ECONOMIC UPDATE

REGIONS

September 24, 2025

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August 2025 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by 27,800 jobs in August, with private sector payrolls up by 24,500 jobs and public sector payrolls up by 3,300 jobs. At the same time, however, the initial estimate of July job growth was revised sharply downward, with total nonfarm payrolls within the footprint now reported to have risen by 29,600 jobs in July compared to the initial estimate showing a gain of 56,100 jobs, with private sector payrolls now reported to have risen by 20,800 jobs rather than by 47,000 jobs as first reported. The not seasonally adjusted data point to unusually weak labor market conditions, with unadjusted private sector payrolls falling in nine of the fifteen in-footprint states and for the Regions footprint as a whole. In the cases of Florida, Illinois, and Texas, these are the first August declines in not seasonally adjusted private sector payrolls since 2009, a point that no one will take a shred of comfort from. That said, the collection and measurement issues that have for some time plagued the BLS's establishment survey didn't go anywhere in August. For instance, the initial collection rate for the August establishment survey was 56.7 percent, second only to April as the lowest rate this year and the lowest August rate since 2000. While we no longer know what exactly to make of the data on nonfarm payrolls, hours, and earnings from the monthly establishment surveys, looking at the body of labor market data has not led to a meaningful change in our perceptions of labor market conditions; 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. 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.

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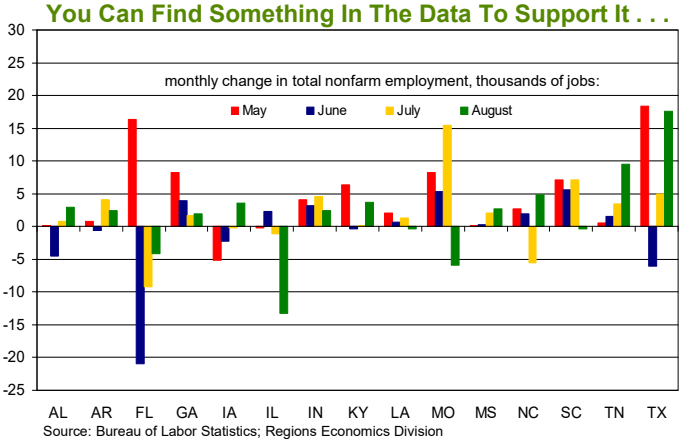
No Matter Your Take On Labor Market Conditions, You Can Find Something In The Data To Support It . . .



Source: Bureau of Labor Statistics; Regions Economics Division

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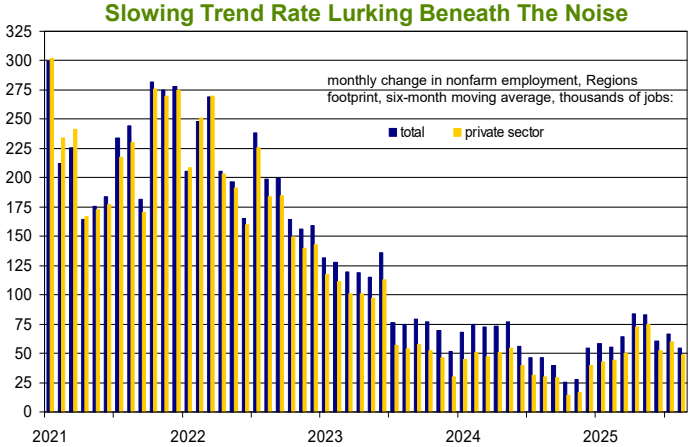
Slowing Trend Rate Lurking Beneath The Noise



Source: Bureau of Labor Statistics; Regions Economics Division

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, on a not seasonally adjusted basis, Florida saw total nonfarm payrolls rise by 0.58 percent in August while Texas saw a much smaller 0.12 percent increase. Yet, on a seasonally adjusted basis, nonfarm payrolls in Florida are reported to have declined by 4,100 jobs while on a seasonally adjusted basis payrolls in Texas rose by 17,600 jobs. Part of this seeming anomaly reflects industry mix; the gain in unadjusted nonfarm payrolls in Florida in August was more than entirely accounted for by a jump in public sector payrolls, most of which was tied to the start of the school year, while unadjusted private sector payrolls fell. Key industries for Florida such as construction, retail trade, and leisure and hospitality services lagged their typical August performance, which was treated harshly by seasonal adjustment. In contrast, Texas saw a much more modest decline in unadjusted private sector payrolls in August than did Florida, but at the same time saw a much smaller increase in unadjusted public sector payrolls than did Florida. The net result is the much smaller increase in not seasonally adjusted total nonfarm payrolls in Texas that that seen in Florida with Texas faring better in the seasonal adjustment process. Note that the difference in performance of public sector payrolls is

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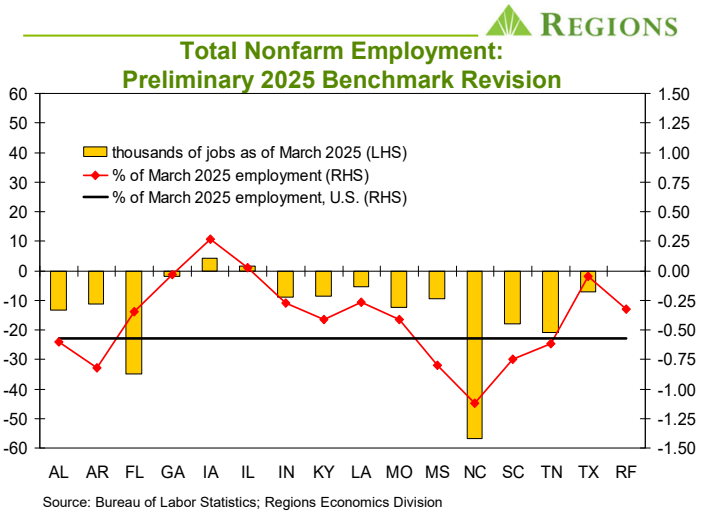
common for these two states – Florida typically sees the largest gain in August and Texas typically sees the largest gain in September, which mainly reflects differences in the timing of the new school year in each state. We've used these two states to illustrate our point, in part because they account for such a high share of overall job growth within the footprint and in part because their fortunes seem to have diverged sharply, at least on the basis of the seasonally adjusted data from the establishment survey. But, we could point to numerous other, let's call them quirks, in the data that drive a good portion of the volatility seen in the above chart. The reality, however, is that underlying labor market conditions are seldom, in the absence of meaningful shocks, as volatile on a month-to-month basis as a plot of monthly job growth tends to imply.

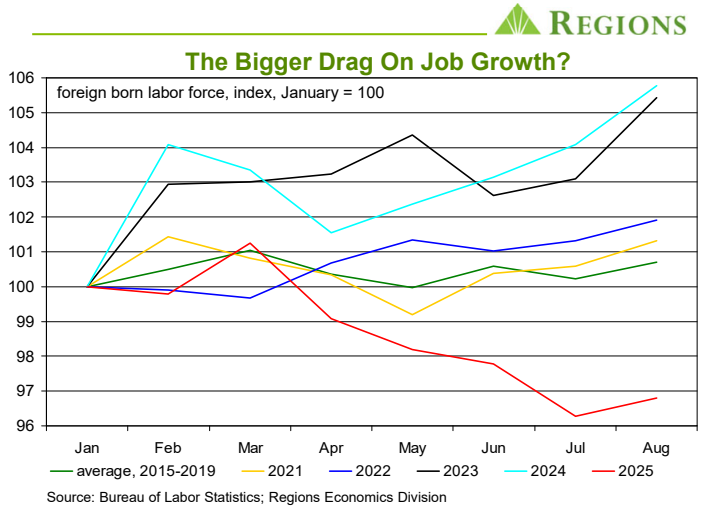


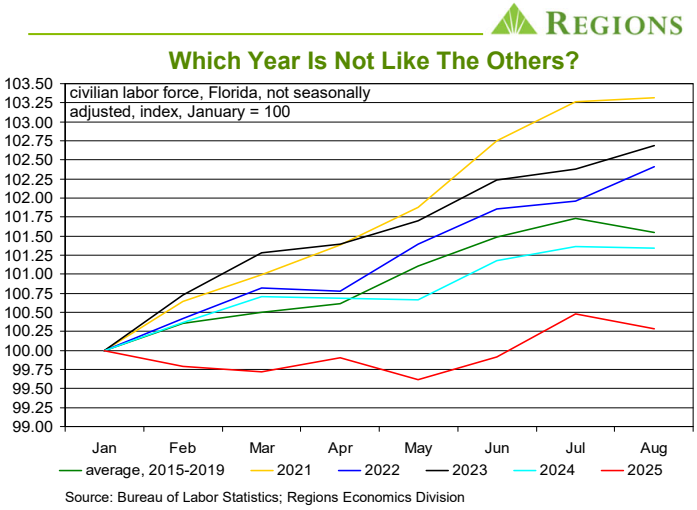
On the point of the reliability of the monthly estimates of nonfarm employment, hours, and earnings, the BLS recently released their preliminary estimate of the annual benchmark revisions, the process through which BLS tries to better align the monthly establishment survey with the data from the Quarterly Census of Employment and Wages (QCEW). The preliminary estimate shows that as of March 2025, the level of not seasonally adjusted total nonfarm employment would be revised down by 911,000 jobs, which is equivalent to 0.58 percent of the March level of nonfarm employment, considerably larger than the average size of the revision (in absolute value terms) over the prior decade. The chart to the side shows the preliminary estimate for each in-footprint state, both the number of jobs and the percentage of not seasonally adjusted nonfarm employment as of March 2025. With the exceptions of Iowa and Illinois, the preliminary estimate shows prior estimates of nonfarm job growth over the year ending with March 2025 will be revised downward (the final results of the annual benchmark revisions for the U.S. will be announced in February, with the state/metro area results announced in March). For the footprint as a whole, the level of total nonfarm employment as of March 2025 will be revised down by 203,100 jobs (we did not include this in the chart so that we could preserve the scale on the left axis), which is equivalent to 0.32 percent of the March level of employment. Note that it is common for the revisions to the state and metro area level data tend to be larger than the revisions to the national level data, so it stands out that the net revision for the footprint as a whole is smaller, on a percentage of employment basis, than the revision for the U.S. as a whole. Again, though, this is only the preliminary estimate, but with this large of a gap it seems likely that the final revisions will bring the same result.

As we've discussed elsewhere, while we have no doubt that the trend rate of job growth has slowed, what we do not know is the extent to which that is the case and why that is the case. The collection and measurement issues we've been pointing to make it hard to gauge the extent to which job growth has slowed. As for the "why" part, while a slower pace of economic growth than in 2023 and 2024, lingering uncertainty on the policy front, and greater emphasis on efficiency and controlling operating costs may be weighing on the demand for labor, we continue to argue this is just as much, if not more, of a labor supply story. As of August, both the level of the foreign born labor force and the level of foreign born employment are roughly one million persons below the level as of January based on data from the BLS's household survey. Note that the establishment survey makes no distinction between native/foreign born, meaning that we cannot directly quantify the effects of the outflow of foreign born labor seen in the household survey data. It seems implausible, however, to argue that this outflow is not a factor in the slowing pace of job growth seen in the establishment survey data, and we'd argue that it is a significant factor.

The household survey series on foreign born labor is only available on the national level, so there are no state level data available. That said, given that the Regions footprint saw faster rates of international in-migration over the 2022-2024 period than did the U.S. as a whole, it seems reasonable to assume that the sharp drop-off in international in-migration that began in late-2024 and which has intensified in 2025 would be felt more acutely within the footprint. It also seems reasonable to assume that the outflow of foreign born labor seen over the past several months has been more pronounced from within the footprint. The following charts, one of which we've used before, help illustrate our argument. Given that the data from the household survey are not directly comparable from one year to the next and that the series on foreign born labor is only published on a not seasonally adjusted basis, the only proper way to compare the data is to compare the intra-year patterns across different years. The first chart that follows shows the intra-year patterns in the foreign born labor force for the U.S. as a whole; as we've discussed here before and as can be seen in the chart, the patterns thus far in 2025 have been substantially weaker than has been the case over the past several years. For instance, as of August, the level of the

foreign born labor force was 3.2 percent below the level as of January, far weaker than at the same point of any of the past several years. As the outflow of foreign born labor has weighed on the total labor force, we could make a similar chart showing the intra-year patterns in the not seasonally adjusted total labor force, and the second chart below does just that, only rather than using the national data we've used the data for the state of Florida.





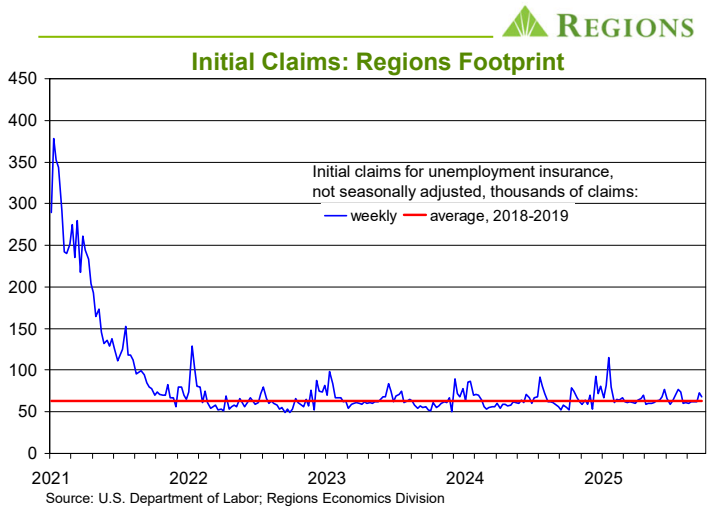
We've picked Florida as it has for some time been more reliant in in-migration, both domestic and international, to fuel its population and labor force growth. As seen in the second chart above, intra-year patterns in the not seasonally adjusted labor force thus far in 2025 have been significantly weaker than at the same points of the past several years. Note that this cannot be attributed to the drop-off in international in-migration alone, as net domestic in-migration slowed sharply in 2024 and has likely slowed further in 2025, and this is broadly true rather than being only a Florida story. It does, however, go to our argument that labor supply constraints are likely playing a role, perhaps a significant role, in the slowing rate of hiring apparent in the labor market data, even if we cannot directly quantify the extent to which this is the case. Even if, as we suspect, the three straight monthly declines in total nonfarm employment in Florida seen in the first chart on Page One are overstating the degree, it seems clear that the trend rate of job growth in the state has softened. We think it highly plausible to argue that labor supply constraints have played a role.

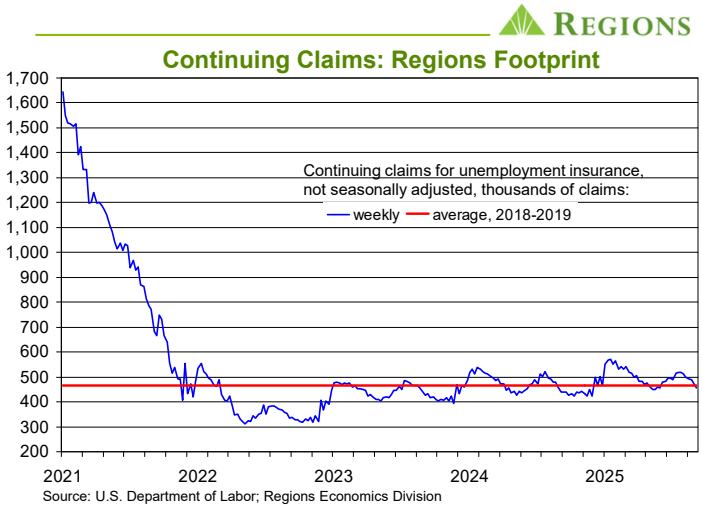
Another thing we see in the data that points to labor supply constraints playing a role in the slowing pace of job growth is the degree to which earnings growth has held up amid decelerating job growth. Were that simply a demand side story, we'd expect wage growth to have slowed much more sharply than has been the case thus far. If, however, softer labor demand is offset, partially or fully, by softer labor supply, wage growth may not slow much, if at all. Obviously, conditions will vary across states, but Texas is the one in-footprint state in which we see a particularly pronounced deceleration in wage growth. In contrast, Florida has seen marked acceleration in the pace of wage growth thus far in 2025 despite the slowing rate of job growth. It is fair to note that the data on hourly earnings and the data on average weekly hours also come from the establishment survey and, as such, are not immune from the collection and measurement issues that we think are diminishing the reliability of the estimates of monthly job growth. The trends in the data, however, are likely a more reliable gauge of the state of the labor market, and those trends show wage growth remaining notably resilient.

To our point about the slowing trend rate of job growth reflecting diminished hiring as opposed to rising layoffs, the weekly data on initial claims for unemployment insurance benefits continue to support that contention. We've noted that we see the weekly claims data, not seasonally adjusted, as the most important and reliable labor market indicator of the many we track. That said, even the claims data are not entirely free of noise. We've seen that in the data from Texas over the past few weeks. In the week ending September 6, Texas saw a spike in not seasonally adjusted initial claims, topping 31,900 claims and basically doubling what had been the weekly run rate. That spike more than negated a decline in unadjusted claims in the rest of the U.S., which led to a spike in claims on a seasonally adjusted basis, which many interpreted as a sign of sudden and sharp deterioration in labor market conditions. As it turned out, Texas had reinstated an emergency claims program previously put in place to aid those displaced by this summer's floods, and in addition to those who qualified, the spike in claims in Texas was fueled by fraudulent filings, which the Texas Workforce Commission verified.

Though claims in Texas have backed off some, they are still above the prior run rate, but it is not yet clear whether that reflects legitimate claims on the part of flood victims or continued fraud. Aside from that, there is nothing in the data on initial claims that is worrying at this time, but the data on continuing claims, i.e., the number of people drawing benefits in a given week, do give cause for concern. The

following charts are ones we routinely use to illustrate these points. The first chart compares initial claims for unemployment insurance benefits with the average over the two years prior to the pandemic, using the not seasonally adjusted data as a means around what we see as lingering seasonal adjustment noise in the data, particularly during the summer months. As seen in the chart, there is nothing to suggest a rising trend rate of layoffs. Again, the jump in claims seen at the very end of the chart reflects the spike in claims in Texas, a considerable portion of which reflects fraudulent claims as opposed to deteriorating labor market conditions in the state. Moreover, when we scale the number of people being laid off to the level of employment, i.e., the layoff rate, we continue to run below pre-pandemic norms, which is the case nationally and within the Regions footprint.





Whie the second chart above may seem to suggest that patterns in continuing claims are not cause for concern, we'll note that at this time of the year not seasonally adjusted continuing claims should be further below the pre-pandemic trend line than is actually the case. This goes to our point about the diminished rate of hiring, in that while the number of layoffs has yet to increase, those who do lose a job are having a harder time finding a new job. We will note that the divergence from typical seasonal patterns in continuing claims is more pronounced in the national level data, but we are nonetheless seeing this in the data for the footprint. It is also the case that new entrants into the labor force are also having more difficulty landing jobs; while we do not get the data on the state level, we know from the national data that the share of new entrants into the labor market who enter as unemployed (as opposed to employed) has been rising, and this a key source of the increase in the total number of unemployed seen over recent months.

Our sense is that, while we have for months been pointing to a slowing trend rate of job growth, the monthly employment reports are overstating the extent to which this is the case. Coming months will tell whether or not we're correct on this point. We also think the implications of slowing job growth being caused by labor supply constraints are quite different from the implications of slowing job growth being caused by declining demand for labor, including the implications for any policy response to perceived softening in labor market conditions. Unfortunately, data limitations make it more challenging to assess these issues than would otherwise be the case. 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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