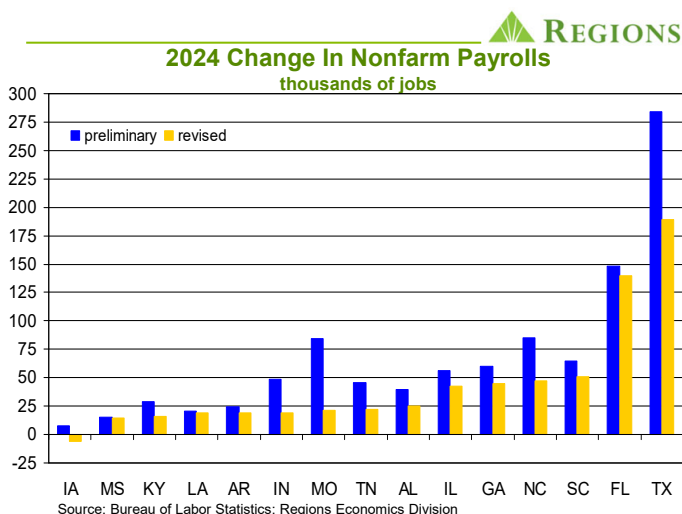




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Nonfarm Employment, Regions Footprint: 2024 Benchmark Revisions

Each year, the January employment report incorporates the results of the Bureau of Labor Statistics' (BLS) annual benchmark revisions to the data on nonfarm employment, hours, and earnings, in which the BLS benchmarks its sample of establishments used to conduct its monthly surveys to the universe of payroll tax returns as of the prior March. While the results of the benchmark revisions on the national level were released last month, the process takes longer for the data on the state and metro area levels, which were released only last week. As you may recall, last August the BLS released its preliminary estimate of the benchmark revision on the national level which, given the magnitude of that preliminary estimate, caused quite a stir. BLS originally estimated that the level of nonfarm payrolls as of March 2024 would be revised down by 818,000 jobs, equivalent to 0.5 percent of total nonfarm employment, substantially larger than the typical benchmark revision. As it turned out, the final revision, though still downward and still sizable, was not as large as the preliminary estimate. We have over the years noted that the revisions tend to get larger as we move down geographic levels, i.e., the revisions to the state level data tend to be larger than the revisions to the national level data, and the revisions to the metro area level data tend to be larger than do those for the state level data. This year's benchmark revisions to the state level data for the states within the Regions footprint were somewhat harsh, both across the individual states and across the various industry groups. In what follows, we offer a brief summary of what we think to be the most relevant elements of this year's benchmark revisions.



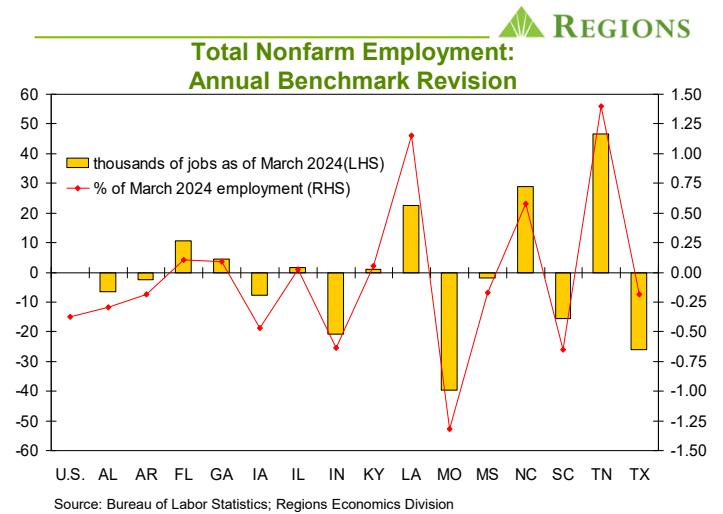
The revised data show the Regions footprint added 666,200 jobs in 2024, substantially below the preliminary estimate showing a gain of 1,012,900 jobs. In each of the fifteen in-footprint states, the revised data show a smaller increase in nonfarm employment than had been initially reported. In the case of Iowa, what had in the preliminary data been shown to be a modest increase in nonfarm employment in 2024 turned into a modest decline upon the benchmark revisions. In percentage terms, Missouri took the biggest hit in the benchmark revisions; expressed as a percentage of the annual average level of employment reported in the preliminary data, Missouri's downward revision was equivalent to 2.1 percent. On the other end of the spectrum, Florida and Mississippi saw downward revisions of just 0.1 percent of the annual average of nonfarm employment reported in the preliminary data. Though Texas added 95,300 fewer jobs in 2024 than initially estimated, this is equivalent to 0.7 percent of the originally reported annual average level of employment. On this basis, the downward revision for the U.S. as a whole was 0.1 percent.

Though that is the basis on which we've typically scaled the benchmark revisions, BLS reports the revisions relative to the March data, as March is considered the "reference month" for the establishment surveys. In other words, for the U.S. as a whole, the level of nonfarm employment as of March 2024 was revised down by 589,000 jobs. While, as noted above, this is smaller than the preliminary estimate, it is nonetheless equivalent to 0.4 percent of the level of nonfarm employment, easily higher than the "typical" 0.1 percent revision (in absolute value terms) seen over the prior decade. By way of comparison, the level of nonfarm employment for the Regions footprint as of March 2024 was revised down by just 4,600 jobs, equivalent to just 0.007 percent of the level of nonfarm employment. While this seems at odds with our general rule about the magnitude of revisions getting larger as the geographic levels get smaller, it is highly unusual for the revisions across the individual states to basically cancel each other out as they've done here. And, while the aggregate revision may effectively be zero, this masks what are some very large revisions, in both directions, across the individual states.

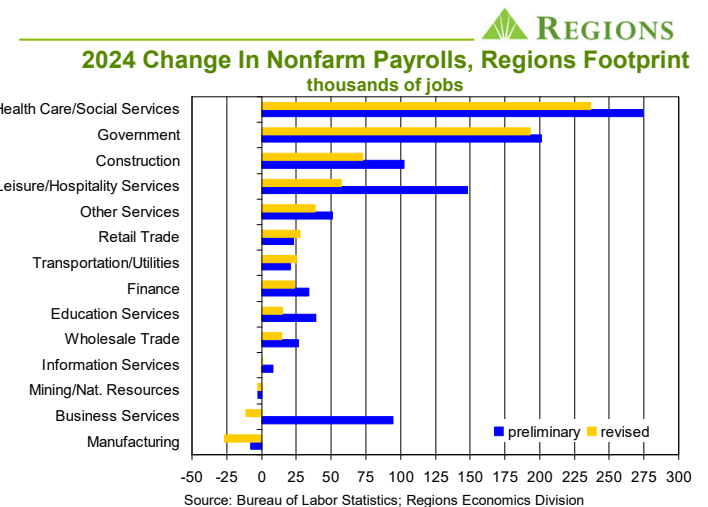
For instance, the level of nonfarm employment in Tennessee as of March 2024 was revised higher by 46,600 jobs, equivalent to 1.4 percent of the level of nonfarm employment. In contrast, the level of nonfarm employment in Missouri as of March 2024 was revised down by 39,800 jobs, equivalent to 1.3 percent of the level of nonfarm employment. Louisiana (plus 1.2 percent), South Carolina (minus

0.7 percent), Indiana (minus 0.6 percent), and North Carolina (plus 0.6 percent) also saw revisions that, in absolute value terms, were larger than the outsized revision to the March 2024 level of employment for the U.S. as a whole. The chart to the side summarizes the revisions as of March 2024, note that we do not show the level change for the U.S. as a whole in order to preserve the scale of the chart. Again, it is not at all common for the net revision for the footprint as whole to basically net out to zero.

Granted, it may seem hard to square the upward revisions as of March 2024, particularly those as large as seen for Louisiana, North Carolina, and Tennessee, to the downward revisions to full-year 2024 job growth. As such a few comments are in order. First, in any given year, the benchmark revisions cover data for the most recent few years, not only the prior calendar year. As part of this round of benchmark revisions, 2023 job growth was revised higher in nine of the fifteen in-footprint states and for the footprint, including what was a substantial upward revision for Tennessee. These upward revisions set a higher bar for 2024 job growth, independent of the revision specific to the reference month, i.e., March. Second, one ongoing issue we have been calling out for the past two years is that response rates to the BLS's monthly establishment surveys have significantly reduced the reliability of estimates of monthly job growth. To that point, just as we saw in 2023, during 2024 there was a clear pattern of downward revisions to the initial estimates of job growth in any given month which, in our view, still left job growth being overstated. That is something that would not be resolved prior to the benchmarking process. So, that the revisions to full-year 2024 job growth were, in each of the in-footprint states, to the downside is not at all surprising to us, even if the revisions were larger than we would have expected.

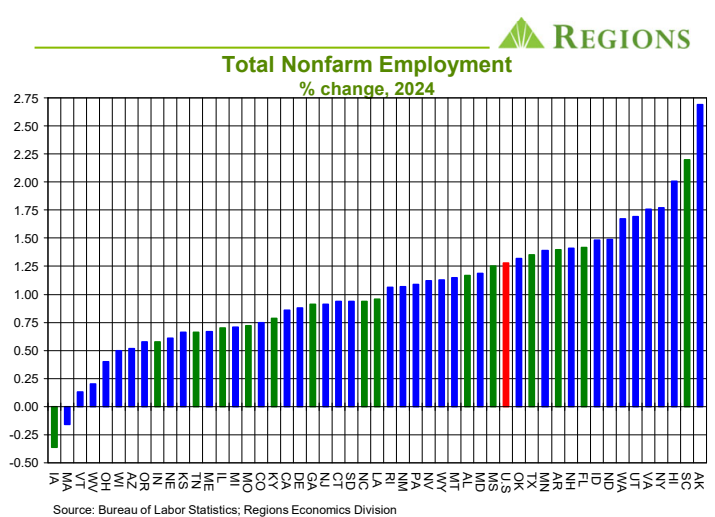
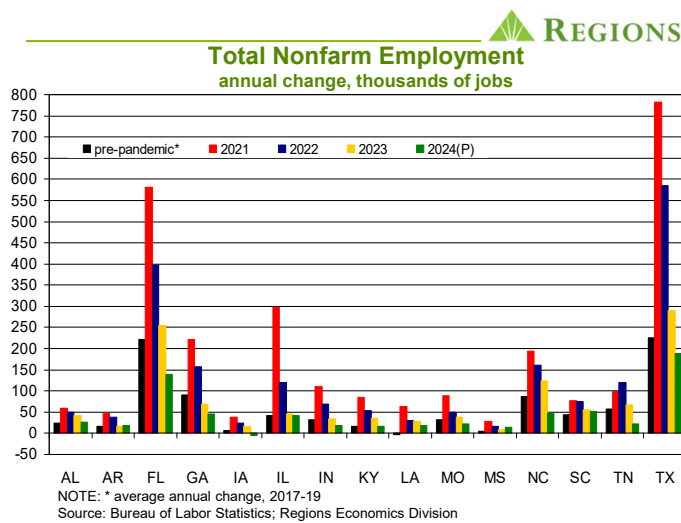


The chart to the side shows the results of the benchmark revision process on an industry basis for the Regions footprint as a whole. Save for modest upward revisions to transportation/utilities and retail trade, the initial estimate of 2024 job growth was revised down in each of the broad industry groups, and in some cases the downward revisions were substantial. For instance, while the initial estimate showed payrolls in business services rose by 94,600 jobs in 2024, the revised data show a loss of 11,300 jobs. That was not, however, the largest revision when expressed as a percentage of the annual average level of employment. That distinction goes to leisure and hospitality services; while the initial estimate was that payrolls in this industry group rose by 148,400 jobs in 2024, the revised data show a gain of only 57,300 jobs. That downward revision is equivalent to 1.3 percent of the annual average level of employment in leisure and hospitality services, compared to the downward revision in business services, which was equivalent to 1.2 percent of the annual average level of employment. That the downward revision to job growth in leisure and hospitality services was so severe is also noteworthy given that the initial estimates showed 2024 job growth to have been heavily concentrated amongst just three industry groups – health care, government, and leisure and hospitality services. As seen in the chart, the revised data show construction as having displaced leisure and hospitality services as one of the top-three industry groups for 2024 job growth despite what was a sizable downward revision to the initial estimate of job growth in construction. The downward revisions to business services were the most pronounced in Texas, North Carolina, and Indiana (in that order), and despite the net decline for the footprint as a whole, business services payrolls rose in seven of the in-footprint states in 2024, including Texas. With the exceptions of modest upward revisions to Louisiana, Mississippi, and Tennessee, the initial estimate of job gains in leisure and hospitality services in each of the in-footprint states was revised down, with Texas and Florida seeing the largest downward revisions.



As the few examples offered here hopefully illustrate, there is no clearly defined pattern to the benchmark revisions, either on a state-by-state basis or on an industry-by-industry basis. For instance, there may be a sizable upward revision to the initial estimate of job

growth in one specific industry group in a given state and a sizable downward revision for that same industry group in another state. This makes drawing detailed conclusions as to the meaning of the revisions more difficult would otherwise be the case, particularly when the revisions to earlier years go in the opposite direction than do those to the most recent year. One pattern that is not at all uncommon is that when there is a specific industry group in which job growth had been notably strong/weak in one or more prior years, estimates of job growth in the most recent year tend to be biased in that same direction. This would be more likely to happen during a period in which survey response rates are as low as has been the case in the years since the onset of the pandemic. That would help account for the sizable downward revisions to the initial estimates of 2024 job growth in health care and leisure and hospitality services. It is also worth keeping in mind that while historically the pace of job growth within the Regions footprint has tended to run slightly ahead of the national average, that gap had been wider in the post-pandemic years, and in that sense at least some payback at some point was to have been expected, and the most likely timing of that would have been as the pace of overall economic activity began to slow as was the case in late-2024. To some extent, slower job growth within the footprint was also a function of relative exposure to specific industry groups. For instance, the Regions footprint has an above-average exposure to manufacturing employment, and the ongoing contraction in the manufacturing sector would therefore have had a larger impact within the footprint, as evidenced by the benchmark revisions to the 2024 data which turned a decline in manufacturing employment in the preliminary data into a larger decline in the revised data.



The first chart above shows annual job gains in each of the in-footprint states in the post-pandemic years. That job growth was so strong from 2021 through 2023 reflected the jobs lost in the months after the onset of the pandemic being added back combined with the job growth that would have naturally come with a growing economy. Recall that recovering the jobs shed after the onset of the pandemic was a process that took much longer in some industry groups, such as health care, leisure and hospitality services, and government, than it did in other industry groups. Either way, that job growth has slowed should not have come as a surprise, but the question now is whether the slowdown in job growth has gone beyond that which would have been expected after the distortions brought on by the pandemic had run their course. Our sense is that this is indeed the case, though at this point we cannot quantify the extent to which that is the case. This is one complication stemming from what remains a low response rate to the BLS’s monthly establishment survey. This is one reason we have been putting so much emphasis on the weekly data on initial claims for unemployment insurance benefits, as a pick-up in the pace of layoffs may be slow to turn up in the establishment survey data.

The second chart above shows the percentage change in total nonfarm employment in 2024 for each state as reflected in the benchmark revisions. Note that Iowa joined Massachusetts as the only states in the nation to have seen nonfarm employment fall in 2024. That Florida and Texas are not in their usual spots, i.e., much closer to the top of the job growth rankings, in part reflects some cooling after notably strong job growth over the prior few years. Still, though slower, job growth in both Florida and Texas topped the national average in 2024. One factor which no doubt weighed on job growth within the footprint in 2024 and will likely do so again this year is a marked slowdown in the pace of net domestic in-migration. What in many cases have become less flexible working arrangements combined with more binding housing affordability constraints contributed to a pronounced slowdown in domestic in-migration into the Regions footprint in 2024. The prospect of a slowing economy and softer labor market conditions suggest a further slowdown in domestic in-migration within the footprint in 2025, while at the same time several of the in-footprint states, primarily Florida and Texas, figure to see the sharpest slowdowns in foreign in-migration as a result of immigration reform. As a final note, with the release of the February 2025 labor market data set for late next week, we’ll return to our regular monthly write-ups of the state level data.