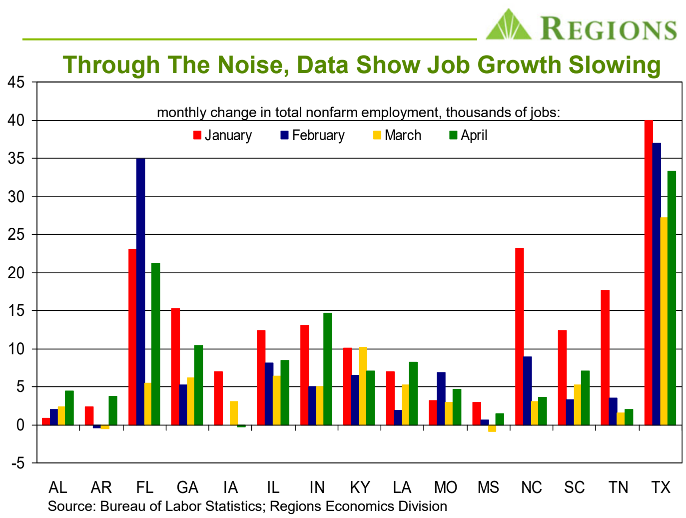
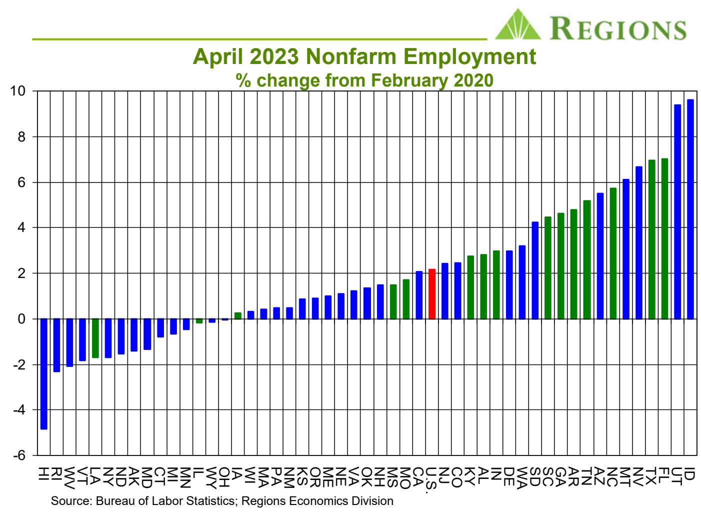
ECONOMIC UPDATE
REGIONS
May 24, 2023

April 2023 Nonfarm Employment: Regions Footprint

Total nonfarm employment within the Regions footprint rose by 130,000 jobs in April, higher in fourteen of the fifteen in-footprint states with Iowa logging a modest decline. Private sector payrolls were up by 114,800 jobs in April, with public sector payrolls up by 15,200 jobs. While April job growth surprised to the upside, there was a meaningful downward revision to the initial estimate of March job growth, which mirrors the pattern seen in the national level data. As such, the level of employment is basically where we thought it would be at this point, even if it took a slightly different route there than we had expected. We'll also caution that, as with much of the economic data over the past several months, there is some degree of seasonal adjustment noise in the April employment data, with estimates of construction payrolls being a prime example, and this noise must be accounted for in assessing the current state of the labor market. Still, beneath the noise in the monthly data, the trend rate of job growth is clearly slowing which, to this point, is a function of a slowing pace of hiring as opposed to a rising pace of layoffs (the monthly job growth number is a net, not a gross, number). The slowing trend rate of job growth is neither surprising nor concerning and is consistent with a slowing pace of overall economic activity. Moreover, job growth in most cases remains more than sufficient to prevent meaningful and sustained increases in unemployment rates. We do expect that will change at some point, but for now the labor market remains notably tight, nationally and across most of the Regions footprint.





As of April, total nonfarm employment for the U.S. as a whole was 2.17 percent above the pre-pandemic peak. As seen in the second chart above, ten of the fifteen in-footprint states have made more progress, and of the twelve states with the biggest positive differentials between current and pre-pandemic levels of nonfarm employment, seven are within the Regions footprint. Florida (7.03 percent) and Texas (6.94 percent) have the third and fourth largest positive differentials. In contrast, the level of nonfarm employment in Louisiana was, as of April, 1.69 percent below the pre-pandemic peak, the fifth largest shortfall in the nation, while nonfarm payrolls in Illinois were still 0.18 percent below the pre-pandemic peak. For the Regions footprint as a whole, total nonfarm employment was 4.36 percent above the pre-pandemic peak as of April.

To our earlier point about seasonal adjustment noise, while the not seasonally adjusted data show total nonfarm employment rose in April both nationally and in each in-footprint state, those increases were generally smaller than is typical for the month of April, which will have made the seasonally adjusted data look weaker than was actually the case. For instance, Iowa saw a 1.1 percent increase in not seasonally adjusted nonfarm employment in April, but this is smaller than the average April increase (an average increase of 1.44 percent in the five years prior to the pandemic), which translated into the modest decline shown in the seasonally adjusted data. We can also point to specific industry groups, such as construction and leisure and hospitality services, as examples of how seasonal adjustment has impacted the employment data over the past few months. In these instances, however, rather than faulty seasonal adjustment, it's

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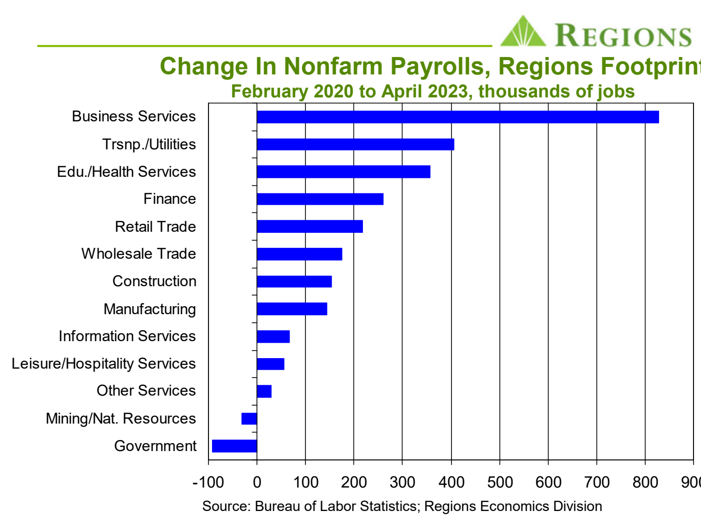
the weather that is to blame. Okay, sure, everyone always wants to blame the weather, but, in this case, deservedly so. Much milder than normal winter weather combined with sizable backlogs of units under construction, both single family and multi-family, helped preserve construction payrolls over the winter months, so that the declines in the winter months were smaller than is typically the case. By the same token, milder winter weather combined with shifting consumer spending patterns (more emphasis on services spending, less on goods spending) helped support leisure and hospitality services payrolls over the winter months to a greater extent than is typically the case. That payrolls held up better during the winter months, however, meant that the subsequent spring bounce in hiring was smaller than is typically the case, or, smaller than anticipated by the seasonal factors used to adjust the raw data for March and April. To be sure, things tend to even out in the end, but this is another example of why we place far more emphasis on the underlying trends in the data and always make it a point to examine the not seasonally adjusted data rather than simply reacting to whatever the seasonally adjusted data say in any given month.

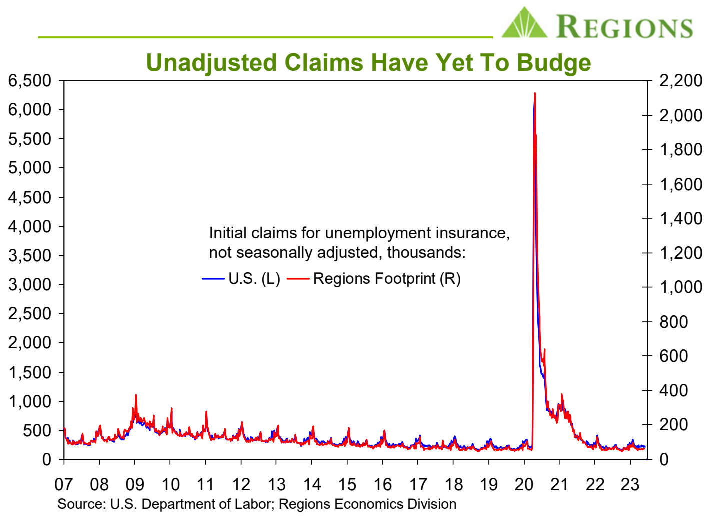
Some of the recent trends in the employment data are worth watching. For instance, the ISM Manufacturing Index shows the factory sector has been in contraction for the past six months, which has translated into a pronounced weakening in manufacturing employment, both nationally and within the Regions footprint, with manufacturing payrolls basically flat over the past four months. One factor which may, at least based on commentary provided by the ISM, be holding up manufacturing payrolls is that firms have been reticent to lay off workers in anticipation of a return to growth over the second half of 2023. Should those expectations change, that could easily translate into declining levels of manufacturing employment. One pocket of support, however, has been motor vehicle production, as firms are still trying to fill in the gaps left by chronic supply chain constraints that have left the market for new vehicles undersupplied. That works to the advantage of the Regions footprint given an above-average exposure to vehicle production, but only to the point that the supply/demand imbalance persists. That imbalance can be remedied by either increased supply or decreased demand, or some combination of the two. But, with the economy slowing and consumers feeling somewhat downbeat about future economic and financial conditions, it could be that demand for motor vehicle purchases softens, which would in turn impact output and employment amongst vehicle producers. More broadly, demand for business equipment and machinery has weakened considerably over the past several months, which has led to payrolls amongst producers flattening out, raising the possibility of declines in the months ahead.

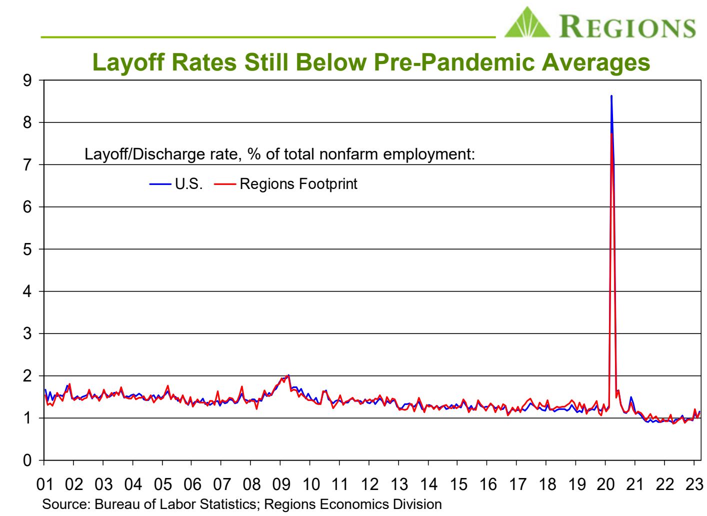
There have also been cases, such as in the information services and transportation/distribution services industry groups, in which hiring had been notably strong between 2H 2020 and 2H 2022 on the expectation that the robust growth in demand seen over that period would persist, which proved to not be the case. For instance, shifting patterns in consumer spending (away from goods, toward services) led to diminishing demand for shipping, warehousing, and delivery services, which in turn has taken a toll on employment. Along those same lines, high profile layoffs amongst technology services providers, including streaming services, have garnered considerable attention, but what has gotten less attention is that those layoffs come on top of notably aggressive hiring over the prior two years, with the net result being payrolls in information services still being well above the pre-pandemic peak. Such instances have been more sector-specific than a reflection of weakness in the broader economy weighing on employment.

As seen in the chart to the side, eleven of the thirteen broad industry groups for which data are reported have seen the level of payrolls surpass the pre-pandemic peak. But, as the above discussion makes clear, some of the gains seen in earlier periods have been given back over recent months, and that could be the case in more of the broad industry groups in the months ahead if the economy slows as we expect or slows more than we expect. For instance, it wasn't until this February that payrolls in leisure and hospitality services within the Regions footprint returned to their pre-pandemic peak. But, if the softening in consumer spending on discretionary services seen over the past few months persists, that would surely weigh on hiring if not trigger job cuts amongst firms in this industry group. Retail trade payrolls remain vulnerable to further downshifting in consumer spending on goods. We can go through the list of industry groups and point to downside risks to the employment outlook.

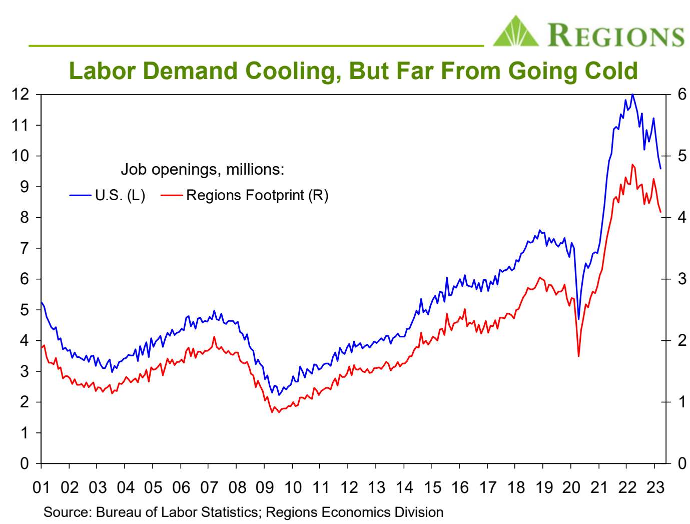


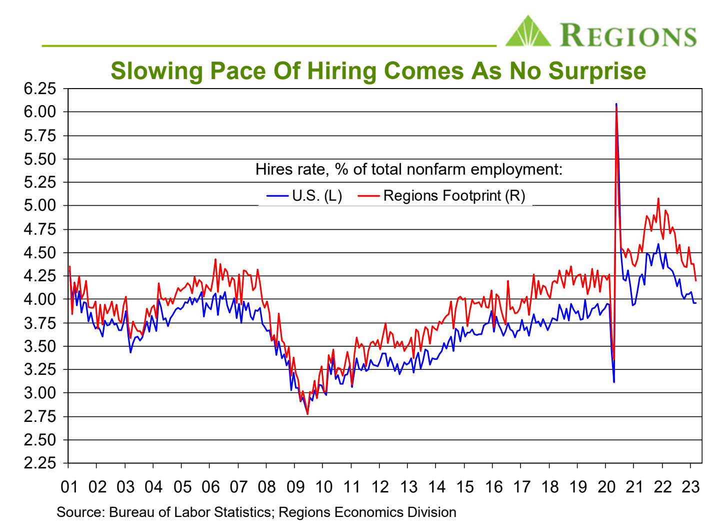
At present, however, despite signs that the demand for labor is cooling, labor market conditions remain somewhat tight, nationally and across most of the Regions footprint. As of April, the unemployment rate for the Regions footprint as a whole fell to 3.3 percent, a tick below the national average of 3.4 percent, with five states – Alabama, Arkansas, Florida, Iowa, and Missouri – boasting jobless rates below three percent. At 4.2 percent and 4.0 percent, respectively, Illinois and Texas had the highest April unemployment rates of the in-footprint, though that's where the similarity between the two states ends given the contrast in labor force growth rates, with Texas continuing to post robust growth while Illinois' labor force remains smaller than was the case at the onset of the pandemic. We can make that point more broadly, as labor force participation rates across most of the in-footprint states remain below pre-pandemic norms, which is somewhat artificially holding down measured unemployment rates, as is also the case nationally.





The two charts above go to the point we made at the outset about the slowing trend rate of job growth being a function of diminished hiring as opposed to rising layoffs. The first chart shows weekly filings of initial claims for unemployment insurance benefits, nationally and for the Regions footprint as a whole. Note that we show the not seasonally adjusted data, which we would be inclined to do even were the state level data available on a seasonally adjusted basis (they are not). Other than the early-January jump seen in any given year, which has since subsided, the unadjusted data show initial claims have basically not budged thus far in 2023. This is in contrast to the national data on a seasonally adjusted basis showing a meaningful increase in claims which, as the unadjusted data make clear, is no more than seasonal adjustment noise. The flat trend in initial claims is affirmed in the data from the Job Openings and Labor Turnover Survey (JOLTS), which show the rate at which firms are laying off workers (layoffs as a percentage of the level of nonfarm employment) has also not risen materially, either nationally or within the Regions footprint. Again, that there has yet to be a jump in layoffs does not mean there can't, or won't, be one in the months ahead, but it does illustrate our point that labor markets generally remain tight despite some cooling in the demand for labor that is being reflected in slowing job growth.





The two charts above illustrate our point about cooling demand for labor. The JOLTS data show meaningful declines in the number of open jobs, nationally and within the Regions footprint, but at the same time show the number of open jobs remains significantly above

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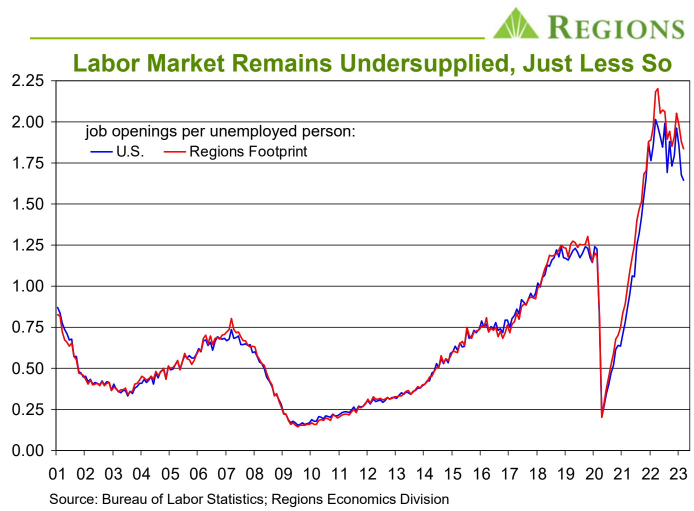
pre-pandemic levels – which, if you recall, were at the time record highs in the JOLTS data. We will note some reservations about the JOLTS data based on notably low response rates (a topic we addressed in the March 2023 edition of our *Monthly Economic Outlook*), but while that leads us to question the absolute numbers reported in the monthly surveys, it does not lead us to question the trends apparent in the data. That job vacancies are trending lower is consistent with firms scaling anticipated hiring needs as they downsize expectations for demand growth. The slowing rate of hires (the number of hires as a percentage of nonfarm employment) is, as noted above, the main factor behind the slowing pace of overall job growth. Note, however, that both the level of job vacancies and the rate at which firms are hiring workers are both still easily above pre-pandemic norms, and also recall that prior to the pandemic the inability to find labor, particularly skilled labor, was a common complaint amongst firms across a wide range of industry groups.



That labor markets remain tight despite the slowing trend rate of job growth can be seen in the chart to the side, which scales the number of job vacancies to the number of unemployed persons. Though having slipped from the recent peak, this ratio is still far above the pre-pandemic value, both nationally and across the Regions footprint. Within the footprint, the openings/unemployed ratio is the highest in Alabama (2.66), Georgia (2.40), Florida (2.37), and the lowest in Illinois (1.27), Texas (1.38), and Indiana (1.62). Again, note how much higher this ratio was over the 2018-2020 period than had ever been the case over the life of the data (the JOLTS data go back only to December 2000). What many lose sight of is that the labor market was already tight and in turn the pace of wage growth across all industry groups was already accelerating prior to the onset of the pandemic, and that the pandemic only amplified these trends. That is a useful point to keep in mind, as it helps account for why many, us included, do not expect firms to lay off workers in large numbers even should the economy slip into a mild recession, i.e., finding and retaining workers has been so difficult, and costly, that firms would use other levers, such as hours worked, as a means of managing total labor input. Indeed, we have already seen average weekly hours worked whittled down over recent months which, along with a slowing trend rate of job growth, is a sign of firms adapting to, or bracing for, diminished demand for their goods/services. To be sure, a recession more severe than the one many are now, and have been, anticipating would change the dynamic, leading to deeper and more widespread layoffs, but at present that is not the expectation.

It does, however, seem that the economy is transitioning into a phase in which the pace of overall activity is slowing, which in turn is leading firms to dial down expectations of labor needs. As such, we expect the pace of hiring to continue to slow to the point that a much slower pace of hiring begins to push the unemployment rate higher despite labor force participation rates remaining below pre-pandemic norms. 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

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