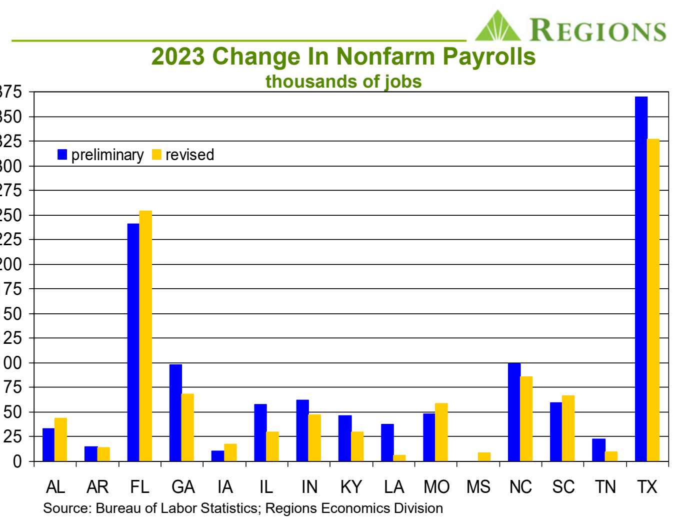
ECONOMIC UPDATE

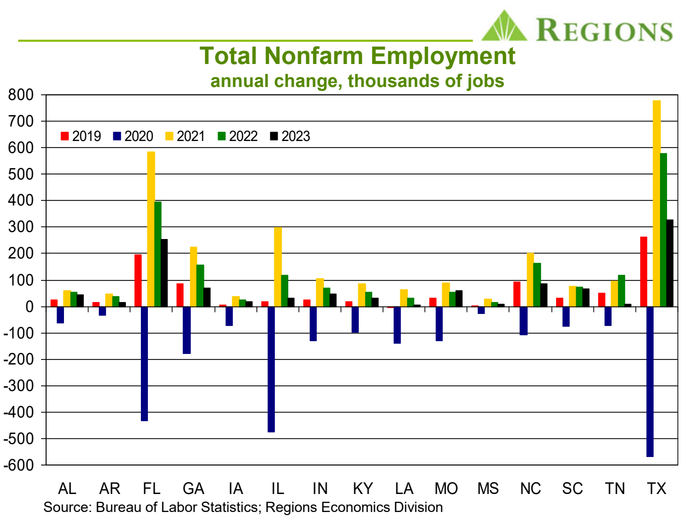
REGIONS

March 27, 2024

February 2024 Nonfarm Employment: Regions Footprint

Each year, the January employment report incorporates the results of the Bureau of Labor Statistics' (BLS) annual benchmark revisions to the data on nonfarm employment, hours, and earnings, in which the BLS benchmarks its sample of establishments used to conduct its monthly surveys to the universe of payroll tax returns as of the prior March. Our usual practice with the state-level data is to use the January employment report as the basis of our regular discussion of the monthly employment data while offering a look at how the original estimates of job growth over the prior year were impacted by the benchmark revisions. Given the time it takes for the BLS to conduct the benchmark revisions, the state-level January employment report is typically not published until mid-March. In an odd turn of the calendar this year, however, the BLS released the state-level February employment report less than two weeks after the release of the January report. As such, we decided to wait for the February report to tackle the usual discussion of the benchmark revisions. So, in what follows, we offer a discussion of the data for the past two months as well as the results of the annual benchmark revisions to the nonfarm job growth, hours, and earnings. At the risk of appearing immodest, we think that packing so much information into this single report while still charging you the same low price is a refreshing contrast to the insidious shrinkflation that is, so we're told, stealthily leaving us with less and less of everything. Anyone actually making it to the end of this report, however, may find they feel differently.





As for the benchmark revisions, the initial estimate showing nonfarm payrolls within the Regions footprint increased by 1,192,600 jobs in 2023 was revised lower, with 2023 job growth now put at 1,066,500 jobs. Based on the average monthly level of employment during 2023, this amounts to a downward revision of 0.2 percent, not out of line (in absolute value terms) with a typical benchmark revision, though directionally it is at odds with the upward revision to the preliminary estimate of job growth for the U.S. as a whole (revised up by 0.2 percent). As the first chart above shows, Alabama, Florida, Iowa, Missouri, and South Carolina saw modest upward revisions to the initial estimates of 2023 job growth while each of the remaining ten in-footprint states saw downward revisions. Louisiana (down by 1.6 percent) and Kentucky (down by 0.8 percent) saw far and away the largest downward revisions, when scaled to the level of nonfarm payrolls, while Alabama and Iowa (each up by 0.5 percent) saw the largest upward revisions.

In addition to being notably large, the downward revision to estimated 2023 job growth in Louisiana was notably broad based, with estimates of job growth having been revised lower for nine of the thirteen broad industry groups for which data are reported. The net result is that, rather than the initial estimate showing a gain of 37,300 jobs, nonfarm payrolls in Louisiana are now shown to have increased by just 6,400 jobs in 2023. There were some common patterns in the revisions across the footprint. For instance, there were substantial downward revisions to estimates of job growth within the business services and information services industry groups, the first of which accounted for the bulk of the downward revision to the initial estimate of 2023 growth in total nonfarm employment within the

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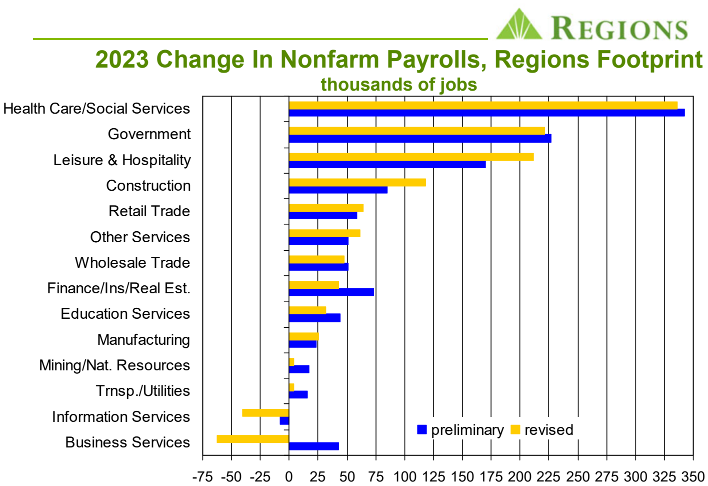
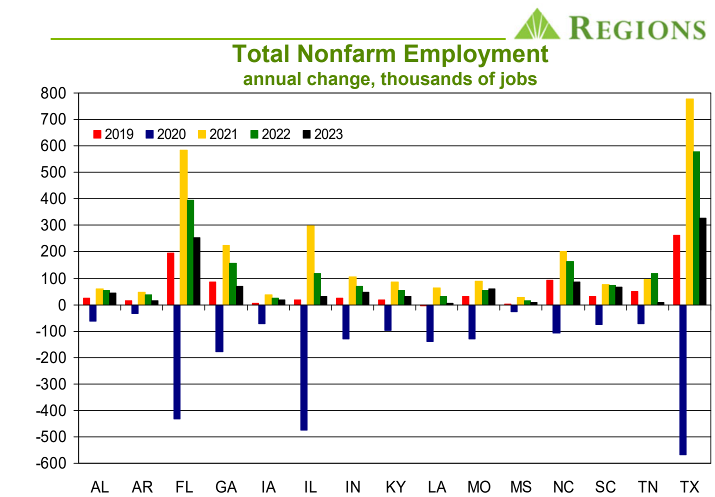
footprint, with twelve of the fifteen states seeing downward revisions in this industry group. As for estimates of job growth in the information services industry group, recall that there were widespread layoffs across the tech sector over the course of 2023, but with the BLS's establishment survey still benchmarked to the universe of firms as of March 2022, the BLS's sample became less reliable as 2023 wore on. The revisions better reflected the state of the tech universe during 2023, which helps account for why the initial estimates of the change in employment within the information services industry group were revised down in eleven of the fifteen in-footprint states.



Source: Bureau of Labor Statistics; Regions Economics Division



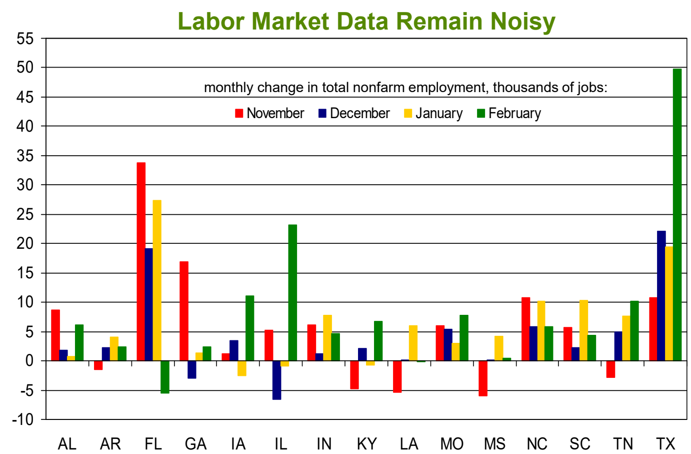
Source: Bureau of Labor Statistics; Regions Economics Division

Though not as severe as in business services and information services, most of the other broad industry groups also saw downward revisions to the initial estimate of 2023 job growth. As can also be seen in the first chart above, 2023 job growth was highly concentrated amongst three industry groups – health care and social services, government, and leisure and hospitality services. These three industry groups combined to account for 72.2 percent of all job growth within the Regions footprint, a higher concentration than seen nationally. While this may be seen as an unhealthy reliance on just a few industry groups which leaves the economy vulnerable to a downturn in one of them, let alone all of them, that is not necessarily the case, particularly given the three specific industry groups in question here. As we've noted before, each of these industry groups saw significant declines in employment with the onset of the pandemic but were much slower to recover, taking much longer to recapture pre-pandemic peak levels of employment than was the case in other industry groups. So, it makes sense that as the industry groups with more rapid recoveries saw the pace of job growth slow, the "laggards" would have accounted for a higher share of total job growth.

Perhaps the best illustration is transportation/warehousing/delivery services, which falls into the broad transportation and utilities industry group, and which saw the fastest return to the pre-pandemic peak level of employment. Perhaps too fast, as many firms in this segment overestimated longer-term demand and hired too aggressively as the economy reopened, to the point that many of them cut jobs during 2023, leaving little net change in the level of employment. So, it is reasonable to expect the pace of job growth in health care and social services, government, and leisure and hospitality services will slow, which will contribute to a more pronounced slowdown in the pace of overall job growth. But, it is also to expect that as the economy settles into that slower pace, job growth will be more evenly dispersed across the broad industry groups than was the case in 2023.

The second chart above shows the annual change in nonfarm payrolls over the past five years for each state within the Regions footprint based on the annual benchmark revisions (seasonally adjusted estimates of job growth over the past few years were part of the recent benchmark revisions). We can make the same point about the individual states here that we made above about the individual industry groups. Recall that Florida and Texas were amongst the states seeing the most robust rebounds from the pandemic-related shutdowns, in large part because they were amongst the first to reopen. Thus, after having seen much stronger job growth than most other states in 2021 and 2022, Florida and Texas saw more pronounced slowdowns in job growth in 2023, though each again ranked amongst the top-ten in terms of the fastest job growth in the nation in 2023. Georgia and North Carolina also saw particularly robust rebounds in economic activity, but after having ranked amongst the top-ten nationally in job growth in 2022, each slipped down the rankings in 2023.

Turning our attention to the 2024 data, after total nonfarm employment within the Regions footprint rose by 97,600 jobs in January, February saw an increase of 129,100 jobs, in each case easily above the pace of monthly job growth seen in late-2023. We do not, however, have much confidence in these estimates and will not be surprised to see each revised lower. As we've noted for some time now, the BLS's monthly establishment survey remains plagued by notably low initial response rates, which diminishes the reliability of the initial estimate of job growth in any given month. To that point, the initial estimate of private sector job growth for the U.S. as a whole has been revised lower – significantly so – in twelve of the past thirteen months, and as 2023 wore on downward revisions to the initial estimates of job growth within the Regions footprint became the rule rather than the exception. With low response rates to the establishment survey in each of the first two months of 2024, this issue clearly has not gone away. Think about it this way – the lower the initial response rate to the monthly establishment survey, the larger the gap the BLS must fill in with their own estimates, and as more responses come in over subsequent months (firms in the survey have three chances to provide data for any given month) the BLS adjusts their initial estimates. That the revisions have been large and in the same direction for this long raises methodological questions but, either way, the bottom line is that until we have reason to expect anything different, we think the estimates of job growth within the footprint over the first two months of 2024 are most likely overstated.



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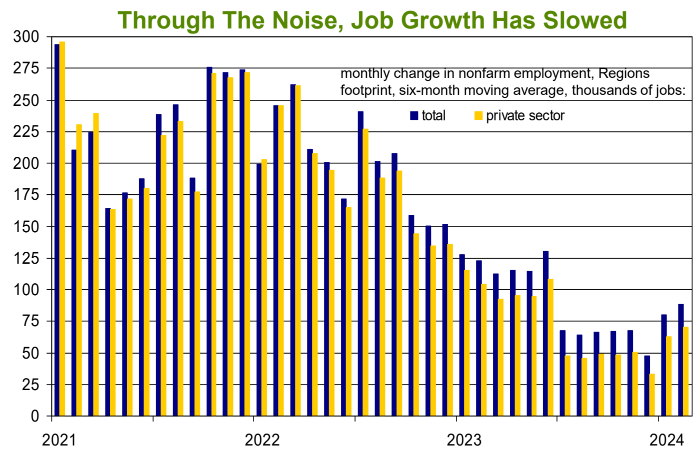

Source: Bureau of Labor Statistics; Regions Economics Division

The first chart above is our usual chart summarizing the changes in nonfarm employment over the past four months for each state in the Regions footprint. Note that total nonfarm payrolls are reported to have fallen by 5,500 jobs in Florida in February. Beyond any noise stemming from low survey response rates, the Florida data also seem to be plagued by seasonal adjustment issues. The not seasonally adjusted data show a smaller increase in nonfarm payrolls than is normal for the state in February, with a particularly large divergence in the increase in unadjusted construction payrolls. In essence, seasonal adjustment over-compensated for the increase in unadjusted payrolls, yielding a decline in the seasonally adjusted estimate of nonfarm employment. Given what are clearly issues with seasonal adjustment and how out of character the February data are with what has been a robust pace of job growth, we would not read much, if anything, into the reported decline in nonfarm employment in Florida, particularly in light of how noisy the employment data have been on the national and state levels over the past several quarters.

That said, sorting through the noise shows that the trend rate of job growth has slowed over the past several months, as is shown in the second chart above. The chart shows the six-month moving average of the monthly changes in total and private sector payrolls for the Regions footprint as a whole, which is useful in that there is less weight attached to the most recent, and most noisy, estimates. On this basis, the trend rate of job growth is not thar far away from where we'd expected it to be and, perhaps more significantly, remains sufficient to keep the unemployment rate from rising. To that point, the unemployment rate for the footprint as a whole has held at 3.6 percent over the past several months. To be sure, using the footprint-wide aggregate masks what can be sharp divergences in job growth amongst the individual states, but with the exceptions of Kentucky and Louisiana, which have each seen steadily rising unemployment rates, jobless rates across the remaining states have been steady for some time now, as is reflected in the footprint-wide jobless rate.

It is worth noting that the reported increase in the national average unemployment rate, from 3.7 percent in January to 3.9 percent in February, is not reflected in the data for the Regions footprint. As we have noted elsewhere, the increase in the national average unemployment rate is more than entirely accounted for by a reported decline (466,000 persons) in the level of employment amongst the 16-to-24 year-old age cohort, which we see as no more than a greater than typical degree of noise in an inherently noisy data series. As such, we see that reported increase as saying nothing about the labor market or the broader economy, but it is at least interesting to note that while the level of household employment is reported to have declined for the U.S. as a whole in February, the level of household employment increased within the Regions footprint.

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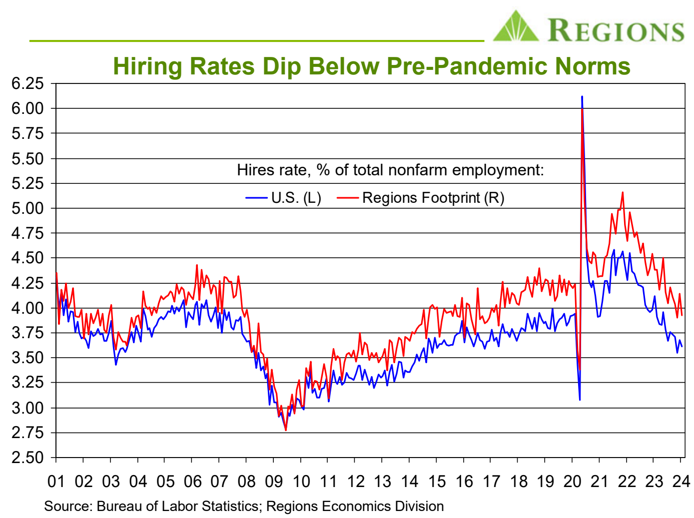
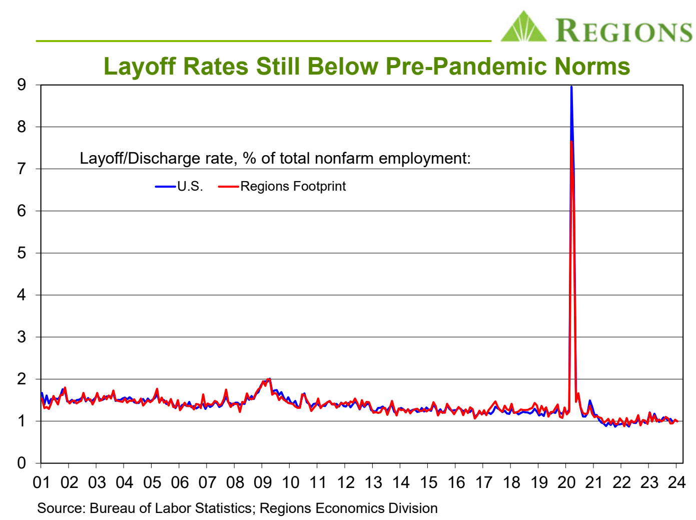
If a stable unemployment rate seems at odds with the marked slowdown in the underlying trend rate of job growth, as illustrated in the chart above, there are two factors to consider. One is that the pace of labor force growth has slowed meaningfully thus far in 2024, thus alleviating upward pressure on the unemployment rate stemming from a slower pace of job growth. One question we have, but do not yet have sufficient data to answer, is whether, or to what extent, the slowing rate of labor force growth reflects slower flows of foreign-born workers into the labor force. We've noted that one of the main drivers behind what was surprisingly rapid growth in the labor force in 2023 was growth in foreign-born workers. We've expected that at some point that growth would slow, but at present cannot know if that is happening and is being reflected in slower growth in the labor force, nationally and within the Regions footprint.

The other factor to consider is that the slowing underlying trend rate of job growth has, at least thus far, been a function of a diminished rate of hiring amongst firms, as opposed to a rising rate of layoffs. It helps to recall that the monthly "headline" job growth number is a net number, i.e., the difference between the number of hires and the number of separations – voluntary or involuntary – in a given month. Nationally, hires and separations number in the millions in any given month, with the difference being the net change – higher or lower – in total nonfarm employment. We can utilize data from the Job Openings and Labor Turnover Survey (JOLTS), both nationally and on the state level, to isolate hires and separations. The JOLTS data show the rate of hiring, i.e., the number of hires expressed as a percentage of the level of nonfarm employment, has been slowing over the past several quarters, to the point that both nationally and within the Regions footprint the rate of hiring has slipped below pre-pandemic norms. At the same time, however, the rate at which workers are being laid off, i.e., the level of layoffs expressed as a percentage of the level of nonfarm employment, has been notably stable and both nationally and within the Regions footprint, remains below pre-pandemic norms.





The charts above illustrate these patterns for the U.S. as a whole and for the Regions footprint. The weekly data on initial claims for unemployment insurance benefits, a gauge of the number of people who apply for benefits, show the same pattern, i.e., the number of new claimants remains below pre-pandemic norms, nationally and within the Regions footprint. This is consistent with a point we and others have been making for some time now, which is that while firms in certain industry groups may see the need to realign head counts with shifts in final demand, firms for the most part remain reticent to let workers go in large numbers. This is to some extent a function of how difficult, and costly, it has been for them to find and retain labor, helping account for the restrained rate of layoffs.

We will note one concession firms in many industries have made, which is to trim weekly hours worked. We've seen this nationally and within the Regions footprint; both nationally and in each in-footprint state, the average length of the workweek fell during 2023, ending the year easily below the average length of the workweek at the start of the year. As we always note when discussing this topic, firms will use hours worked as a lever with which to manage total labor input, either higher or lower, as they perceive shifts in demand. If and when they perceive these shifts to be more permanent than temporary (what, you thought we were going to say "transitory"?) in nature, that is when they will start to consider altering head counts. While we still see latitude for firms to reduce hours worked, should the economy slow as 2024 progresses and firms perceive lasting downshifts in demand, layoffs may become more common.

While we're not at that point yet, the falling hiring rate and diminished average weekly hours are indicative of cooling demand for labor. Another indication is the upward drift in continuing claims for unemployment insurance benefits, a gauge of the number of people drawing benefits, which is a sign that people who do lose their job are taking longer to find a new one than had been the case. Though subtle, that upward drift is nonetheless apparent in the data for the U.S. as a whole, though there is not as of yet a similar pattern in the data

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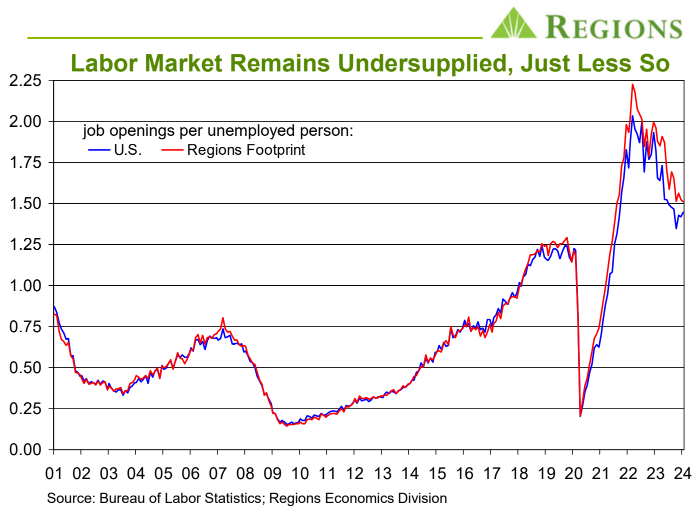
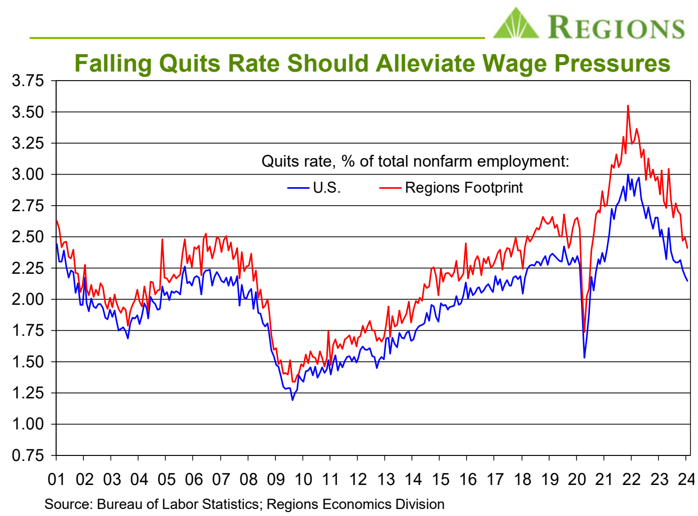
for the Regions footprint. This makes sense when you consider that, as a whole, the footprint continues to post job growth above the national average and the hiring rate remains above the national average. It seems reasonable, however, to expect that at some point the data on continuing claims within the Regions footprint will exhibit the pattern now apparent in the national-level data.





We can point to other signs of cooling labor market conditions. First, though still above pre-pandemic norms, the number of job openings is down sharply from the cyclical peak seen in early-2022, which is the case both nationally and within the Regions footprint. Though we have little confidence in the absolute numbers reported in the JOLTS data, we do have more trust in the trends seen in the data, and job openings have for some time been trending lower, and we expect this to continue as we move through 2024. It is worth noting that, with the exception of construction, job openings have fallen sharply across the broad industry groups since the early-2022 peak, and while some industry groups have seen the demand for labor tail off faster than have others, diminished demand for labor is apparent across almost all industry groups, as opposed to a few industry groups pulling overall openings down. Job openings in construction have been notably stable, which is in keeping with homebuilders noting ongoing labor supply issues at a time when other areas, such as construction of manufacturing facilities and infrastructure-related construction, are supporting overall demand for construction labor.

Another indication of cooling labor market conditions is the declining rate at which workers are voluntarily quitting jobs, i.e., the "quits rate." With the labor market being very much a sellers' market in 2021 and 2022, the quits rate spiked to heights not seen before in the life of the JOLTS data, both nationally and within the Regions footprint. Since peaking in early-2022, however, the quits rate has fallen sharply and is at present below pre-pandemic norms. This is an indication that workers feel less confident in their prospects for landing a new job, making them much less likely to quit one job unless and until they have their next job lined up, but diminishing job openings mean they will have increasingly fewer opportunities to do so. One reason this matters is that there is a considerable body of evidence showing that those who change jobs tend to land much larger pay increases than those who stay in the same job over time. It follows, then, that a diminishing quits rate would be consistent with deceleration in growth in labor compensation costs. Indeed, the FOMC often cites the quits rate as an indicator of underlying wage pressures.

Rather than being at an inflection point, we see the labor market as shifting into a slower pace of growth. That each month's labor market data continue to come with so many questions, however, makes it difficult to be sure. That said, we 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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