

ECONOMIC UPDATE



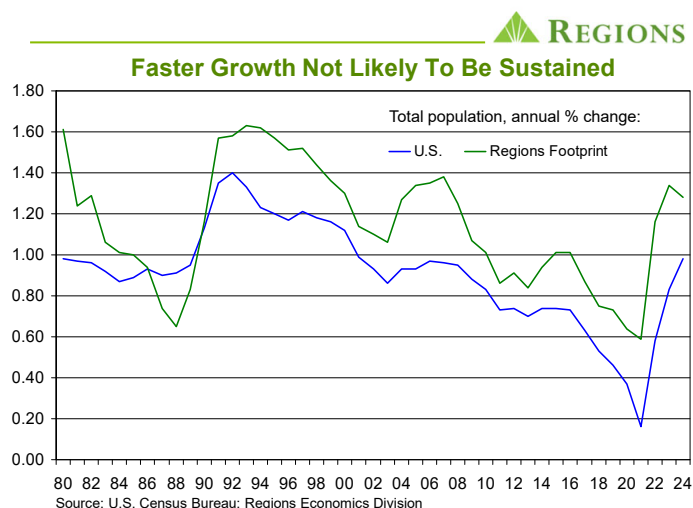
REGIONS

January 2, 2025

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2024 State Population: Regions Footprint

The U.S. Census Bureau recently released comprehensive data on 2024 state level population, including the components of change in population. The pace of population growth quickened in 2024, nationally and within the Regions footprint, marking the third straight year of accelerating population growth, though in part this streak reflects the adjustment from the horrible toll exacted by the pandemic. To some extent, this adjustment is ongoing; though having fallen further in 2024, mortality rates remain well above pre-pandemic norms, and while the pace of decline in birth rates seems to have settled back into the pre-pandemic trend pace, there has been no offset to the larger than normal decline seen between 2020 and 2022. The biggest factor behind the acceleration in population growth over the past three years, nationally and within the Regions footprint, has been significantly faster net foreign in-migration, which gets us to the most striking element of the recently released population data. With the "Vintage 2024" estimates, the U.S. Census Bureau has incorporated a revised methodology for estimating net international migration, picking up groups of immigrants that have not previously been included in estimates of foreign in-migration. One implication of this change is that population growth in 2022 and 2023 is now shown to be significantly faster than previously reported, both nationally and within the Regions footprint. At the same time, however, the Vintage 2024 estimates show a marked slowdown in net domestic in-migration within the Regions footprint, something we noted in last year's write-up that we thought likely to happen after the burst seen from 2021 through 2023. Given what seems likely to be a slowdown, perhaps a pronounced slowdown, in the rate of net foreign in-migration in 2024 and beyond, it seems unlikely that the rates of population growth seen over the past three years will be sustained, either nationally or within the Regions footprint. Before proceeding further, we'll note that comparable data on the metro area are not yet available, so this discussion will be on the national and state levels.

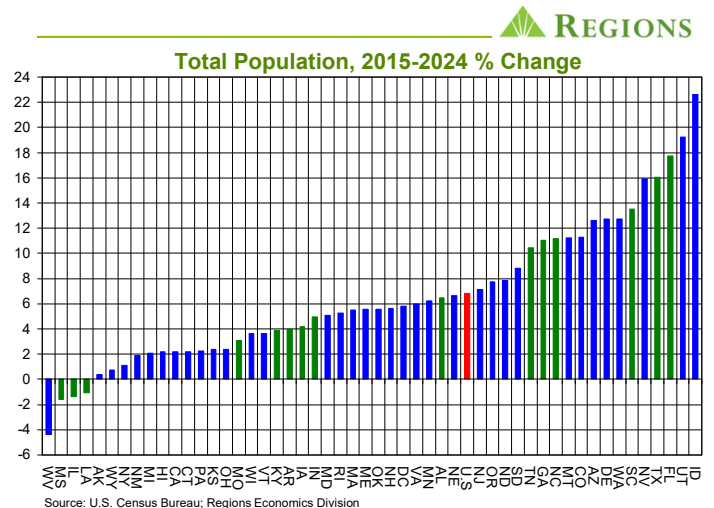
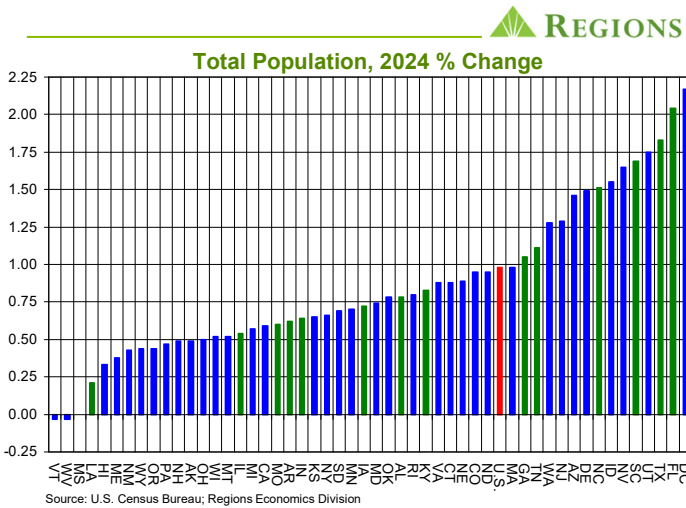


As seen in the chart to the side, total population growth in the Regions footprint has consistently outpaced growth for the U.S. as a whole. Indeed, the last year in which population growth in the footprint lagged growth for the U.S. as a whole was 1989. Still, overall trends in population growth have been similar, with decelerating trend growth for some time, mainly due to falling birth rates but also reflecting diminished net foreign in-migration in the few years prior to the pandemic. The past three years, however, brought significantly higher net foreign in-migration, nationally and within the footprint, that greatly accounted for the acceleration in total population growth. As we have noted in other forums, one implication was faster growth in the labor force than would otherwise have been the case, helping to sustain rapid growth in nonfarm employment while blunting upward pressure on growth in labor costs. Faster growth in the supply of labor combined with faster growth in the productivity of labor have over

the past two years allowed for a pace of real GDP growth above what we consider the economy's sustainable long-term pace. With many states having seen natural declines in population over recent years, foreign in-migration has been critical in sustaining growth in total population. Even allowing for further declines in mortality rates after the spike triggered by the pandemic, net migration flows will remain the key determinant of rates of population change in the years ahead, nationally and within the Regions footprint. As this discussion illustrates, breaking population growth down into its sub-components is far more informative than simply looking at changes in total population, as it allows us to better isolate the factors driving the broader trends in population growth. Also, in our presentations of data on the state and metro area levels we routinely point out that looking at the data for the footprint as a whole masks what are often stark differences across individual states/metro areas. The same is true with the data on population and the components of change even as the population of the Regions footprint has consistently grown at a rate above the national average.

Nationally, total population rose by 0.98 percent in 2024, following upwardly revised increases of 0.58 percent in 2022 and 0.83 percent in 2023 originally reported as increases of 0.37 percent and 0.49 percent, respectively. Total population within the Regions footprint

increased by 1.28 percent in 2024, after upwardly revised increases of 1.16 percent in 2022 and 1.34 percent in 2023, originally reported as increases of 0.91 percent and 0.99 percent, respectively. Both nationally and within the footprint, the upward revisions reflect the methodological change incorporated by the Census Bureau which yielded significantly higher counts of international in-migrants. In short, the change stemmed from Census using a broader measure of in-migrants, including border patrol releases and paroles. Clearly, it is most difficult to accurately measure international migration, but the former methodology employed by Census yielded estimates well below those from other sources. This was apparent last January when the Congressional Budget Office issued a report suggesting much greater international in-migration than had been reported by Census; their updated methodology brings the Census estimates more in line with those from other sources.



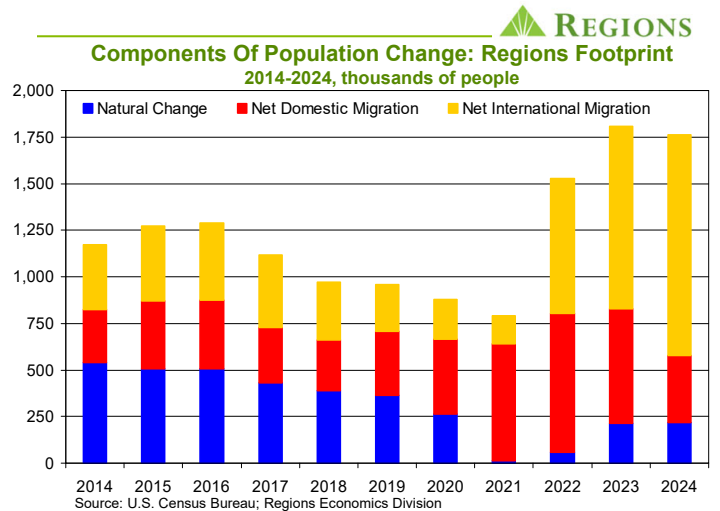
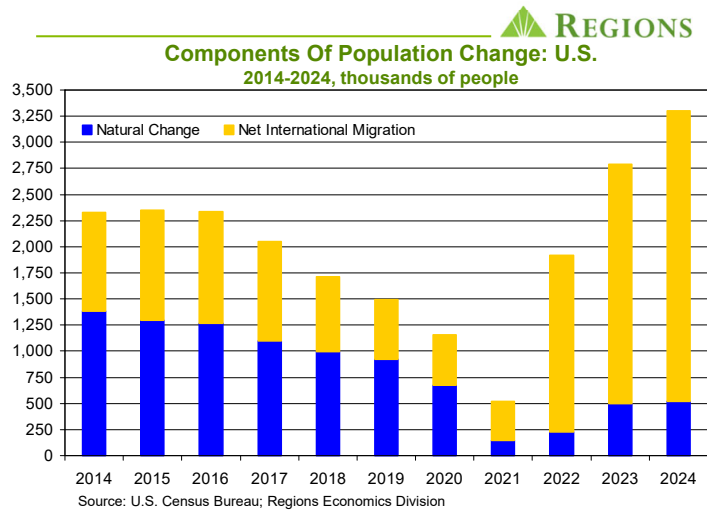
The District of Columbia saw its population increase by 2.17 percent in 2024, the largest increase in the nation followed by Florida’s 2.04 percent increase and the 1.83 percent increase in Texas. South Carolina (1.69 percent) posted the nation’s fifth largest increase and North Carolina (1.51 percent) posted the nation’s eighth largest increase, while Tennessee (1.11 percent) and Georgia (1.05 percent) also logged increases larger than the national average of 0.98 percent. Conversely, Mississippi saw its population decline ever so slightly, joining Vermont and West Virginia as the only states to see population declines in 2024.

The second chart above shows the change in total population over the most recent ten-year period, with the U.S. population increasing by 6.82 percent over this span. At 22.63 percent, Idaho saw the nation’s largest increase in population over the past ten years, followed by Utah’s 19.24 percent increase. Florida (17.72 percent) saw the nation’s third largest increase and Texas (16.05 percent) saw the fourth largest, while South Carolina (13.51 percent) logged the sixth largest increase. North Carolina (11.16 percent), Georgia (11.02 percent), and Tennessee (10.44 percent) also saw increases larger than the national average. Conversely, four states saw their population decline over the past ten years, with West Virginia’s decline of 4.35 percent being the largest, but next on the list are Mississippi (down by 1.63 percent), Illinois (down by 1.36 percent), and Louisiana (down by 1.04 percent).

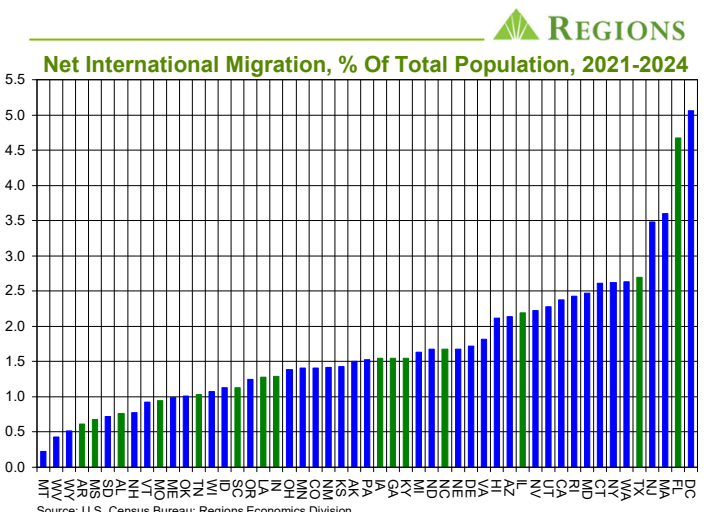
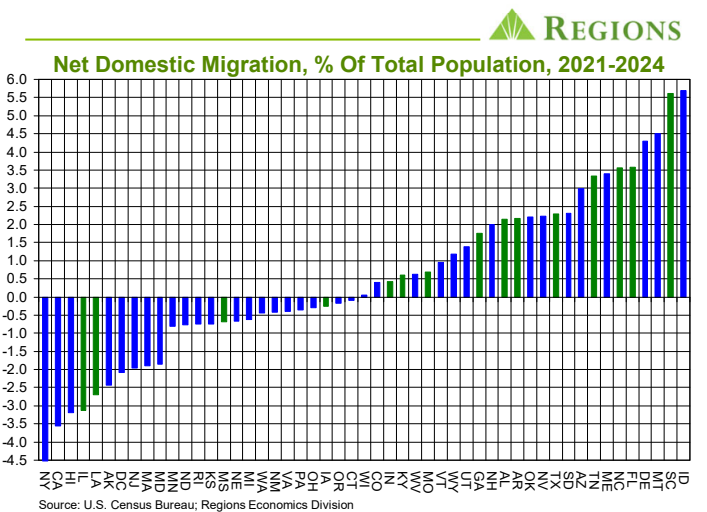
For any geographic area, it is important to break the change in total population down into its three component parts, or, in the case of the U.S. as a whole, its two component parts as net domestic migration for the U.S. as a whole is by definition zero. Clearly, the pandemic had a pronounced impact on each of the three main components over the past few years. A long-running decline in birth rates was magnified by the spike in mortalities brought on by the pandemic, thus driving down the natural change (i.e., the difference between births and deaths) in the total population. At the same time, the rising incidence of remote work triggered changes in domestic migration flows, though to a large extent this simply magnified trends already in place, such as states in the Southeast, Southwest, and Mountain West seeing already high rates of net domestic in-migration rise further. With the onset of the pandemic, mobility restrictions and more stringent immigration policies led to a pronounced slowdown in international migration flows, at least for a time.

As noted above, these shifts have, to varying degrees, reversed over the past few years. For instance, after hitting a trough in 2021, the natural change in population has gotten progressively larger, both nationally and within the Regions footprint. This does, however, still leave natural change far below pre-pandemic norms, reflecting further declines in birth rates coupled with mortality rates that remain above pre-pandemic norms. The spikes in net domestic in-migration seen across various parts of the nation after the onset of the pandemic have subsided, and that is true of the Regions footprint as a whole. Part of this could be that more firms are, to varying degrees, pushing back against remote work, thus dampening mobility across metro areas/states. At the same time, sharply higher

mortgage interest rates have acted to lock greater numbers of homeowners in place, particularly those who originated mortgages between 2020 and mid-2022, thus acting as a further drag on domestic migration. At the same time, however, net international in-migration into the U.S. has spiked since 2022, to the point that international in-migration accounted for roughly eighty-five percent of the change in the total population of the U.S. over the 2022-2024 period. Over this same span, international in-migration has accounted for over one-half of the change in the total population within the Regions footprint which, like the U.S. as a whole, is significantly greater than the historical (i.e., pre-pandemic) share. Don't forget that for the U.S. as a whole net domestic in-migration is zero, so you'd expect international in-migration to account for a higher share of population growth for the U.S. than for states or metro areas.



The above charts show the breakdown of the change in population for the U.S. and the Regions footprint for each year from 2014 through 2024. The notably low natural change in 2021 is a stark reminder of the toll taken by the pandemic; within the Regions footprint, Georgia, Iowa, Illinois, North Carolina, and Texas are the only states to not have seen at least one year of negative natural change (i.e., deaths exceeding live births) since the onset of the pandemic, while Alabama, Arkansas, Florida, Kentucky, Missouri, Mississippi, South Carolina, and Tennessee each saw more than one year of negative natural change. The significantly faster inflows into the Regions footprint from elsewhere in the U.S. from 2021 through 2023 are visible in the second chart above, as is the marked slowdown in these flows in 2024. What stands out the most, however, are the spikes in net international in-migration nationally and within the Regions footprint since 2022, spikes which stand out against the backdrop of what could be significant changes in U.S. immigration policy in the months ahead.

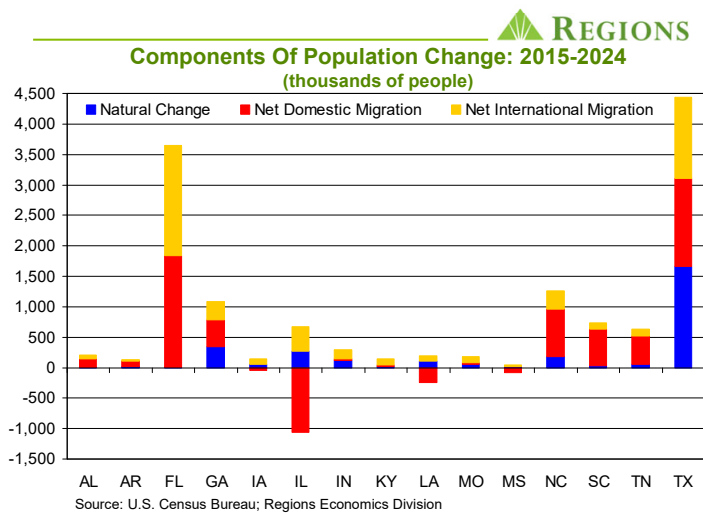


The charts above help put the discussion of immigration reform in better context, particularly the point that for many states and metro areas international in-migration has either been the sole source of population growth or has softened the decline in total population stemming from net domestic out-migration. Note that while the spikes in international in-migration began in 2022, sharp swings in domestic migration patterns were apparent in 2021, which is why the above charts use the 2021-2024 time span. To our point, over this

span there were seven states, including Illinois, Louisiana, and Mississippi, which saw declines in total population that would have been more pronounced had it not been for net international in-migration. There can be various reasons for domestic out-migration from a given state or metro area, such as sluggish economies offering limited employment prospects, high costs of living, or higher tax and/or regulatory burdens. This latter reason may have taken on added importance since the pandemic given the increase in business formations that has sharpened the focus on the tax/regulatory climate in a given area. And, though the pace of domestic migration slowed in 2024, there were nonetheless twenty-four states which saw net domestic out-migration. At the same time, there are factors which draw stronger flows of international in-migration – recall that where one enters the U.S. and where one settles in the U.S. are not necessarily the same. For instance, cities/states which have declared themselves “sanctuaries” have tended to draw more immigrants.

Whatever the specific form immigration reform ultimately takes, the point here is that between what has been a long-running trend of diminishing natural change, thanks mainly to ongoing declines in birth rates, and the increased draw of certain regions of the U.S. at the expense of others, international in-migration has been a critical source of population growth for many states and metro areas. More broadly, foreign-born labor has become an increasingly critical source of labor supply, accounting for roughly nineteen percent of the labor force and household employment in the U.S., which has facilitated stronger job growth and, in turn, stronger growth in the production of goods and the provision of services while stemming upward pressure on wages. Regardless of whether, or to what extent, mass deportations occur, there have already been signs of diminished inflows of immigrants, and to the extent these flows slow further in the months ahead, that will act as a drag on total population growth for the U.S. and will amplify declines in population in those areas experiencing net domestic out-migration.

As a side point, while it will take time for immigration reform to turn up in the population data, we could see a fairly immediate impact of the Census Bureau’s revised methodology for estimating international in-migration when the January labor market data are released (February for the national data, March for the state and metro area data). Each year, the household survey – the basis of estimates of the labor force, household employment, and the unemployment rate, amongst other metrics – is reconfigured to account for the most recent vintage of the Census Bureau’s population estimates, which act as “controls” over the household survey for the year ahead. In other words, the population controls around the 2025 household survey will be those from Vintage 2024 population estimates which, as we’ve discussed here, will mean a significantly higher population of foreign-born labor. This should result in significant level increases in the size of the labor force and the estimate of household employment with the January data and, if this is the case, will help reconcile what has been a marked disparity in estimates of job growth between the household survey and the establishment survey. We and others have for some time argued that the Census population controls had been underestimating immigration inflows which, in turn, meant the household survey data were underestimating the level of employment. We’ll soon know whether or not this argument was valid.



The chart to the side draws the focus of this general discussion down to the footprint level, summarizing the components of the change in total population for each in-footprint state over the past ten years. With natural change becoming an increasingly less powerful driver of population growth, even Texas has seen this even if on a relative basis natural change is a strong driver, and decidedly mixed fortunes in terms of net domestic migration, net international in-migration has been a key support for population growth or has mitigated population declines. Though the nature and the degree to which this will change cannot be known at this point, what does seem all but certain is this will change in the months ahead, and there will, in turn, be implications for the labor market and the housing market, in the case of the latter on both the supply side and the demand side.

While demographics may or may not be destiny, they do indeed bring significant implications for economic growth and public policy. This is one reason why we frequently discuss the importance of demographic trends as a driver of economic growth over time, a topic which does not get nearly as much attention elsewhere as we think it deserves. Though changes in demographic patterns tend to play out slowly over time, immigration reform will likely have a more immediate impact and, regardless of the specific form such reform ultimately takes, the end result is likely to be population growth slowing and falling back in line with, or at least more in line with, the decelerating trend rate that prevailed for many years prior to the onset of the pandemic. If this is the case, the potential implications need to be understood and accounted for.