningful.

Though some point to expanded unemployment insurance benefits as the main culprit behind the growing number of open jobs going unfilled, there are other factors in play. For instance, female participation has been hit particularly hard by increased responsibilities for at-home schooling and childcare, and there are those who simply do not yet feel comfortable returning to work. The extent to which expanded unemployment insurance benefits are holding down labor force participation may become clearer in the months ahead given that several states have announced their intention to withdraw from the program before the scheduled September expiration (the expanded benefits are being paid by the federal government). Additionally, in pre-pandemic times, in order to be eligible to receive unemployment insurance benefits, one had to be actively looking for work, but those requirements were waived with the onset of the pandemic, reflecting significant parts of the economy being shut down and the sheer volume of people applying for benefits. Over recent weeks we have seen states announce their intention to reinstate the actively seeking work requirement, which may also prod greater numbers of people to return to the labor force. As it is, that firms are having such a hard time filling open positions has led many large corporations to announce higher entry level wages, particularly in lower-skill, lower-wage industry groups, in a sense acting as a de facto increase in minimum wages. One consequence could be that firms in this position pay higher wages in the post-pandemic world but have fewer employees, opting instead to utilize automation/technology to either enhance productivity or as a substitute for labor. In any event, we will continue to monitor state level labor force participation as an indicator of overall labor market conditions.



It will come as no surprise that the unusual patterns seen in the April data on the national and state levels are also present in the metro area data. For instance, our Metro Area Employment Diffusion Index, a measure of the geographic dispersion of job growth across the in-footprint metro areas, fell to 42.1 percent in April which, aside from when the economy was shutting down last spring, is the lowest reading since September 2010. More in-footprint metro areas saw nonfarm payrolls decline in April than saw them increase. As of April, the level of nonfarm employment in the Orlando metro area was 11.7 percent below the pre-pandemic peak, while in New Orleans the gap was 11.5 percent, the largest gaps within the footprint, while the Lakeland metro area is the only one in our group of in-footprint metro areas in which the level of employment was above the pre-pandemic peak.

The question is the extent to which the April employment data are an anomaly as opposed to reflecting a significant and persistent deceleration in the pace at which the labor market is recovering. Further declines in claims for unemployment insurance benefits and sharply improving consumer perceptions of labor market conditions suggest the former, as opposed to the latter, and that is our inclination as well. Time will tell, and the June 4 release of the May employment report (which covers only the national level data) will be an important marker. We will, of course, continue to monitor trends in nonfarm employment and 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>