

IEEP NEWS RELEASE
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The December 2021 Employment Report
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OVERVIEW

The California Employment Development Department (EDD) released statewide and regional data for the last month of 2021. Employment numbers are based both on a household survey (Current Population Survey - CPS) and an establishment survey (Current Employment Statistics - CES). Numbers for the two surveys may differ, and this is especially so for the Inland Empire, where approximately 20% of the labor force commute to the coastal areas, primarily to Greater Los Angeles. For the commuters, economic conditions in the coastal areas determine employment much more so than the economic conditions in the Inland Empire. Overall, we find the report to be very positive.

From November to December 2021, **California's** unemployment rate continues to decrease, and it does so at the accelerated trend that started from September to October of last year. The unemployment rate had not moved much from May to September of 2021, decreasing gradually from 7.7% to 7.5%, which was disappointing given the decrease for the U.S. by a whole percentage point from 5.8% to 4.8% over the same period: our state seemed to be stuck at a relatively high unemployment rate level. We see the primary explanation for this both in our greater reliance on the Leisure and Hospitality sector, but also in the higher degree of stringency that our state used compared to others (e.g. Florida or Texas). Since then, the California unemployment rate has decreased by a whole percentage point and has reached 6.5% in December. While this is still significantly higher than the national rate (3.9%), the drop from November to December from 7.0% to 6.5% is particularly encouraging. California is still some 360,000 short of the labor force level we had prior to the pandemic in February 2020. Employment even lags further behind at approximately 750,000. Together, our state continues to be roughly 1.1 million short of where we would like to be (without considering natural growth in the population/labor force).

Looking at the **Inland Empire**, we have to be careful since the national and state unemployment rates take recurring seasonal fluctuations into account (“seasonally adjusted”) while the regional unemployment rate does not. The official (raw) data showed a decline in the Inland Empire unemployment rate by 0.3 percentage points, as it fell from 5.4% to 5.1% from November to

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December. What is encouraging is that the decline was primarily achieved by growth in employment, although the labor force shrunk slightly. Without the drop in the labor force, the Inland Empire unemployment rate would only have decreased by 0.2 percentage points.

When taking into consideration seasonal fluctuations, a slightly different picture arises. The **seasonally adjusted unemployment rate** found itself at 6.8% in November 2021, over an entire percentage point higher than its non-seasonally adjusted counterpart. This month, the seasonally adjusted unemployment rate decreased by 0.3 percentage points, landing on **6.5%**. The fundamental takeaway here is that the seasonally adjusted unemployment rates for the Inland Empire follow the same (decreasing) trends as the non-seasonally adjusted unemployment rates, but they remain at a higher base level. After seasonally adjusting the data, the unemployment rate for the Inland Empire still fell by 0.3 percentage points, but now sits at the same (higher) level as the state. The adjusted rate is 6.5%, which is a whole 1.4 percentage point higher than the misleading (for comparison) non-seasonally adjusted rate of 5.1%. What is encouraging is that seasonally adjusted, the labor force in the Inland Empire roughly remained constant, so that the decrease in the seasonally adjusted unemployment rate is entirely due to an increase in employment.

We expect the seasonally adjusted unemployment rate to continue to fall from December to January, along with a similar decline in the state unemployment rate. However, expect to see a substantial (0.5 percentage points) increase in the seasonally unadjusted published rate in a month. There is further good news for the Inland Empire: the labor force, both seasonally adjusted and non-seasonally adjusted, sits now at a higher level than prior to the Coronavirus downturn (roughly 15,000 more people are in the labor force now). Employment is still slightly lower, but only by 7,200 positions when we look at the raw (non-seasonally adjusted) data. The picture looks slightly less encouraging when we take seasonal fluctuations into mind (still 27,000 positions short).

INLAND EMPIRE

We already have talked about the headline-news CPS numbers for our region, and will focus here on the establishment survey numbers, which do not take into account commuters.

In the Inland Empire, total non-farm jobs increased by 2,300 from November to December in 2021, continuing the trend of recovery according to the CES.

Compared to December 2020 or a year ago, total non-farm jobs increased by 66,000. The Leisure and Hospitality sector contributed most to the increase, adding 27,400 jobs alone. Given that the COVID-19 pandemic had the most significant negative impact on this sector, it is reassuring to see continued recovery in Leisure and Hospitality. Within the sector,

Accommodation and Food Service saw the largest gain of 26,100 jobs. One factor behind this is restaurants hiring new employees as more people find it acceptable to venture to dining away from home. Other heavily affected sectors from the pandemic display a similar positive trend. For example, jobs increased by 12,000 in the Logistic sector, which includes Transportation and Warehousing, and Wholesale Trade. Transportation, Warehousing alone increased by 10,200 jobs **compared to last year** when international trade was devastated by the pandemic. With the U.S. economy revving up, import levels increased which affects transportation and warehousing. These benefit the Inland Empire since logistics plays a larger role here than in other locations in Southern California.

We see a similar trend in the sectoral distribution in the **monthly gains**. The Logistic sector saw the biggest increase by 3,300 jobs. Within the sector, the gain came solely from Transportation, Warehousing with an increase of 3,400 jobs, while Wholesale Trade actually decreased by 100 jobs. The Leisure and Hospitality sector followed by an increase of 2,000 jobs. Within that sector, Accommodation and Food Services made up almost all the gain. The sectors with the biggest losses were Construction, with a decrease of 3,200 jobs, and Other Services, with a decrease of 800 jobs. Remember, however, that these numbers are not seasonally adjusted, and hence do not take into account regularly occurring seasonal fluctuations.

Out of 12 major industries, 5 saw gains in employment and five saw losses, while 2 sectors basically remained flat. Here is a summary of the sectoral analysis:

- Logistics had the largest gain this month with 3,300 jobs added, followed by Leisure & Hospitality (+2,000);
- Manufacturing (+900), Professional and Business Services (+500), and Financial Activities (+300) also saw employment growth;
- Construction had the largest job loss this month (-3,200) followed by Other Services (-800), and Government (-200);
- Information, along with Mining and Logging, remained constant in December;
- the IE gained 7,000 jobs and lost 4,700, for a net total 2,300 position-increase this month;

Since the pandemic began, 96% of nonfarm jobs have been recovered within the Inland Empire.

CALIFORNIA

This drop of the unemployment rate seen from the household (CPS) survey, was precipitated by a gain of 50,700 nonfarm payroll positions, a fifth of the total U.S. job gains last month, which is much higher than California's population share.

Although California saw a much greater drop in the unemployment rate than the second most populous U.S. state, Texas, the Golden State continues to lag behind overall. Last month, Texas's unemployment rate declined a mere 0.2 percentage points to 5.0%, yet still remaining 1.5 percentage points ahead of California in the race to full employment. On a year-to-year basis California leads Texas, having seen an increase in total nonfarm payroll of 6.0%, while Texas only saw growth by 4.5% between December 2020 and 2021. We strongly believe that this relatively better performance is the result of differences in industrial composition (think of booming oil prices, for example, and the drop in international tourism), but also in our state having been more stringent, which Texas has paid for, in parts for having a higher mortality rate.

Ten of twelve major industry sectors added jobs in November, while one reported no growth and another saw job losses:

- Leisure and Hospitality accounted for almost a third of the total employment gains in California with an increase of 15,000 positions. While proportionally a large gain, December did continue the trend of slower growth in this sector. Previously, hopes existed that November's opening of international travel would boost Leisure and Hospitality; however, December only saw a moderate gain in the monthly increase, growing by 0.87% as opposed to November's 0.69%, a difference of 3,200 positions. This is disappointing, but also shows that international tourism has not returned to levels we had hoped to see.
- Professional and Business Services held second place, increasing payroll by 12,000. Although lower than in previous months, this sector continues to see higher growth than in the early fall.
- The next largest employment gains were seen in Logistics (+9,100), Education and Health Services (+7,600), Government (+4,100), Information (+3,100) and Other Services (+3,000).
- Together, Leisure and Hospitality along with Professional and Business services account for just over half of California's total monthly job gains.
- The only sector to decline was Retail Trade, which lost 7,300 positions in December. This continues the trend from November, where previously stronger job growth in this sector suddenly reversed into a decline. In addition, Mining and Logging exhibited no growth.

From a year-to-year perspective, every major sector saw an increase in employment from December 2020 to 2021. This growth was led by Leisure and Hospitality (+416,200), Professional and Business Services (+164,800), and Educational and Health Services (+88,800). As of December, California has recovered 72% of the nonfarm payroll jobs lost during the pandemic shutdown of Spring 2020.

SOUTHERN CALIFORNIA

The unemployment rate of **Southern California** decreased by 0.6 percentage points, from a value of 5.9% in November 2021 to 5.3% in December 2021—slightly higher than the non-seasonally adjusted California unemployment rate of 5.0%. While the decrease in the unemployment rate is encouraging, it is marred by the fact that the size of the labor force decreased by 0.6 percent, from its November 2021 value of 10.8 million to its December 2021 value of 10.7 million. Total nonfarm employment, on the other hand, increased 0.3% from 9,377,000 in November to 9,408,400 in December. Combined, these two lead to a decrease in the unemployment rate, but unfortunately the shift is primarily driven by the decrease in the labor force.

Zooming into the sectoral level, the largest monthly gain was in Trade, Transportation, and Utilities, which saw an increase in 16,800 jobs over the course of December. From a year ago, it is up 34,500 jobs, indicating that a large portion of the jobs gained over the last year were gained over the course of the last month. Other sectors which saw notable gains are Leisure and Hospitality (+9,700), Professional and Business Services (+4,500), and Manufacturing (+3,000).

A sectoral analysis of Southern California is as follows:

- The largest monthly gain was in the Logistics sector, adding 10,500 jobs in December;
- the next 3 largest sectoral employment gains of the region include Leisure and Hospitality (+9,700), Professional and Business Services (+4,500), and Manufacturing (+3,000);
- the government sector was the only major sector that lost jobs in Southern California (-900);
- the civilian labor force shrunk by 69,300 (-0.64%);
- total nonfarm employment grew by 0.3% from 9,377,000 to 9,408,400;
- the unemployment rate decreased by 0.6 percentage points from 5.9% to 5.3%, driven primarily by the decrease in the labor force, but also some employment gains;
- total nonfarm employment currently sits approximately 3.8% shy of pre-pandemic levels