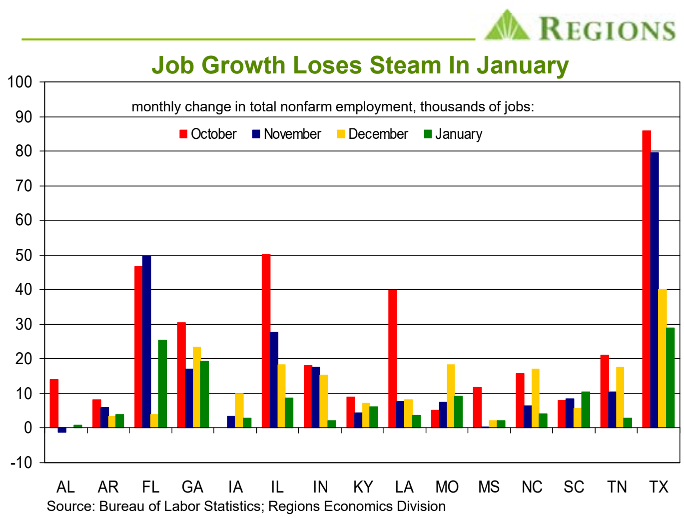
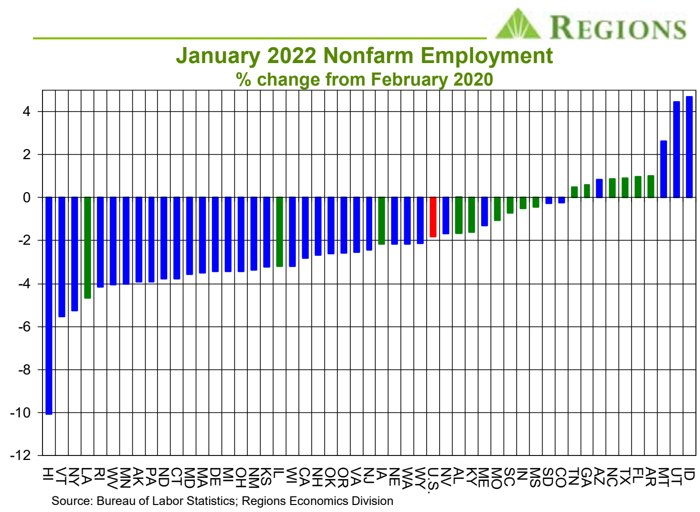
ECONOMIC UPDATE
REGIONS
March 16, 2022

January 2022 Nonfarm Employment and Benchmark Revisions: Regions Footprint

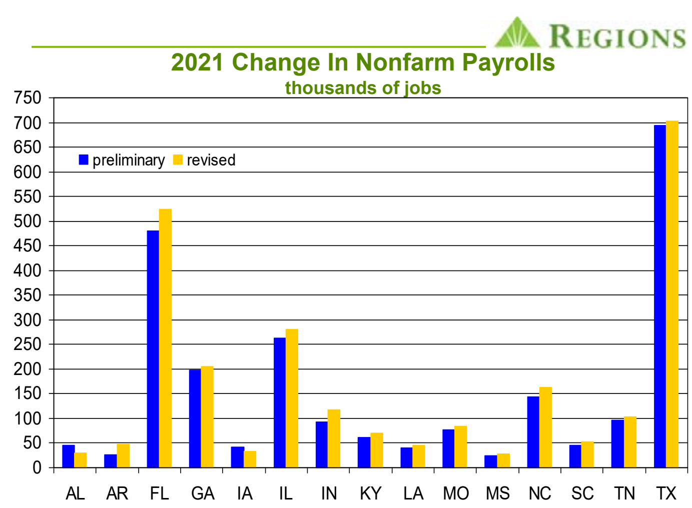
Total nonfarm employment within the Regions footprint rose by 130,800 jobs in January, with private sector payrolls up by 120,800 jobs and public sector payrolls up by 10,000 jobs. January's increase in nonfarm payrolls was the smallest for the footprint since September, and the marked deceleration in job growth in December and January at least in part reflects the effects of the rapid and wide spread of the Omicron variant. Though not always visible in the seasonally adjusted data, there was a pronounced slowdown in the pace of economic activity that began in December and carried into January. As case counts receded, however, economic activity picked back up somewhat rapidly, which we can expect to be reflected in the February labor market data. With the release of the January 2022 data, the BLS incorporated the results of its annual benchmark revisions to the payroll employment data. The revised data show the Regions footprint added a total of 2,487,400 jobs in 2021, up from the preliminary estimate of 2,327,300 jobs.





As of January 2021, six of the states within the Regions footprint had seen the level of nonfarm employment surpass the pre-pandemic peak, with six states still below the pre-pandemic peak but by a smaller percentage than the U.S. as a whole, and three states lagging by more than the U.S. as a whole. Arkansas saw the largest upward revision to 2021 job growth, measured as a share of nonfarm employment, which vaulted it to the top of the rankings in terms of current employment relative to the pre-pandemic peak.

As noted above, the annual benchmark revisions to the payroll survey data show the Regions footprint added more jobs in 2021 than had previously been estimated. At the same time, the revised data show job losses in 2020 were severe, but less so than had been reported, with total nonfarm employment falling by 2,616,700 jobs compared to the prior estimate showing a decline of 2,930,600 jobs. On the flip side, however, job gains in 2017, 2018, and 2019 are now shown to be smaller than had previously been reported. With the exceptions of Alabama and Iowa, the benchmark revisions show stronger job growth in 2021 than had previously been reported in each of the in-footprint states. As mentioned above, scaling the size of the revision to the average 2021 level of nonfarm employment shows the largest upward revision came in Arkansas, where the revision was equivalent to 1.71 percent of the level of nonfarm



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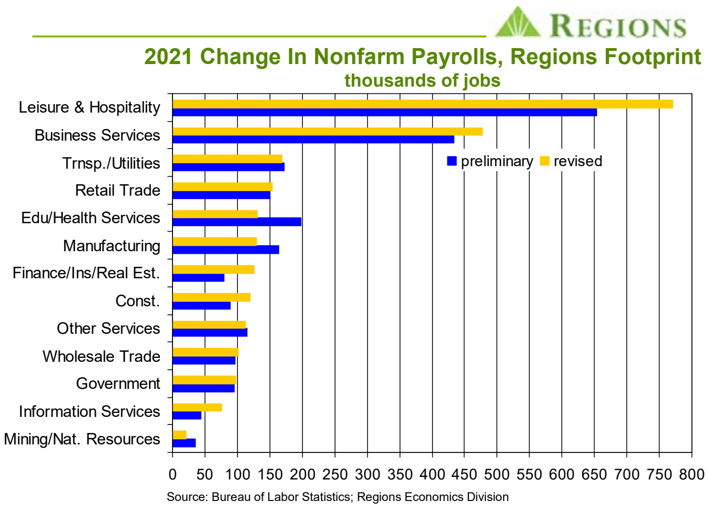
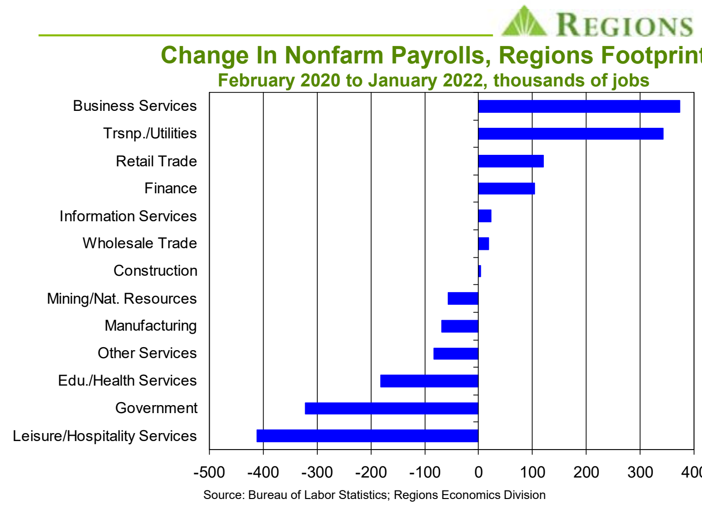
employment, followed by Indiana (0.77 percent), and Florida (0.50 percent). The downward revision to the initial estimate of 2021 job growth in Alabama was equivalent to 0.72 percent of the level of nonfarm employment, with Iowa's downward revision equivalent to 0.53 percent of the level of nonfarm employment.





On the industry level, leisure and hospitality services and business services saw significant upward revisions to the initial estimates of 2021 job growth. For instance, it was originally reported that payrolls in leisure and hospitality services increased by 654,000 jobs in 2021, but the revised data show an increase of 771,100 jobs, or, 117,100 more jobs than originally reported. While this is the largest upward revision in terms of the number of jobs, when scaled to the average 2021 level of employment, the largest upward revision was in the information services industry group, where the upward revision was equivalent to 3.79 percent of the level of employment, much larger than in leisure and hospitality services, where the upward revision was equivalent to 2.03 percent of the level of employment. Mining and natural resources saw a particularly harsh downward revision when scaled to the level of employment (-5.09 percent), with the bulk of the downward revision for the footprint as a whole coming in Texas. It is also worth noting that the manufacturing and education and health services industry groups saw sizable downward revisions to the original estimates of 2021 job growth. We had noted over the course of 2021 that measured job growth in these two industry groups seemed at odds with anecdotal and survey evidence, with the revised data more in alignment. While it is likely nothing more than mere coincidence, it is somehow fitting that the modest downward revision to the initial estimate of job growth in transportation/distribution was almost entirely offset by the modest upward revision to the initial estimate of job growth in retail trade.

Despite having added almost 800,000 jobs in 2021, leisure and hospitality services continues to struggle to return to the pre-pandemic peak level of employment. As of January, payrolls in leisure and hospitality services across the Regions footprint were still 411,100 jobs below the pre-pandemic peak. To put that in perspective, the level of total nonfarm employment for the footprint as a whole was 153,500 jobs below the pre-pandemic peak. It does bear noting that both government and education and health services have shortfalls (i.e., current levels of employment relative to the pre-pandemic peak) exceeding the shortfall in total nonfarm employment. At the other end of the spectrum, the level of employment in business services and transportation/utilities were significantly above their pre-pandemic peaks as of January, with warehousing and distribution services accounting for the vast share of job growth seen in the broad transportation/utilities industry group since the onset of the pandemic.

Unemployment rates across the Regions footprint were flat to slightly lower in January, with ten of the in-footprint states posting rates below the 4.0 percent national average. At just 2.4 percent, Indiana boasts not only the lowest unemployment rate in the footprint but also one of the lowest in the U.S. Still, as we frequently note, unemployment rates can fall for the right reason, i.e., job growth sufficiently strong to absorb labor force growth, and unemployment rates can fall for the wrong reason, i.e., anemic labor force growth or outright declines in the labor force. To be sure, over the past several quarters it has been some of both. Labor force participation remains well below pre-pandemic norms across much of the U.S. which, in conjunction with steady job growth, has pushed unemployment rates down at a much faster pace than had been anticipated during the depths of the pandemic-related recession. To that point, Indiana's labor force was 0.9 percent smaller in January 2022 than it was in January 2021, and in this context the decline in the state's unemployment rate from 4.5 percent to 2.4 percent over that same time span is considerably less impressive than it seems on the surface. While this is by no means the only such instance of depressed labor force participation weighing on the unemployment rate, it is a noteworthy instance

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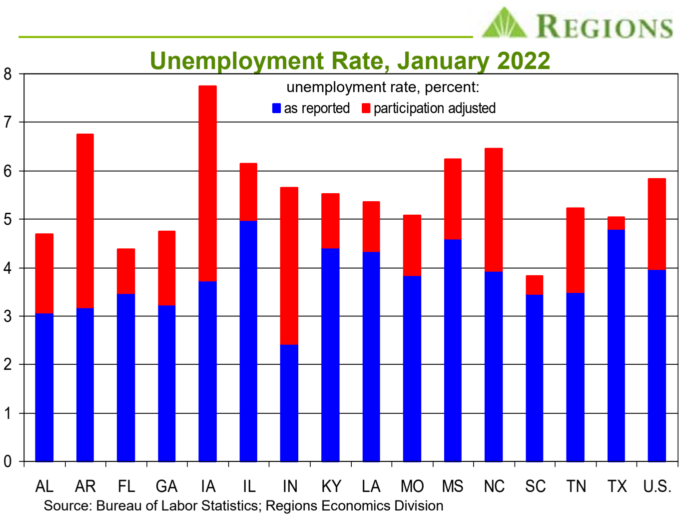
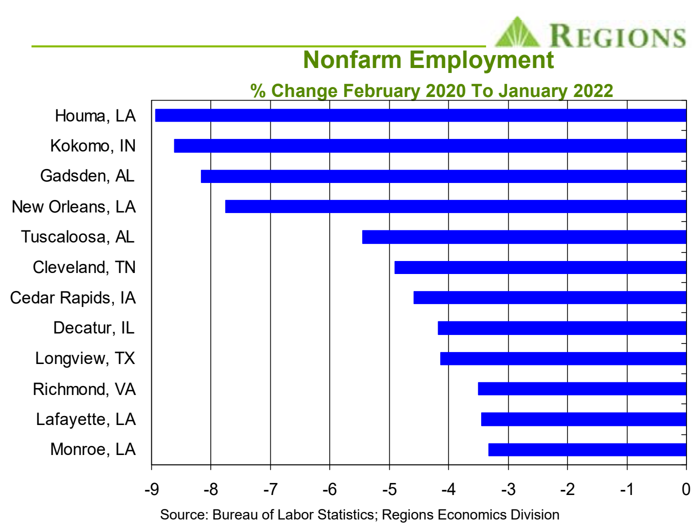
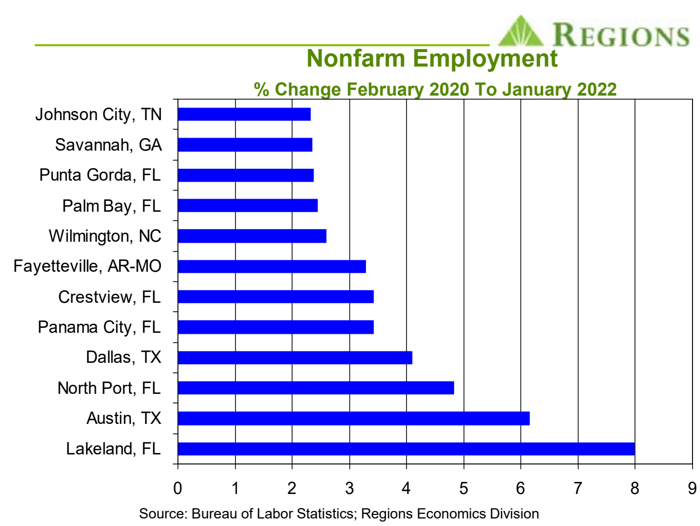
of this. As we've done for the past several months, we compare reported unemployment rates with our estimate of what the unemployment rate would be had the labor force participation rate remained unchanged over the course of the pandemic. As seen in the chart to the side, when adjusted for the decline in labor force participation, Indiana's unemployment rate would be far above the reported rate. It is also worth noting that Indiana's gap is only the third largest within the Regions footprint, with Iowa and Arkansas seeing more pronounced gaps between reported and participation-adjusted unemployment rates. At the other end of the spectrum, Texas, South Carolina, and Florida have the smallest gaps, meaning that participation is closer to being back to pre-pandemic norms than is the case nationally and in the rest of the Regions footprint.



Along with the annual benchmark revisions to the state level employment data, the BLS has also released the revisions to the metro area level nonfarm employment data, though at this point the January household survey data (labor force, unemployment rate) on the metro area level are not available. As with the state level data, when scaled to the 2021 average level of nonfarm employment, the upward revision for the group of in-footprint metro areas we track was larger than the national average, at 0.71 percent. Still, there was considerable divergence across metro areas in terms of the direction and magnitude of revisions to the initial estimates of 2021 job growth. Sixty-one in-footprint metro areas saw upward revisions, ranging from 0.14 percent of the level of nonfarm employment in the Gainesville, FL metro area to 7.24 percent in the Bloomington, IL metro area. Conversely, 41 in-footprint metro areas saw downward revisions to the initial estimates of 2021 job growth, ranging from -0.07 percent of the level of nonfarm employment in the Cedar Rapids, IA metro area to -7.21 percent in the Kokomo, IN metro area. And, in a quirk of the data, four metro areas saw no revision to the initial estimate of 2021 job growth – while the revisions yielded differences in the level of nonfarm employment, the initial estimate of 2021 job growth emerged unscathed, with the Tampa, FL metro area the largest member of this group. Still, the ranges we've given here illustrate our point that, as you move down from the national level data to the state level to the metro area level, the initial estimates of job growth become less reliable and prone to larger revision. As the data now stand, the Orlando, FL (9.0 percent), Austin, TX (9.0 percent), North Port, FL (8.0 percent), West Palm Beach, FL (7.3 percent), and Dallas, TX (7.0 percent) metro areas posted the fastest job growth of the in-footprint metro areas in 2021.





As of January 2022, 46 of the group of in-footprint metro areas we track had seen the level of nonfarm employment surpass the pre-pandemic peak, with the Lakeland, FL metro area (8.0 percent above) and Austin, TX metro area (6.1 percent above) posting the biggest beats. Conversely, there were 58 in-footprint metro areas in which the level of nonfarm employment was still below the pre-pandemic peak, with the Houma, LA metro area (8.9 percent below), the Kokomo, IN metro area (8.6 percent below), and Gadsden, AL metro area

(8.2 percent below) showing the largest shortfalls. Factors such as health considerations, demographics, labor force participation, and the industry mix in a given metro area are key determinants of the speed with which a given area recaptures the jobs lost at the onset of the pandemic. The magnitude of some of the remaining shortfalls suggests that for certain metro areas, it will still be some time before the level of employment returns to/surpasses the pre-pandemic peak.

The January 2022 data reflected the impacts of the wide and rapid spread of the Omicron variant, though not to the degree we would have expected given other indicators of labor market activity and overall economic activity. Either way, economic activity rebounded in February, which should be reflected in the soon to be released February employment data. To be sure, the considerable uncertainty posed by Russia's invasion of Ukraine clouds the economic outlook and will likely weigh on growth via the effects of sharply higher food and energy prices and some further impairment of global supply chains. At the same time, as exhibited by China again resorting to shutdowns in response to rapidly rising case counts, 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 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

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