ECONOMIC UPDATE

REGIONS

March 4, 2022

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

February Employment Report: Solid Job Growth, But Discount Average Hourly Earnings

- Nonfarm employment rose by 678,000 jobs in February; prior estimates for December and January were revised up by 92,000 jobs
- Average hourly earnings were flat while aggregate private sector earnings rose by 0.8 percent (up 10.9 percent year-on-year)
- The unemployment rate fell to 3.8 percent in February (3.823 percent, unrounded); the broader U6 measure rose to 7.2 percent

Total nonfarm employment rose by 678,000 jobs in February, easily above what we and the consensus expected, with private sector payrolls up by 654,000 jobs and public sector payrolls up by 24,000 jobs. Prior estimates of job growth in December and January were revised higher by a net 92,000 jobs for the two-month period. The breadth of job growth across private sector industry groups improved notably in February, a sign that the economy was shaking off the effects of the wide and rapid spread of the Omicron variant in January. Average hourly earnings were flat in February, in stark contrast to robust growth over the prior several months, though we attribute the February result to the mix of jobs and a calendar quirk having biased reported earnings lower. That said, between private sector job growth and a longer average workweek, aggregate private sector earnings logged another impressive gain in February even in the absence of growth in hourly earnings. The labor force participation rate ticked up to 62.3 percent in February, but job growth was more than sufficient to absorb increased participation, pushing the unemployment rate down to 3.8 percent. The broader U6 measure, which accounts for both unemployment and underemployment, edged up to 7.2 percent from 7.1 percent in January, thanks to an increase in the number of those working part-time for economic reasons.

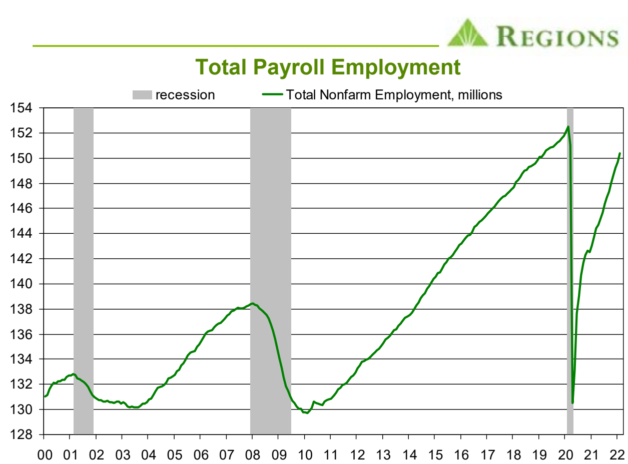
As has been the case with the establishment survey, on which estimates of nonfarm employment are based, over the past several months, the response rate to the February survey was notably low, at 63.7 percent. This is the lowest monthly response rate since June 2020 and the lowest of any February since 2003. A lower response rate leaves a bigger void for BLS to fill with their internal estimates and raises the possibility of larger revision to the initial estimate of job growth in any given month than would otherwise be the case. Typically, BLS collects back-filled survey data in subsequent months from firms either not reporting in the initial months or making revisions to their initial responses, but it also stood out to us that the response rate for the January survey, even with an additional month of reporting, stands at only 89.1 percent, which is low for a two-month rate. This doesn't mean that the February data should be downplayed, let alone dismissed out of hand, but it is nonetheless noteworthy that response rates to the establishment survey remain so low.

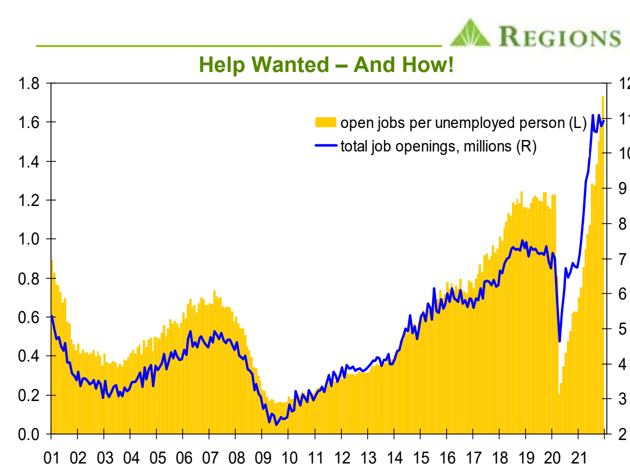
The one-month employment diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 76.6 percent in February after having slipped to 61.1 percent in January, which was the lowest in any month since April 2020. In addition to the expanded breadth of hiring, the average length of the workweek increased by one-tenth of an hour in February while there was a one-tenth of an hour upward revision to the prior estimate for January. The average workweek amongst goods producing industries (manufacturing, construction, and mining) rose much more sharply than amongst service-providing industries and given that hourly earnings in goods producing industries are higher, on average, than in service-providing industries, the longer workweek was a powerful driver of the growth in aggregate private sector wage and salary earnings.

It is interesting to note that health care payrolls rose by 63,500 jobs in February, the largest monthly increase since September 2020. While this leaves health care payrolls well below pre-pandemic levels, the increase in February is significant given how health care has been plagued by workers exiting the industry. February's increase was largely driven by those working in office and home health settings, with hospitals and nursing/residential care facilities continuing to face staffing challenges.

As for average hourly earnings, that job growth was primary driven by service-providing industries, in which average hourly earnings tend to be lower, contributed to average hourly earnings being flat. Also, in any month in which the survey period ends prior to the middle of the month, as was the case in February, measured average hourly earnings are biased lower. In short, there is very little, if any, signal in the February number.

Clearly, the labor market remains a seller's market, and rapid wage growth will continue to draw people back into the labor force. We expect wage growth to remain robust for some time to come as, despite the recent increase, participation is unlikely to return to pre-pandemic norms.





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