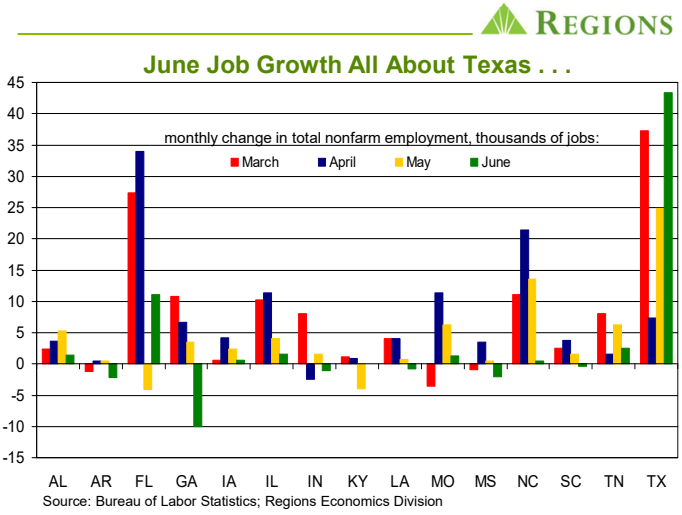
ECONOMIC UPDATE

REGIONS

July 29, 2026

June 2026 Nonfarm Employment: Regions Footprint

It is said that absence makes the heart grow fonder. It is also said that ignorance is bliss. We'll leave it up to each reader to decide whether either, both, or neither of the above apply here, but this seems a fitting place to start given how long it has been since we've put out one of these (what used to be monthly) updates of labor market conditions within the Regions footprint. It isn't that we suddenly decided this was no longer a topic worth discussing and, as such, stopped producing these updates, it was simply more a case of us not really having an idea what to say on this topic. Put differently, it's been some time since the state level labor market data made much, if any, sense to us and, as such, while we've obviously continued to monitor the data we decided that if we cannot process the data in a way that makes sense to us there was no way we'd be able to explain it to you. That we're offering an update now doesn't mean that the data suddenly make sense to us – a look at the chart below should put any such notion to rest – but we do think it worth at least providing an update at what the data have been showing over the past several months, with a greater emphasis on the longer-term trends in the data than on the latest monthly numbers.



As for the latest monthly numbers, total nonfarm payrolls within the Regions footprint rose by 45,800 jobs in June, with private sector payrolls up by 55,900 jobs and public sector payrolls down by 10,100 jobs. The initial estimate of job growth in May was revised down, with total nonfarm payrolls now reported to have risen by 62,800 jobs rather than by 71,100 jobs as first reported. Almost all of June's job growth within the footprint was accounted for by Texas; total nonfarm payrolls in Texas rose by 43,400 jobs in June with private sector payrolls up by 49,400 jobs. This means that the remaining fourteen states added a net 2,400 nonfarm jobs in June with a net increase of 6,500 private sector jobs, which we don't see as being all that plausible. To our earlier point about it having been a while since the state level data made much, if any, sense to us, we can say the same about the national level data, and that certainly applies to the June data.

As we've discussed elsewhere, the June employment report was suspect right off the bat as the initial collection rate to the BLS's June establishment survey, the basis of the BLS's estimates of nonfarm employment, hours, and earnings, was only 54.4 percent, well below already notably low post-pandemic averages and the lowest June rate since 1992. As we've pointed out many, actually far too many, times, low survey response rates diminish the reliability of the BLS's estimates as they leave larger gaps to be filled in by other methods. That is an even bigger issue on the state level, as the sample size in any given state is much smaller than on the national level, and even under the best circumstances, i.e., high survey response rates, there will be more play in the estimates of state level employment, hours, and earnings. This issue is even more pronounced on the metro area level, where sample sizes are smaller still than on the state level.

Another issue that has bedeviled the labor market data, and much of the broader economic data for that matter, in the post-pandemic period is faulty seasonal adjustment. As our regular readers are aware, our frustration with seasonal adjustment issues has led us to put greater emphasis on the patterns in the raw, or, not seasonally adjusted, data as a better guide to the state of the economy as opposed to the seasonally adjusted data. To some extent, seasonal adjustment issues contribute to the up and down patterns in monthly job growth depicted in the above chart, and that applies to the June data. In many of the states within the Regions footprint, not seasonally adjusted nonfarm payrolls outperformed what is typically seen in the month of June but, with the exception of Texas, that did not necessarily translate into the seasonally adjusted data. Keep in mind, however, that the low June establishment survey response rate means that the raw data are less reliable than the seasonal adjustment process is predicated on, so this effectively compounds the hurdles posed by low survey response rates.

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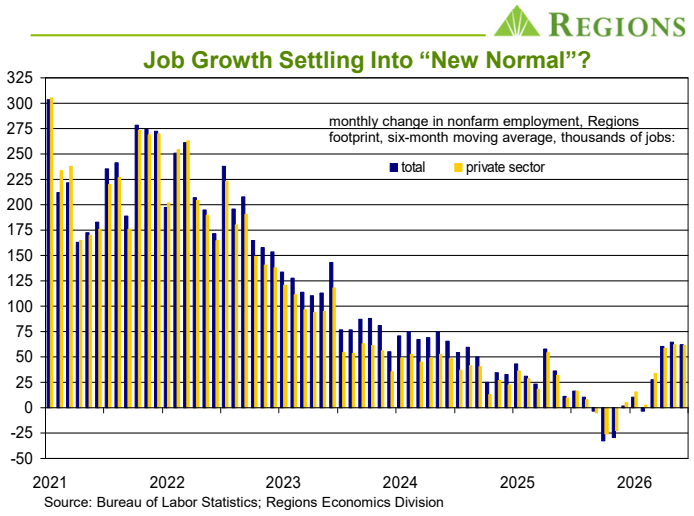
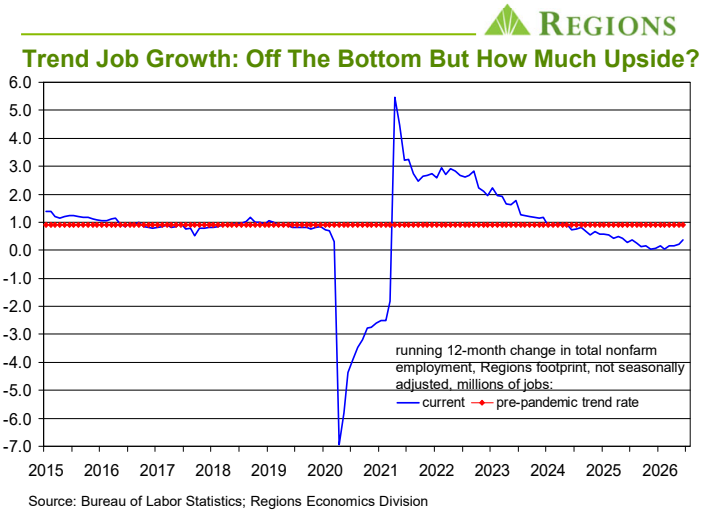
We think it likely that the low collection rate to the June establishment survey played a role in the state level results depicted in the above chart. Keep in mind, though, that firms have three chances to provide data to BLS for any given month, as each month's establishment survey gives firms the chance to provide revised/more complete data to BLS for the prior two months. In that sense, any collection and/or measurement issues in a given month can be rectified in subsequent months. Even so, the state level data still exhibit patterns, such as sharp changes in the rate of job growth or sudden directional changes, that seem at odds with other indicators of economic activity. To be sure, not all industry groups move in the same direction at the same speed at the same time, and patterns in any state's employment data will to a large degree reflect that state's industrial make-up, which will be reflected in differing patterns of job growth. That said, the patterns of monthly job growth across the individual states shown in the above chart seem more than a bit implausible.

Rolling the data from the individual states up into an aggregate for the Regions footprint and taking a longer-term view, in this case a six-month moving average, yields a more stable pattern of job growth. This does not, however, get us around issues stemming from the low response rates to the monthly establishment survey. Sampling issues and flaws in the methodologies employed by BLS to account for these issues don't tend to get resolved until the annual benchmarking process, when the results of the monthly surveys are benchmarked to the universe of payroll tax returns. Taking a longer-term view, however, does mitigate the issues stemming from faulty seasonal adjustment, particularly to the extent that seasonal adjustment issues in one period tend to be reversed, often in the next period. On a seasonally adjusted basis, total nonfarm payrolls for the footprint as a whole have risen by an average of 61,717 jobs per month over the past six months, with average private sector gains of 61,333 jobs per month. To our earlier point, however, there has been a wide variance in results over this span, with private sector payrolls falling by 60,000 jobs in February and rising by over 100,000 jobs in both March and April. It is worth noting that while the shares of job growth for the footprint as a whole over the past six months accounted for by Florida (21.4 percent) and Texas (35.2 percent) are in line with longer-term averages, there are significant variances in shares across many of the remaining states. This is not necessarily an indication of noise in the data and could simply reflect exposures to industry groups that have seen shifts in fortunes – warehousing and distribution services, information services, health care – but we are nonetheless at least a bit wary of some of these shifts. Again, this is something the annual benchmark revisions will help resolve.

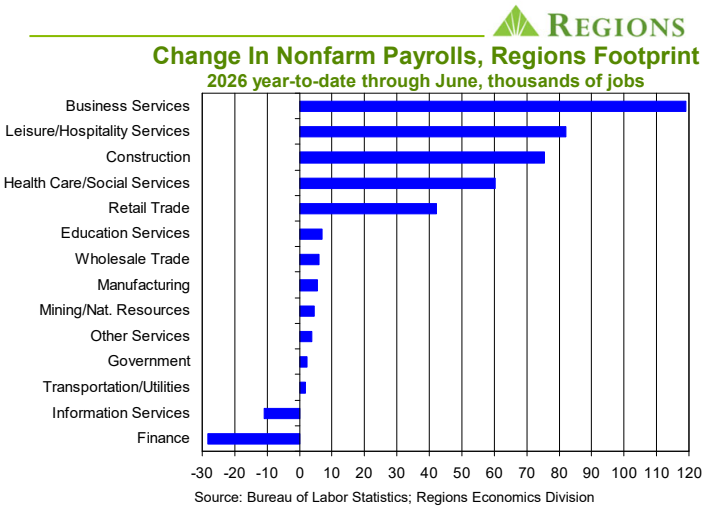


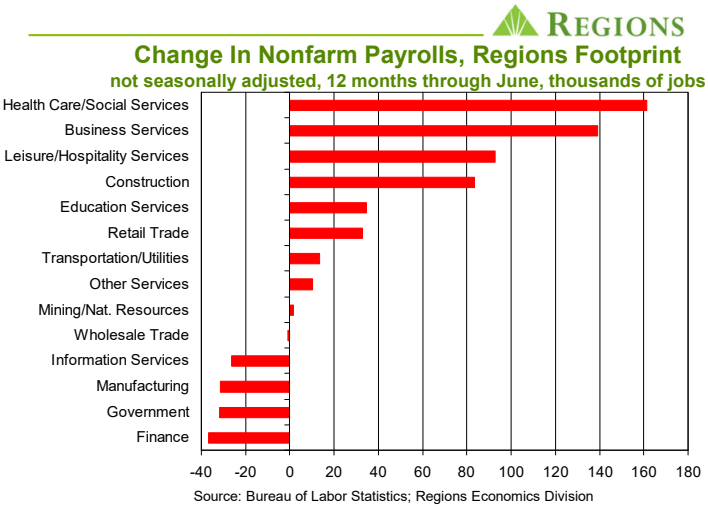


The chart to the side shows what to us is the most reliable gauge of job growth across the Regions footprint – the running twelve-month change in total nonfarm payrolls for the footprint as a whole. Over the twelve months ending in June 2026, total nonfarm payrolls within the footprint rose by 442,700 jobs on a not seasonally adjusted basis (by way of comparison, the seasonally adjusted data show an increase of 378,100 jobs over this span). This is the largest twelve-month increase since the period ending in May 2025 but, as can be seen, still leaves trend job growth well below the pre-pandemic trend rate.

Job growth within the footprint in the years leading up to the pandemic was notably stable, with an average annual rate of job growth at roughly 912,000 jobs. We do not, however, see that as a target or as a pace that is again sustainable for any length of time. One key reason is what is now a much slower pace of labor supply growth, reflecting a much more restrictive immigration policy coupled with long-running U.S. demographic trends. We think it too soon to know how much further upside there is for trend job growth. Between more restrictive immigration policy weighing on labor supply growth, significant changes in trade policy, a more uncertain policy environment, and firms in certain industry groups, such as warehousing and delivery services and information services, still recalibrating head counts after hiring coming out of the pandemic proved to be far too aggressive, job growth virtually ground to a halt by year-end 2025. Also working against job growth was that firms in certain

industry groups were likely testing the AI waters, though this could have been either choice, i.e., firms hoping to use AI to handle repetitive or lower-skill tasks, or necessity, i.e., firms seeking to use AI to make up for their inability to find/attract labor. Either way, though not at anything resembling a stable month-to-month pace, job growth does seem to have recovered thus far in 2026, but we do not see the pre-pandemic trend rate of job growth as being sustainable. Though there will be some of both, we continue to see AI as more labor augmenting than labor replacing, but we continue to see labor supply constraints as a key barrier to returning to the pre-pandemic trend rate of job growth on a sustainable basis.





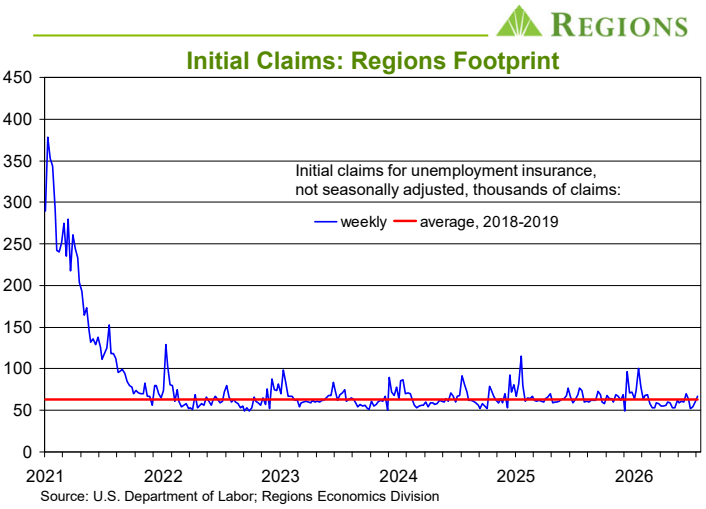
The charts above offer alternative views of the composition of job growth across the Regions footprint. The first shows the year-to-date change through June on a seasonally adjusted basis, while the second shows the change over the twelve months ending with June on a not seasonally adjusted basis. For the most part, the industry groups driving job growth are the same on each basis, though the order is a bit different. There are some differences worth noting, such as the different views of government payrolls. Keep in mind that the longer view of government payrolls includes the sharp cuts seen in the fall of 2025, whereas those cuts are not reflected in the year-to-date 2026 data, which show a modest rebound. Also, manufacturing payrolls are down sharply over the past twelve months but have more recently begun to recover, even if at a very slow pace, which is consistent with broader measures of manufacturing sector activity such as the ISM Manufacturing Index. Finance payrolls, however, have taken a beating no matter how you cut it, with the data showing job losses in each of the main segments – financial services, insurance, and real estate. There has been considerable discussion of financial services being one of the areas in which workers are most exposed to AI, and persistently weak housing market conditions can help account for the weakness in the real estate segment. Again, though, the data in both charts are still preliminary and subject to the annual benchmark revision process which, as we know, can lead to sharply different views than those offered in the preliminary data.

To one of our earlier points, comparing the running twelve-month changes in employment by industry based on the seasonally adjusted data to the changes based on the not seasonally adjusted data suggests that while seasonal adjustment issues are in some cases distorting the month-to-month changes, any such issues have mostly washed out over the full twelve-month period, as you'd expect to be the case. The two main exceptions are retail trade and business/professional services, where the running twelve-month changes on a seasonally adjusted basis are well smaller than the changes on a not seasonally adjusted basis, with gaps common across the individual states, which suggests the seasonally adjusted counts may be too low. Again, though, that still leaves us with potential sampling issues that impact the unadjusted data. For instance, the reported growth in construction payrolls, either on a year-to-date basis or on a rolling twelve-month basis, seems oddly strong. While data center construction is supporting employment across parts of the footprint, there is little else in the way of commercial construction activity that suggests rapid growth in payrolls at a time when even though homebuilders have scaled back single family housing starts, they continue to face labor supply issues, which to some extent reflects the impacts of changes in immigration policy. We also question whether actual hiring in retail trade has been as active as reported in the data. We won't know whether, or to what extent, we're correct on these points until the results of the annual benchmark revision process are published.

As the pace of job growth slowed to a crawl over the course of 2025, we stressed that the slowing pace of job growth was a function of a marked slowdown in the pace of hiring as opposed to a rising pace of layoffs, i.e., the "low hire-low fire" characterization of the labor market. Recall that the monthly job growth number is a net number, i.e., the difference between total hires and total separations (layoffs, discharges, retirements) in any given month. For quite some time we were able to affirm the "low hire-low fire" narrative with the data

from the Job Openings and Labor Turnover Survey (JOLTS), both nationally and on the state level within the Regions footprint. Earlier this year, however, BLS discontinued the monthly releases of the state level data, switching instead to an annual release. This likely reflects resource constraints at BLS that has led to data collection being curbed across an array of series, including the Consumer Price Index and the Producer Price Index. Last week BLS did release the annual 2025 state level JOLTS data, and while that release breaks down job openings, hires, layoffs, and quits – the JOLTS metrics we relied on the most – for each month of 2025, that does us little good in trying to assess current labor market conditions. To be sure, we and others have expressed reservations about the reliability of the JOLTS data in any given month, but we nonetheless did have more faith in the trends in the data.

That we no longer have the JOLTS data takes away a useful indicator of labor market conditions. The last state level JOLTS observations we did have affirmed the "low hire-low fire" narrative, as the data showed the rate at which firms were hiring fell to the lowest rate in more than a decade but at the same time showed the rate at which workers were being laid off was still below pre-pandemic norms. As a check on the JOLTS series on layoffs, we relied on the weekly data on initial claims for unemployment insurance, and our practice has been to match the current data against the average that prevailed over the two years prior to the pandemic, all based on the not seasonally adjusted data. The claims data showed what the JOLTS data showed, i.e., the rate of layoffs remaining below pre-pandemic norms. We still of course have the claims data, which for some time now we have referred to as the most important and timely indicator of labor market conditions at our disposal. While we no longer have the JOLTS data on gross hires on the state level, we do still have the national level data, from which we can infer changes on the state level, and the net job growth number in the monthly state level employment reports, though far from perfect, will be another source from which we can infer gross hiring trends. Hardly ideal, but, then again, even a full complement of state level labor market data was not exactly sending clear signals on the state of the labor market.



While we can find ways to work though much of the noise in the data from the establishment survey, the household survey data – the source of estimates of the size of the labor force, the level of household employment, and the unemployment rate, amongst other metrics – seem beyond redemption. As with the establishment survey, response rates to the household survey data have been declining over recent years, which again leaves BLS tasked with filling in the blanks. At the same time, upon the release of the Census Bureau's estimates of the components of 2025 population growth, we discussed why we thought Census had not fully captured the sharp decline in net international in-migration that took place over the course of 2025, which would imply that the current estimates of the size of the labor force are overstated. Either way, the size of the labor force is, as of June, over 1.1 million people smaller than it was in January on the national level and over 183,000 people smaller within the Regions footprint. The January-June decline in household employment within the footprint is even larger, which helps account for why the unemployment rate for the footprint as a whole, at 4.2 percent, is thirty basis points higher as of June than it was a year ago. The disparities in Florida (ninety basis points higher) and Illinois (seventy basis points higher) are even larger but, either way, it is hard to have much faith in any of the household survey data.

We get that not having timely reads on labor market conditions, at least timely reads that we can trust, is not all that satisfying but, trust us, any frustrations you may feel pale in comparison to the frustrations we feel. We think the best we can do is offer views of some of the longer-term trends in the establishment survey data, as we've done here. We can at least continue to rely on the weekly data on initial claims for unemployment insurance benefits, which is where we'd see the first signs of meaningful deterioration in labor market conditions. At the same time, should claims continue to bump along at low levels, a pick-up in net job growth would suggest the pace of hiring has picked up, though we'd have to carefully scour the details of the monthly establishment survey data before we were comfortable drawing that conclusion. We'll continue to provide periodic updates such as this, and while it could be that we'll get to a point where we have enough confidence in the data to go back to producing the regular monthly updates we used to provide, we're far from that point.

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