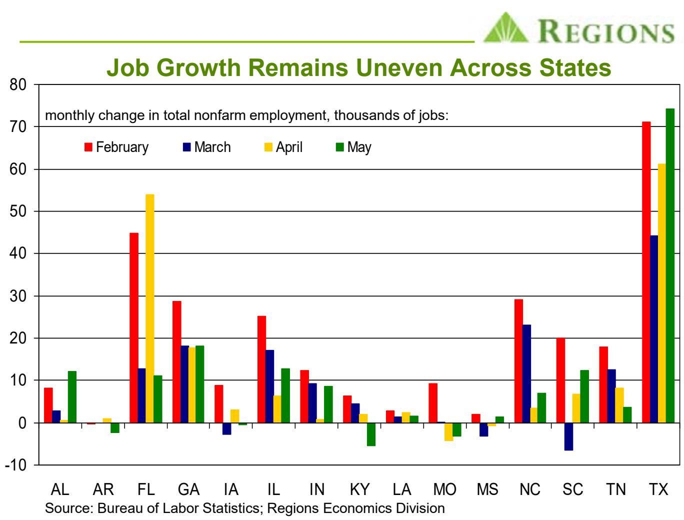
ECONOMIC UPDATE

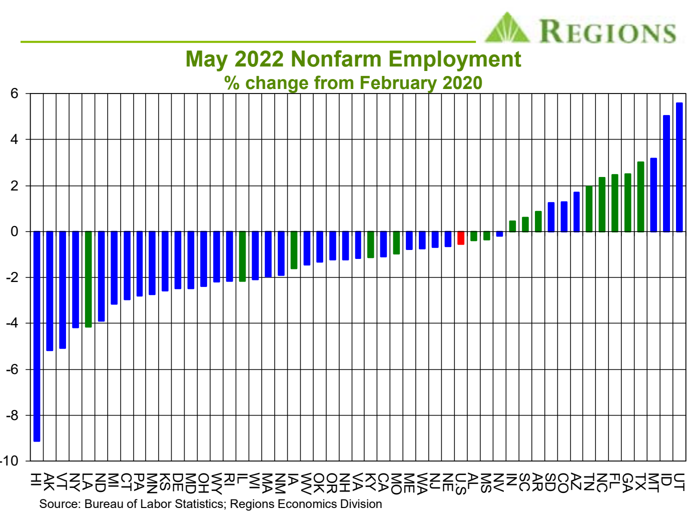
REGIONS

June 23, 2022

May 2022 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 151,500 jobs in May, with private sector payrolls up by 141,000 jobs and public sector payrolls up by 10,500 jobs. Over the past eight months, nonfarm payrolls across the Regions footprint have risen by 1.720 million jobs, but at the same time patterns in job growth have varied sharply across the individual states. While to some extent this is nothing new or unusual, what stands out is the extent to which these patterns have varied compared to what would have been normal in pre-pandemic times. To that point, Arkansas, Iowa, Kentucky, and Missouri each saw nonfarm payrolls decline in May and in some states job growth has been slower over the past few months than had previously been the case. We can point to a host of factors that help account for the disparities in job growth across states, such as patterns in COVID cases which are impacting patterns in economic activity and labor force participation, exposure to ongoing supply chain and logistics constraints, and overall industrial make-up. One reason to be concerned by the differentials in job growth is that, with the U.S. economy slowing in the face of elevated inflation and rising interest rates, those states in which job growth was already wobbly have less capacity to withstand these blows than those states going into the slowdown with stronger labor market conditions.





As of the May data, the level of nonfarm employment for the Regions footprint as a whole was 1.1 percent above the pre-pandemic peak, or, 636,000 jobs higher than the pre-pandemic peak. In contrast, nonfarm payrolls for the U.S. as a whole were 822,000 jobs below the pre-pandemic peak, a shortfall of 0.5 percent. Eight of the fifteen in-footprint states have seen nonfarm payrolls push above the pre-pandemic peak, including five of the ten largest differentials in the nation; at 3.0 percent, Texas has seen the largest positive differential of the in-footprint states. In contrast, seven of the fifteen in-footprint states have yet to see nonfarm employment recapture the pre-pandemic peak, with the 4.2 percent shortfall in Louisiana the largest within the footprint and the fifth largest in the nation.

Just as not every state has seen the level of nonfarm payrolls climb above the pre-pandemic peak, the same is true of the individual industry groups. Of the thirteen broad industry groups (including government) for which the data are reported, seven have seen the level of employment surpass the pre-pandemic peak while payrolls in the other six remain below the pre-pandemic peak. As is the case nationally, the largest shortfall is in the leisure and hospitality services industry group; for the footprint as a whole, payrolls in this industry group were 256,300 jobs below the pre-pandemic peak as of May, with Texas the only in-footprint state in which leisure and hospitality payrolls are above their pre-pandemic peak. Public sector payrolls also remain well below their pre-pandemic peak, with a shortfall off 237,700 jobs across the Regions footprint and no states in which the pre-pandemic peak has been surpassed. Payrolls in business services were 522,000 jobs above their pre-pandemic peak as of May, the largest beat of any of the broad industry groups, followed by transportation and utilities (302,900 jobs above) which has benefitted from rapid growth in warehousing/distribution services, and finance

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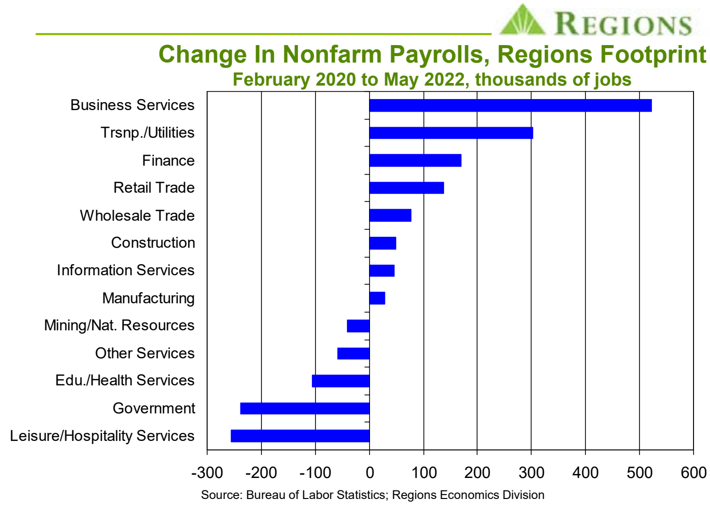
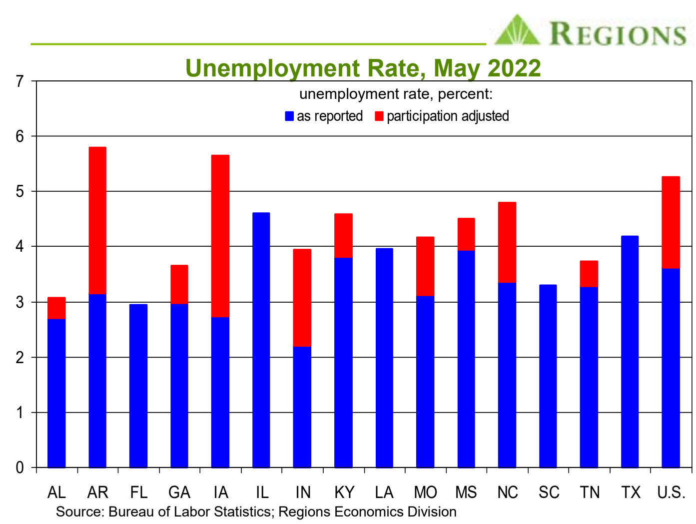
(169,900 jobs above). It is worth noting that retail trade payrolls across the footprint were 137,900 jobs above their pre-pandemic peak as of May, but that gain has been pared down considerably over the past two months, with retail trade payrolls falling by a net 57,600 jobs over April and May. Driven by the spike in consumer spending on goods that was fueled by sizable financial transfers in 2020 and 2021, many retailers hired aggressively, apparently not expecting spending on goods to soften, which it has for two reasons. One is that much of the demand unleashed by the combination of sizable financial transfers and much of the services sector has been sated, and with the services sector now operating freely there has been a shift in consumer spending patterns, a shift we've been anticipating, and discussing, for some time now. The other factor weighing on goods spending is elevated inflation, which has led to more emphasis on necessity goods at the expense of discretionary goods. The broader point being that declining retail trade payrolls are reflecting retailers adapting to shifts in consumer spending patterns, and that further declines in retail trade payrolls over coming months cannot be ruled out. At the same time, to the extent diminished spending on goods leads to less demand for warehousing/distribution services, this is another area in which shifting patterns in consumer spending could translate into job cuts or, at the very least, a slower pace of job growth going forward.



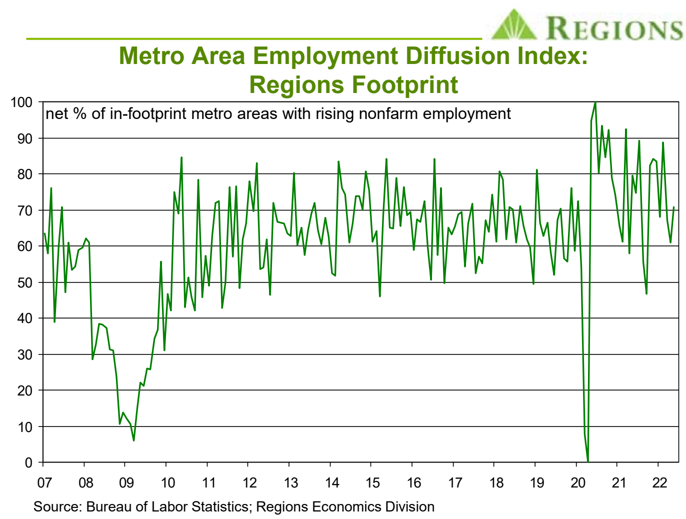
Those states, such as Arkansas, Iowa, Kentucky, Mississippi, and Missouri, in which the pace of job growth has slowed over recent months have all seen declines in retail trade payrolls and most have also seen declines in leisure and hospitality services. These losses have dragged down the level of total nonfarm employment or at the very least been a meaningful drag on the pace of job growth. Further job losses in retail trade could be felt more heavily in these states barring a stepped-up pace of hiring across other industry groups. Kentucky has also seen manufacturing payrolls dip, which to some extent reflects ongoing supply chain issues that are weighing on vehicle production, though at some point these constraints will ease.

With the exception of Tennessee, where the rate ticked up by one-tenth of a point, unemployment rates were flat to slightly lower in May. Alabama, Iowa, and Indiana all boast jobless rates below 3.0 percent, with Indiana's rate holding at 2.2 percent for a third straight month. At 4.6 percent, Illinois had the highest jobless rate of any of the in-footprint states, with Louisiana (4.0 percent), Mississippi (4.0 percent), and Texas (4.2 percent) at or above 4.0 percent in May. We have for some time been discussing how measured unemployment rates understate the degree of labor market slack, as they fail to account for what were in many cases substantial declines in labor force participation since the onset of the pandemic. We've highlighted the degree to which declines in labor force participation have held down measured unemployment rates with charts similar to the one shown here, with the blue portion of the bar for each state reflecting the reported jobless rate and the red portion of the bar reflecting what the unemployment rate would be had each state's labor force participation rate remained unchanged from where it was prior to the pandemic. What stands out in the updated version of this chart is that in five in-footprint states – Florida, Illinois, Louisiana, South Carolina, and Texas – there is no red portion, meaning that participation rates are equal to or higher than they were prior to the pandemic. In these cases, adjusting measured unemployment rates for changes in participation rates would yield a jobless rate below the reported rate. In the remaining states, however, measured unemployment rates understate the degree of labor market slack, with the largest understatements seen in Arkansas, Iowa, and Indiana. As noted above, Indiana's posted unemployment rate remains strikingly low, at 2.2 percent, but this is at least in part a function of the state's participation rate being so far below (over 100 basis points below) the pre-pandemic rate. While participation rates have been trending higher thus far in 2022, that they remain below pre-pandemic norms across much of the U.S. is acting as a drag on



the pace of job growth. While some of the in-footprint states have seen participation rates surpass pre-pandemic norms, it isn't clear whether or when that will be the case for the U.S. as a whole.

Though job growth on the state level within the Regions footprint has been uneven over recent months, job growth on the metro area level remains notably broad based geographically. Our Metro Area Employment Diffusion Index, a measure of the breadth of job growth across in-footprint metro areas, rose to 70.7 percent in May from 60.9 percent in April. Of the group of in-footprint metro areas we track in our regular monthly data updates, just over half have seen the level of nonfarm employment surpass the pre-pandemic peak, with the largest differences in the Lakeland FL (8.5 percent above), Austin TX (7.5 percent above), and Dallas TX (7.2 percent above) metro areas. The largest remaining shortfall is in the Gadsden AL metro area (8.2 percent below). In terms of looking at the broader regions, the level of nonfarm employment in the South region has yet to return to its pre-pandemic peak, while the Mid-America and East regions are well past their pre-pandemic peaks. We put considerable emphasis on the breadth of job growth, both across industry groups and across geographies, as an indicator of how durable an expansion will be or how severe a downturn will be. On both counts, the breadth of job growth is encouraging, but will clearly be something to watch closely in the months ahead given the slowdown we expect to see in the broader economy stemming from elevated inflation and rising interest rates.



Strong labor market conditions provide somewhat of a buffer against the effects of elevated inflation and rising interest rates, but it remains to be seen whether, or to what extent, the demand for labor will start to soften as the broader economy slows. We are seeing some instances, such as retail trade, in which employers are scaling back after having hired too aggressively earlier in the cycle. That, however, is a more sector-specific development, and we'll be monitoring the data for signs of any broad based weakening in labor demand. 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

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