ECONOMIC UPDATE

REGIONS

March 2018

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Regions Footprint: 2017 Benchmark Revisions, Nonfarm Employment Data

As is the case on the national level, the Bureau of Labor Statistics (BLS) publishes estimates of nonfarm employment on the state and metropolitan area levels, and these estimates are based on monthly surveys of businesses and government agencies. Each year, the BLS adjusts its sample estimates to universe counts of employment generated by Unemployment Insurance tax reports filed by virtually all private and public employers (the data cover employment, hours, and earnings). The revised estimates yielded by this process are typically referred to as the annual benchmark revisions, which for the national level data are released each February while the state level and metro area level data come later. In what follows, we summarize the results from the benchmark revisions to the 2017 data for the 15 states in the Regions footprint and also look at some of the notable revisions on the metro area level.

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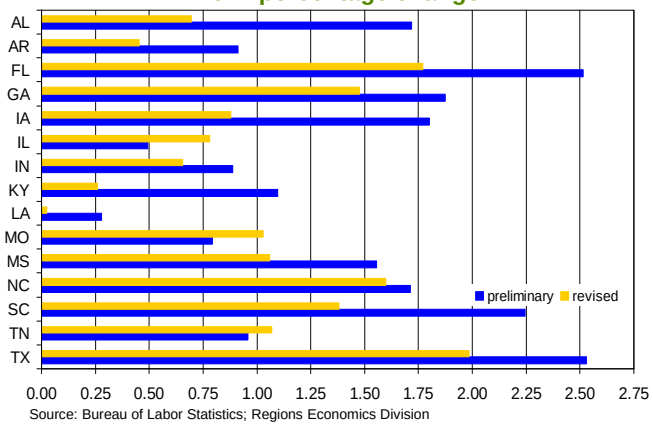
Nonfarm Employment, Regions Footprint
2017 percentage change



Source: Bureau of Labor Statistics; Regions Economics Division

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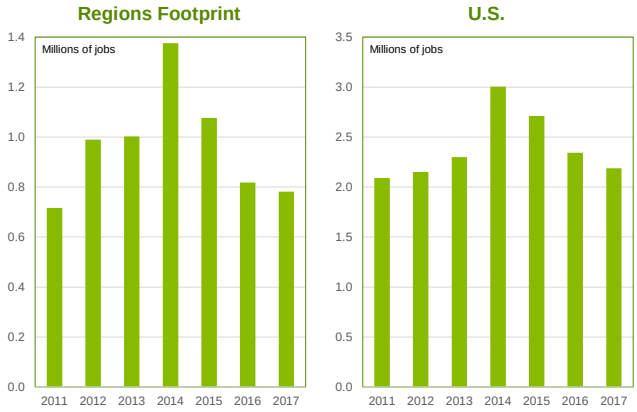
Annual Change In Total Nonfarm Employment



Source: Bureau of Labor Statistics; Regions Economics Division

The short version is that, unlike the past several years, the benchmark revisions to the preliminary 2017 data on nonfarm employment were not kind to the Regions footprint. Not only were the revisions larger than had been the case in recent years, they were also downward revisions rather than upward revisions. The preliminary data showed that for 2017 as a whole total nonfarm employment for the 15-state Regions footprint increased by 952,000 jobs; the revised data show total nonfarm employment increased by 782,400 jobs, or, 169,600 fewer than reported in the preliminary data. This amounts to a 0.30 percent revision using average 2017 employment as the base, whereas in 2016 the revision amounted to a 0.08 percent change. As seen in the first chart above, while the preliminary estimates of 2017 job growth were revised higher for Illinois, Missouri, and Tennessee, they were revised lower for each of the remaining 12 states. The net downward revision for the Regions footprint stands out even more given that for the U.S. as a whole the preliminary estimate of 2017 job growth was revised higher, though it was a modest revision equivalent to 0.09 percent of average 2017 employment.

As we often note, looking at the footprint as a whole masks what can at times be stark differences amongst the individual states, and the 2017 employment data are no exception to this general rule. For instance, preliminary data for Iowa showed total nonfarm employment rose by 28,300 jobs in 2017, but the revised data show a more sedate 11,800 job increase, which reflects a sizeable downward revision amounting to 1.05 percent of average 2017 employment, the largest such change – in either direction – of any state in the footprint. Alabama saw a downward revision amounting to 0.87 percent of average 2017 employment, as the 34,100 job increase in total nonfarm employment reported in the preliminary data is put at 16,600 jobs in the revised data. On a pure number of jobs basis, it comes as no surprise that Florida and Texas logged the largest revisions. The revised data show Florida added 163,900 net new nonfarm jobs in 2017, down from the 213,500 job increase reported in the preliminary data, with job growth in Texas now put at 249,800 jobs compared to the 306,900 job increase reported in the preliminary data. These downward revisions amount to 0.58 percent of average 2017 employment for Florida and 0.47 percent of average 2017 employment for Texas. This by no means is to say that 2017 was not a good year for job growth in the Regions footprint; it was, just not as good as reported in the preliminary data.

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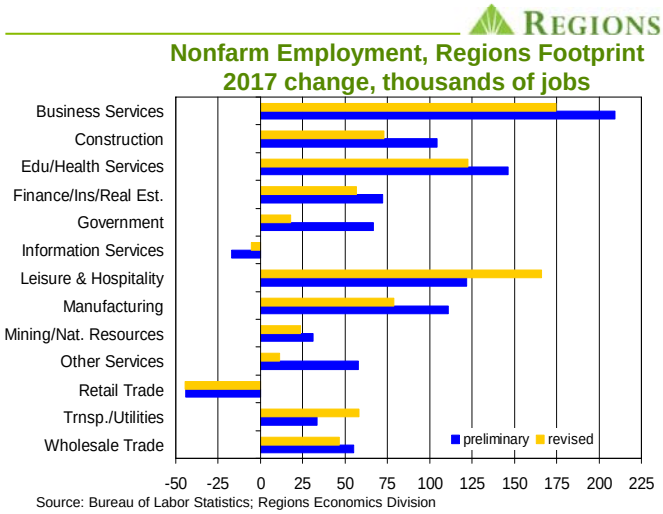
The benchmark revisions shuffled the deck in terms of the rankings of 2017 job growth within the Regions footprint. Whereas the preliminary data showed the order of the three fastest growing states as Florida, Georgia, and Texas, the revised data show the order as Texas, Florida, and North Carolina. On the other end of the spectrum, the revised data show Louisiana, Kentucky, and Arkansas posting the slowest 2017 job growth whereas the preliminary data put Louisiana, Illinois, and Missouri in the bottom three slots. What is more notable, however, is the extent to which the industry-level data were touched by the benchmark revisions. For instance, for the Regions footprint as a whole, the largest revision (on a number of jobs basis) came in the data on government employment. The preliminary data show that, for the 15 states as a whole, government payrolls increased by 66,800 jobs in 2017 but the revised data put this increase at only 17,800 jobs, for a downward revision of 49,000 jobs. The absolute value of the revision was also over 40,000 jobs in the other services industry group (a downward revision of 46,600 jobs) and leisure & hospitality services (an upward revision of 44,300 jobs), while the revisions topped 30,000 jobs in business and professional services (a downward revision of 35,000 jobs), manufacturing (a downward revision of 32,200 jobs) and construction (a downward revision of 31,200 jobs). As we suspected would be the case, there was an upward revision, of 24,700 jobs, to the preliminary estimate of job growth in the transportation and utilities industry group – it makes sense that the preliminary data would have missed a nontrivial share of job growth tied to rapidly changing patterns in consumer spending that are supporting job growth in warehousing and delivery operations.



Source: Bureau of Labor Statistics; Regions Economics Division

As seen in the chart to the side, even though the magnitude of the increase was smaller in the revised data, business services added more jobs across the Regions footprint in 2017 than any other industry group, followed by leisure & hospitality services, education & health services, and manufacturing. Conversely, employment in both retail trade and information services fell in 2017 for the footprint as a whole, while other services and government logged minimal job gains. Reflecting improved conditions in the energy sector, at least in the shale segment, payrolls in mining & natural resources increased by 23,700 jobs in 2017, which may seem a negligible gain but it comes after the loss of over 150,000 jobs in this industry group for 2015 and 2016 combined. Texas more than accounted for total job growth in this industry group in 2017, adding 24,600 jobs; Louisiana saw a further decline in employment in mining & natural resources in 2017, with a net decline of 1,200 jobs.

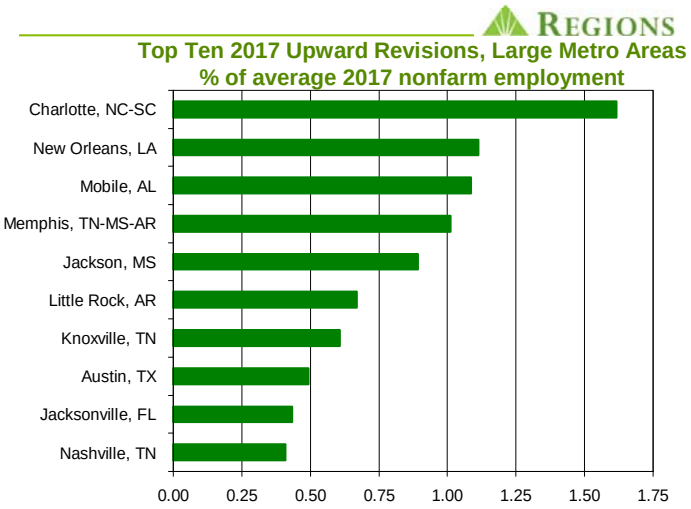
On the whole, the benchmark revisions bring the employment data more in line with what has been our narrative on underlying trends in the state economies across the Regions footprint. For instance, though residential and commercial construction activity picked up further in 2017, the job gains reported over the course of the year, i.e., prior to the benchmark revisions, seemed a bit on the high side to us, particularly with persistent reports of labor shortages. In that sense, that the revised data show 31,200 fewer construction jobs were added in 2017 than had initially been reported is more in line with other data on construction activity. Two states, Florida and Louisiana, accounted for the bulk of the downward revision in construction employment for the footprint as a whole. That the energy sector in Louisiana has been slower to recover and that employment in mining & natural resources was revised lower suggest most of the downward revision to construction payrolls came from commercial construction. In Florida, residential construction payrolls would have accounted for the bulk of the downward revision to the broader construction category. We'll note here that even with steady gains over the past few years, construction employment in Florida at year-end 2017 stood 172,800 jobs below the pre-recession peak.

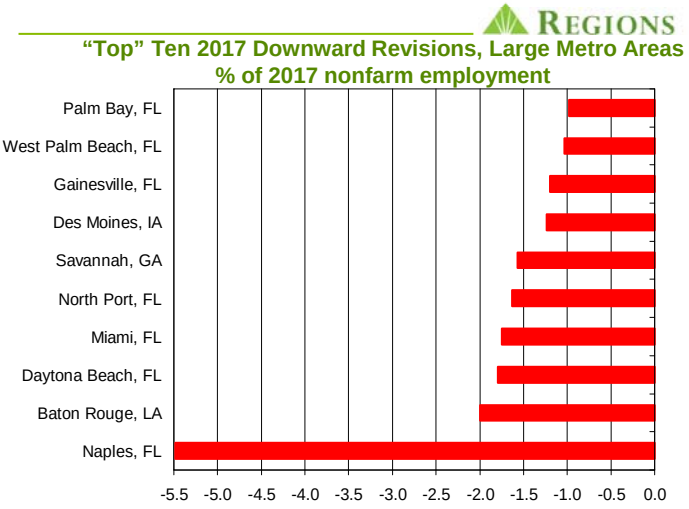
As another example, the upward revision to prior estimates of employment in transportation and warehousing are in line with the changing nature of consumer spending (note the aggregate national data also show a sizeable upward revision for this industry group). The increasing incidence of online shopping has sparked the development of distribution hubs across the U.S., and the Regions footprint for that matter, in order to facilitate faster and less costly distribution of goods ordered online. At the same time, however, the downward revision to prior estimates of retail trade employment was more modest than we had anticipated – the initial estimate of a 44,200 job decline in retail payrolls for the Regions footprint as a whole is reported as a 44,500 job decline in the revised data. We think it worth reiterating a point we have made elsewhere regarding how the changing nature of consumer spending is impacting the employment data. In the aggregated national data it is reasonable to expect higher employment in warehousing and delivery operations to largely offset lower employment in retail trade. Looking at any sub-national geography unit such as an individual state or an individual metro area, however, is likely to show a different outcome. Delivery hubs are more concentrated in areas with highly developed transportation

networks with capacity to expand, and while not necessarily in large population centers, the large population centers will be readily accessible from the distribution hubs. Job losses in retail trade, however, will be more geographically dispersed, so that any given metro area that experiences a loss of jobs in retail trade cannot simply expect to see this offset by warehousing/delivery jobs.

The industry level data also help explain the nature of the benchmark revisions and why we often see large revisions to individual industries and/or geographies on the state and metro area levels. As noted earlier, each year's preliminary estimates of job counts are benchmarked to the universe of payroll tax returns for the "reference month" which, in the case of the industry employment data, is March of the prior year. For instance, the monthly estimates we are getting during 2018 are benchmarked to the universe of payroll tax returns as of March 2017. In any given year, the further we get from the reference month the greater the room for sampling error as firms come into/go out of existence. The BLS does attempt to account for this by use of the "birth/death" model which, for the U.S. as a whole, tends to be only a modest source of error in its initial estimates. On the state or local level, however, there can be considerably more noise due to changes in the composition of firms, particularly when one or more industry groups is in the throes of a cyclical or structural change. As such, as the current estimates are pegged to the universe of firms as it existed in March 2017 it could be that there have been more significant changes in employment in industry groups such as retail trade and transportation/warehousing than are apparent in the monthly employment reports. This of course gives you reason to check back a year from now and read what will then be our latest summary of the benchmark revisions . . .

More generally, just as changes between initial estimates and benchmark revisions stemming from variances between the universe of firms and the sample pool will be more pronounced on the state level than on the national level, so too will be any such changes on the metro area level. For instance, the benchmark revisions to the preliminary 2017 employment data for the group of 103 in-footprint metro areas which we routinely track amounted to 0.16 percent of average 2017 employment. Like the state level data, the revision to the metro area data was downward, i.e., fewer jobs were created than initially estimated, but unlike the state level data, the magnitude of the revisions to the metro area data was smaller than was the case last year when the revision amounted to 0.29 percent of average 2016 employment.





Preliminary estimates of job growth were revised down by 76,500 jobs in the East region (or, 0.47 percent of average 2017 employment), up by 8,700 jobs in the Mid-America region (or, 0.04 percent of average 2017 employment), and up by 4,200 jobs in the South region (or, 0.11 percent of average 2017 employment). Keep in mind, however, that the seemingly small revisions for the Mid-America and South regions can mask sizeable, but largely offsetting, revisions in the individual metro areas within these broader regions. The charts above show those metro areas with the most significant revisions, upward and downward, to the preliminary estimates of 2017 job growth. Note that here we limit our sample pool to the larger metro areas, i.e., those with higher levels of employment, as in smaller markets it can take a revision as small as a couple hundred jobs to constitute a "large" revision when the revisions are measured against the average level of employment. That the chart showing the largest downward revisions is heavily represented by Florida is consistent with the magnitude of the downward revision of the initial estimate of job growth for the state as a whole.

Finally, the Crestview, FL MSA posted the fastest job growth of our group of 103 metro areas, with total nonfarm rising by 4.56 percent. To illustrate our point about the often sizeable revisions to the preliminary data on the metro area level, of the 20 in-footprint metro areas which posted the most rapid job growth in 2017, only eight would have been on the same list based on the preliminary data. The

same is true at the other end of the spectrum, as only eight of the 20 areas posting the slowest job growth (more specifically, the largest declines) in nonfarm employment in 2017 based on the revised data would have been on the same list based on the preliminary data.

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Total Nonfarm Employment, Regions Metro Areas 2017 Percentage Change			
Top Twenty	% change	Bottom Twenty	% change
Crestview, FL	4.56	Kingsport, TN-VA	-0.25
Gainesville, GA	3.51	Johnson City, TN	-0.25
Austin, TX	3.21	Monroe, LA	-0.25
Charlotte, NC-SC	3.18	Palm Bay, FL	-0.28
Orlando, FL	3.10	Dothan, AL	-0.34
Jacksonville, FL	3.00	Ocala, FL	-0.39
Augusta, GA-SC	2.87	Lafayette, LA	-0.40
Spartanburg, SC	2.86	Waterloo, IA	-0.55
Hattiesburg, MS	2.85	Clarksville, TN-KY	-0.56
Kokomo, IN	2.66	Macon, GA	-0.58
Panama City, FL	2.63	Columbia, SC	-0.70
Evansville, IN-KY	2.51	Valdosta, GA	-0.71
Huntsville, AL	2.45	Houma, LA	-0.81
Fayetteville, AR-MO	2.40	Shreveport, LA	-0.94
Lakeland, FL	2.39	Bloomington, IN	-1.06
Dallas, TX	2.32	Terre Haute, IN	-1.12
Fort Worth, TX	2.30	Jefferson City, MO	-1.16
Jonesboro, AR	2.30	Fort Smith, AR-OK	-1.41
Chattanooga, TN-GA	2.21	Springfield, IL	-2.09
Nashville, TN	2.21	Naples, FL	-2.56

Source: Bureau of Labor Statistics; Regions Economics Division

This does help account for why we caution against drawing broad conclusions from changes in the metro area level data over any given time period. By nature, the reliability of the estimates for any data series, in this instance nonfarm employment, diminishes as one moves down geography levels, i.e.., from the national level to the state level to the metro area level to the county level. This simply reflects the nature of how these estimates are produced as well as the reality that sample size becomes a more pressing issue the smaller the geographic unit. The benchmarked data, however, are more reliable given that they account for the entire pool of employers, not simply a sample that is augmented by modeling. The drawback, however, is that the benchmark data come but once a year, so in the interim the less reliable monthly estimates are what we have to go on.

This is by no means to say these monthly estimates are of no value, but instead that they must be taken in proper context and anyone using them should be mindful of the potential for significant revision. Our monthly updates track each of the 103 metro areas (available here: http://lifeatregions/Finance/MonthlyEconomicReports.rf or here: https://www.regions.com/about_regions/economic_update.rf) included in this analysis. After the discussion of what are often large revisions to the metro area data, however, it is clear that getting an accurate sense of how a given metro area is performing based on the initial estimates of the data is sometimes difficult, particularly with the smaller metro areas. This makes it more important to rely on the body of data for a given market, as opposed to only one or two "main" data series, in order to make any such assessments.

Regardless of the specific ranking of a given metro area, there are some common characteristics amongst those markets putting up the strongest job growth, just as there are common traits amongst those markets in which job growth is lagging. For instance, we'll cite our oft-repeated rule of thumb that the larger, more economically diversified metro areas with favorable demographic trends are the areas which drive most of the growth we seen in our footprint. Those characteristics hold for many of the Florida and Texas metro areas, while Atlanta, Charlotte, Nashville, and Raleigh are amongst others that stand out as such markets.

Conversely, the smaller, less economically diverse metro areas with less favorable demographic trends tend to fare more poorly over time, and this is reflected in the bottom-20 list. Many of the Louisiana metro areas have been highly dependent on energy over recent years and have very low degrees of economic diversity. As such, their economies rise and fall along with energy prices but, during the down times, job losses and income shortfalls that may originate in the energy sector end up spreading through the broader economy in the form of diminished demand for goods and services. Other markets in this group suffered the same fate, i.e., the demise of a dominant employer/industry, typically related to manufacturing, and have yet to fill in the gap. Another way in which downturns that start in a specific segment of the economy perpetuate themselves is demographics, as long-term unemployed eventually look elsewhere for work as do younger residents preparing to enter the labor force for the first time.