IEEP NEWS RELEASE
December 27, 2023

The December 2023 Employment Report

by

Manfred W. Keil[1]

OVERVIEW

The latest labor market figures for November 2023 were released by the California Employment Development Department (EDD) on December 22. The report contains labor force, employment, and unemployment numbers for the 58 counties of California, including data for the Inland Empire (Riverside County and San Bernardino County).

There is no exciting new development to report for the aggregate numbers: the data basically tell the same story as for the previous month. There are no clear signals regarding business cycle movements. The region's unemployment rate remained unchanged at 5.1% in November, with Riverside County reporting a 5.1% unemployment rate, and San Bernardino County a slightly lower level at 5.0%. Out of the 58 California counties, San Bernardino County has the 30th highest county unemployment rate, while Riverside County has the 26th highest. We are at the lower end of the scale. At first glance, the relatively constant unemployment rate is welcome, given the observed increases in the previous months, but note that these numbers have not been "cleaned" from regularly occurring seasonal fluctuations. In order to get a clearer picture of the underlying economic situation in the Inland Empire, we must filter out these seasonal components. Since the EDD does not do this for our region, we will have to perform the procedure ourselves below.

The unemployment rate for the two counties continues to sit above California's 4.9% rate and the nation's rate of 3.5% (both not seasonally adjusted here either for comparison purposes). To put this into perspective, California's unemployment rate is the second highest among the 50 U.S. states, only Nevada has "beaten" us in this category. On a more positive note, both employment and the labor force continue to grow, clearly roughly at the same rate, since the unemployment rate did not change (for the unemployment rate to fall, growth in employment has to outpace the growth in the labor force).

The reason we filter out regularly occurring seasonal fluctuations is to control for factors that repeat themselves at the same time of the year (think of retail hiring before Christmas and letting

[1] Keil: Chief Economist, Inland Empire Economic Partnership and Associate Director, Lowe Institute of Political Economy, Robert Day School of Economics and Finance, Claremont McKenna College.

some workers go post-holidays, the construction industry reducing employment in the winter – more so in Northern California than in Southern California – and summer employment in the Coachella Valley.

Here comes a worrying fact when you compare the unemployment rate in the Inland Empire in November 2023 to that of November 2022 (year-to-year changes do not contain seasonal fluctuations obviously). Compared to a year ago, the unemployment rate in the Inland Empire has risen by a full percentage point, from 4.1% to 5.1%. This is due to employment shrinking by almost 10,000 workers, while the labor force grew by over 13,000 individuals. An increasing number of residents are returning into the labor force for a variety of reasons, including the anticipation that they can find employment, but job openings simply have not kept pace – or at least not in the jobs that match the skills of these re-entrants.

To make this discrepancy more intriguing, we observe that a separate survey, based on establishments, shows an *increase* in employment within the Inland Empire of 30,000 positions from a year ago (14,000 from a October to November, although that is reduced to 4,000 once we remove the usual increases in employment this time of the year). While there are a variety of reasons for the survey based on residency (Current Population Survey - CPS) to differ from the establishment survey (Current Employment Statistics – CES), one possibility is that commuters into the coastal regions were more affected by regional economic fluctuations than those who live and work in the two counties. If that were the case, then this suggests that the Greater Los Angeles area experiences economic weakness, which has implications not only for commuters but also as an indicator of economic weakness to come. Before we read a cyclical warning sign into this (weakening of the state and national economy), we would like to see this pattern repeat itself over the next few months.

Applying the statistical filters to remove seasonality changes the initial picture somewhat. Seasonally adjusted, the unemployment rate increased slightly by 0.1% (bad news), moving the seasonally adjusted unemployment rate to 5.3%, compared to 5.2% in October of this year. A year ago, it stood at 4.5% and hence shows an increase of almost a percentage point, similar to the full percentage point increase when looking at the non-seasonally adjusted data. Clearly our area is not doing as well as earlier. It is also substantially above the 3.2% rate we observed during June 2022 when the Inland Empire was experiencing high employment growth due to the combination of a faster economic recovery from the Coronavirus downturn and an increased demand for logistics services as households were demanding more home deliveries (e-commerce).

What makes the small increase in the Inland Empire unemployment rate less of a concern is that it coincided with a smaller growth in employment compared to the labor force. Here the picture tells the same story as the non-seasonally adjusted data. This is actually a relatively healthy scenario.

Given these changes and combining them with the national picture, it now looks likely that the Federal Reserve will be able to pull off a "soft landing" for the economy (a reduction in the inflation rate towards the 2% target coinciding with no significant increase in the unemployment rate). Note that we, similar to the majority of Wall Street economist, previously forecasted a mild national recession to start early in 2024, despite the large increase in GDP for the 3rd quarter and a forecast of a significantly smaller positive growth for the 4th quarter. Our forecast was based on "sensors" or leading economic indicators, most of which were ringing alarm bells. In addition, the so-called Sahm rule, which says that if the unemployment rate average of the last 3 months exceeds by more than 0.5% the three months average oduring the preceding year, then we are in a recession, was telling us that the national economy would be in a recession if the national unemployment rate had increased by 0.1% in November and then remained there for December. However, the U.S. unemployment rate decreased by 0.2% in November, and that means we are "safe" from a recession by that measure for a while. Moreover, the Inland Empire follows the "first in, last out" cyclical pattern of employment. The labor force in the Inland Empire contains a heavy share of commuters (20%, hence the rush hour traffic), and commuters are generally laid off first when there is a recession hitting the coastal area since commuters, on average, have lower human capital than those who reside and work in the coastal areas. What this means is that if there is a recession coming, it will typically hit the Inland Empire first (think back to 2007). However, the report just released does not show Inland Empire employment weakness at all.

CALIFORNIA

As in the previous month, California's unemployment rate keeps on inching up. This time it increased by another 0.1% to 4.9%. This is the opposite of what we see for the nation, where the unemployment rate decreased by 0.2%. The gap between the state and national unemployment rate is now quite substantial, standing at 1.2%. On the positive note, when looking at the CES survey, employers added 35,400 non-farm payroll jobs or just about as many as during the previous month. On the flip side, the CPS recorded a decline in the state labor force (-13,100) and employment (-35,400). Both numbers are of the same magnitude as for the previous month.

The discrepancy between the payroll jobs increase and the decrease in employment and labor force comes from the difference between two major economic surveys. The household survey, or CPS, measures unemployment by interviewing households. By contrast, CES talks to employers and thus does not include self-employment such as gig workers; this survey saw an increase in payroll jobs at odds with statewide household statistics.

Here are sector-specific highlights:

- For the second month in a row, Private Education and Health continued its strong gains from last month, increasing by 10,500 positions.

- Other major gains were in Leisure and Hospitality (+7,900). Not only has this sector fully recovered from the Coronavirus downturn, but it now stands at 1.3% higher employment when compared to February 2020.
- Construction added 6,500 new positions.
- The "biggest loser" in terms of employment was Professional and Business Services with 11,100 positions.
- The Logistics industry continues to shed jobs, this time at a rate of 5,300.
- Finance saw the third largest loss of jobs with 3,100.

Taking a longer term perspective (Year-to-Year changes), we see a similar picture, with Education and Health adding almost 145,000 jobs, followed by Leisure and Hospitality with an increase of roughly 93,500 positions. Government and Construction are basically tied for the bronze medal with an increase of 33,500 workers. Biggest year-to-year decreases were in Information (-35,500) and Professional and Business Services (-28,800).

INLAND EMPIRE

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

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

As mentioned above, the seasonally adjusted unemployment rate for the Inland Empire increased by 0.1 percentage points from 5.2% to 5.3% between October and November. However, it increased by a 0.8% from the 4.5% seen a year ago, in November 2022.

Seasonally unadjusted numbers are showing positive dynamics in Retail Trade and Logistics: employment went up by 5,600 positions in each sector. The percent increase for Retail Trade (3.1%) is higher than for Logistics (2.1%), since Retail Trade has substantially fewer workers when compared to the Logistics sector in the Inland Empire. However, this picture is misleading since Logistics typically picks up in employment from October to November given the proximity of the Holiday season: compared to a year ago, the Logistics sector lost almost 5,000 positions. In general, when we *seasonally adjust* the data, the picture changes: between October and November, the Logistics sector did not add any workers beyond what you typically expect to happen this time of the year (it only gained 100 positions). At least the bloodletting has stopped (compared to a year ago, the raw data shows a loss of over 4,000 workers).

Note that Leisure and Hospitality is a cyclically sensitive sector, meaning it reacts more to cyclical fluctuations, as households spend less or more money on dining, hotels, and travel It means that normally, during this time of the year, Leisure and Hospitality sees a much larger increase in employment (caused, potentially, by more people coming to the Coachella Valley for example).

Looking at the raw data, the sector saw employment increases of 1,300 workers. Once we take out the increase in employment that are usual for this time of the year, the sector shows a decline of 500. Similarly for Retail Trade: while the raw numbers show an increase of 5,600 positions, this is to be expected during the pre-holiday season, and adjusting the data indicates no change from the previous month. These numbers are small enough to assume that not much is happening in the region; and you certainly would not want to draw the conclusion of an imminent decline in economic activity due to a national business cycle (recession).

Here are some of the highlights from this month's report:

- The largest increases in employment were seen in, Other Services (1,100), Local Government (850), and Construction (460). The positive number for construction means that it lost fewer jobs than usual at this time of the year.
- The sectors with the biggest decreases in employment are Professional and Business Services (-1,000), and Leisure and Hospitality (-560). Both of these sectors typically add more jobs at this time of the year.
- Since December of 2022, the fastest-growing sectors have been Construction (+9.0%) and Private Education and Health Services (+4.5%). The sector with the biggest decline is Financial Activities (-4.8%).