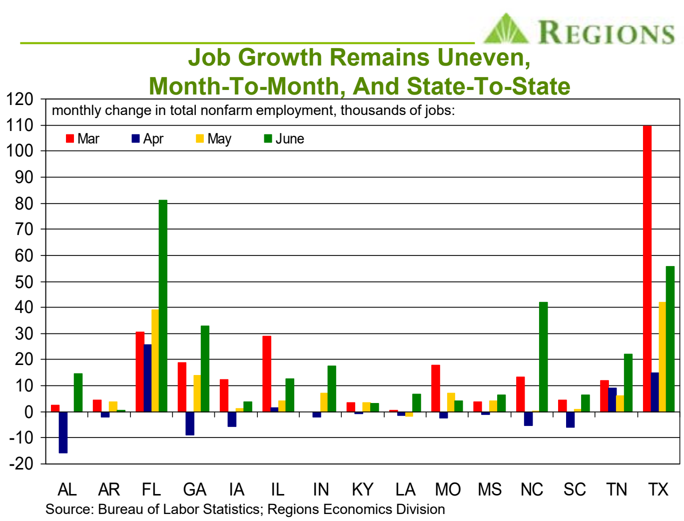
ECONOMIC UPDATE

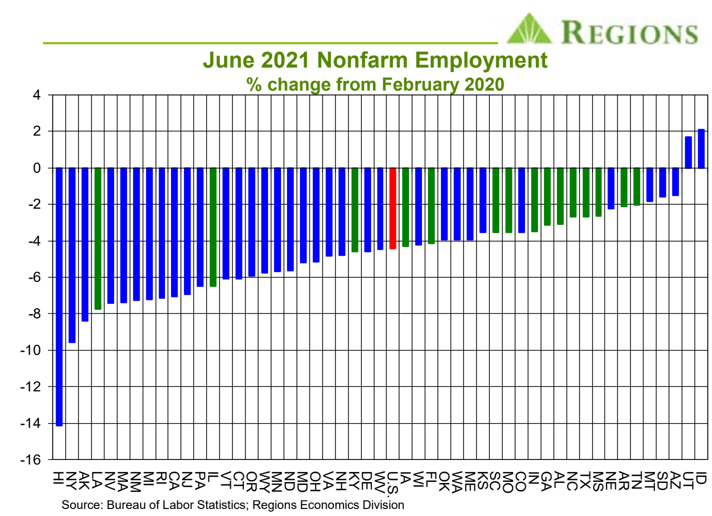
REGIONS

July 20, 2021

June 2021 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 309,700 jobs in June, the largest monthly increase since last August, with private sector payrolls up by 227,900 jobs and public sector payrolls up by 81,800 jobs. The reported increase in public sector payrolls, however, reflects a seasonal quirk; with fewer layoffs in the education segment of state and local governments than is typical for the month of June, the seasonally adjusted data look much stronger than is actually the case. Seasonal adjustment noise will continue to cloud the data on public sector payrolls over the next few months, and while the data on private sector payrolls are not free of seasonal adjustment issues, reflecting the extent to which the pandemic disrupted typical patterns in economic activity, they will nonetheless be the better gauge of labor market conditions. That said, regardless of whether one focuses on total nonfarm employment or private sector nonfarm employment, the bottom line is the same. Job growth remains highly uneven, across the individual states within the footprint and from one month to the next within the same state. For instance, Florida, Illinois, Tennessee, and Texas are the only states within the Regions footprint to have posted job gains in each of the past four months. This is a reflection of what remains an uneven pace of recovery, across industry groups, supply chain and logistics bottlenecks that are weighing on growth in manufacturing, particularly motor vehicle manufacturing, and ongoing labor supply constraints. Our sense is that the uneven pace of growth, in the labor market and in the broader economy, is going to be with us over coming months. To be sure, whether the lines are pointing up or pointing down, the economic data seldom move in straight lines but, by the same token, the lines aren't typically as crooked as has been the case since the onset of the pandemic.





Nationally, as of June the level of total nonfarm employment was 6.764 million jobs below the pre-pandemic peak, or, a gap of 4.4 percent. Idaho and Utah remain the only states in which the level of nonfarm employment has surpassed the pre-pandemic peak, though in 12 of the 15 states within the Regions footprint the gap is smaller than is the case for the U.S. as a whole. The bulk of the remaining shortfall in Florida is accounted for by leisure and hospitality services, with payrolls in the broad industry group 214,600 jobs below the pre-pandemic peak, whereas the shortfall across all industry groups in Florida is 373,900 jobs as of June. The global semiconductor chip shortage has taken a toll on motor vehicle production, which in turn has taken a toll on employment within this segment of manufacturing. This is one reason job growth in manufacturing has been so slow and uneven in recent months, particularly in states such as Alabama, Georgia, Kentucky, Tennessee, and Texas which have significant exposure to motor vehicle production. To a lesser degree, however, shortages of inputs and steadily increasing delivery times are weighing on other segments of manufacturing and also weighing down job growth. This is also the case in construction, where builders have been pumping the brakes on production in the face of supply constraints and elevated materials prices on top of what for some time have been growing backlogs of unfilled orders. To that point, while construction payrolls within the Regions footprint rose in June, that increase didn't come close to making up for the declines seen in April and May.

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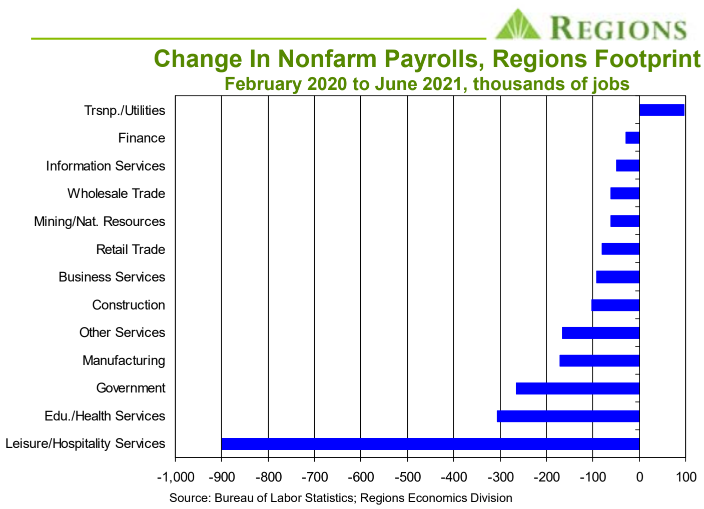
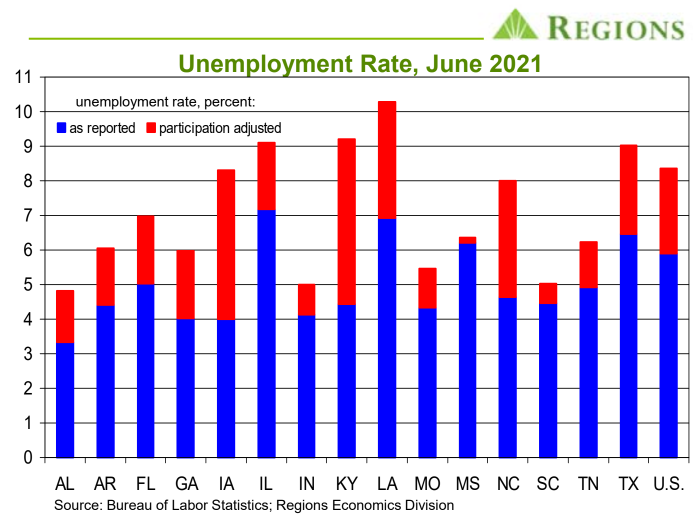
Within the Regions footprint, as of June the level of total nonfarm employment was 2.179 million jobs below the pre-pandemic peak, or, a gap of 3.7 percent. The broad transportation and utilities industry group is the only one of the major industry groups in which the level of employment has surpassed the pre-pandemic peak. This largely reflects the strength of hiring amongst warehousing and delivery services, but the pace of job gains in this segment has slowed considerably in recent months. This makes sense in the context of the economy reopening and people going back – though by no means totally – to in-store shopping. In each of the remaining broad industry groups, however, the level of employment remains below the pre-pandemic peak. To the surprise of no one, the largest gap remains in leisure and hospitality services, with payrolls across the footprint 899,100 jobs below the pre-pandemic peak as of June. The smallest remaining gap is in the broad financial activities industry group, which encompasses finance, insurance, and real estate, where the level of nonfarm employment within the Regions footprint as of June was 29,300 jobs below the pre-pandemic peak.



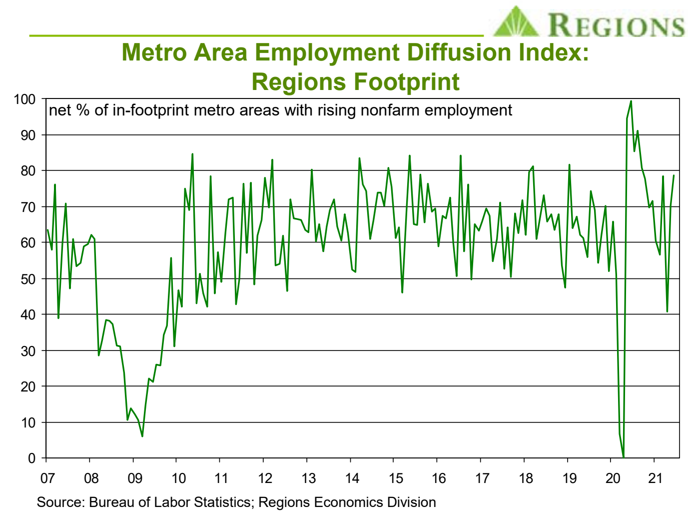


Unemployment rates across the Regions footprint were little changed in June, with modest changes in both the size of the labor force and the level of household employment basically neutralizing each other. Eleven of the fifteen in-footprint states have jobless rates below the U.S. average of 5.9 percent, with Alabama (3.3 percent), Georgia (4.0 percent), and Iowa (4.0 percent) posting the lowest rates in June. In contrast, Illinois (7.2 percent), Louisiana (6.9 percent), and Texas (6.5 percent) posted the highest jobless rates in June. As is the case nationally, labor force participation within the Regions footprint remains well below pre-pandemic norms, with Iowa, Kentucky, Louisiana, North Carolina, and Texas seeing the largest declines in the labor force participation rate. As of June, there were 783,553 fewer people in the labor force within the Regions footprint than was the case prior to the pandemic. We've noted in past editions of these write-ups that the decline in labor force participation is holding down measured unemployment rates, which is another way of saying there is considerably more slack remaining in the labor market than implied by the "headline" unemployment rates. This point is illustrated in the second chart above, which shows the reported unemployment rate in each state (the blue portion of each bar) as well as the "participation adjusted" unemployment rate, or, what the unemployment rate would be were the labor force participation rate the same as it was in February 2020.

Diminished labor force participation stands out against the backdrop of over 9.2 million open jobs in the U.S. economy, and firms clearly would be hiring more workers were they able to hire more workers. To some extent, skills mismatches and mobility constraints account for jobs going unfilled, but the more overriding constraint is that the pool of available workers is much less deep than was the case prior to the pandemic. There are many factors weighing on labor force participation, including lingering concerns over the COVID-19 virus that are leaving people hesitant to return to a work setting, diminished provision of child care, retirements amongst the Baby Boomer cohort, and supplemental unemployment insurance benefits being paid by the federal government on top of regular state level benefits.

It is the latter factor, however, that seems to get the most attention, and while it is true that regular state-level benefits topped off with an additional $300 per week from the federal government means some realize higher cash flows by not working than they could earn by working, there is simply little evidence that suggests this is a, let alone the, primary factor holding down labor force participation. Still, 25 states have either withdrawn from the supplemental unemployment insurance benefits program or announced their intention to do so (benefits are funded by the federal government but participation is the option of the states), with 12 of these states within the Regions footprint – all but Illinois, Kentucky, and North Carolina. The first withdrawals took effect June 12 (including Iowa, Mississippi, and Missouri) with the remainder phased in through July (at present, the supplemental benefits are scheduled to expire on September 6).

Though the withdrawals came too late to have impacted the June employment data, other labor market indicators, such as weekly claims for unemployment insurance benefits and Homebase data on small business employment patterns, suggest any meaningful deviation from patterns in place prior to the supplemental benefits being cut off. For instance, had the termination of the supplemental benefit payments led to significant numbers of people returning to the labor force, there would have been pronounced declines in continuing claims for unemployment insurance (or, the number of people actually drawing benefits) after the supplemental benefits had been terminated, which was not the case. The July employment data will bear watching for signs of increased labor force participation in those states pulling the plug on supplemental unemployment insurance benefits, but we do not look for meaningful rebounds in labor force participation until the fall. One notable caveat is that if the Delta variant of the COVID-19 virus disrupts the return to in-person schooling or the provision of child care services, participation amongst females may not rebound to the extent we expect for as long as any such disruptions remain in place.



The patterns seen in the state level employment data are also apparent in the data on the metro area level, i.e., uneven growth across geographies and from month-to-month. Our Metro Area Employment Diffusion Index, a measure of the geographic dispersion of job growth across the in-footprint metro areas, rose to 78.6 percent in June, with far more metro areas adding jobs than shedding jobs. As of June, North Port, FL, Clarksville, TN, and Lakeland, FL were the only metro areas in which the level of nonfarm employment had surpassed the pre-pandemic peak, though in most of the in-footprint metro areas the remaining gaps are smaller than is the case nationally. In contrast, the level of nonfarm employment in the New Orleans metro area was 11.5 percent below the pre-pandemic peak as of June, while in the Orlando metro area the shortfall was 10.1 percent. Though there are no data on labor force participation on the metro area level, there is no reason to think that patterns are different than is the case on the state or national levels, which in turn implies there is more labor market slack on the metro area level than is implied by reported unemployment rates.

The recent upturn in COVID-19 cases, largely due to the Delta variant, could pose a challenge to what already has been an uneven pace of recovery. Though a return to the broad based shutdowns imposed in the early days of the pandemic may not seem a likely outcome, there could nonetheless be some restrictions on activity, such as capacity limitations being re-imposed on certain types of businesses. Even if this does not prove to be the case, that the upturn in cases is widespread around the globe means that it could take even longer to resolve the global supply chain and logistics bottlenecks that have contributed to the uneven pace of the recovery in the U.S. economy and continue to act as a drag on the manufacturing sector. We will, of course, continue to monitor trends in nonfarm employment and 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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