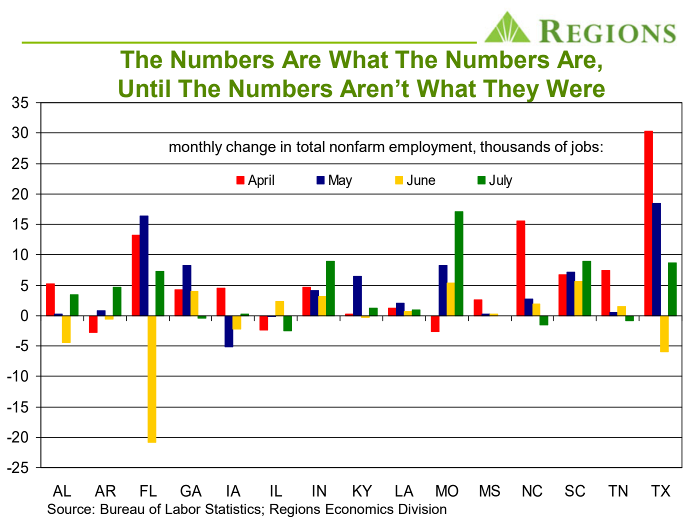
ECONOMIC UPDATE

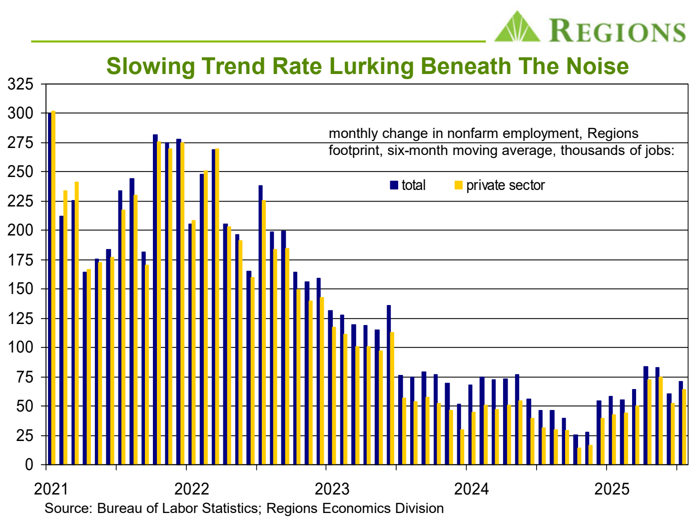
REGIONS

August 25, 2025

July 2025 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 56,100 jobs in July, with private sector payrolls up by 47,000 jobs and public sector payrolls up by 9,100 jobs. At the same time, however, the initial estimate of June job growth was revised sharply downward, with total nonfarm payrolls within the footprint now reported to have fallen by 9,600 jobs in June compared to the initial estimate showing a gain of 24,600 jobs, with private sector payrolls now reported to have fallen by 14,800 jobs. This is consistent with what we saw in the national data, i.e., a sizable downward revision to prior estimates of job growth in May and June that led many to change their perceptions of labor market conditions and, in turn, the broader economy. Our perceptions of labor market conditions have not changed to a meaningful degree; we have for months pointed to a slowing trend rate of job growth reflecting diminished hiring on the part of firms as opposed to rising layoffs, and we've argued that a significant outflow of foreign born labor has acted as a powerful drag on job growth. Still, the data on nonfarm employment, hours, and earnings have for some time been plagued by a host of collection and measurement issues, to the point that it is hard for anyone to have much confidence in their view of labor market conditions, regardless of what that view might be. We continue to emphasize the patterns in the not seasonally adjusted data on nonfarm job growth as well as other labor market indicators, and nothing that we see supports the sharp and sudden deterioration in labor market conditions implied by the recent monthly employment reports. That said, to the extent we are correct in pointing to immigration reform as a primary force behind slowing job growth, it is unlikely that job growth will accelerate to any meaningful degree in the months ahead, with one implication being that the pace of monthly job growth required to hold the unemployment rate steady will be much lower than has historically been the case.





The first chart above has long been a staple of these summaries of the state-level employment data but also reflects what has become the increasingly capricious nature of that data. For instance, it is hard to come up with a plausible explanation for why job growth in Florida and Texas would have given way to job losses in June only to reverse course yet again in July. Granted, the initial estimate of July job growth is still pending revision, and it is also the case that the revisions to the employment data of late have been large and downward, so we won't get too comfortable with that initial estimate. In addition to the patterns shown for Florida and Texas, what also jumps out to us in the first chart above is the relative stability in job growth in Indiana and South Carolina, and in Louisiana too for that matter, though "low and stable" would characterize job growth there over recent months. These are the only three states within the footprint to not have recorded at least one monthly decline in nonfarm payrolls over the past four months.

The monthly establishment survey data have been riddled with collection (low initial response rates to the establishment survey) and measurement (seasonal adjustment) issues that have lessened the reliability of the initial estimates of nonfarm employment, hours, and earnings in any given month. We've been pointing to these issues in the national level data for more than two years now, and the effects

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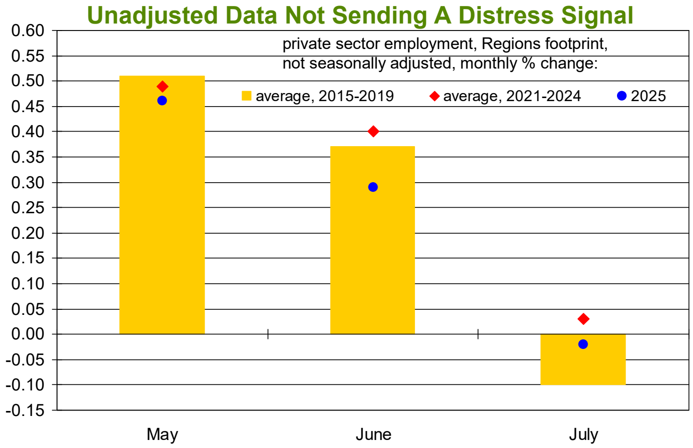
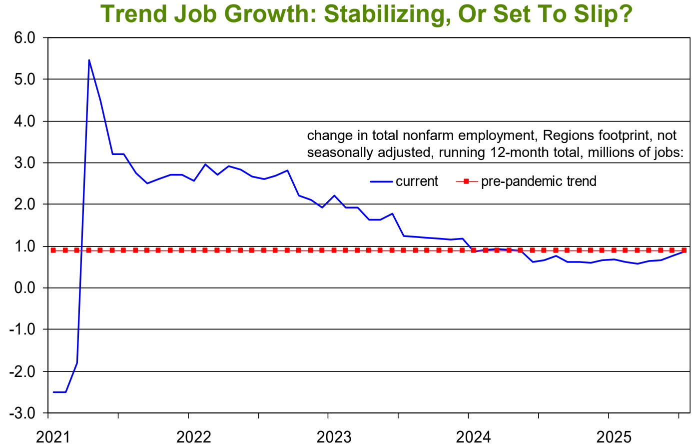
tend to be amplified in the estimates on the state and metro area levels. To our earlier point, however, other indicators suggest that while labor market conditions are cooling, they have not deteriorated to the degree implied by the monthly employment reports.



Source: Bureau of Labor Statistics; Regions Economics Division



Source: Bureau of Labor Statistics; Regions Economics Division

The charts above, both based on the not seasonally adjusted data, help illustrate our point. The first chart shows the monthly percentage change in private sector payrolls within the Regions footprint for May, June, and July for three periods – the average from 2015 through 2019, the average from 2021 through 2024, and 2025. We use private sector, rather than total nonfarm, payrolls here to avoid what has been a high degree of noise in the data on the education segment of public sector payrolls. As seen in the chart, from 2015 through 2019, private sector payrolls rose by an average of 0.51 percent in the month of May, while over the 2021-2024 period the average May increase was 0.49 percent. This May, private sector payrolls rose by 0.46 percent, pretty much in line with the two prior periods. While the increase in unadjusted private sector payrolls within the footprint in June – up by 0.29 percent – was smaller than the recent June average of 0.40 percent, that nonetheless translated into an increase of 158,100 jobs. That increase, however, was turned into a loss of 14,800 jobs on a seasonally adjusted basis.

The chart also shows that July is typically a month in which there is little change in private sector payrolls on a not seasonally adjusted basis, with minor declines being the norm; over the past twenty-six years, there have only been four instances of unadjusted private sector payrolls rising in the month of July, with three of those years being 2020, 2021, and 2022. This July's decline, down by 0.03 percent, is smaller than the average decline over the 2015-2019 period but falls short of the small average monthly increase seen over the 2021-2024 period. On a seasonally adjusted basis, private sector payrolls within the footprint are reported to have risen by 47,000 jobs this July, somewhat of a consolation prize for what to us looks to be unduly harsh seasonal adjustment of the June data. The broader point, however, is that there is little in the not seasonally adjusted data that would warrant the jumpiness in the seasonally adjusted estimates over recent months.

The second chart above shows the running twelve-month change in not seasonally adjusted total nonfarm employment, which we think is a good proxy for the trend rate of job growth, within the Regions footprint. As the chart shows, the current trend rate is right in line with the pre-pandemic trend rate, which conveys a message at odds with the jumpiness in the seasonally adjusted data over recent months. The caveat here is that while looking at the unadjusted data gets around what we believe to be a considerable degree of seasonal adjustment noise in the data, it still leaves us facing the hurdle posed by collection issues, such as the low response rates to the monthly establishment surveys, that impact both the not seasonally adjusted and the seasonally adjusted data.

We will have a better sense of the magnitude of this issue when BLS releases their preliminary estimate of the annual benchmark revision to the recent historical data on September 9. Our sense, based on data from the Quarterly Census of Wages and Employment (QCEW), which captures the universe of firms filing payroll tax returns, is that BLS will announce a downward revision to the level of nonfarm employment as of March 2024 and we expect that downward revision to be large, even if not as large as was the case last year. Even so, a sizable downward revision to the level of employment as of the reference month will not necessarily lead to a similarly large revision to the estimates of monthly job growth, or, to our point here, the underlying trend rate of job growth.

Our point here is not to try to rationalize or explain away what have been somewhat less than impressive monthly job growth numbers over recent months, nationally and within the Regions footprint. Instead, we're trying to see what's behind those numbers. To the extent

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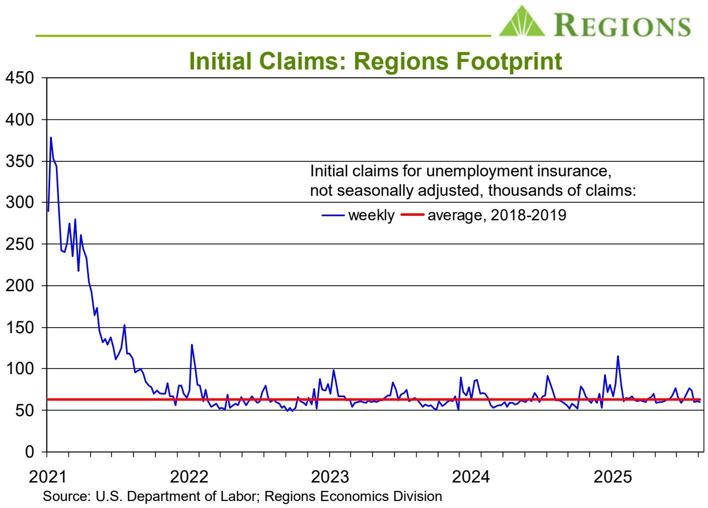
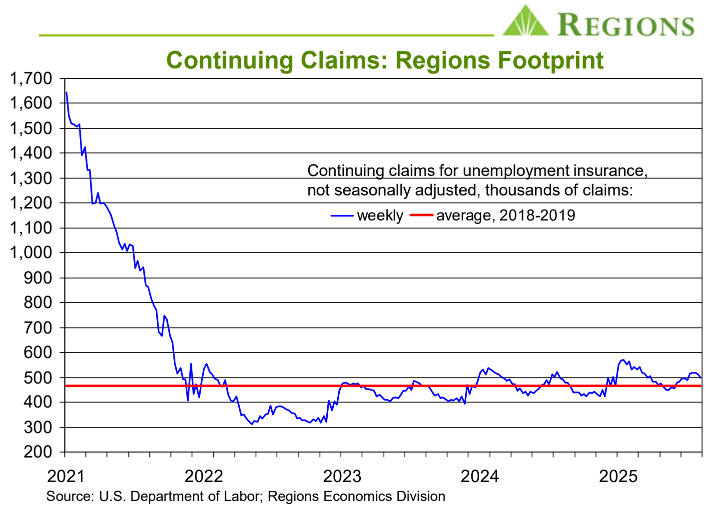
that seasonal adjustment noise is playing a role, that is totally irrelevant, as we illustrated above with our chart on the trend rate of job growth culled from the not seasonally adjusted data. Moreover, based on other labor market indicators at our disposal, including the weekly data on initial claims for unemployment insurance, there is little to suggest the labor market has rolled over or is on the verge of doing so. As noted above, while there has been a marked drop-off in the rate at which firms are hiring, the rate at which workers are being laid off remains notably low, as illustrated in the first chart below, while the layoff rate (layoffs scaled to the level of nonfarm employment) is still below the pre-pandemic rate.

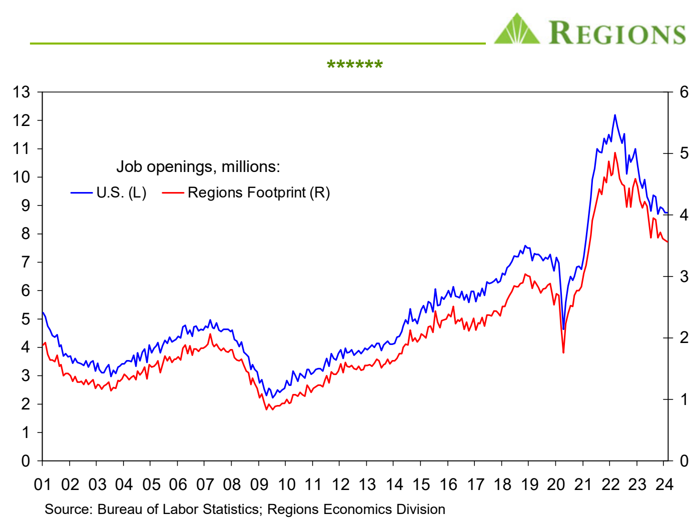




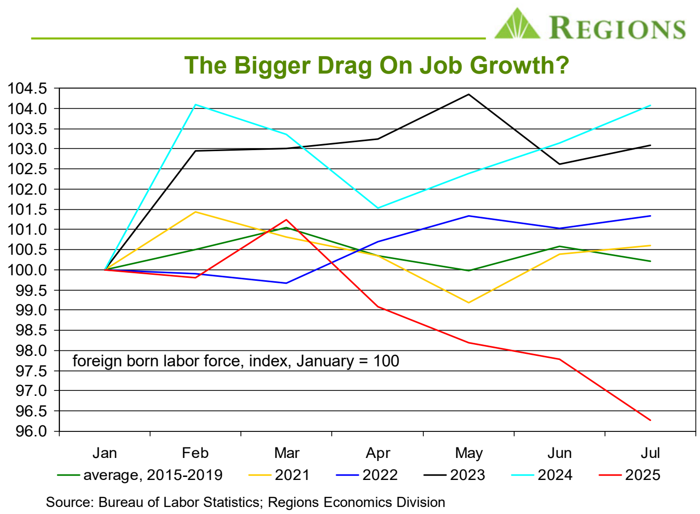
The charts above are based on the weekly data on initial and continuing claims for unemployment insurance benefits, with initial claims showing the number of people applying for benefits and continuing claims showing the number of people receiving benefits. We use the not seasonally adjusted data as a means around what we see as lingering seasonal adjustment noise in the data, which over the past two years has been particularly pronounced during the summer months. We've noted that we see the unadjusted weekly claims data as the most reliable and timely indicator of labor market conditions at our disposal. To be sure, there are clear seasonal patterns in the data, but comparing a given period across different years tells us whether there is something other than seasonal patterns at play. Thus far, the answer is no; as seen in the first chart above, the number of people filing for unemployment benefits each week has not strayed far from the pre-pandemic average. Moreover, when scaled to what is a higher level of nonfarm employment, the layoff rate is below the pre-pandemic rate.

That is, however, not entirely benign. One implication of a pronounced slowdown in the rate at which workers are being hired is that those who do lose a job are finding it to be more difficult and to take longer than had been the case over recent years. One way to see this is to look at continuing claims for unemployment insurance benefits which, again, is a count of the number of people drawing benefits each week. Though not yet as pronounced in the data for the Regions footprint as is the case with the national level data, recent trends in not seasonally adjusted continuing claims have diverged from pre-pandemic trends. This supports our premise of the increased difficulty those who do lose a job are experiencing when searching for a new job. This can also be seen in the national level data in the form of a rising duration of unemployment, though the duration data are not available on the state or metro area levels.

One element of the data that is somewhat difficult to reconcile is that, though well off the record highs seen in early-2022, the number of job openings remains above pre-pandemic level, both nationally and within the Regions footprint. Yet, the rate at which workers are being hired has fallen well below the pre-pandemic rate both nationally and within the footprint. The seemingly obvious and highly tempting, given the clear issues with the data from the Job Openings and Labor Turnover Survey (JOLTS), answer would be to



simply cast the JOLTS data aside as being more noise than signal. That said, though we have little use for the levels – openings, hires, quits – reported in the JOLTS data in any given month, we do at least have more confidence in the trends in the JOLTS data. On that basis, the number of job vacancies remains above pre-pandemic levels despite a growing pool of unemployed labor. There are a few potential explanations for this disparity. For instance, those losing jobs due to increased automation or increased utilization of AI could be finding it more difficult to land comparable positions. More broadly, skills mismatches – those desired by firms, those possessed by job seekers – could be contributing to the rising duration of unemployment. Additionally, with geographic mobility having slowed sharply over the past several months, in part due to challenging housing market conditions, it could be that geographic mismatches are also contributing to the rising duration of unemployment. To be sure, the incidence of remote work expanded significantly with the onset of the pandemic, but not every job can be done remotely, and it is also the case that, with loosening labor market conditions, many firms have been pushing back on remote work. The point here is that geographic mismatches are still a source of labor market friction. Additionally, it could be that firms facing margin pressures triggered by them absorbing the costs of higher tariffs have pulled back on hiring as a partial cost offset, which would help account for the diminished pace of hiring.



While there are clearly factors weighing on the demand for labor, we continue to point to developments on the supply side of the labor market that are contributing to the slowing trend rate of job growth. Most notably, the foreign born labor force has declined by 1.653 million persons over the past four months, while foreign born employment has fallen by 1.461 million persons over this same span. The chart to the side – based on national level data as there are no comparable state level data – shows how the intra-year patterns in the foreign born labor fore have been substantially weaker this year than has been the case over the past several years. While the data come from the household survey and the establishment survey data make no distinction between native born and foreign born labor, we don't think it a reach to argue that the significant decline in foreign born labor has been a binding constraint on growth in nonfarm payrolls over the past several months. Moreover, to the extent the footprint saw faster rates of international in-migration over the 2022-2024 period than did the U.S. as a whole, the sharp drop-off in foreign in-migration from abroad and the decline in the foreign born labor force would be felt more acutely within the footprint. While at some point the declines in the foreign born labor force will abate, that will still leave significant gaps in the supply of labor that are unlikely to be filled any time soon which, as such, will be a persistent drag on measured job growth.

As a final point, if the discussion of a sudden and hard to account for weakening in private sector employment in June sounds vaguely familiar, you're not imagining that. The data from last June originally showed a marked deceleration in private sector job growth which, as part of the annual benchmark revision process, was ultimately revised to show an outright decline in private sector payrolls within the Regions footprint last June. That there were no adverse weather events, labor strikes, or any other factors that could impact private sector payrolls as measured in the establishment survey made the data for last June that much harder to make sense out of. Other data series, such as initial claims for unemployment data, also suggested weaker labor market conditions last June and this June when looked at on a seasonally adjusted basis. Moreover, as it did this June, our Metro Area Employment Diffusion Index, a measure of the geographic breadth of job growth across the footprint, also fell below the 50.0 percent mark last June before bouncing back in July, as it also did this year. So, while we're not willing to dismiss the data for this June out of hand and argue that all is well with the labor market, we do look at the June data with a suspicious eye.

Coming months will tell whether or not we're right to do so. 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:

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