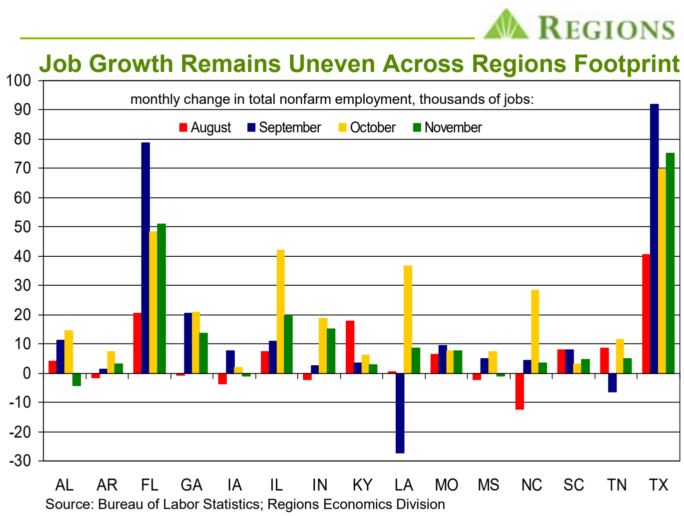
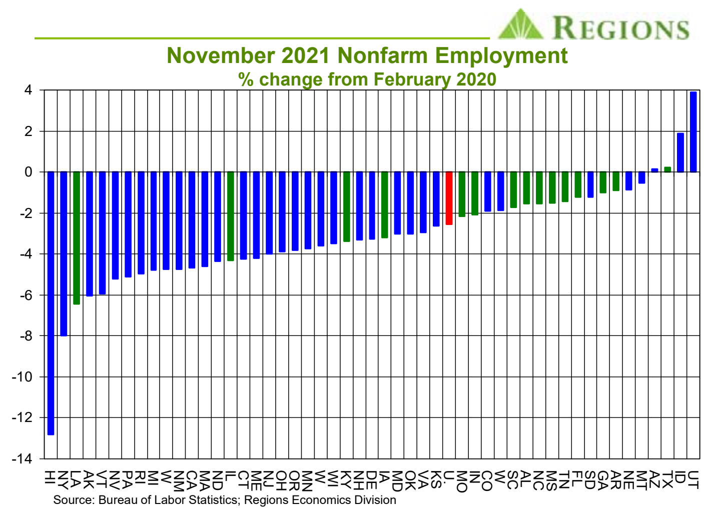
ECONOMIC UPDATE

REGIONS
December 20, 2021

November 2021 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 203,300 jobs in November, with private sector payrolls up by 197,300 jobs and public sector payrolls up by 6,000 jobs. With the national data showing total nonfarm payroll employment rose by 210,000 jobs in November, it may seem that the Regions footprint accounted for the vast majority of the nation's net job growth in November, but that is not the case. The BLS estimates a national employment series that is independent of the procedures used to make estimates of the level of employment for each individual state. The estimates for the individual states are subject to larger relative sampling and non-sampling errors, and the state level estimates are not forced to sum to the national total. For instance, summing up estimated job growth across the individual states yields an increase in total nonfarm employment of 469,800 jobs in November, though this is not directly comparable to the estimate yielded by the national survey. The state level data show November's job growth within the Regions footprint was largely driven by gains in Texas (75,100 jobs) and Florida (51,100 jobs), while employment fell in Alabama (by 4,400 jobs) and Mississippi (by 900 jobs). In short, job growth remains most uneven across the Regions footprint, with Florida and Texas consistently posting the strongest job growth – even when accounting for their relative size.





In keeping with a pattern seen over the past several months, prior estimates of job growth in September and October were revised higher. Our thought is that a significantly increased rate of labor market turnover over the past several months is wreaking havoc on the Bureau of Labor Statistics' (BLS) efforts to measure job growth, at least in the initial round of responses to the monthly establishment survey, from which estimates of nonfarm employment are produced. At the same time, response rates to the establishment survey have been lower than typical in most months – the response rate to the November survey was the lowest of any November since 2008 – thus leaving a bigger gap for the BLS to fill in with their own modeling. As more data are collected in subsequent months, this has led to sizable revisions to the initial estimates of job growth in any given month; that those revisions have consistently been upward revisions is consistent with continued improvement in labor market conditions.

Nationally, as of November the level of total nonfarm employment was 3.912 million jobs below the pre-pandemic peak, or, a gap of 2.56 percent. As of November, four states have seen the level of nonfarm employment surpass the pre-pandemic peak – Utah, Idaho, Texas, and Arizona. While Utah and Idaho both hit this milestone several months ago, Texas and Arizona only did so in November. For the Regions footprint as a whole, total nonfarm employment as of November was 987,600 jobs below the pre-pandemic peak, a gap of 1.67 percent, and ten in-footprint states have smaller gaps than is the case for the U.S. as a whole. The largest remaining gaps within the footprint are in Louisiana (6.43 percent below the pre-pandemic peak and the third-largest gap in the nation), Illinois (4.33 percent

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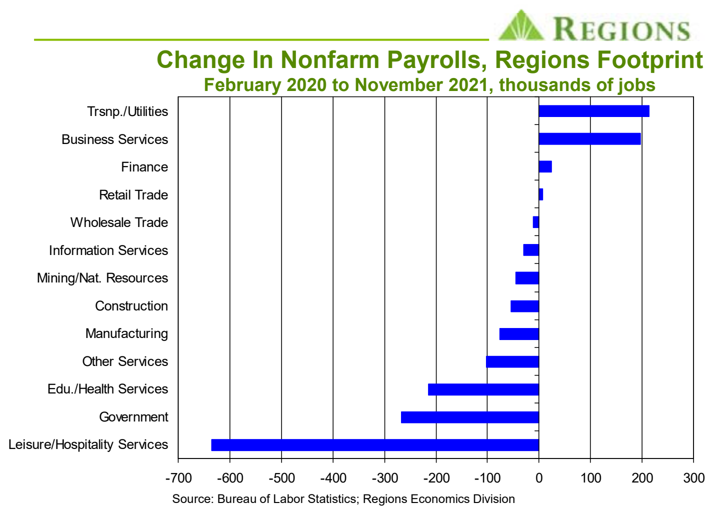
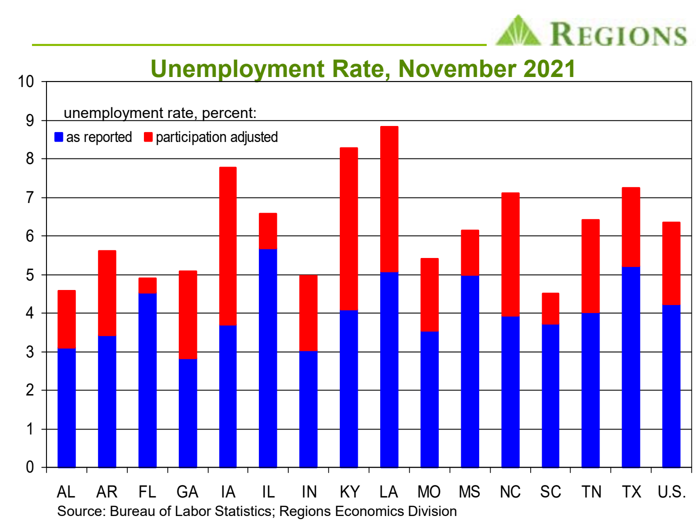
below), and Kentucky (3.37 percent below), with the smallest remaining gaps in Arkansas (0.91 percent below), Georgia (1.02 percent below), and Florida (1.23 percent below).

The recent spike in COVID cases in many parts of the nation due to the Delta variant of the virus and the emergence of the Omicron variant are casting considerable uncertainty over the near-term paths of the labor market and the broader economy. Prior spikes in case counts have impacted the economy through several different channels, including manufacturing activity (by exacerbating global supply chain and logistics constraints), labor force participation, and consumer spending (changes in the level and composition). The speed and the intensity of the spread of the Omicron variant may disrupt back to the office plans, push students on all levels back to remote learning, and lead some state and/or local governments to reimpose restrictions on activity, and may also make consumers more hesitant to engage in certain activities such as travel and visiting recreation and entertainment venues. It is too soon to know whether, or to what extent, we will see such changes in response to the spread of the Omicron variant, but to the extent that we do, it is the broad services sector of the economy most likely to be impacted, and any such impacts would be reflected in the employment data in the months ahead.



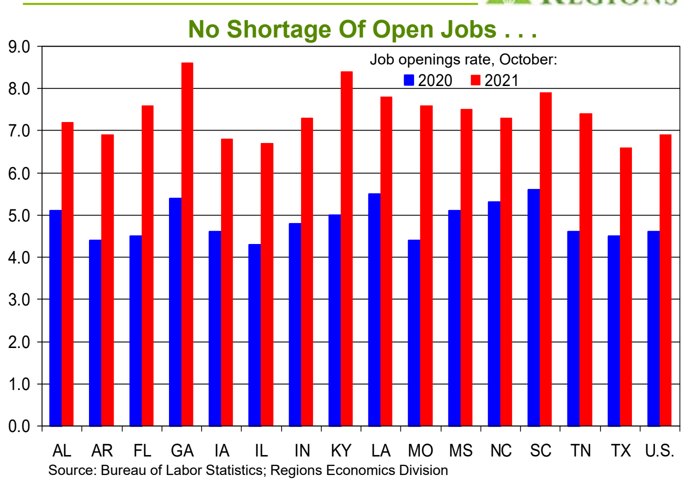
Leisure and hospitality services would be the industry group most vulnerable to disruptions stemming from another spike in COVID case counts. As of November, payrolls in leisure and hospitality services across the Regions footprint were 634,800 jobs below the pre-pandemic peak, accounting for 64.3 percent of the gap in total nonfarm employment. Health care continues to face challenges in the form of difficulty in finding and retaining labor, and another spike in case counts, particularly to the extent it would be sustained, could lead to more health care workers leaving the ranks. At the opposite end of the spectrum, as of November payrolls in transportation/utilities were 213,800 jobs above the pre-pandemic peak, with hiring in warehousing and distribution services responsible for much of the increase in job counts. Payrolls in business and professional services are 196,900 jobs above the pre-pandemic peak, while more recently finance and retail trade payrolls have climbed back above their pre-pandemic peaks, though in the case of retail trade this likely reflects holiday season hiring that will to a large extent lead to declines in payrolls in January. Though recent months have seen motor vehicle producers bring idled workers back, reflecting some easing of the global semiconductor chip shortage, payrolls and production in this industry group remain below pre-pandemic peaks, and more broadly global supply chain and logistics issues continue to weigh on manufacturing activity. We expect these supply-side constraints to ease over the course of 2022, but the pace at which they do so is likely to be somewhat slow, and the risk of further spikes in COVID case counts, abroad as well as at home, remains a downside risk to global manufacturing activity.

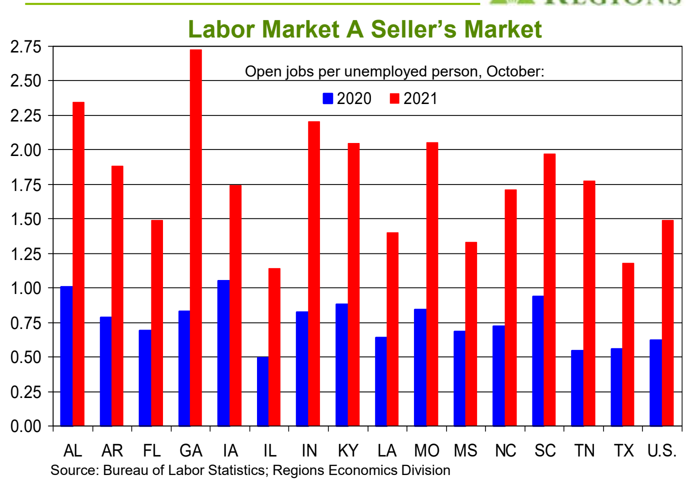
Unemployment rates nationally and across the Regions footprint fell further in November. With the exception of Alabama, where the unemployment rate has held steady at 3.1 percent for the past four months, each in-footprint state saw their jobless rate decline in November. Georgia's unemployment rate dropped to 2.8 percent, its lowest on record, but that isn't as positive a development as it may seem given that the state has seen the size of its labor force decline in each of the past two months. Depressed labor force participation remains an issue across the U.S. and across the Regions footprint, though to a lesser degree in Florida than is true of most states. Nationally, as of November there were 2.396 million fewer people in the labor force than was the case prior to the pandemic, and the gap across the footprint stood at 308,600 people. The chart to the side is one we have used over the past several months to illustrate the extent to which lower labor force participation is impacting measured



unemployment rates, making them a less precise gauge of the degree of slack remaining in the labor market. The blue portion of the bars reflects the unemployment rate reported for each state in November, while the red portion of the bar reflects the extent to which the unemployment rate would be higher had the labor force participation rate in each state remained unchanged from where it was prior to the pandemic. For instance, Kentucky's unemployment rate stood at 4.1 percent in November, but accounting for the degree to which labor force participation in the state has fallen since the onset of the pandemic would more than double the unemployment rate. In contrast, Florida's participation rate as of November was only two-tenths of a point below the pre-pandemic rate, so the state's 4.5 percent unemployment rate is a more reliable indicator of the degree of labor market slack than those in the other states and that of the U.S. as a whole.

What we and others, including the FOMC, are grappling with at present, however, is the degree to which getting back to pre-pandemic labor force participation rates is a realistic target. We have been clear in our expectations for labor force participation – as the financial buffers built up over the course of the pandemic, largely reflecting extensive transfer payments to the household sector, continue to thin out, more people will return to the labor force, while we anticipated that normalization of schooling and child care arrangements would lead to a reversal of the sharp decline in participation amongst females seen since the onset of the pandemic. At the same time, we expected greater numbers of older workers to continue leaving the labor force, a pattern in place prior to but accelerated by the pandemic. That said, the rate at which people are returning to the labor force remains slow and uneven and, to our earlier point, the emergence of the Omicron variant of the COVID-19 virus threatens to upend educational and child care arrangements, which would push a meaningful rebound in female labor force participation further out into the future. In his press conference following the December FOMC meeting, Fed Chairman Powell noted that the ongoing disruption in labor force participation means that what constituted "full employment" prior to the pandemic may no longer constitute full employment as the pandemic continues to disrupt economic activity. For instance, we are seeing significantly faster wage growth than would typically be the case at this point in the cycle, so it could be that there is not as much slack in the labor market as implied in our chart on the prior page. This is obviously something we and other analysts will be trying to assess in the months ahead, and the broader point here is that reported unemployment rates will have to be assessed in the context of patterns in labor force participation.

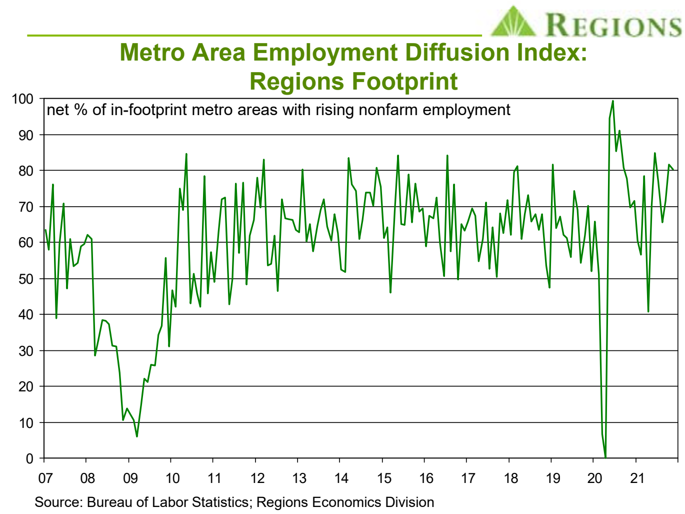




While it is not yet clear how fully labor force participation will recover and how long that will take, it is clear that there remains a material imbalance between labor demand and labor supply. With the August data, the BLS began publishing state level data from the Job Openings and Labor Turnover Survey (JOLTS), which on the national level have shown how much more severe the supply/demand imbalance in the labor market has become since the onset of the pandemic. As of October, the latest available data, there were more than eleven million open jobs across the U.S. economy, with 2.784 million of those open jobs within the Regions footprint. As seen in the first chart above, the job openings rate (or, the number of open jobs as a percentage of nonfarm employment) has risen significantly over the past year. At 8.6, Georgia not only has the highest job openings rate in the footprint but also the highest of any state, followed by Kentucky's rate of 8.4, which ties Michigan as the nation's second highest rate. It is interesting to note that while Kentucky has the largest gap in labor force participation of the in-footprint states, Georgia's gap is much smaller, and while Florida and South Carolina have the smallest gaps of the in-footprint states, their job openings rates are nonetheless amongst the highest. The point being that elevated opening rates can be more about labor supply (such as Kentucky) or more about labor demand in states, such as Florida and

Georgia, with highly diversified economies that historically have grown at above-average rates. It also helps to keep in mind that even prior to the pandemic there was a meaningful supply/demand imbalance in the labor market, with a then-record of over seven million open jobs leading us and other analysts to ask the same questions we're asking now, i.e., where are all the workers and why is it so hard for firms to find them. The pandemic did not cause the imbalance but has led to it being significantly wider. As the second chart above shows, there are far more job openings than there are unemployed people, and that there are so many open jobs is contributing to what have been elevated quits rates, i.e., the rate at which workers are voluntarily leaving jobs. In interpreting the second chart above, keep in mind that in order to be counted as employed, one must be in the labor force and actively looking for work, so depressed labor force participation is helping push job openings/unemployed ratios higher than would otherwise be the case.

On the metro area level, job growth has been notably broad based over the past few months. Our Metro Area Employment Diffusion Index, a measure of the breadth of job growth across in-footprint metro areas, has topped 80 percent in each of the past two months, with nonfarm employment increasing in over three-quarters of the in-footprint metro areas. At the same time, measured state and metro area job growth within the footprint has been more consistent than has been true of the national estimate. Again, the caveat here is that rising COVID case counts could disrupt what otherwise should be continued steady growth in nonfarm employment over coming months, with those economies more reliant on services more prone to disruption. As of November, the level of nonfarm employment in the New Orleans metro area was 9.62 percent below the pre-pandemic peak, the largest such gap amongst the in-footprint metro areas we track. Conversely, the level of nonfarm employment has surpassed the pre-pandemic peak in 25 of these in-footprint metro areas, and it will come as little surprise that most of these metro areas are in either Florida or Texas.



As we get set to turn the corner on 2021, our baseline forecast anticipates above-trend real GDP growth in 2022. The need for badly depleted business inventories to be replenished and what are considerable backlogs of unfilled orders in manufacturing and residential construction are expected to be meaningful supports for growth in 2022 even as fiscal and monetary policy are less supportive than has been the case since the onset of the pandemic. Still, there are considerable downside risks to growth, including lingering global supply chain and logistics bottlenecks and the possibility that a sustained spike in COVID case counts could disrupt economic activity and lead to another round of restrictions on economic activity. To the extent these factors remain in place, the pace of recovery in the labor market and the broader economy could remain uneven. 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 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