ECONOMIC UPDATE
REGIONS
August 24, 2022

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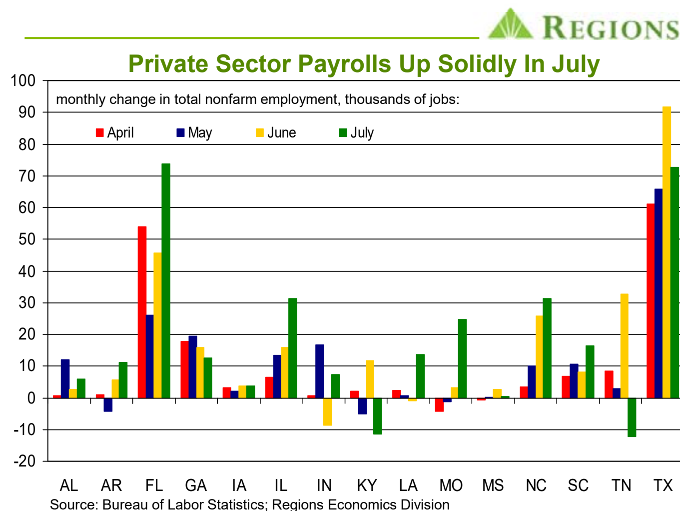
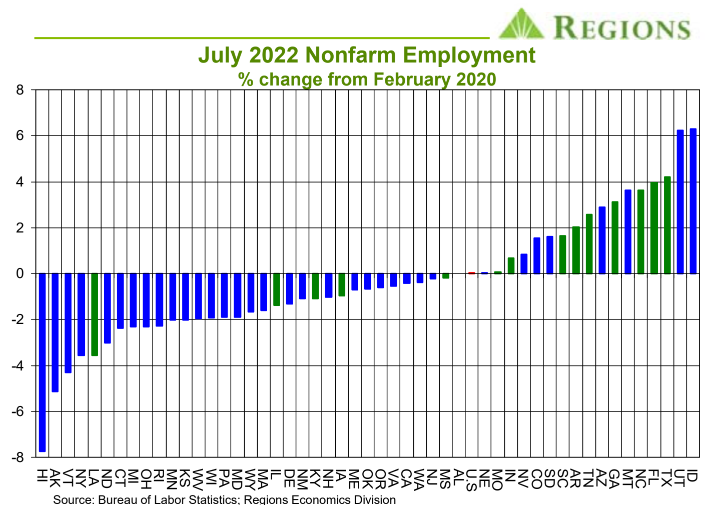
July 2022 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 281,600 jobs in July, with private sector payrolls up by 260,100 jobs and public sector payrolls up by 21,500 jobs. The initial estimate of June job growth was revised up from 223,900 to 255,600 jobs. While total nonfarm payrolls are reported to have fallen in Kentucky and Tennessee in July, in each instance the decline is more than accounted for by a decline in public sector payrolls, specifically, the education segment of local government, and each state saw private sector payrolls increase. As with the national-level data, reported July job growth was flattered somewhat by favorable seasonal adjustment, meaning there could be some payback in the August data. That does not, however, change the broader point, which is that job growth remains robust, even if the pace of job growth across the footprint remains somewhat uneven. While the number of open jobs has dipped modestly, the reality is that both nationally and within the Regions footprint labor supply remains no match for labor demand. While the demand for labor can be expected to soften in the months ahead as overall economic growth remains below-trend, the supply/demand imbalance is likely to persist. One reason to be concerned by the differentials in job growth in evidence across the footprint is that, with the U.S. economy slowing in the face of elevated inflation and rising interest rates, those states in which job growth was already below-average have less capacity to withstand these blows than those states going into the slowdown with stronger labor market conditions.





As noted above, the declines in total nonfarm employment reported for Kentucky and Tennessee in July are more than accounted for by declines in the education segment of local government. That these large declines are seen in both the not seasonally adjusted and the seasonally adjusted data suggests to us that normal changes tied to the end of the school year for teachers and other support personnel took place later this year than is typically the case. Note that teachers and school personnel drop from the payroll data upon the end of the school year and turn back up in the payroll data upon the start of the school year. Prior to the pandemic, these changes took place on a fairly uniform schedule and, as such, were more than compensated for by seasonal adjustment. Since the onset of the pandemic, however, the timing and magnitude of changes in education payrolls have been anything but normal, as we have commented on in the national level data. If we're correct on this point, the data for both Kentucky and Tennessee should show reversals of the July declines, either in the August or September data, and that private sector payrolls rose in both states in July suggests the labor market in each state is on firmer footing than implied by the decline in total nonfarm employment.

July saw the level of nonfarm employment for the U.S. surpass the pre-pandemic peak, albeit just barely, with the level of nonfarm payrolls 0.02 percent above the pre-pandemic peak. The Regions footprint is well beyond this marker; as of July, the level of nonfarm employment for the Regions footprint as a whole was 2.0 percent higher than the pre-pandemic peak, with ten of the fifteen in-footprint

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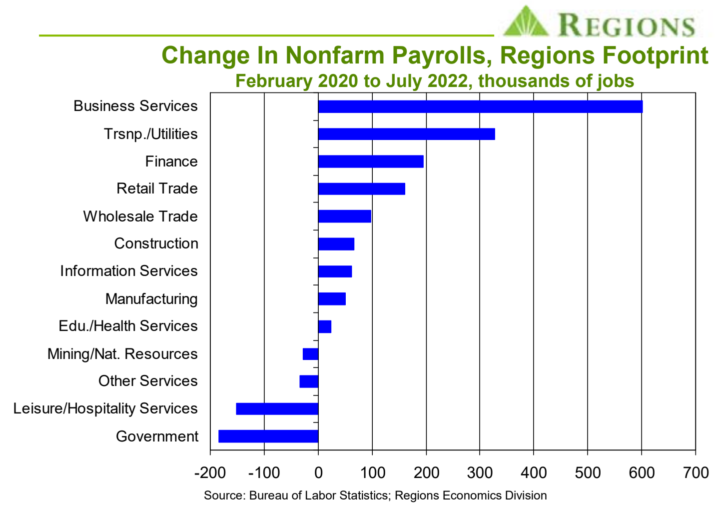
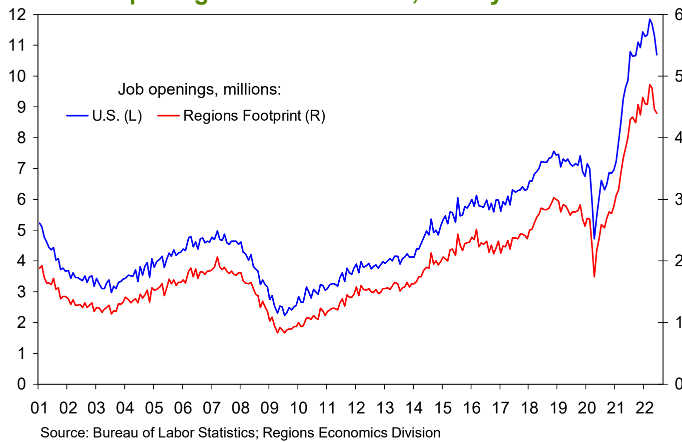
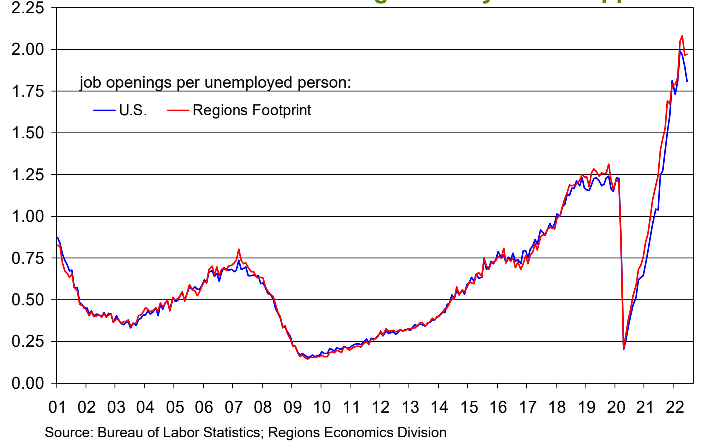
states having surpassed their pre-pandemic peak. Texas, Florida, and North Carolina boast the third, fourth, and fifth largest differentials in the U.S. While Alabama has surpassed its pre-pandemic peak, it has just barely done so, with a margin of just 300 jobs. In contrast, the level of nonfarm employment in Louisiana remains 3.6 percent below the pre-pandemic peak, the fifth largest gap in the nation.

Payrolls in nine of the thirteen broad industry groups have topped their pre-pandemic peak within the footprint. Education and health services joined that group in July, having added 47,600 jobs during the month. July marked the second straight month in which each of the thirteen broad industry groups added jobs within the Regions footprint; prior to June, the last month in which each industry group added jobs was July 2021. Payrolls in government and in leisure and hospitality services remain far below their pre-pandemic peaks. Firms in leisure and hospitality services have faced strong demand over the past several months and, as evidenced by the data on job openings, have been frustrated in their attempts to increase staffing. As such, it comes as little surprise that hourly wages and aggregate wage earnings are growing faster in leisure and hospitality services than in any of the other broad industry groups. If we are correct in expecting consumer spending on services such as travel, tourism, dining out, entertainment, and recreation to slow after the summer months, it would follow that the number of job openings in leisure and hospitality services would drop, perhaps significantly. But, given the still-wide gap between current and pre-pandemic levels of payrolls, it isn't clear whether, or at least to what extent, wage pressures in leisure and hospitality services will ease as a result of fewer openings. It could be that this particular industry group will be a good test of the FOMC's premise that declining job openings can act as a proxy for layoffs as a manifestation of diminished demand for labor that would alleviate wage pressures and, in turn, broader inflation pressures.



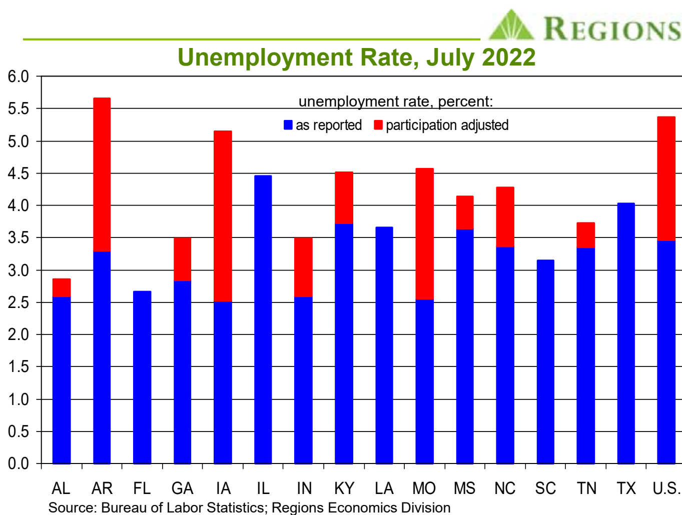


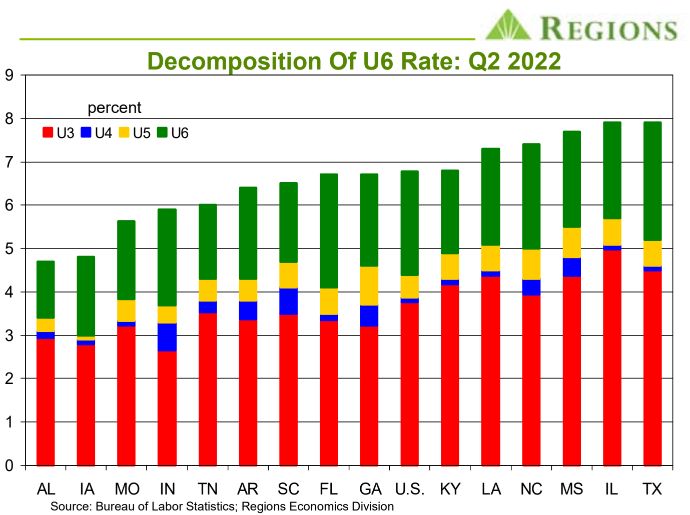


It may be some time before that premise is put to the test. Despite having tailed off over recent months, the number of job openings remains significantly above pre-pandemic norms, both nationally and across the Regions footprint. As of June, the latest available data, there were 10.698 million open jobs nationally and 4.393 million open jobs across the footprint, in each case still over fifty percent higher than pre-pandemic levels. While some have pointed to the decline in openings over the past few months as a clear sign of a cooling labor market, we're not so sure. The bulk of the decline in vacancies comes from two industry groups, construction and retail trade. Many retailers went too far, in terms of inventory and staffing levels, amid the burst in consumer spending on goods that was largely tied to the wave of transfer payments to households in 2020 and 2021 and are now right-sizing. As such, it isn't at all surprising to see the number of job openings in retail trade falling sharply over recent months, with a particularly large decline in June. Given the extent to which higher mortgage interest rates have led builders to cut back the pace of single family construction, it is not surprising to see job openings in construction falling over recent months. But, the number of open jobs in construction nonetheless remains above pre-pandemic norms and, of more relevance, declining numbers of open positions does not necessarily mean we should expect significant

numbers of layoffs in construction over coming months given that builders have for years been contending with labor shortages that have acted as a meaningful drag on residential construction. Thus far, there is little evidence of broad based declines in vacancies across the main industry groups, and while that obviously can and likely will change as the broader economy continues to slow, the more relevant question is whether openings will decline to a degree sufficient to alleviate wage pressures.

The data on job openings suggest that will take considerable time to achieve. As noted above, as of June there were 10.698 million open jobs nationally and 4.393 million open jobs across the Regions footprint, equivalent to 1.81 jobs for each unemployed person nationally and 1.97 open jobs per unemployed person within the footprint. Even expanding the pool of potential workers to include those who are not at present in the labor force but who nonetheless want a job, that would still not absorb all of the open jobs across the economy, particularly when accounting for skills mismatches, mobility constraints, and other factors keeping jobs from being filled. To the extent we are correct that, even if the disparity narrows, the labor market will remain undersupplied, that suggests it will take more than declining vacancies to bring about a meaningful easing of wage pressures, making it likely the unemployment rate will drift higher over coming quarters. That said, with labor force participation expected to remain below pre-pandemic norms, any such increases in the unemployment rate will likely be fairly modest, barring the economy tumbling into a deep and prolonged downturn.



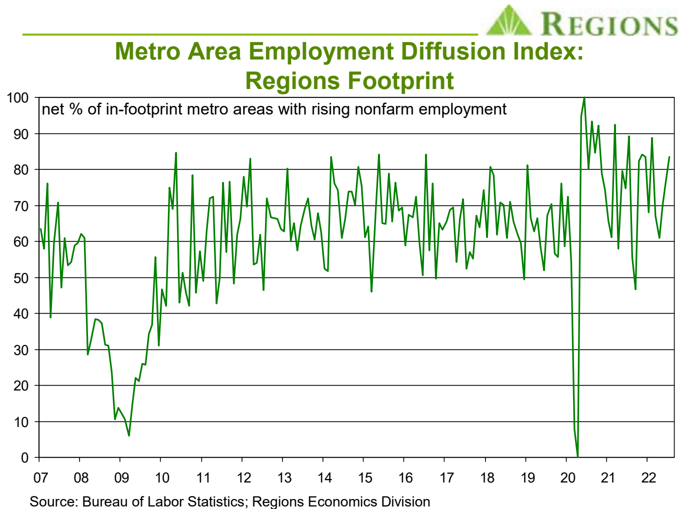


Unemployment rates were flat to slightly lower across the Regions footprint in July, with six of the in-footprint states boasting rates below 3.0 percent. That can, however, be a bit misleading, as we've routinely discussed in these monthly summaries. For instance, contrast Florida, with a measured unemployment rate of 2.7 percent as of July, and Missouri, with a measured unemployment rate of 2.5 percent. As seen in the first chart above, Florida's labor force participation rate has actually pushed above the pre-pandemic rate, while Missouri's labor force participation rate remains substantially below the pre-pandemic rate. As such, when adjusting for participation (current relative to pre-pandemic) Missouri has considerably more slack in its labor market than does Florida. There are five in-footprint states in which the participation rate is now higher than the pre-pandemic rate.

The second chart above also goes to the point that the "headline" (or, U3) unemployment rate is not always a complete measure of the degree of labor market slack. Another commonly referenced metric is the broader U6 measure, which includes not only unemployment but also underemployment. There are, however, interim steps on the path from the U3 to the U6 measure, and we break those out on a state level in the second chart above. The U4 measure accounts for "discouraged workers," or, those who want a job but have become discouraged to the point they've stopped looking (and hence are not counted as unemployed). The U5 measure accounts for those who are "marginally attached" to the labor force, or, those neither working nor looking for work but who indicated they want and are available for a job (which includes discouraged workers). Finally, the U6 measure accounts for those who are marginally attached to the labor force and those who are working part-time for economic reasons (i.e., they would like a full-time but can only find part-time work).

The U6 measure, then, is the broadest measure of labor market slack. As would be expected given how tight the labor market has been for some time, U4 rates are notably low in most states, as indicated by the blue portion of the bars in the second chart above. That is also the case with U5 rates, which are well below pre-pandemic norms. After having spiked in the early months of the pandemic, the number of people working part-time for economic reasons has fallen back down in line with pre-pandemic levels, accounting for the steady decline in the U6 rate. Note that on the national level, part-time for economic reasons is broken out into two components – people who only able to find part-time work and people who are working part-time due to slack business conditions. With the economy clearly

having slowed, it would be reasonable to expect to see an increase in the number of people working part-time due to slack business conditions, but thus far that has not been the case. Allowing for the inherent month-to-month volatility in data from the household survey (which is drawn from a much smaller sample size than the establishment survey, from which estimates of nonfarm employment are derived), there are no signs that firms are cutting back hours. We would expect to see this given sufficient slowing in the economy, and we've noted that cutting hours is a first step firms will take in the face of softening demand, which is likely more the case now than it has been in the past given how hard it has been for firms to find and retain workers. While this cut is not available on the state level, it follows that the states would for the most part be in line with the patterns in the national level data. Of the states within the Regions footprint, Texas has the highest incidence (percentage of the labor force) of people working part-time for economic reasons which, on top of having a higher unemployment rate, adds up to the highest U6 rate within the footprint. That should, however, be put into context, as Texas has also seen the fastest growth in the labor force and has a higher labor force participation rate now than prior to the pandemic.



Job growth on the metro area level across the footprint remains notably broad based. Our Metro Area Employment Diffusion Index measures the breadth of job growth across in-footprint metro areas and posted a third straight monthly advance in July. Over eighty percent of the in-footprint metro areas we routinely track and provide regular data updates for added jobs in July, the highest share since November. Looking beyond what can be a high degree of month-to-month volatility, the underlying trend value of our index remains above pre-pandemic levels, and job growth has been more broadly based (geographically) within the footprint than has been true of the U.S. as a whole. To be sure, this can change should the economy continue to slow, but whether looked at across industries or across geographies, that job growth has been so broad based within the footprint would mean the footprint would go into a slowdown from a stronger position than has typically been the case in the past. Of the group of in-footprint metro areas that we track, sixty-three percent have seen the level of nonfarm employment push past the pre-pandemic peak, with most of the biggest disparities seen in the larger Florida, North Carolina, and Texas metro areas and sizable beats also seen in Atlanta and Nashville. On the flip side, the Louisiana metro areas show some of the largest remaining gap between current and pre-pandemic levels of nonfarm employment.

Strong labor market conditions provide somewhat of a buffer against the effects of elevated inflation and rising interest rates, but it remains to be seen whether, or to what extent, the demand for labor will start to soften as the broader economy slows. We are seeing some instances, such as retail trade, in which employers are scaling back after having hired too aggressively earlier in the cycle. That, however, is a more sector-specific development, and we'll be monitoring the data for signs of any broad based weakening in labor demand. 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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