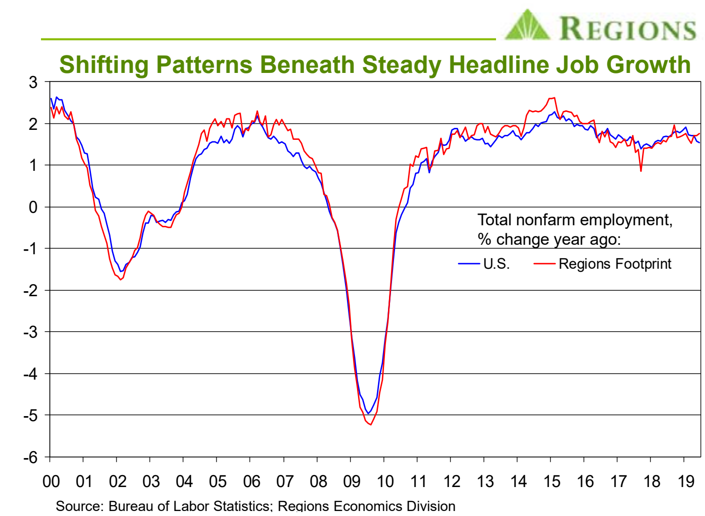
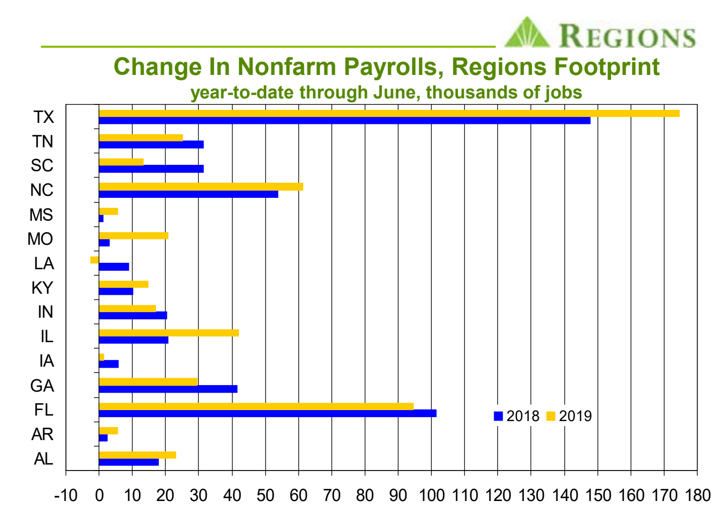
## Employment Update: Regions Footprint

The calendar may be getting set to flip to August, but in terms of the economic data we're just hitting the halfway point of 2019. The Bureau of Labor Statistics (BLS) has just released the June data on nonfarm employment on the state and metro area levels, and we thought it worth assessing how job growth held up over the first half of 2019, particularly given what are growing concerns, and perhaps growing confusion, over the state of the U.S. economy. Uncertainty over the course of trade policy has taken a toll on global economic growth and is weighing on the U.S. manufacturing sector, and we are in the early stages of an inventory correction that will weigh on the manufacturing and transportation sectors over coming months. On the whole, however, there is little cause for concern for the broader economy, for the U.S. as a whole or for the Regions footprint, based on the labor market data. Though month-to-month job growth has been somewhat more volatile thus far in 2019 than had been the case, the rate of job growth remains more than sufficient to keep downward pressure on the unemployment rate and upward pressure on wage growth. In what follows, we'll touch on patterns of job growth over the first half of 2019 and compare those to what we saw over the first half of 2018. One caveat to keep in mind is that the 2019 data are still preliminary and subject to the annual benchmarking process. This means we cannot cling too securely to any conclusions based on the preliminary data, whether for individual industry groups or individual geographies, though any changes between the preliminary and revised data will be more pronounced on the metro area level than on the state level.

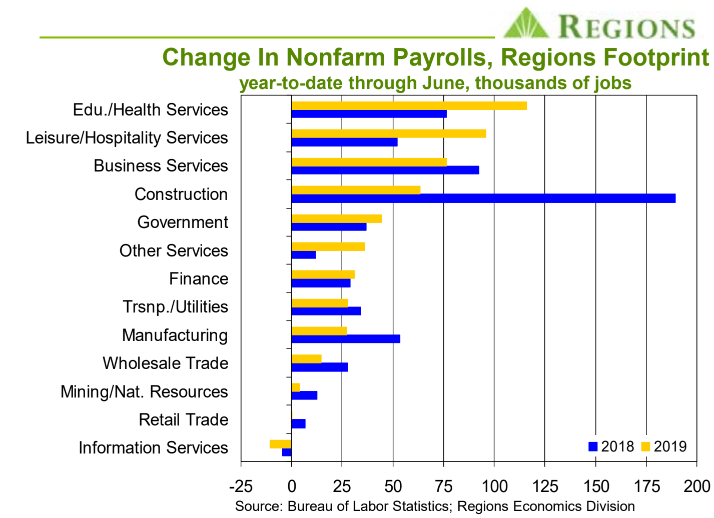


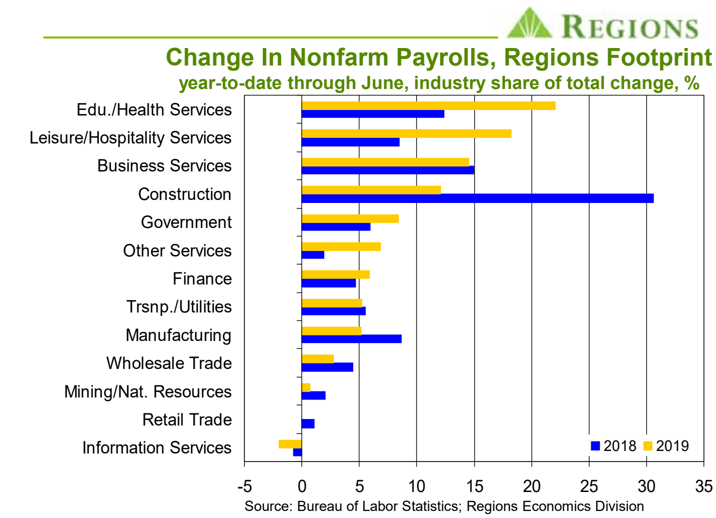




The data currently available show the pace of job growth for the Regions footprint as a whole remains largely in line with the U.S. average, as seen in the chart to the side. The U.S. economy added 1.033 million nonfarm jobs over the first half of 2019, a smaller increase than seen over the first half of 2018. For the Regions footprint, the net gain of 526,000 nonfarm jobs over the first half of 2019 is a larger increase than seen over the first half of 2018 (a net gain of 498,000 jobs). It should be noted, however, that the benchmark revisions to the preliminary 2018 data led to job growth for the U.S. as a whole being revised higher and job growth for the Regions footprint being revised lower. This does not mean those same patterns will hold for the 2019 data, but it does illustrate our point about not clinging too tightly to any conclusions based on the preliminary data.

For now, though, we'll focus on the patterns, across industry groups and geographies, in the data as they now stand and how these patterns vary from those seen over the first half of 2018. As noted above, the 15-state Regions footprint has seen more jobs added over the first half of 2019 than was the case over the first half of 2018. That increase, however, is largely accounted for by Texas, which added 175,000 jobs over the first half of 2019, compared to the 148,000 jobs added over the first half of 2018. In the remaining 14 states, however, combined job growth over 2019's first half was higher by a net 1,000 jobs compared to the first half of 2018, with seven states adding more jobs and seven states adding fewer jobs in 1H 2019 compared to 1H 2018.

Faster job growth in Texas over the first half of 2019 is more than accounted for by the Dallas, Fort Worth, Houston, and San Antonio metro areas. Job growth in the Austin metro area, while still easily above national and footprint averages, slowed a bit from the blistering pace set in 2018, while the slowdown was more pronounced across other Texas metro areas. Atlanta and Nashville are other metro areas in which the pace of job growth slowed over the first half of 2019 but nonetheless remains comfortably above the national and footprint averages. The pace of job growth in the New Orleans metro area picked up measurably starting in Q3 2018 and further still over 1H 2019, but other metro areas in Louisiana, most notably Baton Rouge, have seen job growth slow in 2019, with the net result being a modest decline in nonfarm employment in the state as a whole over the first half of 2019. Florida added fewer jobs over the first half of 2019 than over the first half of 2018, but nonetheless posted the most rapid rate of job growth of any state in the Regions footprint over 1H 2019. The Cape Coral and Jacksonville metro areas and the Miami metro division posted larger job gains over 1H 2019 than was the case in 1H 2018, but the remaining metro areas/divisions all posted smaller job gains over 1H 2019, thus accounting for the smaller increase in the state as a whole.

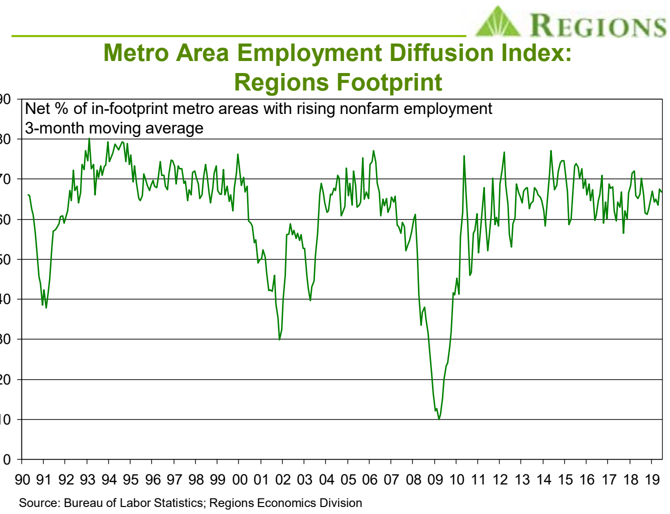



Though there were some shifts in the pattern of job growth across geographies over the first half of 2019, the shifts across industry groups within the Regions footprint are more notable, as illustrated in the two charts above. In most, but not all, cases, these shifts mirror patterns seen in the national data. Perhaps the most striking change is that, while still making a significant contribution to job growth, construction's contribution was significantly smaller over 1H 2019 than was the case over 1H 2018. After accounting for 30.6 percent of growth in total nonfarm employment across the Regions footprint over the first half of 2018, construction's share of overall job growth fell to 12.1 percent over the first half of 2019. While a slower pace of residential and commercial construction has contributed to a slightly slower pace of growth in construction employment, construction slipping in terms of relative contribution to job growth also reflects how hiring has picked up in other industry groups thus far in 2019. Education & health services has seen a marked acceleration in the pace of hiring in 2019 (as we noted in our recent write-up of the state-level personal income data), to the point that this industry group accounted for 22.1 percent of total job growth in the footprint over 1H 2019. Hiring in leisure & hospitality services has also been stronger in 2019, with this industry group accounting for 18.2 percent of total job growth over 1H 2019.

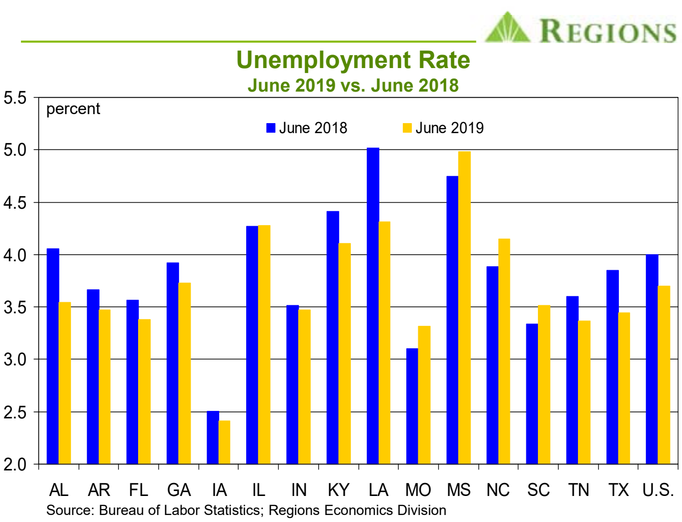
That manufacturing is making a smaller contribution to overall job growth this year comes as no surprise. Uncertainty over the course of trade policy and, more recently, the beginning of an inventory correction are holding down overall manufacturing activity, which is apparent in the national data as well as the data for the 15 in-footprint states. To be sure, hiring in manufacturing in both 2017 and 2018 was notably strong, so at some point there was bound to be payback, even in the absence of trade disputes. Given that the footprint has an above-average exposure to manufacturing (relative to the U.S. average), any slowdown in the factory sector will be felt more acutely within the footprint, and given the importance of motor vehicle production across the footprint, this is another channel through which trade disputes, in this instance, the possibility that the U.S. may impose tariffs on automobiles imported from Europe, could act as a drag on the manufacturing sector.

The combination of diminished trade flows and an inventory correction is also acting as a drag on hiring in transportation/warehousing/distribution. Though the contribution to overall job growth from this industry group is little changed between this year and last, however, could be more a function of the preliminary data not adequately measuring activity in this industry group, as has been the case in the past. We do know that in the national data, the pace of job growth in this industry group has slowed sharply, and our sense is that the preliminary data are overstating the extent of job growth in this industry group for the in-footprint states. By the same token, the national data show a sharp decline in retail trade employment over the first half of 2019, but the state-level data show retail trade payrolls for the footprint as a whole have risen by a net 100 jobs within the footprint thus far in 2019, which is likely an overstatement. The information services industry group has seen employment slip further thus far in 2019. This industry group shed jobs in 2016, 2017, and 2018, and continued to so over the first half of 2019. One reason is the ongoing retrenchment in publishing, where print publications continue to fall by the wayside in favor of content providers delivering their content online. All in all, however, job growth remains broad based across the major industry groups, as has been the case over the past few years.




Job growth has also been broad based geographically over most of the current expansion, as seen in the chart to the side. Our Metro Area Employment Diffusion Index 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. That hiring remains fairly well dispersed, both geographically and across industry groups this deep into an economic expansion suggests that the current expansion has longer to run than one might infer from what of late has been a seemingly steady barrage of dour headlines. 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. Note that the Metro Area Employment Diffusion Index began to decline meaningfully well ahead of the start of each of the past three recessions (the history of the data we use to construct the index dates only back to 1990), which is a key reason we consider this to be a useful indicator.

Finally, as is the case nationally, unemployment rates are lower as of June 2019 than they were as of 2018 across most of the Regions footprint. There are a few exceptions, with rates in Mississippi, Missouri, North Carolina, and South Carolina higher this June than last, while the jobless rate in Illinois stood at 4.3 percent both this June and last. While both North Carolina and South Carolina have continued to post solid job growth, each has seen the pace of growth of their labor force accelerate thus far in 2019, resulting in a higher jobless rate. Mississippi and Missouri have both seen declines in the levels of the labor force and household employment, with the net result being a higher jobless rate this June than last. That Louisiana's jobless rate is lower this June than last reflects a decline in the labor force and an increase in household employment (recall the unemployment rate is based on household, not payroll, employment, the two derived from separate surveys), but the decline in the labor force is the bigger driver of the decline in the unemployment rate in this instance.




As noted at the outset, our intent here was to provide a brief summary of patterns in employment across the Regions footprint over the first half of 2019. That job growth remains solid and broad based is a reassuring sign that softening conditions in the manufacturing sector and, to a lesser extent, transportation have not spilled over into the broader economy. That remains the case nationally and within the Regions footprint. As a reminder, our monthly data updates for the group of in-footprint metro areas we track and our latest forecasts (updated monthly) for the in-footprint states and the larger metro areas can be found here:

http://lifeatregions/Finance/MonthlyEconomicReports.rf

or here:

https://www.regions.com/about-regions/economic-update

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