ECONOMIC UPDATE

REGIONS

January 2018

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2017 Nonfarm Employment: Regions Footprint

With the release of the December state level labor market data, we can put a wrap on 2017. At least for now. As with the data for the U.S. as a whole, the state (and metro area level) data on nonfarm employment are still subject to the annual benchmark revision process. As such, the 2017 data must still be considered as preliminary; the revised national data will be released on February 2, the revised state and metro area level data will be released on March 12. While we'll offer a more thorough discussion upon the release of the revised data, we think it worthwhile to summarize the main themes in the preliminary data. The preliminary data show that 2017 was another solid year for job growth for the Regions footprint but, as with any data series, looking at the performance of individual states or metro areas shows a considerable deal of variation across geographies. The labor market data are no exception to this general rule.

For those not familiar with how estimates of nonfarm employment are produced or the benchmark revision process, we offer a brief primer. The nonfarm employment data produced by the Bureau of Labor Statistics (BLS) are based on a survey (the "Establishment Survey") of approximately 147,000 businesses and government agencies across the U.S., which represent roughly 634,000 separate worksites throughout the nation. The primary metrics derived from the Establishment Survey are monthly estimates of employment, hours worked, and earnings on the national, state, and metro area levels, though the level of detail reported narrows as one moves down the geographic levels. Note that the unemployment rate is estimated from a separate survey of households. Over the course of any given year, response rates to the Establishment Survey vary from month to month, and the universe of firms changes as either new firms come into existence or established firms cease to exist, and these are sources of error in the monthly estimates. The annual benchmark revision process is intended to correct for any such errors. The benchmark adjustment is a once-a-year re-anchoring of the sample-based estimates to full population counts for the month of March in any given year, which mainly come from Unemployment Insurance tax records filed by employers with state labor market agencies. As a general rule, the benchmark revisions to the national level data do not result in significant changes in estimates of job counts, but as one goes down to the state level and then the metro area level, the magnitude of the benchmark revisions tends to increase, often significantly so on the metro area level. It is for this reason we are hesitant to draw too many conclusions from the preliminary data.

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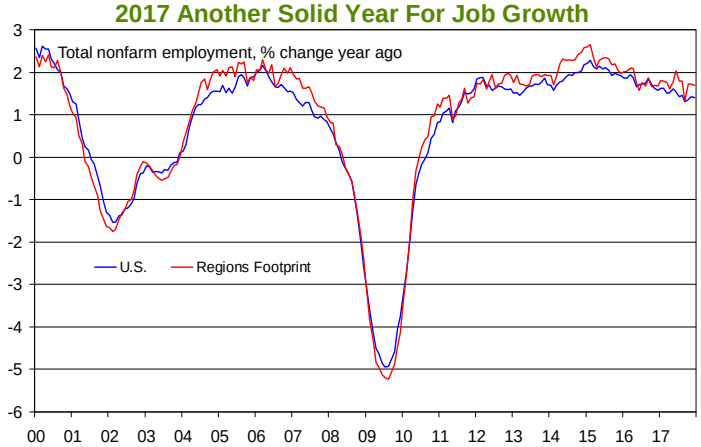
2017 Another Solid Year For Job Growth



Source: Bureau of Labor Statistics; Regions Economics Division

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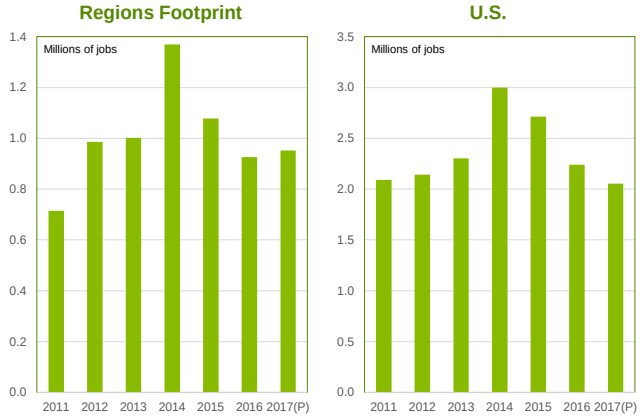
Annual Change In Total Nonfarm Employment



Source: Bureau of Labor Statistics; Regions Economics Division

The preliminary data show that for 2017 as a whole the Regions footprint added 952,000 jobs, ahead of the 926,200 jobs added in 2016. For the U.S. as a whole, nonfarm employment rose by 2.055 million jobs in 2017, a smaller gain than in 2016 when 2.240 million nonfarm jobs were added. In the Regions footprint, private sector payrolls rose by 885,200 jobs in 2017, a 50,000 job beat on private sector job growth in 2016, while public sector payrolls rose by 66,800, lagging 2016 growth by roughly 25,000 jobs. Of the 12 main private sector

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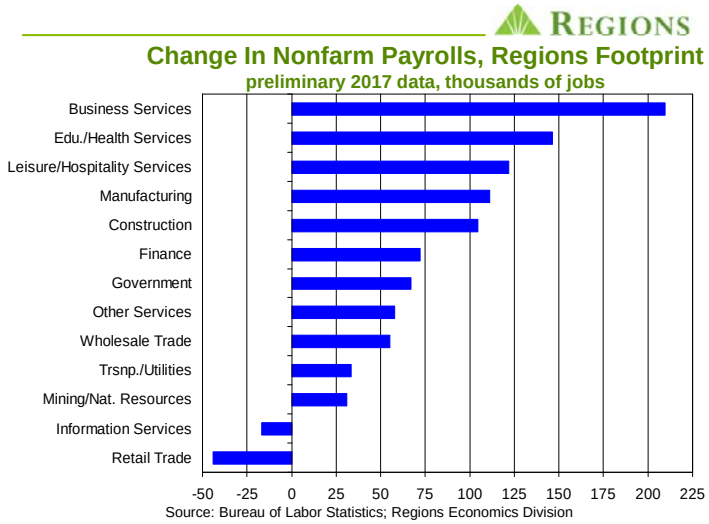
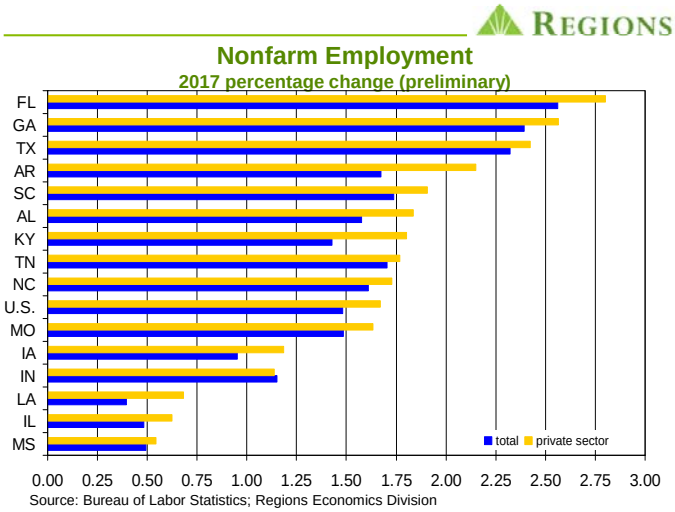


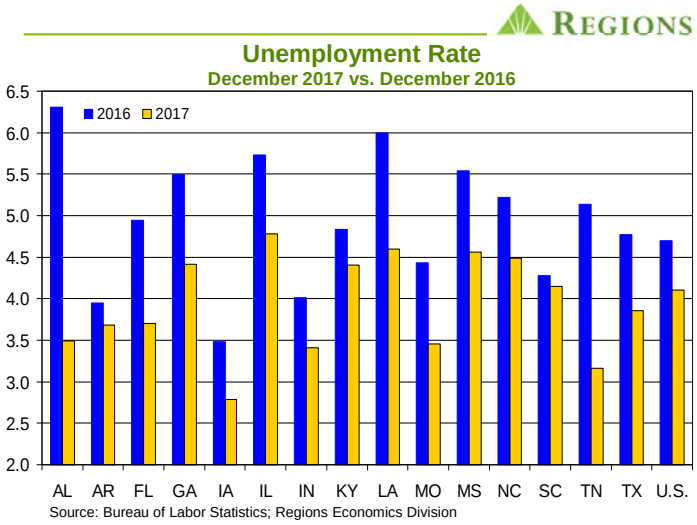
industry groups, 10 added jobs in 2017 for the footprint as a whole, led by business services (209,600 jobs), education & health services (146,400 jobs), and leisure & hospitality services (121,700 jobs). But, the goods producing industries made a much larger contribution to overall job growth in 2017 across the footprint, with manufacturing payrolls up by 111,100 jobs, construction payrolls up by 104,300 jobs, and mining & natural resources payrolls up by 30,900 jobs. Though relatively modest, the job gains in mining & natural resources follow the loss of 46,000 jobs in this sector in 2016 and the loss of 96,900 jobs in 2015, with job counts in this industry group obviously following energy prices up and down. To the downside, payrolls in retail trade fell by 44,200 jobs for the footprint as a whole in 2017 while payrolls in information services fell by 16,900 jobs based on the preliminary data.



As to the individual states, in the "so what else is new" category, Florida was once again the top state within the Regions footprint in terms of job growth, with the increase of 204,700 nonfarm jobs reflecting a 2.80 percent increase. Georgia came in second, with a 2.57 percent increase in total nonfarm employment (a gain of 76,200 jobs), and Texas rounded out the podium with a 2.42 percent increase (a gain of 269,500 jobs). Note that the chart to the side is sorted by growth in private sector employment, which doesn't change the top three spots but does shuffle the deck further down. For instance, Arkansas saw a 2.15 percent increase in private sector payrolls in 2017 according to the preliminary data, good for fourth in the Regions footprint, but government payrolls in the state declined in 2017, thus dragging down growth in total nonfarm employment – both South Carolina and Tennessee saw larger percentage increases in total nonfarm employment but each posted a smaller percentage increase in private sector payrolls than did Arkansas. It is worth pointing out that Louisiana saw both total and private sector employment rise in 2017. If, based on the chart, those gains don't seem all that impressive, consider they follow declines in both 2015 and 2016. Clearly Louisiana was hit hard by the downturn in the energy sector, but the state economy has at least stabilized. However, the rebound in the energy sector over the past few months has mainly lifted the fortunes of shale production while offshore exploration and production has not benefitted to the same degree, hence the more limited rebound in Louisiana's economy, in which energy plays a key role.

As noted earlier, while estimates of employment, hours worked, and earnings are derived from the Establishment Survey, the various labor force metrics, such as the civilian labor force, household employment, and the unemployment rate, are derived from a different survey. The federal government conducts a monthly survey – the Current Population Survey (CPS) – of roughly 60,000 households (the majority of households are surveyed in consecutive months, so the group of respondents does not refresh each and every month). While the scope of the survey goes far beyond labor force participation, this is one of the topics on which respondents are queried, and it is from the CPS (often referred to in this context as "the household survey") that estimates of the main labor force metrics, including the unemployment rate, are derived. We offer this explanation in part because we know that you're really, really eager to know but too reticent to ask, but more importantly to set up the following discussion of unemployment rates on the state level. As anyone who follows the data on the labor force and household employment on a month-to-month basis knows, the levels of these metrics tend to swing sharply, but the estimate of the unemployment rate tends to be more stable. At least on the national level. On the state level, reflecting what are much smaller sample sizes in any given state (and even smaller in any given metro area), not only do we tend to see sharp swings in the level of the labor force and the level of household employment from one month to the next, we often see sharp monthly swings in the unemployment rate. This is a useful point to keep in mind when assessing changes in reported unemployment rates on the state or metro area level over time, particularly since the unemployment rate is typically the only one of these metrics that people see.

The chart to the side illustrates our point here. To be sure, we like a falling unemployment rate just as much as anyone else does, but only if that falling unemployment rate comes about for the right reason. In other words, as we frequently point out, unemployment rates can fall for the right reason (i.e., healthy job growth) or for the wrong reason (i.e., falling labor force participation). What we saw in many of our states and metro areas in 2017 was a combination of the two – better job growth and worse labor force participation. Nowhere is this more pronounced than in Alabama, where the statewide unemployment rate fell from 6.3 percent in December 2016 to 3.5 percent in December 2017. While Alabama did indeed see better job growth in 2017 than in 2016, it also saw its labor force participation rate drop by 70 basis points from December 2016 to December 2017.



Source: Bureau of Labor Statistics; Regions Economics Division

By no means was 2017 the only year during this cycle in which falling participation skewed reported unemployment rates lower. While a detailed discussion of labor force participation patterns, and how they are skewing reported unemployment rates, lies beyond the scope of this piece, we do intend to follow up with exactly that discussion in the not too distant future. For now, we simply wanted to show how dramatically unemployment rates fell in many of our states in 2017 and to note – in honor of those who have chastised us for not sufficiently "celebrating" the lower unemployment rates – the role falling labor force participation played in these declines. For which we will no doubt be further chastised by the very same people. Whatever.

Finally, preliminary 2017 data on nonfarm employment are also now available on the metro area level (though metro area data from the household survey are not yet available). But, as with the national and state level data, the metro area data are still awaiting the annual benchmark revision process and we will again caution that the metro area data are prone to substantial revision. As such, we'll go no further at present that to show what, based on the preliminary data, are the 20 in-footprint metro areas posting the fastest growth in payroll employment in 2017 and the 20 in-footprint metro areas showing the slowest growth/outright declines in payroll employment.

As the benchmark revisions roll out on the state and metro area levels, we'll report back and provide a more thorough analysis of labor market patterns across the Regions footprint. For now, though, we thought this summary of the preliminary data would be of interest.

Total Nonfarm Employment, Regions Metro Areas
2017 percentage change (preliminary)

Top Twenty	% change	Bottom Twenty	% change
Auburn, AL	4.06	Knoxville, TN	0.34
North Port, FL	3.98	Bloomington, IN	0.31
Orlando, FL	3.47	Kingsport, TN-VA	0.29
Punta Gorda, FL	3.42	Cape Coral, FL	0.21
Cleveland, TN	3.37	Anniston, AL	0.20
Fayetteville, AR-MO	3.35	Jefferson City, MO	0.17
Dallas, TX	3.23	Longview, TX	0.05
Lakeland, FL	3.13	Champaign, IL	0.02
Gainesville, FL	3.10	Gulfport, MS	-0.02
Atlanta, GA	3.07	New Orleans, LA	-0.02
Nashville, TN	3.07	Mobile, AL	-0.11
Athens, GA	3.04	Peoria, IL	-0.28
Gainesville, GA	2.98	Waterloo, IA	-0.28
Iowa City, IA	2.94	Fort Smith, AR-OK	-0.39
Fort Lauderdale, FL	2.94	Decatur, IL	-0.50
Raleigh, NC	2.88	Alexandria, LA	-0.80
Wilmington, NC	2.78	Texarkana, TX-AR	-0.81
Kokomo, IN	2.76	Shreveport, LA	-1.32
Jacksonville, FL	2.76	Lafayette, LA	-1.39
Palm Bay, FL	2.76	Houma, LA	-3.42

Source: Bureau of Labor Statistics; Regions Economics Division

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