# ECONOMIC UPDATE

REGIONS

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## Regions Footprint: 2016 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 2016 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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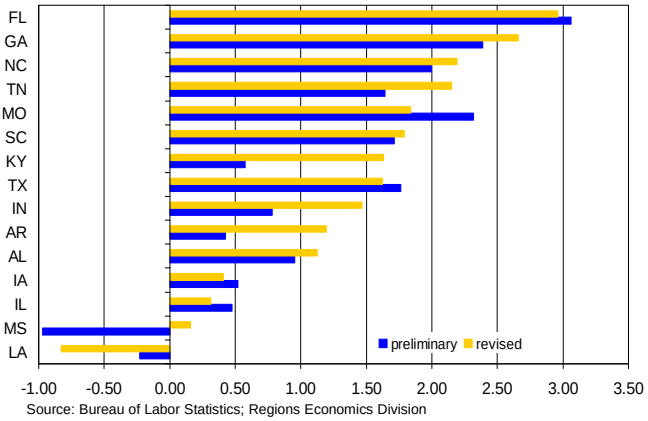
**Nonfarm Employment, Regions Footprint**
**2016 percentage change**




Source: Bureau of Labor Statistics; Regions Economics Division

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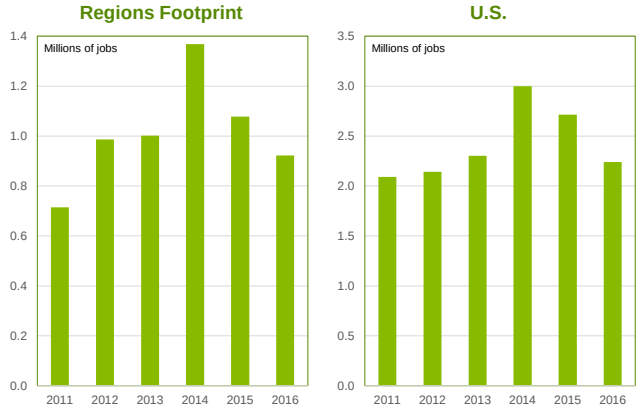
**Annual Change In Total Nonfarm Employment**



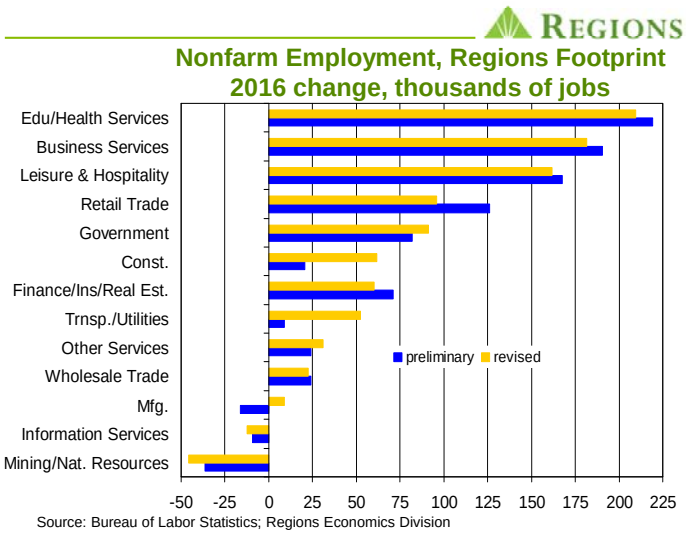

Source: Bureau of Labor Statistics; Regions Economics Division

For the Regions footprint as a whole, the story of the 2016 benchmark revisions is that there really isn't a story. Revised data show the 15-state footprint added 921,500 jobs in 2016, an increase of 43,500 jobs from the initial estimate of 878,000 net new jobs. This works out to an upward revision of 0.08 percent of average 2016 employment, a notably small adjustment – the net upward revision to the preliminary 2015 data was equivalent to 0.27 percent of average 2015 employment. As a further reference point, nationally, the upward revision to the preliminary estimate of 2016 job growth was equivalent to 0.06 percent of average 2016 employment. For the footprint as a whole, 2016 ended a three-year run of annual job growth in excess of one million jobs, but the deceleration in job growth within the footprint is consistent with that seen nationally and indeed is common in the latter stages of a business cycle.

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 2016 employment data are no exception to this general rule. For instance, preliminary data for Mississippi showed an over 11,000 job decline in total nonfarm employment in 2016 whereas the revised data show an increase of 1,800 jobs, a modest increase to be sure but one that reflects a sizeable upward revision – 1.13 percent of average 2016 employment – to the preliminary data. Louisiana also saw a sizeable revision to the preliminary data, but this time the revision went in the opposite direction with an initial estimate of a 4,600 job decline in nonfarm employment now reported as a 16,500 job decline. As far as the remainder of the footprint, Arkansas, Indiana, and Kentucky saw fairly large upward revisions to preliminary estimates of 2016 job growth, but downward revisions in Florida, Missouri, and Texas helped even out the score and the net result for the footprint as a whole was an only minor upward revision. The revisions did not change Florida's standing as having posted the fastest job growth in the footprint in 2016 nor Georgia's runner-up finish, and while Louisiana and Mississippi still finish at the other end of the spectrum, their order was flipped in the revised data.

Just as the relatively small net revision to job growth for the Regions footprint masks larger shifts amongst individual states, it also masks what were some large revisions across individual industry groups. Preliminary estimates for 2016 job gains were revised higher by over

40,000 jobs in both the construction and transportation & utilities industry groups, while manufacturing payrolls were revised higher by over 25,000 jobs. Conversely, preliminary estimates of job growth in retail trade were revised lower over 30,000 jobs, with the finance, health care, mining & natural resources, and business services industry groups all seeing sizeable downward revisions.




The revisions did not, however, alter the relative rankings of job gains by industry, as seen in the chart to the side. In other words, both the preliminary and revised data show the education & health services, business services, leisure & hospitality services, and retail trade industry groups added the most jobs in the footprint in 2016. The bottom three industry groups are also unchanged, with mining & natural resources and information services seeing job losses in 2016 and manufacturing posting only a modest gain, but as noted above this is a considerable improvement over the sizeable decline in manufacturing payrolls reported in the preliminary data.

Texas saw large revisions to preliminary estimates of 2016 job growth in a number of industry groups. For instance, construction (+17,200 jobs) and transportation & utilities (+22,700 jobs) saw sizeable upward revisions, while retail trade (-22,600 jobs) and education & health services (-22,600) saw sizeable downward to initial estimates of job growth. The net downward revision to Florida's 2016 job growth is more than accounted for by leisure & hospitality services, for which payrolls were reported to have risen by 53,100 jobs in the preliminary data while the revised data show a gain of 333,600 jobs. Conversely, revised data show Florida added 31,600 construction jobs in 2016, or, 9,300 more than reported in the preliminary data.

The revised industry level data are more aligned with what has been our narrative of the Regions footprint than was the case with the preliminary data. For instance, despite what was a rough 2016 for the manufacturing sector as a whole, one standout within this industry group was motor vehicle production, which is a key component of the manufacturing sector within the footprint. As such, the decline in manufacturing payrolls reported in the preliminary 2016 data seemed curious. Also, given the extent to which residential construction activity, as reflected in the data on housing permits, in Florida, Georgia, the Carolinas, and Texas increased over the course of 2016 the increase in construction employment reported in the payroll data seemed on the small side but the larger increase reported in the revised data seems more fitting.

The industry 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 2017 are benchmarked to the universe of payroll tax returns as of March 2016. 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.

For instance, the precipitous and sustained decline in energy prices during 2015 led many firms in the mining & natural resources group to go out of business, and related firms (energy services, manufacturing of energy related machinery/equipment and parts, . . .) also came under a significant degree of pressure. To the extent firms in these industry groups did not survive, their exits would not have been reflected in a sample based on March 2015 payroll tax returns, and as a result job losses in these industry groups would have been understated in the preliminary data. The benchmark revisions, tied to payroll tax returns as of March 2016, however, would have captured these firm exits, as evidenced in the downward revision to 2016 job counts in mining & natural resources in the Regions footprint. Retail trade is another such example, with many retailers going bankrupt and others paring back on the number of physical stores. As such, thee preliminary data would not have fully captured this changing retail landscape but the benchmark revisions would. Conversely, after a few years of steady, if slow, acceleration in the pace of single family home construction, it could be that new firms, perhaps mostly in the form of smaller firms with more localized market reach, have been drawn into the industry but would not have been captured until the establishment surveys were benchmarked to the March 2016 payroll tax returns. As such, it makes sense that the preliminary

estimates for 2016 job growth in the construction industry were revised higher, particularly in those states with faster-growing populations where the demand for housing would be rising at a faster pace.

Just as these changes stemming from variances between the universe of firms and the sample pool will be less noticeable on the national level than on the state level, they will be less noticeable on the state level than on the metropolitan area level. As a result, the magnitude of benchmark revisions, whether positive or negative in direction, will tend to be larger on the metro area level than on either the state or national levels. This was indeed the case with the 2016 benchmark revisions, which resulted to an upward revision equivalent to 0.29 percent of average 2016 employment for the group of 103 in-footprint metro areas which we routinely track. Preliminary estimates of job growth were revised up by 90,199 jobs in the East region (or, 0.56 percent of average 2016 employment), up by 43,923 jobs in the Mid-America region (or, 0.22 percent of average 2016 employment), and down by 17,440 jobs in the South region (or, 0.48 percent of average 2016 employment).

Amongst individual metro areas, the Kokomo, IN MSA saw the largest upward revision to the preliminary estimate of 2016 job growth, equivalent to 3.36 percent of average 2016 employment, while the Cleveland, TN MSA saw the largest downward revision, equivalent to 6.68 percent of average 2016 employment. That said, these are two of the smaller metro areas within the footprint – the upward revision to the preliminary estimate for Kokomo reflects an upward revision of 1,397 jobs. Amongst the larger metro areas, Tampa, Austin, Raleigh, West Palm Beach, Chattanooga, Fayetteville, AR, and Palm Bay saw significant upward revisions when measured as a percentage of average 2016 employment. Conversely, St. Louis, Baton Rouge, Fort Lauderdale, Orlando, and New Orleans saw significant downward revisions – Fort Lauderdale and Orlando still posted rapid job growth, just not as rapid as reported in the preliminary data.

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| Total Nonfarm Employment, Regions Metro Areas | | | | |
|---|---|---|---|---|
| 2016 Percentage Change | | | | |
| Top Twenty | % change | | Bottom Twenty | % change |
| Palm Bay, FL | 4.87 | | New Orleans, LA | 0.26 |
| Kokomo, IN | 4.70 | | Columbia, MO | 0.20 |
| Dallas, TX | 4.47 | | Johnson City, TN | 0.13 |
| Ocala, FL | 4.35 | | Hattiesburg, MS | 0.00 |
| North Port, FL | 4.23 | | Hot Springs, AR | 0.00 |
| Tallahassee, FL | 4.15 | | Waterloo, IA | 0.00 |
| Nashville, TN | 4.04 | | Kingsport, TN-VA | -0.16 |
| Punta Gorda, FL | 3.87 | | Cleveland, TN | -0.21 |
| Lakeland, FL | 3.80 | | Anniston, AL | -0.22 |
| Austin, TX | 3.71 | | Gulfport, MS | -0.77 |
| Atlanta, GA | 3.55 | | Decatur, AL | -0.93 |
| Charlotte, NC-SC | 3.46 | | Baton Rouge, LA | -0.93 |
| Orlando, FL | 3.42 | | Bloomington, IL | -1.38 |
| Tampa, FL | 3.34 | | Decatur, IL | -1.54 |
| Raleigh, NC | 3.31 | | Alexandria, LA | -1.73 |
| Daytona Beach, FL | 3.28 | | Shreveport, LA | -1.75 |
| Gainesville, GA | 3.26 | | Longview, TX | -2.03 |
| Spartanburg, SC | 3.19 | | Peoria, IL | -2.08 |
| Charleston, SC | 3.11 | | Lafayette, LA | -5.22 |
| West Palm Beach, FL | 3.10 | | Houma, LA | -7.07 |
| Source: Bureau of Labor Statistics; Regions Economics Division | | | | |

As is no surprise given Florida posted the most rapid job growth of any state in the footprint in 2016, the list of the 20 metro areas which posted the most rapid job growth is stocked with Florida metro areas. The Palm Bay MSA posted job growth of 4.87 percent in 2016, the fastest of any in-footprint metro area. To illustrate our point about the magnitude of the revisions to the data on the metro area level, of the 20 metro areas showing the fastest job growth in the revised data, only 11 were on the top-20 list in the preliminary data, and only 10 of the bottom 20 per the revised data were on the list based on the preliminary data.

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.

Our monthly data 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.