IEEP NEWS RELEASE
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The August 2023 Employment Report

by
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OVERVIEW

The California Employment Development Department (EDD) released their August update for California and its regions this Friday morning. It includes the latest labor market statistics for the Inland Empire (Riverside County and San Bernardino County). The headline numbers show the region's unemployment rate increasing by a relatively large jump of 0.4 percent points, continuing trend increases since May. The region's seasonally unadjusted unemployment rate now stands at 5.3%. Differently from the national level, where the U.S. unemployment rate increased by 0.3 percentage points due to a relative large growth in the labor force compared to employment, here in the Inland Empire, the labor force hardly changed but employment decreased. This is a less healthy reason for a change in the unemployment rate.

According to the household survey, which measures employment *by residency* and therefore includes commuters, who make up over 30% of the Inland Empire's employees, the labor force has virtually remained constant from July to August (+500 employees). At the same time, employment decreased by 7,100, which caused the increase in the unemployment rate. However, Current Employment Statistics, an establishment survey which only considers people working within the Inland Empire, shows an employment increase (7,200). That could be a result of the Inland Empire's "first in, last out" recession characteristic, which suggests that the commuters, a big part of the Inland Empire's population, are among the first ones to lose their jobs in an economic downturn. We consider this an alarm bell ringing.

However, the raw numbers can be misleading because they are not seasonally adjusted. It is therefore possible to see fluctuations in employment that are not related to the business cycle but just depend on specific months of the year. Think about hiring before Christmas or laying off seasonal workers during the summer in Coachella Valley. The EDD does not seasonally adjust data for the Inland Empire, but we do. This gives us a more objective employment picture.

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Applying these statistical filters brings the unemployment rate down to California's level. In terms of the household survey, employment decreased by more than 6,000 positions, while the labor force increased by a little more than 4,000 positions. As a result, we get a seasonally adjusted unemployment rate of 4.6%, compared to 4.2% in July of this year. Still, an 0.4 percentage point increase, which, again, is a relatively large month-to-month jump. This sounds as alarming as going from 4.9% to 5.3%, but the increase is at a lower level. We are still, however, substantially above of last summer's rate of 2.9%, which was a record-low for the region. While this is somewhat concerning, a comparison of the numbers over the last few months gives give a less worrisome picture: from the beginning of the year, we see that the unemployment rate is only up by 0.1 percentage points - a somewhat positive signal from an economy that tends to be the first one to go into a recession. As we pointed out previously, the Logistics industry is in a structural adjustment phase and much of the change in the employment picture in the Inland Empire can be tied to that.

Bottom line, and similar to the U.S. economy, we are looking at a mixed signal, with no clear direction of whether or not we are heading into a recession. Note that we have forecasted a national recession to start late in 2023, early in 2024.

CALIFORNIA

California's unemployment rate remained at 4.6% in August, unchanged since June, with employers adding 23,100 non-farm payroll jobs (the EDD seasonally adjusts the state data). However, we see a continued decline in both the state labor force (-18,000) and employment (-27,900) when looking at the household survey. A healthy economy has both positive growth in employment and the labor force, with the unemployment rate changing as the result of the difference between the labor force growth and employment growth. For the unemployment rate to fall when we are in this positive scenario, the growth in employment has to outpace the growth in the labor force. In the current negative scenario, a comparable decline in both the employment and labor force figures also leaves the unemployment rate unchanged - but note that this is not a healthy development.

This discrepancy reflects the difference between the household and payroll surveys discussed above. While typically the number of jobs within the state held by its residents and by its employers are very similar, the increase of remote work offered by major California employment sectors like technology may contribute to this new gap. There are other reasons for the two surveys to differ such as individuals holding more than one job or being self-employed.

On a nationwide scale, California has continued to fall behind Texas, Florida, and New York. Currently, California ranks 49th barely beating Nevada in last place (with a 5.3% unemployment rate).

Here are the highlights from the sector-specific analysis:

- Looking at monthly changes, the biggest gain was in Private Education and Health Services (+14,000), Government (+5,200), and Construction (+4,700).
- The only 2 sectors with losses are Information (-9,000) and Financial Activities (-100).
- Looking at the Year-to-Year changes, the heavyweight sectors were Education and Health Services (+163,400), Leisure and Hospitality (+106,400), while the sector with the biggest year-over-year loss is Information (-40,400).

INLAND EMPIRE

In this section we will focus on seasonally adjusted data. For the non-seasonally adjusted data, you can consult the EDD document

(https://labormarketinfo.edd.ca.gov/file/indhist/rive$hws.xls).

The seasonally adjusted unemployment rate for the Inland Empire went up by 0.4 percentage points from 4.2% to 4.6% between July and August. It has also increased from the 3.6% seen a year ago, in August 2022.

This increase in unemployment rate is caused by an increase of over 4,000 in civilian labor force and a decrease in employment of over 6,000, both contributing to an increase in unemployment rate. We see a slight increase in Logistics sector employment (just below 500), reversing the delicing trend from last month. Once the biggest growth sector during the COVID recession, Logistics has lost employment significantly by roughly 8,500 year to year. This follows a general national trend of decline in the Logistics sector following the COVID recession recovery. As consumers once again revert back to their pre-COVID trends of focusing more on services, logistics sector employment suffers as a result. We continue to see steady increase in employment in the Local Government sector (almost 750). While the Local Government sector was impacted severely during the COVID recession, it has begun to recover following the steady growth since December 2022.

Here are the highlights from this month’s report:

- The largest increases in employment were seen in Professional and Business Services (over 800), Leisure and Hospitality (almost 750), and Government (700). Local Government leads most of the growth in the Government sector.
- The sector with the biggest decrease is Construction (over 800), though on a state level, Construction is among the sectors with biggest growth this month.
- Since December of 2022, the fastest-growing sectors have been Construction (+3.1%), and Private Education and Health Services (+3.6%). The sector with the biggest decline is Information (-3.3%).