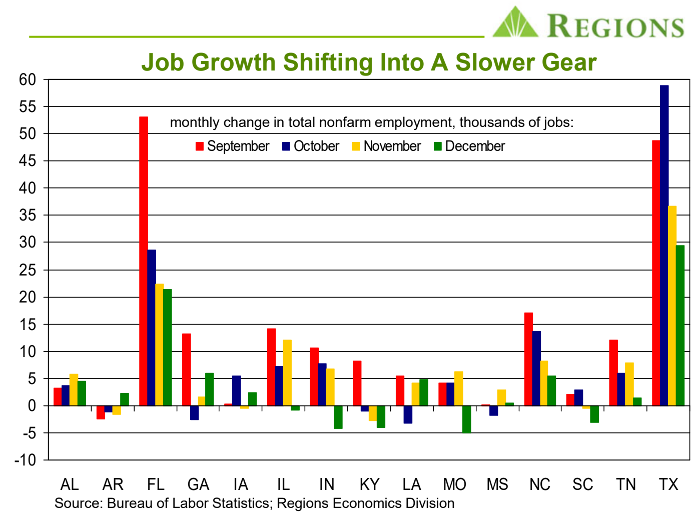
ECONOMIC UPDATE

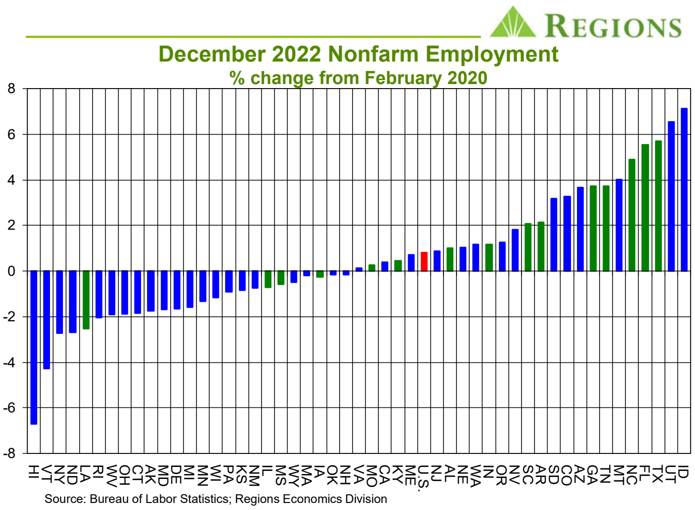
REGIONS

January 25, 2023

December 2022 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 61,100 jobs in December, with private sector payrolls up by 52,400 jobs and public sector payrolls up by 8,700 jobs. The initial estimate of job growth in November was revised down, with total nonfarm payrolls now reported to have risen by 109,000 jobs rather than the initial print showing a gain of 115,200 jobs. The marked slowdown in the pace of job growth in December is in keeping with the deceleration seen over the last half of 2022, but it is noteworthy that nonfarm payrolls fell five in-footprint states in December: Illinois, Indiana, Kentucky, Missouri, and South Carolina, while eking out only a minimal gain in Mississippi. Still, even the states that have been the leaders in job growth within the Regions footprint, particularly Florida, North Carolina, and Texas, each saw a slower pace of job growth in December. Though the pace of job growth has clearly slowed, nationally and within the Regions footprint, the number of job vacancies remains notably elevated, layoff rates remain low, and quits rates remain above pre-pandemic norms. In keeping with our expectations of only modest overall economic growth in 2023, we look for job vacancies to decline significantly in the months ahead and for the rate at which workers are voluntarily quitting jobs to fall.





As of December, the level of nonfarm employment within the Regions footprint was 1.803 million jobs above the pre-pandemic peak, or, 3.1 percent higher, whereas nationally the level of nonfarm employment was 0.8 percent above the pre-pandemic peak. Of the ten states with the largest year-end 2022 differentials, five are within the Regions footprint, with Texas, Florida, and North Carolina third through fifth in terms of the largest gaps amongst states. There are, however, still four states within the footprint in which the level of nonfarm employment has yet to return to the pre-pandemic peak, with Louisiana (-2.8 percent) posting the fifth largest shortfall in the nation.

With the release of the December data, we get a preliminary look at full-year 2022 job growth. For the year as a whole, total nonfarm employment within the Regions footprint increased by 2,087,200 jobs. This accounted for 46.4 percent of the increase in total nonfarm employment for the U.S. as a whole, the footprint's largest annual contribution since 2012. At the same time, however, job growth within the footprint became increasingly concentrated in 2022, with the "Big Six" states – Florida, Georgia, North Carolina, South Carolina, Tennessee, and Texas – accounting for just over seventy percent of total job growth within the footprint, up from 55.4 percent in 2021. It should be noted, however, that even at 70.4 percent in 2022, the Big Six's share of in-footprint job growth was lower than in any of the ten years leading up to the pandemic. Our sense is that the lower share of job growth accounted for by the Big Six over the past two years was more a function of the pandemic-related gaps being filled across all states, and with that having largely been accomplished and the economy slowing in 2023, job growth will become more concentrated amongst the six fastest growing states in the footprint.

Texas saw a 5.0 percent increase in total nonfarm employment in 2022, not only the largest increase in the footprint but also the largest increase in the nation, with Florida's 4.8 percent increase the second largest in the nation and North Carolina's 4.1 percent increase the

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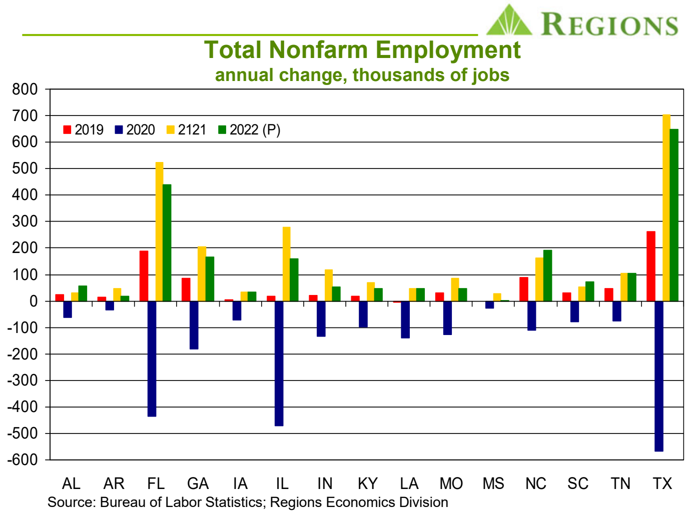
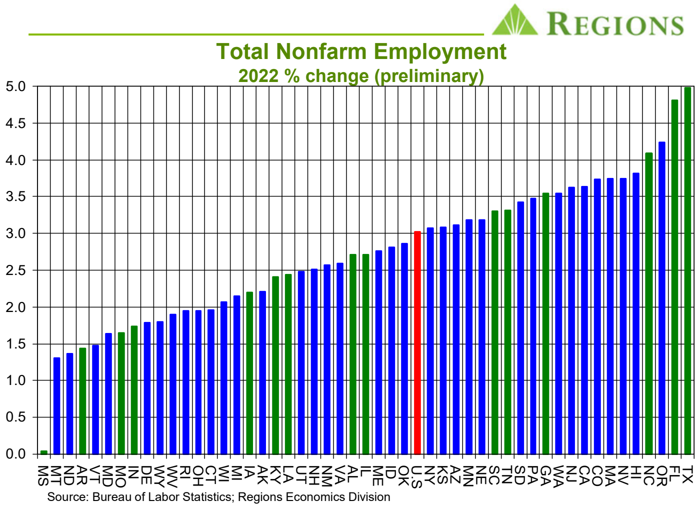
third largest within the Regions footprint and the fourth largest in the nation. At the other end of the spectrum, total nonfarm employment in Mississippi was basically flat in 2022, with the 0.04 percent increase the smallest increase in the nation and a reflection of the state seeing nonfarm payrolls decline over the last several months of 2022. Nationally, total nonfarm employment rose by 3.0 percent in 2022.

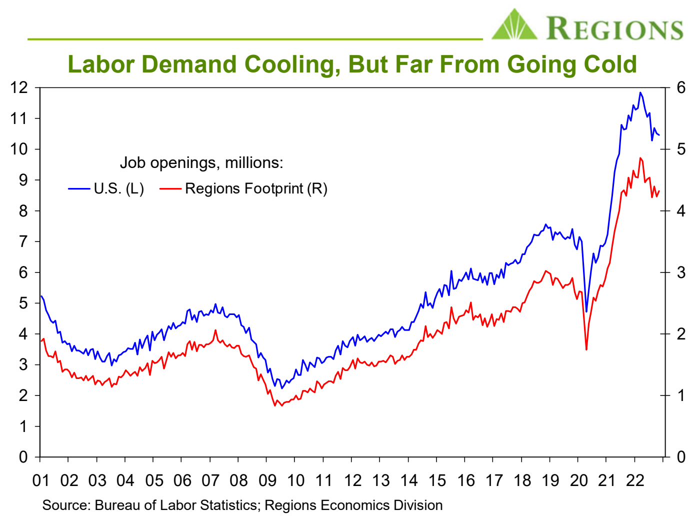


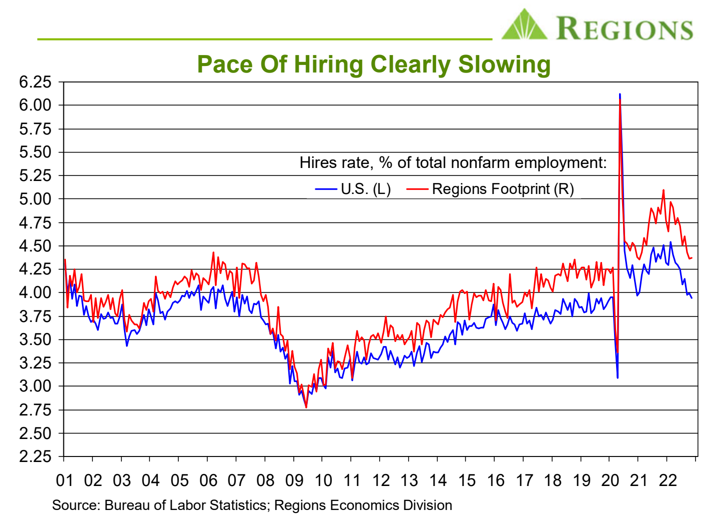


While 2022 marked the second consecutive year in which each of the thirteen broad industry groups added jobs within the Regions footprint, there were some notable shifts in terms of the industry groups posting the largest job gains. Once again, leisure and hospitality services posted the largest increase in payrolls, up by 449,800 jobs, but job gains in transportation/utilities and retail trade were much smaller in 2022 than was the case in 2021 (recall both industry groups also saw solid job growth over 2H 2020). In each instance, robust job gains in 2021 were to some extent a reflection of the shift in consumer spending patterns triggered by the policy response to the pandemic, i.e., sizable financial transfers to the household sector with restrictions on many services sector industries. What we saw in 2022, particularly over the latter half of the year, was a reversal in consumer spending patterns, away from goods and toward services, which led many retailers and shipping/warehousing/delivery service providers to either considerably scale down the pace of hiring or reduce head counts as they realized they had overestimated demand. While payrolls in information services, which encompasses much of the technology sector, notched another healthy advance within the Regions footprint in 2022, the pace of hiring slowed significantly over the final months of the year, as technology firms also came to the realization they had overestimated demand.

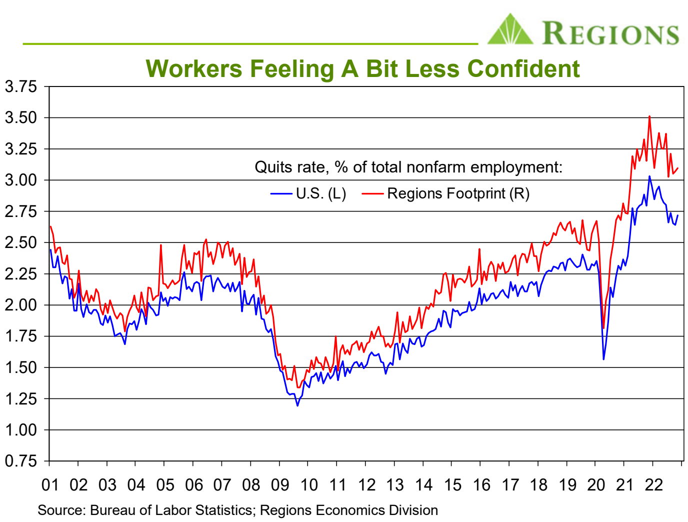
It is worth noting that the Regions footprint has a lower exposure to information services than is the case nationally, in terms of this industry group's share of total nonfarm employment, so in a sense will be a bit insulated from the sizable job cuts taking place across many technology companies. There will, however, be certain metro areas with a heavy exposure to technology that will be more vulnerable. It is also worth noting that despite the housing market being battered by higher mortgage interest rates, construction payrolls continued to rise through year-end 2022, and while the increase in 2022, up 81,700 jobs, was smaller than the increase seen in 2021, it was nonetheless larger than the increase posted in 2019. While home sales have fallen precipitously under the weight of higher mortgage interest rates, what remain significant backlogs of housing units under construction and housing units permitted but not yet started have helped preserve construction jobs. While these backlogs are getting smaller, they nonetheless remain significantly elevated and won't be back to anything resembling normal levels at any point soon, which figures to support construction payrolls so that ultimately there may not be the types of heavy layoffs which in the past have been associated with housing market downturns.

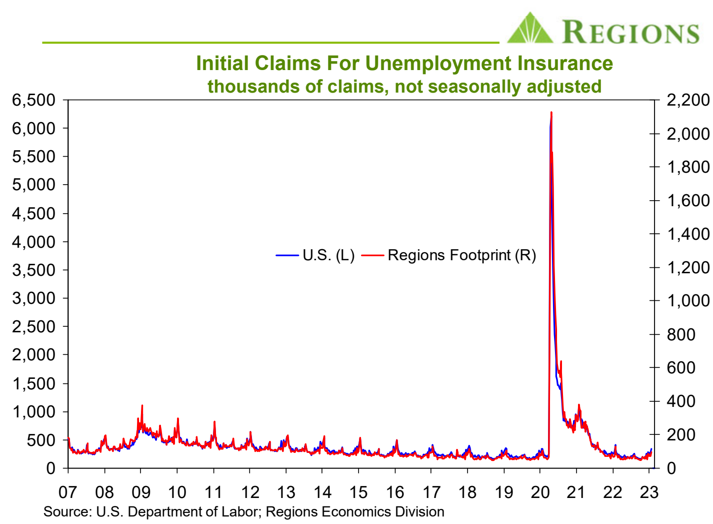
Again, the 2022 data are still at this point preliminary, and with the release of the January 2023 employment data the state level data will incorporate the results of the BLS's annual benchmark revision process, through which the BLS's estimates of nonfarm employment, hours worked, and average hourly earnings are benchmarked to the payroll tax returns that almost all firms are required to file. As we have discussed in the past, revisions to the state level data tend to be larger than revisions to the national level data, and revisions to the metro area level data tend to be larger than revisions to the state level data. We know from the BLS that the pending revision to nonfarm employment on the national level data will be much larger than normal, which will be reflected in an increase in the level of employment as of March 2022. At the same time, however, we have reason to think that the benchmark revisions will show a slower pace of job growth over the back half of 2022 than has been reported to date, based on the data from the Quarterly Census of Employment and Wages, the source data for the BLS's estimates of nonfarm employment, hours, and earnings. Where all of this will ultimately leave us, in terms of perceptions of labor market conditions over the course of 2022, remains to be seen, but at this point we'd simply caution that there could be meaningful differences between the preliminary and final estimates. While the relative state rankings may not change much, there could easily be changes in the pace of job growth over the back half of 2022 and changes in the composition of job growth across private sector industry groups. Our next edition of this update will discuss the results of the benchmark revisions.



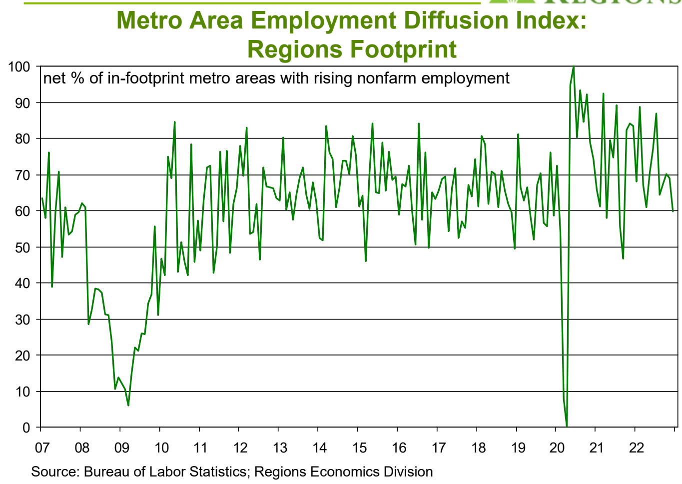


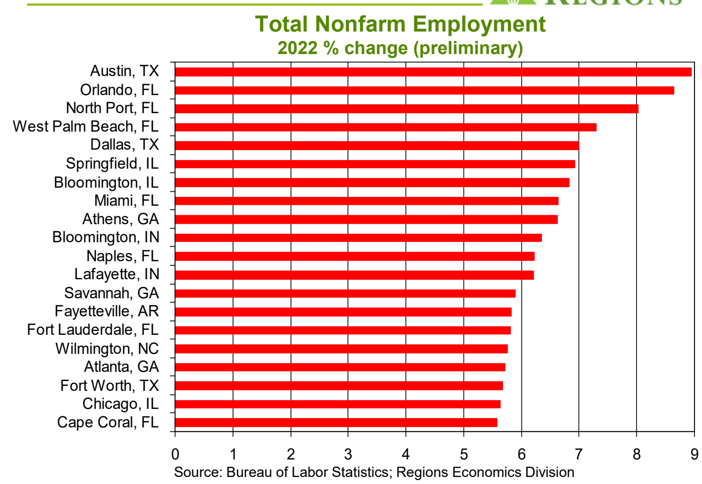
As we noted last month, with potentially large changes to the data on nonfarm employment, hours, and earnings looming, we've upped our reliance on other data series, such as initial and continuing claims for unemployment insurance and the series from the Job Openings and Labor Turnover Survey (JOLTS) as guides to how labor market conditions may be changing. The two charts above show a seeming contradiction in the JOLTS data, i.e., a clear slowing in the rate at which firms are adding workers and a still-elevated number of job vacancies. True, job vacancies have fallen from the record highs set in early-2022 but nonetheless remain significantly above pre-pandemic norms. It could be that at least some of the slowing in the hires rate reflects labor supply constraints, and many firms continue to cite difficulty in finding qualified labor. The main question isn't so much whether job vacancies will continue to fall but instead the rate at which they will do so in the months ahead. If we see a rapid and sustained decline in job vacancies, which is what we and many others expect, that would be an indication of a meaningful decline in labor demand, but if the decline in job vacancies is slower and more uneven, that would suggest labor supply constraints remain an impediment to firms taking on more workers. As of November, however, nationally there were roughly 1.74 open jobs per each unemployed person, with a ratio of 1.91 within the Regions footprint.





From the JOLTS data we also know that the rate at which workers are voluntarily leaving jobs remains above pre-pandemic norms but is well off the highs seen in 2021. The quits data suggest that workers remain more confident in their ability to land a new job than had been the case prior to the pandemic, but that confidence has begun to wane. If we are correct in expecting meaningful declines in job vacancies over coming months, the quits rate should also drift lower. One reason this matters is that the data show that those workers who change jobs see materially larger salary increases than those workers who stay in place, suggesting that declines in job vacancies and voluntary quits would alleviate upward pressure on wage growth. While the rate at which workers are voluntarily leaving jobs remains above pre-pandemic norms, the JOLTS data also show that the rate at which firms are laying off workers remains below pre-pandemic norms. Though the JOLTS data have yet to capture the recent spate of layoffs in the tech sector, those will have only a modest impact on the overall layoff rate (layoffs as a percentage of total nonfarm employment). Though the rate at which firms are hiring new workers is clearly slowing, the layoff rate remains notably low, which is consistent with the premise that, given how hard and how costly it has been for them to find and retain workers, firms will be unlikely to let workers go in large numbers if they are facing what they perceive will be a short and shallow downturn. Though the early-January data do show an uptick in initial claims for unemployment insurance, keep in mind the data shown in the above chart are not seasonally adjusted, and January is a month in which seasonal layoffs typically rise sharply as firms in areas such as retail trade and warehousing/distribution shed workers hired over the holiday season.





The slowdown in the pace of job growth seen in the state level data is also apparent in the metro area level data, with net hiring across the group of more than one hundred in-footprint metro areas we routinely track having slowed sharply over the back half of 2022. As the pace has slowed, job growth has also become less geographically dispersed. Our Metro Area Employment Diffusion Index, which measures the breadth of job growth across in-footprint metro areas, fell to 59.9 percent in December, the lowest value since September 2021, with roughly one-third of the metro areas we track seeing nonfarm employment decline in December. There are a number of potential explanations, such as less seasonal hiring than typical for the month of December, metro areas with higher exposure to manufacturing feeling the pinch from the nascent contraction in that sector, and metro areas with heavier exposure to the tech sector being impacted by layoffs. It is too soon to know how to interpret the December data, particularly with the looming benchmark revisions. As for now, the preliminary data show the Austin metro area posted the largest increase in nonfarm payrolls in 2022, with an increase of 8.98 percent, followed closely by the 8.64 percent increase in the Orlando metro area. It is no surprise that the list of the twenty metro areas with the fastest job growth in 2022 is heavily populated with Florida and Texas metro areas. Again, though, the make-up of this list and the magnitude of job growth can and likely will differ once the revised metro area level data are released.

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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