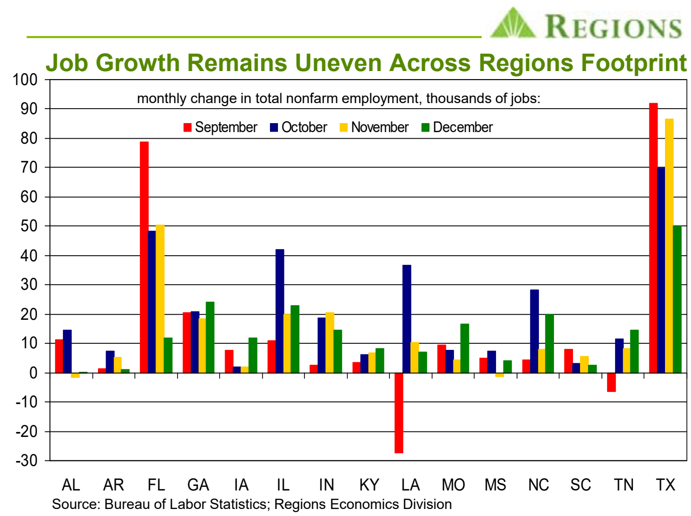
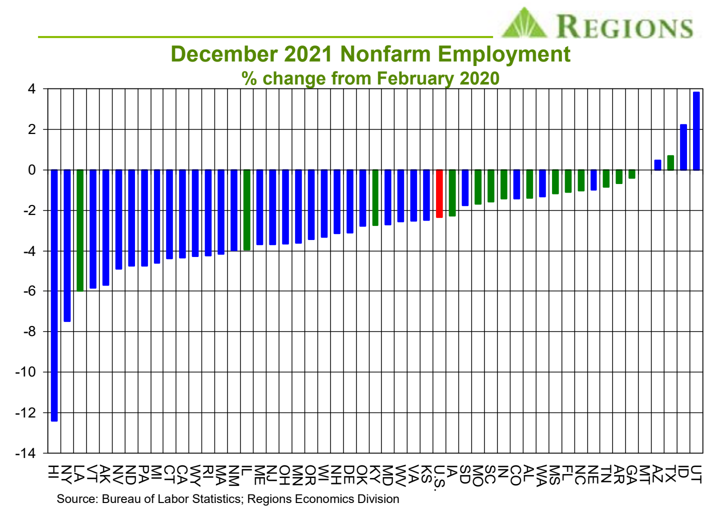
ECONOMIC UPDATE
REGIONS
January 26, 2022

December 2021 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 209,800 jobs in December, with private sector payrolls up by 205,900 jobs and public sector payrolls up by 3,900 jobs. As has been the case over the past several months, job growth was uneven across the footprint in December, with Florida and Texas seeing significantly smaller increase in nonfarm payrolls than was the case in November while Georgia, Illinois, Missouri, North Carolina, and Tennessee saw more robust job growth in December than in November. Though there were some impacts on the December data from the rapid spread of the Omicron variant of the COVID-19 virus, those impacts were not substantial but will be much more apparent in the January 2022 data.



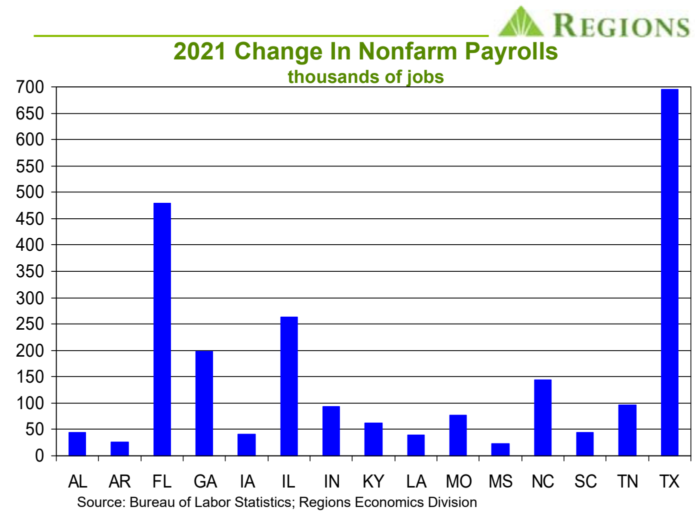


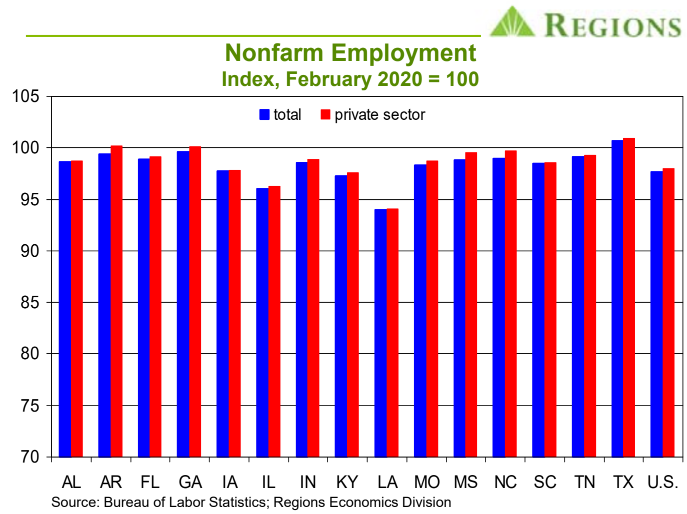
Total nonfarm employment within the footprint is now reported to have risen by 244,000 jobs in November, well above the initial estimate showing an increase of 203,300 jobs. This is in keeping with the pattern of meaningful upward revisions to the initial estimates of job growth that has prevailed over the past several months. We've cited two factors that have sustained the pattern of upward revisions. First, there has been substantial turnover in the labor market since the onset of the pandemic, which is wreaking havoc on the Bureau of Labor Statistics' (BLS) efforts to measure job growth, at least in the initial round of responses to the monthly establishment survey, from which estimates of nonfarm employment are produced. Additionally, response rates to the establishment survey have been notably low over the past several months, thus leaving a bigger gap for the BLS to fill in with their own modeling. As more data are collected in subsequent months, this has led to sizable revisions to the initial estimates of job growth in any given month; that those revisions have consistently been upward revisions is consistent with continued improvement in labor market conditions.

With the release of the December data, we have an initial look at full-year 2020 job growth. The Regions footprint added 2,327,300 jobs in 2021, which nonetheless leaves the level of nonfarm employment within the footprint 737,100 jobs below the pre-pandemic peak. Note that the annual benchmark revisions to the payroll employment data will be incorporated into the January employment report, with the national level data to be released on February 4 and the state level data to be released on March 14. In their preview of the annual benchmark revisions to the national level data, BLS noted that the level of nonfarm employment as of March 2021, which will be the new reference month for the establishment survey, would be revised down by around 166,000 jobs, or, around one-tenth of one percent of total nonfarm employment. Though that does not ensure that the preliminary estimate of 2021 job growth will be revised lower for each individual state, we will point out that the revisions on the state level tend to be larger than those on the national level, and the revisions on the metro area level tend to be larger than those on the state level. As the data now stand, Texas is one of only four states in which the level of nonfarm employment has surpassed the pre-pandemic peak, while in eleven other in-footprint states the remaining gap in total nonfarm employment is smaller than that for the U.S. as a whole.

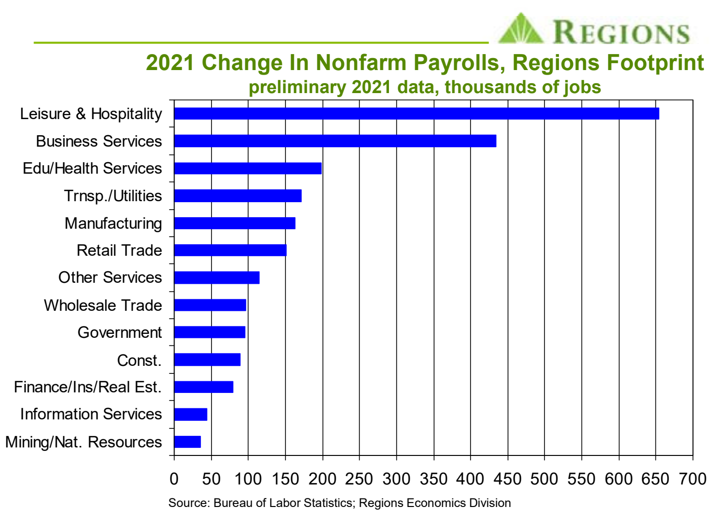
Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

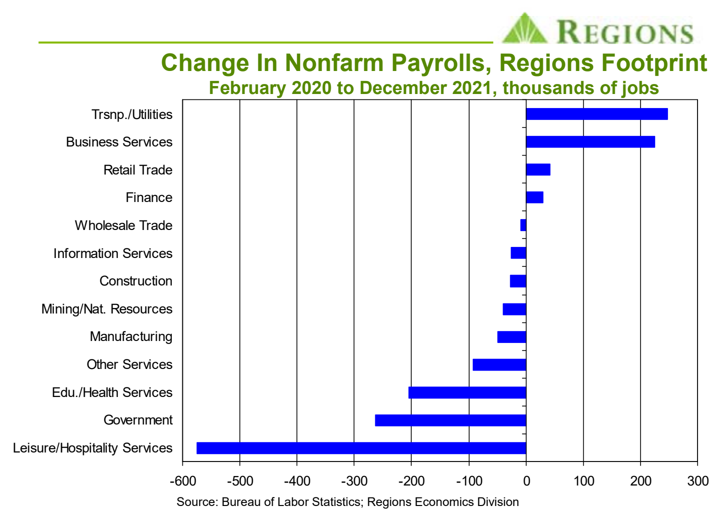
The preliminary data show Texas added 694,400 net nonfarm jobs in 2021, with Florida adding 479,300 jobs. The magnitudes of these increases aren't a surprise, given that these states have the highest levels of nonfarm employment. Still, even allowing for a true comparison based on the percentage change in total nonfarm employment between December 2020 and December 2021, Florida and Texas still come out on top, with each seeing nonfarm employment increase by 5.6 percent over this period. With an increase of 4.7 percent, Illinois topped the 4.5 percent increase seen for the U.S. as a whole while Georgia matched that increase. Arkansas, Mississippi, and South Carolina each saw nonfarm employment increase by 2.1 percent in 2021, the smallest increases in the footprint, with Alabama and Louisiana each logging a 2.2 percent increase.





As noted above, Texas is one of only four states in the U.S. in which the level of nonfarm employment had surpassed the pre-pandemic peak by year-end 2021 (with the annual benchmark revisions pending), but most of the in-footprint states are closer to that pre-pandemic peak than is the U.S. as a whole. It is also worth noting that in many states, shortfalls in public sector payrolls are responsible for much of the remaining gap in total nonfarm employment. For instance, in both Arkansas and Georgia, the level of private sector employment has surpassed, even if only modestly so, the pre-pandemic peak, but shortfalls in public sector payrolls mean that total employment in each state remains below the pre-pandemic peak. With the exceptions of Illinois and Louisiana, each of the other in-footprint states should close the remaining gap in nonfarm employment (relative to the pre-pandemic peak) by year-end 2022.

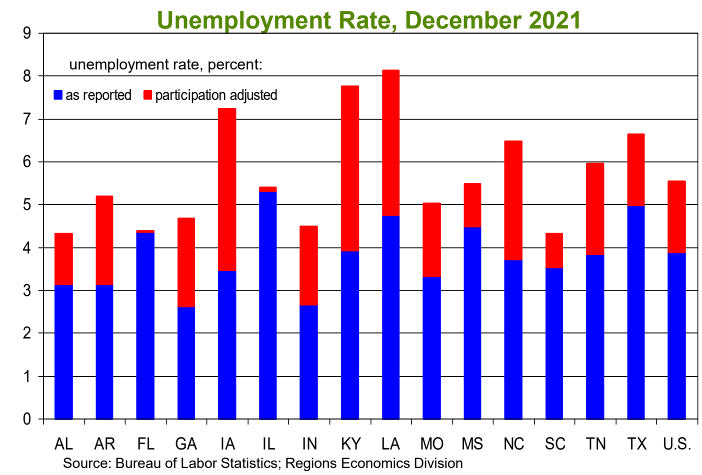




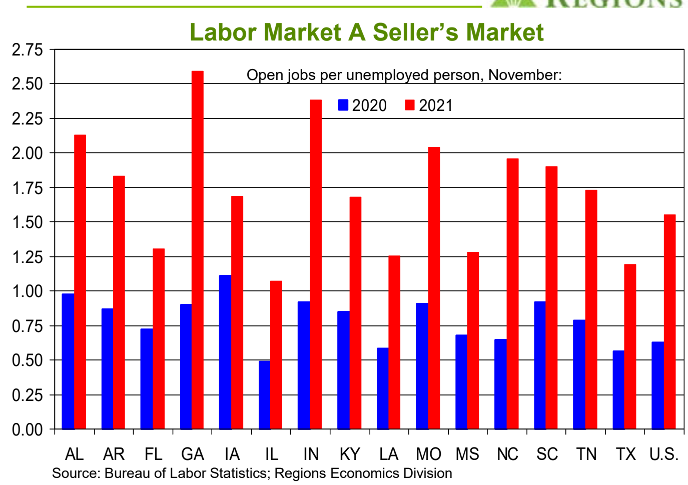
Each of the thirteen broad industry groups added jobs within the Regions footprint in 2021, with leisure and hospitality services posting an increase of 654,000 jobs and business services adding 433,900 jobs. While transportation/utilities posted only the fourth largest increase in payrolls in 2021, keep in mind that hiring within this broad industry group was strong in 2020 and that by the end of 2020 the level of employment in this industry group – which includes warehousing/delivery services – was easily above its pre-pandemic peak. It is of course important to put 2021's job gains across the broad industry groups in the context of what transpired over the course of

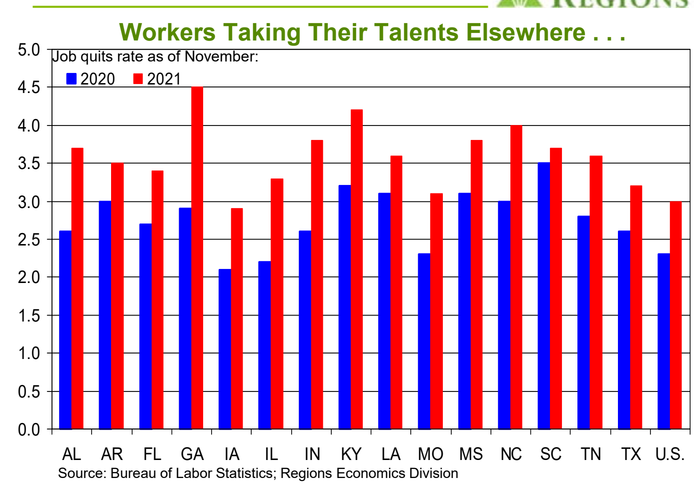
Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

2020, with leisure and hospitality services the most obvious example of this point. Within the Regions footprint, leisure and hospitality services payrolls fell by 1,211,900 jobs in 2020, meaning that even with the sizable gain in 2021, the level of employment in leisure and hospitality services was still 575,200 jobs below the pre-pandemic peak at year-end 2021. Recall that the gap in total nonfarm employment within the footprint as of year-end 2021 was 737,100 jobs, meaning leisure and hospitality services account for much of that gap. It is also worth noting that while retail trade payrolls were easily above their pre-pandemic peak at year-end 2021, part of that excess reflects holiday season hiring that will be reversed in the January data.



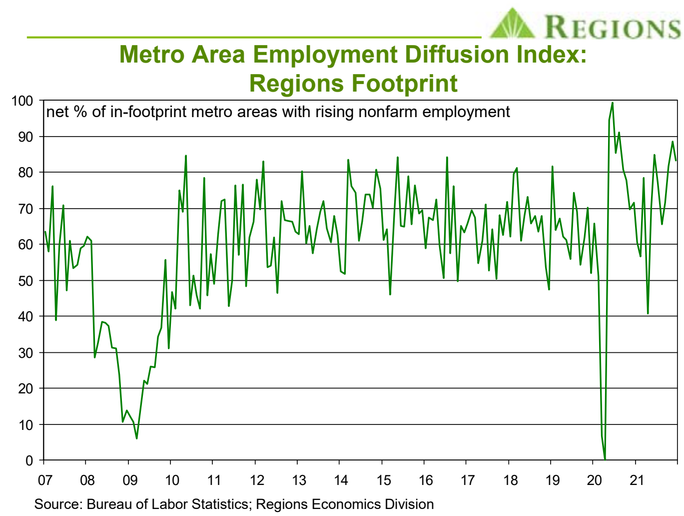
As was the case for the U.S. as a whole, unemployment rates across the Regions footprint drifted lower in December. While nine of the 15 in-footprint states have jobless rates below the U.S. average, what stands out is that Georgia and Indiana boasted jobless rates below 3.0 percent in December, at 2.6 percent and 2.7 percent, respectively. Then again, perhaps "boasted" isn't the best word to use here, as Indiana saw its labor force decline further in December while Georgia's labor force was basically flat, as it was over the back half of 2021. Indiana was one of five states (along with Alabama, Arkansas, Louisiana, and Mississippi) which saw their labor force decline for full-year 2021, with depressed labor force participation acting to hold measured unemployment rates down. The by now familiar chart to the side shows the effect of depressed labor force participation rates; the blue portion of the bars reflects reported unemployment rates as of December, while the red portion of the bars reflects the extent to which the unemployment rate would be higher had the labor force participation rate in each state remained unchanged from where it was prior to the pandemic. Iowa, Kentucky, and Louisiana are the states in which the measured unemployment rate is the most understated due to the drop-off in labor force participation. Florida stands out in stark contrast; as of year-end 2021, Florida's labor force participation rate was just two-tenths of a percentage point shy of where it was prior to the onset of the pandemic, making its reported unemployment rate the truest representation of the degree of labor market slack amongst the in-footprint states.

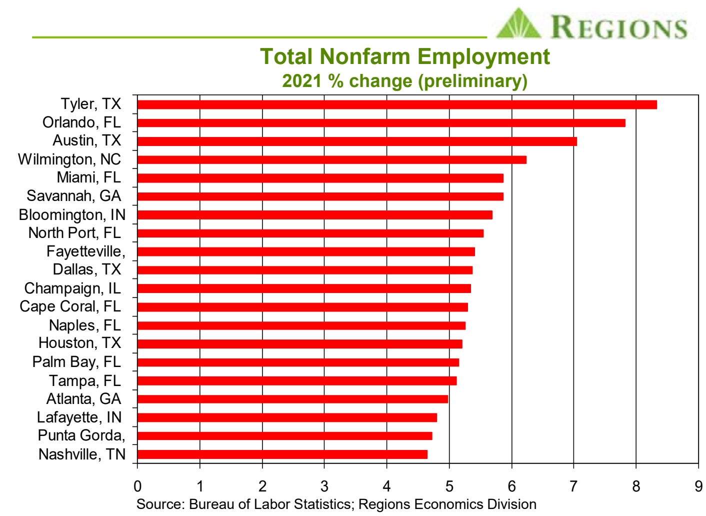




The two charts above go to our earlier point about the high degree of labor market turnover making it more difficult for the BLS to accurately account for changes in nonfarm employment. The BLS recently began releasing data from the Job Openings and Labor Turnover Survey (JOLTS) on the state level, and while the JOLTS data lag the state level employment by a month, that does not alter the main storyline, which is that a pronounced mismatch between labor demand and labor supply has made the labor market very much a seller's market. As of November 2021, there were over 4.2 million open jobs across the Regions footprint, compared to 2.7 million open jobs as of November 2020. Nationally, there were 10.6 million open jobs as of November 2021, up from 6.8 million as of November 2020. Both nationally and within the Regions footprint, the number of open jobs far exceeds the number of unemployed persons, with the biggest disparity in Georgia. It is important to keep in mind, however, that in order to be counted as unemployed, one must be in the labor force and actively looking for work, so depressed labor force participation means the job openings/unemployed ratio is higher than would otherwise be the case. Even so, that should not deflect attention away from the fact that even prior to the pandemic, the gap between labor demand and labor supply was already substantial and has in the interim become even more so.

The yawning gap between labor demand and labor supply has given rise to a significant increase in the rate at which workers are voluntarily leaving jobs, as indicated in the chart on the prior page showing quits rates. Whether due to workers looking for more flexibility in work arrangements, higher salaries, or new career paths, workers have been much more willing to leave their jobs than, at least as measured by quits rates, has ever been the case. And while much of the discussion around labor shortages focuses on the ability (or lack thereof) of firms to find workers, retaining workers has become increasingly challenging, not to mention more expensive. While we do anticipate labor force participation rates rising over the course of 2022, in most instances we do not expect participation rates to return to pre-pandemic norms, which will sustain a faster trend rate of wage growth than was the case prior to the pandemic.





Job growth on the metro area level remained geographically broad based in December. Our Metro Area Employment Diffusion Index, a measure of the breadth of job growth across in-footprint metro areas, registered 83.2 percent in December, down a bit from November but nonetheless the third straight month with a reading above 80 percent, which is significantly above the pre-pandemic trend in the mid-60s. The second chart above shows the in-footprint metro areas posting the largest increases in nonfarm employment for full-year22021, and it is no surprise that the list is dominated by Florida and Texas metro areas. We will caution that the 2021 data are preliminary and, as noted earlier, the benchmark revisions tend to produce larger changes on the metro area level than on either the state or national levels. That said, the revised data are likely to show that the Florida and Texas metro areas posted some of the fastest job growth within the Regions footprint in 2021.

Clearly, the data for January 2022 will be impacted by the rapid spread of the Omicron variant. With case counts starting to fall across much of the U.S., however, the disruptions in economic activity seen over recent weeks will pass and the pace of activity will pick back up. As that happens, job growth across the Regions footprint will pick up and we expect job growth to remain broad based, across industry groups and across geographies. To the extent that global supply chain and logistics bottlenecks ease over the course of 2022, that will provide a lift to growth, particularly in manufacturing and warehousing/distribution services. Still, the COVID-19 virus, including the possibility of new strains, continues to loom as a downside risk, meaning that the pace of recovery in the labor market and the broader economy could remain uneven. 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 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

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