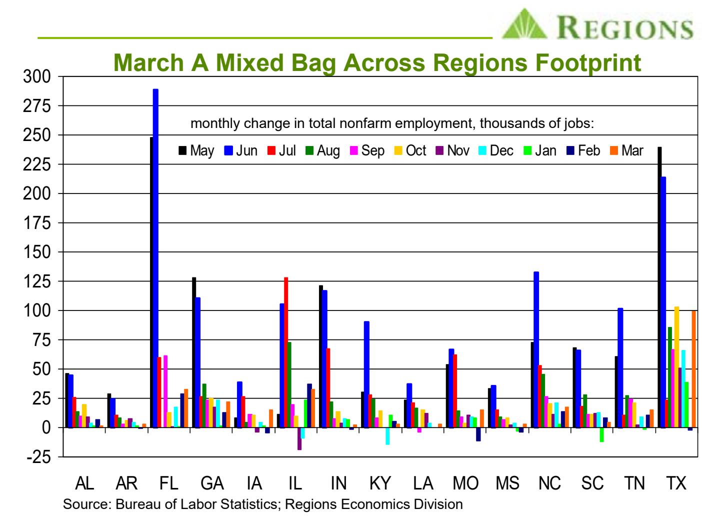
ECONOMIC UPDATE

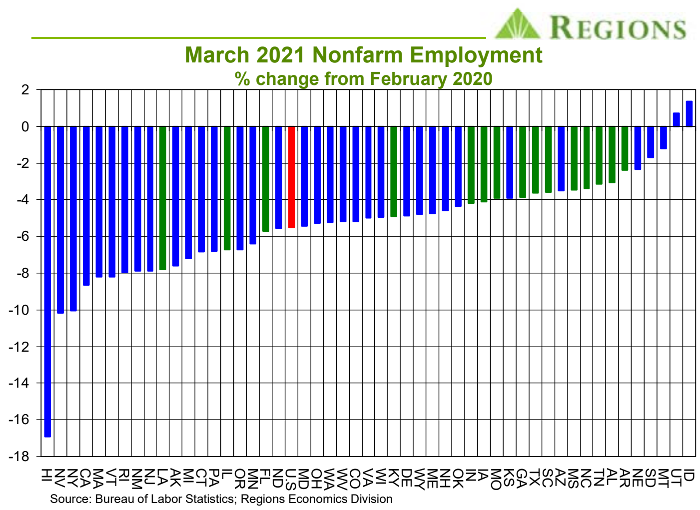
REGIONS

April 19, 2021

March 2021 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 269,500 jobs in March, with private sector payrolls up by 271,400 jobs and public sector payrolls down by 1,900 jobs. Revisions show total nonfarm employment within the footprint rose by 99,800 jobs in February, considerably more than the initial estimate of 21,500 jobs, though the upward revision is in keeping with a sizable upward revision to the initial estimate of February job growth for the U.S. as a whole. While unusually harsh winter weather held down job growth in February, nationally and within the Regions footprint, sampling error likely contributed to the low initial estimate of job growth, as the response rate to the BLS's establishment was much lower than is typical for the month of February. Employers likely passed on more complete February data along with their response to the March survey, thus contributing to the upward revision. In any event, the pick-up in job growth in March is notable for being broad based, both across industry groups and across geographies – all states and over 80 percent of the metro areas we track within the footprint added jobs in March. Moreover, the stepped-up pace of hiring in March also reflects further reopening of the economy, with firms in many of the services industries adding jobs in anticipation of significantly stronger demand over coming months. With further progress on the vaccination front and the economy increasingly reopening, it is reasonable to expect that job growth will be even stronger over the next few months than was the case in March.





As of March, total nonfarm employment within the Regions footprint was 4.4 percent below the pre-pandemic peak, which occurred in February 2020, compared to the deficit of 5.1 percent for the U.S. as a whole. At 2.4 percent, Arkansas has the smallest deficit of the in-footprint states, with Alabama and Tennessee (3.1 percent) and North Carolina (3.4 percent) not far behind. Louisiana (7.8 percent) and Illinois (6.7 percent) are the only in-footprint states with above-average deficits. We thought it would be of interest to see how the in-footprint states compare with the rest of the states, which we show in the second chart above, with the in-footprint states decked out in green. Idaho and Utah are the only states in which the level of nonfarm employment in March 2021 was higher than the pre-pandemic peak while in Hawaii the level of nonfarm employment is 16.9 percent below the pre-pandemic state, largely reflecting the significance of leisure and hospitality services in that state's industrial make-up.

Hawaii is not the only state in which the leisure and hospitality services group represents the largest source of the gap between current and pre-pandemic levels of nonfarm employment. Within the Regions footprint, the level of employment in leisure and hospitality services as of March was 1,123,100 jobs below that of February 2020, far and away the largest remaining gap of any of the broad industry groups. In Florida, payrolls in leisure and hospitality services were 273,300 jobs lower in March 2021 than in February 2020, accounting for 53 percent of the overall shortfall in nonfarm employment (518,500 jobs) relative to the pre-pandemic peak. Though detailed data on the components of the broad leisure and hospitality services group are not fully available on the state and metro area levels, the patterns in

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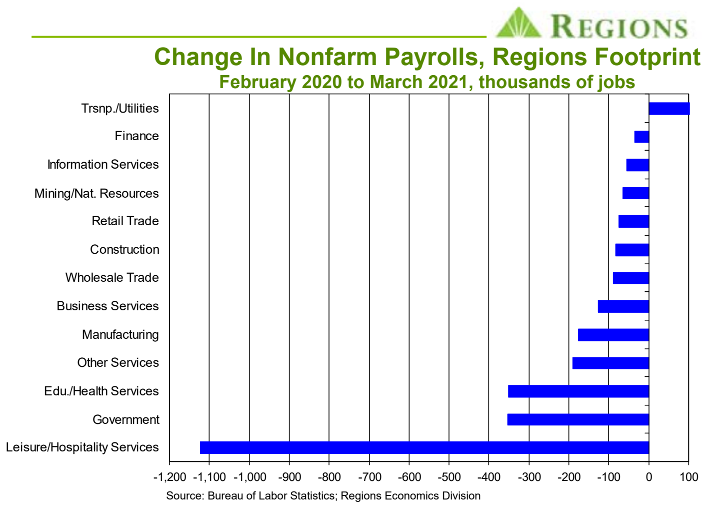
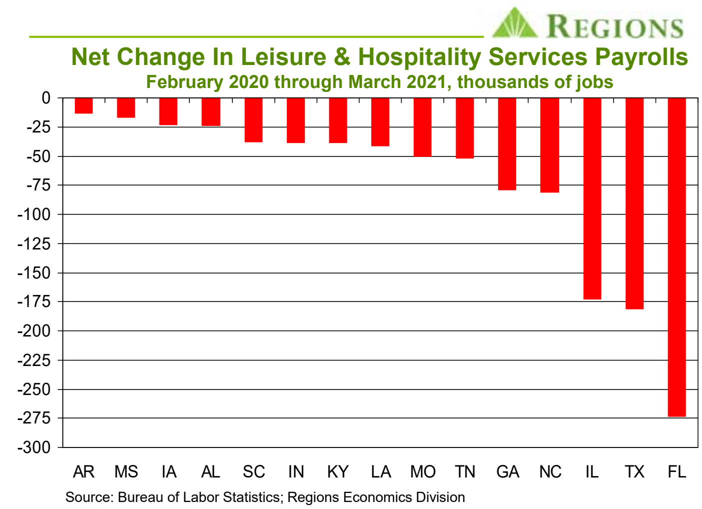
the national data likely hold on the sub-national levels, and we think it interesting to note them here. Nationally, hiring amongst restaurants has been the biggest driver of growth in leisure and hospitality services payrolls over the past two months, with the not seasonally adjusted data showing restaurants adding a net 658,900 jobs in February and March. At the same time, however, job growth in the aggregated leisure and hospitality services industry group was more broadly based in March than in prior months, with lodging establishments and recreation and entertainment establishments also adding to payrolls. This goes to our earlier point that job growth should be notably robust over the next few months as service providers adapt to rapidly increasing demand. In addition to leisure and hospitality services, payrolls in government (mostly tied to education), private education services, and health services should also increase sharply in the months ahead upon further progress on the vaccination front and continued reopening of the economy.



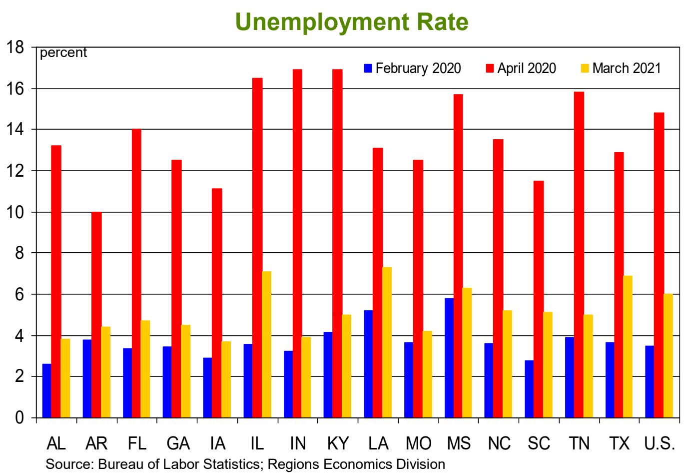


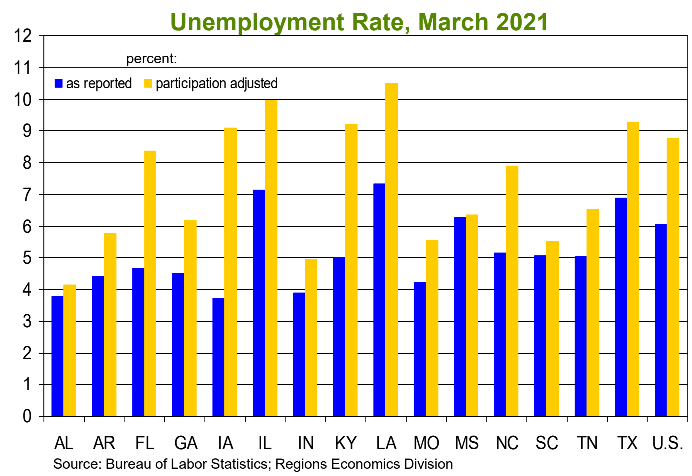
Conversely, it could be that as the economy more fully reopens and consumers move more freely about, the pace of hiring amongst transportation, warehousing, and delivery services will slow. These segments have driven hiring in the broad transportation/utilities industry group over the past year, reflecting the increased incidence of online shopping amongst consumers. This largely accounts for why the level of employment in the broad industry group is above the pre-pandemic peak, which is true of no other industry group. The rate at which online shopping substitutes for in-store shopping was accelerated during the pandemic, so it would be reasonable to expect a pause at some point when the economy is more fully reopened. That would not, however, mean that a significant reversal of this trend, which has been in place for many years, is at hand. A more immediate concern is the manufacturing sector, parts of which have been plagued by the global shortage of semiconductor chips. More and more producers of motor vehicles have scaled back production, including shutting down production lines, due to the shortage, and appliance manufacturers are also feeling the pinch. As such, the April data are likely to show meaningfully smaller job gains in manufacturing, with declines in some states, Alabama and Kentucky, for instance, a distinct possibility. It remains unclear how much longer the chip shortage will act as a drag on manufacturing.

Unemployment rates were flat to slightly lower across the Regions footprint in March, the sole exception being Tennessee, where the jobless rate ticked up from 4.9 to 5.0 percent. At 3.7 percent, Iowa posted the lowest unemployment rate of the in-footprint states in March, followed by Alabama at 3.8 percent and Indiana at 3.9 percent. At the other end of the spectrum, at 7.3 percent, Louisiana posted the highest in-footprint unemployment rate in March, followed by Illinois at 7.1 percent and Texas at 6.9 percent. As we've noted in prior editions of these updates, the unemployment rate can fall for the "right" reason, i.e., more people are employed, or for the "wrong" reason, i.e., a decline in the labor force (or some combination of the two). Alabama, Arkansas, Illinois, Indiana, Kentucky, Louisiana, and North Carolina each saw their labor force decline in March, which contributed to the decline in each state's unemployment rate. It is also worth pointing out that the data on the labor force and household employment, used to calculate the unemployment rate, are inherently more volatile on a month-to-month basis on the state level than on the national level, and are even more volatile on the metro area level than on the state level. This is the main reason we do not put too much stock in the changes in the unemployment rate on the state or metro area level in any single month.

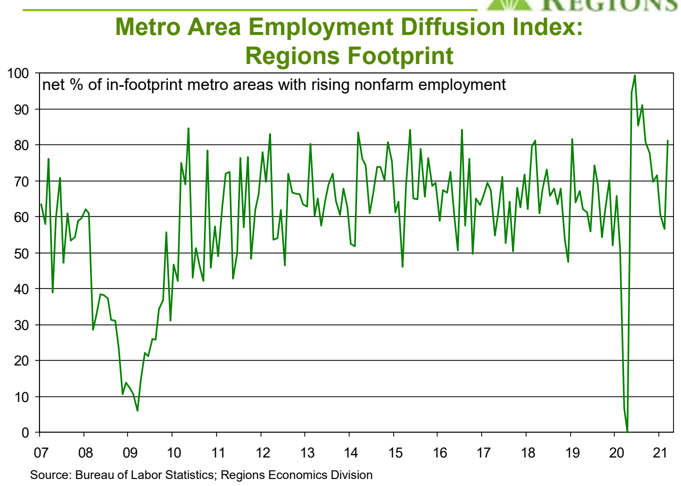
More broadly, as is the case nationally, labor force participation is meaningfully lower across the Regions footprint since the onset of the pandemic, meaning that the reported "U3" unemployment rates are understating the actual degree of labor market slack. As a means of accounting for the decline in labor force participation, we calculate "participation adjusted" unemployment rates for each state and the

U.S. as a whole, which we show in the second chart below. For instance, the U3, or, headline, unemployment rate for Texas stood at 6.9 percent in March, but accounting for the decline in labor force participation over the course of the pandemic yields a rate of 9.3 percent. Those states seeing the smallest declines in labor force participation will have the smallest gaps between the two rates; in Alabama, as of March the U3 unemployment rate is 3.8 percent while the "participation adjusted" rate is 4.1 percent. Mississippi has seen the least severe decline in participation over the course of the pandemic, resulting in only a one-tenth of a point gap between the U3 and participation adjusted unemployment rates, but it should also be noted that Mississippi has, over time, had the lowest rate of labor force participation of any of the in-footprint states, and by a considerable margin. While we have for years been pointing out that the reported unemployment rate is an imperfect and incomplete gauge of labor market slack, the participation adjusted unemployment rate has become a much more meaningful concept over recent months given that Fed Chairman Powell and other FOMC members have frequently pointed to it as one of the labor market metrics they take into account when assessing labor market conditions in the context of setting the course of monetary policy. And, if anything, our measure of the participation adjusted unemployment rate still understates the true degree of labor market slack as it uses a fixed participation rate, that of February 2020, rather than accounting for the slow but steady increase in the participation rate in the years leading up to the pandemic.





As noted above, job growth was not only broad based across private sector industry groups in March, it was also geographically broad based. This is seen in our Metro Area Employment Diffusion Index, which is a measure of the geographic dispersion of job growth across the in-footprint metro areas. The index rose to 81.3 percent in March after having slipped to 56.6 percent in February, though, again, the decline in February was at least somewhat a function of that month's harsh winter weather which took a clear toll on economic activity. In March, 120 of the 152 in-footprint metro areas incorporated into the index saw increases in nonfarm employment, and if job growth is as robust as we anticipate will be the case over coming months, it will also remain broad based across metro areas.



Along with the obvious markers such as the level of nonfarm employment and the unemployment rate, we will continue to monitor trends in labor force participation amongst the states in the Regions footprint in the months ahead. 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 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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