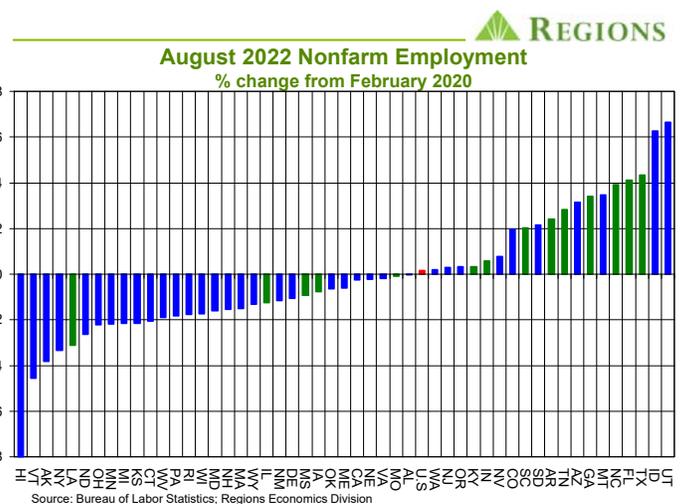
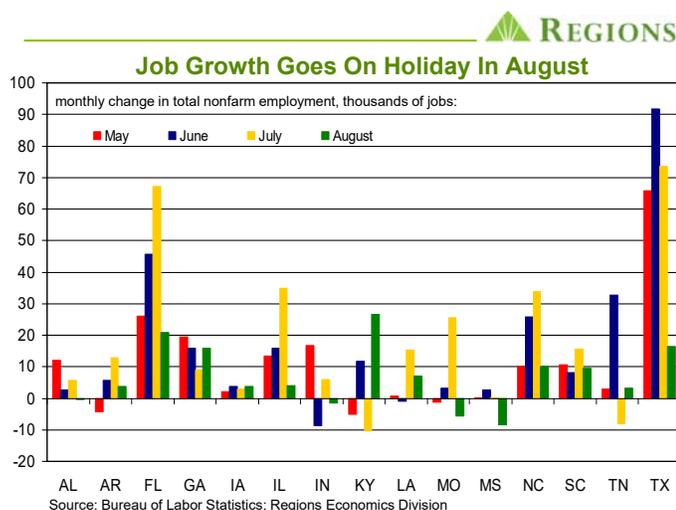




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August 2022 Nonfarm Employment: Regions Footprint

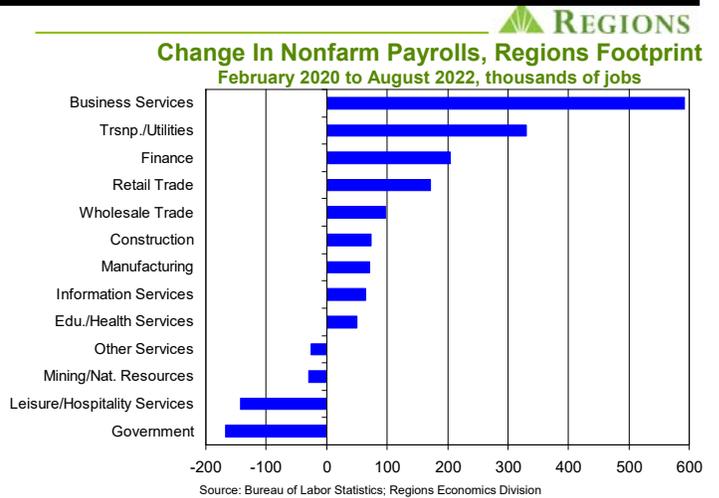
Total nonfarm employment within the Regions footprint rose by 105,300 jobs in August, with private sector payrolls up by 94,500 jobs and public sector payrolls up by 10,800 jobs. The initial estimate of July job growth was revised up from 281,600 jobs to 284,100 jobs. While August’s increase in nonfarm payrolls is of course welcome, it does seem curiously small, and is indeed the smallest monthly gain since September 2021; over the prior ten months, nonfarm payrolls within the footprint increased by an average of 277,680 jobs per month. Nonfarm payrolls are reported to have fallen in Alabama, Indiana, Missouri, and Mississippi in August, while job growth in Florida and Texas, the stalwarts of job growth within the footprint, slowed considerably. It is too soon to put the slowdown in job growth in August in proper context but, even with the slowdown in job growth, the number of open jobs across the footprint remains notably elevated and unemployment rates remain notably low. The reality is that, both nationally and within the Regions footprint, labor supply remains no match for labor demand. While the demand for labor can be expected to soften in the months ahead as overall economic growth remains below-trend, the supply/demand imbalance is likely to persist. We do remain concerned over what are some pronounced differentials in job growth across the footprint. With the U.S. economy slowing in the face of elevated inflation and rising interest rates, those states in which job growth was already below-average have less capacity to withstand these blows than those states going into the slowdown with stronger labor market conditions.



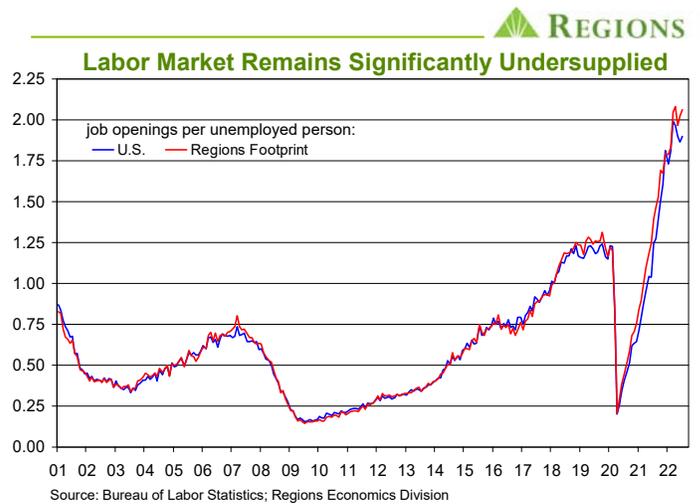
A slower pace of job growth may seem an obvious byproduct of the pace of overall economic activity, particularly in the housing market and in retail trade, clearly having slowed, and we have for some time now been forecasting a marked deceleration in job growth as 2022 wore on. It just isn’t clear that August marked the beginning of that deceleration. One reason to doubt that is that history has shown the initial estimate of August job growth on the national level to be highly suspect, with a pattern of large upward revisions to the initial estimate in any given year. For instance, over the past five years, the average upward revision between the first and third estimates of August job growth was 119,000 jobs. What is typically a well below-average response rate to the BLS’s establishment survey in the month of August tends to bias the initial estimate of job growth lower, and this year’s August response rate was the lowest for the month since 2006. So, while there is no guarantee that the initial estimate of job growth this August will be revised higher, we’d say there’s a better than even chance, and it follows that if the national-level data are revised higher, so too will be the data for the footprint given the sizable share of total nonfarm employment accounted for by the states within the Regions footprint.

That of course remains to be seen, and even if that proves to be the case, it won’t change our expectation of a marked deceleration in the pace of job growth in the months ahead, particularly if the FOMC continues on a course of aggressively raising the Fed funds rate. As the data now stand, however, nine of the fifteen in-footprint states have seen the level of nonfarm employment surpass the pre-

pandemic peak, with the biggest differentials in Texas, Florida, and North Carolina. With the decline in August, the level of nonfarm employment in Alabama is basically even with the pre-pandemic peak, while the remaining five states have yet to recapture that prior peak, with the biggest deficit in Louisiana. For the footprint as a whole, payrolls in nine of the thirteen broad industry groups have surpassed their pre-pandemic peak, led by business services and transportation/utilities, with most of the gains in the latter industry group driven by transportation and warehousing services. Government, with a deficit of 167,500 jobs, and leisure and hospitality services, with a deficit of 141,800 jobs, remain the biggest laggards. While we expect the pace of overall job growth to slow over coming months, any such slowdown won't be uniform across the individual industry groups.

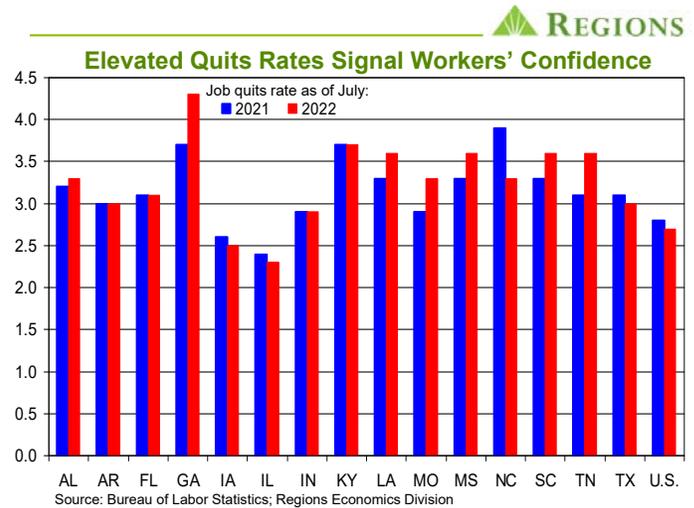
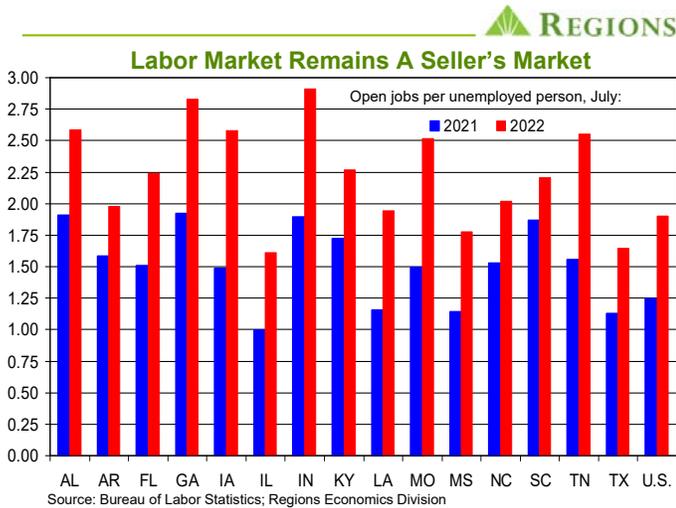


While the pullback in housing market activity triggered by sharply higher mortgage interest rates can be expected to take a toll on construction activity, the degree to which this will be the case remains uncertain. To be sure, sales of new and existing homes have tumbled, but while the number of single family housing units being started has also fallen, builders continue to contend with substantial backlogs of units either permitted but not yet started or already under construction. At the same time, starts of multi-family units remain elevated and the backlog of multi-family units under construction continues to hover at 50-year highs. Indeed, the combined number of single family and multi-family housing units under construction as of August was the highest on record. As such, while there may not be much more capacity for construction payrolls to increase, it could be that neither is there much scope for them to decline as long as builders are dealing with such substantial backlogs of housing units to complete. Between consumer spending having shifted toward services and away from goods and elevated inflation further weighing on discretionary spending on goods, retail trade payrolls could be poised to fall in the months ahead, while at the same time less spending on goods would also weigh on payrolls in transportation and warehousing services. And, if we are correct that spending on services will fade now that summer has ended, that could lead to cutbacks in leisure and hospitality services payrolls beyond the typical seasonal declines.



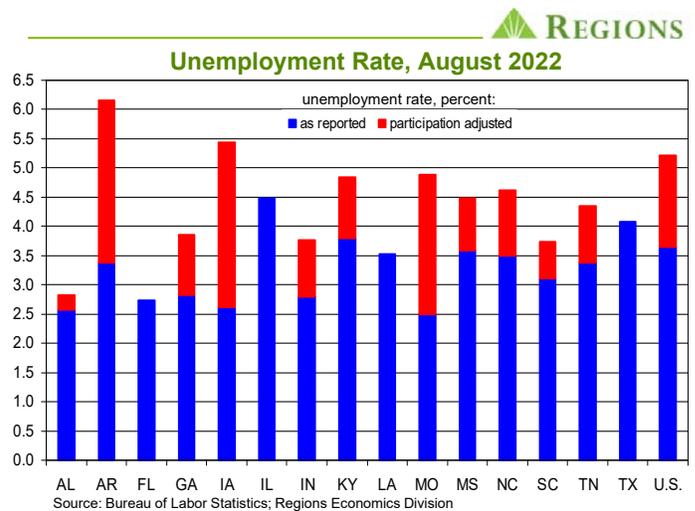
It is, however, reasonable to ask if, after having so much trouble attracting and retaining labor over the past several quarters, businesses will be willing to begin letting workers go in large numbers even should the economy slip into recession, particularly if it is generally expected that a recession would be relatively brief and mild. It becomes even more reasonable to ask that question in light of the number of open jobs firms are trying to fill. As of July, the latest available data, there were 11.239 million open jobs across the U.S. economy and 4.598 million open jobs across the Regions footprint, both up from June and both over fifty percent higher than pre-pandemic levels of openings. While job vacancies are down from their recent peaks, the decline has not been particularly pronounced and has been concentrated in a few industry groups, most notably retail trade and leisure and hospitality services. As noted above, payrolls in retail trade are likely to flatten out, if not decline, in the months ahead, while we are past the seasonal peak hiring in leisure and hospitality services. As such, it is no surprise that job openings have tailed off in these industry groups but even here the number of openings

remains well above the pre-pandemic peak. One way to put the number of job vacancies into context is to scale it to the number of unemployed people. As of July, nationally there were 1.9 open jobs for each unemployed person, while within the Regions footprint there were 2.1 open jobs for each unemployed person.



As the first chart above shows, the disparity between job vacancies and the ranks of the unemployed is much wider in a number of the in-footprint states than is the case nationally. It helps to recall that there is more to it than math, as factors such as skills mismatches, mobility constraints, and health issues/concerns on the part of prospective workers would keep many jobs unfilled even with a one-to-one match between vacancies and the number of unemployed. The elevated number of vacancies is one reason workers remain confident in their ability to change jobs. Though down slightly over recent months, the rate at which workers are voluntarily quitting jobs remains well above pre-pandemic norms, both nationally and, with the exception of Illinois, across the Regions footprint. To the extent the demand for labor does cool in the months ahead, the first manifestation of that would be a meaningful decline in vacancies which would be expected to push quits rates down. The next step would be sharply slower job growth which at some point would give way to outright layoffs. But, given how high vacancies are and how low unemployment rates are, it is reasonable to ask whether, or to what extent, should we expect to see significant numbers of layoffs in the months ahead.

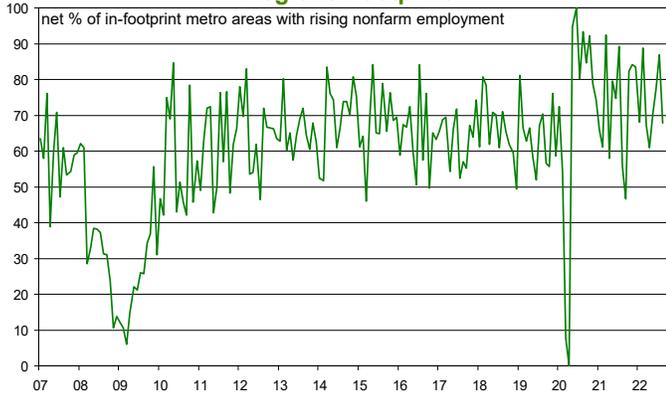
Unemployment rates across the Regions footprint were flat to slightly higher in August as the national average rate rose to 3.7 percent from 3.5 percent in July. While the increase in the national average rate in August was largely a function of increased labor force participation, participation was mixed across the footprint, slightly higher in some states, slightly lower in others. As of August, participation remains well below the pre-pandemic rate nationally and in most of the states within the Regions footprint. This has the effect of holding down the measured unemployment rate, which we illustrate with the red portion of the bars in the chart to the side. Those states in which there is no red portion are the states in which the participation rate is back at or above the pre-pandemic rate. In addition to the extent of any layoffs that may occur, participation rates will also help determine the extent to which unemployment rates may rise in the months ahead. Deteriorating labor market conditions tend to suppress, not encourage, labor force participation, so it could be that if the labor market does begin to soften to a meaningful degree, already low participation rates in many states could be pushed even lower. To the extent this does prove to be the case, it would hold down the extent of any increases in unemployment rates.



As is the case on the state level, the August data show a pronounced slowdown in the pace of job growth on the metro area level across the Regions footprint. At the same time, job growth was much less geographically dispersed in August than had been the case over the



**Metro Area Employment Diffusion Index:
Regions Footprint**



Source: Bureau of Labor Statistics; Regions Economics Division

prior several months. Our Metro Area Employment Diffusion Index, which measures the breadth of job growth across in-footprint metro areas, fell to 67.8 percent in August from 80.3 percent in July. To be sure, that still leaves the index at a high level, indicating widespread job growth across the in-footprint metro areas. But, the caveats on the initial estimate of August job growth noted at the outset of this piece also apply to the metro area level data, so we'll await the revised data before drawing any conclusions. It will come as no surprise that the majority of in-footprint metro areas that we routinely track have seen the level of nonfarm employment surpass the pre-pandemic peak. It will also come as no surprise that the biggest beats come from the larger Florida, North Carolina, and Texas metro areas.

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>