ECONOMIC UPDATE

REGIONS

October 21, 2020

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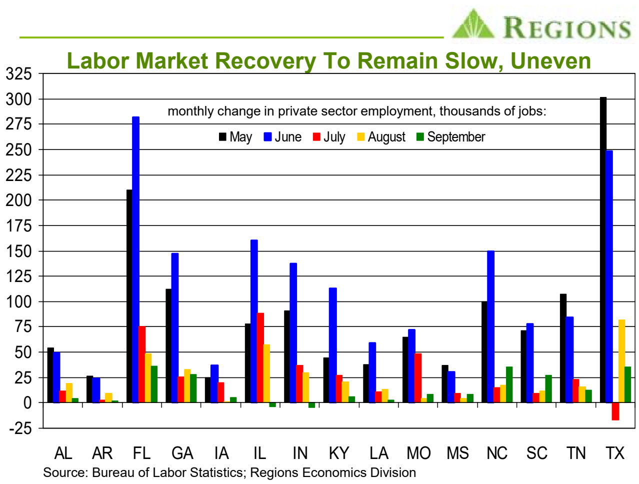
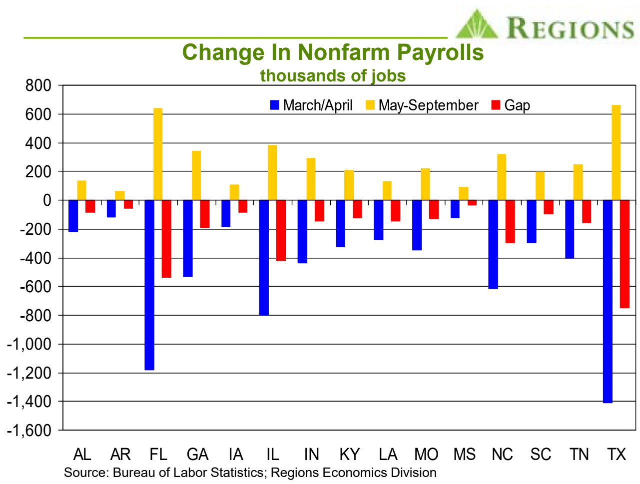
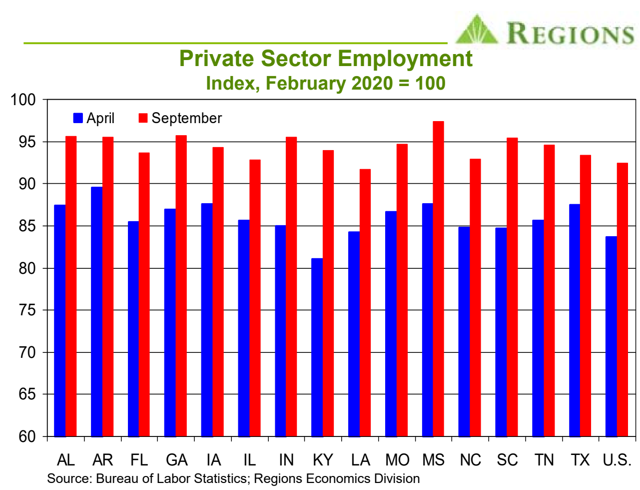
September 2020 Nonfarm Employment: Regions Footprint







Total nonfarm employment within the Regions footprint rose by 195,300 jobs in September, with private sector payrolls up by 203,400 jobs and public sector payrolls down by 8,100 jobs, in part reflecting temporary jobs at the Census Bureau running off the books. What was originally reported as an increase of 466,200 total nonfarm jobs in August is, upon revision, now reported to be an increase of 460,700 jobs. The unemployment rate for the footprint as a whole rose to 7.4 percent in September from 7.3 percent in August, as several states saw their rate move higher. As is the case with the national level data, the state level data for September are riddled with seasonal adjustment noise. We know that on the national level, the increase in private sector payrolls was overstated, the decline in public sector payrolls was overstated, the decline in the labor force was understated, the increase in household employment was overstated, and the unemployment rate was understated, all due to seasonal adjustment issues. While not having the same level of detail, there is no reason to believe these patterns to have been any different in the state level data. The reality is that seasonal issues will continue to plague a wide swath of the economic data, including the labor market data, over the remainder of this year, so it will be important to look at the details of the unadjusted data before drawing any conclusions about the state of the labor market, as opposed to simply spinning a narrative around the seasonally adjusted data as reported. Through the noise, however, the overarching conclusion remains the same – the road ahead to a full labor market recovery appears to be getting longer and bumpier.

While it is not at all surprising that the magnitude of job gains has slowed in each successive month, the extent to which that has been the case it is nonetheless a bit concerning. September saw private sector payrolls fall in Illinois and Indiana, while Alabama, Arkansas, Kentucky, and Louisiana all saw minimal private sector job gains. As noted above, seasonal adjustment issues resulted in estimates of private sector job growth being overstated, with construction, leisure and hospitality services, and retail trade being the industries most impacted. In other words, the slowdown in the pace of private sector job growth in September was more pronounced than is apparent in the seasonally adjusted data.

As the data now stand, as of September the level of total nonfarm employment within the Regions footprint was 3.244 million jobs below that of February. The middle chart to the side shows the net change in nonfarm employment between February and September in each state, represented by the red bars. Obviously, a comparison on a number of jobs basis isn't a level playing field given the disparities in the level of employment across the individual states, which we account for in the bottom chart. That the pace of private sector job gains has slowed so sharply suggests it will take more time to fill the remaining gaps than had previously been thought. This is apparent in the still-elevated levels of layoffs, as reflected in the weekly data on claims

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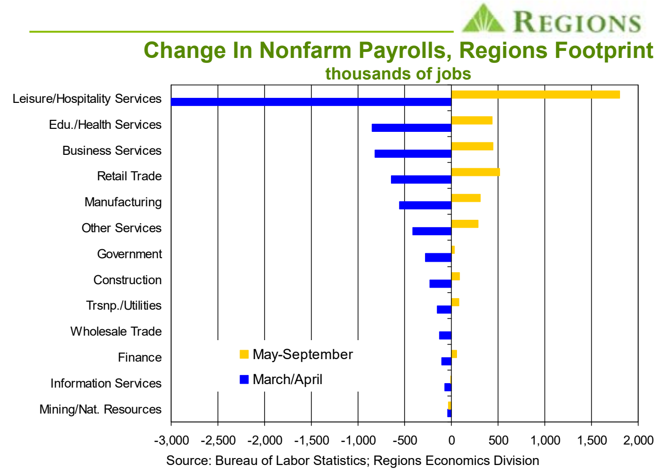
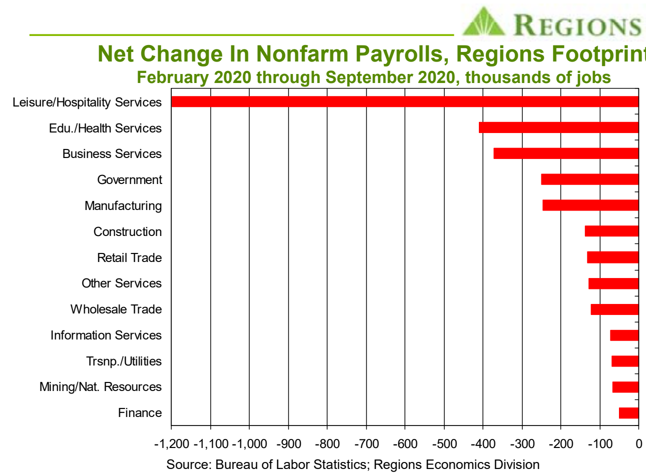
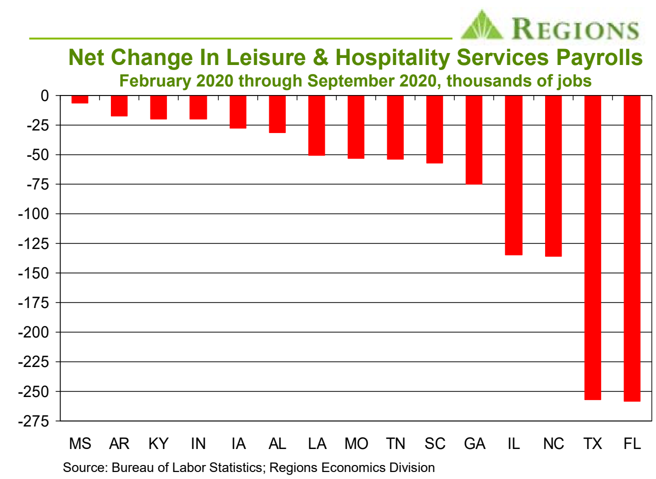
for unemployment insurance, and what have been several announcements of large-scale job cuts across a wide range of industry groups. This is the baseline case without a resurgence of the COVID-19 virus that would trigger another round of restrictions on economic activity, which would further slow the recovery in the labor market and the broader economy. Though perhaps not the most likely outcome, this is a possibility that cannot be ruled out.



As had been the case over the prior four months, retail trade, education and health services, and leisure and hospitality services dominated private sector job growth within the Regions footprint in September, combining to account for 52.5 percent of private sector jobs gains. Since the rebound began in May, these three industry groups have accounted for 69.0 percent of all private sector job gains within the footprint, after having accounted for 64.3 percent of private sector job losses over March and April. As noted above, however, hiring patterns varied sharply across the individual states. Illinois saw payrolls decline in several industry groups, including manufacturing and business services, while declines in construction, education and health services, and trade dragged private sector payrolls down in Indiana. Alabama saw gains in business services and leisure and hospitality services offset either outright declines or only marginal increases across other industry groups to salvage a minor increase in private sector payrolls. In contrast, Florida saw modest but broad based increases across private sector industry groups. In Texas, leisure and hospitality services accounted for over half of private sector job growth in September but, given that measured employment in this industry group was significantly inflated by seasonal adjustment noise – across all states – the reported increase in private sector payrolls in Texas is to be discounted.



The top two charts to the side summarize how employment has changed across the private sector industry groups within the Regions footprint since the onset of the pandemic. The top chart shows total job losses over March and April and total job gains over the past five months (payrolls in information services and mining/natural resources have declined further over the past five months), and the second chart shows the net change between February and September. As the second chart shows, payrolls are lower in each of the broad industry groups than was the case in February. The largest disparity is in leisure and hospitality services, in which there were 1.199 million fewer jobs in September than in February. It is likely that many of these lost jobs will prove to be permanent given the number of bars and restaurants that have closed their doors for good. The bottom chart to the side shows the distribution of the shortfall in jobs in leisure and hospitality services across the individual states. There aren't really any surprises here, we simply thought it worth showing the distribution in terms of thinking when nonfarm employment may return to pre-pandemic levels.



While permanent job losses in leisure and hospitality services will obviously push this return further back, the reality is that the number of permanent job losses has risen across private sector industry groups. Recall that in the early phases of the pandemic, the vast majority of those who lost a job reported that they were on temporary layoff, as opposed to having lost their job permanently. As the months have gone by, however, increasingly larger shares of job losers have reported a permanent job loss. At the same time, the duration of unemployment has risen sharply, particularly for those who are classified as being on temporary layoff. As of September, over 67 percent of those on temporary layoff had been out of work for 15 weeks or more, easily the highest share on record. This suggests that an increasing share of what started out as temporary layoffs are morphing into permanent job losses. Though we do not have nearly the same level of detail in the state level and metro area level data as for the national level data, there is no reason to think the patterns seen in the national level data do not hold on the state and metro area levels.

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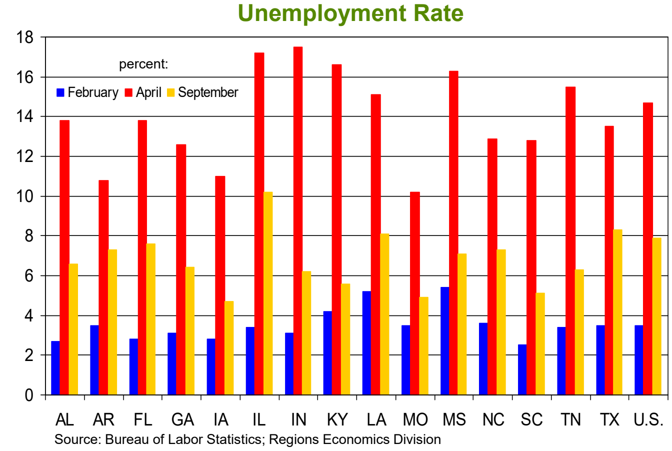
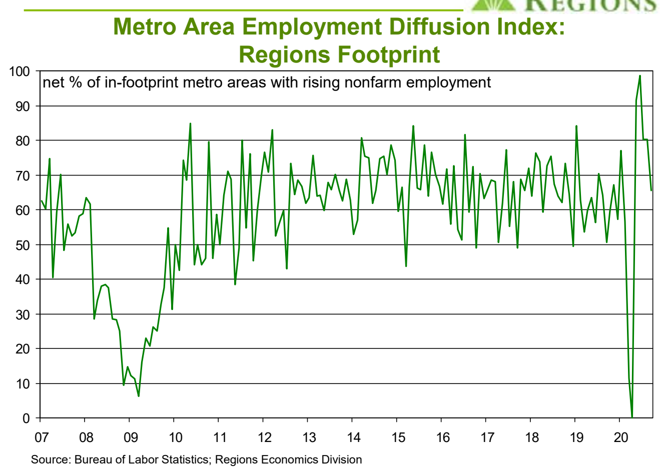
As is the case with the data from the establishment survey, the September data from the household survey are plagued with seasonal adjustment noise. Even in the most normal of times, the state level and metro area data from the household survey tend to be highly volatile, with sizable month-to-month changes in the reported size of the labor force or the level of household employment more the rule than the exception. When there are atypical seasonal patterns in the data, as has been the case in recent months, the volatility in the sub-national data is amplified. So, with that as an introduction, it is difficult to know what to make of the September data showing that Alabama, Florida, Georgia, Louisiana, North Carolina, and Texas saw an increase in the unemployment rate. It is even more difficult to know what to make of the data for Kentucky over the past few months; after hitting 16.6 percent in April, Kentucky saw its unemployment rate drop to 4.4 percent in June before reversing course and hitting 7.5 percent in August then fall to 5.6 percent in September. Other states – Florida, Mississippi, and North Carolina – saw similar patterns. These swings in the unemployment rate simply reflect the month-to-month swings in the size of the labor force and the level of household employment which, to our earlier point, are almost always present in the sub-national data but of late have been more pronounced.



For instance, the data show the level of household employment in Texas rose by 81,662 persons in July, rose by 684,182 persons in August, then fell by 375,475 persons in September. Possible, maybe, but not at all likely. This is one reason we put more stock in the establishment survey data which, while not immune to seasonal adjustment and other measurement issues, tend to be the more reliable indicator of trends in employment. Still, there is one pattern in the national level data worth noting, which is the sharp decline in labor force participation amongst the 25-to-54 year-old age cohort, often referred to as the prime working age population. It wasn't until this January that the participation rate amongst this group returned to where it was prior to the 2007-09 recession, only to reverse course and drop sharply with the arrival of the pandemic, and the decline has been more pronounced amongst females. We only have annual data on participation by age on the state level, but it is fair to assume the patterns seen in the national level data over the past several months hold on the state and metro area levels. Whether, or when, the participation rate amongst this age cohort returns to its pre-pandemic level will be a telling gauge of the recovery in the labor market and the broader economy.



The metro area data for September exhibit the same deceleration in the pace of job gains as seen in the national and state level data. What is noteworthy, however, is the extent to which job gains are less broadly based across the individual metro areas than had been the case over the prior few months. Roughly one-third of the metro areas that go into our Metro Area Employment Diffusion Index saw nonfarm employment fall in September, pushing the index value back down within the range seen prior to the pandemic. While that may seem a normal development, keep in mind that the return of the diffusion index to a more normal range comes as the level of nonfarm employment is a few million jobs below where it was the last time the diffusion index was in this range. Granted, the index can be volatile from one month to the next, but if indeed the index does settle back into this range, that would suggest a smaller number of metro areas contributing toward filling the gap in nonfarm employment within the footprint, meaning it will take that much longer to do so.

We will of course continue to monitor trends in labor market conditions on the state and metro area levels. In addition to these monthly updates of the state level employment data, we continue to produce our regular Thursday updates of state level claims for Unemployment Insurance, and will continue to provide our regular monthly updates of state and metro area labor market, housing market, and personal income data, updates which can be found at either of the following sites:

https://www.regions.com/about-regions/economic-update or http://lifeatregions/Finance/MonthlyEconomicReports.rf

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