ECONOMIC UPDATE

REGIONS

September 24, 2024

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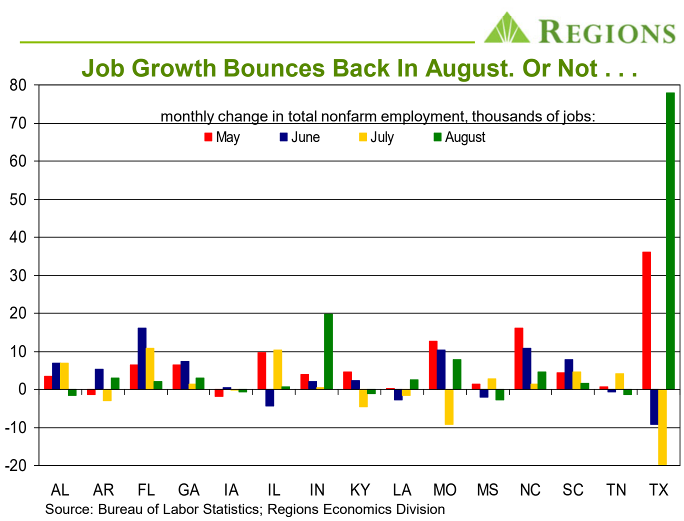
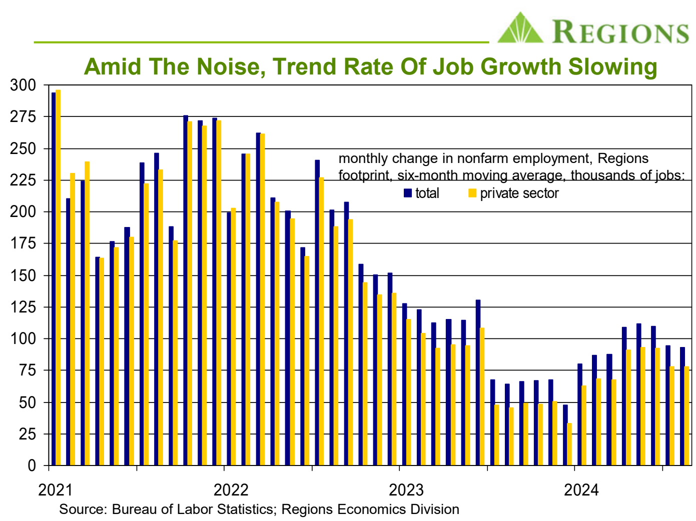
August 2024 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 115,700 jobs in August, with private sector payrolls up by 91,900 jobs and public sector payrolls up by 23,800 jobs. At the same time, an already notably low July job growth number was revised even lower, with the revised data showing nonfarm payrolls within the footprint rose by only 4,400 jobs in July rather than by 16,000 jobs as originally reported. At least as the data now stand, August's increase in nonfarm payrolls within the Regions footprint is the largest monthly increase since April though, as seen in the first chart below, job growth was hardly uniform across the footprint. To that point, Texas accounted for just over two-thirds of all job growth within the footprint in August, reversing two months of weak job prints for Texas. The data from the BLS's establishment survey, on the national, state, and metro area levels, remain plagued by collection and measurement issues, and the pattern of downward revisions to the initial estimates of job growth in any given month remains in place. That the data have been so noisy has made it hard to pin down the underlying trend rate of job growth. What we can be fairly confident in saying, however, is that the trend rate of job growth is slowing and that slowing pace of growth thus far has been strictly a function of a slowing pace of hiring rather than a rising pace of layoffs. We continue to monitor the weekly data on filings for unemployment insurance benefits, which will be the first place that any signs of that pattern changing would materialize in the data.





The first chart above shows how uneven the monthly job growth figures have been, not only across the individual states across the Regions footprint but within the individual states. The initial August estimates show employment declined in Alabama, Iowa, Kentucky, Mississippi, and Tennessee, while Indiana saw its largest monthly increase in nonfarm payrolls in over two years and Texas more than made up the ground lost in June and July. The second chart above goes to our point about tying to pin down the underlying trend rate of job growth for the footprint as a whole. Though a multi-month moving average is typically a reasonable approximation, the six-month moving averages shown in the second chart above offer little clarity. We'll also note that the BLS's preliminary estimate of the results of its annual benchmark revision process – the level of not seasonally adjusted nonfarm employment as of March 2024 being revised down by 818,000 jobs – will be reflected in estimates of job growth over the April 2023 through March 2024 period but the revisions won't necessarily yield a smoother pattern of monthly job growth. The final results of the benchmark revisions, however, will not be blended into the monthly data until the release of the January 2025 data. In the interim, it is likely that the monthly data will remain somewhat noisy, meaning that we'll rely on a host of indicators to help assess labor market conditions.

For our money, the most timely and reliable indicator at our disposal is the weekly data on initial and continuing claims for unemployment insurance benefits on a not seasonally adjusted basis. The claims data support the contention that, to the extent the trend rate of job growth has slowed, this has been a function of a diminished rate of hiring as opposed to a rising pace of layoffs. This is apparent in both

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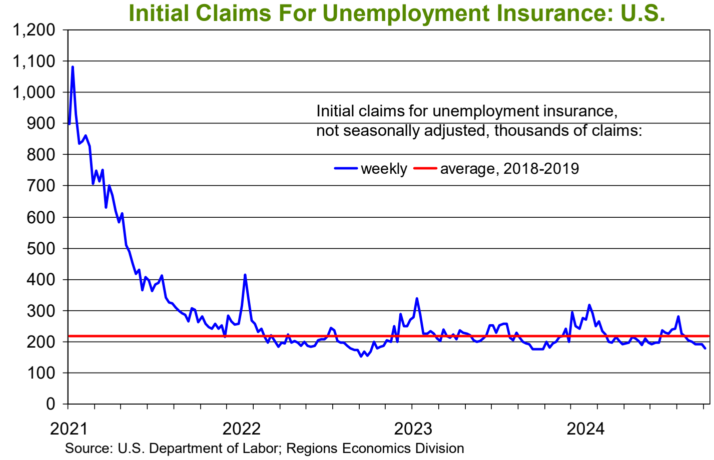
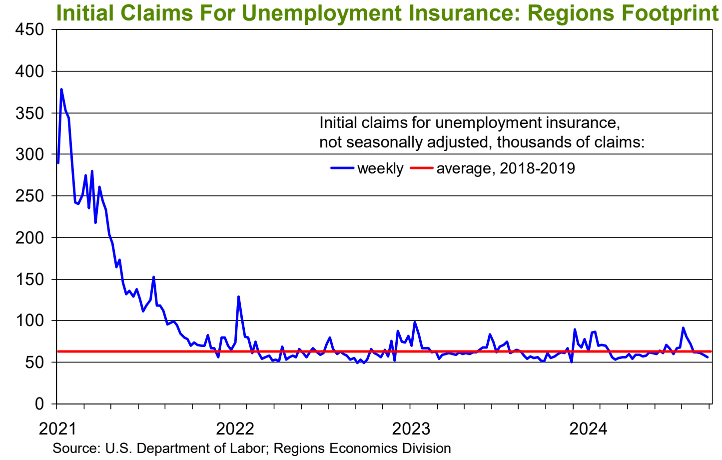
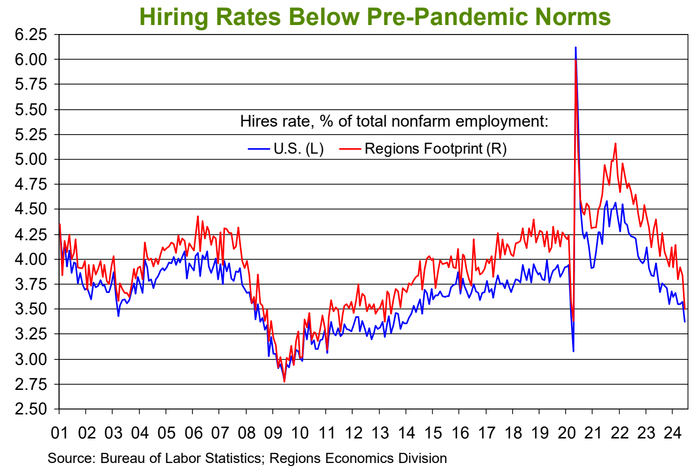
the national data and the state-level data, which we show in the following two charts. The charts show the average level of not seasonally adjusted weekly claims over the two years prior to the pandemic and the weekly data from 2021 on. There are, of course, pronounced seasonal patterns in the data, which is why you expect to see peaks/troughs at the same points of successive years. We prefer to show the unadjusted data given that it is tricky to seasonally adjust weekly data around events that don't take place on the same date each year, which can reflect anything from the floating timing of major holidays to changes in the start/end of the school year, and around exogenous events in a given year. To that point, the usual mid-summer spike in initial claims within the Regions footprint was exaggerated this summer by the impact of Hurricane Beryl, which contributed to initial claims in Texas over the second half of July and first week of August being well above the pre-hurricane run rate.



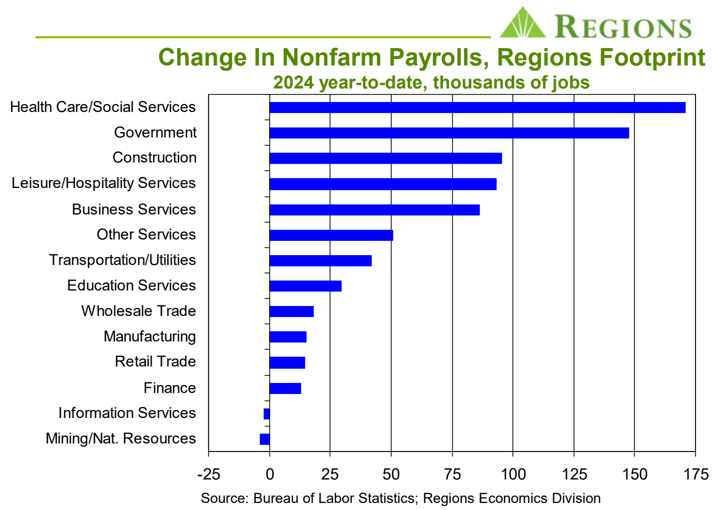


The broader point here, however, is that the data show no discernable breaks from typical seasonal patterns that suggest mounting job losses are behind the slowing trend rate of job growth. Similar charts showing the data on continuing claims for unemployment insurance benefits would look pretty much the same, i.e., show no discernable breaks from typical seasonal patterns (recall that initial claims show the number of people applying for benefits in a given period, while continuing claims show the number of people receiving benefits in a given period). To be sure, there have been some high-profile layoff announcements and the tech sector experienced a period of higher than normal layoffs, largely reflecting hiring having been overly aggressive in the early stages of the rebound from the pandemic, but there are no signs of significant, sustained, and broadly based layoffs. As noted above, we continue to closely monitor the weekly claims data, nationally and for the in-footprint states, for signs of this changing.

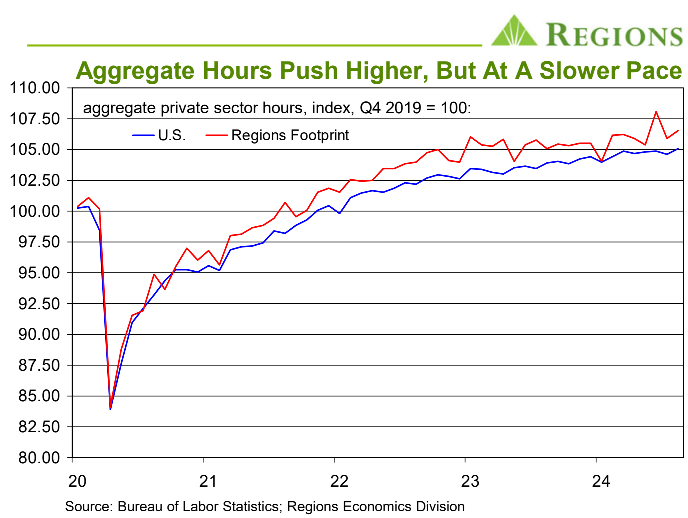


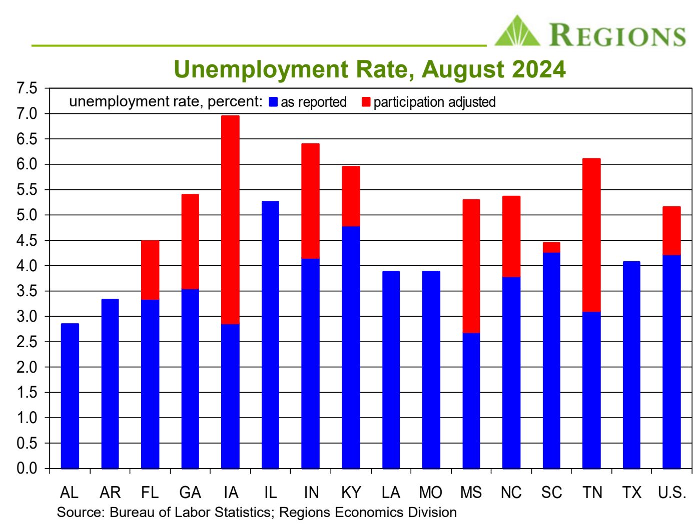
The slowing rate of hiring can be seen in the monthly data from the Job Openings and Labor Turnover Survey (JOLTS), as shown in the chart to the side. The hiring rate, i.e., hiring scaled to the level of nonfarm employment, has fallen below pre-pandemic norms, nationally and within the Regions footprint. This goes to our point about the culprit behind the slowing trend rate of job growth; recall the monthly job growth figure is a net figure, i.e., the difference between additions to and subtractions from nonfarm payrolls in a given month. To be sure, the JOLTS data are not immune from the collection and measurement issues that continue to plague the data from the BLS's establishment survey, and we put little credence in the level of any metric reported in the JOLTS data, particularly on the state level. That said, we have more faith in the trends in the JOLTS data.

What remains to be seen, however, is how much further the hiring rate will fall, or whether it will start to level off at a fairly low level, which is another way of raising the question of whether what we are now seeing in the labor market reflects a more normalized pace of job growth or the early phases of something less benign. We continue to maintain that it is the former, rather than the later, but acknowledge that it is too soon to have a definitive answer. One factor that is clearly contributing to the slowing pace of hiring is that the pace of hiring amongst the three industry groups that had for the past several months been driving overall job growth – health care, leisure and hospitality services, and government – has slowed. Recall that in 2023 these three industry groups accounted for almost two-thirds of all job growth within the Regions footprint and accounted for a similarly large share of job growth nationally and continued to drive overall job growth in the early months of 2024. More recently, however, combined job growth amongst these three industry groups has slowed, particularly amongst health care and leisure and hospitality services. As these industry groups were amongst the laggards in restoring the jobs lost in the early phases of the pandemic, it made sense that they would at some point transition into job growth leaders and, in turn, there would be a subsequent deceleration in the rate of hiring in these industry groups. Still, that deceleration is nonetheless having an outsized impact on overall job growth as hiring in most other industry groups has settled into a more sedate pace.



One thing that is noteworthy is that job growth in construction has picked up of late, to the point that construction has displaced leisure and hospitality services as one of the three fastest growing industry groups within the Regions footprint in 2024. The growth in construction employment reflects a mix of residential, commercial, and infrastructure related work, and while the pace of job growth seen in construction over the past several months is perhaps not sustainable, it also seems unlikely that we'll start to see significant job losses in this industry group any time soon, particularly given the boost from lower interest rates. Conversely, in keeping with indicators such as the ISM Manufacturing Index showing the broad sector to be in contraction, the past several months have not been kind to manufacturing employment, either nationally or within the Regions footprint, even though within the footprint the year-to-date change in manufacturing payrolls is still positive. Capital spending remains in the doldrums and is likely to remain there until there is more clarity around fiscal, trade, and regulatory policy as we move into 2025, and at the same time curbs in motor vehicle production will be felt across the footprint. At the same time, a slowing pace of growth in consumer spending could mean little/no growth in payrolls in transportation/warehousing/delivery services, but we'll soon be in the time of the year that brings seasonal increases in payrolls. Still, the net changes in these segments could be smaller than is typically the case around the holiday season.

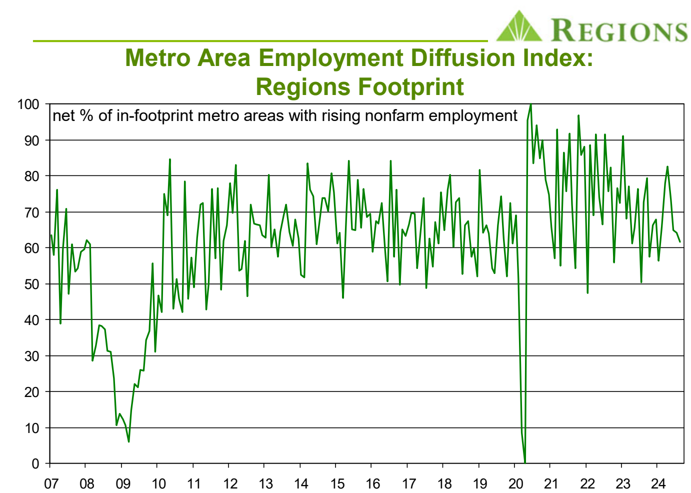




As for a couple of other labor market metrics we're monitoring, aggregate private sector hours worked continue to grow, but at a rather uneven rate, as shown in the fist chart above. To some extent, the uneven pace of growth in aggregate hours worked mirrors the uneven patterns of job growth seen across the footprint, but at the same time there has been modest erosion in average weekly hours worked. Thus far, there is nothing in the data on weekly hours worked to suggest anything other than cooling demand for labor, and it seems reasonable to conclude that firms continue to engage in labor hoarding given how difficult and costly it has been for firms to find and retain skilled labor over recent years. That said, meaningful and broad based (across industry groups) declines in average weekly hours worked would be an early indicator of a looming increase in layoffs, as there is only so far firms will go in cutting hours before deciding that outright layoffs are the more feasible option. As such, average weekly hours are another labor market metric we are watching closely for signs of erosion in labor market conditions.

Unemployment rates across much of the Regions footprint were flat to slightly higher in August, with the aggregate rate for the footprint rising to 3.9 percent from 3.8 percent in July. With the exceptions of Illinois and Kentucky, no states within the footprint have jobless rates above the national average. The cumulative increase in the unemployment rate for the footprint as a whole thus far in 2024, up by thirty basis points from year-end 2023, is smaller than the fifty-basis point increase in the national average unemployment rate. In each case, however, the increase in the unemployment rate is more supply driven than demand driven, even with labor force participation rates still below pre-pandemic rates across much of the footprint and nationally. In other words, household employment has continued to grow, even if at a slower pace, but the labor force has grown at a faster rate, thus pushing the jobless rate higher. Though there are no such details on the state or metro area levels, we know from the national level data that inflows into the labor force, whether new entrants or re-entrants, have been substantially stronger since 2023 than was the case over the prior several years. This to some extent reflects stronger inflows of foreign-born labor but, either way, the faster growth in the labor force has been the key culprit in the higher unemployment rate as the pace of job growth has simply not kept up in 2024, thus pushing the jobless rate higher. Though the increase in the unemployment rate is obviously not desirable, there is a difference, in terms of the effects in the broader economy, between that increase being driven by rapid growth in the labor force as opposed to being driven by increased numbers of people losing jobs – and in turn losing incomes. This is another trend we continue to monitor, and we'll also note that we and most others do not expect this rapid growth in the labor force to be sustained, which helps account for forecasts of only modest increases in the unemployment rate from here on through the end of the forecast horizon.

Job growth has become less geographically dispersed over the past few months, as indicated in the chart to the side. While the share of in-footprint metro areas adding jobs has slipped over the past few months, the offset has been an increase in the share of metro areas in which employment has held steady, as opposed to a rising share of metro areas in which nonfarm payrolls were falling. This still leaves the Metro Area Employment Diffusion Index within the range that prevailed over the prolonged expansion prior to the onset of the pandemic. This is yet another instance in which we can ask whether what we are seeing is a reversion back to pre-pandemic patterns of economic activity or a step toward a less benign outcome and, again, though it is too soon to have a definitive answer, we think it to be the former rather than the latter.



Source: Bureau of Labor Statistics; Regions Economics Division

As we've been noting for the past several months, a high degree of noise in the data on nonfarm employment, hours, and earnings makes it more difficult to assess the state of the labor market. As we move down from the national level to the state level to the metro area level, the degree of volatility in the data increases (as sample sizes decrease). Again, looking over a wide range of indicators, whether for the labor market or for the broader economy, helps and, again, on that basis we've seen little to suggest anything beyond the economy and the labor market settling back toward pre-pandemic trend rates of growth. 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, including the weekly data on initial and continuing claims for unemployment insurance benefits on the state level, the housing market, and personal income, updates which can be found at:

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