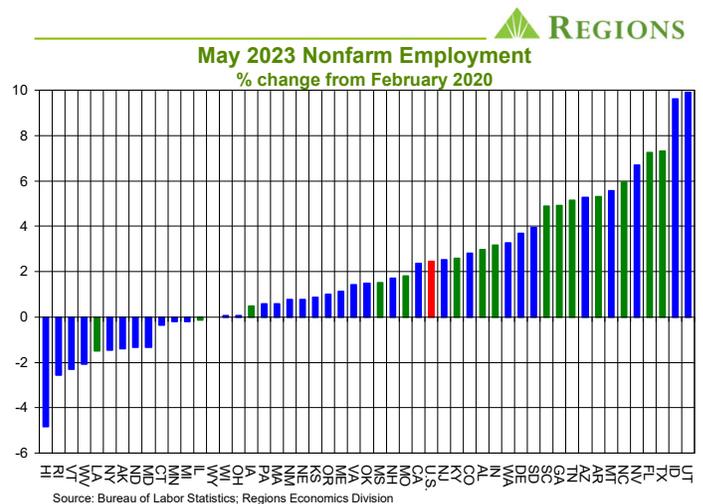
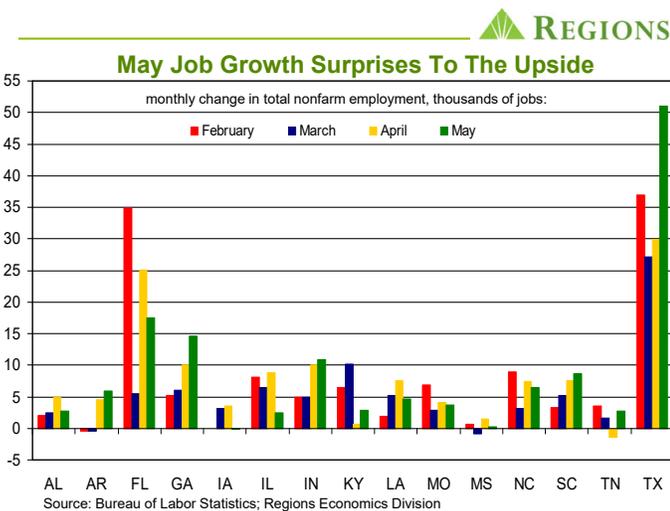


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May 2023 Nonfarm Employment: Regions Footprint

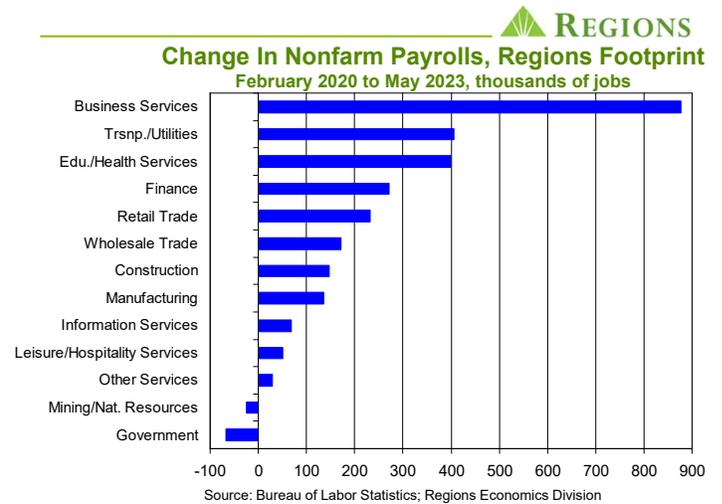
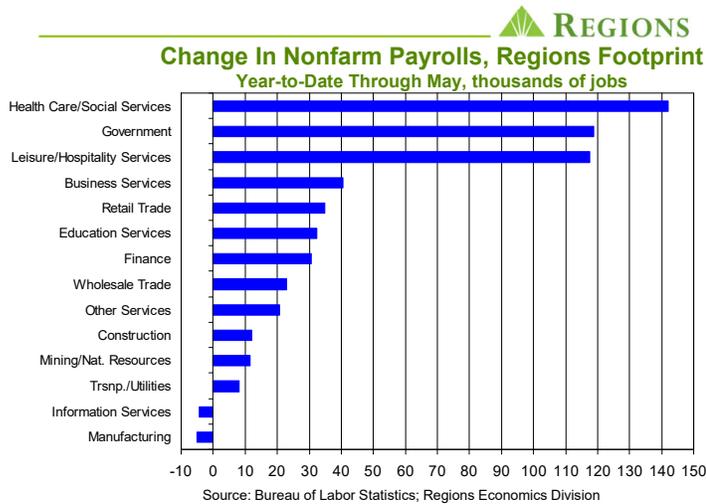
Total nonfarm employment within the Regions footprint rose by 134,000 jobs in May, rising in fourteen of the fifteen in-footprint states with Iowa posting a modest decline. Private sector payrolls were up by 110,300 jobs while public sector payrolls rose by 23,700 jobs. The initial estimate of job growth in April showed a net gain of 130,000 jobs for the footprint as a whole, but that was revised down a bit with the gain now put at 124,300 jobs. While job growth within the footprint continues to outpace the national average, there are some concerning signs in the data suggesting that some cracks are beginning to emerge in the labor market. Job growth within the Regions footprint has become more concentrated amongst a few industry groups, with payrolls in the manufacturing and information services industry groups declining in May, and initial claims for unemployment insurance have risen meaningfully in recent weeks. To be sure, it is too soon to know whether, or to what extent, these patterns will be sustained, particularly in the weekly data on jobless claims and given how all over the map the economic data have for some time been and the extent to which seasonal adjustment issues continue to bedevil the data. We continue to see a slowing trend rate of job growth, even with the upside surprise in the initial May estimate, and to the extent that slowing trend rate is a reflection of a slowing pace of hiring as opposed to a rising pace of layoffs, it is neither surprising nor concerning, as slowing job growth 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. Still, we cannot dismiss the recent upturn in initial jobless claims out of hand, particularly in the context of the JOLTS data showing an upturn in layoff rates. Both will bear careful monitoring in the weeks ahead.



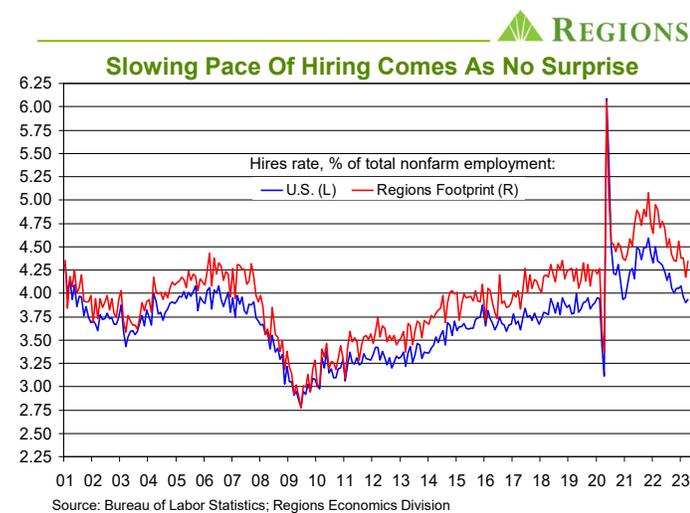
As of May, total nonfarm employment for the U.S. as a whole was 2.45 percent above the pre-pandemic peak, significantly less progress than seen across the Regions footprint. For the footprint as a whole, the level of nonfarm employment was 4.58 percent above the pre-pandemic peak, with Texas and Florida boasting the third and fourth, respectively, largest differentials of any states. Thirteen of the fifteen in-footprint states have seen the level of nonfarm employment surpass the pre-pandemic peak, with the exceptions being Illinois (0.14 percent below) and Louisiana (1.49 percent below), with Louisiana's shortfall the fifth largest in the nation.

To our earlier point about job growth becoming increasingly concentrated amongst fewer of the broad industry groups, just two broad industry groups – business services and education and health services – have accounted for well over one-half of all job growth within the Regions footprint over the past two months, with government sector hiring kicking in another 40,000 jobs over the two-month period. May saw declines in payrolls in wholesale trade and manufacturing, while construction payrolls fell for a third straight month. That string, however, is less of a concern as it reflects nothing more than seasonal adjustment noise. Recall that milder than normal winter weather enabled builders to continue working through most of the winter, meaning we did not see the normal seasonal layoffs in construction.

The flip side, however, is that hiring in the spring months was not as robust as is typically the case, hence the penalty imposed by seasonal adjustment. That is also a factor in what has been a sharp slowdown in hiring in leisure and hospitality services over the past two months. The emerging weakness in manufacturing employment is a more pressing concern and could persist over coming months as implied by the details of the ISM’s monthly survey of the factory sector showing sharply contracting new orders and dwindling backlogs of unfilled orders. Additionally, hiring in the transportation and utilities industry group has become meaningfully slower and more uneven over the past several months than had been the case, which in part reflects shifting patterns in consumer spending (away from goods, toward services). To be sure, providers of transportation and warehousing services had hired aggressively from mid-2020 through mid-2022, perhaps too aggressively, to the point they may now see the need to right size payrolls. But, to the extent these segments were key drivers of overall job growth over that span, they are at best a neutral factor. Payrolls in information services have also come under considerable pressure over the past several months, in part a reflection of layoffs across various segments of the tech sector.



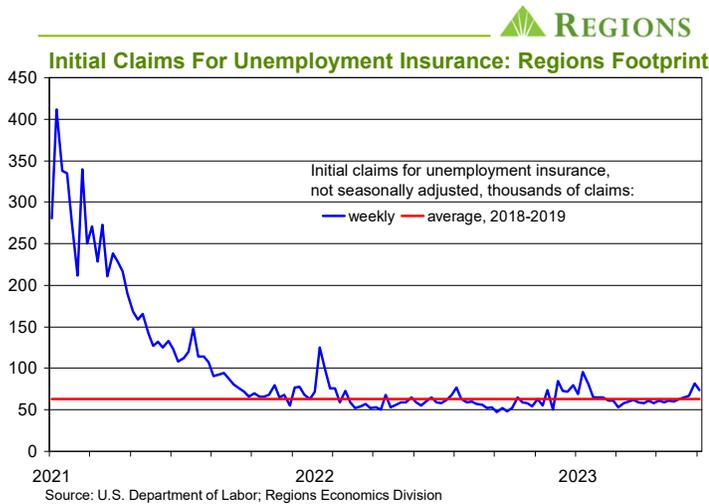
The first chart above illustrates the points made in the prior paragraph, showing payrolls having declined on a year-to-date basis through May in information services and manufacturing, while the net gain in transportation and utilities has narrowed considerably of late. In contrast, hiring in health care, government, and leisure and hospitality services has been notably robust, even with leisure and hospitality services hiring having stalled out over the past two months. Many state and local governments are on sounder financial footing thanks to rapid revenue growth over the past two-plus years combined with federal money flowing to support infrastructure initiatives, which has resulted in much stronger job growth since the turn of the year. That point is seen in the second chart above, which shows that despite the stepped-up pace of job growth this year, government sector payrolls across the Regions footprint have yet to return to their pre-pandemic peak. The broader point, however, remains, which is that the base of hiring across industry groups has gotten notably narrower over recent months, and should that continue, it would be a worrisome sign for the broader economy.



May’s upside surprise notwithstanding, the trend rate of job growth is slowing. Thus far, that has primarily been a function of a slowing pace of hiring. Keep in mind that the monthly job growth number is a net, not a gross, number, reflecting the gap between the number of jobs added and the number of jobs lost in any given month. As seen in the chart to the side, the rate at which firms have been adding workers, scaled to the level of nonfarm payrolls, has been slowing for some time now. That was, at least to some extent, to have been expected given that the rate at which firms were adding workers as the economy was reopening was never going to be a sustainable rate. We are seeing the hiring rate fall back in line with the rate that prevailed in the last several quarters prior to the pandemic, both nationally and within the footprint.

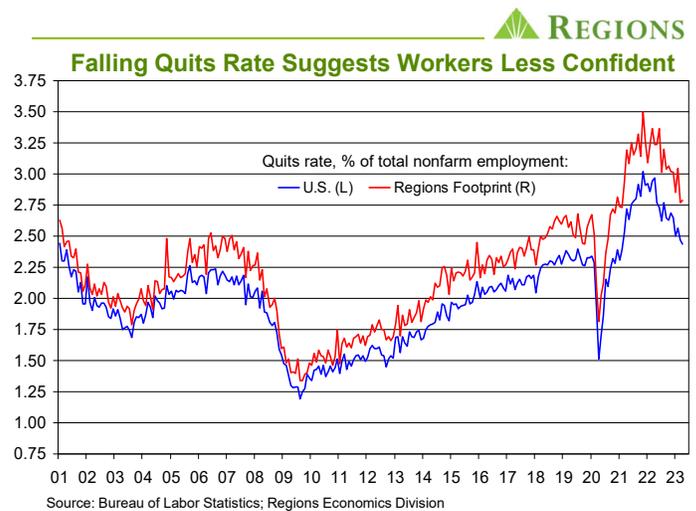
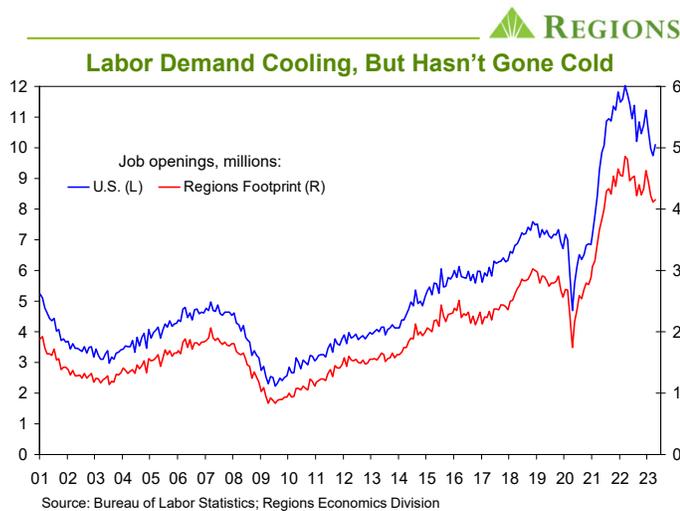
If we are correct in expecting the pace of overall economic activity to slow further in the months ahead, it is reasonable to expect the

hiring rate to fall further, which would put it below the pre-pandemic norm and which would coincide with smaller net monthly gains in nonfarm employment. What is of more concern, however, is that rising numbers of layoffs could lead to an even more pronounced slowdown in the rate of monthly job gains. Though too late to be seen in the May data on nonfarm job growth, the weekly data on initial claims for unemployment insurance have shown claims to be pushing higher during June, both nationally and within the Regions footprint. Though it is too soon to draw any definitive conclusions, this is clearly something that bears watching in the weeks ahead.



The chart to the side shows initial claims for unemployment insurance benefits for the Regions footprint as a whole based on the not seasonally adjusted data, with the red line reflecting the weekly average over the two years prior to the pandemic. Note that the seasonally adjusted data have for some time shown claims to be drifting higher, but that upward drift had been absent from the unadjusted data, hence our view that the data were being distorted by seasonal adjustment issues. Also note that in a typical year, the not seasonally adjusted data will show claims jumping higher in the last few and first few weeks of any given year, reflecting seasonal hiring patterns. Absent that normal jump at the beginning of 2023, however, initial claims had remained below the pre-pandemic average before turning higher in June. To be sure, thus far we only have three observations of weekly data, which goes to our point that it is too soon to be drawing definitive conclusions. But, it did nonetheless capture our

attention when claims broke above the pre-pandemic average earlier this month (we see the same patterns in the national data). It should be pointed out, however, that the rise in initial claims has not yet been accompanied by a similar bump up in continuing claims for unemployment insurance benefits, a measure of the number of people actually drawing benefits. This suggests that, at least thus far, those who have lost jobs have been able to find new jobs in relatively short order. But, to the extent that the pace of hiring is slowing, it is unclear how much longer this will remain the case, particularly if the number of layoffs continues to increase.



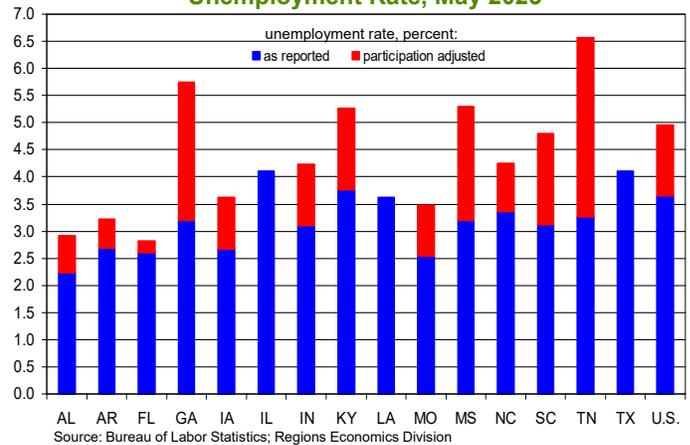
Another indicator of softening labor market conditions is the drop-off in job vacancies, as illustrated in the first chart above. Much, far too much, was made when the national data showed job vacancies rising from 9.745 million in March to 10.103 million in April (the JOLTS data lag the nonfarm employment data by a month), with many taking that as a sign that the labor market was tightening further and drawing conclusions as to what that might mean for the FOMC's decisions on monetary policy. What we saw was a bounce amid a clear downward trend – a look at the first chart above is enough to tell you that the JOLTS data tend to be very bumpy from one month to the next. Moreover, the JOLTS data are based on a much, much smaller sample size than are the monthly estimates of nonfarm job growth, which of late has been compounded by extraordinarily low response rates to the JOLTS surveys, with response rates running around thirty percent over the past several months. This tells us that the point estimates of job openings and other metrics from the JOLTS data in any given month aren't exactly pillars of rock solid reliability, though we do have more confidence in the trends in the

data. As such, it is, or at least should be, clear that job vacancies are trending lower, though remaining above pre-pandemic norms. For now, though, it is the direction that is most relevant, and that direction indicates some cooling in the demand for labor, which we expect to persist over coming months. At the same time, the rate at which workers are voluntarily quitting jobs is also trending downward and is much closer to falling back in line with pre-pandemic norms than is the case with job vacancies. A falling quits rate suggests workers are feeling less confident about labor market conditions, which matters given that there is ample evidence showing those who change jobs tend to see larger salary increases than those who stay in place. A falling quits rate is consistent with the easing of wage growth apparent in the monthly employment reports.

Unemployment rates across the Regions footprint were little changed in May, which is notable given that the national average rate jumped from 3.4 percent in April to 3.7 percent in May. Indeed, the unrounded data show eight of the fifteen in-footprint states saw modest declines in their jobless rates. Recall that the national data showed a substantial decline (down by over 300,000 persons) in household employment in May. In contrast, household employment within the Regions footprint rose by over 170,000 persons in May, with increases in each of the fifteen in-footprint states, a contrast which stands out even more given that the footprint accounts for roughly forty percent of total household employment in the U.S. To be sure, the household survey data exhibit a greater degree of month-to-month volatility than do the data from the establishment survey, but the divergence between the national level data and the footprint level data is unusually large for the May data. Be that as it may, it is still the case that the measured unemployment rate is understating the degree of labor market slack, nationally and across the Regions footprint, reflecting the extent to which labor force participation rates remain below pre-pandemic norms. The exceptions within the footprint are Illinois, Louisiana, and Texas, which have seen labor force participation rates fully recover, though in Louisiana the participation rate has historically been meaningfully lower than the U.S. average while Illinois continues to see its working age population decline. Within the footprint, Georgia, Mississippi, and Tennessee have the largest gaps between current and pre-pandemic participation rates.



Unemployment Rate, May 2023



Despite a slowing trend rate, job growth remains notably broad based, geographically, across the Regions footprint, with the vast majority of in-footprint metro areas adding jobs each month. This is a useful reminder that the direction of change and the intensity of that change are two different things. We pay a good deal of attention to the breadth of job growth, both across industry groups and across geographies. That job growth has become a bit more concentrated across industry groups over recent months suggests that the breadth of job growth across geographies could begin to narrow in the months ahead. Neither measure, however, is at present sending signals that would make us think the current expansion has, or is about to, run its course. Both are, however, becoming more consistent with our expectation of further slowing in the pace of overall economic activity.

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>

Metro Area Employment Diffusion Index: Regions Footprint

