ECONOMIC UPDATE

REGIONS

July 25, 2023

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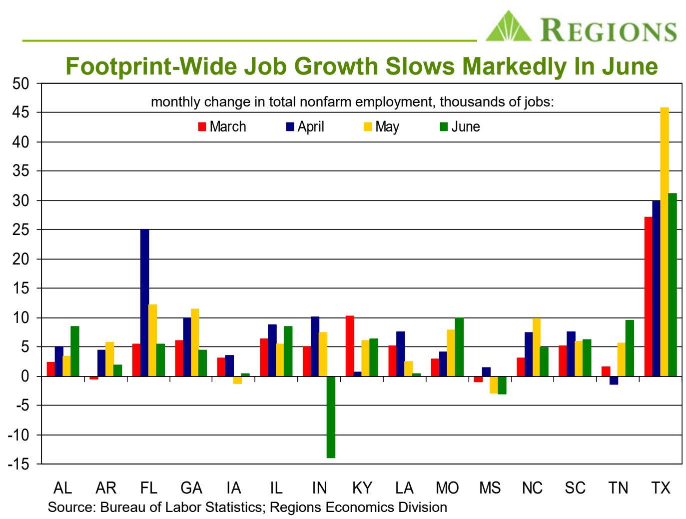
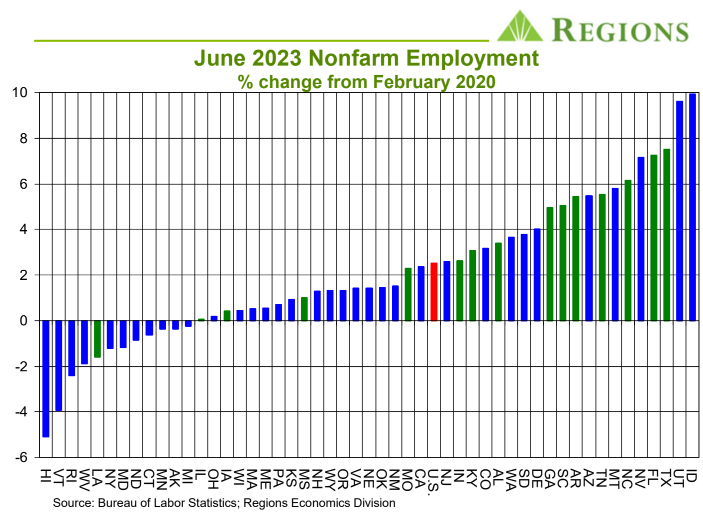
June 2023 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 80,600 jobs in June, up in thirteen of the fifteen in-footprint states and down in Indiana and Mississippi. Job gains, however, tailed off significantly from those seen in May, even after a downward revision to the initial estimate of May job growth; what was originally reported as a net increase of 134,000 jobs for the footprint as a whole is now reported as an increase of 125,100 jobs. The slower pace of job growth in June is a continuation of the deceleration seen over the past several months, nationally and within the Regions footprint. While slowing, job growth has also become less broadly based across private sector industry groups and, at least in June, meaningfully less broad based geographically. Thus far, however, the deceleration in job growth has been more a reflection of a slowing pace of hiring as opposed to a rising pace of layoffs (recall the monthly job change number is a net, not a gross, number), though the latter has picked up a bit over the past two months. To be sure, it is too soon to know whether, or to what extent, these patterns will be sustained, particularly as the economic data remain highly mixed across the various data releases, and sometimes even within the same releases, and we continue to detect seasonal adjustment noise in much of the data. We continue to see a slowing trend rate of job growth, but to the extent that slowing trend rate is a reflection of a slowing pace of hiring as opposed to a rising pace of layoffs, it is neither surprising nor concerning, as slowing job growth is consistent with a slowing pace of overall economic activity. Moreover, job growth in most cases remains more than sufficient to prevent meaningful and sustained increases in unemployment rates. Still, we cannot dismiss the recent upturn in initial jobless claims out of hand, particularly in the context of other signs that labor market conditions are softening. As such, the claims data will bear careful monitoring in the weeks ahead.





As of June, total nonfarm employment for the U.S. as a whole was 2.52 percent above the pre-pandemic peak, lagging behind the 4.70 percent beat for the Regions footprint as a whole. Texas and Florida continue to boast the third and fourth, respectively, largest differentials of any states. Fourteen of the fifteen in-footprint states have seen the level of nonfarm employment surpass the pre-pandemic peak (even if only barely so in Illinois), with the exception being Louisiana, where the 1.58 percent shortfall is the fifth largest in the nation. Indiana's gap narrowed somewhat in June with nonfarm payrolls falling by 13,900 jobs, but that public sector payrolls in the state were down by 10,800 jobs suggests there could be seasonal adjustment issues tied to the timing of the state's school year that led to the sharp drop-off in the seasonally adjusted data. That said, Indiana saw payrolls fall in six of the twelve broad private sector industry groups in June while the gains in the remaining six were modest. While the pace of job growth has slowed across most of the in-footprint states over recent months, the slowdown in Florida stands out for how pronounced it has been. Part of that slowdown, however, is the product of seasonal adjustment noise, particularly in construction and leisure and hospitality services, with smaller than normal seasonal increases in hiring being made to look worse in the seasonally adjusted data. While this isn't to suggest the trend pace of job growth in Florida is not slowing, it is to suggest the extent of that slowdown is being somewhat exaggerated by seasonal adjustment issues.

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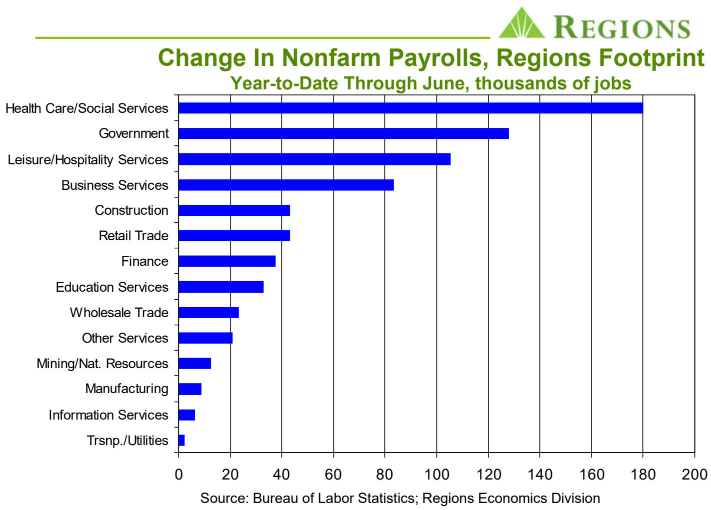
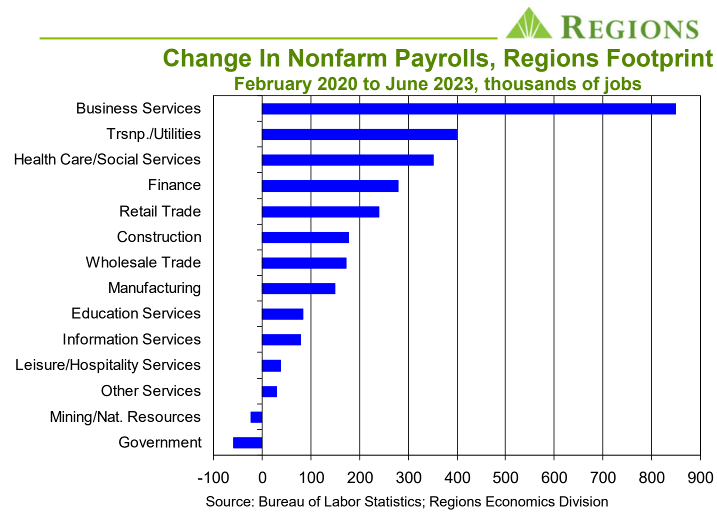
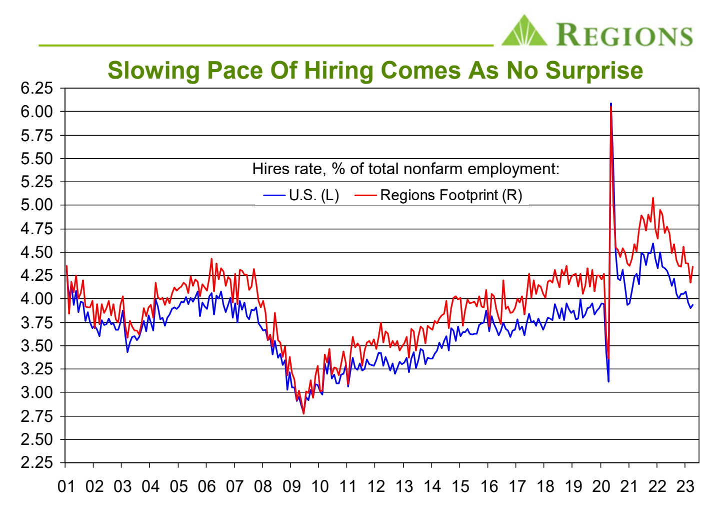
Aside from seasonal adjustment noise, it is clear that conditions in manufacturing, information services, wholesale trade, retail trade, and warehousing/distribution have weakened over the past several months. The ISM Manufacturing Index indicates the manufacturing sector has been in contraction for the past eight months, a streak which looks destined to continue given the weakness in new orders over the past twelve months while order backlogs have been progressively whittled down. Weaker global growth, inventories having been largely right sized, dimming capital spending, and shifting consumer spending patterns have all conspired to sustained weak conditions in the factory sector. Those shifts in consumer spending patterns – away from goods, towards services – also help account for weakening conditions in retail and wholesale trade and warehousing/distribution. Payrolls in the information services group have yet to fully adjust for what was overly aggressively hiring after the onset of the pandemic. These are not the only industry groups exhibiting signs of slowing. For instance, monthly job gains in finance have become smaller and highly uneven over the past several months. Moreover, if our premise that consumer spending on discretionary services will slow sharply after the summer months proves to be correct, that would reverberate throughout the services sector even if leisure and hospitality services bears the brunt of any such slowdown.

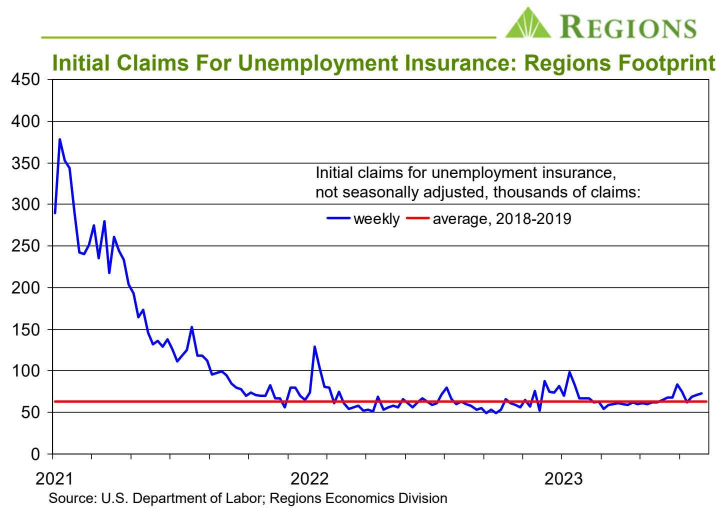




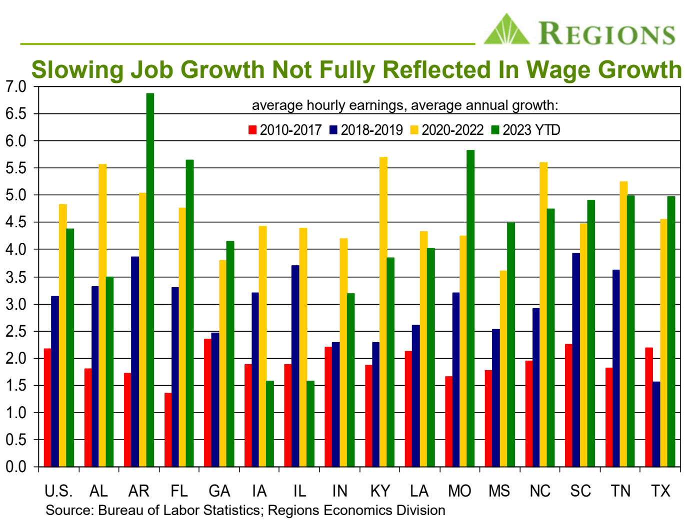
Weakness in the industry groups noted above helps account for the narrowing breadth of hiring across the main industry groups over the past several months. This can be seen in the first chart above, showing that job growth to date in 2023 has been highly concentrated amongst a few industry groups. For instance, health care/social services have accounted for one-quarter of all jobs added across the Regions footprint thus far in 2023, while business services and leisure and hospitality services have combined to account for an additional quarter of all 2023 job gains. At the other end of the spectrum, payrolls in transportation & utilities have barely budged thus far in 2023 and, in reality, that gain is a function of a sizable increase in January that has, at least thus far, been sufficient to offset declines in four of the past five months. To be sure, hiring in areas such as warehousing/distribution (which rolls up into the broad transportation & utilities industry group), wholesale and retail trade, and information services was notably rapid from mid-2020 into early-2022, so it would be natural to see some payback. That payback, however, has become more exacting with the shift in consumer spending patterns that not everyone saw coming back during the peak hiring months in these industry groups. As such, it seems that these industries will, at best, stop being a drag on overall job growth and simply become a neutral factor, as it could be some time before they again become drivers of overall job growth.



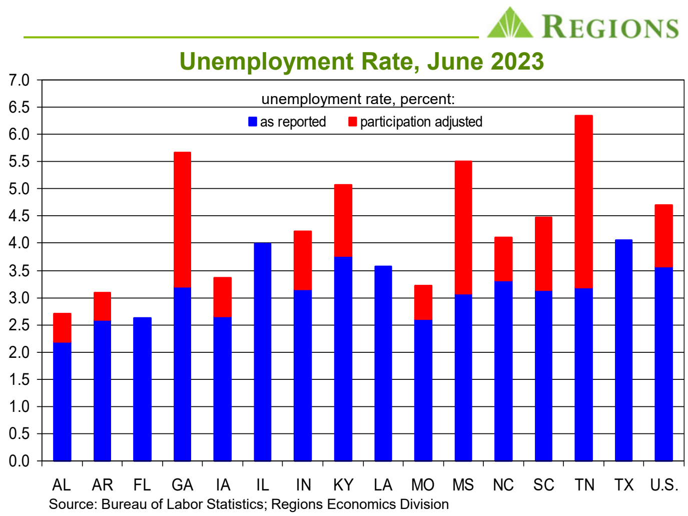
To our earlier point that decelerating job growth is more a function of a slowing pace of hiring rather than a rising pace of layoffs, the chart to the side shows the hiring rate, i.e., hiring scaled to the level of total nonfarm employment, for the U.S. and the Regions footprint. As seen in the chart, the hiring rate peaked in early-2022 and has continued to fall back toward the trend rate that prevailed in the few years prior to the pandemic. As we've noted, that was to a large extent to be expected given that the rate at which firms were adding (or, adding back) workers as the economy was reopening was never going to be sustainable. As for the individual states, the most pronounced declines in the hiring rate have come in Kentucky, Florida, and North Carolina, though in each case the hiring rate remains above the national average. Texas and Indiana have seen the mildest declines in hiring rates, though in each case the peak hiring rate fell short of those in most of the other in-footprint states. If we are correct in expecting a further slowdown in the pace of overall economic activity translating into further deceleration in job growth, it would follow that hiring rates will slip below the trend rate that prevailed in the years prior to the pandemic.



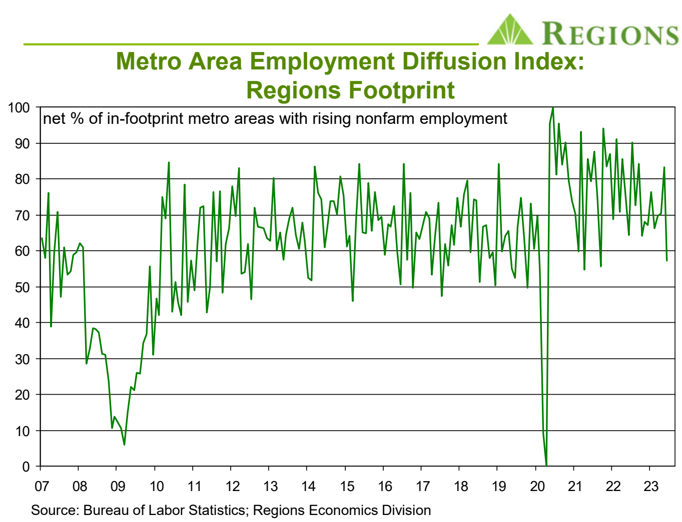
Further declines in the hiring rate would translate into smaller monthly increases in nonfarm employment, which we've for some time now been incorporating into our baseline forecasts. Of greater concern, however, is the prospect of the rate of layoffs increasing meaningfully in the months ahead, which would be an additional weight on monthly job growth. While the data from the monthly Job Openings and Labor Turnover Survey (JOLTS) do not yet show an appreciable increase in the layoff rate (i.e., layoffs scaled to the level of nonfarm employment), the weekly data on initial claims for unemployment insurance benefits show filings picking up beyond what would be normal seasonal patterns. This is shown in the chart to the side, which compares weekly filings within the footprint with the average seen in the two years prior to the pandemic. Note that data are not seasonally adjusted; we've noted that the seasonally adjusted data have exhibited an upward drift over the past several months which is not consistent with the patterns in the unadjusted data. In the not seasonally adjusted data, it is typical to see claims push higher in the first few and final few weeks of the year, as well as in the mid-summer weeks. While both of these bumps are seen in the data, what is concerning is that the mid-summer bump has not reversed, at least not yet. Clearly it is too soon to draw any definitive conclusions, but the weekly data on initial claims for unemployment insurance benefits will be a much timelier indicator than will the JOLTS data as to whether slowing in the broader economy is leading to rising layoffs. It should also be noted that, while layoffs have not risen dramatically above pre-pandemic norms (a chart for the U.S. as a whole would show a pattern similar to that in our chart for the footprint), firms have been cutting back on hours worked, which is another manifestation of cooling demand for labor. The trend in aggregate hours worked has weakened considerably over the past several months, suggesting a marked deceleration in output growth, but what is often overlooked is that the weakening trend in hours worked is weighing on growth in aggregate wage and salary earnings, the largest component of personal income.



A small change in aggregate hours worked can have powerful effects on growth in aggregate wage and salary earnings, and when declining hours come atop slowing growth in average hourly earnings, the drag on growth in aggregate labor earnings becomes even more powerful. That is happening in some, but by no means all, of the states within the Regions footprint. The chart to the side illustrates average annual growth in average hourly earnings over four distinct periods – 2010-2017, 2018-2019, 2020-2022, and 2023 (year-to-date through June). Note the first period was a time in which wage growth was frustratingly slow, reflecting the degree of labor market slack coming out of the 2007-07 recession that took an unusually long time to be absorbed. Once that happened, however, wage growth kicked into a higher gear in the two years prior to the pandemic while at the same time extending across all of the broad industry groups. The stark imbalance between labor supply and labor demand after the onset of the pandemic is seen in the faster wage growth over the 2020-2022 period, a time in which lower-wage, lower-skill industry groups posted the most rapid wage growth across the broad industry groups. While it would be reasonable to expect the clear deceleration in job growth seen over the past several months to have weighed on wage growth, that is not yet apparent across the board. As seen in our chart, thus far in 2023 growth in average hourly earnings has been faster than that seen over the 2020-2022 period in Arkansas, Florida, Georgia, Missouri, Mississippi, South Carolina, and Texas. In some cases, such as Florida, this reflects the degree of tightness in overall labor market conditions that is sustaining faster wage growth. In other cases, such as Arkansas and Missouri, this reflects significantly faster wage growth in industries that had been lagging, even over the 2020-2022 period (trade & transportation in Missouri, for instance) that is pushing the overall average higher. Even the slower growth in the remaining states, however, leaves wage growth faster than that seen over the 2018-2019 period. What remains to be seen is where wage growth will ultimately settle over the longer term, i.e., after the economy works its way out of what we think will be a pronounced slowdown over the next few quarters. Our sense is that the average pace of growth seen over 2018-2019 will be closer to the floor than to the ceiling for the longer-term trend rate of growth, in part a reflection of our expectations for trends in labor force participation rates.



For now, patterns in labor force participation rates continue to cloud the signal being sent by the unemployment rate. The chart to the side is our by now familiar look at how lower participation rates have held down the measured unemployment rate, with the total height of the bars for each state (red plus blue) indicating what the unemployment rate would be were that state's labor force participation rate equal to the pre-pandemic norm. Note that in four states – Florida, Illinois, Louisiana, and Texas – the labor force participation is back at or above the pre-pandemic norm, but in the remaining states and for the U.S. as a whole, lower participation rates are artificially holding down the unemployment rate. The biggest gaps in participation rates are in Georgia, Mississippi, and Tennessee. In the context of the above discussion of wage growth, it could be that Georgia's continued rapid wage growth reflects the extent to which a pronounced mismatch between labor supply and labor demand is leading firms to use higher wages as a means of attracting workers. The extent to which people and businesses continue to flock to Florida is sustaining rapid wage growth despite the state's labor force participation rate being back above the pre-pandemic rate.



Hiring was much less geographically dispersed across the Regions footprint in June than was the case in May, with the hiring diffusion index plummeting from 83.2 percent to 57.2 percent. Moreover, the number of in-footprint metro areas in which nonfarm payrolls fell was higher in June than in any month since April 2021. Still, as is easily seen in the chart, the diffusion index tends to be highly volatile from one month to the next. Indeed, since January 1990, the average monthly change in the diffusion index is 0.0 percent, so that the change in June was so substantial isn't necessarily telling us much at this point. The trend in the index, however, is meaningful, and that trend has been drifting lower for some time. While this still leaves the index above the trend rate that prevailed in the years prior to the pandemic, continued narrowing in job growth, across industries and across geographies, would be a worrisome sign as to the viability of the current expansion, which we already expect to slow considerably over coming quarters.

We do expect the pace of hiring to continue to slow to the point that a much slower pace of hiring begins to push the unemployment rate higher despite labor force participation rates remaining below pre-pandemic norms, nationally and in most of the in-footprint states. As always, we will continue to monitor changes in labor market conditions for our in-footprint states and metro areas. 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:

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