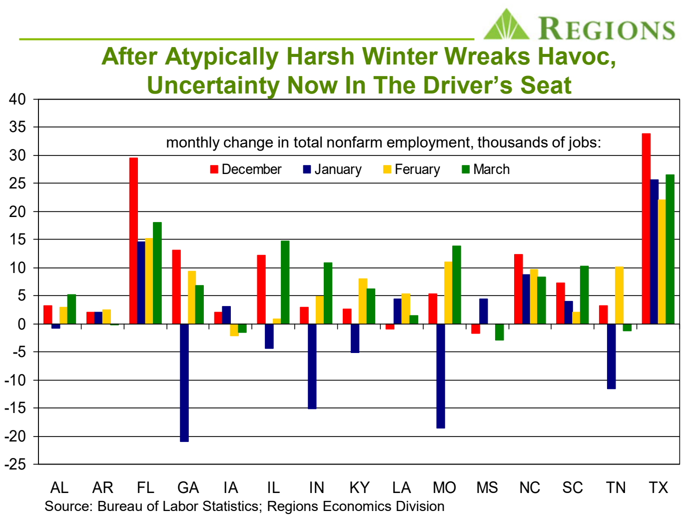
ECONOMIC UPDATE

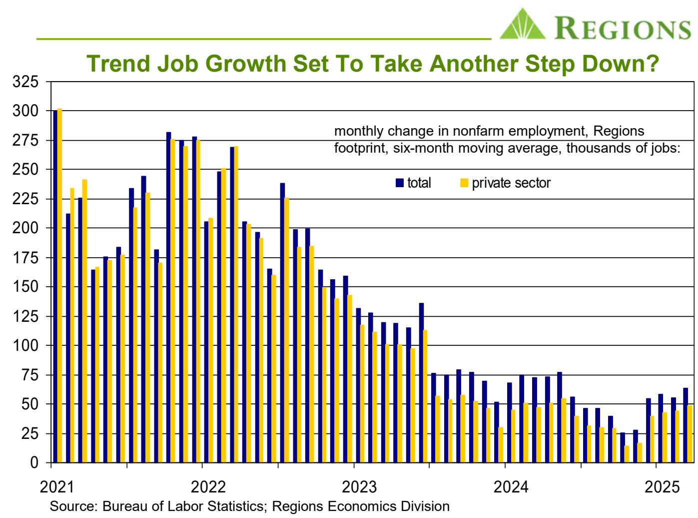
REGIONS

April 23, 2025

March 2025 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 116,500 jobs in March, following up on February's gain of 101,900 jobs. Private sector payrolls rose by 102,900 jobs in March and by 91,300 jobs in February, with public sector payrolls up by 13,600 jobs and 10,600 jobs, respectively. Revised data now show total nonfarm employment across the footprint fell by 9,700 jobs in January, as atypically harsh winter weather across much of the footprint wreaked havoc on January work schedules, as can be seen in the first chart below. Recall that much of the footprint, including parts of the Southern states, got significant amounts of snowfall in January, making it difficult, if not impossible, for many people to get to their jobs. That this coincided with the January survey period led to reported declines in nonfarm payrolls, as one must be physically present at work to be counted as employed in the establishment survey. While parts of Florida were similarly hit, the number of people impacted was not enough to pull the statewide count of total nonfarm employment down. So, to some extent, robust job growth numbers in February and March, which were well above the 2024 monthly average, reflect payback, but at the same time the data show that prior to the sharp escalation in trade tensions that has cast a thick cloud of uncertainty over the economy, overall economic conditions, including labor market conditions, within the footprint remained sound. It remains to be seen whether, or to what extent, this will remain the case going forward.





One way around the inherent volatility in the monthly changes in employment is to look at longer-term trends, which we do in the second chart above. On a six-month moving average basis, growth in both total and private sector payrolls has slowed to a pace below the pre-pandemic trend rate. To some degree, this is not unexpected, as the pace of overall economic growth was expected to slow in 2025 after the robust and well-above-trend pace of growth seen in both 2023 and 2024. One can also argue that the slowing pace of job growth was also not overly concerning, as it reflected the steadily slowing rate at which firms were taking on new workers while the rate at which workers were being laid off remained below pre-pandemic norms. It is also the case that labor productivity growth has accelerated over the past several quarters, meaning that firms did not need to take on as many additional workers to meet expected growth in demand as would have been the case absent the pick-up in productivity growth. So, while firms felt they were appropriately staffed, or much closer to being so, to meet expected demand, there was nothing that would have led them to begin letting workers go in greater numbers. To be sure, there were exceptions in certain industries, particularly amongst those that saw the most robust rebounds in hiring as the economy began to regain its footing after the pandemic but, in the aggregate, layoff rates remain notably low.

It remains to be seen whether, or for how much longer, this will remain the case given the looming uncertainty around trade policy. To the extent that the U.S. imposes meaningfully higher tariff rates on imported goods and that foreign countries respond in-kind, global trade flows and global supply chains would be disrupted for at least a time. Keep in mind that roughly one-half of all imports into the

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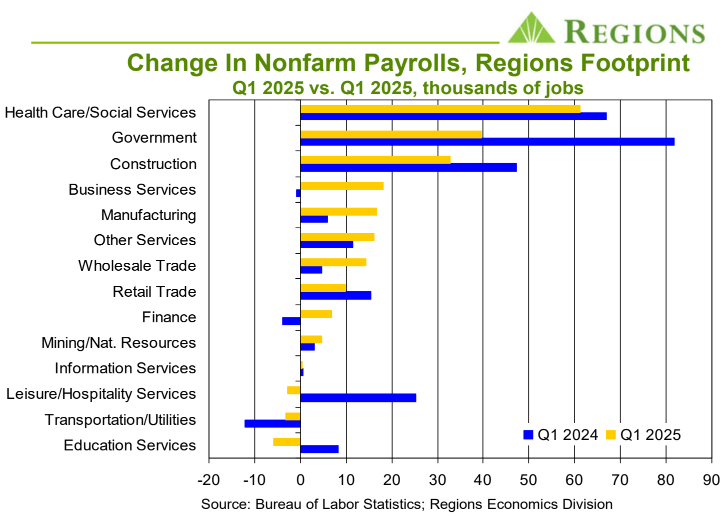
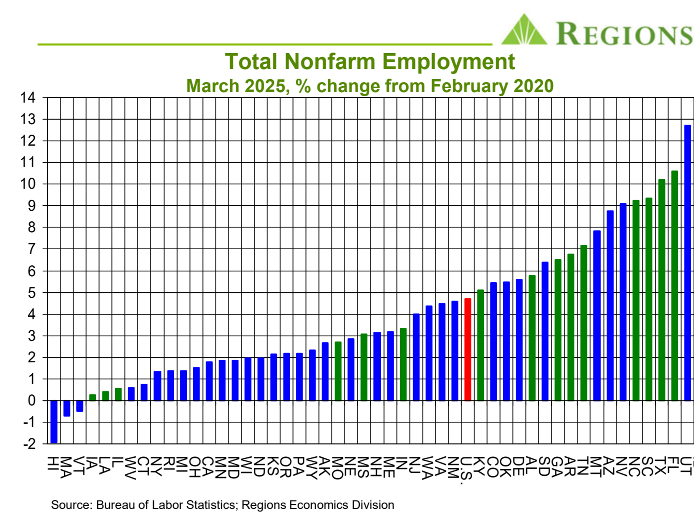
U.S. are not consumer goods but instead are raw materials/intermediate goods used by firms in the U.S. to produce final goods. Disruptions in the flow of and/or significantly higher costs of inputs to production would weigh on production and, in turn, employment in the factory sector, while disruptions in the flow and/or significantly higher prices for consumer goods would weigh on consumer spending, which in turn could put retail trade employment at risk. Moreover, payrolls in wholesale trade and transportation/warehousing/delivery services could also be at risk from disruptions in production/purchasing patterns. One mitigating factor will be that firms in manufacturing and retail trade have been somewhat aggressive in building inventories over recent months in anticipation of higher tariffs which, as least for a time, help smooth production/consumption activity.

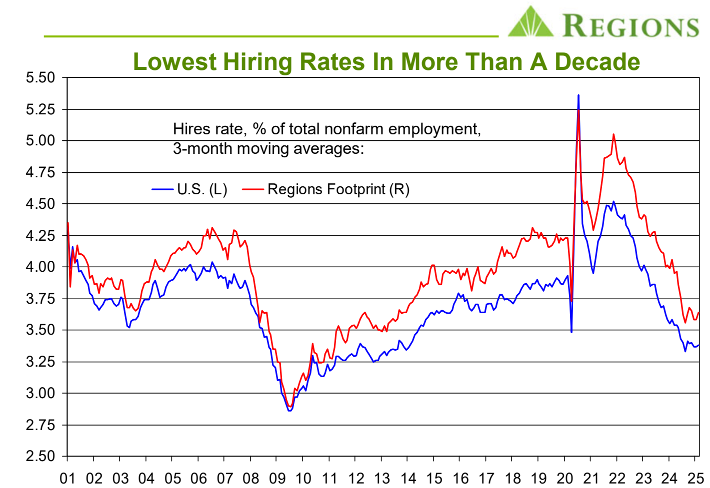
Where tariff rates and other restrictions on trade will ultimately settle remains unknown, though it seems likely that U.S. tariff rates will ultimately be higher than has been the case over the past several decades. Which parties will absorb any such higher tariffs would then have to be determined, but it also seems likely that the end users of imported goods, whether manufacturers or consumers, will bear at least part of the cost, which in turn stands to impact production/consumption patterns with the potential for at least some shifts in employment patterns as a result. Again, all of this will be determined in the months ahead but, for now, many firms have retreated into holding patterns, deferring decisions on capital spending and employee counts, but the downside risk to employment is that an extended period of uncertainty culminating in higher input costs/slimmer profit margins leads to less hiring/more layoffs than would otherwise be the case. Additionally, though the ultimate extent is still in doubt, the prospect of cuts in federal government employment will also be a drag on net job growth in the months ahead. Granted, the effects will be heavily concentrated in the Washington DC/Northern Virgina area, but other parts of the U.S. will be impacted to some degree. We will, however, note that the bulk of these cuts in federal government payrolls will not appear in the establishment survey data until Q4 2025 as a large percentage of those either let go or who accepted buyouts will remain "on the books" until the end of the fiscal year on September 30.



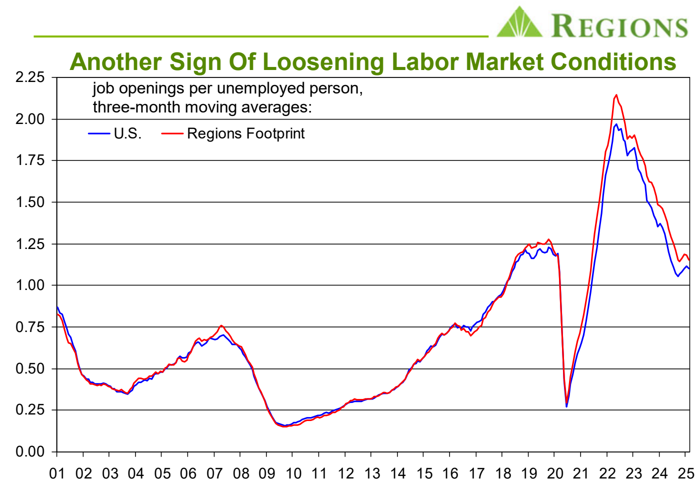


As for what we do know at this point, the first chart above adds detail to our earlier point about the slower pace of job growth that has taken hold over recent months. Over the first quarter of 2025, total nonfarm payrolls within the Regions footprint increased by 208,700 jobs (the March data are still preliminary), compared to the increase of 253,500 jobs posted in Q1 2024. As can be seen in the chart, health care and social services, government, and construction remain the primary drivers of job growth, but growth has nonetheless slowed in each of these sectors. At the other end of the spectrum, payrolls in leisure and hospitality services, transportation and utilities, and education services declined in the first quarter of 2025. While atypically harsh winter weather during January and February likely weighed on hiring in leisure and hospitality services during Q1, it is also likely that softening demand for discretionary services, including travel, lodging, and dining out, held down hiring as well. As noted earlier, to the extent higher tariffs impact manufacturing output and consumer spending, the gains in employment seen in retail and wholesale trade and manufacturing in Q1 could easily be reversed. It is also worth noting that, to the extent higher tariffs raise the cost of residential construction and, in turn, weigh on demand, that could have an adverse impact on construction payrolls. It could also be the case that the effects of immigration reform led to a smaller increase in construction payrolls in Q1 than would otherwise have been the case.

The second chart above is an update of a chart we haven't used for a while in these write-ups which also serves as a reminder of where we were before global trade tensions ramped up and fostered a climate of considerable uncertainty. As of March, the level of total nonfarm employment for the U.S. as a whole was 4.7 percent above the pre-pandemic peak, while for the Regions footprint total nonfarm employment was 6.8 percent above the pre-pandemic peak. Nine of the fifteen in-footprint states have a differential larger than that for the U.S. as a whole, with Florida, Texas, South Carolina, and North Carolina posting the third through sixth largest gaps, respectively, in the nation. In contrast, Iowa, Illinois, and Louisiana are significantly lagging the national average. Still, across much of the footprint, labor markets were well positioned ahead of the ramping up of global trade tensions.

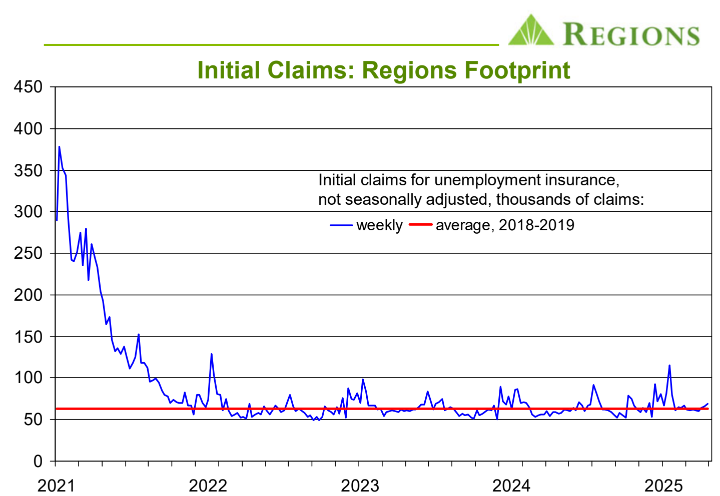


Source: Bureau of Labor Statistics; Regions Economics Division

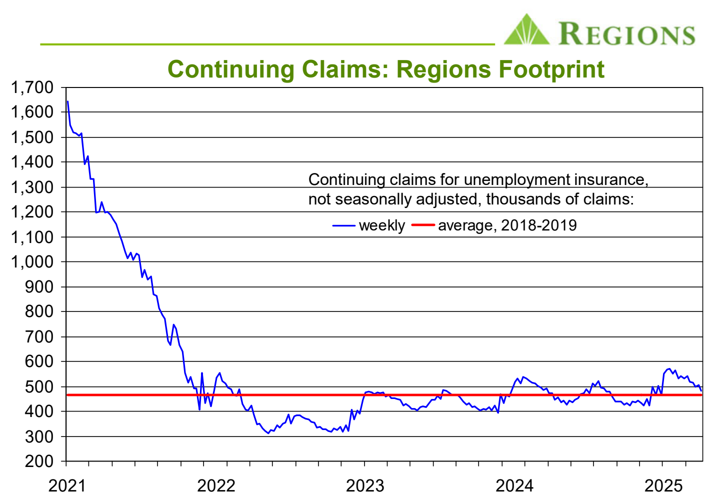


Source: Bureau of Labor Statistics; Regions Economics Division

As noted earlier, the decelerating pace of job growth has thus far been a function of less hiring, as opposed to more layoffs. The sharp decline in the hiring rate can be seen in the first chart above with data taken by the monthly Job Openings and Labor Turnover (JOLTS) survey. Note that the JOLTS data are inherently volatile on a month-to-month basis, which we address by using three-month moving averages in the above charts. While the slowing pace of hiring may not have come as a surprise, it is nonetheless noteworthy that the rate at which firms are hiring workers has fallen to the lowest in more than a decade, both nationally and within the Regions footprint. The sharp deceleration in the hiring rate corresponds with a rapidly declining number of open jobs, with the ratio of unfilled jobs-to-unemployed persons has fallen below pre-pandemic norms. That, however, in part reflects an increase in the number of unemployed persons, as the number of open jobs, both nationally and within the Regions footprint, remains at what would have been an all-time high prior to the onset of the pandemic.



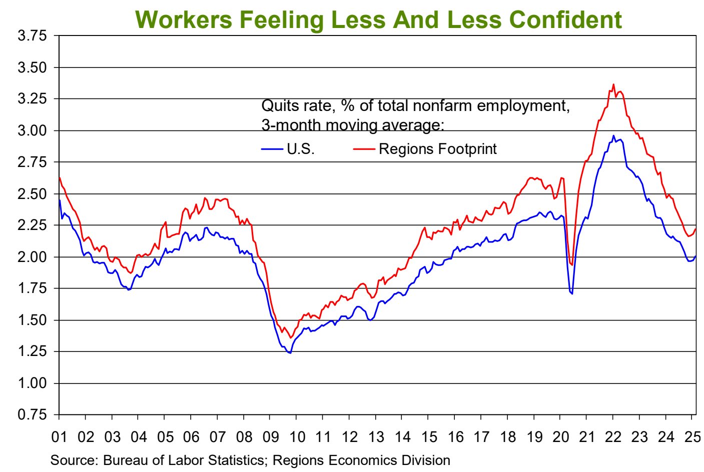
Source: U.S. Department of Labor; Regions Economics Division



Source: U.S. Department of Labor; Regions Economics Division

If an increase in the number of unemployed persons over the past several months seems at odds with our statement that the rate at which workers are being laid off remains below pre-pandemic norms, it need not be. That the number of unemployed persons and the unemployment rate have drifted higher over recent months is more a reflection of it taking longer for people who have lost a job to find a new job and for new entrants into the labor force to find a job. To be sure, that is still a sign of the diminished demand for labor that has contributed to the sharp decline in the hiring rate, and that in turn has helped push the unemployment rate higher and which helps account for the duration of unemployment having lengthened. Thus far, however, there is nothing in the data – either the JOLTS data or the weekly data on initial claims for unemployment insurance benefits – to suggest an accelerating layoff rate. As we've noted, we see the not seasonally adjusted claims data as being the single most important labor market indicator at our disposal at present, and if growing trade tensions do ultimately take a toll on employment, this is where we'll see it first in the data. The claims data, however, are not likely to shed much light on the effects of cutbacks in the federal government workforce any time soon, as many who have been/will be let go would be ineligible to file for unemployment insurance, either due to lack of sufficient tenure on their government job or due to them being on severance/other deferred compensation plans.

The current environment is just as uncertain for workers as it is for their employers. That the quits rate had fallen sharply from the peak rate seen in mid-2022 suggests workers perceiving that labor market conditions were cooling, making them less inclined to try their hand in the market. This is reflected in the chart to the side; as with the hiring rate, the quits rate is at present lower than has been the case in over a decade. Less churn in the market is another reason displaced workers are finding it more difficult to find new jobs. Just as the uncertainty looming over the path of policy has led many firms to retreat into a holding pattern, it will also lead many workers to do the same. As such, while the quits rate may stabilize in the months ahead, at least to the extent that any metric from the JOLTS data can stabilize, it is unlikely to start rising on a sustained basis until there is more clarity on the policy front, providing of course that any such clarity brings with it rising confidence of conditions in the labor market and the broader economy improving, as opposed to the alternative.



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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