ECONOMIC UPDATE

REGIONS

April 1, 2022

This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

March Employment Report: Labor Market Recovery Not Complete, But Far From Done

- Nonfarm employment rose by 431,000 jobs in March; prior estimates for January and February were revised up by 95,000 jobs
- Average hourly earnings rose by 0.4 percent, while aggregate private sector earnings rose by 0.5 percent (up 9.9 percent year-on-year)
- The unemployment rate fell to 3.6 percent in March (3.620 percent, unrounded); the broader U6 measure fell to 6.9 percent

Total nonfarm employment rose by 431,000 jobs in March, with private sector payrolls up by 426,000 jobs and public sector payrolls up by 5,000 jobs. While our forecast anticipated the addition of 566,000 jobs in March, that prior estimates of job growth in January and February were revised up by a net 95,000 jobs for the two-month period is a consolation prize of sorts. Though not matching February, when hiring ramped up as the economy was shaking off the effects of the rapid and wide spread of the Omicron variant, hiring nonetheless was encouragingly broad based in March. If there is one quibble with what is otherwise a solid March employment report, it is that average weekly hours fell by one-tenth of an hour, acting as a drag on growth in aggregate labor earnings. Average hourly earnings rose by 0.4 percent in March, good for an over-the-year increase of 5.6 percent, while aggregate private sector wage and salary earnings rose by 0.5 percent, for a year-on-year increase of 9.9 percent. Despite a further increase in labor force participation, the unemployment rate fell to 3.6 percent in March, matching our below-consensus forecast. The broader U6 measure, which includes underemployment, fell to 6.9 percent in March from 7.2 percent in February.

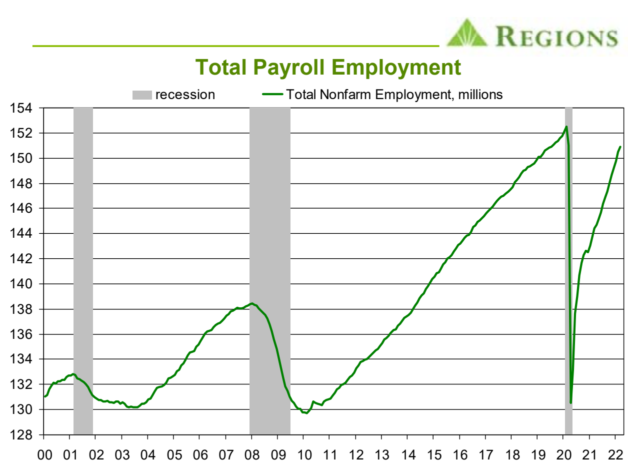
The response rate to the March establishment survey was only 62.1 percent, the lowest response rate in any month since January 2019. This extends a run of months in which the response rate has been oddly low, and what also stands out is that the response rates in the subsequent two months, after firms have had two chances to go back and fill in the blanks in their initial responses, also remain well below longer-term averages. We do not have a good explanation for this, but it is worth noting that a lower response rate leaves a bigger void for BLS to fill with their internal estimates and raises the possibility of larger revision to the initial estimate of job growth in any given month than would otherwise be the case.

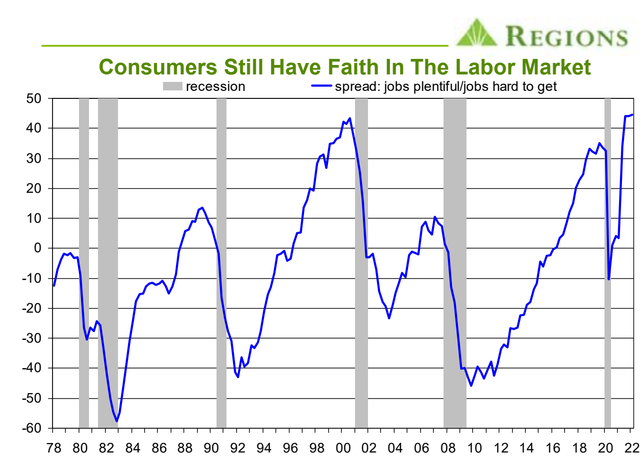
As was the case with the February data, the March data are largely free of the seasonal adjustment noise that had plagued the labor market data over the prior several months. The not seasonally adjusted data show total nonfarm employment rose by 0.53 percent in March, right in line with the average March increase since 2000 (barring of course the March 2020 data). The seasonally adjusted data show March job growth was led by leisure and hospitality services (+112,000), business and professional services (+102,000), and education and health services (+53,000). As of March, the level of total nonfarm employment was 1.579 million jobs below the pre-pandemic peak.

While some are making much of the data showing that, as of March, there are only 174,000 fewer people in the labor force than was the case prior to the pandemic, we'll caution that this is not a valid comparison. The new population controls imposed on the household survey as of January 2022 led to a significant level shift up in the level of the labor force as of that month, meaning the 2022 data are not comparable to that of prior years when looking at the data in terms of levels (this is the case each year when new population controls are imposed). What are comparable from one year to the next are the rates derived from the household survey data, i.e., the participation rate, the employment/population ratio, and the unemployment rate, for instance. While the labor force participation rate did rise to 62.4 percent in March, that leaves it a full percentage point below the pre-pandemic rate, which still leaves a sizable gap to fill.

That said, the economy has nonetheless added 6.494 million jobs over the past twelve months, and it seems clear that, were they able to do so, firms would be adding even more workers. As it is, the persistent mismatch between labor demand and labor supply (which was in place well before the onset of the pandemic) has led to faster growth in average hourly earnings than would otherwise be the case. What is more relevant, however, is that aggregate private sector labor earnings, the largest single component of personal income, continue to grow at a rate well in excess of the rate of inflation.

Whether looked at from the perspective of labor force participation or the level of nonfarm employment, the recovery in the labor market is clearly not complete. That said, robust job and earnings growth should alleviate concerns from some quarters that the economy is set to tip into recession.





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