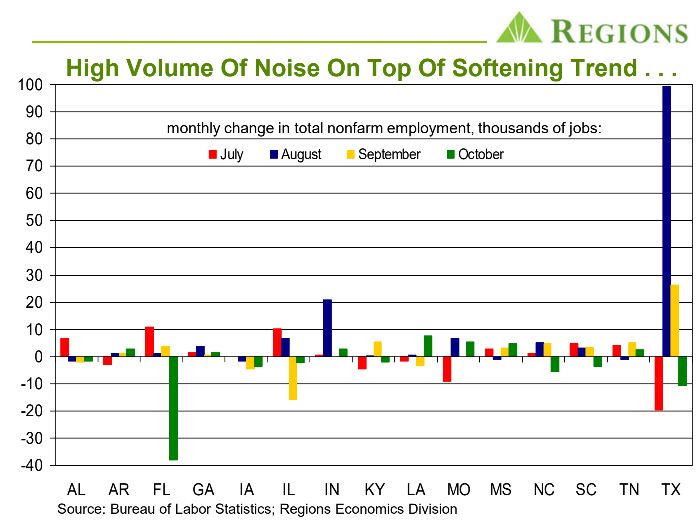
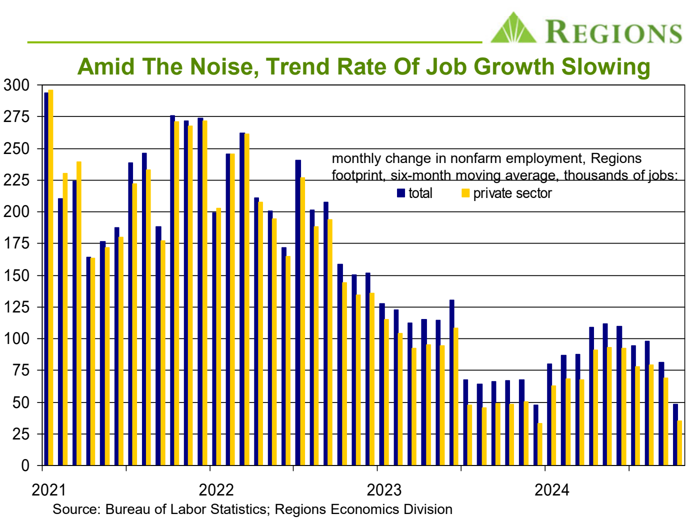
October 2024 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint fell by 39,600 jobs in October, with private sector payrolls down by 53,600 jobs and public sector payrolls up by 14,000 jobs. At the same time, the initial estimate of September job growth was revised significantly lower, with total nonfarm payrolls now reported to have risen by 27,400 jobs during the month. The weakness in state level employment in October mirrors that seen nationally, though in the national-level data the rise in public sector payrolls was enough to more than fully offset the decline in private sector payrolls. In processing the October employment data, there are a few factors to keep in mind, including the effects of Hurricanes Helene and Milton, the Boeing strike (though this did impact the Regions footprint), and tougher seasonal adjustment which effectively makes the seasonally adjusted October data look weaker. And then there is Texas; the data show that total nonfarm payrolls in Texas rose by a combined 125,700 jobs over August and September, gains sandwiched between a decline of 19,700 jobs in July (in part reflecting the impacts of Hurricane Beryl) and a decline of 10,600 jobs in October. We can find little that would account for these wild swings. Either way, a considerable degree of noise in the data over the past couple of months should not deflect attention away from the slowing underlying trend rate of job growth, a pattern we've been pointing to for some time now and which, at least thus far, reflects a slowing pace of hiring rather than a rising pace of layoffs.





Looking at the not seasonally adjusted data for the month of October helps put the seasonally adjusted data, from which the "headline" numbers flow, into better context. As with virtually every other aspect of the economy, there are clear seasonal patterns in the labor market, i.e., times of the year in which firms are adding workers and times of the year in which firms are shedding workers, and these patterns vary across industry groups and vary in intensity along geographical lines. As those who read any of our analysis/commentary are aware, we place a good deal of emphasis on understanding these seasonal patterns and how deviations from "typical" seasonal patterns in the raw, i.e., not seasonally adjusted, data can be, and often are, amplified by seasonal adjustment. As we've noted on many occasions, deviations from what for decades prior had been fairly stable seasonal patterns have been more frequent and often more pronounced since the onset of the pandemic. Over time, though, perhaps the biggest source of such deviations has been the weather, more specifically, adverse weather events such as hurricanes or unusually harsh winter storms.

We know from the data that October is typically a month in which nonfarm employment tends to rise strongly, in part because October has typically marked the beginning of holiday season hiring in industries such as retail trade and warehousing/delivery services. If, for whatever reason(s), hiring in October falls short of the typical increase (think the percentage change, not the change in the level of payrolls) for the month, that shortfall will be amplified by seasonal adjustment factors looking for the larger increase. That, to some extent, is what we saw this October. For instance, Florida and North Carolina were hit harder by the hurricanes than were other in-

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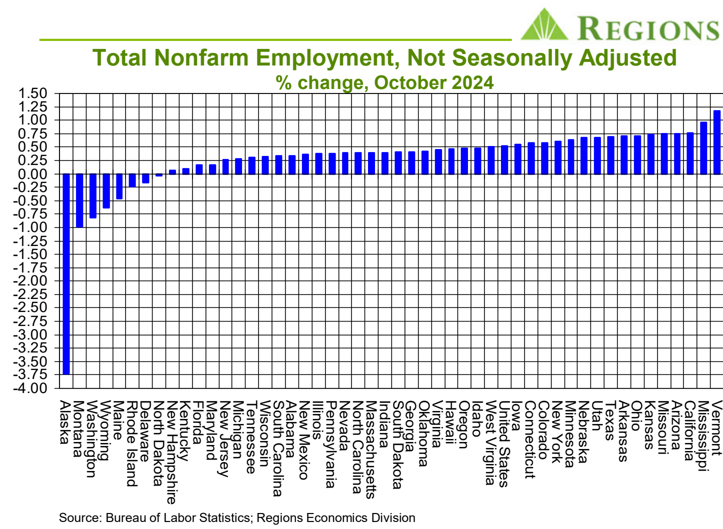
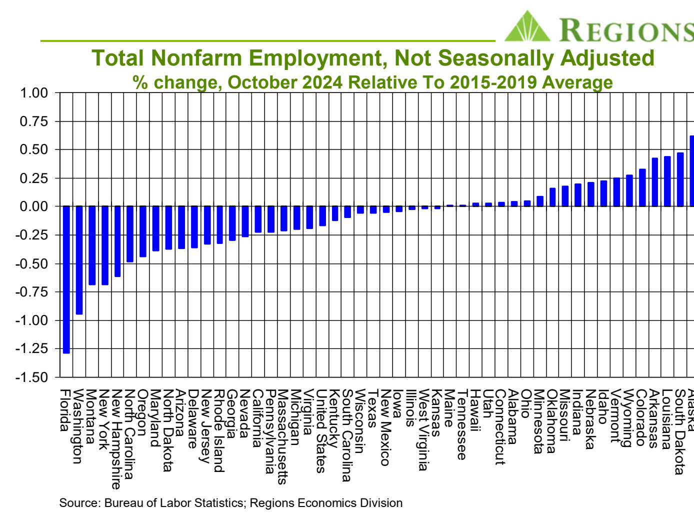
footprint states, and that Milton followed so closely on the heels of Hurricane Helene compounded the impact in certain states. As such, the not seasonally adjusted data show that, while total nonfarm payrolls actually rose in Florida and North Carolina last month, those increases were much smaller than the typical October increases, hence the seasonally adjusted data show total nonfarm payrolls fell by 38,000 jobs in Florida and by 5,500 jobs in North Carolina. As the October data were weak across much of the U.S. and not only within the Regions footprint, we did this same comparison more broadly, as illustrated in the following two charts.



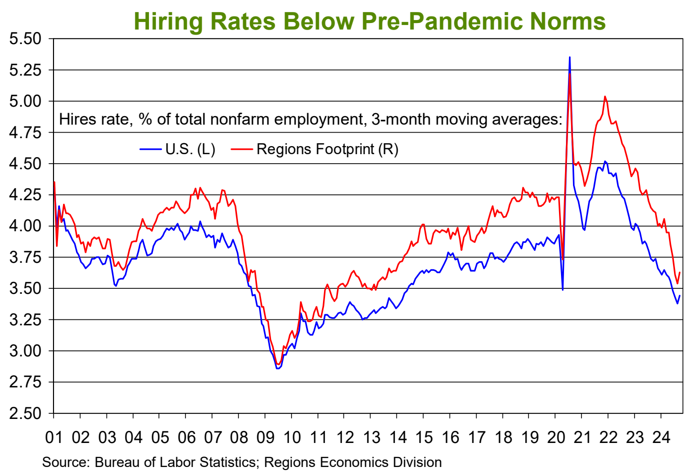


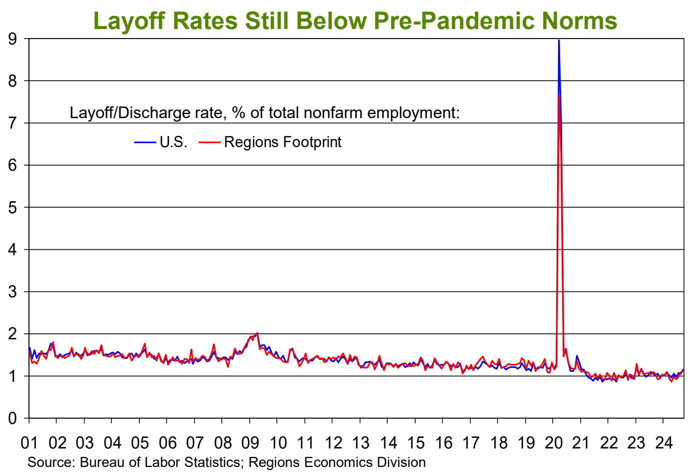
The first chart above shows the percentage change in not seasonally adjusted nonfarm employment for the month of October for each state. Note that Louisiana, with an increase of 1.23 percent, posted the largest increase in the nation, with Mississippi's 0.96 percent gain the third largest in the nation. At the other end of the spectrum, not seasonally adjusted nonfarm payrolls fell by 3.73 percent in Alaska in October. More broadly, while the seasonally adjusted data show nonfarm payrolls declined in twenty-nine states in October, the not seasonally adjusted data show declines in only eight states; within our footprint, no state saw total nonfarm payrolls decline on a not seasonally adjusted basis in October, yet the seasonally adjusted data show declines in eight states. The second chart above helps explain this disparity; using the average percentage change in the month of October over the 2015-2019 period as the benchmark, we see that thirty states saw a smaller increase in unadjusted nonfarm payrolls this October than that pre-pandemic average, and in most of these cases this October's increase was also smaller than the October average over the 2021-2023 period. In other words, whether measured against pre-or-post pandemic benchmarks, the not seasonally adjusted data show hiring this October fell short. Within the footprint, in addition to Florida and North Carolina, either Helene or Milton, if not both, led to disruptions in labor market activity in Georgia, Kentucky, South Carolina, and Tennessee that likely contributed to hiring this October being less robust than otherwise would have been the case.

Note from the second chart that Florida saw the biggest deviation from normal hiring patterns, while Washington saw the second largest, reflecting the impact of the Boeing strike. Recall that under BLS reporting conventions, striking workers are not counted as employed while out on strike, and while the strike began in September, the Boeing workers worked at least part of the September survey reference week, meaning they were counted as employed in that month. That the strike dragged on through the October survey reference week led to the striking workers, 33,000 of them, falling off nonfarm payrolls. Moreover, the impact on Boeing suppliers took another several thousand jobs off the books in October, so our estimate of the net hit to nonfarm payrolls was roughly 41,000 jobs. With the strike having been settled prior to the November survey reference week, those jobs will reappear in the count of nonfarm payrolls in the November data. The return of those impacted by the hurricanes will be more gradual, though some jobs will have been permanently lost.

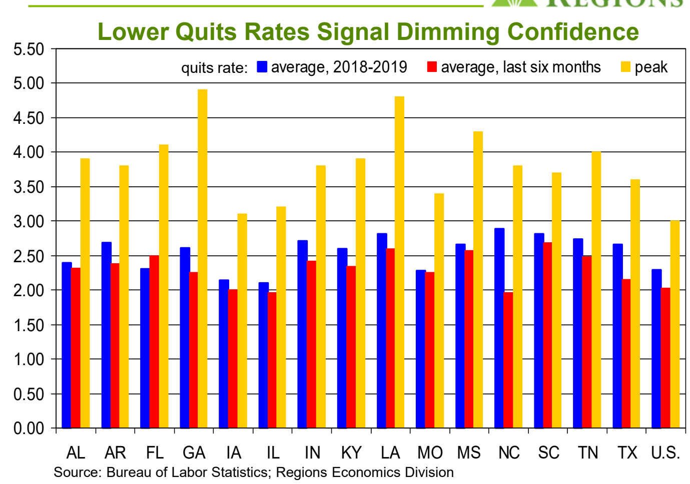
It is, of course, fair to ask why October hiring tended to be weaker than is typical for the month even in those areas not impacted by either the hurricanes or the Boeing strike. Indeed, the first question to ask in any instance in which there are deviations from typical seasonal patterns of activity in any data series is "why?" It could be that seasonal hiring tied to the holiday sales season will be weaker this year than has been the case over recent years, as we've argued would be the case given expectations for a more restrained increase in holiday season sales. While we won't have the answer to this question for a few more months, we do think this will prove to be the case. More broadly, however, that hiring in October was less robust than is typically the case for the month is in keeping with the slowing trend rate of job growth we've been pointing to over the past several months. As should have been expected to be the case, the pace of hiring was bound to slow, and the breadth of job growth was bound to narrow, once the economy had recaptured the jobs shed during

March and April 2020; though it took only two months to shed 21.9 million jobs nationally and over 7.5 million with the Regions footprint, recapturing those jobs took longer and arriving at where we would have been had the pandemic not happened took even longer. But, once those markers were hit, it made sense to think that the pace of hiring would slow sharply, as we had for some time argued would happen. That said, it should be noted that the slowing rate of net job growth has thus far reflected a slowing pace of hiring as opposed to a rising pace of layoffs, a distinction we see as important. This is a pattern we've highlighted in past issues of these writeups, and which can be seen from a few different angles.

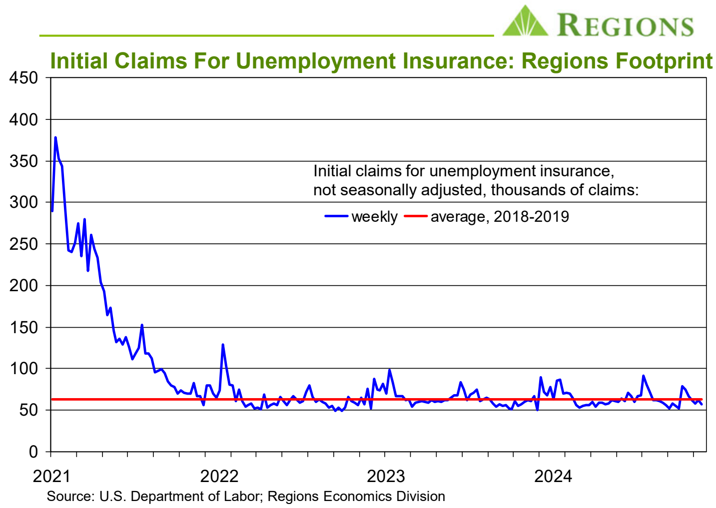




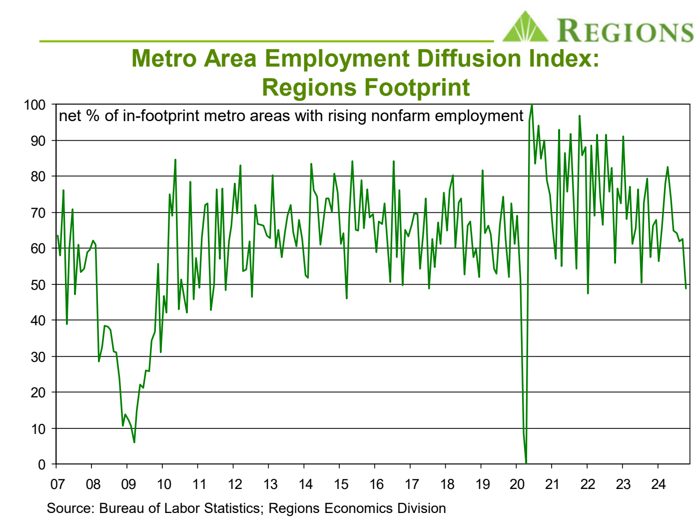
The first chart above goes to our point about firms taking on new workers at a slowing pace. Note that most series derived from the Job Openings and Labor Turnover Survey, a/k/a the JOLTS data, are highly volatile from one month to the next, owing to the combination of the very small sample size used to produce the JOLTS data and what is a strikingly low response rate, hovering at around one-third since the onset of the pandemic, to the monthly surveys. As such, we have little confidence in the level of any metric reported in the JOLTS data in any given month but do have more confidence in the underlying trends. Either way, it is clear that the hiring rate has not only fallen sharply from the post-pandemic highs, which is not at all surprising, but has fallen easily below pre-pandemic rates, which is a bit surprising. We show the hiring rates on a three-month moving average to get around the inherent volatility in the data, but the trend is abundantly clear. At the same time, however, the rate at which workers are being laid off remains below pre-pandemic norms for both the U.S. as a whole and the Regions footprint. What is less than clear at this point is how much longer both of these patterns will continue to hold. It would, at least in our view, be unusual for the hiring rate to continue dropping while the layoff rate remains largely rangebound; if the number of job vacancies and the hiring rate continue to trend lower, the further erosion in labor demand that combination would imply would be more consistent with a pick-up in layoff activity. Keep in mind that we say this with the knowledge that looming changes on the fiscal, trade, regulatory, and immigration fronts have the potential to trigger meaningful changes in both labor supply and labor demand. We remain focused on the weekly jobless claims data, not seasonally adjusted, for signs of increasing layoff activity, and while we do not expect that in our baseline outlook, the risks to our baseline outlook have increased of late.



That consumers feel less constructive on the state of the labor market has been apparent in the Conference Board's monthly survey of consumer confidence. Another, and more tangible, manifestation of this is the steady erosion in the rate at which workers are voluntarily quitting jobs, which has coincided with the steady declines in job vacancies and the hiring rate. No longer confident that they can easily land a new job and procure a larger raise, workers are less willing to voluntarily quit a job than had been the case. The chart above compares the average quits rate over the past six months with the average rate seen over the two years prior to the pandemic as well as to the post-pandemic peak. Again, it is not surprising that the quits rate has fallen sharply from the post-pandemic peak, but the disparity between recent averages and pre-pandemic averages in a number of in-footprint states is a bit striking. Also noteworthy, though somewhat curious, is that Florida is the only state in which the recent average quits rate remains above the pre-pandemic average despite having fallen sharply from the post-pandemic peak. More broadly, the declining quits rate can help explain wage pressures having eased over recent months, as a body of empirical evidence shows workers who change jobs obtain much larger salary increases than workers who stay in place at the same job.



To our point about the slowing pace of job growth reflecting a slowing pace of hiring as opposed to a rising pace of layoffs, we've noted that we see the weekly data, not seasonally adjusted, on initial claims for unemployment insurance benefits as the single most important labor market indicator at present. Though not a perfect indicator, the claims data are nonetheless free of much of the noise, in the form of collection and measurement issues, that have for some time plagued many labor market indicators, including the monthly counts of nonfarm payrolls. As of the week ending November 16, the spike related to the hurricanes had largely dissipated, with weekly filings in Florida and North Carolina still slightly above pre-hurricane run rates, and the count for the footprint as a whole remains below pre-pandemic norms. We will continue to monitor the claims data for signs of mounting layoffs, seasonal variations aside, that would lead us to reassess our outlook for the labor market and, in turn, the broader economy.



Our Metro Area Employment Diffusion Index, a gauge of the breadth of hiring across in-footprint metro areas, shows the effects of the hurricanes and weaker than normal October hiring. The index slipped to 48.7 percent in October, with a majority of the in-footprint metro areas that comprise the index seeing declines in total nonfarm employment. Barring January 2022, when unusually harsh winter weather impacted portions of the footprint, the level of the index was lower and the number of metro areas logging declines in nonfarm payrolls was higher than in any month since March and April of 2020. That said, of the metro areas for which nonfarm payrolls were reported to have declined on a seasonally adjusted basis, only six saw declines on a not seasonally adjusted basis, and each of these was impacted by the hurricanes. To our earlier point, while the unadjusted data show increases in nonfarm payrolls, in many cases the increases were not as robust as has typically been the case for the month of October, hence the declines reported in the seasonally adjusted data. The weaker than normal hiring but absence of outright declines in unadjusted payrolls is consistent with our premise of a cooling, but not collapsing, labor market.

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. Looking over a wide range of indicators, whether for the labor market or for the broader economy, helps and, 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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