ECONOMIC UPDATE

REGIONS

August 5, 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, <u>and the information and opinions herein are for general information use only</u>. 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.

July Employment Report: Did Not See This One Coming

- Nonfarm employment <u>rose</u> by 528,000 jobs in July; prior estimates for May and June were revised <u>up</u> by 28,000 jobs
- Average hourly earnings <u>rose</u> by 0.5 percent, while aggregate private sector earnings <u>rose</u> by 0.8 percent (up 9.6 percent year-on-year)
- The unemployment rate <u>fell</u> to 3.5 percent in July (3.458 percent, unrounded); the broader U6 measure was <u>unchanged</u> at 6.7 percent

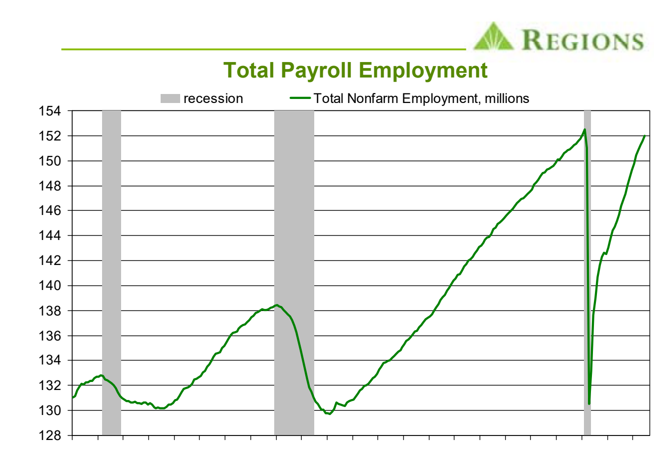
Total nonfarm employment rose by 528,000 jobs in July, blowing past our above-consensus forecast of 276,000 jobs, with private sector payrolls up by 471,000 jobs and public sector payrolls up by 57,000 jobs. Prior estimates of job growth in May and June were revised up by a net 28,000 jobs for the two-month period, ending a string of three straight months in which the net revision to the prior two-month period was to the downside. Average hourly earnings rose by 0.5 percent in July, while aggregate private sector wage and salary earnings were up by 0.8 percent, leaving them up 9.6 percent year-on-year. At the same time, upward revisions to private sector payrolls, average hours worked, and average hourly earnings resulted in meaningful upward revisions to growth in private sector wage and salary earnings in Q2, suggesting a similar upward revision to Q2 personal income. The unemployment rate fell to 3.5 percent, but that in part reflects a decline in the labor force participation rate. The broader U6 measure, which accounts for both unemployment and underemployment, held steady at 6.7 percent in July. We will note that July job growth was aided by favorable seasonal adjustment, but even allowing for that, job growth remains both strong and broad based and wage pressures have yet to ease. One implication is that this will likely bolster the FOMC's confidence that the labor market, and in turn the broader economy, can withstand an aggressive course of Fed funds rate hikes as a means of alleviating inflation pressures.

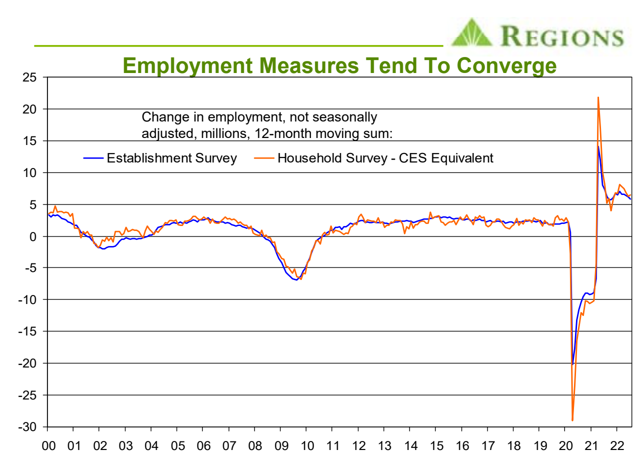
Between the upward revisions to May and June and the sizable increase in July, the level of nonfarm employment is now back above the pre-pandemic peak, though at 32,000 jobs, that margin is not necessarily revision-proof. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, slipped a bit in July but, at 68.6 percent, remains far above pre-pandemic norms. July's job growth was led by education and health services (up 122,000), leisure and hospitality services (up 96,000), and business services (up 89,000). Though the level of total nonfarm employment is back above its pre-pandemic peak, payrolls in leisure and hospitality services are still 1.214 million jobs short and public sector payrolls are still 597,000 jobs short.

The decline in the labor force was concentrated amongst those aged 24 and below – the not seasonally adjusted data show the smallest July increase amongst this age cohort since 2017, which in the seasonally adjusted data translated into a decline. The participation rate amongst the "prime working age" cohort, i.e., those between 25 and 54, held steady at 88.4 percent in July, still below the pre-pandemic norm. The measure of employment in the household survey has been wobbly of late, which some have used as a basis on which to question the validity of the data from the payroll survey. Using the BLS's payroll survey equivalent measure of household employment, however, one sees that the two tend to converge over time even though any measure tied to the household survey will be more volatile from one month to the next. Over the past twelve months, the not seasonally adjusted data actually show a larger increase in employment as measured by the payroll survey equivalent measure than in the actual payroll measure.

We've noted in recent months that the reported decline in average weekly hours worked was puzzling if firms truly are up against labor supply constraints, so in that sense the upward revisions to the May and June estimates is more consistent. At the same time, the upward revisions to hours worked and job growth led to a strong upward revision in Q2 growth in aggregate private sector wage and salary earnings, far and away the largest single component of personal income. Annualized Q2 growth is now shown to be 8.1 percent, compared to the prior estimate of 7.1 percent. At the same time, however, growth in aggregate private sector hours worked in Q2 is now shown to be 3.4 percent, up from the prior estimate of 2.4 percent. Given the contraction in real GDP in Q2, this means productivity will have declined sharply. At this point, however, we don't make too much of that, given that it was a slower pace of growth in inventories that dragged real GDP lower in Q2.

Those wanting to insist the economy is in recession are free to still do so, but the labor market begs to differ. If anything, the tone of the labor market data will be seen by the FOMC as giving them the cover to be more aggressive in raising the Fed funds rate than may have been thought.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com