ECONOMIC UPDATE

REGIONS

May 5, 2017

This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial or other plan or decision.

April Employment Report: In Line With The Underlying Trends

- Nonfarm employment rose by 211,000 jobs in April; prior estimates for February/March were revised down by a net 6,000 jobs.
- Average hourly earnings rose by 0.3 percent; aggregate private sector earnings rose by 0.7 percent (up 4.28 percent year-on-year).
- The unemployment rate fell to 4.4 percent in April (4.404 percent, unrounded); the broader U6 measure fell to 8.6 percent.

Total nonfarm employment rose by 211,000 jobs in April, with private sector payrolls up by 194,000 jobs and public sector payrolls up by 17,000 jobs. Prior estimates for February and March were revised down by a net 6,000 jobs for the two-month period. The unemployment rate fell to 4.4 percent while the broader U6 measure fell to 8.6 percent, the lowest since November 2007. The monthly employment reports for the first three months of 2017 were somewhat clouded by seasonal adjustment noise, but the April report is largely free of such issues, and the April data for the most part line up with the underlying trends.

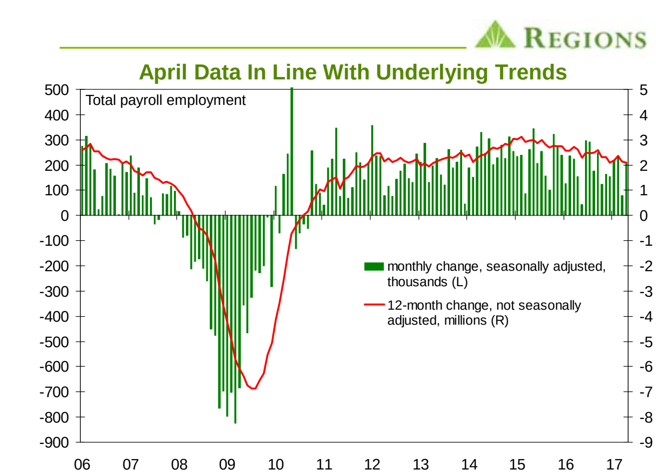
The lower unemployment rate mainly reflects a slight decline in the participation rate (the labor force increased by only 12,000 persons) as the 156,000 person increase in household employment was far more moderate than the gains posted in February and March. We had built slower growth of household employment into our forecast for a 4.6 percent unemployment rate, but did not expect the labor force to flatten out as it did. Declines in the numbers of those aged 25-to-34 and 55-to-64 neutralized slight increases amongst other age cohorts to leave the size of the labor force basically unchanged.

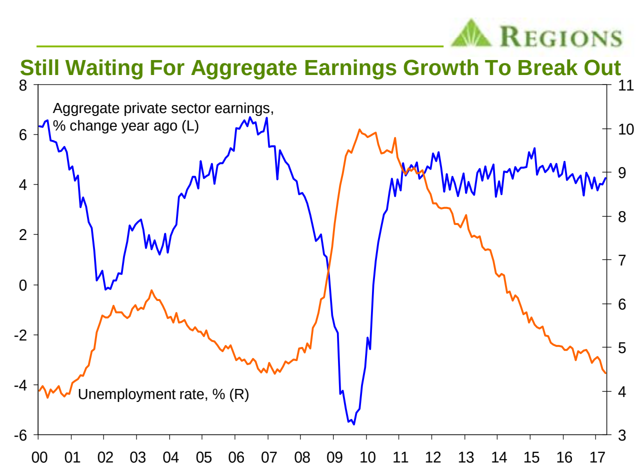
The combined number of those unemployed, underemployed, or only marginally attached to the labor force fell to 13.863 persons in April, with declines in all three components. This total is the numerator in the U6 calculation, and the decline accounts for the lower U6 rate. Still, the number of underutilized labor resources remains above where it would be at full employment. Data on labor force flows show over six million people per month continue to enter the labor force, with the vast majority being employed upon entry. Our view remains that this steady inflow coupled with a still above-average pool of underutilized labor resources will continue to weigh on wage growth for some time to come.

Data from the establishment survey show job growth remained broad based in April, which has been a hallmark of the current expansion. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, stood at 60.2 percent in April. Net job gains were the largest in the leisure & hospitality, education & health care, and business services. As we expected, retail payrolls went up slightly in April after a curiously large decline, even after revision, in March. While the underlying trend in retail employment is down, we think the March and April data were impacted by this year's late Easter. Construction hiring, on a not seasonally adjusted basis, was a bit weaker than normal in April, and this reflects ongoing payback for what were higher than normal construction payrolls in January and February thanks to an atypically mild winter. As a result, seasonally adjusted construction payrolls were reported to have risen by just 5,000 jobs in April, though the May data should be largely free of seasonal adjustment noise.

As expected, the average length of the workweek rose one-tenth of an hour in April. Whereas in March over 3.1 million people worked fewer hours than normal due to the weather, that number fell to 165,000 in April. The modest increase in average hours had a powerful impact on growth in aggregate private sector earnings, which were up 0.7 percent in April. Still, even at 34.4 hours, the average workweek remains well below where it would be at full employment. Keep in mind each one-tenth of an hour change in the length of the workweek is the equivalent of over 300,000 private sector jobs in terms of the economy's productive capacity, and we have characterized the still-short workweek as an underappreciated form of labor market slack. In other words, firms still have considerable capacity to utilize current workforces more intensively before taking on additional workers, and this is another barrier to faster wage growth. Along with average hourly earnings growth remaining below where it would be at full employment, the shorter workweek is a drag on growth in aggregate labor earnings which, as seen below, remains range bound despite a steadily declining unemployment rate.

The April employment report is in line with the underlying trends that have been in place for some time – a healthy trend rate of job growth but a considerable degree of slack yet to be absorbed.





Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com