IEEP NEWS RELEASE
March 22, 2024

The February 2024 Employment Report

by
Manfred W. Keil[1]

OVERVIEW

The California Employment Development Department (EDD) released their February labor market update for California and its regions this Friday morning. It contains the latest labor market statistics for the Inland Empire (Riverside County and San Bernardino County). There is not much happening since the release of the January report two weeks ago. Employment, the labor force, and the unemployment rate in the state and the region basically remained unchanged, and previous negative trends observed in the logistics industry (transportation, warehousing, wholesale trade) and positive trends in the health and education industry continue. The logistics industry continues to adjust from the overhiring it did at the peak of the logistics boom during the summer of 2022.

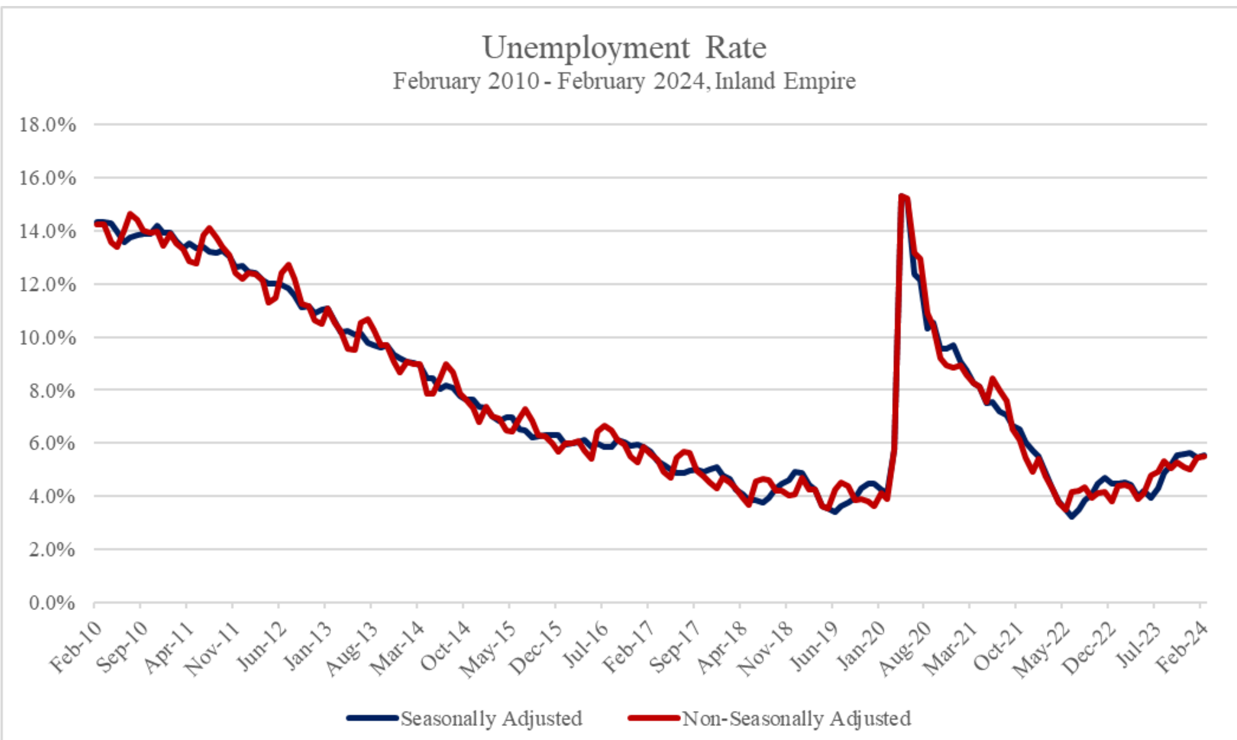
California as a whole experienced a slight increase in unemployment in February, up to 5.3% from 5.2% the previous month. These numbers are seasonally adjusted by the EDD. Total nonfarm payroll jobs decreased this month, reversing an increase over the previous two months. However, nonfarm payroll jobs are still higher than they were a year ago, up by 1.0% from February 2023, which is close to historical annual growth. Based on the revised residency-based survey (CPS), both employment and the labor force contracted this month by 7,000 and 20,000 residents respectively. These amounts are relatively small (employment decreasing by 0.1 percentage points).

Headline figures (non seasonally adjusted) indicate that unemployment held steady in the Inland Empire during February, remaining at January's 5.5% level. For San Bernardino County, the unemployment rate was 5.4% while for Riverside County it was slightly higher at 5.6%. Out of 58 California counties, San Bernadino's unemployment rate ranks 20th, while Riverside's comes in a 22nd (here 1st rank would indicate the lowest unemployment rate). While this may not seem too concerning at face value, looking at underlying factors (employment and labor force), we have seen a decrease in both relative to the previous month. Similar to the California situation, this is of little concern since the numbers are very small. The lack of a change in the unemployment rate was caused by relatively similar very small decreases in employment and the labor force - the

[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. Keil received valuable assistance from research analysts Suchen Hou, Arlo Jay, Ivan Kolesnikov, Sasha Rothstein, and Ethan Sattley.

decrease is less than one tenth of a percentage point, and hence you might as well assume that they had not changed.

This development for the Inland Empire becomes a bit more concerning when filtering out the effects of seasonal factors, e.g. regularly occurring employment increases in February after the post holiday low January employment figures. The EED report does not seasonally adjust for regional unemployment, but we do so using standard statistical techniques to give us a more objective picture of the labor market. The seasonally adjusted unemployment rate for the Inland Empire increased slightly, from 5.5% to 5.6%, caused by a decrease in employment (down 0.5 percentage points) outpacing the decrease in labor force (down 0.4 percentage points). These numbers are more significant since they imply that the unemployment rate would have jumped up at a relative high rate had it not been for people dropping out of the labor force. It also shows that unemployment rates continue to inch up since the summer of 2022 (see the graph below).



CALIFORNIA

In February, the Golden State's unemployment rate saw a slight increase to 5.3% compared to 5.2% in January, seeing the decline of 3,400 non-farm payroll jobs. California's unemployment rate numbers remain higher than the national rate of 3.9%, which rose from the 3.7% in January. The household survey recorded declines in both the state labor force (-6,900) and employment (-20,100).

Here are sector-specific highlights:

- Private Education and Health Services continued its strong gains from January, increasing by 15,400 positions.
- Other major gains were seen in Professional and Business Services (+1,900), Leisure and Hospitality (+1,200), and Mining and Logging (+100).
- Construction saw the biggest loss in employment since January (-9,600), followed closely by Trade, Transportation, and Utilities (-7,300).

Looking at year-to-year changes, Private Education and Health Services is once again ahead of the other industries, with a gain of 180,100 employees. Government came in second with an increase of 61,100 workers. The biggest decreases since February 2023 were in Information (-54,200), followed by Professional and Business Services (-33,400). The calendar year brought an overall relatively large 0.8 percentage point increase in unemployment across California (4.5% to 5.3%) even with a 1.0% increase in payroll jobs.

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).

In February, the seasonally adjusted unemployment rate for the Inland Empire increased by 0.1 percentage points from 5.5% to 5.6%. This is a slight rebound from the 0.2 percentage point decrease that we saw between December 2023 and January 2024. What is concerning is that both the employment and the labor force shrunk by 10,600 and 9,500, respectively. Note that the change in the unemployment rate is approximately equal to the growth rate in the labor force minus the growth rate in employment. In the current situation, the decrease in employment outpaces the decrease in the labor force, causing the unemployment rate to go up.

Both the labor force and employment numbers come from the Current Population Survey (CPS) and reflect the employment status of the workers who reside in the region but do not necessarily work here. Historically, that number is higher than the employment statistics we receive from the Total Nonfarm employment, which contains data from an establishment survey (Current Employment Survey or CES). The establishment data indicates how many people are on payroll of the businesses that operate in the region, and hence are typically more reliable than the subjective answers from the household survey.

So what does the CES tell us? Similarly to the CPS numbers, the EDD does not seasonally adjust the CES numbers at the regional level. According to the Establishments survey, the seasonally adjusted employment also went down, but by less: 5,300 (half of what CES reported). The discrepancy can be explained by the fact that commuters who live in the Inland Empire but work in the coastal regions (~25% of the labor force) are perhaps getting laid off at a higher rate.

In terms of the sectoral changes, Construction, which has been growing rapidly for the past year (111,900 to 120,200 from January 2023 to January 2024) saw its first decrease in a long time: it went down by almost 3,000, or 3%, this month. Local Government, on the other hand, continues to hire people, at a 5.6% Year-to-Year rate. This percentage increase ranks second only to Private Education and Health Services, which went up by 7.9% since February of last year.

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

- The largest increases in employment were seen in Private Education and Health Services (+1,700), Government (+1,100), and Logistics (+700).
- The sectors with the biggest decreases in employment are Construction (-3,000), Professional and Business Services (-1,200), and Manufacturing (-850).
- Since February 2023, Logistics went down by 5,500, which is primarily a result of overhiring that happened during the pandemic.