ECONOMIC UPDATE

REGIONS

February 1, 2013

January Employment Report: January Looks Okay, The Past Looks A Little Better

- Nonfarm employment rose by 157,000 jobs in January; revised data show the economy added 2.170 million jobs in 2012
- Average hourly earnings rose by 0.2 percent in January, with aggregate earnings up by 0.31 percent (up 3.77 percent year-over-year).
- January's unemployment rate was 7.9 percent (7.923 percent unrounded); the broader U6 measure came in at 14.4 percent.

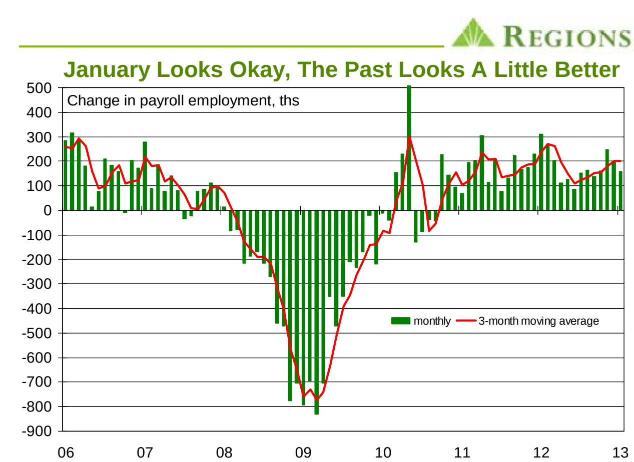
Total nonfarm employment rose by 157,000 jobs in January as private sector payrolls rose by 166,000 jobs and government payrolls fell by 9,000. Today's release incorporates the annual benchmark revisions to the payroll survey data, those revisions show more jobs added over the course of the recovery than previously reported. For 2012 as a whole, the economy added 2.170 million jobs after having added 2.103 million jobs in 2011 (prior estimates were 1.835 million and 1.840 million, respectively). For those still fretting about this week's GDP report, with the BEA's first estimate showing the economy contracted mildly during 2012's fourth quarter, we will simply note that during Q4 the U.S. economy added 675,000 private sector jobs, the second largest quarterly gain during the current recovery. This is consistent with the better than three percent annualized growth seen in domestic private sector purchases seen during the quarter.

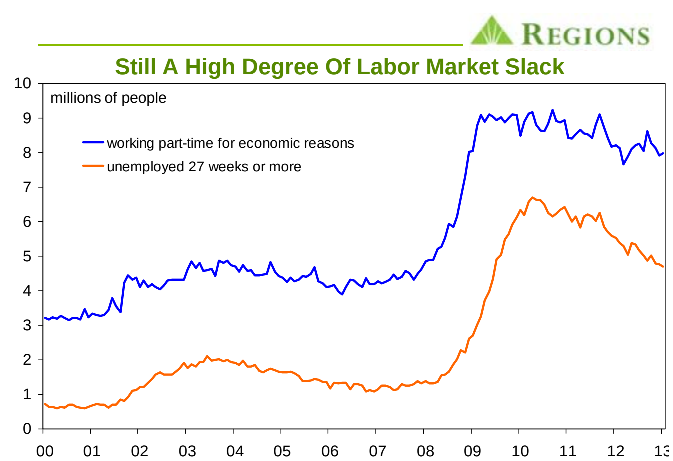
Still, the labor market has much further to go on the road to recovery. Since hitting a cyclical bottom in February 2010, nonfarm employment has risen by 5.505 million jobs, leaving us 3.231 million shy of recapturing the jobs lost during the Great Recession and its aftermath. The unemployment rate came in at 7.9 percent in January, and the broader U6 measure of unemployment/underemployment stood at 14.4 percent. As of January there were 7.973 million people working part-time for economic reasons (i.e., they would like a full time position but cannot find one), and there were 4.708 million unemployed for 27 weeks or longer. Note that the household survey data incorporate new population controls, so the underlying series obtained through the household survey are not strictly comparable between 2012 and 2013.

Goods producing industries added 28,000 jobs in January, below our expectations as manufacturing added 4,000 jobs compared to our call for 12,000. Construction payrolls rose by 28,000 jobs, and we expect the pact of job gains in this sector to accelerate over coming months as the housing market recovery gathers pace. Amongst the service producing industries, retail trade payrolls are reported to have risen by 32,000 jobs in January – this is a seasonally adjusted figure, so the reported gain reflects a smaller than normal decline in the raw data, likely a function of somewhat restrained hiring over the holiday season. Business services and health care/education each added 25,000 jobs while leisure & hospitality services added 23,000 jobs. The private sector hiring diffusion index, a measure of the breadth of hiring across private sector industries, fell back a bit in January, with the one-month index dropping to 59.6 percent from 64.5 percent in December. Compared to six months ago, 68.8 percent of private sector industries added workers in January. Neither measure exactly paints a portrait of firms paralyzed by uncertainty as the fiscal follies play out in Washington, though it should be noted the diffusion index tells us about the breadth of, not the intensity of, hiring across industries.

The length of the average workweek was 34.4 hours in January, and average hourly earnings rose by 0.2 percent. These metrics are impacted by the mix of jobs added and together with the gain in private sector jobs combine to yield a 0.3 percent increase in aggregate private sector earnings, which reflects a 3.77 percent over-the-year increase. Earnings growth fell off from the pace set in Q4 2012, as we expected would be the case. Together with higher payroll taxes, however, the earnings detail in the January employment report point to a sizeable decline in disposable personal income in January that will weigh on consumer spending during the year's first quarter.

While the benchmark revisions yielded a more favorable view of the labor market, they do not materially alter the bigger picture – yes, progress has been made, but there is further to go yet. Early 2013 will see its own challenges as we await the resolution of several fiscal policy issues, but given the positive underlying momentum in the private sector of the economy, we look for labor market conditions to steadily improve as we move through the year.





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