ECONOMIC UPDATE

REGIONS

June 2, 2017

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May Employment Report: A Big Whiff That Actually Means Very Little

- Nonfarm employment rose by 138,000 jobs in May; prior estimates for March/April were revised down by a net 66,000 jobs.
- Average hourly earnings rose by 0.2 percent; aggregate private sector earnings rose by 0.3 percent and were up 4.3 percent year-on-year.
- The unemployment rate fell to 4.3 percent in May (4.294 percent, unrounded); the broader U6 measure fell to 8.4 percent.

Total nonfarm employment rose by 138,000 jobs in May, with private sector payrolls up by 147,000 jobs and public sector payrolls down by 9,000 jobs. Prior estimates for March and April were revised down by a net 66,000 jobs for the two-month period. The unemployment rate fell to 4.3 percent while the broader U6 measure fell to 8.4 percent.

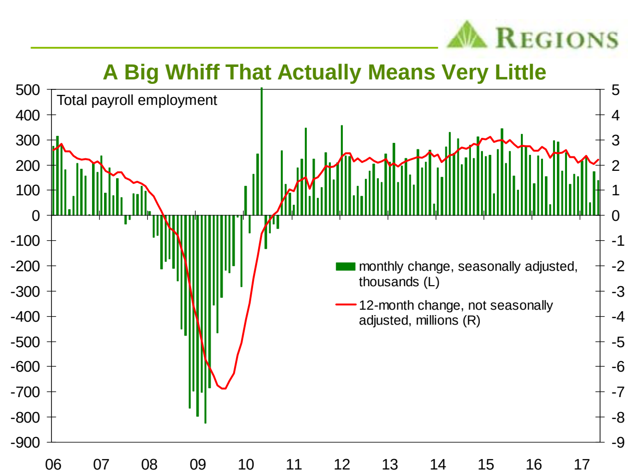
Headline job growth came in well below expectations, which many analysts ratcheted higher in the wake of the ADP report showing private sector payrolls up by 253,000 jobs in May, apparently forgetting these two surveys are drawn from different populations using different methodologies and different industry weights. You know, the kind of little details that actually matter. In any event, the BLS's May establishment survey suffered from calendar effects, as the survey period fell relatively early in the month, which in the past has biased estimates of job growth lower. To the extent this is the case, it will be made up for in coming months. That same calendar effect has consistently biased estimates of average hourly earnings lower, and we think this was the case with the May data. Additionally, the shifting timing of the school year makes it inherently difficult to properly seasonally adjust the data on state and local government employment and that on the number of young adults coming into the labor force. As always, the first order of business is sifting through the noise in the data, there just happens to be more noise than normal in the May employment report. The best way to sift through the noise in any data series is to look at the trends in the not seasonally adjusted data; doing so shows that over the past 12 months the U.S. economy has added 2.223 million jobs, or, 185,000 per month, a rate more than sufficient to absorb the labor market slack that still remains.

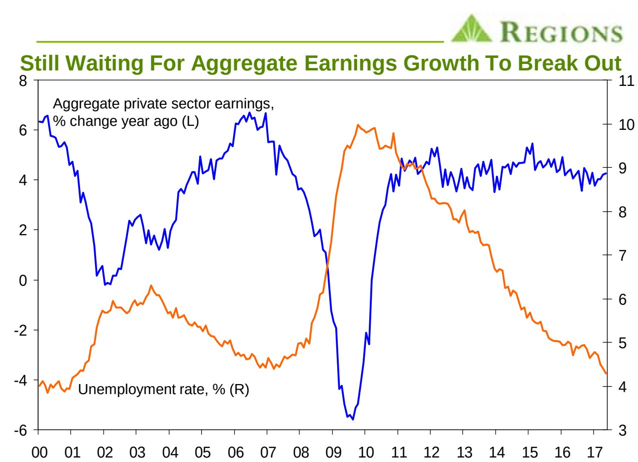
Private sector job gains were the largest in education & health services, business services, and leisure & hospitality services. Payrolls in the goods producing industries rose by 16,000, smaller than expected; payrolls rose in mining (up 6,000) and construction (up 11,000) but manufacturing payrolls fell by 1,000 jobs. As expected, job counts in motor vehicle manufacturing fell in May, down by 1,500 jobs with further job cuts coming in the months ahead. Speaking of which, retail trade payrolls fell by 6,100 jobs in May and will almost surely fall further in the months ahead. Our suspicion is that the BLS's estimates of job losses in retail trade are on the low side, but at the same time job gains in transportation and distribution are likely being understated, i.e.., the shifting nature of consumer spending patterns is not being fully captured in the BLS data.

As noted above, the 0.2 percent increase in average hourly earnings is likely biased lower by the calendar effect, but hourly earnings are still up 2.5 percent year-on-year. The broader measure of aggregate private sector wage and salary earnings, which incorporates the number of people working, average hourly earnings, and average weekly hours, was up 0.3 percent in May and up 4.3 percent year-on-year.

The civilian labor force is reported to have fallen by 429,000 persons in May, with over 300,000 of this accounted for by those between 16 and 24 years-old. The raw data show an increase of 191,000 persons in this age cohort, which is notably smaller than the average for May and which goes straight to our earlier point about the difficulty in properly seasonally adjusting the labor force data for May/June. What is, or at least should be, of far more significance is that the broader measure of labor market slack, i.e., those either unemployed, working part-time for economic reasons, or marginally attached to the labor force, fell further in May and now stands at 13.556 million persons, the lowest since November 2007 and a sign that, while not there yet, we are getting closer to full employment. This in turn suggests that growth in average hourly earnings will gain more traction over coming months.

As always, in the wake of the May employment report there are plenty of people wading into an ocean of data and picking out a single number that can magically explain a dynamic and complex labor market. We'd rather sift through the data and sort out the noise and read the underlying trends. Those trends are still healthy, and a very noisy May report doesn't change that. We suspect the FOMC will come to the same conclusion.





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