ECONOMIC UPDATE

REGIONS

December 28, 2022

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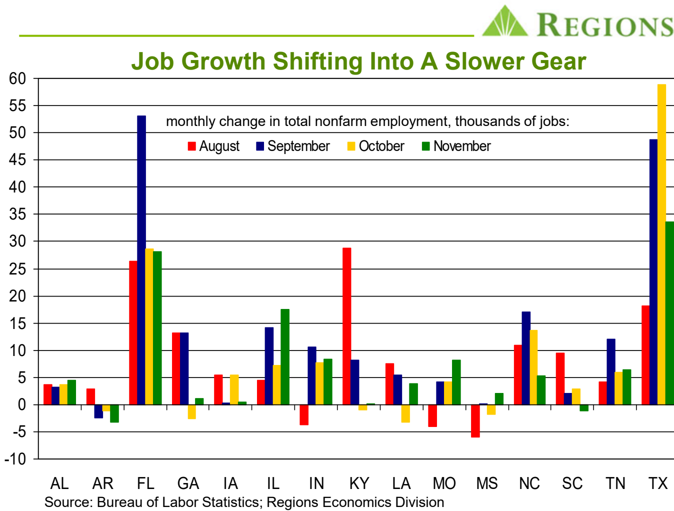
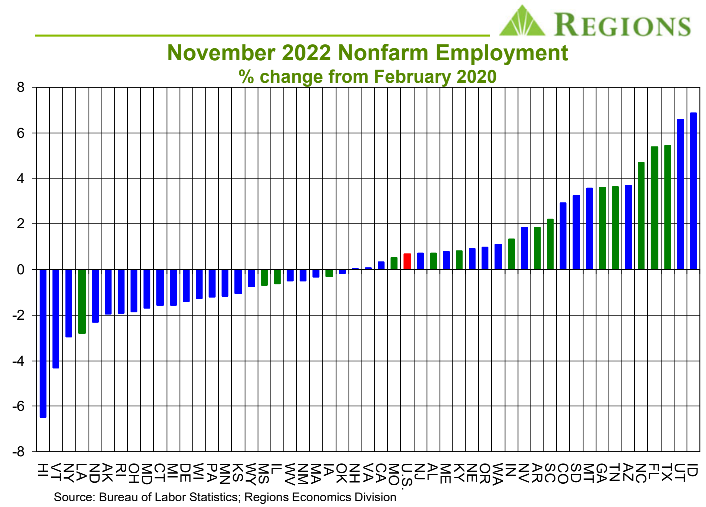
November 2022 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 115,200 jobs in November, with private sector payrolls up by 111,500 jobs and public sector payrolls up by 3,700 jobs. Save for Arkansas and South Carolina, each state within the Regions footprint added jobs in November, though the reported increase of one hundred jobs in Kentucky amounts to little more than a rounding error. As is the case nationally, the pace of hiring within the Regions footprint has clearly slowed over recent months, and ongoing declines in job vacancies are a further sign of cooling demand for labor. That said, labor supply constraints have yet to abate, such that even with labor demand easing, labor supply remains no match for labor demand. We expect the supply/demand imbalance in the labor market to narrow over the months ahead, both nationally and within the Regions footprint. As we have noted over the past several months, however, the pace of job growth has been highly uneven across the individual states within the footprint, and 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.





As of November, the level of nonfarm employment within the Regions footprint was 1,748,000 jobs above the pre-pandemic peak, or, 3.0 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 November was 1,044,000 jobs above the pre-pandemic peak, or, 0.7 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 fourth largest in the nation; as of November, the level of nonfarm employment in Louisiana was 55,900 jobs below the pre-pandemic peak, a gap of 2.8 percent.

At this point in our analysis of the monthly state-level data it has been our habit to discuss what we think to be some of the most relevant details of the nonfarm employment data, looking at various industry-level and state-level cuts. While it is said that old habits are hard to break, we find breaking this particular habit to be quite easy given the exceptionally low degree of confidence we have in the data from the BLS's establishment survey for November. Indeed, we have had little confidence in the quality of the establishment survey data over the past several months, but our concerns have gone to another level with the response rate to the November establishment survey at just 49.4 percent, matching January 2002 as the lowest response rate in any month since January 1991.

Why that matters is that the lower the response rate, the bigger the gaps left for the BLS to fill in with their own estimates in order to produce the monthly employment reports. In addition to the "headline" job growth number, this impacts the estimates of industry level employment, average weekly hours worked, and average hourly earnings, amongst other widely followed metrics. As such, with a response rate as low as was the case with the November establishment survey, it is hard to have much, if any, confidence in the initial

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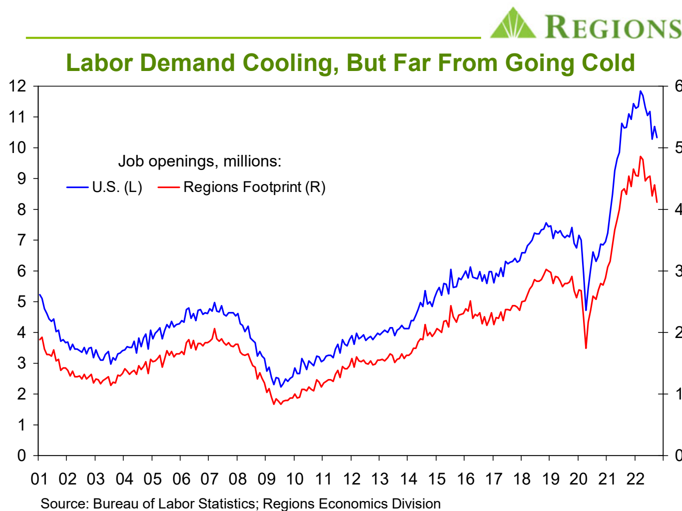
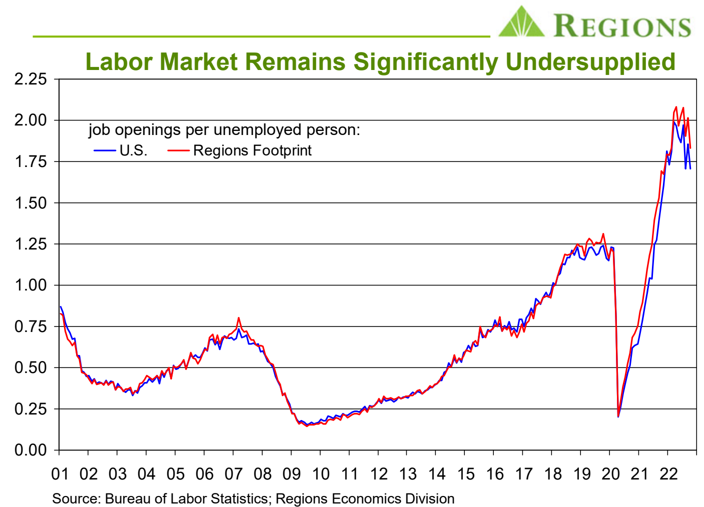
estimates. Given that the results of the national data filter down to the state and metro area level employment data, when there are questions about the reliability of the national data, those questions also filter down to the state and metro area level data. This isn't an issue that just popped up in the November survey, as we have for some time now been noting our concern with what have been notably low response rates to the establishment survey. Moreover, second and third round response rates have also been lower since the onset of the pandemic than had been the case prior to the pandemic, leaving lasting concerns over the reliability of the data (recall that with each monthly employment report, estimates for the prior two months are revised).

The annual benchmark revision process, which ties the monthly survey data to data from the payroll tax returns which virtually all firms are required to file, goes a long way toward addressing issues with the quality of the recent historical data, but the benchmark revisions can be, and on the state and metro area levels often are, at odds with perceptions of labor market conditions formed on the basis of the monthly employment reports. The results of the benchmark revisions are incorporated into each year's January employment report, and there is reason to expect the January 2023 reports on the national, state, and metro area levels will cause us and others to reassess our views on labor market conditions. For instance, BLS has already declared that the level of nonfarm employment as of March 2022, which will be the new reference month for the establishment survey, will be revised significantly higher, with a much larger than normal revision when measured as a percentage of nonfarm employment. At the same time, however, data from the Quarterly Census of Employment and Wages (QCEW), which are extracted from the universe of payroll tax returns, suggest a much slower pace of job growth than BLS has been reporting each month. Indeed, a recent analysis by the Federal Reserve Bank of Philadelphia suggests total nonfarm employment rose by only 10,500 jobs in Q2 2022, significantly at odds with the increase of 1.047 million jobs shown in the monthly employment reports. While we do not believe job growth to have been as slow as the Philadelphia Fed model estimates, the QCEW data do lead us to expect the BLS's annual benchmark revisions to show less robust job growth since March 2022 than has to date been reported.

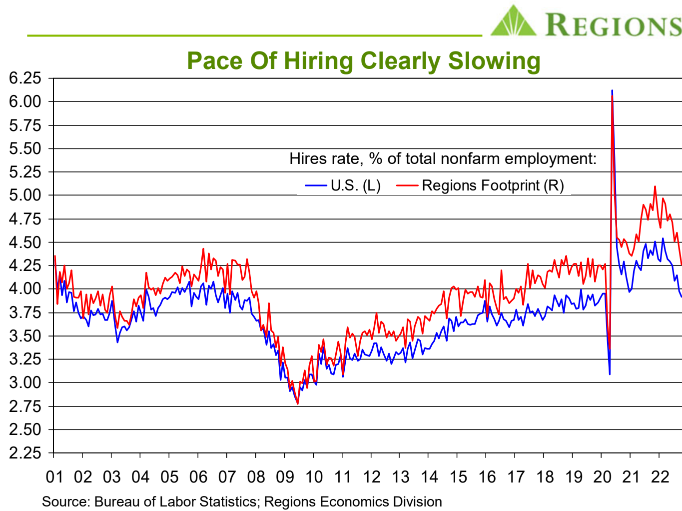
We'll know the answer soon enough, but rather than focus on the November establishment survey data, we thought we'd use this space to look at some other indicators of labor market conditions. Over the past few months, we've included data from the Job Openings and Labor Turnover Survey (JOLTS) in these monthly write-ups, as the BLS has begun producing detailed state-level data from the JOLTS survey. The data on job openings, both nationally and within the Regions footprint, tell us that while labor demand has begun to cool, the labor market nonetheless remains notably tight. As of October (the JOLTS data lag the establishment survey data by a month), there were 10.334 million open jobs nationally and 4.116 million open jobs across the Regions footprint, both well below the peaks hit earlier this year but nonetheless well above pre-pandemic norms. When scaled to the number of unemployed persons, this translates into 1.7 open jobs for each unemployed person nationally and 1.8 open jobs for each unemployed person across the Regions footprint.

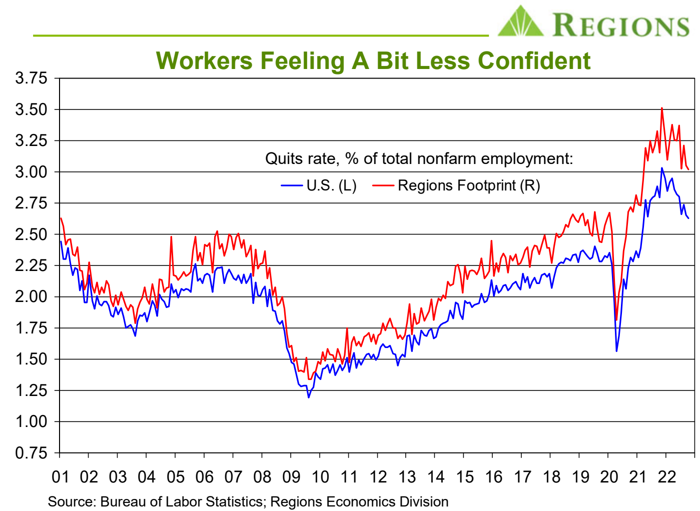




The story is the same for each state within the footprint when we scale the number of job openings to the level of nonfarm employment, (the job openings rate). Though down from the peaks reached earlier in 2022, job openings rates are well above the rates that prevailed prior to the onset of the pandemic. It is interesting to note that, of the in-footprint states, the gap between the current and pre-pandemic job openings rates is largest in Louisiana given that, as noted above, Louisiana's gap between the current level of nonfarm employment and the pre-pandemic peak level is the fourth largest in the nation. Louisiana's labor force participation rate, consistently lower than the national average going back many years, is still below the pre-pandemic norm, and with the state's well above-average job openings rate (7.7 percent of nonfarm employment, compared to 6.3 percent nationally), there are 2.4 open jobs in Louisiana for each unemployed

person. It is also interesting to note that, at 7.6 percent, Georgia has the second highest job openings rate in the Regions footprint, which is in part a function of Georgia's labor force participation rate being over one hundred basis points lower than the pre-pandemic norm. That Georgia's participation rate continues to sink is even more noteworthy given that it continues to boast above-average growth in total population. At 5.6 percent, Florida and Illinois had the lowest October job openings rates within the Regions footprint, but a key difference between the two states is that Florida's rates of hiring and net job growth are well above the national averages while rates in Illinois are well below the national average, with the level of nonfarm employment in Illinois still below the pre-pandemic peak.





The two charts above also go to the broader point that, though still notably tight, labor market conditions are beginning to soften. As we noted at the outset, the pace of job growth, both nationally and across the Regions footprint, has clearly slowed, and the first chart above is another way of illustrating this point. The hires rate, or, the number of hires scaled to the level of nonfarm employment, is well off the peaks hit in late-2021. Indeed, within the Regions footprint, the current hires rate is on par with the rate that prevailed prior to the pandemic, while the national hires rate is still above the pre-pandemic rate, though keep in mind the hires rate within the footprint has been easily above the national average since the recovery from the 2007-09 recession began in earnest, and that remains the case. We think it useful to look at the number of hires and the hires rate, as opposed to simply focusing on the headline job growth number each month as is typically done by many. That "headline" job growth number is a net number, i.e., the number of hires minus the number of separations, voluntary or otherwise, from employment, and looking at the two component parts helps one appreciate how dynamic the economy is, much more so than being told nonfarm employment rose by, say, 200,000 jobs in a given month. October marked the 21st consecutive month in which there were over six million hires nationally and over 2.5 million hires within the Regions footprint. To be sure, hiring has slowed but on a "gross" basis, hiring remains much stronger than was the case prior to the pandemic, and with job opening rates also still higher, this suggests firms would have taken on more workers had they been able to do so. Indiana and North Carolina are the only states within the footprint in which recent hiring rates have fallen below pre-pandemic norms, but in each case the state's hiring rate remains well above the national average.

Still, for as strong as hiring remains and as high as job vacancies remain, there are signs that workers are feeling a bit less confident about labor market conditions. For instance, the number of workers voluntarily leaving jobs, or, quits, has been falling over the past several months. Nationally, just over four million people voluntarily quit a job in October, with over 1.8 million of these quits coming from within the Regions footprint. In many cases someone will have new job lined up before quitting their current job, but over the last two-plus years there is plenty of anecdotal evidence suggesting that more and more workers were quitting jobs prior to having secured a new job, whether because they had the financial resources to withstand a spell of no labor income or because they were confident enough in their prospects of landing a new job that they left their last job prior to having done so. The degree of attention given to both the number of job vacancies and the faster rate of wage growth would no doubt have contributed to this confidence.

In contrast, declining numbers of quits over the past several months come amid a number of high-profile announcements of job cuts and hiring freezes against a backdrop of an economy slowing under the weight of higher interest rates. As the second chart above shows, though still well above pre-pandemic norms, the rate at which people are voluntarily leaving jobs (quits scaled to the level of nonfarm employment) is falling, both nationally and within the Regions footprint. With the number of job vacancies and the hiring rate also falling, it makes sense that quits would also be falling, even without the high-profile job actions which, by the way, still add up to only a small

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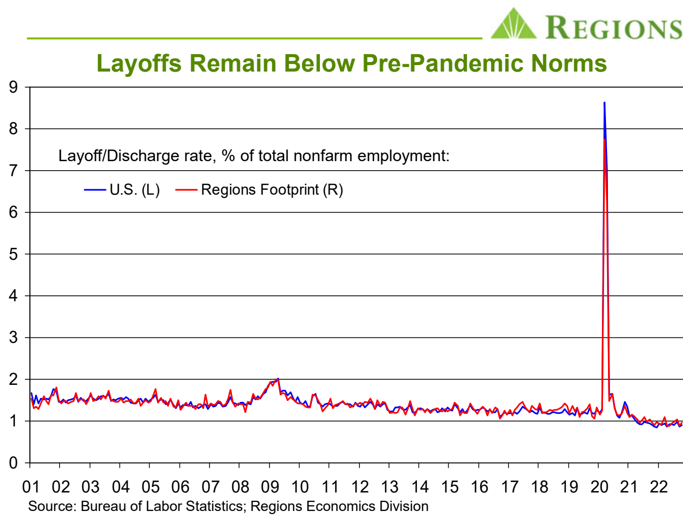
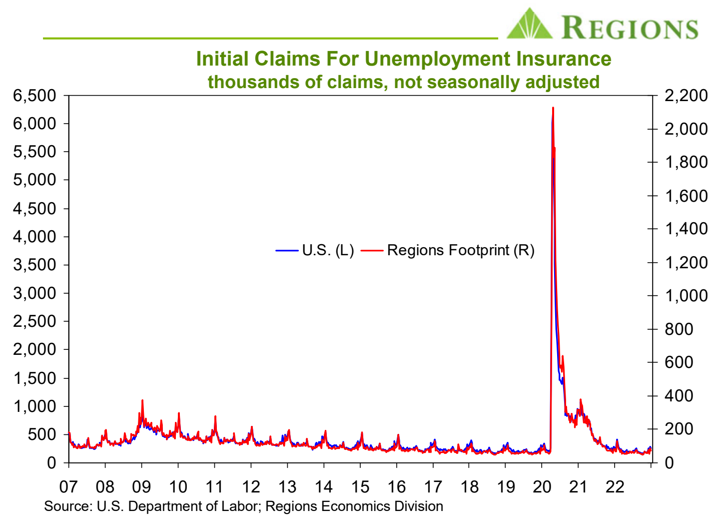
sliver of total nonfarm employment. The declining number of quits is also consistent with the Conference Board's monthly survey of consumer confidence, specifically the part of that survey which pertains to assessments of labor market conditions. The "jobs plentiful-jobs hard to get" spread in the Conference Board's survey has narrowed from what earlier this year was a record high, but nonetheless remains well above pre-pandemic norms, which is consistent with the JOLTS data. It is worth noting that just as the hires rate within the Regions footprint has been well above the national average since the recovery from the 2007-09 recession began in earnest, so too has the quits rate, another indication of a more vibrant labor market across the footprint, or at least across a wide swath of the footprint, than has been the case nationally. It is also interesting to note that, at 3.6 percent, Georgia has the second highest quits rate of the in-footprint states (Mississippi, at 3.7 percent, has the highest quits rate) while at the same time having the second highest job openings rate. This suggests a high number of Georgia residents are not only leaving jobs but are also leaving the labor force, and this is borne out by the data from the BLS's household survey showing a steep decline in the size of Georgia's labor force over the past several months. It is almost surely no coincidence that Illinois, the state with the lowest job openings rate within the Regions footprint, also has the lowest quits rate within the footprint, at 2.5 percent as of October and consistently below the national average.





While workers are becoming more reluctant to leave jobs, firms remain reluctant to let workers go, which is a message that has been somewhat overlooked amid high-profile announcements of job cuts in some segments of the economy. One way of seeing this is in the JOLTS data; in the JOLTS data, layoffs/discharges capture involuntary separations from work, such as layoffs, firings, and terminations of seasonal workers. One way to think of it is that quits measure departures that are the choice of workers while layoffs/discharges measure departures that are the choice of firms. As measured in the JOLTS data, however, the layoff/discharge rate remains below pre-pandemic norms. Again, though, the JOLTS data are somewhat lagged, and it could be that more recent layoffs in technology, retail trade, and finance will ultimately be captured in the JOLTS data. The data on initial claims for unemployment insurance benefits offer a more timely look at layoffs, and while initial claims have drifted higher over recent weeks, they remain well below levels that would be consistent with nonfarm employment turning over. At the same time, data on continuing claims for unemployment insurance, a measure of how many people are receiving benefits, suggest that most of those who do lose a job find another one in fairly short order.

It was always a matter of when, not if, the robust pace of job growth seen in 2021 and earlier in 2022 would slow. It also comes as no surprise that the demand for labor would begin to cool with the broader economy slowing under the weight of elevated inflation and higher interest rates. Still, for the most part layoffs have come either in segments of the economy in which previous hiring proved to be too ambitious, such as technology, retail trade, and distribution, or in areas hit particularly hard by higher interest rates, such as mortgage finance. That could change, and we do expect a considerably slower pace of job growth and some increase in the unemployment rate in 2023. We also think, however, that the primary factor behind the slower pace of job growth will be diminished hiring as opposed to large-scale layoffs, with firms remaining reluctant to let workers go in large numbers. While we do not at present have much faith in the data on nonfarm employment, we at least have other indicators to help monitor changes in labor market conditions. 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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