

IEEP NEWS RELEASE

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The February January 2026 Employment Report

by

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OVERVIEW

The California Employment Development Department (EDD) currently is lagging behind the release of national labor market data due to the annual (major) revisions made at the state level. We already have the March 2026 national labor market data, but until today, the EDD had only published the January 2026 series. The agency is catching up by releasing January-February-March data in a span of 30 days. On April 17, we received the second installment, which allows us to analyze the February 2026 labor market situation.

There are two surveys to give us the monthly data for the labor market. The household survey (Current Population Statistics or CPS) is based on interviewing residents within an area and is used to estimate the regional and county unemployment rate. Hence, it includes commuters from the Inland Empire into the coastal areas. The data is available until February 2026 for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA) and for the two counties separately. The other is an establishment survey based on a larger sample size (Current Employment Statistics or CES). Since the CES is based on the location of the establishment, it does not include commuters from the Inland Empire into the coastal areas, but it does include workers who do not reside in the Inland Empire. The CES gives us sectoral employment information. February 2026 data is only available for the MSA, while for 2025 will be published later this year.

The headline news for the Inland Empire is that the (non-seasonally adjusted or “raw”) **unemployment rate decreased from 5.4 percent in January 2026 to 5.3 percent in February.** A more objective measure is the change from a year-ago since this typically removes components of the unemployment rate that are simply driven by seasonal patterns (think of Holiday hires in December or summer layoffs in the Coachella Valley) fluctuations. Here the Inland Empire unemployment rate slightly increased by 0.2 percentage points from 5.1 in

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February 2025. Bottom line, if you want to get a more objective picture of the underlying strength of the local economy, do not look at the raw data.

Here comes the better news: once we control for seasonal patterns using a similar statistical filter as the EDD does for the state, the (seasonally adjusted) **unemployment rate for the Inland Empire actually decreases by 0.2 percentage points from January 2026 to February 2026**: it now stands at 5.2 percent, which is marginally lower than the raw data. It is also 0.8 percentage points lower compared to the July 2025 level (see Figure 1 below).

The unemployment rate can change if the labor force grows at a different pace than employment. If employment growth is faster than the labor force increase, then the unemployment rate will fall (this is the ideal picture). On the other hand, the unemployment rate can also fall if the labor force shrinks faster than employment (this is a negative development). Using the seasonally adjusted data, we find that the unemployment rate in the Inland Empire declined because of a shrinking labor force and employment actually growing - both components went in the right direction mathematically. The decline in the labor force is somewhat of a concern because people leave the labor force if they become discouraged about finding a job. On the other hand, the labor force can also shrink if the population becomes smaller (this is not the case for the Inland Empire), or deportation of illegal immigrants.

The table below lists the seasonally adjusted data for both the CPS and the CES. Overall, there is not much change in employment at the aggregate level, even if we look at the change from a year ago. Total Non-Farm employment increased by 3,700 relative to February 2025, and fell by -7,500 when compared to January 2026. These numbers represent small percentage changes. However, there is a lot of underlying movement that the aggregate numbers do not reveal. For example, the annual increase of 3,700 positions relied on the **Health sector generating 17,000 new jobs over the year**, which was the largest by far and represented a roughly 5 percent growth. The implication is that **all other sectors saw a net decline in employment from a year ago**. Here is bad news related to the Health sector: compared to last month, this sector shed -7,000 jobs - meaning, if employment had stayed the same, then overall employment in the Inland Empire would not have fallen.

With over half over the employment being generated by three sectors (Health, Logistics, Local government), the fear has always been that the **lack of diversification** means that if these sectors contract, economic activity in the Inland Empire will be affected negatively in a significant way. Note that both for California (see below) and the Inland Empire, **Health employment has been falling over the last month**. We expect federal health expenditure cuts, if not offset by state expenditures, will generate an employment recession in the Inland Empire later this year (note that we are not advocating for a billionaire's tax here).

INLAND EMPIRE:

Plotting the (raw) non-seasonally adjusted and the seasonally adjusted unemployment rate makes it clear how the raw data can be misleading: the series is more volatile and tends to bounce back to the underlying trend after being temporarily displaced due to regularly occurring swings related to the time of the year. Note that regardless of which series we focus on, unemployment rates in the Inland Empire have been trending up since mid-2022.

We also seasonally adjust sectoral employment data and display the resulting figures in Table 1.

To look at the raw data, go to the EDD website

(<https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html>)

Figure 1: Unemployment Rate, SA (orange) and NSA (blue), Inland Empire, January 2010 - February 2026

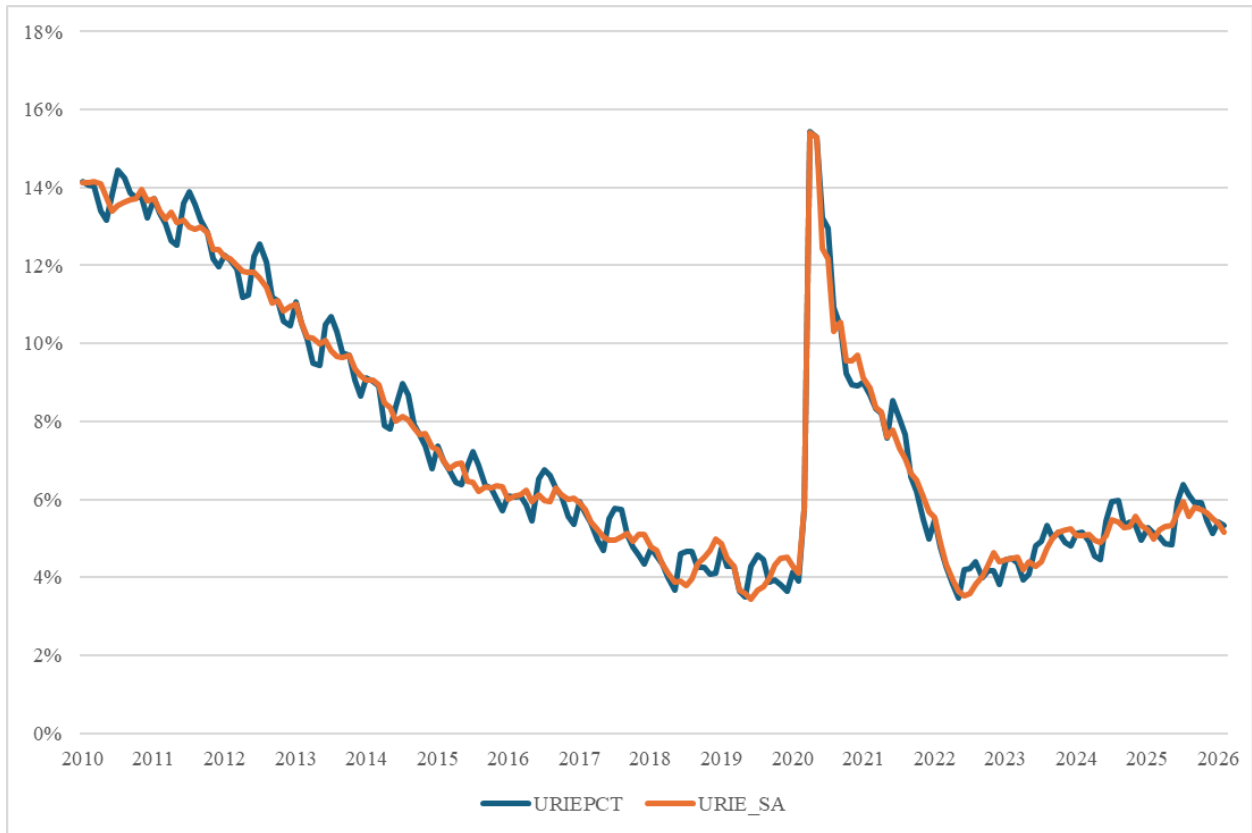


Table 1: Labor Market Data, SA, Inland Empire, February 2026²

Data Seasonally Adjusted

	Feb-25	Dec-25	Jan-26	Feb-26	Percent Change	
					Month	Year
Civilian Labor Force	2,220,623	2,253,923	2,226,010	2,225,655	0.0%	0.2%
Civilian Employment	2,109,880	2,130,112	2,106,315	2,110,782	0.2%	0.0%
Civilian Unemployment	110,743	123,811	119,695	114,873		
Civilian Unemployment Rate	5.0%	5.5%	5.4%	5.2%		
(CA Unemployment Rate)	5.4%	5.5%	5.4%	5.4%		
(U.S. Unemployment Rate)	4.2%	4.4%	4.3%	4.4%		
Total Nonfarm	1,713,062	1,722,103	1,724,270	1,716,770		0.2%
Mining and Logging	1,589	1,601	1,597	1,588		-0.1%
Construction	111,371	106,631	107,460	106,783		-4.1%
Manufacturing	96,331	93,732	93,348	92,837		-3.6%
Durable Goods	57,680	55,823	55,527	55,081		-4.5%
Non-Durable Goods	38,676	37,921	37,841	37,784		-2.3%
Logistics	265,655	267,453	267,116	268,031		0.9%
Retail Trade	182,119	181,398	181,018	181,155		-0.5%
Utilities	5,603	5,577	5,582	5,604		0.0%
Information	12,296	11,936	11,702	11,795		-4.1%
Financial Activities	43,480	42,895	42,600	42,492		-2.3%
Professional, Scientific, and Technical Services	46,643	46,875	46,772	46,142		-1.1%
Private Education and Health Services	332,176	354,112	356,831	349,218		5.1%
Leisure and Hospitality	186,575	186,502	187,017	186,602		0.0%
Other Services	50,831	51,316	51,746	51,787		1.9%
Government	264,879	262,953	263,156	262,773		-0.8%
Federal Government	20,973	18,397	18,316	18,455		-12.0%
State Government	29,209	28,275	28,263	28,100		-3.8%
Local Government	214,593	216,011	216,405	216,062		0.7%

Table 1 indicates that **out of the roughly 3,700 jobs created over the last 12 months, a little over 17,000 were generated by a single sector: Health.** This means that the other sectors combined lost roughly 13,300 jobs. The “Biggest Losers” were Construction (-4,600) and Manufacturing (-3,500). Overall, the Inland Empire almost gained 0.2 percent in Non-Farm jobs.

Here is the summary of the winners and losers using seasonally adjusted data from a month ago (January 2026) and from a year ago (February 2026):

- **Logistics** saw a month-to-month increase of 900 jobs, making it the biggest winner by far; increases elsewhere, if at all, were minimal.
- Private Education and **Health Services** saw the biggest decline (-7,600), which is an order of magnitude greater than next biggest losers, Construction and Leisure and Hospitality (-680 and -400)
- For **year-to-year growth** (relative to February 2025), the sector with the biggest employment gain was Private Education and **Health Services** (+17,000), **primarily Health.** All other sectors combined saw a net loss of 13,000 jobs. Here the biggest loser

² We stress here that **Table 1 contains the seasonally adjusted data** (for the raw, non-seasonally adjusted data, go to the EDD website listed above).

was Construction (-4,600) followed by Manufacturing (-3,500) and Durable Goods (-2,600)

General Outlook: Riverside-San Bernardino-Ontario MSA

The Inland Empire Economic Partnership held its annual State of the Region conference two months ago at the Ontario Convention Center. The main theme of my presentation was the comparison of the Inland Empire economy with “**A House with a View Sitting on Three Stilts.**” The idea was that the view was pleasant (the economy is doing well - recall that this was the picture before the start of the Iran War at the end of February), but that the lack of diversification could easily generate future problems if one of the stilts collapsed. What were the three stilts? (i) Health sector, (ii) Local Government (Public Education), and (iii) the Logistics Industry (Wholesale Trade, Warehousing, Transportation).

Since then we have first seen the collapse of Local Government employment - this became visible when the EDD presented heavily revised data last month. Local Government in the Inland Empire fell from rank two to rank three. The Logistics industry, while having climbed to second place in the MSA (and being the biggest employer in San Bernardino County) is not contributing to employment growth currently - the sector is stuck in an adjustment process, where past hiring was driven by an overly optimistic outlook for the industry based on post-COVID 19 spending patterns of households. That left us with the Health industry. This is where the warning lights are starting to flash: **both in the state and in the region, the Health sector has seen significant monthly data declines.** This could be the first sign of reduced federal expenditures being cut back significantly in this sector - and with more bad news to come over the next few months.

The danger for our region is that we have seen this sort of collapse before as the result of a lack of diversification. In the recent past it happened in the ‘90s and the turn of the millennium when the “peace dividend” was actually negative for the Riverside MSA due to the significant cutback in military expenditures. This was followed by the boom and bust of the housing industry, which climaxed with the burst of the housing bubble in 2008/2009. Is it true that once again we have put all of our eggs in one basket? Unemployment rates in the ‘90s and following the housing market collapse were significantly higher in the Inland Empire than the state and national unemployment rates. Unless we adapt policies and investment decisions that avoid this scenario, we feel that the past will repeat itself in the near future.

CALIFORNIA

The (seasonally adjusted) unemployment rate for California remained unchanged from January 2026 and stands at 5.4 percent for February 2026. The national unemployment rate increased by 0.1 percentage points from 4.3 percent to 4.4 percent. Hence, **the state unemployment rate is a full percentage point higher than the U.S. rate.** The change in the unemployment rate is approximately equal to the growth rate of the labor force minus the growth rate of employment and hence can change even if employment is constant or declining. A healthy economy will see both the labor force and employment increase. Unfortunately, for California, the unemployment rate fell because employment was shrinking less than the labor force declined. The labor force fell

by 35,100 or 0.2 percent, while **employment shrunk by 23,100 or 0.1 percent**, hence the decline in the unemployment rate.

We consider the 1 percentage point gap between the national and state unemployment rate to be unhealthy, although we have seen (somewhat smaller) differences in the past. In addition, our state has a higher unemployment rate than 48 states (we tie with Delaware for the distinction to be in first place), and has remained unchanged from last year's rate (February 2025). Compared to six years ago (February 2020), which was the last month before the COVID-19 downturn, it is a full percentage point higher (February 2020: 4.4 percent).

Nonfarm employment, as measured by the CES, on the other hand, also **decreased by (-19,900)** in February. Note that for the U.S., the decrease in Nonfarm employment in February was a significant -133,000. This implies that the California decrease was roughly 15 percent of the U.S. decline - hence only slightly more than our population share.

For those who want to find a more detailed analysis of the California labor market, go to:

<https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html>

and

<https://labormarketinfo.edd.ca.gov/data/california-labor-market-dashboard.html>

There are some serious **alarm bells starting to ring in the California labor market** besides the worries about the unemployment rate. Over the recent past, there were two main engines driving job growth in the state labor market: Health, Local Government, and Logistics. As we found out last month, Local Government (Education) job increases were a mirage that disappeared when the annual data adjustments were made. Worse yet, (Private Education and) Health shed 24,100 jobs last month, which explains why total non-farm jobs declined. Only four sectors saw employment increases: Government (5,800), Professional and Business Services (4,100), Information (2,400), and Financial Activities (1,500). While we do not have data for GDP growth for the first quarter, the latest data for the fourth quarter of 2025 shows California growing output by a relatively small amount, but a higher percentage (0.9 percent) than the U.S. (0.5 percent). Hence, the jobless boom (or “ghost economy”) seems to continue.

OUTLOOK

Given the latest news, there is a significant probability that the Iran war will be over soon, and that Brent Oil prices will not remain above \$100. Hence, we should see gasoline and diesel prices fall (slowly). Still, and despite the fact that Chairman Powell will be replaced by President Trump's nominee Kevin Warsh, who has vowed to lower the Federal Funds Rate (FFR), we do not believe that a reduction will come before June 2026. Financial markets currently place a probability of less than 5 percent on this happening. The Fed will take a “wait and see” approach until it becomes

clear to what extent the gasoline price increases result in a more broad based increase in the inflation rate. With interest rates remaining at the current levels for the near future, we cannot expect additional stimulus from housing starts and housing sales. We also do not expect construction, automobile sales, and durable consumption expenditures to increase significantly.

We continue to be **concerned about the lack of diversification especially for the Inland Empire**. The three largest employers (Health, Logistics, and Local Government) provide more than 50 percent of the overall employment in the MSA. We were always concerned that the economy will go into an employment recession if one of the three sectors shows decline. Following the massive data revisions last month, the Inland Empire can no longer rely on (Public Education and) Local Government to provide the forward thrust. Logistics continues to be in the “freight recession” (better “adjustment”), and Health has now seen the largest decline in employment from the previous month in the state. While the biggest threat to a regional downturn seems to have been avoided with the opening of the Strait of Hormuz, the problems we describe persist. While we are no longer worried about declining consumption following a stock market correction or lower income households cutting back because of the “gasoline tax,” we continue to worry about cutbacks in health expenditures due to Federal policies, and Public Education expenditures reductions due to demographics.