IEEP NEWS RELEASE

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The April 2025 Employment Report

by
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OVERVIEW

There has been much talk about a possible **imminent national recession,** given that U.S. real GDP contracted during the first quarter of 2025. While two quarters of negative economic growth do not automatically result in an “officially” declared economic downturn (it is the dating committee of the National Bureau of Economic Research (NBER) that sets recession dates by month), finding negative growth in real GDP during 2025 Q2 would certainly be suggestive. Unfortunately we will not find out what real GDP did until the end of July 2025. In the meantime, we have to rely on other economic indicators to get a sense of where the economy is heading.

One such statistic is the unemployment rate, which is released monthly with a relatively short delay (on the first Friday of the month for the previous month for national data, and the middle of the month for state and regional data). The national unemployment rate remained at 4.2 percent for April 2025, and has basically been unchanged over the previous year (it was 3.9 percent in April 2024). The California Employment Development Department (EDD) released the regional and county labor market data on May 16.

The headline news is that the unemployment rate for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), fell from 5.0 percent in March 2025 to 4.9 percent. At face value, this is good news for the Inland Empire (Riverside County and San Bernardino County) because there is no early sign of a regional downturn. Unfortunately the decrease in the unemployment rate was caused by seasonal factors (meaning it regularly decreases this point of the year) and the l**abor force shrinking more than employment,** according to the household survey (Current Population Survey or CPS). A healthy decline in the unemployment rate would be the result of employment increases outpacing the labor force increase - currently, instead, both labor force and employment are shrinking.

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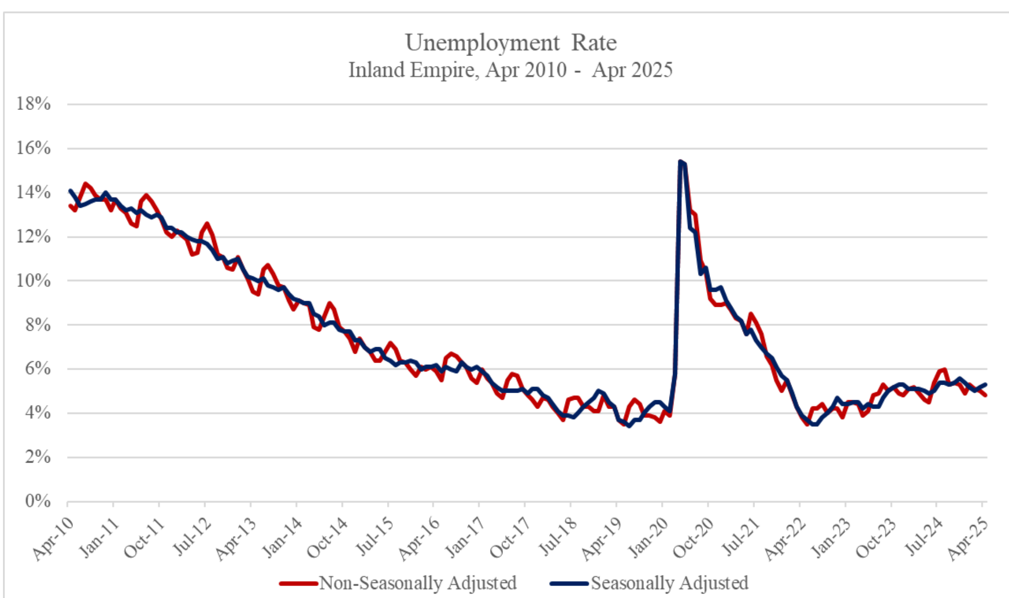
A more reliable survey is the establishment survey (Current Employment Statistics or CES). And according to it, **establishments within the Inland Empire actually reported an increase in employment by a relatively small number (+3,200)**. Differences in the two surveys are typical due to a variety of reasons - but most significantly for the Inland Empire is the fact that the CPS includes commuters while the CES only looks at employment within the region's establishments.

However the previous statement is based to using raw data. Once we **seasonally adjust the data**, we see a **slight increase in the unemployment rate** from 5.2 percent in March 2025 to 5.3 percent in April 2025 but it is the result of **both labor force and employment growing** - with the labor force growth of 12,000 outpacing employment growth (+8,000). This is a healthier picture, despite the small uptick in the unemployment rate. Seasonally adjusted, the non-farm payrolls went up by 2,000, which is very similar to the non-seasonally adjusted increase published by the EDD.

Here, in our report, we will focus on seasonally adjusted data, since we want to gain insights into the cyclical state of the regional economy. The only time we report non-seasonally adjusted data is when we look at changes from a year ago (since annual changes, by definition, do not depend on seasonal fluctuations). To look at the raw data, go to the EDD website (https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html).

After removing regularly occurring seasonal fluctuations, this results in an **unemployment rate of 5.2 percent for the Inland Empire, which shows a small increase from the previous month**. The Inland Empire unemployment rate is identical to the state's rate this month after seasonal adjustment.



INLAND EMPIRE

While the alarm bells are not ringing loudly yet, there are certainly signs that not all is well for the Inland Empire economy. Looking at year-to-year data, nonfarm employment increased by a relatively small amount of 3,200 employees. What hides behind this number is the ugly fact that **three sectors (Health and Education - primarily Health; Government - primarily Local Government Educational Services; Logistics - primarily Transportation and Warehousing) have generated a remarkable 27,400 jobs**, while **all other sectors** (Mining and Logging, Construction, Manufacturing, Information, Financial Activities, Professional and Business Services, Leisure and Hospitality, Other Services) **have shed jobs**. To stress, the three sectors that are driving the local economy have generated a whopping 856 percent of all jobs created. If you remove one of these three pillars, the Inland Empire would have lost jobs compared to a year ago.

Here are some of the sectoral highlights from this month's report after seasonal adjustment:

- The largest **month-to-month increases** by industry were in Private Education and **Health Services** (+2,200), **Leisure and Hospitality** (+1,100), and **Local Government** (+430).
- The most significant **month-to-month declines** were in **Retail Trade** (-830), O**ther Services** (-390), **Financial Activities** (-260).
- For **year-to-year growth** (relative to April 2024), **Private Education and Health Services (primarily Health)** has made the most significant contribution (+16,500). **Local government** has also been an important job creator for the region, gaining (+9,600) jobs in the last year while compensating for the decline on both the state (-400) and federal (-580) levels.

CALIFORNIA

https://edd.ca.gov/en/about_edd/news_releases_and_announcements/unemployment-March-2025/

At the state level, payroll jobs (CES) increased by 39,300 jobs from a month ago, while employment measured by the household survey (CPS) also went up by 39,700 from **March 2025**. California's unemployment rate maintains the 5.3% observed also for March 2025, but is 0.1 percentage points higher than it was a year ago.

The state continues to have one of the highest unemployment rates among the 50 U.S. states, and it is 1 percentage point higher than the national rate (4.2 percent in March). You have to go back to significant historical events to find a gap of this magnitude (decline in the aerospace industry and shutdowns of military bases in the '90s, the housing bust coinciding with the Great Recession of 2008/2009, or the Coronavirus downturn and subsequent recovery).

The largest industry-level month-to-month gains were in Private Education and **Health Services** (+9,400), **Construction** (+6,300), and **Government** (+4,800).

- The biggest winner by far for year-over-year changes was Private Education and **Health Services** (+157,400). **Government** (+58,900) was the only other major industry that experienced an increase (primarily through public education employment, accordingly).
- The "biggest losers" this month were **Professional and Business Services** (-2,400), **Logistics** (-2,100), and **Financial Activities** (-900).
- Looking at annual change, the biggest loser was **Professional and Business Services** (-41,000) though improved from the previous months' record. **Manufacturing** showed the second largest decline (-34,200).

OUTLOOK

The outlook is worrisome: the Inland Empire's **job creation** ability hangs on the contribution of **three sectors: Health Services, Local Government Educational Services, and Logistics**. All other sectors are reducing employment. If you think about the impact that President Trump's policies will have on the economy, then you can expect tariffs to cut into trade and thereby the Logistics industry (even at a 30 percent tariff on Chinese goods, instead of the 145 percent originally announced, the effect will be significant). Expect less support for local governments from Sacramento due to the budget difficulties Governor Newsom is currently experiencing. Health Services will also be impacted by cutbacks from both national and state resources.

Note that the national, state, and regional data are the result of a survey conducted around the 12th of April, 2025 - i.e. shortly after the "Liberation Day" announcement by President Trump. If firms changed employment patterns due to increased uncertainty, this will not show up until next month in the data.

We are potentially looking at a large impact on the Inland Empire economy in the coming months. To make matters worse, there are no other sectors that seem to be able to make up the large declines in the three pillars of the regional economy. If that is the case (decline in employment in Logistics, Health, Public Education paired with other sectors not picking up the slack), we are looking at a significant downturn in economic activity for the region.

The employment reports for the next three months should be telling since shipments of goods through the ports of Los Angeles and Long Beach will experience significant declines - we know this with certainty since the ships have already left Asian ports and are on their way to California and the Panama Canal.

To make matters worse, do not expect help from the construction sector. The Federal Reserve is not going to lower interest rates significantly (by 75 basis points or more) this year - actually not at all if you follow the UCLA Anderson School forecast. Tariffs will increase building costs in the residential construction sector as will increased labor costs due to fewer immigrant workers being available in housing construction.

As a result, **we forecast a regional downturn beginning with the third quarter of 2025 and continuing into next year**. Our **forecast for the state is similar.** There is no sign for other sectors, such as Manufacturing, Professional Business Services, or Information (Film) to make up for the predicted decline in the current drivers.

As for the national economy, we do not make forecasts here. However, we want to point out that many of the sensors that have predicted economic recessions in the past, such as the yield curve, consumer sentiment, the stock market, housing starts, etc. all point to a recession within the next 12 months. Here we think it is crucial to see how the tariffs in general will affect consumer expenditures. If consumers will substitute services for goods consumption, for example, then the impact will be less severe than a straightforward reduction in consumption.