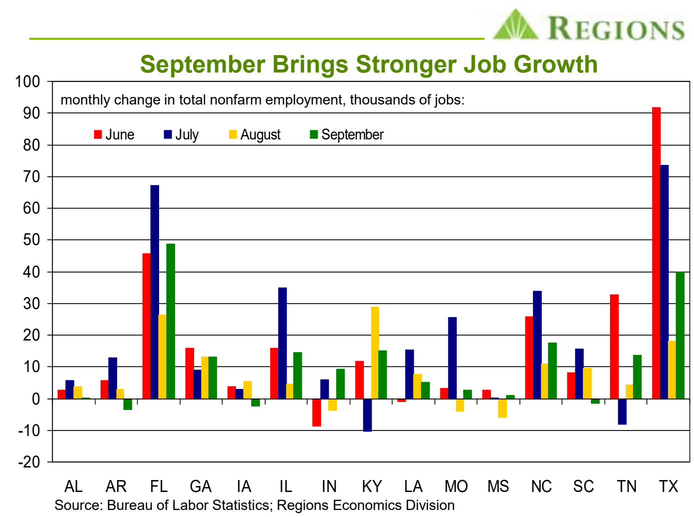
ECONOMIC UPDATE

REGIONS

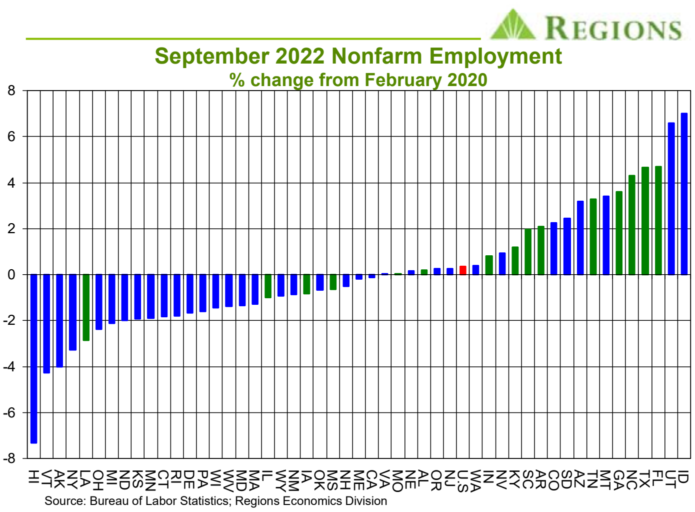
October 24, 2022

September 2022 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 173,300 jobs in September, with private sector payrolls up by 172,300 jobs and public sector payrolls up by 1,000 jobs. Revisions put August job growth at 121,100 jobs rather than the increase of 105,300 jobs originally reported. Nonfarm payrolls declined in Arkansas and South Carolina and were flat in Alabama in September, while Florida and Texas saw job growth improve from what we noted seemed oddly small increases in August. While the September data were not impacted by Hurricane Ian, there will be visible impacts in the October labor market data, primarily in the data for Florida with lesser effects possibly seen in the data for Georgia and the Carolinas. As is the case nationally, the pace of job growth has slowed within the Regions footprint while the number of job openings has fallen, but even with signs of some cooling in the demand for labor, the reality is that for much of the footprint labor supply remains no match for labor demand. That said, those states in which job growth has for some time been slow and uneven will have less capacity to absorb the effects of further increases in interest rates and further slowing in overall economic activity in the months ahead.



Source: Bureau of Labor Statistics; Regions Economics Division



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As of September, the level of nonfarm employment within the Regions footprint was 1,487,600 jobs above the pre-pandemic peak, or, 2.5 percent higher. This is considerably more progress than has been made nationally; for the U.S. as a whole, the level of nonfarm employment as of September was 514,000 jobs above the pre-pandemic peak, or, 0.34 percent higher. Eleven of the fifteen in-footprint states have seen the level of nonfarm employment surpass the pre-pandemic peak, with the biggest beats in Florida, Texas, and North Carolina. Louisiana continues to face the largest deficit amongst the in-footprint states, and the fifth largest in the nation; as of September, the level of nonfarm employment in Louisiana was 56,900 jobs below the pre-pandemic peak, a gap of 2.9 percent.

Each of the thirteen broad industry groups added jobs within the Regions footprint in September, led by leisure and hospitality services, which saw payrolls increase by 58,100 jobs. That increase, however, is overstated by seasonal adjustment. September is a month in which not seasonally adjusted payrolls in leisure and hospitality services typically fall as activity in areas such as travel, tourism, and recreation unwinds with the end of summer. These typical seasonal declines are compensated for by seasonal adjustment, which effectively provides a boost to the unadjusted data in the month of September. This year, however, the September decline in leisure and hospitality services payrolls was smaller than normal in several states, in part because hiring had been less than normal over prior months, while Texas saw leisure and hospitality services increase on a not seasonally adjusted basis. So, seasonal adjustment basically compensated for more weakness than there actually was in September, thus flattering the seasonally adjusted data.

Education and health services, business services, and finance also saw sizable increases in employment in September. Even allowing for seasonal adjustment noise in leisure and hospitality services, the September data illustrate the extent to which job growth has become

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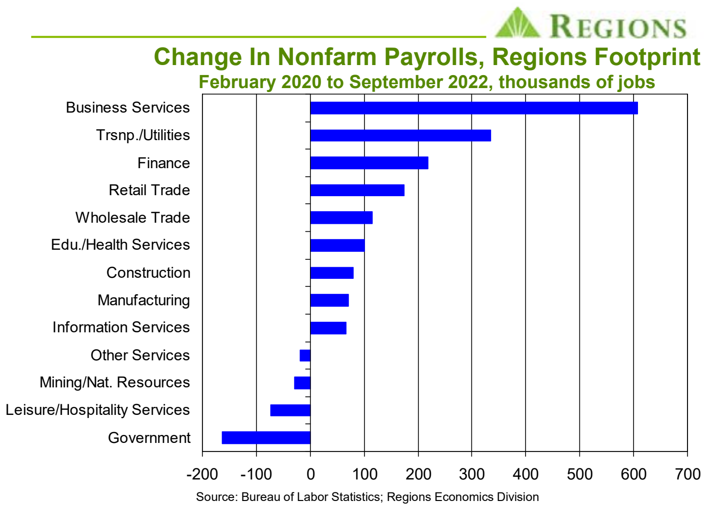
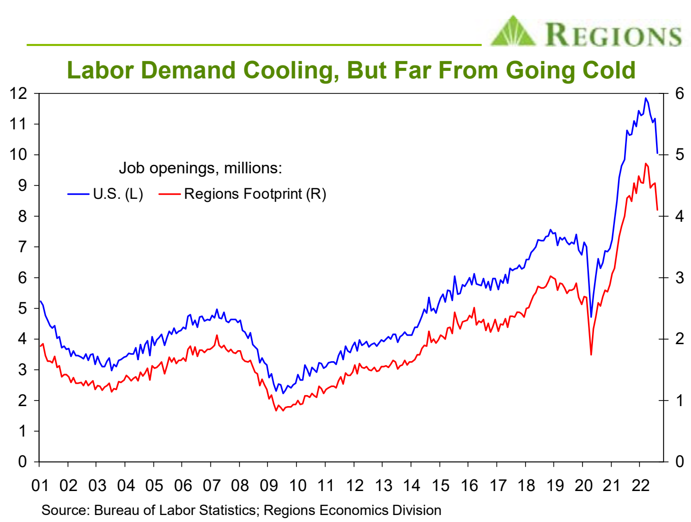
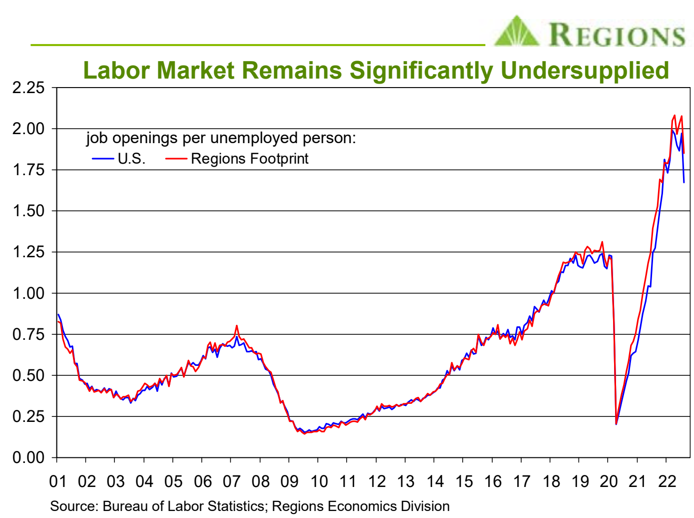


more concentrated amongst services industries as job growth amongst the goods producing industries and trade has slowed. As we've discussed in other forums, shifting patterns in consumer spending have led to greater emphasis on services spending and lesser emphasis on goods spending, while at the same time elevated inflation, rising interest rates, and a pronounced slowdown in housing market activity have weighed on discretionary spending on goods. This has contributed to a meaningful slowdown in job growth in wholesale trade, retail trade, and transportation/distribution. At the same time, with new demand slowing and order backlogs having been significantly worked down, manufacturing production is slowing and job growth in manufacturing has done so in turn. While the recent downturns in single family housing starts and new home sales may suggest mounting layoffs in construction, that has not been the case, at least thus far. Keep in mind that even though new construction starts have tailed off, builders continue to contend with sizable backlogs of units already under construction and units on which construction has not yet started. For instance, though the data are not available on the state level, the number of housing units under construction nationally remains above 1.7 million units, with September setting yet another record high. So, while there has been a slowdown in the rate at which they are doing so, construction payrolls continue to increase across the Regions footprint, and it could be that we do not see the magnitude of layoffs in construction in the current cycle that we've seen in past cycles.

That could be the case more broadly across the main industry groups, i.e., the absence of large-scale layoffs even should the economy slip into a recession that is expected to be relatively brief and mild. Given how much trouble firms have had attracting and retaining labor over the past several quarters, it seems unlikely they would quickly pivot to laying off workers in large numbers. Indeed, one of the ongoing debates at present is whether the meaningful deceleration in wage growth the FOMC is looking for as a sign that inflation pressures are easing can be accomplished without being accompanied by large-scale layoffs. FOMC members have consistently pointed to the elevated number of job vacancies as one element of labor demand that is contributing to intense wage pressures and argued that as job vacancies recede in a slowing economy, so too should wage pressures. To the extent this is the case, it would take fewer layoffs to achieve the same degree of easing in wage pressures than would otherwise have been the case.





Time will tell, but there has been a notable decline in the number of job vacancies over recent months, both nationally and across the Regions footprint. Just as notably, however, the number of job vacancies remains over forty percent higher than was the case prior to the onset of the pandemic and the number of open jobs per unemployed person remains significantly higher than pre-pandemic norms. At the same time, while the number of people voluntarily quitting jobs has come down over recent months, it too remains well above

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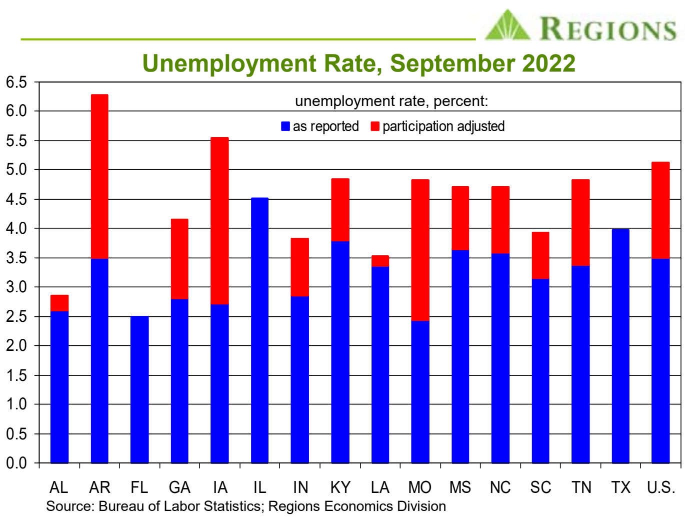
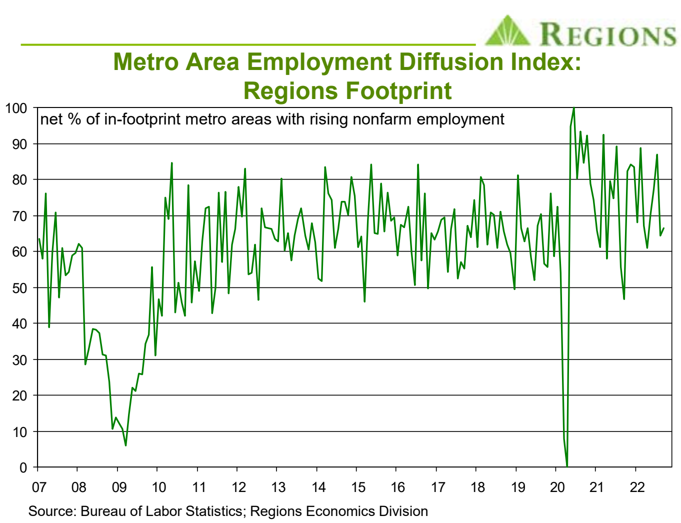
pre-pandemic norms, indicating that workers still feel confident in their ability to land another job should they leave their current job, and this is the case nationally and across the Regions footprint. We'll make the following points about the recent declines in job openings. First, while the decline reported for August – job openings fell by over one million positions nationally and by almost half a million within the Regions footprint – are the largest on record absent the declines seen at the onset of the pandemic, the data from the JOLTS survey are prone to sizable revision, so we'll wait before passing judgement on the initial estimates of the August data. Either way, it is also worth noting that thus far the largest pullbacks in job openings have come in leisure and hospitality services and retail trade. Indeed, it is within retail trade that the number of job openings is the closest to the pre-pandemic level. Theses are industries in which the demand for workers has clearly tailed off, in retail trade due to changing economic conditions, in leisure and hospitality services more due to seasonal patterns. At the same time, wage growth has slowed in these two industry groups, which would lend some credence that declines in the number of vacancies can act as a relief valve from wage pressures. More recently, job openings in manufacturing have begun to decline, reflecting slowing business conditions in that industry group. Elsewhere across the economy, however, vacancies remain significantly higher than pre-pandemic norms and there has been little visible relief from wage pressures.





On the surface, notably low unemployment rates would be a sign of how tight labor market conditions remain despite some easing in labor demand. Indeed, nine of the fifteen in-footprint states posted jobless rates below the 3.5 percent national average in September. As we routinely note, however, measured unemployment rates are in many cases understated as they do not account for depressed labor force participation, which we illustrate in the chart to the side. Within the Regions footprint, only Florida, Illinois, and Texas have seen labor force participation rates go back to/above pre-pandemic rates. In this sense, Florida easily boasts the tightest labor market amongst the in-footprint states. While, at 2.4 percent, Missouri has a lower unemployment rate than Florida's rate of 2.5 percent, Florida's participation rate is above its pre-pandemic norm while Missouri's participation rate remains well below pre-pandemic norms. The decline in Florida's unemployment rate has come despite continued rapid growth in the state's labor force.

In addition to remaining broadly based across the main industry groups, job growth remains broadly based geographically across the Regions footprint. Our Metro Area Employment Diffusion Index, which measures the breadth of job growth across in-footprint metro areas, rose to 66.5 percent in September from August's reading of 64.5 percent. The majority of in-footprint metro areas that we track have seen the level of nonfarm employment surpass the pre-pandemic peak. As with the state-level data, the biggest beats come from the larger metro areas in Florida, North Carolina, and Texas.

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 continue soften as the broader economy slows further. 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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