ECONOMIC UPDATE

REGIONS

January 2019

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2018 Nonfarm Employment: Regions Footprint

The Bureau of Labor Statistics (BLS) recently released the state-level labor market data for December 2018, meaning that we can put a wrap on the 2018 labor market data. At least for now. As with the data for the U.S. as a whole, the state level and metro area level data on nonfarm employment are still subject to the annual benchmark revision process. As such, the 2018 data must still be considered to be preliminary; the revised national data will be released on February 1, the revised state and metro area level data will be released the week of March 11. 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, with a net increase of better than 1.2 million jobs, 2018 was the best year of job growth for the Regions footprint as a whole since 2014. As is the case in any given year, there was considerable variation in rates of job growth across the individual states and metro areas within the footprint in 2018, but the pace of job growth picked up almost across the board on the state and metro area level. Moreover, job growth for both the U.S. as a whole and the Regions footprint remained strong through year-end 2018, suggesting the economy stepped into 2019 on solid footing.

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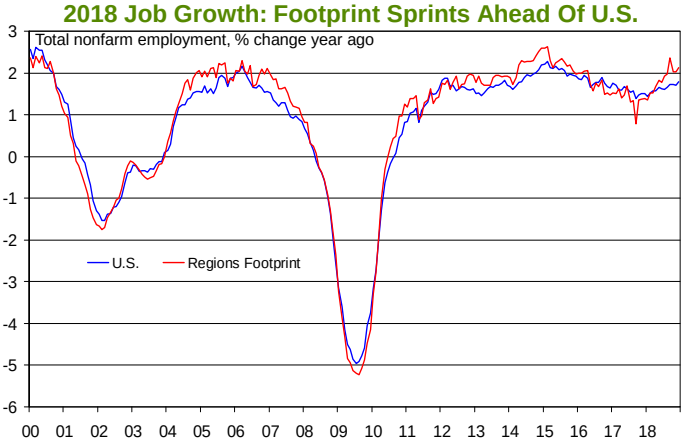
2018 Job Growth: Footprint Sprints Ahead Of U.S.



Source: Bureau of Labor Statistics; Regions Economics Division

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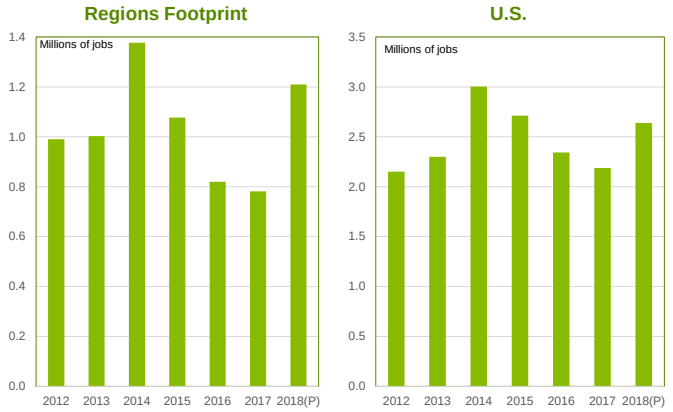
Annual Change In Total Nonfarm Employment



Source: Bureau of Labor Statistics; Regions Economics Division

For those not familiar with how estimates of nonfarm employment are produced or with the benchmark revision process, we offer a brief primer. The nonfarm employment data produced by the BLS are based on a survey (the "Establishment Survey") of approximately 147,000 businesses and government agencies across the U.S., which represent over 611,000 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 annual benchmark adjustment in any given year is a re-anchoring of the sample-based estimates to full population counts for the month of March of the prior 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 on the state level and are even more hesitant to do so on the metro area level.

The preliminary data show that the Regions footprint added 1.209 million jobs in 2018, ahead of the 782,400 jobs added in 2017. For the U.S. as a whole, the preliminary data show nonfarm employment rose by 2.638 million jobs in 2018 compared to a gain of 2.188 million jobs in 2017. According to the initial comments from the BLS, the magnitude of the benchmark revision to the initial estimate of

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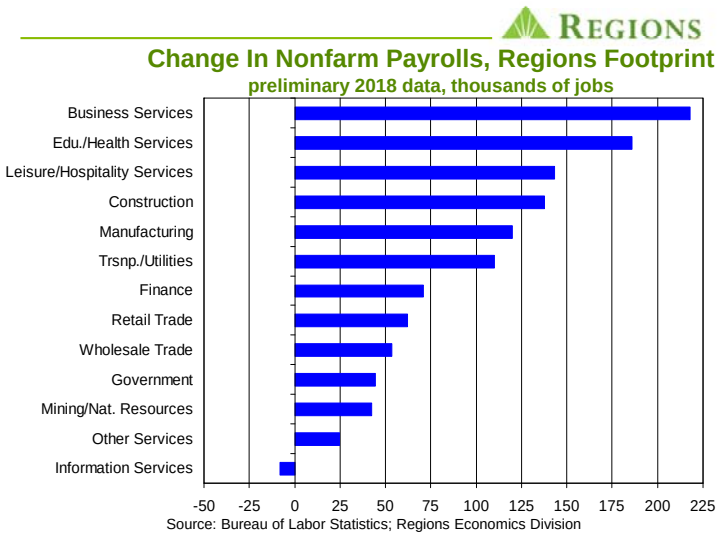
2018 job growth will be smaller than is normally the case, which leaves us comfortable in expecting that the final data will show 2018 job growth for the Regions footprint as a whole topped one million jobs. That said, a smaller than normal revision to overall job growth does not preclude material revisions in the composition of job growth across industry groups relative to the initial estimates. For instance, one thing that consistently stood out to us as we tracked the 2018 data on the national, state, and metro area levels is that job growth in retail trade seemed oddly resilient, while job growth in transportation, warehousing, and distribution seemed less exuberant than we would have expected. To be sure, we haven't joined the "all retail is going dark" fringe, but the reality is that shifting patterns of consumer spending favor faster job growth in transportation, warehousing, and distribution at the expense of job growth in retail trade. As such, while the preliminary data show that retail trade payrolls across the Regions footprint rose by 62,300 jobs in 2018, we expect the benchmark revisions to knock this number down but at the same time we expect an upward revision to the preliminary estimate of job growth in transportation, warehousing, and distribution.

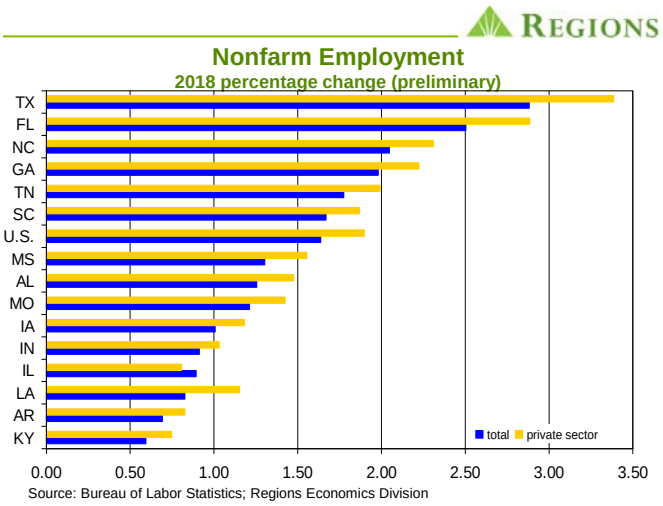


The chart to the side shows preliminary estimates of 2018 job growth across the major industry groups for the Regions footprint as a whole. As has been the case over recent years, business services and education & health services added the most jobs with leisure & hospitality services edging out construction for the final spot on the podium. But, keep in mind that business services (13.66 percent), education & health services (14.18 percent), and leisure & hospitality services (11.24 percent) account for the largest private sector industry shares of total nonfarm employment (government, at 15.12 percent, accounts for the largest block of nonfarm employment), so we would expect the levels of job gains in these industry groups to be amongst the largest. Construction, however, accounted for only 4.84 percent of total nonfarm employment for the footprint as a whole in 2018, making the addition of 137,500 jobs more impressive. That said, that the level of job growth in construction was so out of proportion to its relatively small share of total employment puts us on watch for a downward revision to the preliminary 2018 estimate.

Adding to the strength seen in construction in 2018, hiring in manufacturing and mining & natural resources was also robust in 2018. Across the Regions footprint, manufacturing payrolls rose by 119,900 jobs, while mining & natural resources payrolls rose by 42,300 jobs (reflecting a 9.8 percent increase, easily the largest percentage increase of any major industry group). These three industry groups – mining, construction, manufacturing – comprise the "goods producing" industries, and the preliminary data show the goods producing industries accounted for 26.1 percent of growth in total nonfarm employment in 2018, the highest share of the post-recession years and above the national share of 24.3 percent. Even if the preliminary estimate of job growth in construction is revised lower as we expect, the goods producing industry groups will likely still account for a higher share of total 2018 job growth in the Regions footprint than is the case for the U.S. as a whole.

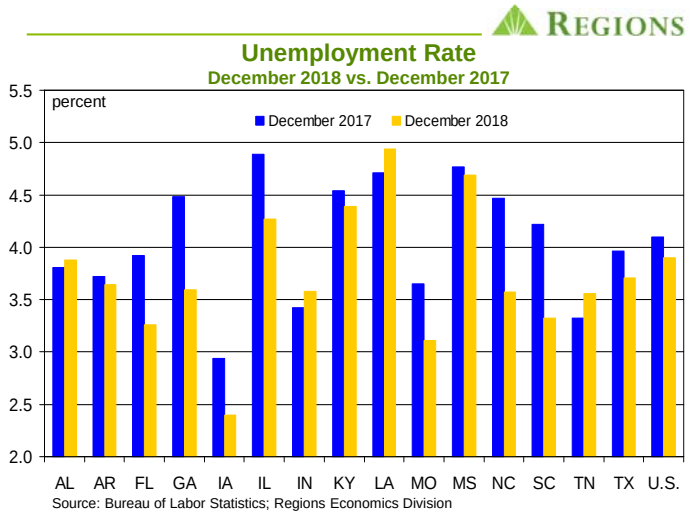
While the increase in employment in mining & natural resources within the footprint was heavily concentrated in Texas, where payrolls in this industry group rose by 41,300 jobs in 2018, the growth in manufacturing jobs was widely dispersed across the entire footprint. Manufacturing payrolls increased in each of the 15 in-footprint states in 2018, and of the group of 103 in-footprint metro areas we track monthly, manufacturing employment rose in 81 of the 92 metro areas for which detailed industry level data are available. The potential downside here, however, is that with economic growth both globally and within the U.S. expected to slow in 2019 and the pace of motor vehicle sales also expected to slow, the footprint's above-average exposure to manufacturing may mean this industry group transitions to a drag on overall job growth in 2019. With a loss of 8,300 jobs for the footprint as a whole, information services is the only major industry group to have shed jobs in 2018 (as was the case nationally). The weakness reported in the preliminary data for this industry group is a continuation of the weakness seen over the past few years, which tells us the revised data may not look all that much, if at all, better than the preliminary data.

To the surprise of absolutely no one (at least no one who has paid any attention at all over the past several years) Texas and Florida top the rankings of job growth across the individual states within the Regions footprint. Note the rankings are based on the percentage change in total nonfarm employment in 2018, not on the number of jobs added, as the sheer size of Florida and Texas gives them a built-in advantage in terms of level changes. The following chart shows the percentage changes in total nonfarm employment and in



private sector employment in 2018 for each state in the footprint, and in keeping with the "to the surprise of no one" theme, each state in the group we refer to as the "big six" posted faster growth in total nonfarm employment in 2018 than did the U.S. as a whole. These states – Florida, Georgia, North Carolina, South Carolina, Tennessee, and Texas – account for the bulk of all growth in population, employment, and income (amongst other metrics) within the Regions footprint, and growth in each state typically tops the national average. Note from the disparity between the gold and blue bars that, while government payrolls generally rose across the footprint in 2018 (with Florida, Kentucky, and Louisiana being the exceptions), growth in private sector job growth was much faster than public sector job growth, and this has been true over the course of the current expansion as state government employment in the footprint as a whole still remains below the peak seen prior to the 2007-09 recession. One notable outlier is Illinois, where the preliminary data show that job growth in the government sector accounted for better than one-third of growth in total nonfarm employment in 2018. This is in such stark contrast to the data over the past several years showing a net decline in public sector payrolls over the 2010-2017 period that we cast a suspicious eye on the preliminary data showing such a large increase in 2018, and a downward revision here seems highly likely.

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 entirely 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 compares the unemployment rate for each state in the Regions footprint and for the U.S. as a whole as of December 2018 and December 2017. The December 2018 rate is lower than the December 2017 rate for each state with the exceptions of Alabama and Louisiana. Alabama, however, simply illustrates a point we frequently make, i.e., the unemployment rate can fall for the "right" reason or for the "wrong" reason. The right reason being that job growth outpaces labor force growth, the wrong reason being slow growth/a contraction in the labor force. In contrast to recent years in which the state saw either middling growth or outright declines in its labor force while also seeing its unemployment rate fall sharply, Alabama saw robust labor force growth in 2018. As such, even though its gain in household employment in 2018 was the largest of the post-recession years, Alabama's unemployment rate stood higher in December 2018 than in December 2017. In contrast, Illinois barely saw any growth whatsoever in its labor force in 2018, which amplified the effects of better growth in household employment in 2018

than had been the case in recent years, thus yielding an exaggerated decline in the unemployment rate. Again, the data from the household survey are subject to revision, but our broader point remains the same – care must be taken in interpreting changes in the unemployment rate and a decline (increase) in the unemployment rate may not be as positive (negative) as the move itself implies. That is particularly true on the metro area level – we've more than once noted that while many metro areas across the U.S. have boasted of "record low" unemployment rates over the past year or so, in many cases these "record low" rates have come as a result of significant declines in either the size of the labor force or in labor force participation rates, declines which are seldom, if ever, mentioned in the headlines screaming about record low unemployment rates.

REGIONS

Total Nonfarm Employment, Regions Metro Areas
2018 percentage change (preliminary)

Top Twenty	% change	Bottom Twenty	% change
Kokomo, IN	4.36	Columbia, MO	0.53
Fort Walton Beach, FL	4.35	Columbia, SC	0.52
Gainesville, GA	4.15	Montgomery, AL	0.40
Orlando, FL	4.02	Alexandria, LA	0.38
Austin, TX	3.45	Hot Springs, AR	0.37
Dallas, TX	3.28	Albany, GA	0.37
Lafayette, IN	3.21	Savannah, GA	0.35
Houston, TX	3.17	Peoria, IL	0.25
Athens, GA	3.04	Gulfport-Biloxi, MS	0.20
Tyler, TX	3.03	Naples, FL	0.05
Huntsville, AL	3.00	Bloomington, IL	0.04
Raleigh-Cary, NC	2.96	Shreveport, LA	0.00
Lakeland, FL	2.92	Houma, LA	-0.04
Jacksonville, FL	2.77	Waterloo, IA	-0.06
Augusta, GA-SC	2.65	Lafayette, LA	-0.12
Charlotte, NC-SC	2.61	Jefferson City, MO	-0.19
Ocala, FL	2.58	Fort Smith, AR-OK	-0.24
Sarasota, FL	2.48	Johnson City, TN	-0.26
Chattanooga, TN-GA	2.48	Springfield, IL	-1.13
Fort Worth-Arlington, TX	2.44	Bloomington, IN	-2.71

Source: Bureau of Labor Statistics; Regions Economics Division

On the metro area level, the preliminary 2018 data from the establishment survey are available but the household survey data are not. As with the national and state level data, the preliminary 2018 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 2018 and the 20 in-footprint metro areas showing the slowest growth/outright declines in payroll employment. Once the revised metro area data are available in March, we'll go more into detail in terms of job growth and the composition of job growth across major industry groups in more detail. That said, the list of metro areas posting the fastest job growth tends to be heavy on Florida and Texas metro areas in particular and, to a lesser degree, metro areas located in the remaining members of the "big six." Additionally, interpreting these lists can at times be tricky in that, even though our rankings are based on the percentage change in nonfarm employment, in the smaller metro areas a move of just a few hundred jobs can yield outsized percentage changes, which in turn can cloud the rankings.

One metric we like to track is our Metro Area Employment Diffusion Index, which is a measure of the breadth of job growth across a group of 152 in-footprint metro areas. In order to remove some of the month-to-month volatility inherent in the series, we show the three-month moving average in the chart to the side. As seen in the chart, hiring remains fairly well dispersed across the footprint, though not to the degree seen in the expansion of the 1990s. One trait of the current expansion, particularly early on, is that there have been stretches during which one or more of the major industry groups has been out of synch with the others. Also, what has been a persistent drag on overall job growth from local and state government is felt more acutely on the metro area level. More broadly, economic activity has become somewhat more concentrated geographically in the post-recession years. Each of these factors has worked to hold down our measure of the breadth of employment growth across the Regions footprint.

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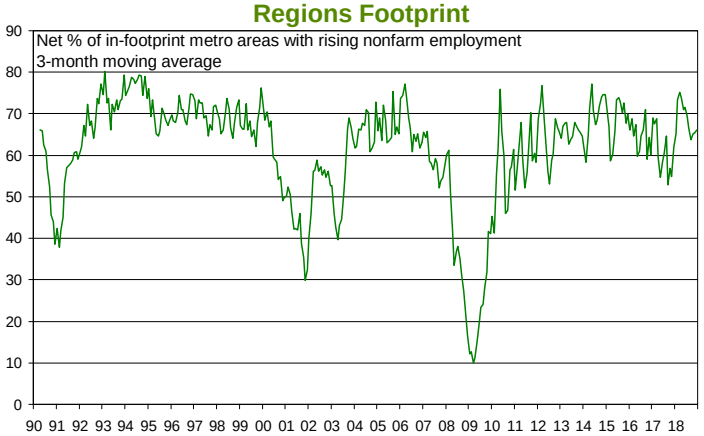
Metro Area Employment Diffusion Index: Regions Footprint



Source: Bureau of Labor Statistics; Regions Economics Division

Still, that hiring remains fairly well dispersed both geographically and across industry groups this deep into an economic expansion suggest that the current expansion has longer to run than one might infer from what of late has been a seemingly steady barrage of headlines warning us that recession is on the way. The employment data showing how disperse job growth remains suggest that there is still a way to go before we're at that point. Indeed, were we to seen a meaningful reduction in the number of industries and/or geographies carrying job growth, that would be, at least to us, a clear warning sign of an expansion on its last legs. In any event, 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.