ECONOMIC UPDATE

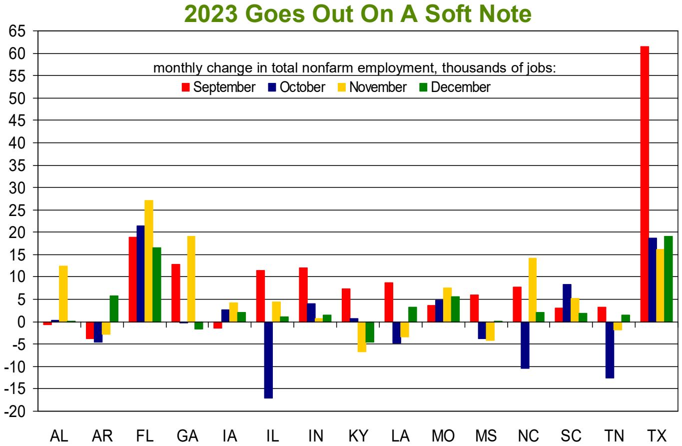
REGIONS

January 30, 2024

December 2023 Nonfarm Employment: Regions Footprint

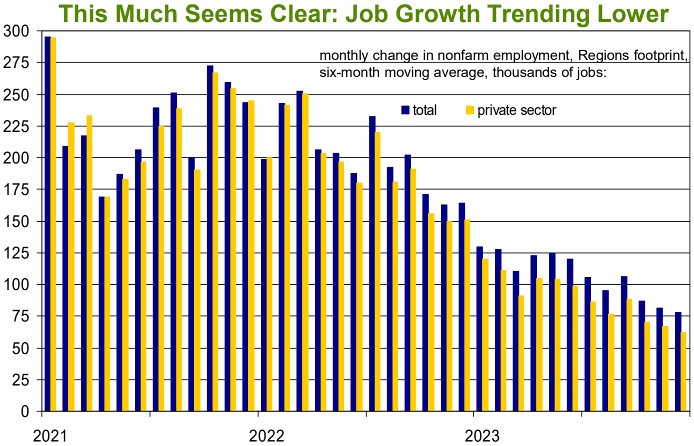
Total nonfarm employment within the Regions footprint rose by just 54,600 jobs in December, with private sector payrolls up by 37,500 jobs and public sector payrolls up by 17,100 jobs. One caveat regarding the December data, however, is that less seasonal hiring in retail trade and in warehousing and delivery services than typically seen in the month of December, on a not seasonally adjusted basis, was compounded by seasonal adjustment, meaning that the seasonally adjusted data for these industry groups look weaker than is actually the case. For instance, the seasonally adjusted data show payrolls in the transportation and utilities industry group fell by 9,500 jobs within the Regions footprint. That, however, is mere noise in the data that we can account for and adjust for, but what more noteworthy is the clear deceleration in the trend rate of job growth over the course of 2023, in evidence nationally and within the footprint. At the same time, job growth also became less broadly based across private sector industry groups as 2023 wore on. Job growth also became less geographically dispersed within the footprint over the course of 2023; in December, Alabama, Georgia, Indiana, Kentucky, and Tennessee all saw declines in private sector employment. We will also note that the initial estimates of nonfarm employment, hours, and earnings have been unreliable over the past several months due to glaringly low response rates to the BLS's establishment survey, with downward revisions being the rule rather than the exception, with significant revisions to the initial estimates of private sector payrolls. So, while we can be confident in saying the trend rate of job growth slowed over the course of 2023 as the demand for labor cooled, we remain unsure of the extent to which that was the case.

2023 Goes Out On A Soft Note



Source: Bureau of Labor Statistics; Regions Economics Division

This Much Seems Clear: Job Growth Trending Lower



Source: Bureau of Labor Statistics; Regions Economics Division

With the release of the December data, we have a preliminary look at full-year 2023 job growth, albeit with the above-noted caveats lurking in the shadows. For the year as a whole, total nonfarm employment within the Regions footprint increased by 1,189,200 jobs, an increase of 1.95 percent from 2022. To our earlier point about the trend rate of job growth having slowed over the course of 2023, total nonfarm employment within the Regions footprint increased by 3.58 percent in 2022. Still, job growth within the footprint again topped job growth for the U.S. as a whole, with nonfarm payrolls nationally rising by 1.75 percent in 2023. That the pace of job growth slowed in 2023, nationally and within the footprint, is in and of itself neither surprising nor concerning. After all, the robust pace of hiring seen in 2021 and 2022 was largely a reflection of payrolls rebalancing after the seismic disruptions triggered by the pandemic and, as such, was never thought to be sustainable. Job growth within the Regions footprint accounted for 44.1 percent of all job growth in the U.S. in 2023, with one having to go back to 2014 to find a higher share. That said, job growth within the Regions footprint has become more and more concentrated amongst the "Big Six" states – Florida, Georgia, North Carolina, South Carolina, Tennessee, and Texas – over the past two years. The Big Six accounted for three-quarters of all job growth within the Regions footprint in 2023, matching 2022's share, up considerably from the share of the prior two years. As we noted last year at this time, the diminished share in 2020 and 2021 mainly reflected pandemic-related gaps being filled in across all states, but as those gaps were filled, we expected job growth to be more heavily

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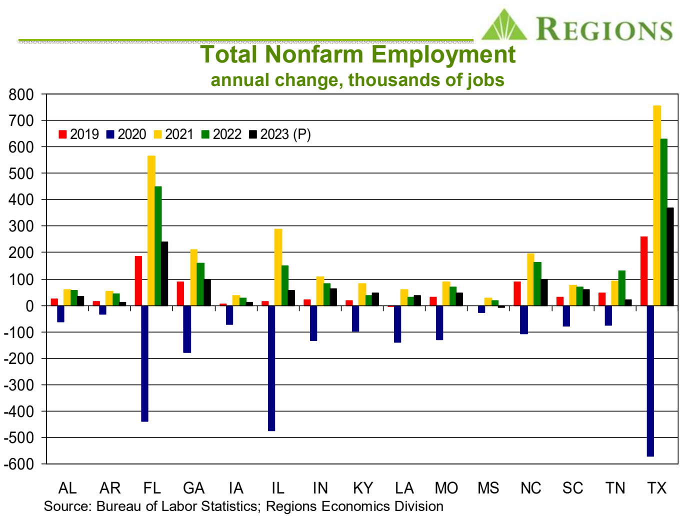
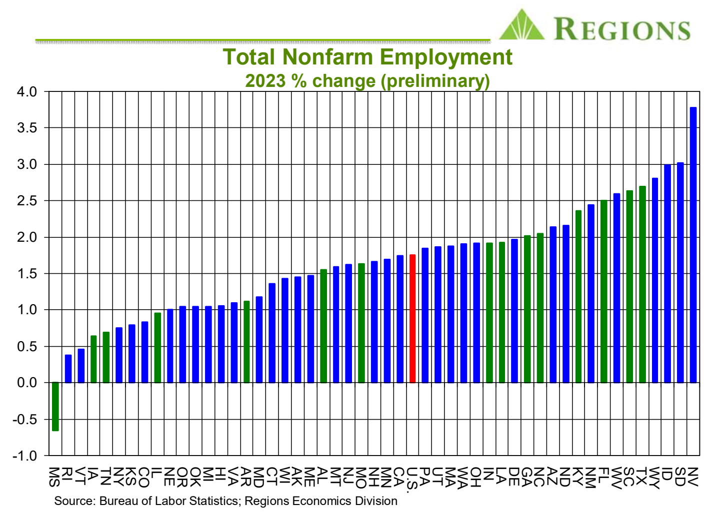
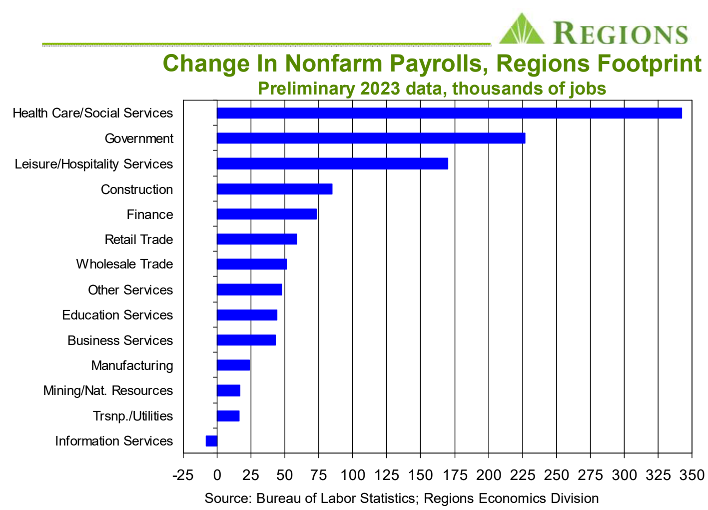
concentrated amongst the Big Six, which is how the data have played out. Keep in mind that the Big Six have seen significantly faster growth in total population since the onset of the pandemic, so in that sense it is no surprise that they have also seen significantly faster job growth as well. To the extent the economy will slow in 2024, you'd expect the larger, more industrially diversified states with healthier demographics to fare better in terms of job and income growth, so the Bix Six are likely to account for an outsized share of the footprint's job and income growth in 2024 as well.





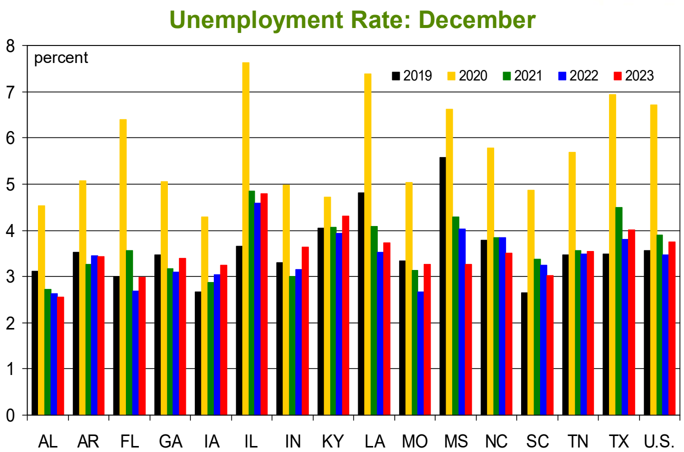
The first chart above illustrates our points about job growth slowing and being less geographically dispersed in 2023. Texas (369,600 jobs) and Florida (240,600 jobs) teamed up to account for over one-half of all job growth within the footprint, while Mississippi saw total nonfarm payrolls decline in 2023, the third annual decline over the past five years. On a percentage change basis, Texas saw nonfarm payrolls rise by 2.69 percent in 2023, good for fifth in the nation, with South Carolina (2.63 percent), Florida (2.50 percent), and Kentucky (2.36 percent) also ranking in the top ten though, as illustrated in the second chart above, Mississippi was the only state to post a decline in nonfarm payrolls in 2023.

We will again note, however, that the 2023 data – the good and the bad – on nonfarm employment, hours, and earnings are still preliminary, as the BLS is in the process of performing its annual benchmark revisions in which their establishment survey is benchmarked to the universe of payroll tax returns as of the new reference month, which in this case is March 2023. We do know from the BLS's initial estimate that the level of nonfarm employment as of March 2023 will be revised down by roughly 300,000 jobs for the U.S. as a whole, with an even larger hit to the level of private sector employment (public sector employment will be revised higher), and that the patterns in monthly job growth may differ from those previously reported. With the footprint accounting for forty percent of total nonfarm employment and an even higher share of job growth in 2023 in the preliminary data, it may seem reasonable to expect the preliminary estimate of job growth for the footprint to be revised lower. We also know that the largest downward revisions to estimates of the level of employment will come in the transportation and warehousing services, manufacturing, leisure and hospitality services, and education and health services industry groups, areas in which the footprint has a larger exposure and/or saw faster job growth than was the case nationally in 2023. We also know from history that the revisions, as a percentage of the level of nonfarm payrolls, tend to be larger on the state level than on the national level, and larger still on the metro area level than on the state level. The BLS will release the results of the annual benchmark revisions to the state-level data in conjunction with the January 2024 data, due on March 11.



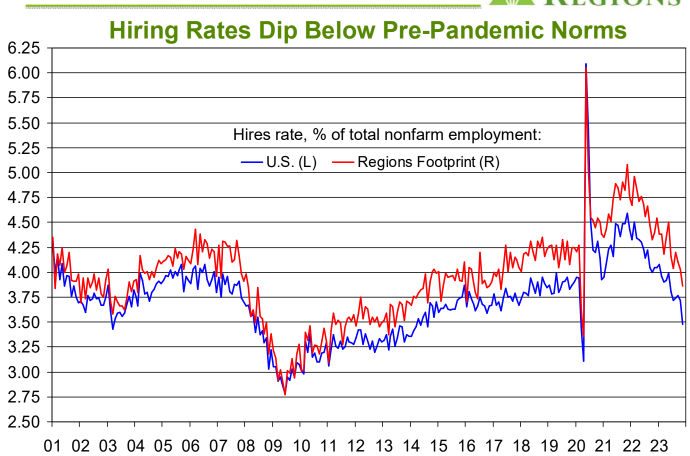
To our point about job growth being less broadly based across industry groups, health care/social assistance payrolls within the Regions footprint increased by 342,300 jobs in 2023, accounting for 28.8 percent of growth in total nonfarm employment. Along with government (up by 227,000 jobs) and leisure and hospitality services (up by 169,900 jobs), the three fastest growing industry groups accounted for

62.1 percent of total job growth within the footprint in 2023. Still, that is smaller than their share of national job growth, with these three industry groups combining to account for 76.3 percent of total job growth in the U.S. in 2023. Either way, though, the share is uncomfortably high, leaving the economy vulnerable to a slowing, let alone a downturn, in one of these industry groups. At the other end of the spectrum, payrolls in information services declined by 8,200 jobs within the regions footprint in 2023 (down by 69,000 jobs nationally), but keep in mind that hiring in this industry group was notably robust in 2021 and 2022, as firms overestimated demand in the wake of pandemic-related distortions in economic activity and, as such, began downsizing payrolls in 2023 to bring them in closer alignment with where they perceived demand to be. As we've seen in the early weeks of 2024, however, that process has yet to run its course. This is not the only industry group in which particularly robust hiring in 2021 and 2022 was followed by a slower year in 2023, though with retail trade, wholesale trade, and transportation and warehousing services that meant slower job growth as opposed to outright declines in payrolls as seen in the information services industry group.



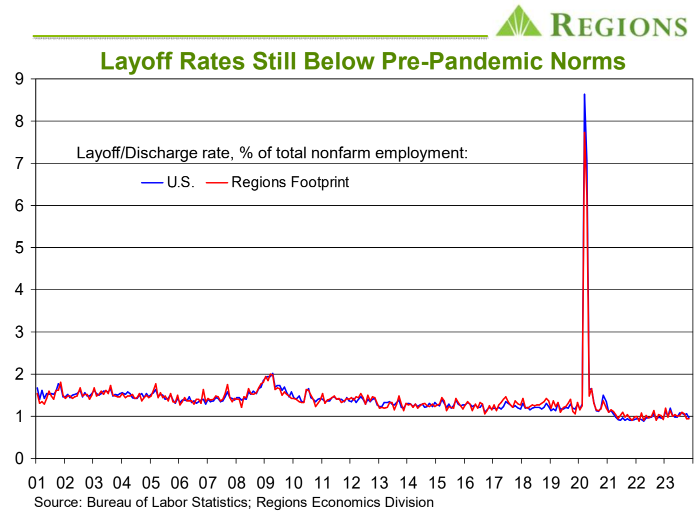
Source: Bureau of Labor Statistics; Regions Economics Division

Unemployment rates were a mixed bag across the Regions footprint in 2023. While the slower pace of job growth would be expected to push jobless rates higher, one must also account for patterns in labor force participation. For instance, for the footprint as a whole, slower job growth in 2023 was accompanied by a larger increase in the labor force than seen in 2022, such that the unemployment rate for the footprint in December 2023 was 3.6 percent compared to 3.5 percent in December 2022. Accounting for both job growth and labor force growth helps account for differences across the individual states in terms of the change in unemployment rates over the course of 2023. For instance, Mississippi saw a much larger decline in the size of its labor force than in the level of household employment, such that the 3.3 percent unemployment rate as of December 2023 was easily below the 4.0 percent rate a year earlier. In contrast, thanks in part to robust population growth, Texas saw a larger increase in the size of its labor force than in the level of household employment in 2023, such that the 4.0 percent unemployment rate as of December 2023 was above the 3.8 percent rate a year earlier. In most states within the Regions footprint, the labor force participation rate at year-end 2023 was still below the pre-pandemic rate, which to some extent is biasing the unemployment rates in these states lower, the exceptions being Florida, Illinois, Louisiana, and Texas.



Source: Bureau of Labor Statistics; Regions Economics Division

Given that we have for some time questioned the reliability of the initial estimates of nonfarm employment, hours, and earnings and that we expect downward revisions to the preliminary estimate of 2023 job growth, we'll wait for the results of the benchmark revisions before getting too attached to any conclusions we may draw about the state of the labor market. Other data series, however, are consistent with our premise that labor demand is cooling and that thus far this has manifested in a slower rate of hiring rather than a rising pace of layoffs. This is illustrated in the patterns seen in hiring rates and layoff rates, as measured in the data from the *Job Openings and Labor Turnover Survey* (JOLTS). Though the JOLTS data are hardly pristine, we do have more confidence in the trends in the data than in the levels of hirings, vacancies, layoffs, and quits in any given month, and those trends are consistent with our premise that, at least thus far, cooling demand for labor has taken the form of a slower pace of hiring rather than a rising pace of layoffs. The slowing hiring rate (hires as a percentage of total nonfarm employment) has mapped into the slowing trend rate of job growth, and it is no surprise that the hiring rate dropped in each in-footprint state over the course of 2023, though Florida's hiring rate has shown the least deterioration of any state within the footprint. What is perhaps more noteworthy is that as of November 2023, the latest month for which the JOLTS data are available on the state level, the downward trend has left the hiring rate below pre-pandemic norms. This is the case nationally and, with the exceptions of Florida and Georgia, each state within the footprint. Obviously, as seen in the chart above, there is a good deal of monthly volatility in the series produced from the JOLTS data, but even if we take the average hiring rate over the past six months and compare that to the average hiring rate over 2018-19, we see the same patterns, with hiring rates below pre-pandemic norms.



That the pace of hiring has slowed is, again, not surprising given that the robust pace of hiring over the prior two years was to some extent driven by reversing the pandemic-related distortions. What we'll be watching more closely, however, is where hiring rates go from here. That we expect job growth to slow, perhaps considerably, over the course of 2023 suggests hiring rates will continue to drift lower. What we think will be the bigger tell, however, as to the state of the labor market and, in turn, the broader economy, will be the behavior of the layoff rate (layoffs as a percentage of total nonfarm employment). As the chart to the side shows, layoff rates nationally and within the Regions footprint have hardly budged over the past two years and remain slightly below pre-pandemic norms, which is consistent with the patterns in the weekly data on initial claims for unemployment insurance benefits. While a slowing rate of hiring will put some upward pressure on the unemployment rate, any increase in the jobless rate will be modest in the absence of a rising pace of layoffs. While this is what our 2024 outlook anticipates, the weekly data on initial jobless claims and the monthly JOLTS data on layoffs will be key markers to watch. We'll note that the data on continuing claims for unemployment insurance benefits, a measure of the number of people actually drawing benefits, will also be an important indicator. A rising trend in continuing claims suggests those who do lose their jobs are having a harder time finding new ones which, even in the absence of a rising rate of layoffs, would put upward pressure on the unemployment rate. Thus far, the not seasonally adjusted data on continuing claims are not showing any patterns at odds with typical seasonal patterns, which is a distinction worth making as the upward trend in the seasonally adjusted national data over the back half of 2023 was largely a function of seasonal adjustment issues. Though the initial weeks of 2024 have seen some layoff announcements, many of those are concentrated in specific areas, such as the tech sector (information services), but the key going forward will be whether, or to what extent, layoffs become more intense and more broadly based.

On the metro area level, hiring slowed in 2023 and became less dispersed across the in-footprint metro areas, patterns in line with the state-level data. It is no surprise that the list of metro areas posting the fastest job growth in 2023 is top-heavy with the larger metro areas within the "Big Six" states that drove much of the job growth within the Regions footprint in 2023. Again, though, the 2023 data are still preliminary at this point, and we know from history that the benchmark revisions tend to be significantly larger on the metro area level (largely reflecting the smaller sample size on which the initial estimates are based), so any top, or bottom for that matter, list based on the preliminary data can, and often will, look much different than lists based on the post-revision data. As such, we'll wait until we have the full set of benchmark revisions at our disposal before making our usual lists.

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

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