ECONOMIC UPDATE

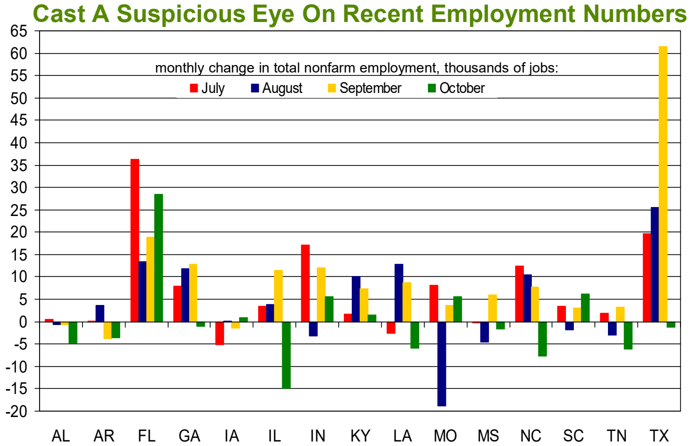
REGIONS

November 20, 2023

October 2023 Nonfarm Employment: Regions Footprint

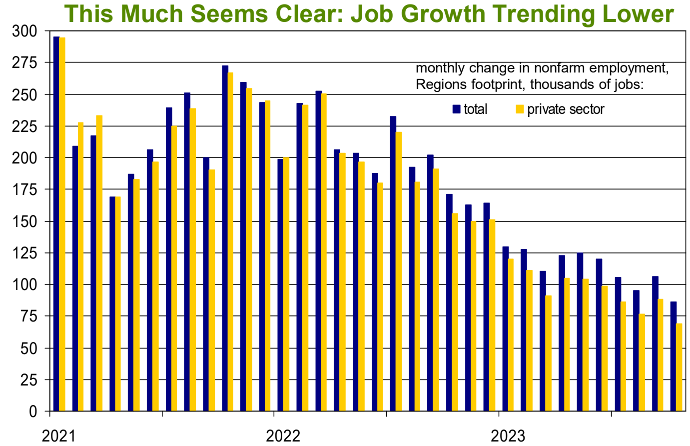
Total nonfarm employment within the Regions footprint rose by just 1,100 jobs in October, with private sector payrolls down by 10,800 jobs and public sector payrolls up by 11,900 jobs. At the same time, revised data show nonfarm payrolls rose by 138,000 jobs in September, down from the initial estimate showing an increase of 159,100 jobs. When interpreting the October data, one must account for the effects of the UAW strike against the Big Three domestic motor vehicle producers, which in the national level data took roughly 34,000 jobs off nonfarm payrolls, which includes related layoffs amongst producers and distributors of motor vehicle parts. While we do not have a precise estimate as to how many of those jobs fell within the Regions footprint, the weakness in the October data go far beyond any potential impacts of the UAW strike. Nonfarm payrolls fell in nine of the fifteen in-footprint states, with private sector payrolls down in ten of the fifteen states, and payrolls fell in six of the thirteen broad industry groups. With the UAW strike settled at the end of October and the new contract having been ratified, any deductions from the October data stemming from the strike will be added back in the November data. That leaves unresolved the broader question of the extent to which labor market conditions are truly easing.

Cast A Suspicious Eye On Recent Employment Numbers



Source: Bureau of Labor Statistics; Regions Economics Division

This Much Seems Clear: Job Growth Trending Lower



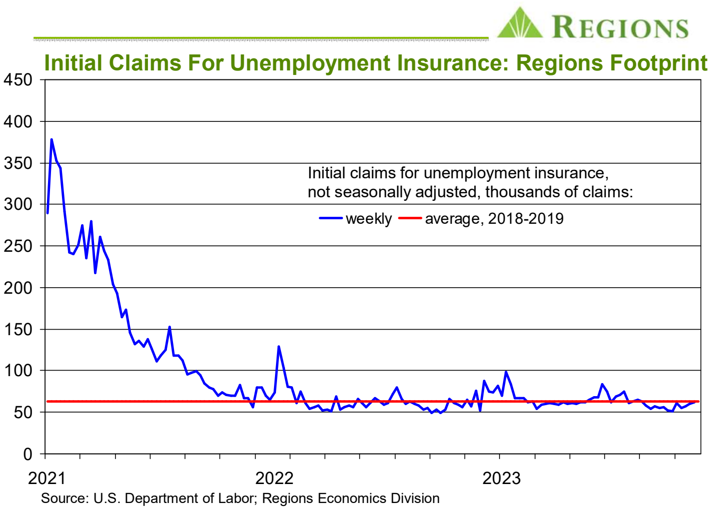
Source: Bureau of Labor Statistics; Regions Economics Division

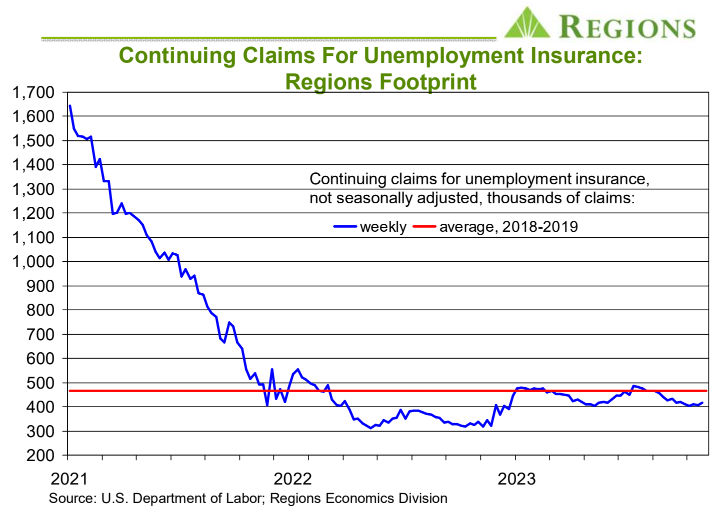
We have for some time now expressed concerns over the reliability of the data on payroll employment on the national level, with notably low response rates to the BLS's monthly establishment surveys calling into question the reliability of the initial estimates of nonfarm employment, hours, and earnings in any given month. To that point, in the national level data, the initial estimate of the increase in nonfarm payrolls in each month of 2023 thus far has undergone a significant net downward revision over the subsequent two months, a pattern commonly seen during times of a slowing pace of activity in the broader economy. Those concerns carry down to the state and metro area levels, as even in the best of statistical times the state and metro area level data are inherently more volatile than are the national level data. We have also detected what to us is a meaningful degree of seasonal adjustment noise in the establishment survey data, which over the prior several months had been inflating estimates of job growth on a seasonally adjusted basis but which in October depressed the estimate of seasonally adjusted job growth, particularly in retail trade and warehousing/distribution services. The November and December data will also be vulnerable to seasonal adjustment effects weighing on measured private sector job growth on a seasonally adjusted basis.

While it does seem clear that, beneath the apparent noise in the data, the trend rate of job growth is slowing, whether or not the figures portrayed in the second chart above reasonably peg that trend rate remains unclear. Piecing together the various labor market data series, we know that job growth has become less broadly based across private sector industry groups over recent months, and has also become less broadly based geographically, and both are true within the Regions footprint. We also know that, at least thus far, any slowing in the trend rate of job growth has resulted from a slowing pace of hiring, as opposed to a rising pace of layoffs. To be sure,

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

that can always change, but thus far there has not been a meaningful, sustained, and broadly based, either on an industry-by-industry basis or a geographical basis, pickup in the rate at which workers are being laid off. On a not unrelated point, aggregate private sector hours worked within the Regions footprint increased in October, at least according to the initial estimate, but have been uneven over recent months, having declined in four of the past six months. Note that, in lieu of laying workers off, which we believe firms are most hesitant to do given how hard, and costly, it has been to find and retain workers, firms can use weekly hours as a lever with which to control total labor input. Firms are more likely to use hours worked to manage total labor input if they are expecting temporary changes in demand, higher or lower, rather than resorting to the much more blunt tool of layoffs. If, however, rising/falling demand proves to be more persistent and/or more pronounced than firms are anticipating, changing the number of workers can quickly become the more feasible approach to managing total labor input. As noted above, however, nothing in the data suggests we're at that point.

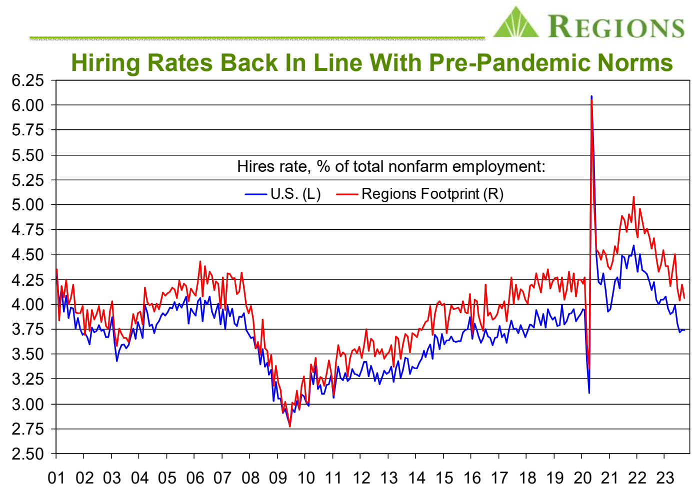




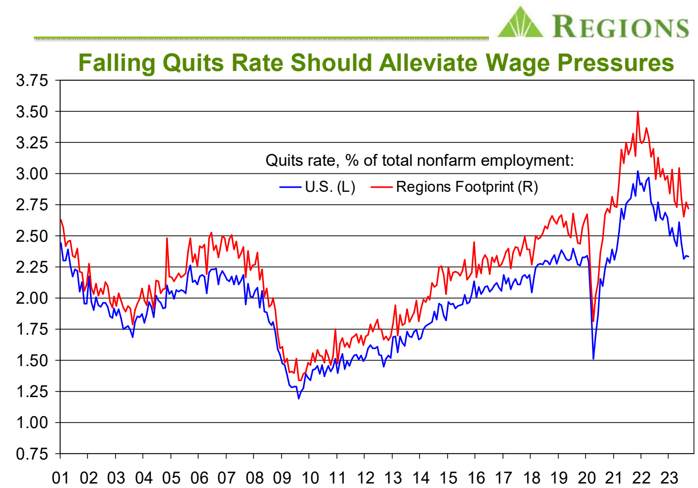
One way of testing this premise is exploring the data on layoffs and other separations in the data from the monthly Job Openings and Labor Turnover Survey (JOLTS). The JOLTS data show the layoffs rate, or, layoffs scaled to the level of nonfarm employment, remains slightly below the pre-pandemic trend rate, both nationally and within the Regions footprint. One drawback of the JOLTS data, however, is that they lag the establishment and household survey data by a month, so our latest observation on layoff rates from the JOLTS data is September. The weekly data on claims for unemployment insurance benefits offer a timelier means of looking at the same issue. The above two charts show data on initial claims for unemployment insurance benefits, the number of people who apply for benefits each week, and continuing claims, the number of people receiving benefits each week. In each case, we use the not seasonally adjusted data to compare weekly claims to the average seen over the two years prior to the pandemic, and in each case weekly claims through early-November remain below the pre-pandemic average, allowing for the normal seasonal variations.

We will note that the seasonally adjusted data show, both nationally and within the Regions footprint, a meaningful and sustained increase in continuing claims which has pushed weekly filings above the pre-pandemic average. For some time now, however, the claims data have exhibited seasonal adjustment issues that have biased the seasonally adjusted numbers higher. Why this would matter is that a steady and sustained increase in continuing claims would suggest that those losing jobs are having a harder and harder time finding new positions, which would be another sign of loosening labor market conditions. That there are no such effects in the raw data is an illustration of the importance of understanding the factors driving the reported changes in the seasonally adjusted data, as opposed to simply accepting those numbers at face value. Again, that there has not yet been a meaningful, sustained, and broadly based increase in layoffs doesn't mean such a change can or should be ruled out, and if the pace of overall economic activity over the next few quarters slows to the extent we expect, such a change would be more likely than has thus far been the case.

While the rate at which workers are being laid off has not changed appreciably, there has been a marked and persistent deceleration in the rate at which new workers are being added, both nationally and within the Regions footprint. This trend, however, is neither surprising nor alarming. Recall that after the displacements seen when the economy was largely shuttered during the early phases of the pandemic, firms in many industries were scrambling to align staffing levels with perceived demand which, in some cases, was above pre-pandemic levels. To be sure, those perceptions did not always align with the ultimate reality, but this process nonetheless contributed to the outsized increases in nonfarm payrolls seen in 2021 and the early months of 2022. At some point, however, that process would naturally wind down, and in some cases, such as information services and transportation, warehousing, and delivery services, hiring was based on expected levels of demand that proved too high, leading firms in these industry groups to downsize staffing levels. So, in that sense, that the rate at which workers are being hired has fallen back in line with pre-pandemic norms is not surprising. The question now is whether the downward trend in the hiring rate will persist, taking it meaningfully below pre-pandemic norms, an outcome we think would be unwise to rule out. It is also worth noting that the rate at which workers are voluntarily quitting jobs has fallen off sharply, but while the national average rate is back in line with pre-pandemic norms, the quits rate within the Regions footprint, though falling, remains higher than was the case prior to the pandemic. The easing quits rate is a sign that workers, sensing a turn in labor market conditions, are less confident about their prospects for landing new jobs. The declining quits rate also has implications for growth in labor costs, as there is ample evidence showing that job changers tend to secure larger pay increases than those workers who stay in the same jobs.

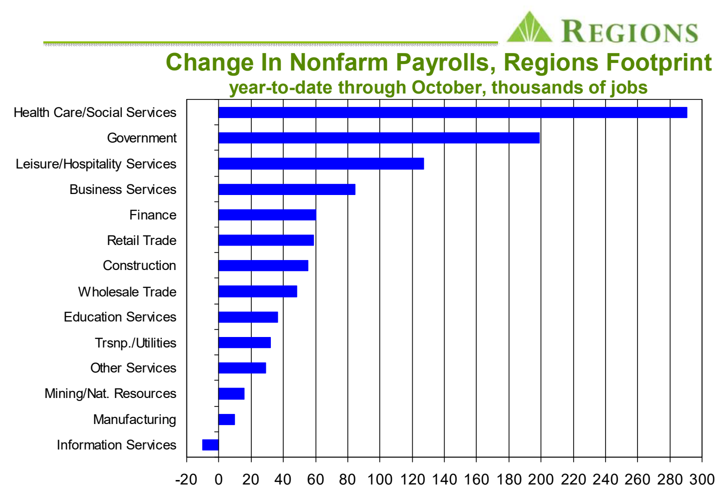


Source: Bureau of Labor Statistics; Regions Economics Division



Source: Bureau of Labor Statistics; Regions Economics Division

To our earlier point that job growth has become meaningfully less broadly based across private sector industry groups, health care and social assistance (the former easily dominates the broad category) has accounted for around one in three jobs added across the Regions footprint thus far in 2023. At the same time, public sector hiring has accounted for around one in five jobs added across the footprint to date in 2023. And, while leisure and hospitality services has made a sizable contribution to 2023 job growth, the bulk of that came in the early months of the year with the pace of job gains having moderated sharply over the past several months. As the chart to the side shows, beyond these three industry groups, job growth has been highly uneven and, in many cases, listless over the course of 2023. If we are correct in expecting a pronounced slowdown in discretionary services spending, then job losses in leisure and hospitality services may exceed typical seasonal declines over coming months, thus weighing on overall job growth. It also is reasonable to question how long the robust job growth in health care over the past several months can be sustained, which is another reason to expect the pace of overall job growth to slow in the months ahead. Again, even adding back the workers not counted as employed in October due to the UAW strike doesn't alter the fact that job growth in the manufacturing sector has been highly uneven and somewhat weak in 2023.

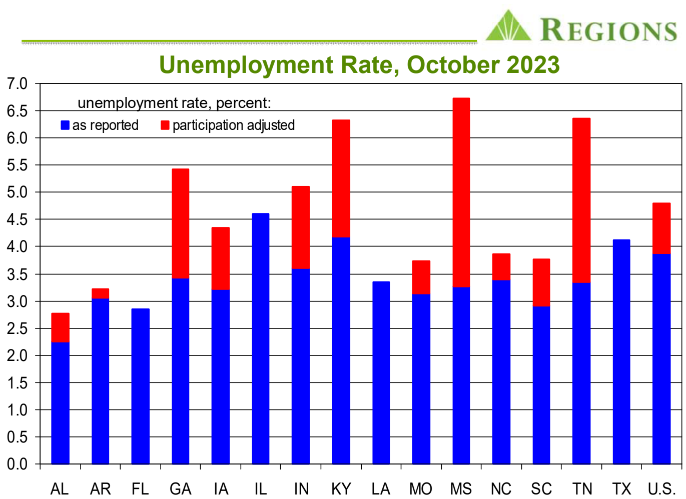


Source: Bureau of Labor Statistics; Regions Economics Division

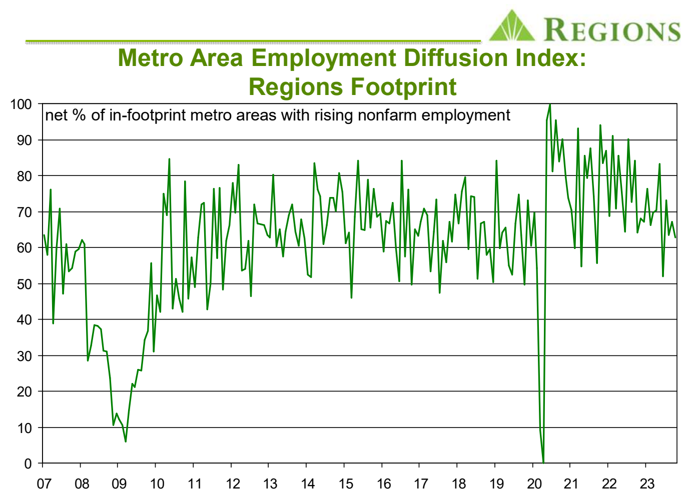
Reflecting the slowing trend rate of job growth, unemployment rates across much of the Regions footprint have begun to edge higher. In October, unemployment rates rose in eight of the fifteen in-footprint states, though with the exceptions of Illinois, Kentucky, and Texas, the unemployment rate in each in-footprint state remains below the national average rate of 3.9 percent. For the footprint as a whole, the unemployment rate stood at 3.5 percent in October. As we have routinely pointed out, however, one component of notably low unemployment rates across much of the footprint is that labor force participation rates remain not only below the national average but below pre-pandemic norms. Illinois and Mississippi have seen outright contractions in the size of their labor force thus far in 2023, while labor force growth across many of the remaining states has lagged the national average, with Florida, South Carolina, and Texas the exceptions. This illustrates a point we often make, which is that it matters why the unemployment rate is low/falling, i.e., whether

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

this is a function of robust growth in household employment or a function of either weak growth or outright contraction in the labor force. To address this question, we present a measure of the participation-adjusted unemployment rate, or, what the unemployment rate in each state would be if that state's rate of labor force participation matched the pre-pandemic norm. The red bar in the chart to the side accounts for the differential in current and pre-pandemic participation rates, with the absence of red bars for Florida, Illinois, Louisiana, and Texas indicating a participation rate above the pre-pandemic norm. This makes Illinois an interesting case, in that the labor force has contracted and the participation rate has fallen thus far in 2023, yet the participation rate is higher than the pre-pandemic norm. It helps to note that the long-running contraction in the size of the state's noninstitutional population, the base in the calculation of the labor force participation rate, has continued in 2023, with the decline in the participation rate in 2023 suggesting that more of the people leaving the state were participants in the labor force than were not. In any event, if we are correct in anticipating further slowing in the pace of job growth within the footprint over coming months, it will be worth watching to see if this also weighs on the participation rate which, if this does prove to be the case, would mitigate any corresponding increase in the jobless rate.



Source: Bureau of Labor Statistics; Regions Economics Division



Source: Bureau of Labor Statistics; Regions Economics Division

Finally, to our earlier point about job growth having become less broadly based geographically, that job growth has been so uneven across the individual states is clear from the first chart on Page 1, but the second chart above illustrates that point on the metro area level. The chart shows the one-month hiring diffusion index, which in this case is a measure of the breadth of job growth across in-footprint metro areas. As can be seen, the breadth of job growth across in-footprint metro areas has progressively narrowed and has fallen back in line with the range that prevailed in the years prior to the pandemic (the volatility simply reflects the inherent volatility in the employment data on the metro area level). To some extent, the downward drift in the level of the diffusion index is the parallel of the steady deceleration in the pace of job growth discussed above, i.e., there was a natural adjustment to the displacement in the labor market while the economy was shuttered, and with that adjustment having run its course you'd expect job growth to have become less broadly based across geographies as it did across industry groups. That said, one thing that stands out is that over the past several months there has been a level shift up in the number of metro areas in which nonfarm employment has declined, a change that cannot be accounted for by the inherent volatility in the data. While at this point the downward drift in the geography-based diffusion index is not necessarily an ominous sign, the obvious question at this point is whether that downward drift will continue and, if so, whether it will be a function of declines in employment becoming more broadly based across in-footprint metro areas as opposed to the level of nonfarm payrolls simply remaining more or less unchanged, which itself would drag the diffusion index lower.

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:

https://www.regions.com/about-regions/economic-update or http://lifeatregions/Finance/MonthlyEconomicReports.rf

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com