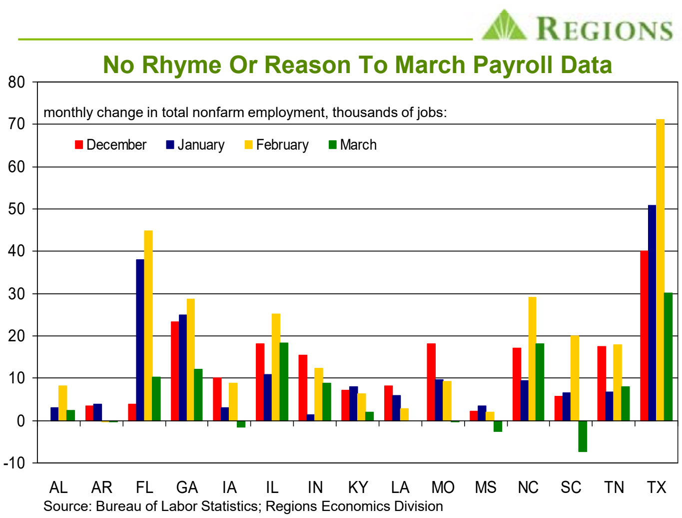
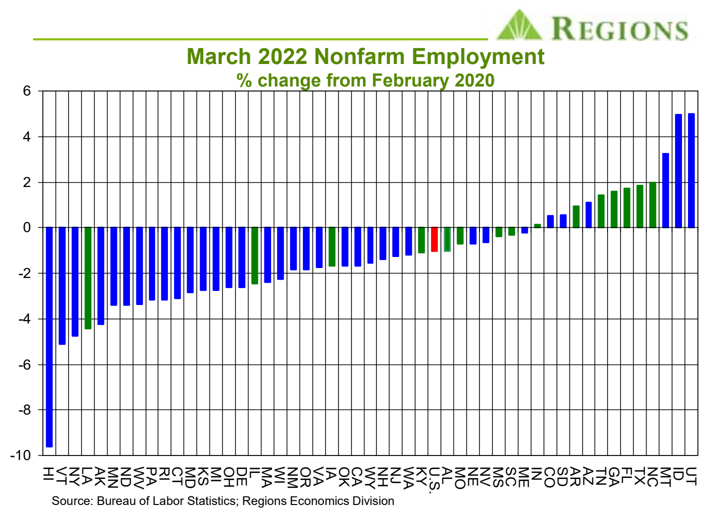
ECONOMIC UPDATE
REGIONS
April 20, 2022

March 2022 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 98,000 jobs in March, with private sector payrolls up by 96,900 jobs and public sector payrolls up by 1,100 jobs. March's increase in nonfarm payrolls was the smallest for the footprint since September, and pales in comparison to the average monthly increase of 254,360 jobs over the prior five months. We will note, however, that over the past several months there has been a consistent pattern in the data, with the initial estimate of job growth in any given months revised higher in subsequent months, often to a meaningful degree. We'll also note that the deceleration in job growth seen across the footprint in March matches that in the national data.





More so than the slower pace of job growth, what stands out about the March data is how uneven the results were across the individual states within the footprint. Six states – Arkansas, Iowa, Louisiana, Missouri, Mississippi, and South Carolina – saw nonfarm payrolls decline in March, and while in most cases the declines were modest, no more than a few hundred jobs, payrolls nonetheless declined. There is, of course, the possibility that these initial estimates will be revised higher over the coming two months, but even should this prove to be the case, the revised data are unlikely to show no more than middling job gains in these states. There are no clear patterns across these six states that would tie job losses together. For instance, a decline of 2,800 jobs in leisure and hospitality services more than accounted for total nonfarm payrolls declining by 1,500 jobs in Iowa. Business services and leisure and hospitality services more than account for nonfarm payrolls in South Carolina declining by 7,400 jobs. In the remaining states, where job losses were much milder, it is a matter of modest declines in a few industry groups slightly more than offsetting modest increases in other industry groups. For the footprint as a whole, March job gains were led by education and health services (up 26,800 jobs), business and professional services (up 23,600 jobs), and finance (up 18,800 jobs). Payrolls in leisure and hospitality services did fall by 1,400 jobs for the footprint as a whole, but this mostly reflects increases in not seasonally adjusted hiring in this industry group falling short of the gains typically seen in the month of March, resulting in reported declines in the data on a seasonally adjusted basis.

As of March, total nonfarm employment within the Regions footprint was 286,200 jobs above the pre-pandemic peak, or 0.49 percent higher. This stands in contrast to the U.S. as a whole, with the level of nonfarm employment 1.579 million jobs below the pre-pandemic peak, a shortfall of 1.04 percent. Still, in four of the in-footprint states – Iowa, Illinois, Kentucky, and Louisiana – the level of nonfarm employment has yet to recapture the pre-pandemic peak. With nonfarm employment 2.00 percent above the pre-pandemic peak, North Carolina has seen the most vigorous rebound of the in-footprint states, followed by Texas (1.86 percent above), Florida (1.72 percent above), and Georgia (1.59 percent above). Louisiana's gap of 4.42 percent is the fourth largest in the nation as of March, and in all but two (information services, business services) of the 13 main industry sectors, job counts in the state remain below the pre-pandemic

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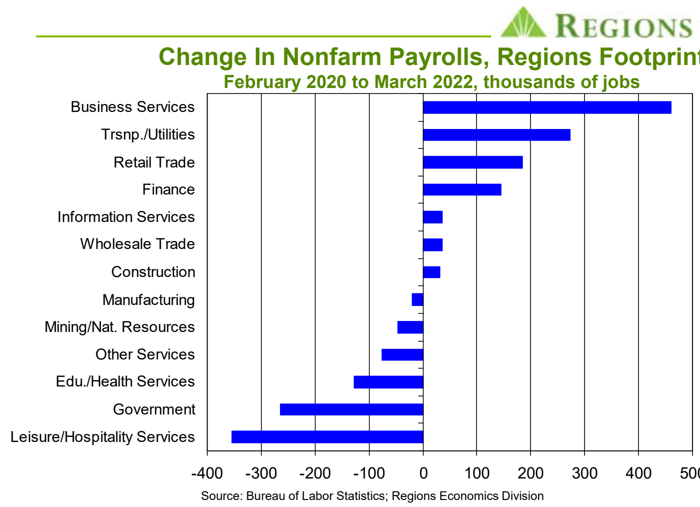
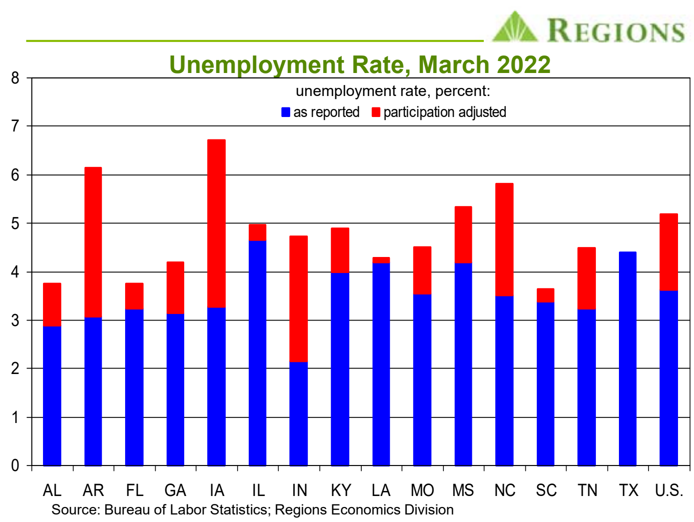
peaks. Large shortfalls in a few industry groups – education and health services, leisure and hospitality services, government – account for the bulk of the remaining shortfall in nonfarm employment in Illinois.

While the level of total nonfarm employment within the Regions footprint is now comfortably above the pre-pandemic peak, that is not true of each of the broad industry groups, as seen in the chart to the side. The level of employment is above the pre-pandemic peak in seven of the thirteen broad industry groups, with business services (plus 460,000 jobs), transportation/utilities (plus 273,500 jobs), and retail trade (plus 184,800 jobs) having pushed the furthest beyond the pre-pandemic peak. In contrast, payrolls in leisure and hospitality services within the footprint remain 354,000 jobs below the pre-pandemic peak, with substantial shortfalls remaining in government (minus 264,100 jobs) and education and health services (minus 127,500 jobs). These relative rankings across the main industry groups are consistent with what we see in the national-level data. It could be that filling the remaining shortfall in leisure and hospitality services will take a considerable length of time. While this industry group is easily posting the fastest growth in average hourly earnings, it also has the highest incidence of quits (i.e., people voluntarily leaving a job) and the highest rate of job openings of any of the major industry groups. With virtually no remote-work options, limited weekly hours, and perhaps less than desirable work schedules in an extraordinarily tight labor market, firms will likely be hard-pressed to find enough workers to return to pre-pandemic levels of employment. One possibility is that increased utilization of technology/automation permanently replaces labor in parts of the leisure and hospitality services industry group.



With the exception of Arkansas, where the rate was unchanged at 3.1 percent, each of the in-footprint states saw their unemployment rate decline in March. Unemployment rates are below the national average of 3.6 percent in nine of the in-footprint states, with Indiana (2.2 percent) and Alabama (2.9 percent) posting the lowest rates within the footprint. Though having fallen over recent months, jobless rates in Kentucky, Louisiana, Mississippi, and Texas were at or above 4.0 percent in March. Still, as we've frequently noted, reported unemployment rates must be assessed in the context of labor force participation rates that, for the most part, remain below where they were prior to the onset of the pandemic.



This is illustrated in the chart to the side, with the blue portion of the bars reflecting the reported unemployment rate as of March, and the red portion of the bars reflecting what the unemployment rate would be had the labor force participation rate in each state remained unchanged from where it was prior to the pandemic. One thing that jumps out is the absence of red for Texas, indicating that the labor force participation rate had returned to the pre-pandemic rate, which puts the reported unemployment rate of 4.4 percent in better context against rates such as the 2.2 percent rate reported for Indiana. Accounting for the degree to which Indiana's labor force participation rate remains below the pre-pandemic rate puts that state's jobless rate at 4.7 percent, a far cry from 2.2 percent and above the reported rate. As can be seen in the chart, Louisiana, South Carolina, Illinois, and Florida are closer to filling the void in labor force participation than are the remaining in-footprint states and the U.S. as a whole. It may seem odd that the gap between current and pre-pandemic levels of nonfarm employment remains so large in Louisiana, as discussed above, while the state's labor force participation rate is almost back to where it was prior to the pandemic. Keep in mind, however, that Louisiana has long had a participation rate below the national average, indicating that there has likely been considerably more slack in the labor market than implied by the reported unemployment rate dating back before the onset of the pandemic.

We and many others expected labor force participation to increase over the course of 2022 as the COVID-19 virus became less of a drag on economic activity and females returned to the labor force in greater numbers. Thus far, that has proven to be the case, nationally

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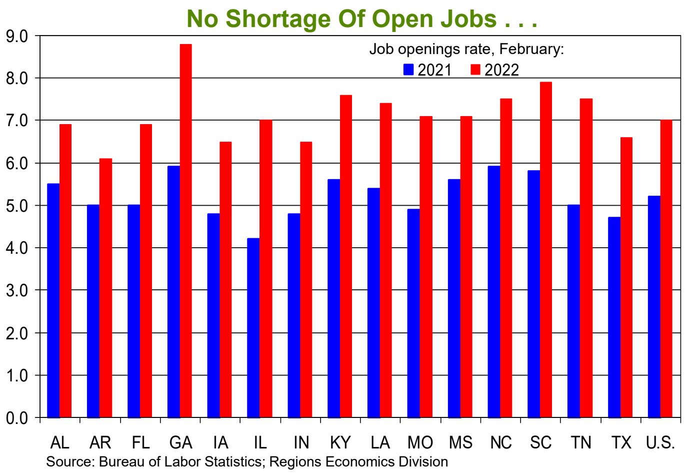
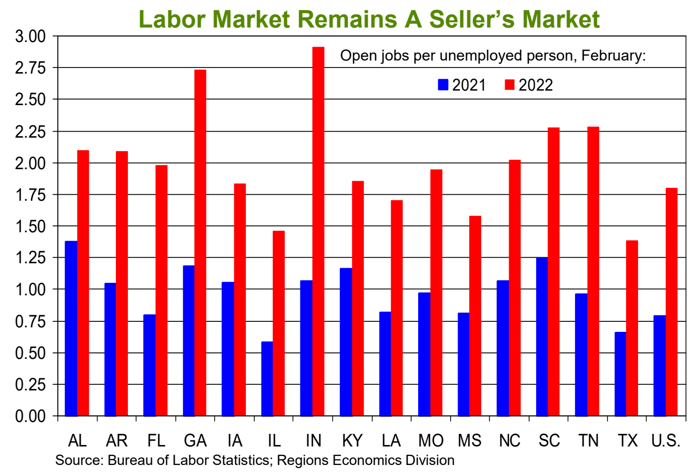
and within the Regions footprint, with the participation rate rising in each in-footprint state over the first three months of 2022. While participation should continue to increase as the year wears on, it is unlikely to do so to the degree necessary to restore some semblance of balance to the labor market. The state level data from the monthly Job Openings and Labor Turnover Survey (JOTS) continue to show labor demand, as measured by the number of open jobs, easily exceeding the potential supply of workers, as measured by the number of unemployed. As of February (the most recent JOLTS data available), there were 4.532 million open jobs across the Regions footprint, up from 3.003 million in February 2021, which translates into 1.83 open jobs per unemployed person, in line with the national average of 1.80 open jobs per unemployed person. While detailed data on people not in the labor force are unavailable on the state level, we know from the national level data that if we were to expand the potential pool of workers to include not only those currently unemployed but also those not in the labor force who want a job, the labor market would still be characterized by a sizable demand/supply mismatch. To be sure, elevated ratios of open jobs per unemployed persons can be just as, if not more, reflective of labor supply constraints than of strong labor demand. Indiana, with a significantly repressed labor force participation rate, is a prime example of this. Even so, the bottom line remains a pronounced mismatch between labor demand and labor supply that is working to fuel faster wage growth than had prevailed prior to the pandemic.





The same deceleration in job growth in the national and state level data for March carries over to the metro area level data, as would be expected. In addition to being slower, job growth was also less geographically dispersed in March, as indicated by our Metro Area Employment Diffusion Index, which fell from a lofty 88.8 percent in February to 60.5 percent in March. To some extent, the spike in February is an outlier, reflecting the rapid reversal in COVID case counts that weighed on economic activity, including labor market activity, in January. Still, March's reading of the diffusion index in line with the state level data showing job growth was more concentrated in fewer states in March, with job counts falling in six of the in-footprint states. At this point, we cannot conclude much, if anything, from a single month's data, particularly given the recent pattern of upward revisions to the initial estimates of job growth in a given month. As we've often noted, we attach considerable importance to the breadth of job growth, whether across industry groups or across geographies, so we'll continue to monitor our Metro Area Employment Diffusion Index in the months ahead.

It could be that, after a notably rapid pace over the prior several months, job growth is simply settling into a more sustainable and consistent pace, and the March data reflect the start of that transition. We do know that the data on initial claims for unemployment insurance benefits continue to hover around multi-decade lows while firms continue to struggle to fill open jobs. So, despite concerns over the path of the broader economy, the labor market remains exceptionally tight. To be sure, there is considerable uncertainty around the outlook, with a still uncertain resolution of Russia's invasion of Ukraine and the impacts on prices for energy, food, and industrial commodities, how persistent China's most recent round of shutdowns will be and what will be the effects on global supply chains, and the FOMC removing remaining monetary accommodation at a more rapid pace than had been anticipated at the start of the year. 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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