ECONOMIC UPDATE

REGIONS

November 24, 2020

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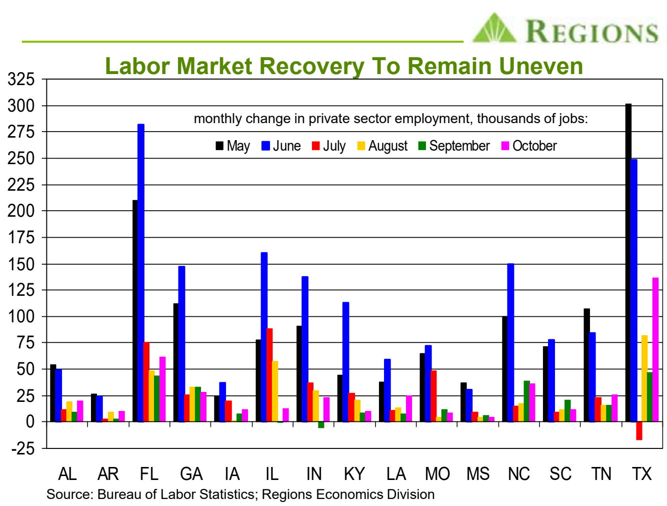
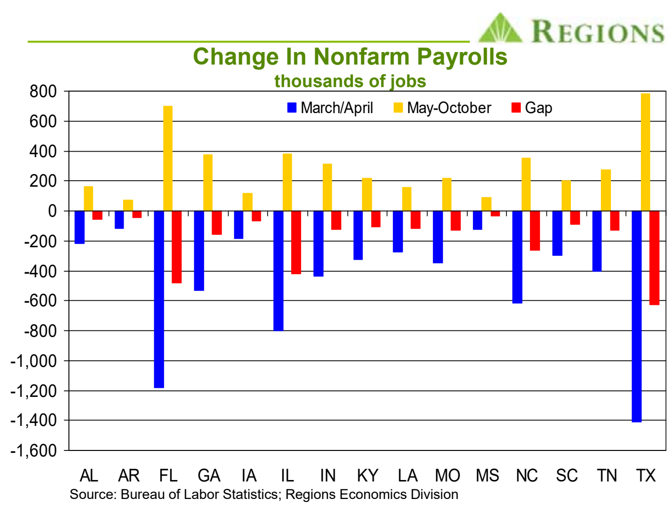
October 2020 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 357,600 jobs in October, with private sector payrolls up by 424,700 jobs and public sector payrolls down by 67,100 jobs. The initial estimate of job growth in September was revised higher; nonfarm payrolls within the footprint are now reported to have risen by 229,400 jobs in September, up from the initial estimate of an increase of 195,300 jobs. The decline in public sector payrolls is consistent with the national level data, and stems from two sources. First, between the September and October survey weeks, 147,300 temporary jobs tied to the 2020 Census ran off the books, and while there are no state-by-state breakdowns, some portion of these job cuts will have fallen amongst the states in the Regions footprint. The second source of the reported decline in public sector payrolls in October is seasonal adjustment noise tied to the altered nature of the school year. On a not seasonally adjusted basis, payrolls in the education segment of state and local government rose, but that increase was smaller than is typically the case in the month of October. As a result, the seasonal adjustment factors overcompensated, resulting in a decline in employment in this segment on a seasonally adjusted basis. This is not the only instance in which seasonal adjustment issues impacted measured October job growth; measured private sector hiring on a seasonally adjusted basis for October is a bit overstated, particularly in the leisure and hospitality services industry group. Seasonal adjustment is likely to be an issue in much of the economic data for November and December, including the labor market data, but the broader, and more significant, point is that nonfarm payrolls continue to recover from the deep declines seen in March and April. Unemployment rates across the Regions footprint fell in October, with the jobless rate for the footprint as a whole falling to 6.3 percent from 7.3 percent in September.





Illinois saw nonfarm payrolls decline for a second consecutive month, as a decline of 9,200 jobs in September was followed by a decline of 1,100 jobs in October. These declines are more than accounted for by declining public sector payrolls, as private sector payrolls in the state are up, albeit only modestly, for the two-month period. At the other end of the spectrum, Texas added 136,300 private sector jobs in October, the state's largest monthly increase since June. As the data now stand, as of October the level of total nonfarm employment within the Regions footprint was 2.852 million jobs below that of February. The second chart above shows the net change in nonfarm employment between February and October in each state, with the blue bars reflecting the jobs lost in March and April and the gold bars reflecting the net increase in payrolls from May through October. 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, but the size of the red bar for each state shows how much further the level of nonfarm employment has to go before being back at the pre-pandemic level.

How long it takes to get back to that point depends in part on the industrial composition of each state. For instance, those states with more exposure to durable goods manufacturing, transportation/warehousing/distribution, and residential construction will get a lift from

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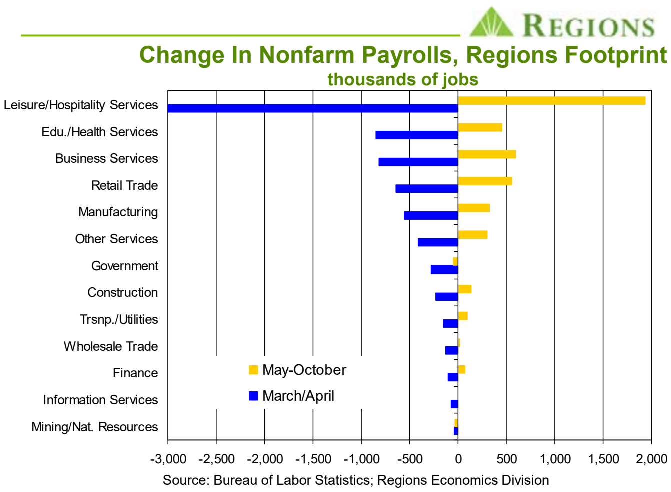
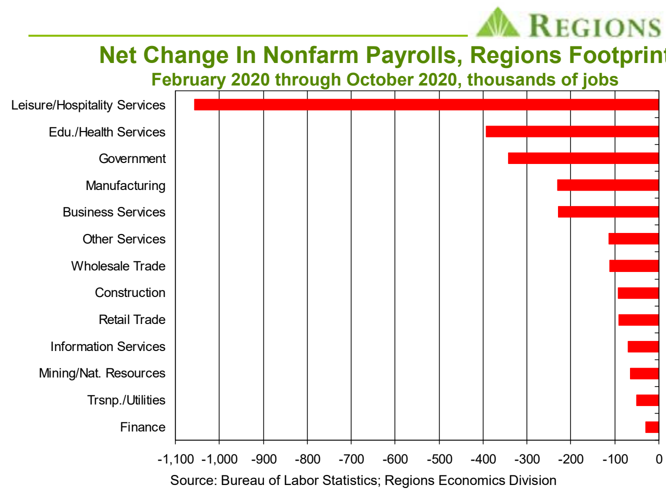
what should be continued growth in these sectors, whereas those states with a heavier exposure to commercial construction, education and health services, and leisure and hospitality services face a longer road back to the pre-pandemic level of employment. If, on the basis of the first chart below, a higher exposure to leisure and hospitality services seems like a faster road back, keep in mind that a considerable portion of the jobs added over the past few months reflect the bounce from the economy reopening but still leave industry-level employment short of where it was prior to the pandemic, as is illustrated in the second chart below. In areas such leisure and hospitality services and non-hospital health care services, the road back figures to be much longer, and it won't be until after a vaccine is widely administered that the remaining gaps in employment narrow more meaningfully. For instance, in Florida, the level of nonfarm employment as of October is 478,400 jobs below that of February, and in Texas the gap is 626,100 jobs, with leisure and hospitality services accounting for 218,400 of the shortfall in Florida and 222,500 of the shortfall in Texas. It will likely be quite some time before these gaps are completely closed. And, that there are businesses that have not survived means it will be even longer until the remaining gaps in employment are filled in. An additional unknown at this point is the government sector. In the near term, further declines in temporary Census jobs will be a drag – nationally, over 93,000 of these jobs ran off the books between the October and November survey weeks, and the remaining jobs will be gone by year-end. More fundamentally, however, the extent to which state and local governments face impaired revenue streams will have a bearing on public sector employment. To the extent budget pressures persist, public sector job cuts remain a possibility, which would push a full labor market recovery even further away.

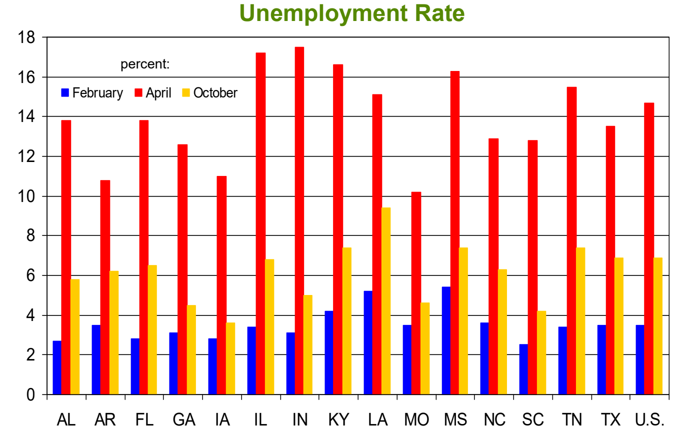




Unemployment rates fell in 11 of the 15 in-footprint states in October, with Kentucky, Louisiana, Mississippi, and Tennessee seeing their jobless rates increase. Illinois saw its jobless rate fall to 6.8 percent in October from 10.4 percent in September, which seems an implausibly large decline. Part of this decline comes from the size of the state's labor force having declined by more than 100,000 persons between September and October, while the level of household employment is reported to have risen by over 100,000 persons, though this is at odds with the declines in nonfarm payrolls in the state in each of the past two months. While Illinois is perhaps an extreme case, this again illustrates what we have routinely pointed out is significant month-to-month volatility in the household survey data on the state and, to an even greater degree, metro area, levels. As such, it is difficult to have much confidence in the reported jobless rate in a given state or metro area for a given month, but the underlying trends are at least directionally on the mark. In other words, it is the case that unemployment rates are trending lower, and we can be confident of this based on steady growth in nonfarm payrolls. At the same time, however, we know that unemployment rates – nationally, on the state level, and on the metro area level – are lower than would otherwise be the case given that labor force participation is meaningfully lower now than was the case prior to the pandemic. As such, the pre-pandemic unemployment rate is a useful, but not absolute, benchmark against which to measure the progress being made in the labor market.

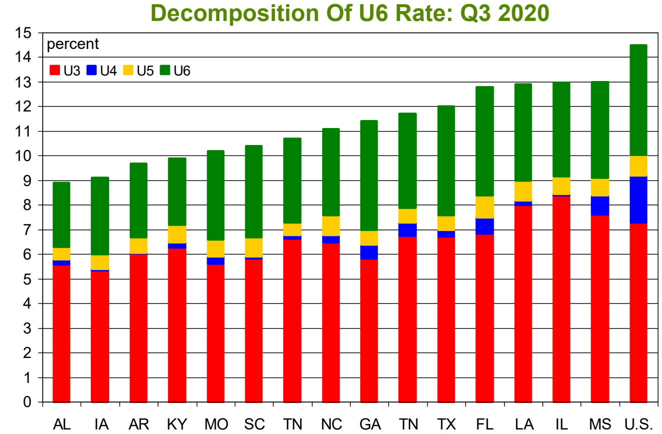
Our reservations about the quality of the state level household survey data aside, the BLS recently released state level estimates of the alternative measures of labor underutilization, the most widely known being the U-6 measure. Available on the national level on a monthly frequency, the state level metrics come with a quarterly frequency and are generally lagged by a month, such that we are only now seeing the estimates for Q3 2020. Additionally, these alternative measures are based on four-quarter moving averages, as a means of reducing the inherent volatility in the state level household survey data. We think it interesting to look at these measures because, as we have discussed on many occasions, the U-3, or, "headline," unemployment rate does not fully capture the degree of labor market slack. There are those classified as "discouraged," who have given up looking for work because they believe there is no work available for them (incorporated into the U-4 measure), those only marginally attached to the labor force, who want a job but are not looking for reasons other than discouragement (incorporated into the U-5 measure), and those working part-time for economic reasons, who want a full-time job but can only find part-time work (incorporated into the U-6 measure). The U-3 rate is the "baseline" unemployment rate, and the other measures are added on, such that the U-6 measure incorporates all of these alternative measures to yield a more comprehensive measure of labor market slack. In the second chart below, we decompose the U-6 rate for each state as of Q3 2020.

Unemployment Rate



Source: Bureau of Labor Statistics; Regions Economics Division

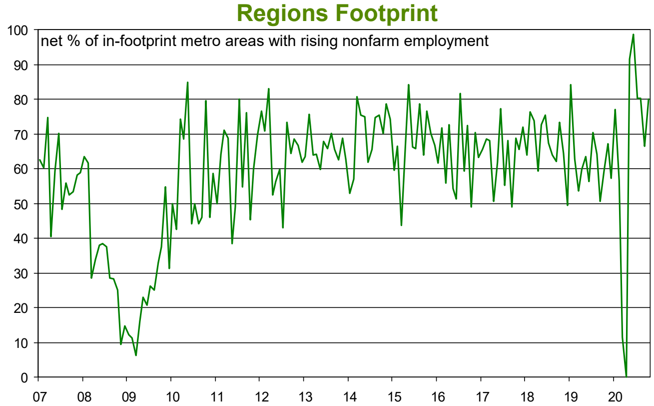
Decomposition Of U6 Rate: Q3 2020



Source: Bureau of Labor Statistics; Regions Economics Division

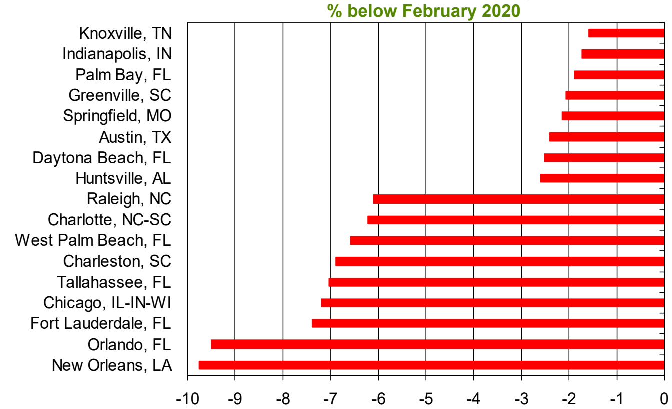
By these measures, the degree of labor underutilization was less severe in each in-footprint state than for the U.S. as a whole as of Q3. It does stand out, however, that the incidence of discouragement (the U-4 measure) is reported to be so low in most of the states, not only because of a much greater incidence in the national data but also because it would be reasonable to think that given the extent to which the pandemic continues to weigh on the economy – which, recall, is partially but not fully open – more people would believe there were no jobs available for them. This may simply be a reporting issue. In any event, Florida, Georgia, and Texas have a greater incidence of people working part-time for economic reasons (the length of the green bars) than the other states but in line with the national average. This could reflect greater combined exposure to industry groups such as education and health services, leisure and hospitality services, and retail trade, where what in normal times are below-average workweeks are at present even shorter. Keep in mind that those working part-time for economic reasons are employed, so are not captured in the U-3 rate, but are underemployed, and that they are working fewer hours means their total wage/salary earnings are lower than would be the case were they working full-time. This is an often overlooked but important point, in that personal income and, in turn, consumer spending are also impacted.

Metro Area Employment Diffusion Index: Regions Footprint



Source: Bureau of Labor Statistics; Regions Economics Division

October Nonfarm Employment
% below February 2020



Source: Bureau of Labor Statistics; Regions Economics Division

The metro area data for October exhibit the same patterns seen in the state level data – a faster pace of job growth than in September and a decline in public sector payrolls. One thing that stands out is how much more geographically dispersed job growth was in October relative to September, as illustrated in our Metro Area Employment Diffusion Index. Nonfarm payrolls increased in 78.3 percent of the in-footprint metro areas incorporated into our diffusion index in October, up from 63.2 percent in September. Atlanta, Austin, Charlotte, Dallas, Houston, Indianapolis, Jacksonville, Nashville, Raleigh, and San Antonio all posted sizable increases in employment in October, with the Champaign and Chicago metro areas seeing significant declines. Still, as on the national and state levels, there are still gaps between the current level and the pre-pandemic level of nonfarm employment in the larger in-footprint metro areas. The final chart on the prior page shows the largest, and smallest, gaps amongst the larger in-footprint metro areas. For instance, as of October the level of nonfarm employment in the New Orleans MSA was 9.8 below the pre-pandemic level, while the gap in the Orlando MSA was 9.5 percent, while at the other end of the spectrum the gap in the Knoxville MSA was 1.6 percent and the gap in the Indianapolis MSA was 1.7 percent. We will note that in a few of the smaller metro areas, including Ocala, FL and Valdosta, GA, the level of nonfarm employment is back above the pre-pandemic level. While not diminishing this milestone, we're always wary of reading too much into the labor market data in the smaller metro areas. Not only are the data quite volatile on a month-to-month basis, they are also prone to significant revisions in the annual benchmarking process which, for these smaller areas, can result in revisions not only in the magnitude of the change in employment, but also in the direction of change, the latter of which is rarely the case for the larger metro areas.

As is the case nationally and on the state level, it remains to be seen whether, or to what extent, the ongoing spike in COVID-19 cases and subsequent restrictions on economic and social activity imposed by many state and local governments will impact the labor market. It is possible that payrolls in retail trade and leisure and hospitality services will be impacted, if not in terms of job counts then in terms of hours worked. The weekly data on initial claims will be an early indicator on the national level, but the state level claims data come with a lag and claims data are not available on the metro area level. As such, the November employment reports on the state and metro area levels will be the first consistent and comprehensive look we'll have. 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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