ECONOMIC UPDATE
REGIONS
July 27, 2022

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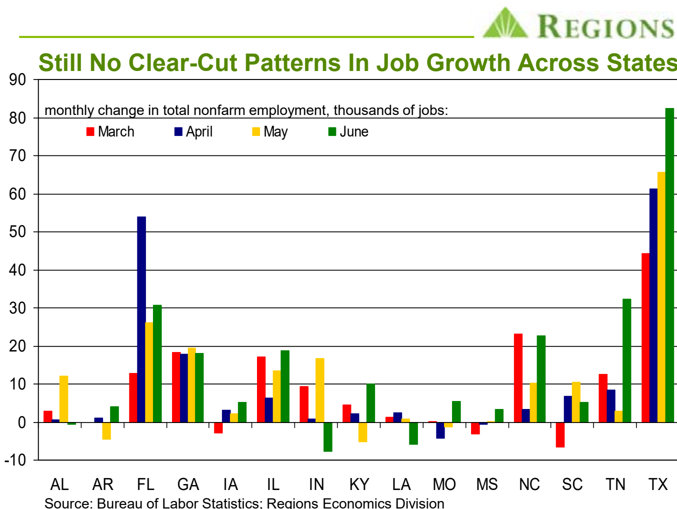
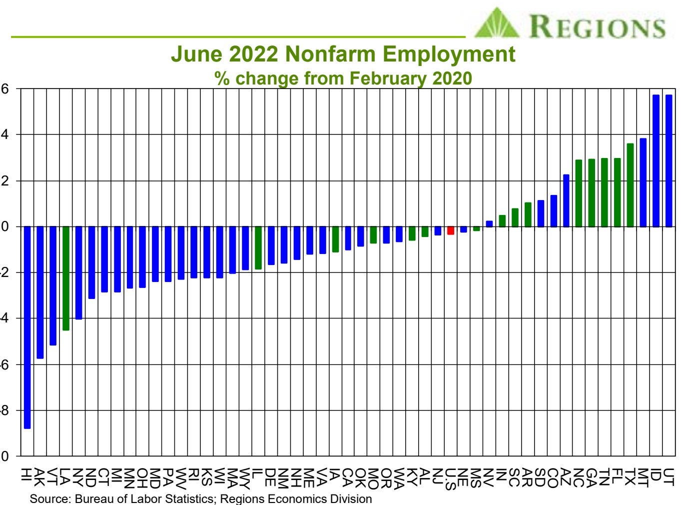
June 2022 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 223,900 jobs in June, with private sector payrolls up by 203,800 jobs and public sector payrolls up by 20,100 jobs. The initial estimate of May job growth was revised from 151,500 jobs to 161,900 jobs, and one thing that is noteworthy here is that the revision to the initial estimate of national job growth in May was to the downside, as has been the pattern in the national data over recent months. That said, it is still the case that there are no clear, consistent patterns of job growth across the individual states within the Regions footprint, and in-footprint job growth remains dominated by a few states, with Florida, Georgia, and Texas logging the most consistent growth. Alabama, Indiana, and Louisiana saw nonfarm employment decline in June, and on a year-to-date through June basis, nonfarm employment has barely budged in Arkansas, Louisiana, and Mississippi. We've pointed 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 June data, the level of nonfarm employment for the Regions footprint as a whole was 1.5 percent above the pre-pandemic peak, or, 877,400 jobs higher than the pre-pandemic peak. In contrast, nonfarm payrolls for the U.S. as a whole were 524,000 jobs below the pre-pandemic peak, a shortfall of 0.3 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 3.6 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 4.5 percent shortfall in Louisiana the largest within the footprint and the fourth largest in the nation.

On an industry level basis within the footprint, payrolls in eight of the thirteen broad industry groups (including government) for which the data are reported were above their pre-pandemic peaks as of June, while payrolls in the other five broad industry groups remain below their pre-pandemic peaks. On a number of jobs basis, the biggest upside beat is in business services, where payrolls are 533,100 jobs above their pre-pandemic peak, while on a percentage change basis, the biggest upside beat is in transportation & utilities, where payrolls are 11.6 percent above their pre-pandemic peak, much larger than the 6.6 percent gap in business services. The disparities in the numerical and percentage changes simply reflect differing levels of employment, with payrolls in business services topping 8.4 million while payrolls in transportation & utilities come in at just over 3.0 million jobs. In terms of the biggest laggards amongst the broad industry groups, we see a similar disparity between the numerical and percentage differences. On a number of jobs basis, leisure and

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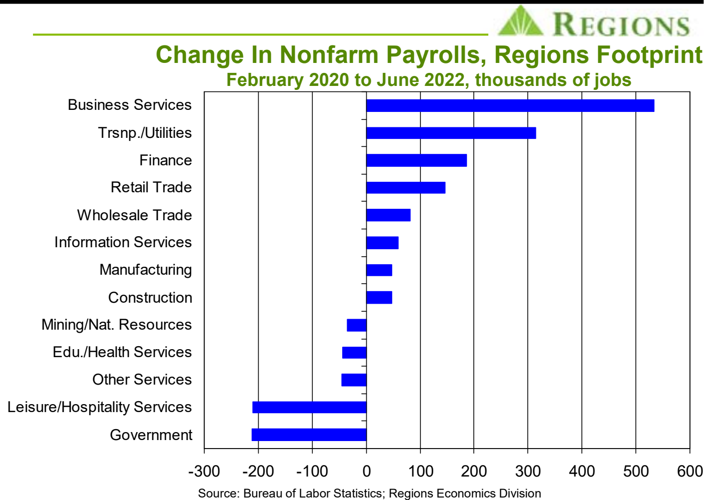
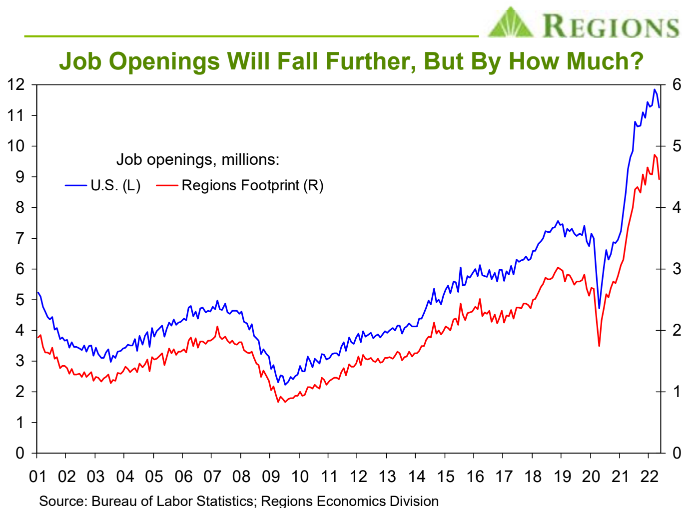
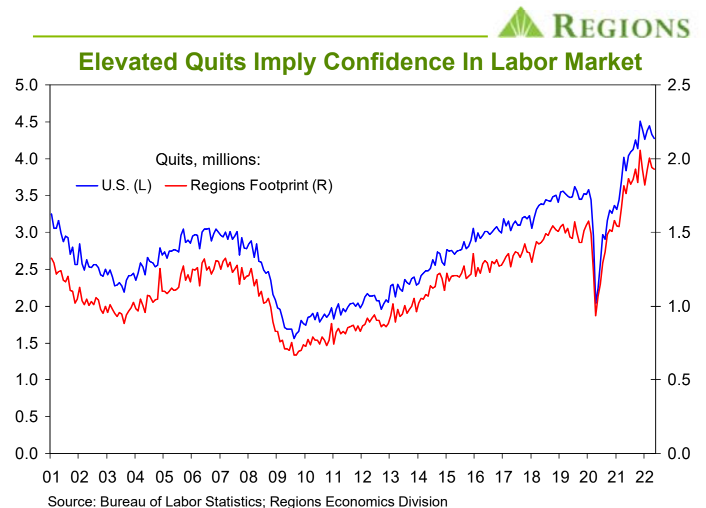
hospitality services no longer has the dubious distinction of being the furthest below the pre-pandemic peak, which as of the June data belongs to government, even if just barely. Public sector payrolls were 212,100 jobs below their pre-pandemic peak as of June, whereas payrolls in leisure and hospitality services were 209,600 jobs below. On a percentage change basis, however, payrolls in mining and natural resources for the footprint as a whole were 10.1 percent below their pre-pandemic peak as of June, much larger than the 3.1 percent shortfall in leisure and hospitality services and the 2.4 percent shortfall in government. The level of employment in mining and natural resources, just 314,600 jobs as of June, is much smaller than in either public sector payrolls (just over 8.6 million as of June) or in leisure and hospitality services (just under 6.5 million).



Of more relevance, however, is that with the broader economy clearly having slowed and labor market conditions beginning to soften, there are a number of industry groups in which coming months could at a minimum bring sharply slower job growth or, at worst, outright declines in employment. This list includes construction, manufacturing, information services, retail trade and transportation & utilities (reflecting shifts in transportation/warehousing services). In some cases, such as construction and manufacturing, this is a reflection of higher interest rates and slowing demand, whereas in some cases, such as retail trade and information services (technology), it is more a reflection of hiring having been a bit too ambitious over prior months in part because shifts in patterns of economic activity that were largely driven by the pandemic and the policy response to the pandemic were wrongly interpreted as structural shifts. Either way, the net result should be a decelerating pace of job growth in the months ahead, nationally and within the Regions footprint.





In addition to the pace of job growth, softening labor market conditions will be reflected in falling numbers of open jobs. As indicated in the first chart above, job openings have come off the recent peaks both nationally and within the Regions footprint, but nonetheless remain far above the levels seen prior to the pandemic which, at the time, were record highs. To be sure, job openings can fall as open positions have been filled, and while to some extent this accounts for recent declines, hiring rates (or, the ratio of hirings to the level of nonfarm employment) have fallen from recent highs nationally and across the footprint. As firms in a range of industry groups reassess staffing needs in the face of a slowing economy and possible recession, firms canceling open positions could be a bigger driver of falling job openings in the months ahead. That said, workers still feel notably confident in their ability to secure alternative employment, as evidenced in quits rates (or, the ratio of the number of people voluntarily leaving a job to the level of nonfarm employment) remaining far above historical norms and, as with openings, far above what were record highs prior to the pandemic. The data on quits from the monthly Job Openings and Labor Turnover Survey (a/k/a JOLTS) are consistent with other indicators, such as the monthly Consumer Confidence survey conducted by the Conference Board, showing people continue to hold notably favorable assessments of labor market conditions, even with signs that labor market conditions have begun to soften. As such, the data on quits in the monthly JOLTS data and the assessments of labor market conditions in the Conference Board's monthly survey will provide useful markers of changes not only in

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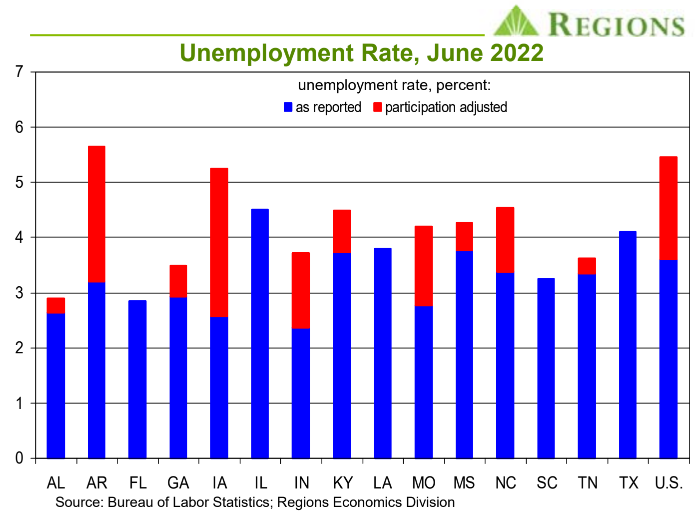
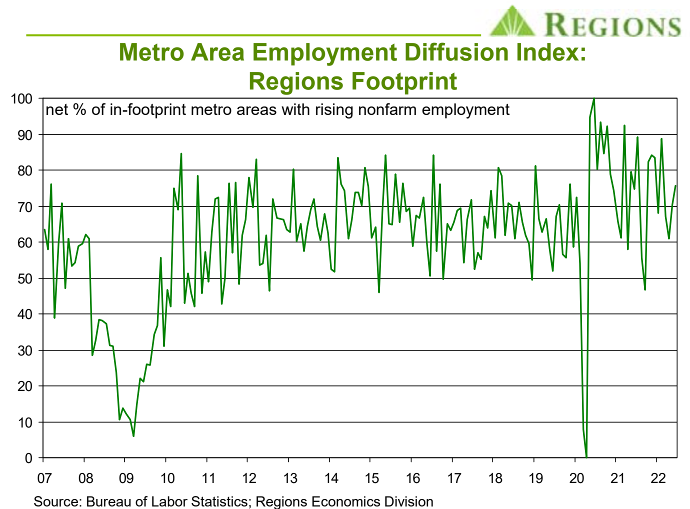
labor market conditions but also in consumer behavior in the months ahead, given that in most cases one's degree of confidence in their job and income prospects is the key determinant in their major spending decisions.



Unemployment rates across the Regions footprint were generally flat or slightly down in June, with Indiana being an exception as that state's jobless rate rose from 2.2 percent to 2.4 percent, still far below the national average. Unlike the national average rate, which has held at 3.6 percent for the past four months, jobless rates across the footprint have continued to drift lower. In part, this reflects job growth within the footprint outpacing the national average, but this also in part reflects what has been slower labor force in many of the in-footprint states than that seen nationally. As we do each month, we illustrate the significance of patterns in labor force participation in our chart showing the reported and "participation adjusted" unemployment rates, the latter indicating what the jobless rate would be had the labor force participation rate in each state held at the value as of January 2020. Note, however, that in Florida, Illinois, Louisiana, South Carolina, and Texas, labor force participation rates have surpassed their pre-pandemic value, meaning that reported unemployment rates are a more reliable indicator of the degree of labor market slack than in those states in which the participation rate remains below the pre-pandemic value, which is also the case for the U.S. as a whole. Even without the prospect of recession we had expected participation rates in many states, and nationally, to remain below pre-pandemic norms, but participation could easily fall should consumers take a dimmer view of overall labor market conditions.

On the metro area level, job growth remains notably broad based across the footprint. Our Metro Area Employment Diffusion Index, a measure of the breadth of job growth across in-footprint metro areas, rose to 75.7 percent in June from May's reading of 70.4 percent, and remains above the value of our national index, meaning that job growth within the footprint remains more geographically dispersed than is the case nationally. One thing we'll be watching for in the months ahead is, if job growth slows as we expect, whether it also becomes more concentrated amongst a smaller number of metro areas, which would be a worrying sign. The less concerning alternative would be that job growth remains broad based, across geographies and across the broad industry groups, but simply proceeds at a slower pace.



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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