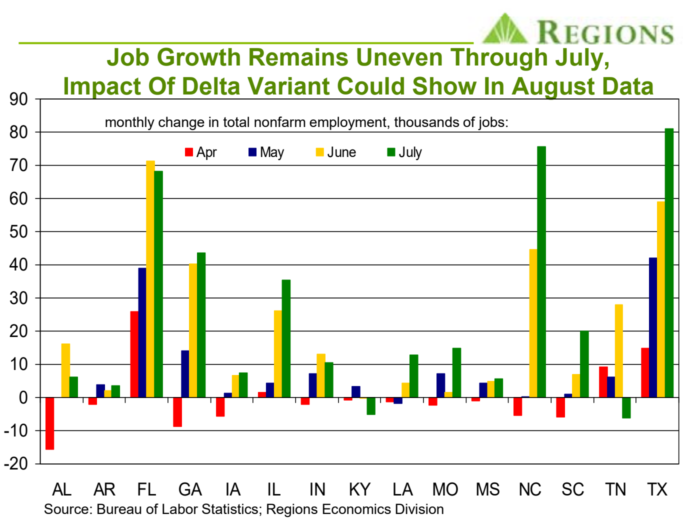
ECONOMIC UPDATE

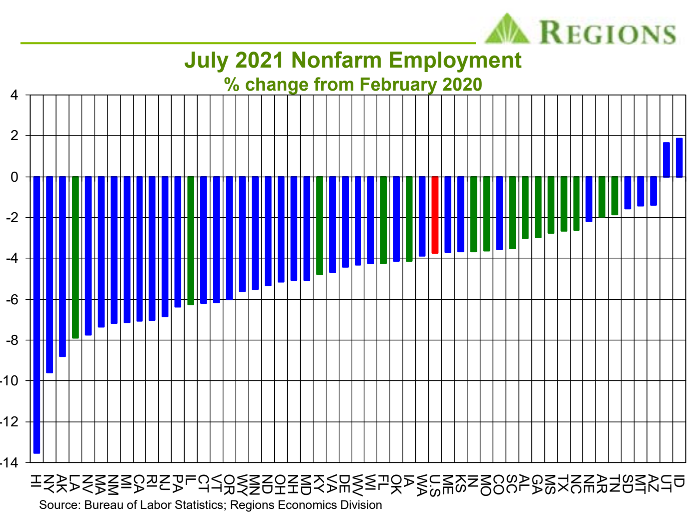
REGIONS

August 24, 2021

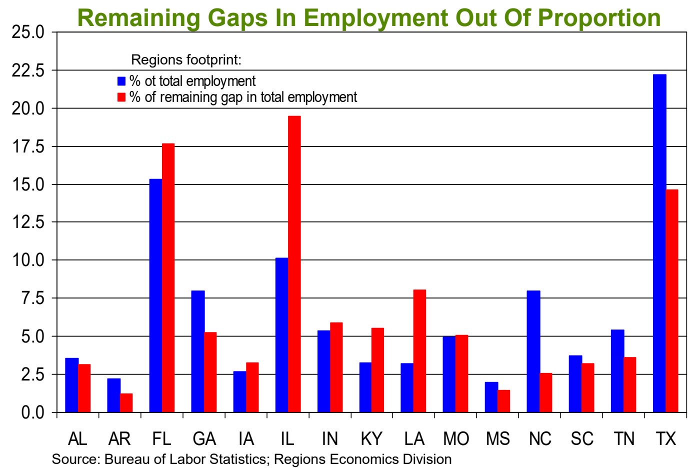
July 2021 Nonfarm Employment: Regions Footprint

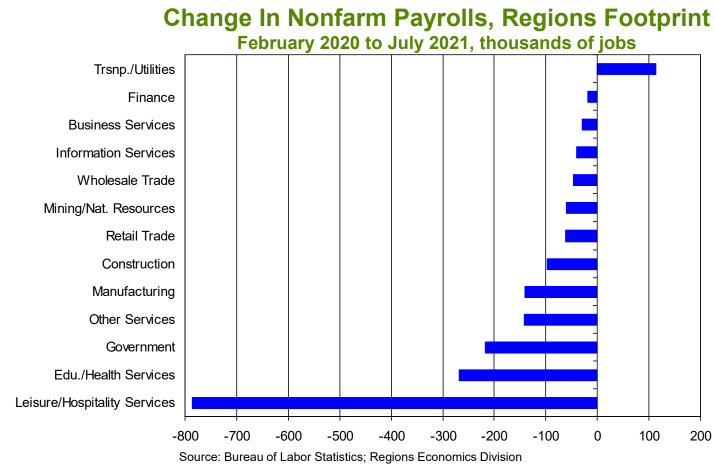
Total nonfarm employment within the Regions footprint rose by 373,700 jobs in July, with private sector payrolls up by 310,700 jobs and public sector payrolls up by 63,000 jobs. At the same time, the initial estimate of June job growth was revised higher, with total nonfarm payrolls across the footprint now reported to have risen by 324,400 jobs, as opposed to the initially reported increase of 309,700 jobs. As was the case in June, however, the reported increase in public sector payrolls in July reflects nothing more than a seasonal quirk; with fewer layoffs in the education segment of state and local governments than is typical for the month of July, 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. Job growth across the footprint 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, 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. It should also be noted that the July employment data show few, if any, visible effects of the spike in COVID-19 cases that began over the latter part of the month, but the August data are likely to show some effects.





Nationally, as of July the level of total nonfarm employment was 5.702 million jobs below the pre-pandemic peak, or, a gap of 3.7 percent. Idaho and Utah remain the only states in which the level of nonfarm employment has surpassed the pre-pandemic peak, though in 11 of the 15 states within the Regions footprint the gap is smaller than is the case for the U.S. as a whole. As of July, the level of nonfarm employment across the footprint was 1.790 million jobs below the pre-pandemic peak, a gap of 3.0 percent. It comes as no surprise that, on a number of jobs basis, Florida, Illinois, and Texas account for the bulk of the remaining shortfall in total nonfarm employment across the Regions footprint, as these states easily have the highest levels of nonfarm employment within the footprint. What is more revealing, however, is the comparison between each state's share of the remaining shortfall compared to its share of total nonfarm employment within the footprint, a comparison shown in the first chart on Page 2. Missouri, which accounts for 5.0 percent of nonfarm employment within the footprint and 5.1 percent of the remaining gap in nonfarm employment for the footprint as a whole, comes the closest of any in-footprint state to being completely balanced. In contrast, while Illinois accounts for 10.1 percent of total nonfarm employment within the footprint, it accounts for 19.5 percent of the remaining gap in nonfarm employment within the footprint, and Louisiana's remaining gap in nonfarm employment – 8.1 percent of the footprint total – is also significantly out of balance with its share of nonfarm employment within the footprint – 3.2 percent. In contrast, while Texas accounts for 22.2 percent of total nonfarm employment within the footprint, it accounts for 14.6 percent of the remaining gap in nonfarm employment. Georgia and North Carolina also account for meaningfully smaller shares of the remaining gap in nonfarm employment than their share of total in-footprint employment would suggest.

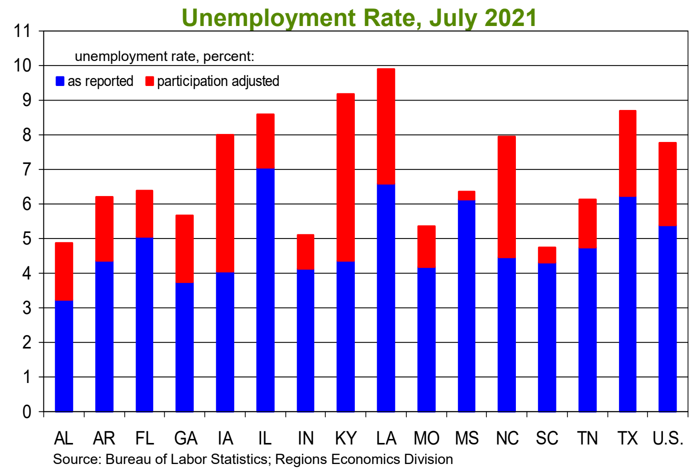




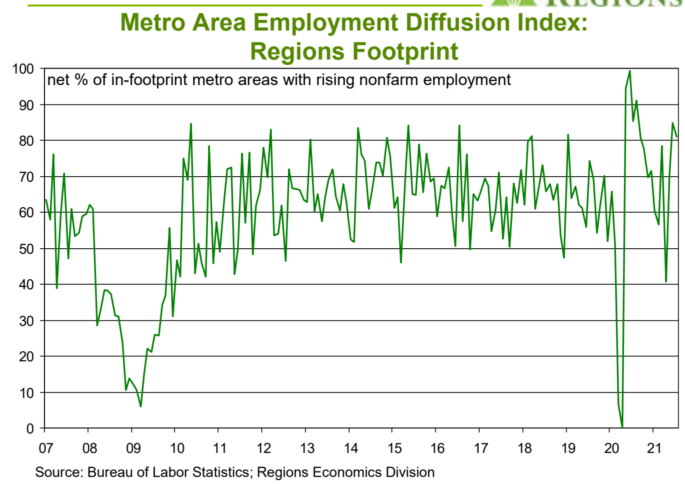
In some cases, the remaining gaps in total nonfarm employment can be tied to industry exposure. For instance, Florida's share of the remaining gap in total nonfarm employment within the footprint (17.6 percent) exceeds its share of total nonfarm employment within the footprint (15.3 percent), but leisure and hospitality services accounts for almost two-thirds of Florida's gap in total employment. This was far and away the industry group most impacted by the pandemic and the efforts to stem its spread and one which continues to face significant hurdles in restoring payrolls to pre-pandemic levels. In contrast, Illinois continues to experience significant gaps in employment across a number of the broad industry groups, such as business services, education and health services, leisure and hospitality services, manufacturing, and government, suggesting the state's gap in overall nonfarm employment may persist for longer than those in other states. In terms of the footprint as a whole, payrolls in leisure and hospitality services remain 785,800 jobs below their pre-pandemic peak, easily the largest gap of the broad industry groups, which accounts for 43.9 percent of the total shortfall in nonfarm employment. After hitting this threshold months ago, transportation & utilities remains the only industry group in which the level of nonfarm employment is above the pre-pandemic peak. Arkansas, Iowa, and Louisiana are the only in-footprint states in which payrolls in this industry group remain below the pre-pandemic peak.

To the extent that the spike in COVID-19 cases tied to the Delta variant impacts economic activity, it is the leisure and hospitality services industry group that figures to take most of the blow. Indeed, higher frequency data on consumer spending and mobility suggest that August has seen some pullback in activities such as travel, dining out, and entertainment, which comes as many firms in these segments were only beginning to regain their footing. While all states have exposure to leisure and hospitality services, Florida could feel an outsized impact given its exposure to this industry group, thus adding to the already substantial shortfall in employment in leisure and hospitality services. Moreover, to the extent that the spike in COVID-19 cases further exacerbates ongoing labor supply constraints, it will act as a drag on overall economic growth. At the same time, it is worth noting that the spike in case counts is a global story, not simply a U.S. story. As such, to the extent that global manufacturing and transportation hubs, such as parts of Asia, continue to see their economies held back by the COVID-19 virus, that will prolong the supply chain and logistics bottlenecks that have been weighing on firms here in the U.S., such as motor vehicle manufacturers. To that point, global shipping backlogs have become even more pronounced in recent weeks, which will impact domestic economic activity in a host of areas, including manufacturing and retail trade.

While the unemployment rate for the U.S. as a whole fell sharply – to 5.4 percent from 5.9 percent in June – unemployment rates across the Regions footprint were little changed in July. Perhaps more significantly, labor force participation is little changed across the footprint, which is notable given that all but three in-footprint states – Illinois, Kentucky, and North Carolina – have pulled out of the Federal Pandemic Unemployment Compensation (FPUC) program, which provides supplemental unemployment insurance (UI) benefits of $300 per week on top of regular state benefits. Additionally, some of the thirteen states have also pulled out of the special pandemic-related programs paying benefits to those not typically eligible for UI benefits. Many have pointed to the FPUC program as being the main factor behind widespread labor supply constraints that have clearly held down the pace of job growth over the past several months. Thus far, however, there is little in the data on either labor force participation rates or unemployment rates that support this contention. One point often overlooked by those making this claim is that even if a recipient is cut off from the $300 per week FPUC payments, they still receive their regular state level UI benefits, and to the extent benefit payments are discouraging work, it would be more reasonable to think the trigger for a recipient to return to work would be the complete loss, rather than a partial loss, of benefits. In that case, it would not be until greater numbers of current UI benefit recipients fully exhaust their state level benefits that they return to work. We've from the start noted that ongoing fears over COVID-19 and still-depressed participation amongst females are more significant factors standing in the way of a more meaningful recovery in labor force participation than that seen to date.



To the extent that the ongoing spike in COVID-19 cases leads to delays in starting the school year or continued reliance on on-line instruction, it will push a more meaningful rebound in female labor force participation further into the future. As things now stand, however, diminished labor force participation means that reported unemployment rates are understating the degree of labor market slack. In the chart to the side, the blue portion of each bar reflects the reported July unemployment rate and the red portion reflects how much higher the unemployment rate would be had each state's labor force participation rate held at the rate as of February 2020. As indicated in the chart, Iowa, Kentucky, Louisiana, and North Carolina have the largest disparities between current and pre-pandemic labor force participation rates.



July's job gains were broadly dispersed across geographies on the metro are level. Our Metro Area Diffusion Index, a measure of the breadth of job growth across in-footprint metro areas, slipped to 80.9 percent in July from 84.9 percent in June but nonetheless indicates broad based job growth. In the majority of in-footprint metro areas, the gap in total nonfarm employment between July and the pre-pandemic is smaller than the U.S. average. As of July, the level of nonfarm employment had surpassed the pre-pandemic peak in seven in-footprint metro areas – Huntsville AL, Hattiesburg MS, Savannah GA, Tyler TX, Valdosta GA, Fayetteville AR, and Lakeland FL. In contrast, the New Orleans and Orlando metro areas continue to see the widest disparities between current and pre-pandemic levels of nonfarm employment, owing in no small measure to above-average exposures to leisure and hospitality services.

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

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com