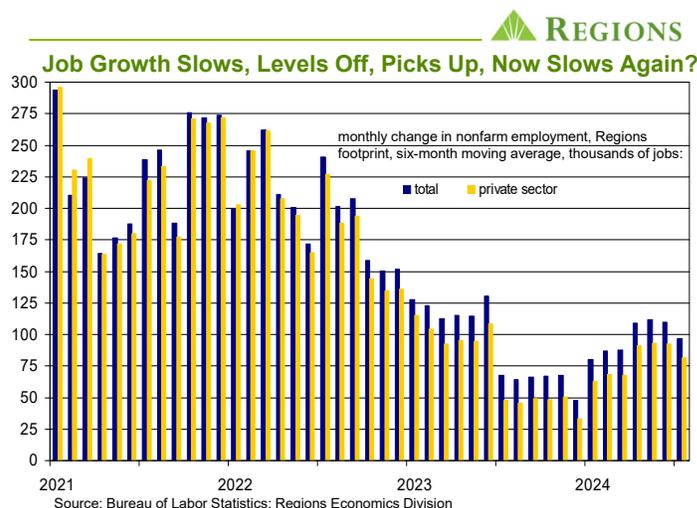
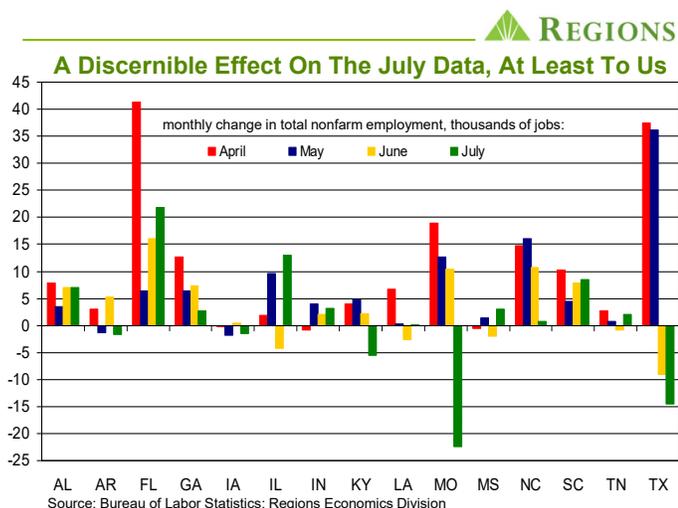




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### July 2024 Nonfarm Employment: Regions Footprint

Total nonfarm payrolls within the Regions footprint rose by just 16,000 jobs in July, with private sector payrolls up by 7,600 jobs and public sector payrolls up by 8,400 jobs. At the same time, there was a sharp downward revision to the original estimate of June job growth; rather than having increased by 90,400 jobs as originally reported, nonfarm payrolls are now reported to have risen by 50,500 jobs in June. At first glance, the state level data for July seem to be in keeping with the national level data, with the July employment report showing a significant slowdown in job growth, a decline in average weekly hours worked, a pronounced deceleration in wage growth, and an increase in the unemployment rate. As is the case with the national level for July, however, there are seemingly clear impacts in the state-level data for July from Hurricane Beryl. We say "seemingly" given that the BLS stated that Hurricane Beryl had "no discernible effect" on the aggregated national data presented in the July employment report, though we and most others have had no trouble picking out what seems to be clear evidence to the contrary. That said, even allowing for Beryl having impacted the July data, that still leaves the sudden decline in nonfarm payrolls in Texas in June to account for. We have for some time been noting that our confidence in the monthly employment reports has been significantly diminished by persistent measurement/collection issues, including notably low response rates to the monthly surveys of businesses and households and seasonal adjustment issues. Those same issues not only carry into the state-level data but are more pronounced there given the state-level estimates are based on much smaller sample sizes. This has been reflected in the considerable volatility in the estimates of nonfarm employment within the Regions footprint, both within and across the individual states. Whether that is what we are now seeing, particularly in the data for Texas, or whether we are seeing something far less benign has yet to be determined, but our view is that it is the former not the latter.



As to the effects of Hurricane Beryl, it helps to note the following two points. First, Beryl struck the U.S. during the July survey period and left millions of people and countless businesses without power for an extended period, which would have impacted response rates to the establishment (nonfarm employment, hours, and earnings) and household (labor force, household employment, unemployment rate) surveys. Though the most severe impact was felt in Texas, parts of Arkansas, Louisiana, Kentucky, and Missouri were also impacted, suggesting at least some adverse effects on the labor market data for these states, even if by no means as pronounced as in the data for Texas. Second, in order to be counted as employed in the household survey, one need not be physically present at work at any time during the survey period but instead only report that they are employed, whereas in the establishment survey one must be physically present at work at some time during the survey period to be counted as employed in the measure of nonfarm payrolls. Though there is no detail on the state or metro area levels, the national data from the household survey show that 436,000 people did not work at all during the July survey period due to adverse weather, while another 1.079 million people who normally work full-time worked only part-time during the July survey period, far and away the highest July totals on record in the 48-year life of these metrics. At the same time,

the number of people reporting to be on “temporary layoff” rose by 249,000 in July, the largest monthly increase since the early stages of the pandemic, which entirely accounted for the unemployment rate rising from 4.1 percent in June to 4.3 percent in July.

The initial collection rate for the July establishment survey was only 57.4 percent, below the already-low response rates seen since the onset of the pandemic and the lowest July collection rate since 1991. The notably low July response rate likely reflects, at least to some extent, businesses in those areas impacted by Beryl not responding to the survey but, either way, that the initial collection rate was so low immediately compromises the initial estimates of nonfarm employment, hours, and earnings for July on the national, state, and metro area levels. Moreover, the weekly data on initial claims for unemployment insurance benefits show a pronounced spike in Texas in the weeks following Hurricane Beryl striking the state, suggesting that counts of nonfarm payrolls in the state were held down by the storm. This almost surely accounts for the reported decline in nonfarm payrolls in Texas in July. That there are no clear impacts on unemployment rates for those states impacted by Beryl goes to our point about someone not needing to be physically present at work to be counted as employed in the household survey, thus blunting any impact of the storm on measured unemployment rates. Any such effects would, however, be felt via those being placed on temporary layoff due to the storm, but there no state level cuts of this metric.

We know from the establishment survey data that, on a not seasonally adjusted basis, nonfarm employment tends to decline in the month of July; from 2000 through 2019, there is not a single instance either nationally or in any state within the Regions footprint of not seasonally adjusted employment rising in July. Okay, sure, unadjusted nonfarm employment in Florida was flat in July 2016, so there’s that . . . This is precisely the type of repetitive pattern seasonal adjustment is designed to account for, but this July saw larger than normal declines in unadjusted employment in Arkansas, Kentucky, Louisiana, Missouri, and Texas, again, suggesting at least some impact from Hurricane Beryl in that seasonal adjustment would not have fully accounted for these outsized declines. True, there were other states, including Alabama and Georgia, which also saw larger than normal July declines in unadjusted nonfarm payrolls, but these states nonetheless posted increases in seasonally adjusted counts of nonfarm payrolls.

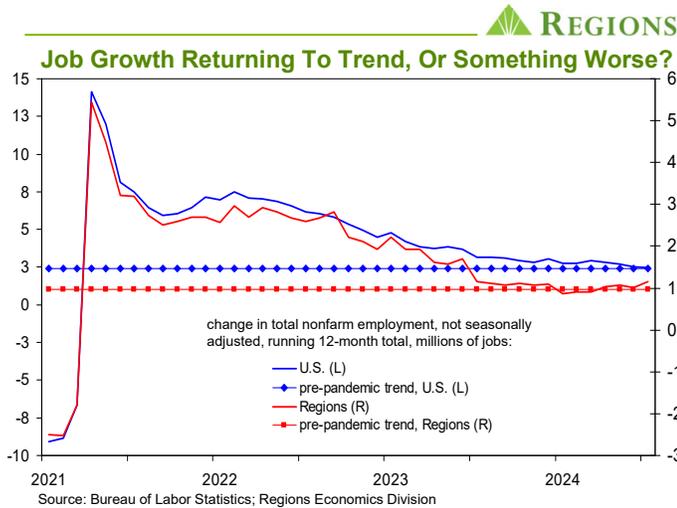
There are also timing issues which could have impacted the July estimates of nonfarm payrolls. First, the timing of the school year varies across states and from year-to-year within the individual states. It could be that a later end, i.e., after the June establishment survey period had ended, to the school year meant that the typical summer job losses did not turn up in the establishment survey data until the July survey, whereas seasonal adjustment is trained to account for these losses in the June data. That a number of states within the footprint saw declines in government sector employment, most notably Missouri, suggests this could have held down July job counts. In addition, over recent years the timing of what historically had been early-July shutdowns at motor vehicle production plants, in preparation for the turn in the model year, has been altered considerably by the effects of the pandemic, particularly global supply chain issues. It could be that seasonal adjustment around what used to be a stable seasonal pattern has been thrown off track, which could have contributed to widespread declines in manufacturing payrolls across the footprint in July.

We are not neglecting the reported decline in nonfarm payrolls in Texas in June. One thing we do see in the not seasonally adjusted data is a much smaller increase in payrolls in leisure and hospitality services than is typical for the state in the month of June. This turned into a decline in the seasonally adjusted data, a decline that almost entirely accounted for the 9,100 jobs decline in nonfarm payrolls. This same pattern, i.e., a smaller than typical June increase in not seasonally adjusted payrolls, was seen amongst other industry groups in Texas in June, which contributed to a smattering of declines in the seasonally adjusted data for the individual industry groups. The question then becomes why unadjusted job growth was weaker than normal across so many industry groups in June, but the answer to that question is not obvious. Texas has been amongst the top states in the nation in terms of job growth, but it could be that a slowing pace of economic activity, including consumer spending and residential and commercial construction, has impacted employment in transportation/warehousing/distribution, construction, and retail trade, while layoffs in the tech sector could be reflected in job losses in the information services sector in Texas. Clearly, any such effects would not be confined to Texas, but they could be felt more acutely in Texas given how rapid job growth has been in the state for so long. There is not, however, evidence in other labor market series, such as weekly claims for unemployment insurance and the JOLTS data on job vacancies, quits, hires, and layoffs, to suggest a pronounced and broad based weakening in labor market conditions in Texas.

Obviously, we will be watching all of these metrics carefully in the months ahead for signs of any such weakening, but, at present, there is little to support this premise. What does seem clear, however, is that the trend rate of job growth has for some time now been slowing, which is something we’ve pointed out in our write-ups of the national data and in these state-level updates. This deceleration in the trend rate of job growth is not surprising, as at some point the “catch-up” phase of hiring, i.e., firms filling back in the jobs shed during the early phases of the pandemic as the economy shut down, was bound to end. In most industry groups, two notable exceptions being health care and leisure and hospitality services, that point was reached some time ago and the pace of hiring has subsequently slowed considerably. Moreover, there are some industry groups, such as warehousing/delivery services and information services, in which many

firms took on workers too aggressively as the economy began to reopen, having over-estimated longer-term demand, and, as such, have been letting workers go over recent months. In addition to not being surprising, the slowing trend rate of job growth is not, at least to this point, concerning, given that it has been a slowing pace of hiring, as opposed to a rising pace of layoffs, that has led to slowing job growth – recall the monthly job growth number is a net number, i.e., the number of jobs added minus the number of jobs eliminated.

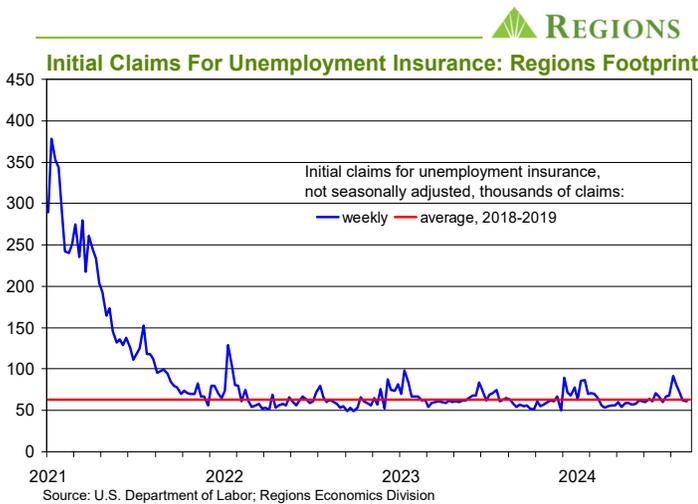
Moreover, the slowing trend rate of job growth leaves it right in line with pre-pandemic norms, both nationally and within the Regions footprint, as seen in the chart to the side.



We think the running twelve-month change in not seasonally adjusted nonfarm payrolls is a reliable gauge of the underlying trend rate of growth. The longer time horizon, as opposed to three or six months, allows for any noise in the raw data to be better smoothed out, while using the not seasonally adjusted data rids us from the effects of faulty seasonal adjustment, which we think has plagued much of the economic data since the onset of the pandemic. In the chart to the side, we use the average twelve-month change in job growth over the five years prior to the pandemic as our measure of the “pre-pandemic trend,” and for the past several months job growth has been more or less bumping along that pre-pandemic trend. This would be in keeping with our premise that we’re seeing the broader economy settle back toward

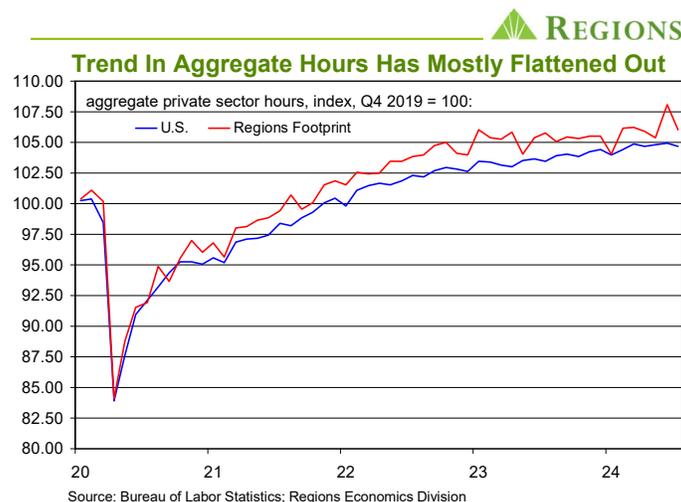
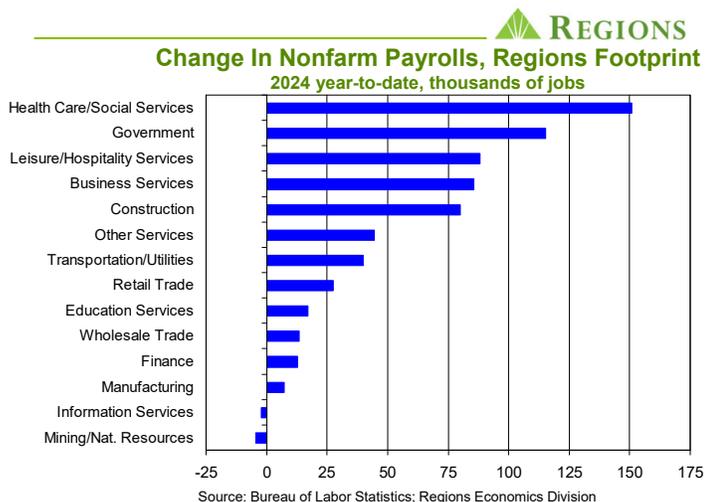
the trend rate of growth, i.e., real GDP growth around 2.0 percent, which prevailed over the decade prior to the pandemic. The question, of course, is whether overall economic growth and/or job growth will continue to slow and push below the pre-pandemic trend rates. Obviously there will be some variance around those longer-term trend rates, above and below, but we continue to see those longer-term trends as reasonable markers around which expectations for growth over coming quarters should be centered.

One important indicator to watch will be the weekly data on initial claims for unemployment insurance benefits, on a not seasonally adjusted basis. To be sure, there are seasonal patterns in the data, but seasonal adjustment has been somewhat spotty, as evidenced by the summer spikes seen in the seasonally adjusted data over the past few summers, spikes which have subsided in subsequent months. As the chart in the side shows, however, initial claims continue to hover right around the pre-pandemic average, which goes to our point about the lack, to this point of broad based and sustained layoffs. We will note that the spike in unadjusted claims over the final few observations in the chart to the side largely reflects the spikes in Texas due to Hurricane Beryl; over the final three weeks of July, weekly claims in Texas ran, on average, over twelve thousand higher than the several weeks prior to Beryl, and other impacted states saw similar, albeit smaller, increases. In the first week of August, however, initial claims for the footprint as a whole fell back below the pre-pandemic average.



One thing we have seen in the data that goes hand-in-hand with the slowing pace of hiring is that it is taking longer for those who do lose their job to find another job. One place that can be seen is in the slight upturn in continuing claims for unemployment insurance benefits. Recall that initial claims are a count of the number applying for benefits in a given week, while continuing claims are a count of the number of people actually receiving benefits in a given week. An upturn in continuing claims such as that seen of late is consistent with a slower pace of hiring and is also consistent with the unemployment rate having edged higher over recent months. One problem in trying to make a firmer connection between the series is that, at least in our view, it is hard to determine how much of the increase in the unemployment rate over recent months is due to cooling demand for labor and how much is no more than noise in the data. We have, in other forums, pointed to what we see as strange, and implausible, divergences in the household survey measure of employment along age and gender lines, and these divergences lead us to question the reliability of the household survey data. It is also worth noting

that barring a sustained increase in initial claims over coming weeks and months, it would be unlikely that continuing claims would continue to push higher, as opposed to leveling off.



There are two other points worth noting, in terms of potential downside risks to the labor market outlook. First, as has been the case nationally, job growth within the Regions footprint over the past several quarters has been heavily concentrated amongst three industry groups – health care, government, and leisure and hospitality services. These three industry groups have accounted for 52.5 percent of growth in total nonfarm employment within the Regions footprint thus far in 2024, after having accounted for 72.2 percent of all job growth in 2023. In one sense, this concentration is not overly concerning, as these industry groups were clear laggards in adding back jobs shed during the early phases of the pandemic. As hiring slowed, or payrolls were cut, in what previously had been the fastest growing industry groups, it makes sense that the previous laggards would account for a higher share of overall job growth. The danger, of course, is that a slowdown in hiring amongst any, let alone each, of these three industry groups will have an outsized impact on overall job growth, barring a reacceleration in the pace of hiring in other industry groups. That the pace of hiring amongst these three industry groups will slow seems more a matter of when rather than if, but the prospect of reacceleration in job growth elsewhere seems more remote, particularly in the context of an economy settling into a slower trend rate of growth.

The second chart above goes to a point we frequently make, which is that managing hours worked by current workers is a lever firms can, and do, utilize before adding to/trimming from current workforces. Firms are, after all, managing to total labor input, the two components of which are the number of workers and the number of hours they work. Growth in aggregate hours worked has slowed over recent months, reflecting not only a slowing pace of job growth but also diminished average weekly hours across many industry groups. The latter is the potentially concerning sign here, in that if firms become more downbeat on the prospects for growth in demand, there is a limit to which how much further they will cut hours worked before deciding that letting workers go is the more feasible option. This is clearly something to watch, and another reason why we’re attaching such significance to the weekly data on initial claims for unemployment insurance, which is the first place we’d see any such layoffs materialize in the data.

More noise in the data is never preferable to less noise in the data, particularly around potential cyclical turning points, but that is nonetheless what we find ourselves dealing with at present. Again, looking over a wide range of indicators, whether for the labor market or for the broader economy, helps and, again, on that basis we’ve seen little to suggest anything beyond the economy and the labor market settling back toward pre-pandemic trend rates of growth. 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 and metro area data on the labor market, the housing market, and personal income, updates which can be found at:

<https://www.regions.com/about-regions/economic-update>

or

<https://regions.sharepoint.com/sites/Finance/SitePages/Economic-Reports.aspx>