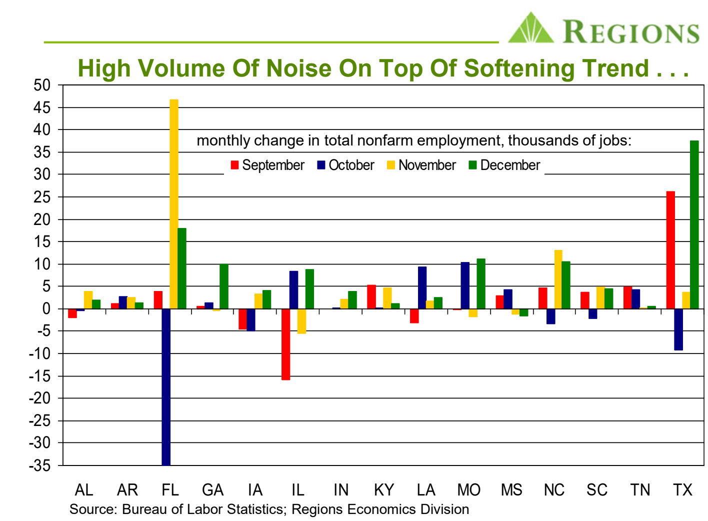
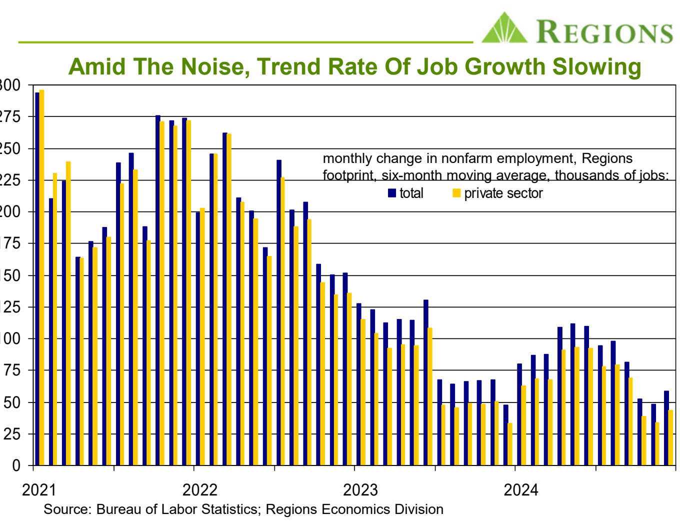
ECONOMIC UPDATE
REGIONS
February 11, 2025

December 2024 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 114,100 jobs in December after an increase of 77,900 jobs in November. Private sector payrolls rose by 101,200 jobs in December while public sector payrolls rose by 12,900 jobs. With the exception of Mississippi, nonfarm payrolls rose in each in-footprint state in December, though in the case of Tennessee this was a function of an increase in public sector payrolls as private sector payrolls declined in December. Recall that total nonfarm payrolls within the footprint fell by 33,256 jobs in October, reflecting the effects of Hurricanes Helene and Milton, so the rapid job growth in November and December in part reflects jobs going back on the books after having fallen off due to the hurricanes – note that in the establishment survey data one has to be physically present at work at some point during the reference week to be counted as employed. These swings aside, it is clear that the trend rate of job growth slowed as 2024 progressed, both nationally and within the Regions footprint. In each instance, however, the slowing trend rate of job growth has been far more a function of a slowing pace of hiring rather than a rising pace of layoffs. Still, the slowing pace of hiring means that those workers who do lose their jobs are having a harder time landing a new job and that it is taking longer for them to do so. A significant and sustained pace of layoffs is one of the two main downside risks to labor market conditions that we are on the watch for in 2025, the other being a significant slowdown in the flow of foreign born labor.





With the release of the December data, we have a preliminary look at full-year 2024 job growth, and it would probably be a good idea to not get too attached to these preliminary estimates. Though it will be more than a month until we have them on the state and metro area levels, we do have in hand the results of the BLS's annual benchmark revisions to the establishment survey estimates of nonfarm employment, hours, and earnings, which this year were to the downside, and in a big way. Recall that the annual benchmark revisions entail the BLS "benchmarking" the results of the monthly establishment survey to the data from the Quarterly Census of Employment and Wages (QCEW), a comprehensive accounting of the payroll tax returns almost all firms are required to file. This year's benchmark revisions led to the BLS's estimate of the seasonally adjusted level of nonfarm employment as of March 2024 being lowered by 589,000 jobs. The downward revision on a not seasonally adjusted basis was slightly larger and was equivalent to 0.4 percent of the level of nonfarm employment, substantially larger than the average (0.1 percent on an absolute value basis) over the past ten years. That the final benchmark revision was smaller than the BLS's preliminary estimate wasn't all that much of a consolation prize.

Again, the final results of the benchmark revisions to the state and metro area level are not yet available, but we do know that the revisions tend to be larger (as a percentage of total nonfarm employment) on the state level than on the national level and larger on the metro area level than on the state level. That the revisions tend to get larger as we go down geographic levels mostly reflects increasingly smaller sample sizes as the geographic units get smaller. While it is reasonable assume that the benchmark revision for the Regions

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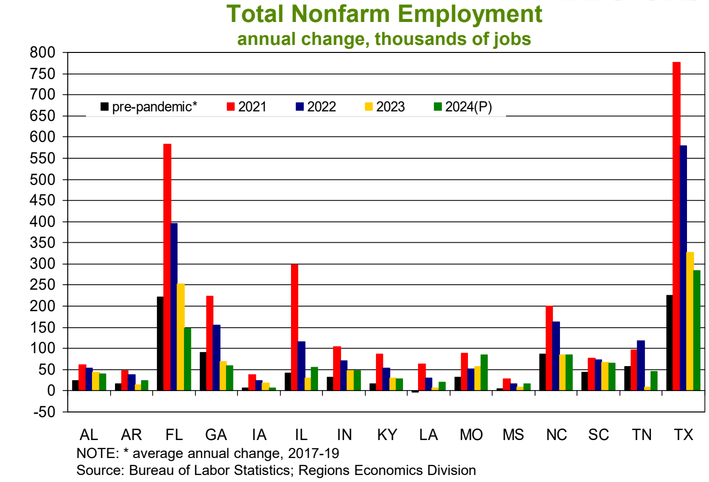
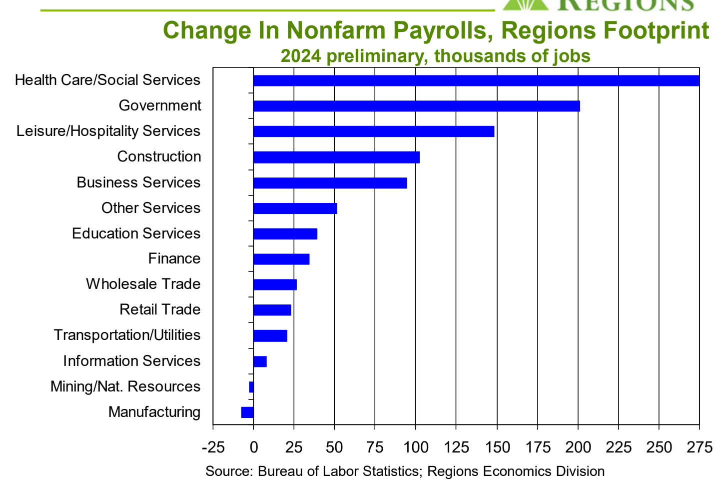
footprint as a whole will also be to the downside, given that the footprint accounts for roughly forty percent of nonfarm employment in the U.S., that will not necessarily be the case for each state or for each metro area within the footprint. We do this year have preliminary estimates from the BLS as to the magnitude of the benchmark revisions on the state level and for a group of metro areas, though the obvious caveat here is that, given the disparity between the BLS's preliminary and final estimates of the benchmark revision to the national level data, there could also be sizable gaps between the preliminary and final estimates on the state and metro area levels.



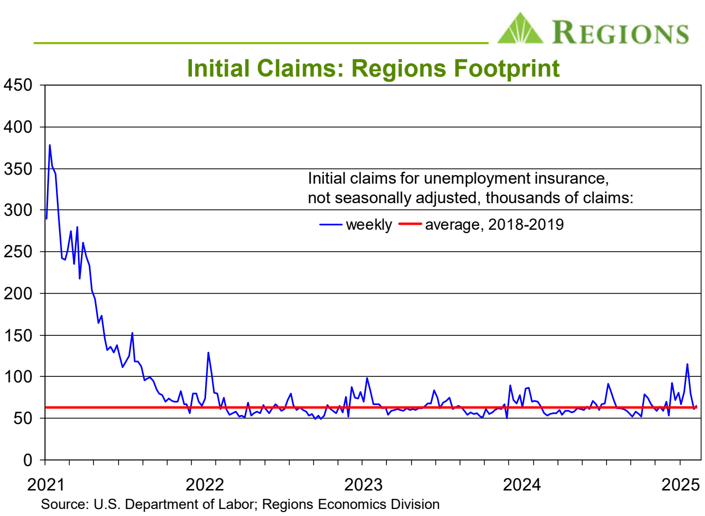
The chart to the side shows the annual change in total nonfarm employment for each state in the Regions footprint from 2021 through 2024, as well as the average annual change over the three years prior to the pandemic as a point of reference. Note that the benchmark revisions and other technical revisions will result in estimates of the seasonally adjusted data going back to 2020 being revised, so we'll wait for the revised data before making any broad conclusions about where a given state or metro area is relative to its pre-pandemic status. The preliminary estimates show a large upward benchmark revision to the level of employment in Tennessee as of March 2024, equivalent to 1.2 percent of the level, which matches the revisions to Arizona and Maryland as the largest upward revision to any state. The revised data will, hopefully, help account for what in the current data is reported to have been an implausible slowdown in job growth in Tennessee since mid-2023 and which was not resolved in the 2024 data. While the bankruptcy of Yellow Corp. would have impacted the 2023 data, that alone cannot account for the severity of the slowdown in job growth that year, nor should it have anything to do with the 2024 data. This is, unfortunately, one of the joys of working with the sub-national data, i.e., there simply is not the same degree of detail as we move down geographical levels and we're seldom able to dig down into the data as deeply as we would like. In addition to Tennessee, the preliminary estimates of the benchmark revisions on the state level show above-average revisions to the data for Kentucky and Louisiana, but also show above-average downward revisions to the data for Indiana, Mississippi, Missouri, and South Carolina, with the remaining states plus/minus to a smaller degree than the overall national revision. The downward revision to Missouri, 1.2 percent of the base, ties Idaho for being the third largest downward revision in the nation. Again, though, the final benchmark revisions may look quite different than these preliminary estimates.

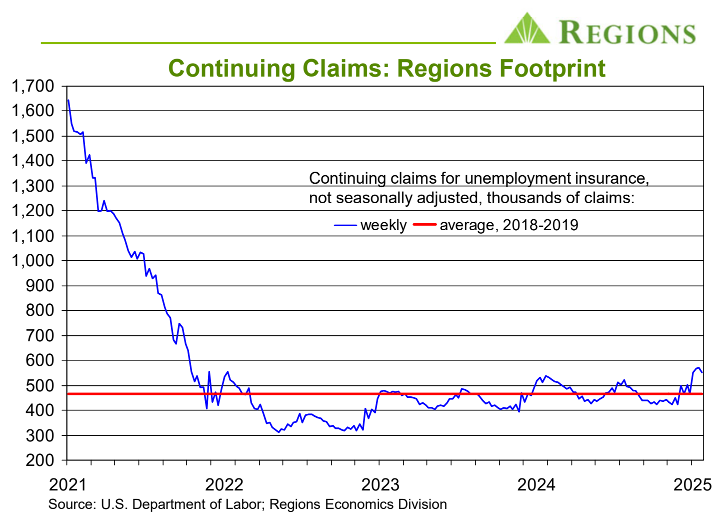


On an industry level basis, the results of the revisions to the data for the U.S. as a whole suggest what we can expect in the state level data. For instance, the revisions were most unkind to business services, now shown to have added 418,000 fewer jobs over the 2022-24 period than previously reported, and retail trade, now shown to have added 158,000 jobs over this same span. Manufacturing, construction, mining/natural resources, and leisure and hospitality services were all also shown to have added fewer jobs over the 2022-24 period than previously reported, all industry groups that account for a higher share of total nonfarm employment within the Regions footprint than is the case nationally. Conversely, transportation/utilities, health care and social assistance, government, and "other" services were shown to have added more jobs over the 2022-24 period than had been reported. One thing that jumped out of the revised national data is that health care and social assistance, leisure and hospitality services, and government are now shown to have accounted for 85.8 percent of all nonfarm job growth in 2023 and 81.5 percent in 2024, in each case meaningfully higher than the already high concentration shown prior to the revisions. While the pre-revision data show a lesser concentration within the Regions footprint – 61.6 percent of 2024 nonfarm job growth – it will bear watching whether, or to what extent, the revised data push this share even higher. As we've noted before, in some sense the high concentration of job growth amongst these three industry groups in 2023 and 2024 is understandable, in that they were notable laggards in recovering the jobs shed during the early phases of the pandemic. That said, now that these industry groups have more than recovered that lost ground, it is reasonable to expect slower job growth in them going forward. This is one reason why we expect a meaningfully slower pace of job growth in 2025, both nationally and within the Regions footprint.

The January employment report also incorporated updated population controls around the household survey data, from which flow metrics such as the size of the labor force, the level of household employment, the labor force participation rate, and the various measures of unemployment (the U3 rate) and underemployment (the U6 rate). The updated population controls incorporate the Census Bureau's revised methodology for estimating international in-migration, which resulted in significantly higher net foreign in-migration over the 2022-24 period than had previously been reported. This is something we discussed in last month's release on 2024 population change within the Regions footprint (found here https://imgix.doingmoretoday.com/app/uploads/2025/01/02080607/2024-State-Population-Regions-Footprint.pdf). In the already-released national level data, the updated population controls yielded substantial level-increases in both the size of the labor force and the level of household employment as of January 2025, as we anticipated would be the case, with each over two million higher than the level as of December 2024. Note, however, that the level data are not comparable from one year to the next, as each year's samples are based on different sets of population controls. That the levels of 2025 are so much higher, however, reflects a fuller, even if not complete, accounting of the effects of foreign in-migration, which we'd argued the household survey data had been undercounting for some time. Also note that while the levels of the household survey data often change significantly from year-to-year, even if not as dramatically as in 2025, the ratios calculated from the level data do not tend to change much, if at all, as the population controls change, which is why it's safe to compare unemployment rates, labor force participation rates, and other ratios from one year to the next. Finally, some of the recent historical level data will have changed, reflecting revised seasonal adjustment factors.

We go into this detail to convey some points to be watching for in the household survey data on the state and metro area levels when it becomes available next month. For instance, the 2024 data show declines in both the size of the labor force and the level of household employment in Florida, including some of the larger metro areas such as Fort Lauderdale, Jacksonville, Orlando, Tallahassee, Tampa, and West Palm Beach, declines which we think to be implausible. Either way, the January data could and likely will look much different than the December 2024 data, not only for Florida but across most states and metro areas, particularly those such as Florida and its major metro areas which have seen significant flows of foreign in-migration over the past few years.





To be sure, there will be a lot to tackle upon the release of the January state and metro area labor market data which will incorporate the results of the benchmark and other revisions to the establishment survey data and the updated population controls around the data from the household survey. In the interim, we'll use the two charts above to summarize our assessment of labor market conditions, and we continue to point to the not seasonally adjusted data on initial claims for unemployment insurance benefits as what we believe to be the single most important labor market indicator at present. As we've noted, while the trend rate of job growth has slowed, that has primarily been a function of a slowing rate of hiring, as opposed to a rising rate of layoffs. Note that the early-year spike in initial claims in 2025 exceed that of the past two years, but the spike in January 2025 at least in part reflects the unusually harsh winter weather that gripped much of the nation, including heavy snow along portions of the South, a spike which has since subsided. At the same time, however, we also know that the duration of unemployment has been edging higher, as would be expected with a slowing pace of hiring. That those who lose jobs are having a harder time to find a new job and that this is taking longer is reflected in rising continuing claims, so in that sense the greater than usual early-year bounce in 2025 merits attention. Still, unless and until we see a meaningful and sustained increase in the rate at which workers are being laid off, we will maintain a constructive view of labor market conditions.