ECONOMIC UPDATE

REGIONS

May 19, 2024

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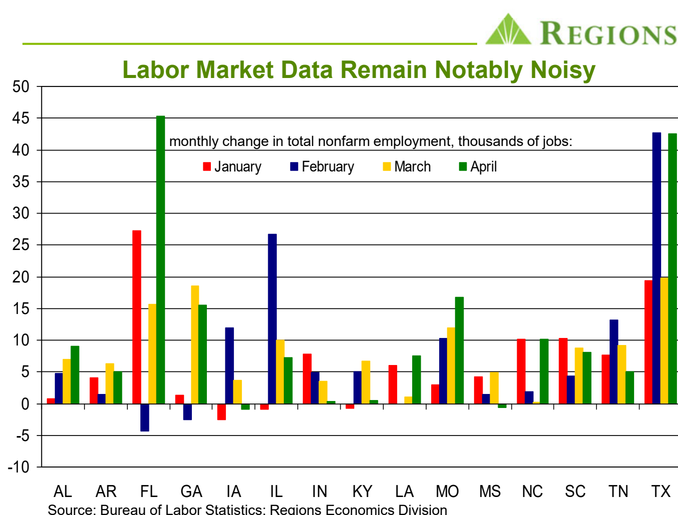
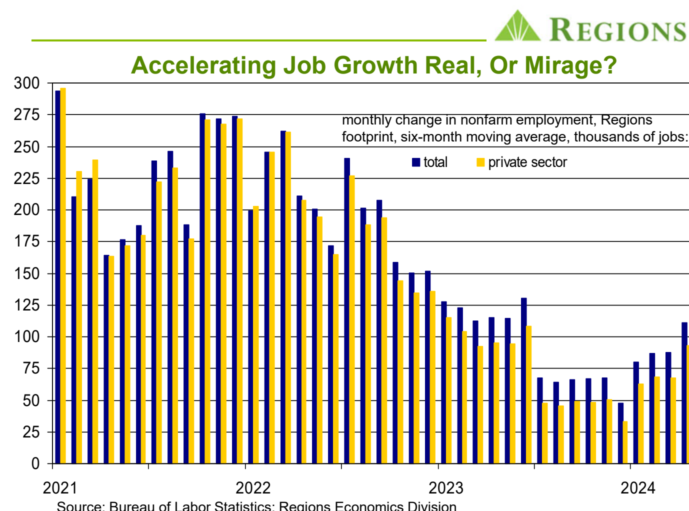
April 2024 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 171,900 jobs in April, with private sector payrolls up by 163,900 jobs and public sector payrolls up by 8,000 jobs, At the same time, the prior estimate of March job growth was revised up to 127,300 jobs from the initial estimate of 119,300 jobs, wholly accounted for by an upward revision to the initial estimate of private sector job growth. With the exceptions of Iowa and Mississippi, each state within the Regions footprint saw an increase in nonfarm payrolls in April, but Florida and Texas teamed up to account for almost one-half of the April increase in nonfarm payrolls within the footprint. Should it survive revision, April's increase in nonfarm payrolls would be the largest monthly increase since last June, but we find ample grounds to question the April data from the establishment survey. As the data now stand, however, the pace of job growth within the Regions footprint has accelerated over recent months, as shown in the second chart below, which is in contrast to patterns seen in the national-level data and which runs counter to our expectation that the pace of job growth would slow over the course of 2024. While we would happily be wrong when it comes to that call, our sense is that we're not going to have a reliable answer until next March, when the estimates of 2024 job growth emerge from the BLS's annual benchmark revision process.





As we've noted for quite some time, i.e., far too long, now, the BLS's monthly establishment surveys, from which estimates of nonfarm employment, hours, and earnings are drawn, have been plagued by frustratingly low initial collection rates. Since the onset of the pandemic, the average initial collection rate has been well below pre-pandemic norms. Lower initial collection rates reduce the reliability of the initial estimates of nonfarm employment, hours, and earnings. That firms have the opportunity in the subsequent two survey periods to backfill any gaps in reporting for a given month offers hope that the revised data are more reliable, but of late the second-month collection rates have also fallen off, thus diminishing the reliability of the revised estimates. That issue was compounded in April by an early end, i.e., prior to the middle of the month, to the BLS's establishment survey period. An early end to the establishment survey period tends to lead to lower initial collection rates – already low since the pandemic – and has tended to bias estimates of average hourly earnings lower. We noted these issues in our analysis of the national-level data in the April employment report, and to the extent the national-level data are less reliable, that will filter down to the estimates of the data on the state and metro area levels. What is somewhat puzzling is that the April data on the national level appeared surprisingly weak – a sharp slowdown in job growth, a decline in average weekly hours, and the smallest over-the-year increase in average hourly earnings since June 2021. While we noted that we did not think the labor market softened to the extent implied by the April employment report, our reaction to the April state-level data is the opposite, i.e., we question whether job growth was as robust as implied by the initial April estimates. Sure, it could be that there is just no pleasing us but, to use a highly technical term we've come to learn in many years of doing this analysis, something seems off here. And, given the ongoing collection/measurement issues in the establishment survey data, we won't have a high degree of confidence in

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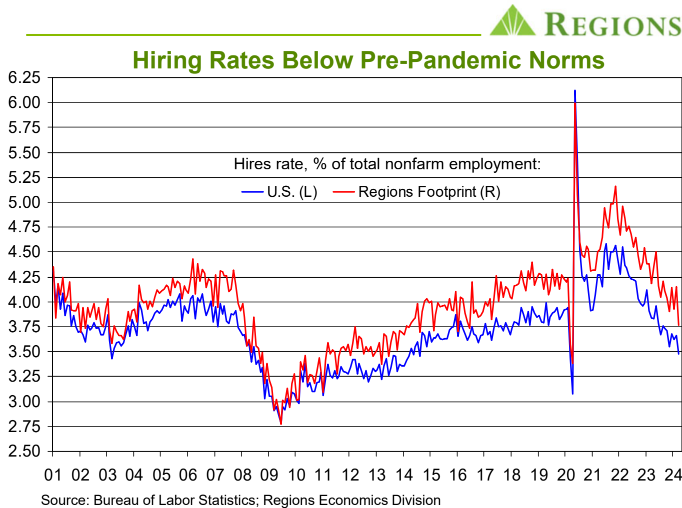
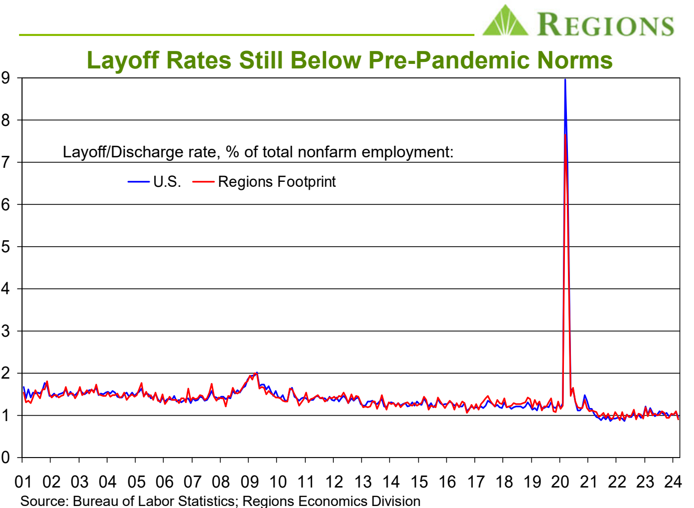
the monthly establishment survey data, whether "good" or "bad," until the annual benchmark revisions are conducted. Recall that in the annual benchmark revision process the BLS's sample of establishments is benchmarked to the universe of payroll tax returns, allowing for more complete, and more reliable, estimates of nonfarm employment, hours, and earnings. Next March, however, is a long way to go when carrying such a low degree of confidence in the results of the monthly employment reports.



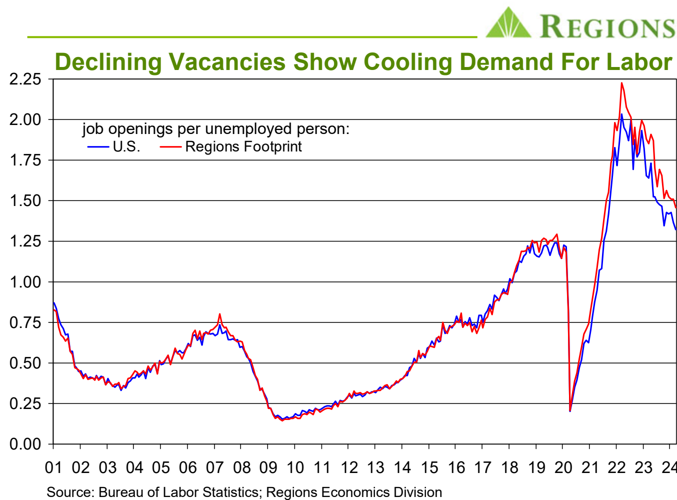


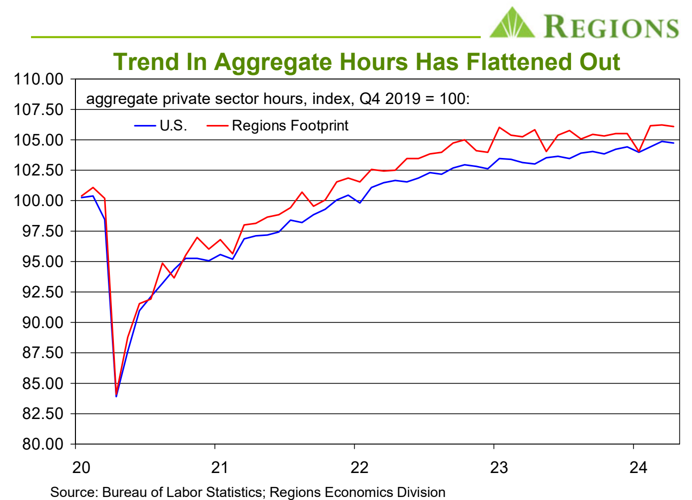
One reason to question the reported acceleration in the rate of job growth within the Regions footprint noted above is the ongoing decline in the hiring rate, as illustrated in the first chart above. That the hiring rate would decline from the peak seen in 2021 was neither surprising nor concerning, as the data at that point were still being impacted by the economy rebounding from pandemic-related shutdowns/constraints. What is noteworthy at present, however, is that the rate at which firms are hiring workers has fallen below pre-pandemic norms, both nationally and within the Regions footprint. The data from the Job Openings and Labor Turnover Survey (JOLTS), from which estimates of job vacancies, hires, quits, and layoffs referenced in these write-ups are drawn, are subject to collection and measurement issues of their own, and while we have little confidence in the levels of these metrics reported in any given month, we at least have more confidence in the trends in the data. To that point, with the exceptions of Alabama, Florida, Louisiana, Mississippi, and South Carolina, the average hiring rate over the most recent six months is below the average hiring rate seen in the two years prior to the pandemic in each state within the Regions footprint, and this is also the case nationally. Within the footprint, Indiana, North Carolina, and Texas have the largest disparities between current and pre-pandemic hiring rates when looked at on this basis. As we frequently point out, the estimates of monthly job growth are net estimates, i.e., they reflect the gaps between hiring and separations – voluntary or otherwise – in any given month. As the second chart above shows, the rate at which firms are laying off workers has been stable and remains below pre-pandemic norms, both nationally and within the Regions footprint. So, while a falling hiring rate against the backdrop of a stable, and still low, layoff rate, is not sufficient to yield declining levels of nonfarm employment, it would at least suggest a slowing pace of job growth, contrary to the accelerating pace of job growth seen within the footprint over recent months.

The declining hiring rate has been accompanied by a sharp and steady decline in job vacancies, both nationally and within the Regions footprint, as seen in the first chart on Page 3. The declining hiring rate and the ongoing decline in job vacancies are clear signs of cooling demand for labor which, again, calls into question the acceleration in the pace of job growth seen within the footprint over recent months. One way to square the falling hiring rate with the steady layoff rate is that this combination suggests firms are engaging in "labor hoarding," i.e., while not taking on new workers with the same degree of urgency as was the case over the past two-plus years, firms are loathe to let workers go, at least in large numbers, which is largely a reflection of how hard and how costly it has been to find and retain labor since the onset of the pandemic. To be sure, that could, and likely would, change were firms to become sufficiently pessimistic about growth prospects, in which case we would see increasing, and increasingly broad based, layoffs, but there is little to suggest that we are close to that point.

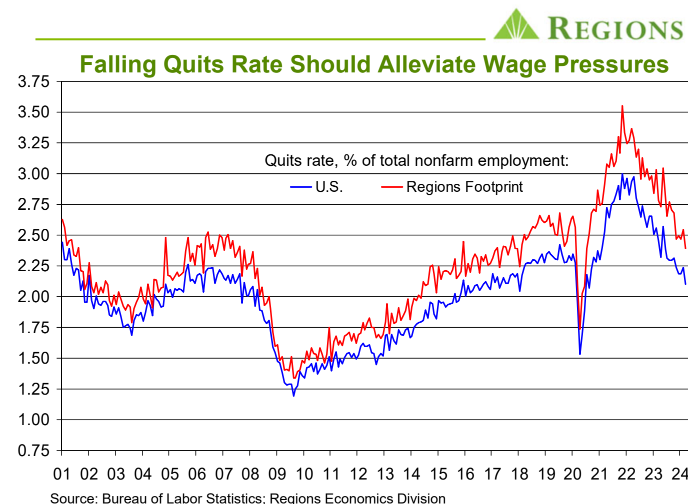
Another indication of cooling demand for labor is that aggregate private sector hours worked have more or less flattened out over recent months. Note that this is a way of looking at total labor input demanded by firms, comprised of the number of workers and the number of hours they work per period. It helps to note that firms use hours worked as a lever with which to manage total labor input before resorting to significant changes in the number of workers employed, which historically has been the case both going into and coming out of recessions. It is striking that, despite what in April was the largest monthly increase in private sector payrolls since January 2023,

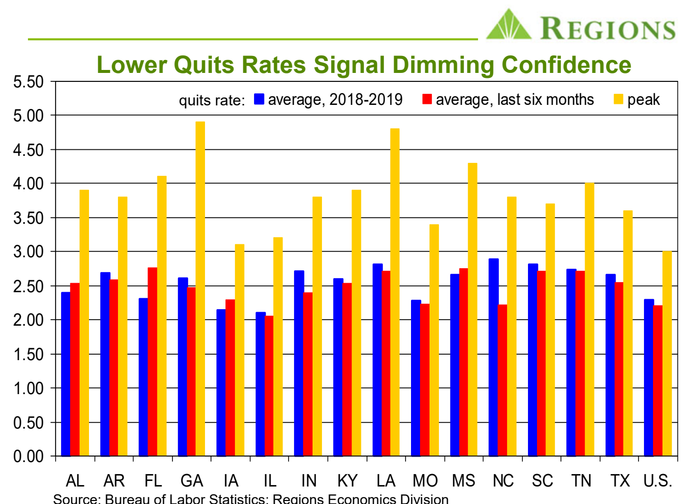
aggregate private sector hours worked within the Regions footprint declined at an annualized rate of 0.6 percent in April, as the average length of the workweek fell by two-tenths of an hour (we construct an employment-weighted aggregate for the footprint-wide measure). Again, to the extent that the results of the April establishment survey are suspect, this also applies to the estimate of average weekly hours worked but, that said, this combination is more than a bit striking. We've long used aggregate hours worked as an indicator of turns in the business cycle (growth in aggregate hours worked combined with the rate of productivity growth yields a useful guide to real GDP growth), so this is clearly something worth monitoring in the months ahead.





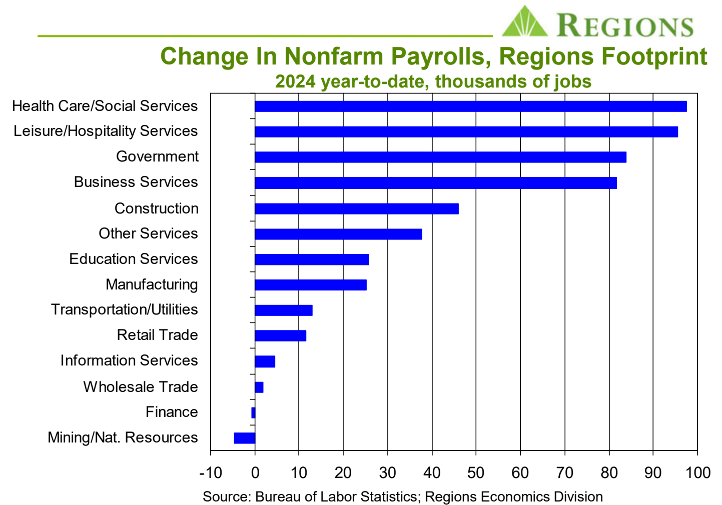
Again, though there is nothing in the data to suggest the labor market is on the verge of cracking, there are numerous signs of cooling demand for labor which, again, should yield a slowing, not an accelerating, pace of job growth. We're also seeing some signs of wavering on the supply side of the labor market, such as a pronounced decline in the rate at which workers are voluntarily quitting jobs – the quits rate. Both nationally and within the Regions footprint, the quits rate has fallen below pre-pandemic norms, indicating that workers feel less confident in their ability to land a new job. This is consistent with the *Conference Board's* monthly survey of consumer confidence, which has shown consumers' assessments of labor market conditions have become increasingly less favorable over recent months. Another reason the trend in the quits rate matters is that there is ample evidence showing that those workers who change jobs tend to see significantly larger increases in pay than do those workers who stay in place, and the FOMC puts considerable emphasis on the quits rate in their assessment of how labor market trends may impact the path of inflation. While the quits rate for the footprint as a whole is below pre-pandemic norms, Alabama, Florida, Iowa, and Mississippi are exceptions, with recent average quits rates still above the average quits rate over the two years prior to the pandemic. In each state, however, the quits rate is substantially below the cyclical peak.



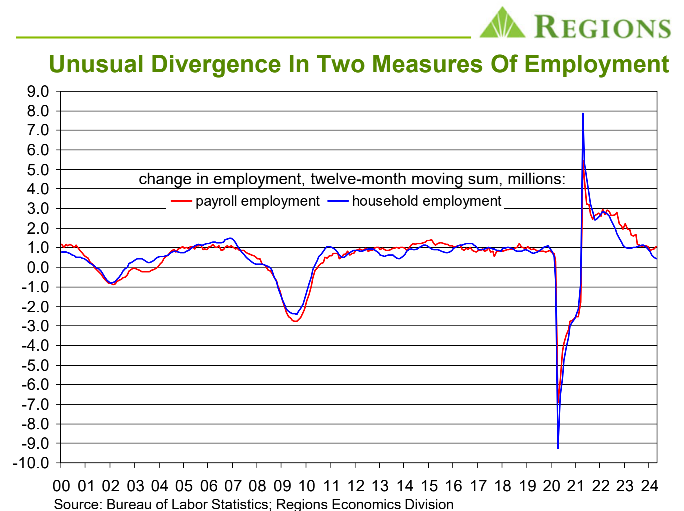


Another reason we're looking at the April employment data with, well, suspicious eyes is that the breakdown of job growth across industry groups shows outsized increases in payrolls in certain industry groups which are not only out of alignment with the changes reported in

the national data but which are also out of alignment with the recent patterns in the data for the Regions footprint. For instance, the April data show payrolls in business services within the footprint up by 37,700 jobs, payrolls in leisure and hospitality services up by 22,800 jobs, payrolls in retail trade up by 19,400 jobs, payrolls in transportation/utilities up by 17,800 jobs, and payrolls in manufacturing up by 10,900 jobs. For the U.S. as a whole, the April data show a decline in business services payrolls, and increases in the other industry groups noted here that would be more than entirely accounted for by the increases reported for the Regions footprint, meaning the rest of the nation saw collective declines in payrolls in each instance. To be sure, the Regions footprint accounts for roughly forty percent of all payroll employment for the U.S. as a whole and has consistently posted faster job growth than the U.S. as a whole, so, mathematically, it's possible. Whether or not it's plausible, however, is an entirely different question. And, we do think that on the national level the initial estimate of April job growth was understated, but it would be highly unusual for that effect not to have carried over into the state level data. One of the few things that does seem consistent in the April data is another sizable increase in payrolls in health care and social assistance, the industry group that, nationally and within the Regions footprint, has emerged as one of the main drivers of growth in nonfarm employment over the past several months.



Unemployment rates across the Regions footprint were little changed in April, rising modestly in some states and falling modestly in others, such that the rate for the footprint as a whole remained at 3.6 percent for an eighth straight month, as though the household survey data are mocking us for repeatedly noting how volatile the household survey data tend to be. In any event, it is still the case that reported unemployment rates for the U.S. and for most of the in-footprint states are lower than would be the case were labor force participation rates not still lower than they were prior to the onset of the pandemic. Another topic getting considerable attention of late is the divergence between job growth as measured by the establishment and household surveys. To be sure, these are two different surveys constructed with two different methodologies measuring two different things, think about it as measuring jobs versus measuring people. Nonetheless, over time job growth as measured in the two surveys tends to track pretty closely, as we show in the chart. One likely explanation is that the household survey, constructed on the basis of Census Bureau population data, is not picking up on the considerable wave of immigration captured in the population estimates constructed by the Congressional Budget Office and, as such, is undercounting both the size of the labor force and the level of household employment. In contrast, the measure of nonfarm employment from the establishment survey is a count of jobs and, as such, would capture immigrants who are employed but not accounted for in the household survey. While this difference may account for some, or even most, of the recent gap between the two measures of employment, our sense is still that the establishment survey is overestimating nonfarm job growth. Again, tune in next March . . .



In the fast-paced and often mysterious world of economic data, rule number one is that the numbers are what the numbers are. That said, we think it our duty to call out questionable results when we think we see them, as has been the case with the establishment survey data for some time now. Either way, we continue to expect the pace of hiring 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 and metro area data on the labor market, the housing market, and personal income, updates which can be found at: https://www.regions.com/about-regions/economic-update or https://regions.sharepoint.com/sites/Finance/SitePages/Economic-Reports.aspx

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