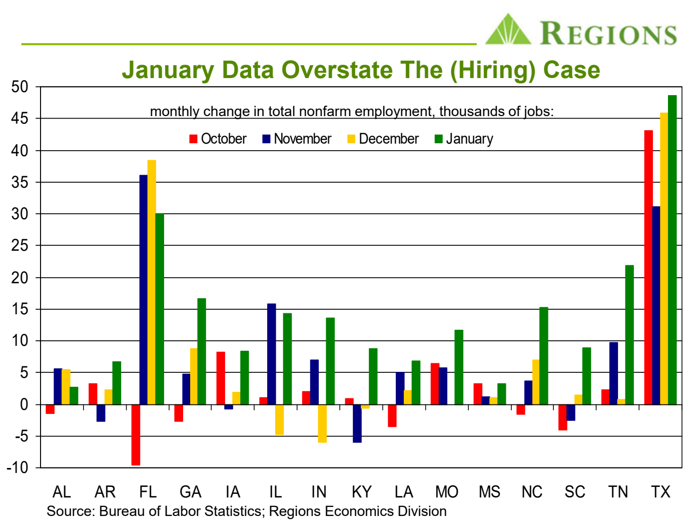
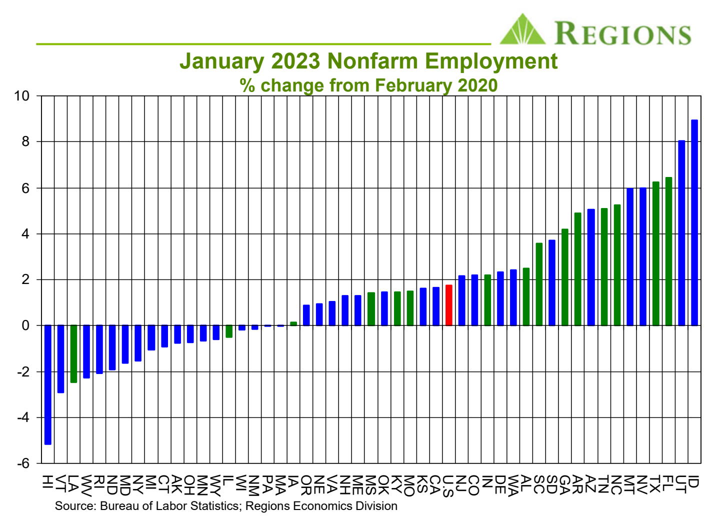
ECONOMIC UPDATE
REGIONS
March 16, 2023

January 2023 Nonfarm Employment And Benchmark Revisions: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 217,200 jobs in January, more than the combined increase over the prior two months and the largest monthly increase since last July. Nonfarm payrolls rose in each of the fifteen in-footprint states, which over the past several months has been the exception rather than the rule. Recall that in our analysis of the January employment report, we pointed out that the reported increase in nonfarm payrolls of 517,100 jobs for the U.S. as a whole was significantly boosted by favorable seasonal adjustment, reflecting a much smaller decline in not seasonally adjusted employment this January than is typically the case for the month. To that point, a "typical" January would have seen not seasonally adjusted nonfarm employment fall by around 500,000 jobs more than was actually the case this January. That same effect can be seen in the state level data, in that in each of the in-footprint states, the decline in unadjusted nonfarm employment this January was meaningfully smaller than is typically the case.

As such, the reported increase of 217,200 jobs within the footprint should be taken with a grain of salt. Perhaps the biggest factor in the smaller than normal decline in unadjusted payrolls this January is that seasonal hiring in Q4 2022 was weaker than is typically the case, particularly in areas such as retail trade and transportation/warehousing/delivery. It follows that with less seasonal hiring than normal in Q4 2022 there would be fewer seasonal layoffs in January than is typically the case, and we'd also expect a similar effect in the February data, albeit to a much lesser degree. For instance, holiday season hiring in retail trade and warehousing/delivery typically begins in October and runs through December, and subsequent layoffs begin in January but extend into February. As with January, the national level data show smaller February declines in not seasonally adjusted payrolls in these areas than is typically the case, to the point that what in the unadjusted data was a decline in retail trade payrolls of 48,000 jobs turned into a gain of 50,000 jobs in the seasonally adjusted data. There is no reason to think the state level data for February, when available, will not display the same patterns.





Though perhaps not to exactly the same degree, the January data for each state will have been impacted by the same seasonal adjustment issues, so we can still make our usual comparison of where each state stands now relative to where they were prior to the pandemic. As has for some time been the case, Idaho and Utah have seen the largest increases in nonfarm employment relative to their February 2020 levels, and they are followed by Florida and Texas. What has changed here is that the latter two have swapped places, with Florida now ranking third and Texas fourth in terms of the gap between current and February 2020 levels of nonfarm employment. This to some extent reflects the results of the BLS's annual benchmark revisions to the data on nonfarm employment, hours, and earnings. As of January, thirteen of the fifteen in-footprint states have seen the level of nonfarm employment surpass the pre-pandemic peak, with Illinois and Louisiana being the two exceptions. Nine of the in-footprint states are further along in the rebound from the pandemic-related downturn than is the case for the U.S. as a whole.

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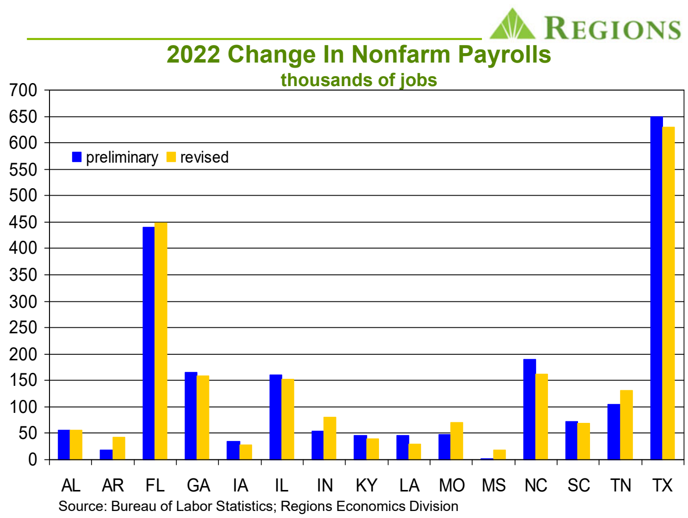
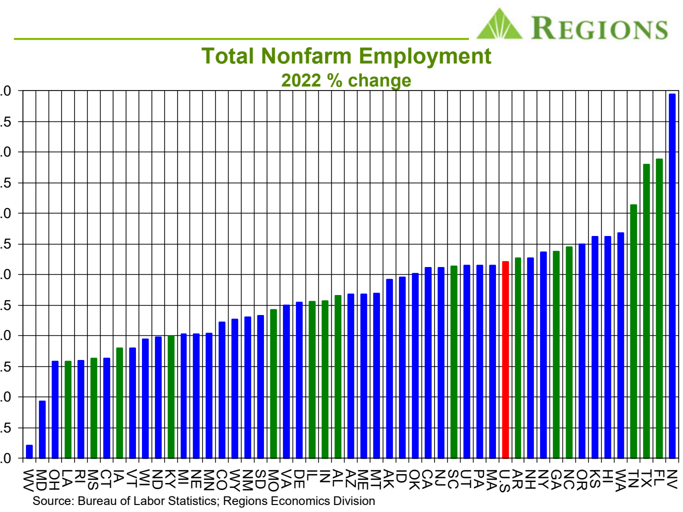
As referenced above, as in each year the January data incorporate the results of the BLS's annual benchmark revisions to the data on nonfarm employment, hours, and earnings. The revisions basically entail the BLS benchmarking their monthly sample of establishments to the universe of payroll tax returns that virtually all firms are required to file, with one implication being that the revised samples account for firms that have either come into or gone out of existence since the prior benchmark revision. Recall that for the U.S. as a whole, the level of nonfarm employment as of March 2022, the new reference month for the establishment survey, was revised up by 568,000 jobs, equivalent to 0.38 percent of total nonfarm employment, an unusually large revision. For the Regions footprint as a whole, the level of nonfarm employment as of March 2022 was revised up by 236,400 jobs, or, 0.40 percent of total nonfarm employment. On that basis, Alabama, South Carolina, and Arkansas saw the largest level-change in employment as of March 2022, with Illinois and Indiana being the only two in-footprint states in which employment as of March 2022 was revised lower. Note that the level-change in employment as of the new reference month does not necessarily ensure that annual job growth in the revised data will be greater than was the case in the preliminary data.





The first chart above compares the preliminary and revised estimates of 2022 job growth for each of the in-footprint states. The revised data show that nonfarm payrolls within the Regions footprint increased by 2,111,300 jobs in 2022, or, 24,100 more jobs than reported in the preliminary data. Nine of the fifteen states, however, saw fewer jobs added in 2022 than had been reported in the preliminary data, with Louisiana, North Carolina, and Kentucky seeing the largest downward revisions (measured as a percentage of the level of nonfarm employment). Of the six states seeing upward revisions, Mississippi and Arkansas saw the largest, though in Mississippi's case that meant the original estimate of an increase in nonfarm payrolls of just 500 jobs was revised up to an increase of 18,300 jobs.

The second chart above shows 2022 job growth for each state based on the revised data. Recall that, as we showed in our write-up of the December 2022 data, the preliminary data showed Texas to have posted the largest increase in total nonfarm employment of any state, with Florida coming in a close second. The revised data, however, show Nevada posted the nation's fastest job growth in 2022 with Florida again second and Texas now third. Of the ten states in the U.S. with the fastest 2022 job growth, five are within the Regions footprint while, conversely, Louisiana is shown to have posted the fourth slowest job growth in the nation with Mississippi posting the sixth slowest job growth and Iowa the eighth slowest.

On an industry level, in terms of the number of jobs the biggest upward revision was to business services. The preliminary data showed payrolls in business services across the Regions footprint rose by 258,300 jobs in 2022, with the revised data showing an increase of 328,300 jobs. Interestingly enough, job growth in business services was revised lower in eight of the fifteen states, but sizable upward revisions for Florida and Texas more than offset the downward revisions in the eight states. When measured as a percentage of the level of employment, the largest industry-level upward revision was in construction, where the net upward revision of 31,600 jobs was equivalent to 1.0 percent of the level of construction employment – the revision to business services was equivalent to 0.8 percent of the level of business services employment. That construction employment increased at all in 2022 may seem surprising given the extent to which sharply higher mortgage rates knocked down home sales. Keep in mind, however, that historically large backlogs of housing units under construction, both single family and multi-family, helped preserve construction employment despite sales having fallen off as dramatically as they did in 2022. At the same time, though, we suspect that seasonal adjustment boosted measured construction employment in the latter months of 2022.

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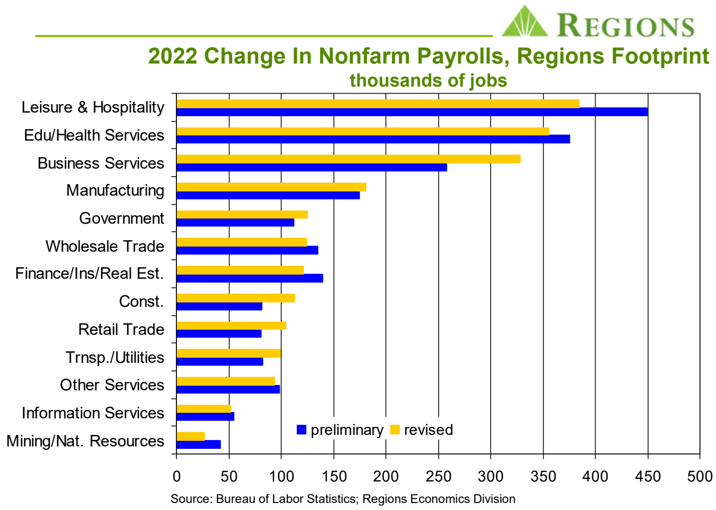
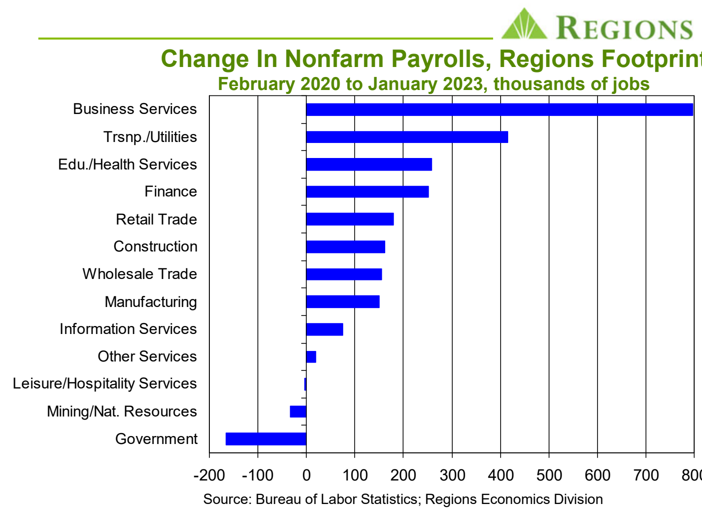
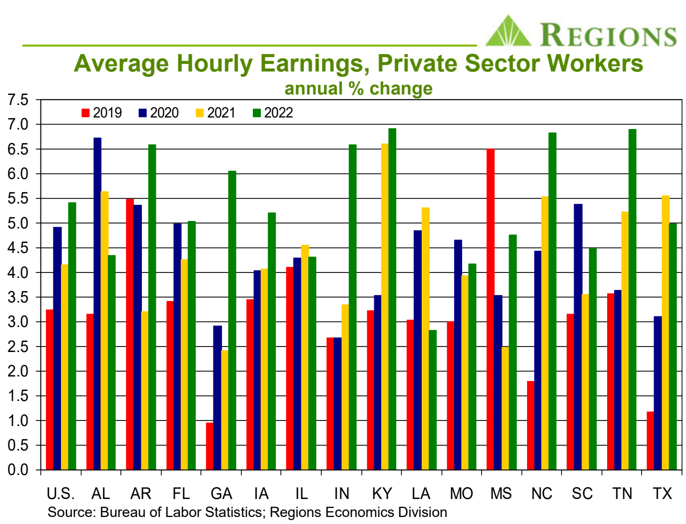
For a second consecutive year, the benchmark revisions were not kind to the mining and natural resources industry group, with the revised data showing a significantly smaller increase in employment in 2022 than reported in the preliminary data, with a downward revision equivalent to 4.9 percent of the level of employment in mining and natural resources. Texas was hit the most harshly by this downward revision, with a downward revision equivalent to 7.9 percent of the level of mining and natural resources employment which on a number of jobs basis more than accounted for the entire downward revision for the footprint as a whole. To be sure, Texas far and away has the highest number of jobs in this industry group of the in-footprint states, but it is nonetheless noteworthy that this is the second straight year with a meaningful downward revision to the initial estimate of job growth in mining and natural resources. This could reflect the extent to which firms in this industry group have gone out of existence at some point during the year but these exits not being picked up in the employment data prior to the benchmark revisions.

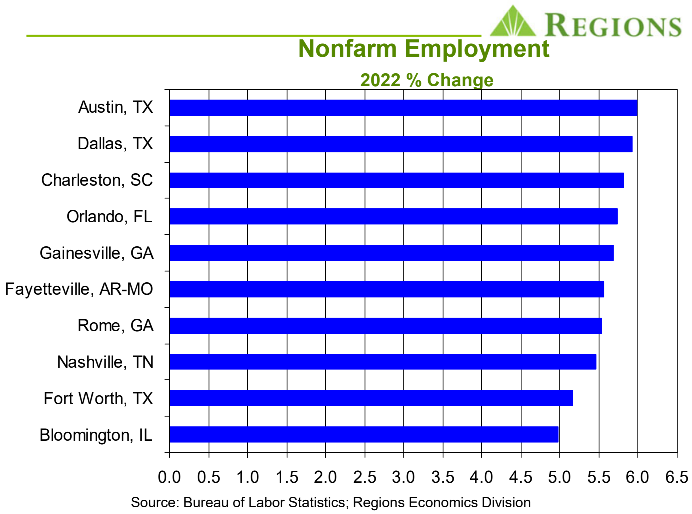


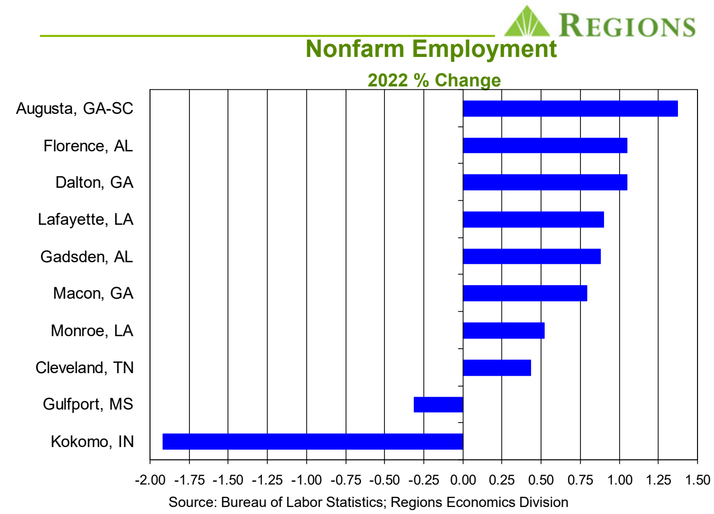


Leisure and hospitality services is another industry group not treated well by the benchmark revisions, with the initial estimate of 2022 job growth within the Regions footprint knocked down by 65,300 jobs, quite the contrast from a year ago when the benchmark revisions added over 100,000 jobs to the initial estimate of 2021 job growth. Even with the downward revision, leisure and hospitality services still added more jobs in 2022 than any of the other broad industry groups. As with mining and natural resources, Texas more than accounted for the downward revision to the footprint as a whole, with the revised data showing 71,300 fewer jobs added in leisure and hospitality services in Texas in 2022 than first reported. In contrast, Florida saw a modest upward revision to the initial estimate of job growth in leisure and hospitality services, with the data now showing an increase of 90,000 jobs in this industry group in 2022. As the second chart above shows, the level of employment within the Regions footprint as of January 2023 is higher than the pre-pandemic peak in ten of the thirteen major industry groups, with leisure and hospitality services, mining and natural resources, and government still lagging, In the case of leisure and hospitality services that gap is only 4,000 jobs, compared to the shortfall of 164,900 jobs in government.



Tighter labor market conditions across much of the Regions footprint have contributed to stepped-up growth in private sector wage earnings, as seen in the chart to the side. Keep in mind that the average hourly earnings metric is biased by the mix of jobs, as hourly earnings will vary significantly across the broad industry groups. Also, the states with the fastest growth in nonfarm payrolls, such as Florida and Texas, are not necessarily those with the fastest wage growth, which within the footprint in 2022 was Kentucky. Ample labor force growth, reflecting strong inflows of new residents, can help dampen wage pressures while, in contrast, Kentucky saw its labor force contract in 2022, helping bid up wages, particularly in the transportation and distribution industry segment, which continued to grow rapidly in the state last year. In almost every state, some of the fastest wage growth over the past two years has come in leisure and hospitality services, which suffered the largest job losses after the onset of the pandemic and which saw the subsequent recovery lag most other sectors. Significantly faster wage growth helped lure more workers, to the point that the gap between the current and pre-pandemic peak levels of employment has been mostly closed. That does, however, suggest wage growth in leisure and hospitality services will slow, perhaps more so than in other industry groups, in 2023. It is also worth noting that while several in-footprint states have seen wage growth outpace the national average over the past two years, the level of hourly earnings is below the U.S. average not only in each state but in each of the broad industry groups.





Based on the revised data, the first chart above shows the ten in-footprint metro areas with the fastest job growth in 2022, led by the 6.0 percent increase in the Austin Metropolitan Area and the 5.9 percent increase in the Dallas Metropolitan Division. Conversely, the second chart above shows the ten in-footprint metro areas with the slowest growth or, in two cases, outright declines in nonfarm employment in 2022. Going deeper than the top ten shown above, it is no surprise that the list of in-footprint metro areas with the fastest job growth in 2022 is dominated by metro areas in Florida, Georgia, North Carolina, South Carolina, Tennessee, and Texas – the parts of the footprint with the most rapid rates of population growth and which, for the most part, have more industrially diverse economies. As for the benchmark revisions, oddly enough those were less pronounced for our group of in-footprint metro areas as a whole than was the case on the national and state levels. It is no surprise that some of the largest revisions came amongst the smaller metro areas, where you'd expect the intra-year sampling to be less precise and, as such, the results to be more prone to sizable revision. The January employment data show the same acceleration in job growth seen on both the national and state levels, though we harbor the same suspicions of the metro area data, i.e., that measured January job growth was meaningfully inflated by seasonal adjustment.

As we do on the national and state levels, we do expect the pace of job growth on the metro area level to slow significantly over the course of 2023, reflecting our expectations for the trajectory of the broader economy. At the same time, we expect unemployment rates to move higher over the course of 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. Though still much too soon to be able to draw meaningful inferences from, the recent turmoil in the banking system and possible contagion through the broader financial system looms as a downside risk to our expectations for 2023 economic growth and labor market conditions. As always, we will continue to monitor changes in labor market conditions for our in-footprint states and metro areas. 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