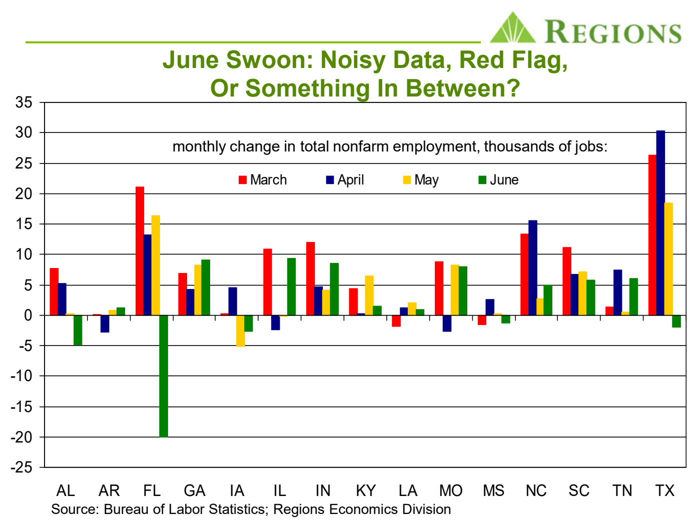
ECONOMIC UPDATE

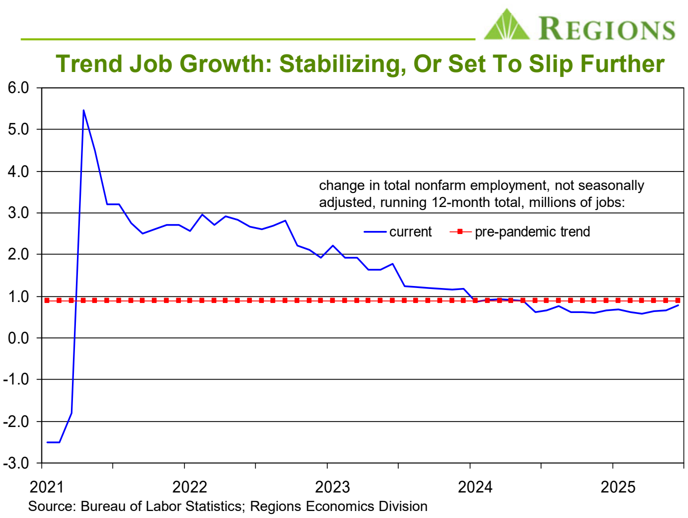
REGIONS

July 23, 2025

June 2025 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 24,600 jobs in June, with private sector payrolls down by 4,000 jobs and public sector payrolls up by 28,600 jobs. At the same time, the initial estimate of May job growth was revised higher, with job growth now reported as 70,100 jobs rather than 52,300 jobs as originally reported. That entire revision, however, reflects an upward revision to public sector job growth, as private sector job growth was weaker in May than originally reported. The patterns reported here for the state level data within the Regions footprint – June job growth driven by public sector payrolls and a downward revision to the initial estimate of private sector job growth in May – are what we saw in the national level data earlier this month. While we have for many months pointed to a slowing trend rate of job growth, both nationally and within the Regions footprint, we have seen nothing in any of the other labor market data that would suggest the sharp and sudden deterioration in labor market conditions implied by the June data on nonfarm employment. That is especially the case given that the weekly data – not seasonally adjusted – on initial claims for unemployment insurance benefits do not show the type of increase in layoffs that would be consistent with the decline in private sector payrolls within the footprint seen in the June data. Additionally, to the extent the trend rate of job growth is slowing, while the most commonly cited culprit is uncertainty over trade policy, we think it far more likely that the effects of immigration reform are a more important factor. If we are correct on this point, the pace of job growth is likely to slow further but the flip side of this is that the pace of monthly job growth required to hold the unemployment rate steady will be much lower than has historically been the case.





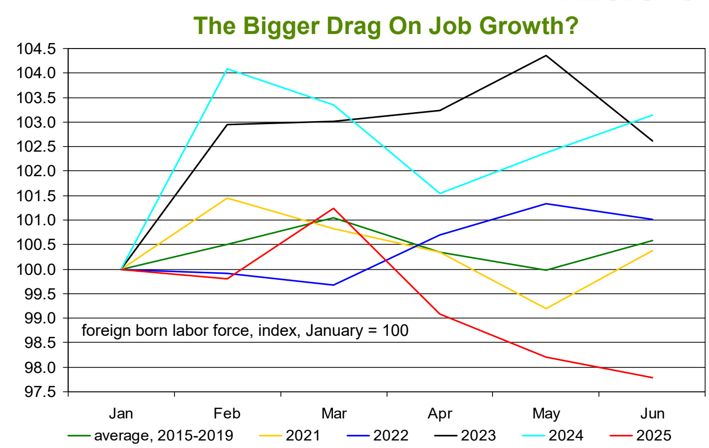
Private sector payrolls are reported to have fallen in seven of the fifteen in-footprint states in June, with Florida (-21,000), Texas (-5,700) and Alabama (-5,000) showing the largest declines. Led by Georgia (+10,100), Missouri (+7,200), and Tennessee (+6,200), private sector payrolls rose in the remaining eight in-footprint states, but the total increase was not enough to keep private sector payrolls from falling by a net 4,000 jobs for the footprint as a whole. Moreover, while payrolls in health care and social assistance rose by 29,600 jobs for the footprint as a whole in June and payrolls in education services rose by 5,700 jobs, payrolls declined in each of the remaining private sector industry groups, with particularly large declines in manufacturing (-10,400 jobs) and leisure and hospitality services (-8,000 jobs). Though private sector payrolls did not decline for the U.S. as a whole, the broad patterns in the June data are eerily similar, i.e., a meaningfully smaller increase in private sector payrolls that was dominated by health care and social assistance and outright declines in payrolls in a number of private sector industry groups. Additionally, we saw that in the national level data the reported increase in public sector payrolls was no more than a gift from seasonal adjustment around payrolls in the education segment of state and local government. A later than normal end to the school year led to a smaller decline in education payrolls than is typical for the month of June, which translated into a sizable increase in the seasonally adjusted data. This same pattern holds for the state-level data as well, i.e., the reported increase in public sector payrolls for the footprint as a whole is purely a function of seasonal adjustment.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

To some extent, the boost to public sector payrolls from seasonal adjustment is simply the flip side of what we see in the data on private sector payrolls, both nationally and within the Regions footprint. In each case, the change in not seasonally adjusted payrolls was weaker than is typically the case for the month of June so, in essence, seasonal adjustment "overcompensated" which in the case of the national level data yielded a notably smaller increase in seasonally adjusted private sector payrolls than those seen over recent months and which in the case of the state level data yielded a decline in private sector payrolls. Under the heading of "stop us if you've heard this one before," we saw the exact same thing a year ago in both the national level and state level data. For the U.S. as a whole, the increase in private sector payrolls last June was well smaller than the increases seen over the prior several months, while for the footprint as a whole private sector payrolls were shown to have declined by 21,300 jobs last June. Note that there were no adverse weather events, such as hurricanes or tornadoes, working to hold down measured job growth in June 2024, nor were there any such events this June. It is also worth noting that this is the second year in a row in which the seasonally adjusted data on initial claims for unemployment insurance have behaved in a manner at odds with the unadjusted data. And, just for good measure, or in this case maybe not so good measure, throw in a low initial response rate to the BLS's June establishment survey, which could reflect the early end to the survey period, and it's hard to not question the reliability of the June data.

As our regular readers know, we routinely note that the trends in the not seasonally adjusted data are better guides to the underlying health of the economy than are the month-to-month gyrations in the seasonally adjusted data, which has been even more the case in post-pandemic times. To that point, a glance back at the second chart on Page One shows that the trend rate of growth in total nonfarm payrolls, not seasonally adjusted, has been somewhat stable over the past several months. One caveat about relying on longer-term trends, however, is that they will obviously be slow to pick up on cyclical turning points, and those so inclined could point to the June data as a clear red flag as to the health of the labor market. Our counter would be that there is nothing in either shorter-term trends or other indicators, such as weekly claims for unemployment insurance, to support the story told by the June data from the establishment survey. To be clear, we are not contending that the trend rate of job growth has not slowed – it has and will likely slow further – but instead are contending that the seasonally adjusted June data meaningfully overstate the extent to which the trend rate of job growth has slowed, as was the case last June as well.

To the extent the trend rate of job growth has slowed, many have been quick to attribute that to the effects of higher tariffs already in place and lingering uncertainty over the future path of trade policy. We, however, have argued that the effects of immigration reform are far more likely to be weighing on job growth, even if we are not able to directly quantify that in the data from the BLS's establishment survey, from which flow the estimates of nonfarm employment, hours, and earnings. In contrast, the household survey does, without inquiring as to immigration status, ask whether respondents are native or foreign born. This is a topic we discussed in the July edition of our *Monthly Economic Outlook*, which is where the chart to the side first appeared.

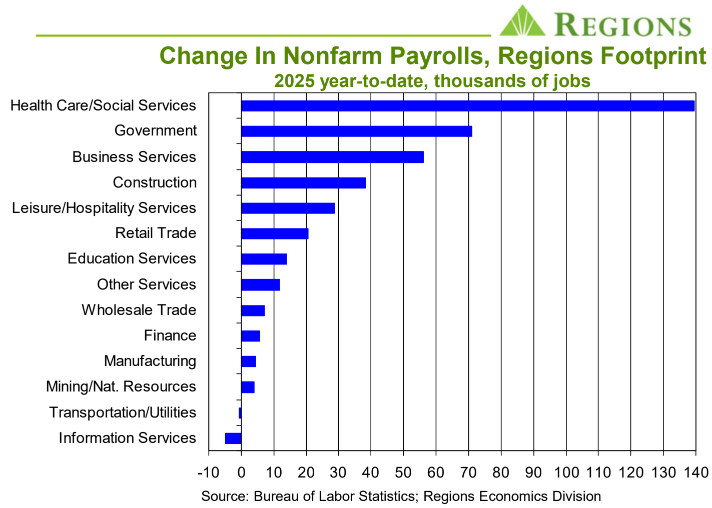


Source: Bureau of Labor Statistics; Regions Economics Division

The chart shows intra-year patterns in the foreign born labor force through the month of June for each year from 2021 through 2025 as well as the average over the five years prior to the pandemic. We use intra-year patterns as the data from the household survey are not strictly comparable for different years. The chart shows how much weaker the intra-year patterns in the foreign born labor force are this year compared with both the prior few years – recall that net international in-migration accounted for roughly eighty-five percent of U.S. population growth over the 2022-2024 period – and the years leading up to the pandemic. The data show the foreign born labor force declined by more than 1.1 million people during the second quarter, and while the data are not available on the state level, it is reasonable to think that a sizable portion of that decline came from the states that comprise the Regions footprint. The decline in the foreign born labor force carries through into the total labor force; a chart similar to the one above based on the total labor force would show the same result, i.e., intra-year patterns in the total labor force have been far weaker in 2025 than in the past few years and in the years prior to the pandemic.

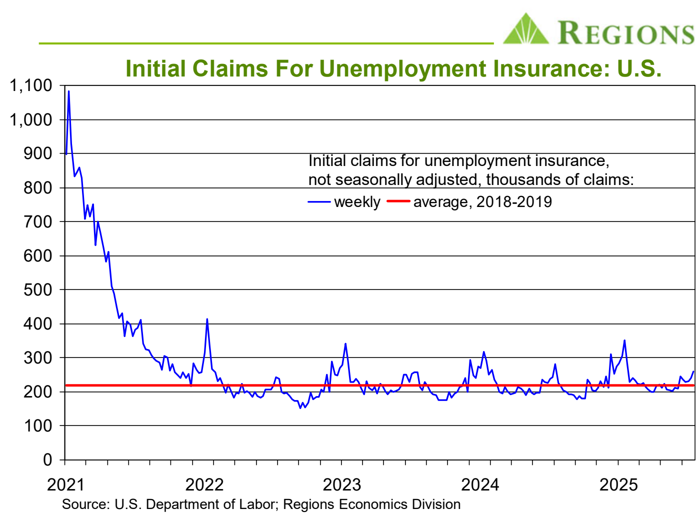
While we cannot directly quantify any such effects in the establishment survey data, it is more than reasonable to ask whether the sharp decline in the foreign born labor force seen in the household survey data has played a role in the slowing trend rate of nonfarm job growth. We'd argue that it has, particularly given that there are certain industry groups – construction, leisure and hospitality services, transportation services, personal services – which have seen notably slow job growth as reported in the not seasonally adjusted data and in which foreign born labor has tended to be an important source of labor. If we are correct on this point, the drag from declining foreign born labor could intensify over the remainder of this year. One implication of that would be that the "breakeven" pace of job growth, i.e., the rate of monthly job growth required to keep the unemployment rate steady, would be much lower than has been the case over the past several years. On the national level, that could be monthly job growth between 50,000 and 75,000 jobs.

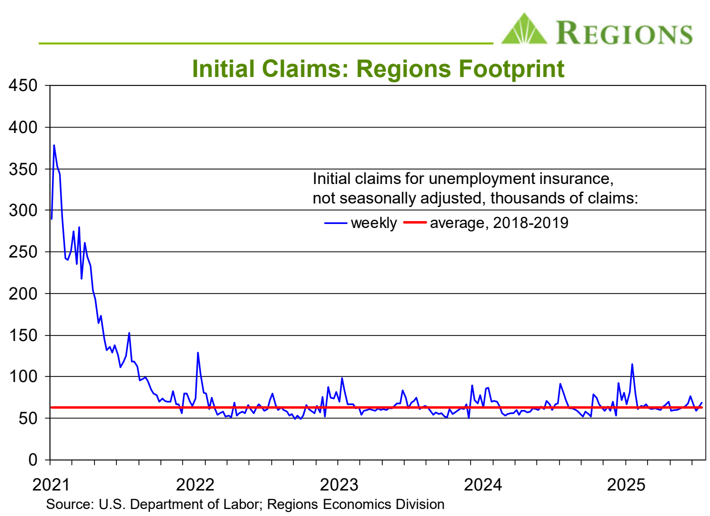
To that point, unemployment rates across the Regions footprint remain low, with the footprint-wide rate falling to 3.9 percent in June as the national average rate fell to 4.1 percent. While we'll caution that June's decline largely reflects seasonal adjustment noise, the broader point is that the notably weak intra-year patterns in the overall labor force are acting as a drag on the unemployment rate. Nine of the in-footprint states have year-to-date unemployment rates below four percent as of June even as the pace of job growth has slowed. As we've noted elsewhere, with the sizable outflow of foreign born labor acting as a meaningful drag on it, the unemployment rate may not be as reliable an indicator of stress in the labor market and, more broadly, financial stress in the household sector, as has historically been the case.



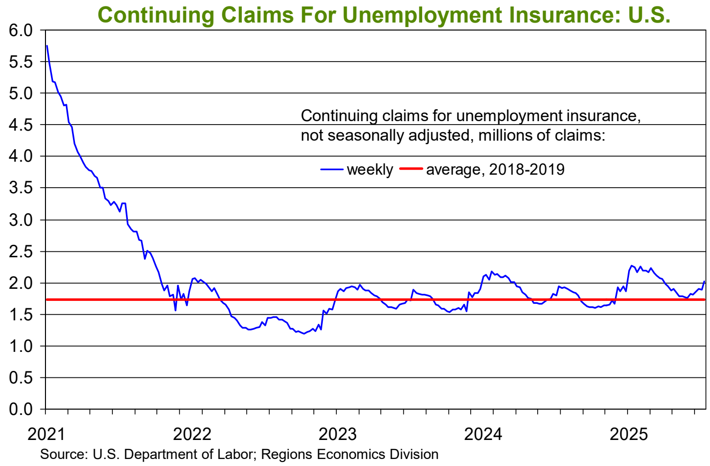
The chart to the side illustrates the degree to which health care and social assistance is the dominant driver of overall job growth within the Regions footprint thus far in 2025, as is also the case nationally. Within the footprint, this industry group has accounted for 35.2 percent of growth in total nonfarm employment thus far in 2025. Though construction and leisure and hospitality services have contributed, those contributions are smaller than has been the case over recent years. Meanwhile, more than one-half of the broad industry groups have seen no material change, in either direction, in the level of payrolls halfway through 2025.

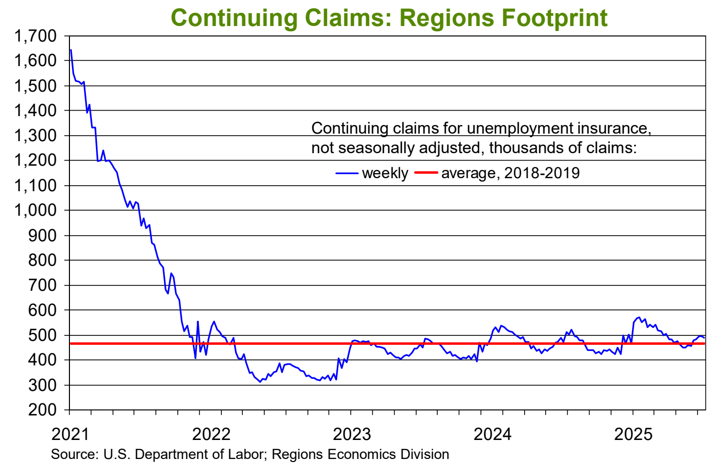
This gets us to, or back to, a point we've been making over the past several months, which is that while there is considerably less hiring taking place than has been the case over recent years, there has also been no appreciable increase in layoffs. The net result is the slowdown in the trend rate of job growth we have been pointing to, and this is the case both nationally and within the footprint. This is seen in the following two charts, which compare the weekly not seasonally adjusted data on initial claims for unemployment insurance to the pre-pandemic trend rates.



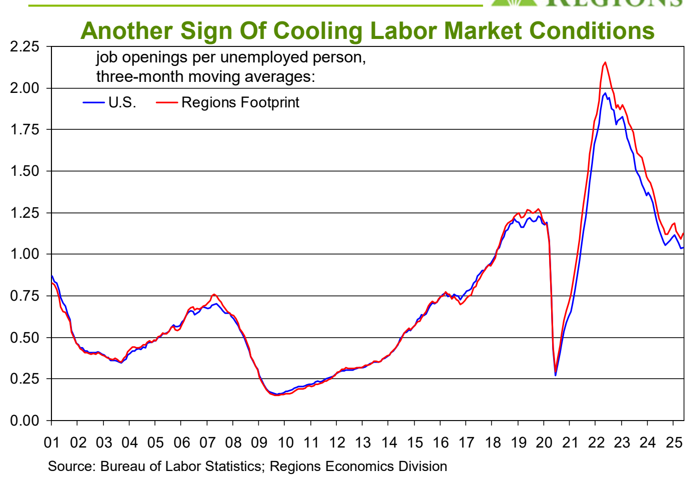


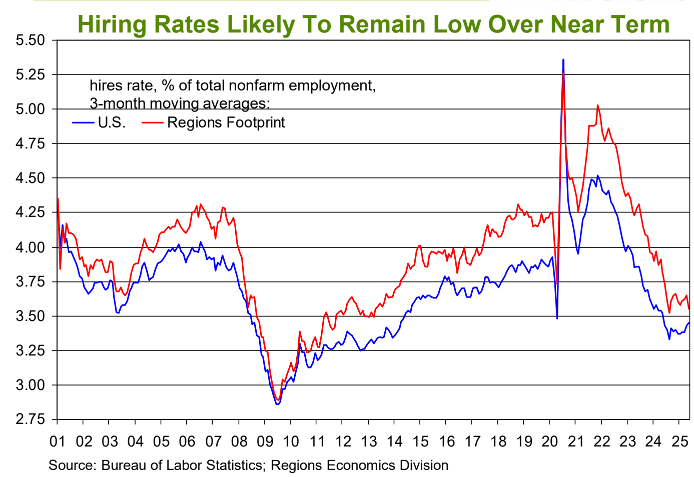
We'll again stress that the above charts show the not seasonally adjusted data and, as seen in the charts, there are clear seasonal patterns in initial claims. It is common for unadjusted claims to rise in the middle part of the year, which is what we've seen in the data over recent weeks. Those increases, however, are not out of line with typical increases at the same points of prior years, which is worth noting in that there have been seasonal adjustment issues with the claims data this summer as was also the case last summer. That said, it would follow that the significant slowdown in the rate at which firms are hiring workers would mean that those who do lose jobs are having a harder time finding new jobs than has been the case in recent years. To the extent this is the case, we should see that translate into rising continuing claims for unemployment insurance benefits. Recall that initial claims are a count of the number of people applying for benefits in a given week while continuing claims are a count of the number of people actually collecting benefits.





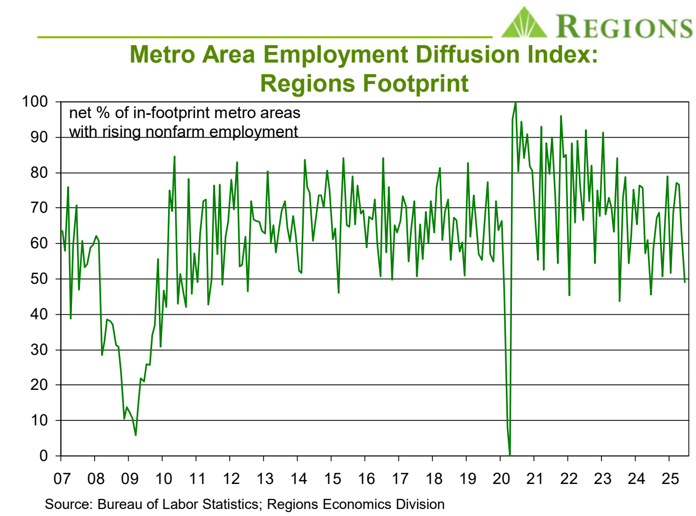
We are seeing that pattern in the national data, as the first chart above illustrates. Note that while the increase in continuing claims seen over the past several weeks may seem similar to those seen at the same points of the prior two years, the increase this year has been more pronounced and more sustained, consistent with the premise of a slowing trend rate of job growth. Again, an increase in continuing claims could reflect either an increase in initial claims, a rising duration of unemployment, or a combination of the two. In this case, however, rising continuing claims are more a reflection of a rising duration of unemployment. What is interesting, and a bit puzzling, however, is that the state level data do not show a similar pattern within the Regions footprint, with continuing claims having remained mild despite the slowing trend rate of job growth. One potential explanation is that while a slowing trend rate of job growth due to the drop in foreign born labor would turn up in the data on job growth, it would not turn up in the claims data, at least to the extent that those foreign born workers not legally in the U.S. would not be eligible to file for unemployment insurance benefits. Either way, this will be another thing to watch in the claims data in the weeks ahead.





The two charts above are by now familiar, as we've used them to trace out the significant cooling in the demand for labor based on the data from the Job Openings and Labor Turnover Survey (a/k/a JOLTS). While we're on record as not having much use for the levels reported in the JOLTS data in any given month, we have more faith in the trends in the data – note that even a three-month moving average doesn't do much to smooth the inherent volatility in the data on hiring rates. Either way, that hiring rates, nationally and within the footprint, are on par with where they were back in 2013 is a clear indication of the extent to which the demand for labor has cooled. It is, at least to us, more than a bit curious that the number of job openings – over seven million nationally and over three million within the Regions footprint – is as high as it still is. To be sure, job vacancies are far lower than they were in 2022 and 2023 but are still easily higher than was the case prior to the pandemic. That there are now higher numbers of unemployed, nationally and within the footprint, has pushed the ratio of job vacancies per unemployed person below pre-pandemic values, as shown in the first chart above. Still, we'd have expected a more pronounced decline in the level of vacancies, and it is unclear whether this is just one of the quirks of the JOLTS data or whether it reflects firms trying to fill positions vacated by foreign born workers who have exited the U.S. labor force.

With the state level data showing a decline in private sector payrolls in June, it should come as no surprise that our Metro Area Employment Diffusion Index, a measure of the breadth of hiring across the more than one hundred in-footprint metro areas that we track, fell below the 50.0 percent threshold in June. In other words, on net, more metro areas shed jobs in June than added jobs in June. The obvious caveat here is that given how little faith we have in the June state level data from the establishment survey, we cannot have any more faith in the metro area data based, however loosely, on that same survey. To that point, the last time our Metro Area Employment Diffusion Index slipped below 50.0 percent was June 2024 when, as noted above, the level of private sector employment within the footprint was reported to have declined. To be sure, the index is highly volatile, in keeping with the establishment survey data reported on the metro area level, but even allowing for this volatility shows a narrower breadth of job growth across geographies, which is happening at the same time the data show a narrowing breadth of job growth across private sector industry groups.



While we are more than a bit suspicious of the June data, at the same time we cannot completely dismiss the data out of hand. As always, we will continue to monitor changes in labor market conditions for our in-footprint states and metro areas. In addition to these 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:

https://www.regions.com/about-regions/economic-update
or
https://regions.sharepoint.com/sites/Finance/SitePages/Economic-Reports.aspx

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com