ECONOMIC UPDATE

REGIONS

April 24, 2024

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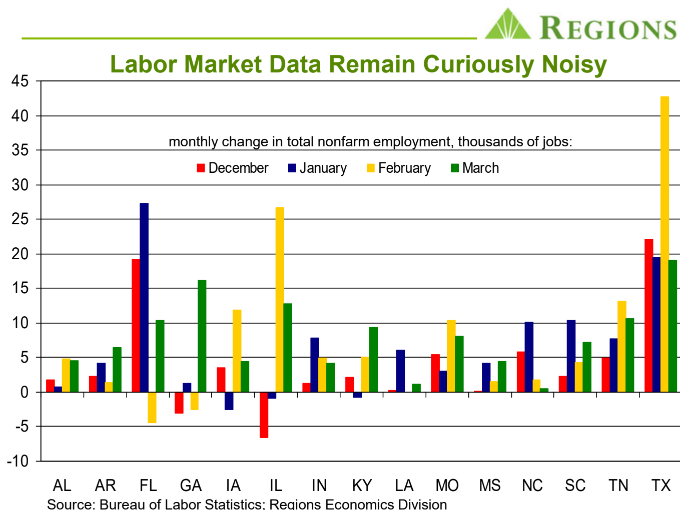
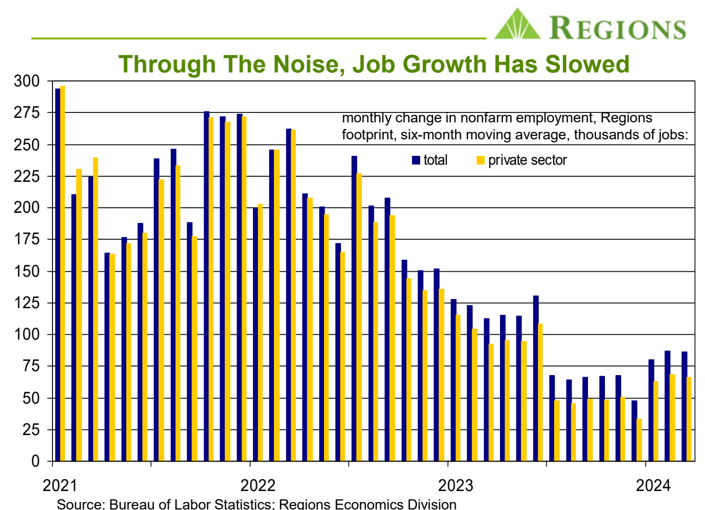
March 2024 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 119,300 jobs in March, with private sector payrolls up by 99,300 jobs and public sector payrolls up by 20,000 jobs. At the same time, the prior estimate of an increase of 97,600 jobs in January was left unchanged, while the prior estimate of an increase of 129,100 jobs in February was revised down to show an increase of 121,700 jobs. Still, for the two-month period, this is a considerably smaller revision than those seen over the prior several months. Moreover, 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, and that same issue was present in the March establishment survey. Each state within the Regions footprint logged an increase in nonfarm payrolls in March, the first such occurrence since last September, but the revised data show nonfarm payrolls in Florida and Georgia declined in February, with the decline in Florida smaller than previously reported and the decline in Georgia reversing what previously was reported as a modest increase. As seen in the first chart below, there seems little rhyme or reason to estimates of the monthly changes in nonfarm payrolls across the Regions footprint over recent months, which in some states shows as declines in some months and in other states shows as sharp swings in the magnitude of monthly increases. Still, for the footprint as a whole, the trend rate of job growth has slowed over the past several months, which is not surprising as the robust pace seen over 2021 through mid-2023 was never thought to be sustainable, but at the same time has been somewhat steady. The question going forward is the extent to which the trend rate of job growth will slow further in the months ahead.





It is somewhat interesting that, given the volatility in month to month changes across the individual states, the trend rate of job growth has been somewhat stable over the past several months, as seen by the six-month moving average of monthly job growth shown in the second chart above. It is also worth pointing out that the fairly stable trend is masking job growth having become increasingly less broadly based across the main industry groups. As we noted in our review of the full-year 2023 employment data, health care and social services, leisure and hospitality services, and government combined to account for 72.2 percent of all job growth within the Regions footprint in 2023. While there was a similar concentration in the national data, the concentration was not as pronounced. Moreover, through the first quarter of 2024, that same pattern has continued to hold, with these three industry groups combining to account for 69.3 percent of growth in total nonfarm employment within the Regions footprint.

This is a point we discussed in our analysis of the full-year 2023 labor market data. In one sense, that these three industry groups are accounting for the lion's share of job growth is neither surprising nor concerning. After all, these three industry groups saw some of the most pronounced job losses stemming from the pandemic and the policy response to it and were amongst the slowest industry groups to see the level of employment to return to the pre-pandemic peak. So, it makes sense that as those industry groups with more rapid

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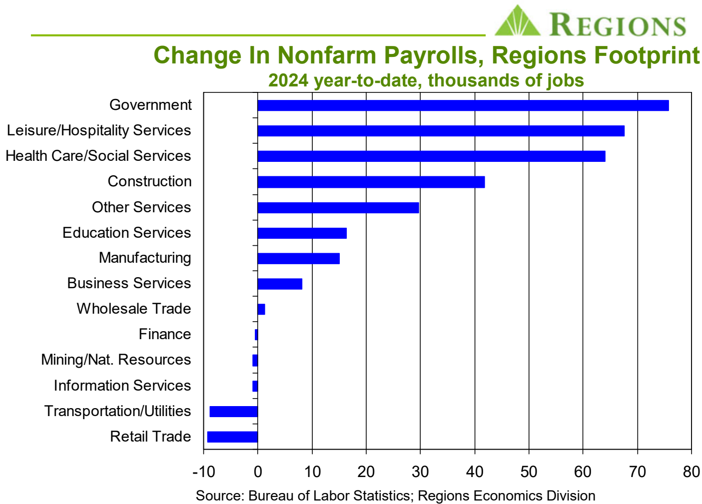
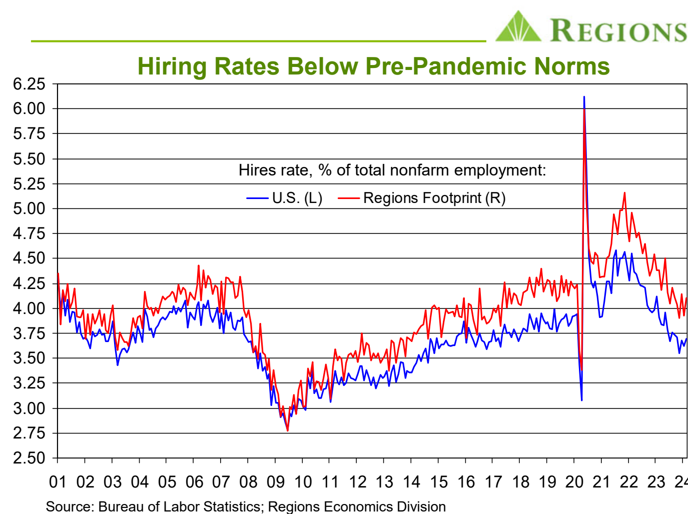
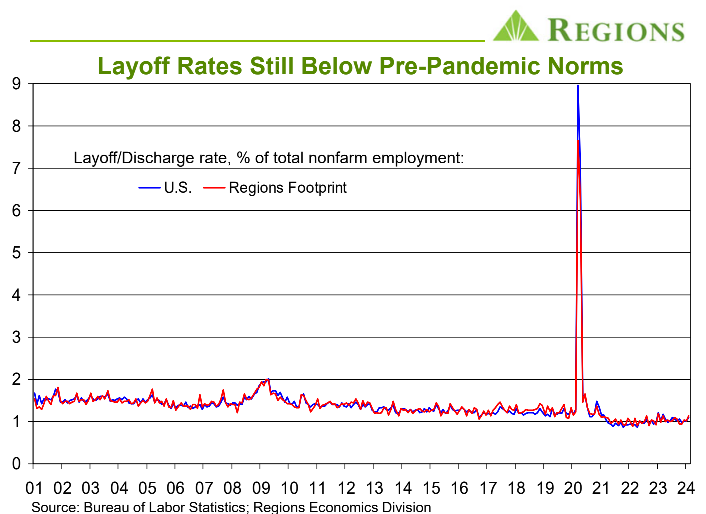
recoveries have seen the pace of job growth slow, those industry groups that had lagged would begin to account for a higher share of total job growth as their recoveries endured. Still, this heavy concentration is concerning in that it leaves the economy vulnerable to a slowdown in the pace of hiring in any, or all, of the three industry groups now driving job growth. That is part of why we do expect to see a more pronounced slowdown in the pace of growth in total nonfarm employment at some point in 2024, even if right now we cannot pin down the timing. At some point, it figures that what has been notably strong growth in consumer spending on discretionary services will begin to ebb, which would impact employment in leisure and hospitality services. We also question how much more capacity there is for state and local governments to continue hiring at nearly the same pace as has prevailed over the past several months, at least not without this hiring acting as an increasing drain on private sector employment which, on a net basis, would leave total nonfarm payrolls little changed. We do think that health care and social services is the industry group in which rapid hiring will be sustained the longest, but even here there are, ultimately, limits.



The chart to the side helps illustrate the potential impacts of a drop-off in hiring amongst government, leisure and hospitality services, and health care and social services, whether it is one, two, or all three of these industry groups in which hiring slows. Through the first quarter of 2024, five of the thirteen broad industry groups saw declines in employment, while the increases in wholesale trade and business services were far below the gains seen over the prior several quarters. In some cases, such as information services and transportation/distribution services, recent job losses reflect firms attempting to "right size" payrolls after having hired too aggressively from mid-2020 through much of 2022 as they misjudged the strength of longer-term demand. It is also worth noting that while manufacturing has seen job growth thus far in 2024 on top of the gains seen in 2023, most of those gains have come in the transportation equipment segment, to which our footprint has an above-average exposure. Rapid job gains in this segment are unlikely to be sustained, particularly with motor vehicle production and inventories more or less back to normal after severe and prolonged disruptions triggered by the pandemic. While there are signs of a recovery in the broader manufacturing sector, it could be that less hiring amongst producers of transportation equipment is neutralized by hiring elsewhere in the broad sector, leaving total manufacturing payrolls little changed. We will also note that a considerable portion of the gains reported in construction payrolls over the first quarter of 2024 are more a reflection of favorable seasonal adjustment as opposed to actual hiring.

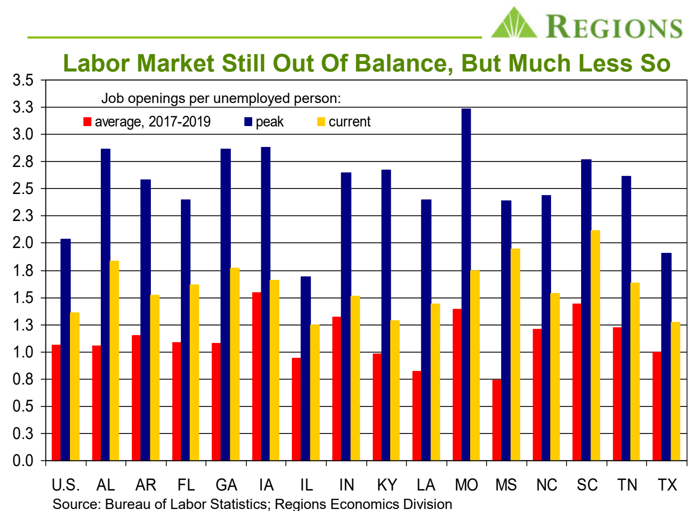




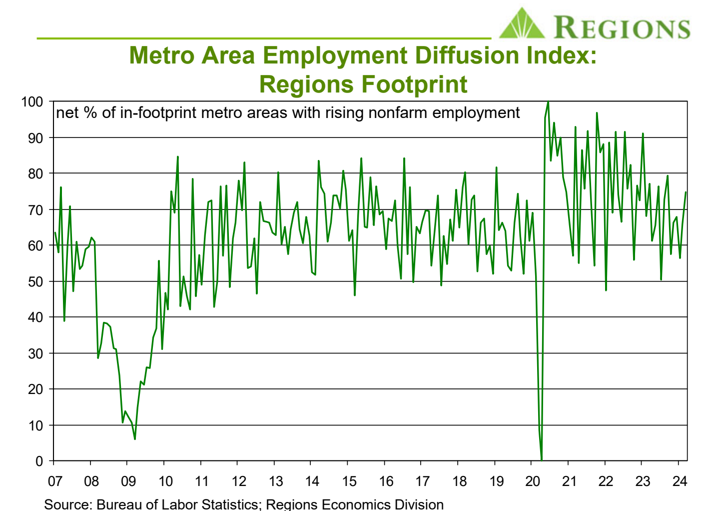
The narrowing base of job growth is also apparent in the aggregated national data as well as in the data for the Regions footprint. In each case, the downward trend in the hiring rate is another reflection of this pattern and, as seen in the first chart above, the hiring rate is now below the pre-pandemic norm both nationally and within the Regions footprint. At the same time, however, there has been only modest upward movement in the layoff rate (layoffs scaled to the level of nonfarm employment), leaving it below pre-pandemic norms

both nationally and within the Regions footprint. The distinction between net job growth slowing due to less hiring or slowing due to more layoffs is obviously an important one, as the former results in less upward pressure on the unemployment rate than does the latter. To that point, our baseline forecast reflects the former case, i.e., job growth slowing due to less hiring, resulting in only modest upward pressure on the jobless rate over coming quarters. Obviously, a much more pronounced slowdown in the broader economy than we at present anticipate or an outright recession would lead to higher layoffs than our forecast anticipates, which would result in a much more pronounced increase in the unemployment rate.

Though to a far lesser degree than at peak rates of hiring and job vacancies, the labor market is still somewhat out of balance. The chart to the side shows, for the U.S. and for each in-footprint state, job vacancies scaled to the number of unemployed persons. As can be readily seen, this ratio is down considerably from the peak but nonetheless above pre-pandemic norms. Keep in mind that the lower ratio of job vacancies to unemployed persons is the product of both a lower level of vacancies and what in most, but not all, of the in-footprint states has been an increase in the number of unemployed persons. It should not be forgotten that even prior to the pandemic the labor market was notably tight, and both the level of job vacancies and the ratio of vacancies to unemployed persons were at the highest on record, so even returning to pre-pandemic norms would leave us with a still-tight labor market. This is one reason we expect any further slowdowns in the trend rate of job growth to be mainly a function of less hiring as opposed to a significant increase in layoffs.



Just as job growth has become less dispersed across the broad industry groups, it has also become less geographically dispersed. That is illustrated in our Metro Area Employment Diffusion Index, a measure of the breadth of job growth across in-footprint metro areas. To be sure, the index is quite volatile on a month-to-month basis; to that point, the index jumped to 74.7 percent in March, its highest level since last September. Still, the downward trend in the index is apparent through the noise, and using three, six, or twelve-month moving averages to smooth the data will show that trend more clearly. Moreover, given our reservations about the initial estimates of monthly job growth on the national level, we do not have a high degree of confidence in the initial March print, so we'll see how that estimate changes as the data are revised over the next two months. Still, despite those concerns, a strong majority of in-footprint metro areas continue to see monthly growth in nonfarm employment. Keep in mind, however, that the index measures the breadth of job growth across in-footprint metro areas, not the intensity of that growth. It is, however, encouraging that such a high share of in-footprint metro areas continues to see job growth, and we'd expect that the index will bounce between the 60 and 70 percent range that prevailed over much of the pre-pandemic expansion.



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

https://regions.sharepoint.com/sites/Finance/SitePages/Economic-Reports.aspx

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