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The December 2023 Employment Report

by

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OVERVIEW

The California Employment Development Department (EDD) released their **December labor market** update for California and its regions on January 19. It contains the latest labor market statistics for the Inland Empire (Riverside County and San Bernardino County). For details, you will have to read on, but to give you a quick summary, it can best be described as being negative.

Here is the summary for California and the Inland Empire.

California as a whole experienced a slight increase in its unemployment rate by 0.2 percentage points to 5.1%, up from 4.9% in November. By comparison, the national unemployment rate remained the same from November to December 2023. These numbers are based on the Current Population Survey (CPS) based on residency, and somewhat subjective answers of participants. The bad news for California is that both employment and the labor force decreased from a year ago, continuing a 6-month trend of consecutive decreasing total state employment and labor force. A second survey, called Current Employment Statistics (CES) is based on more reliable answers from establishments. It allows us also to distinguish between types of employment by industrial sector. In that survey, total nonfarm jobs increased, reversing a slight contraction during the previous month. Month-to-month fluctuation can be quite noisy, and it is therefore useful to look at year-to-year changes. Here total non-farm jobs increased 1.7% year over year. The discrepancy between the two surveys may be due to self-employment (measured by CPS but not CES) and people holding multiple jobs (captured in CES but not CPS). Regardless, the picture for our state is not overly positive, including the fact that among the 50 U.S. states, California has the 49th highest unemployment rate (thank you Nevada from preventing us to be the worse in that category).

Headline figures (the raw data delivered by the EDD, which is not seasonally adjusted) indicate that the unemployment rate increased by 0.1 percentage points in the **Inland Empire** during December, ticking up to 5.1% from a revised 5.0% in November. While this may not seem too

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alarming, looking at underlying factors (employment and labor force), we have seen a decrease in both variables relative to previous months. The increase in unemployment rate is caused by the decrease in employment (down 0.6 percentage points) outpacing the decrease in labor force (down 0.70 percentage points). This development is undesirable because it indicates people are leaving the labor force as employment contracts. Without these “discouraged workers,” the unemployment rate would have increased by a significantly higher amount. The decrease in employment (that is not good) has been outpaced by the negative growth rate of the labor force (another ‘not so healthy’ fact). This development represents a reversal of the labor market trends of previous months, breaking a three-month streak of employment increases.

This development becomes even more concerning when filtering out the effects of seasonal factors, e.g. an increase in employment in the retail sector and logistics during the holiday shopping season. The EED report does not seasonally adjust the data for the labor market. However, at the Lowe Institute we remove regularly occurring seasonal fluctuations (think about summer employment in the Coachella Valley or construction employment in Chicago) adjust them to give us a more objective picture of the state of the labor market. **The seasonally adjusted unemployment rate increased relatively significantly from 5.4% to 5.7%,** again caused by a decrease in employment (down 0.5 percentage points) outpacing the decrease in labor force (down 0.8 percentage points). While recession predictions remain uncertain, this trend continues to push the region towards higher unemployment, clearly a reversal in the region’s post-pandemic gains.

CALIFORNIA

In December, the Golden State’s unemployment rate saw a slight increase to 5.1% compared to 4.9% in November despite adding 23,400 non-farm payroll jobs. California’s unemployment numbers shows deterioration of the state labor market and it is now 1.4 percentage points higher than the national rate of 3.7%, which did not change from November. The household survey recorded a decline in the state labor force (-3,600) and employment (-32,700). This is not the sign of a healthy economy.

Here are sector-specific highlights:

- Private Education and Health Services continued its strong gains from last month, increasing by 13,200 positions.
- Other major winners were Government (+8,100), Leisure and Hospitality (+7,100), and Manufacturing (+2,600).
- Professional and Business Services was the biggest loser in employment terms since November (-3,800), followed closely by Logistics (-3,200).

Looking at year-to-year changes, Private Education and Health Services is once again ahead of the other industries, with a gain of 150,600 employees. Leisure and Hospitality came in second with an increase of 99,100 workers. The biggest decreases since December 2022 were in Information (-36,100) and Professional and Business Services (-36,200). The calendar year brought an overall one percentage point increase in the unemployment rate across California (4.1% to 5.1%) even with a 1.7% 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 December, the **seasonally adjusted unemployment rate for the Inland Empire increased by 0.3 percentage points from 5.4% to 5.7%.** This marks the sixth straight monthly increase in the civilian unemployment rate, dating back to June of 2023. However, instead of a decrease in civilian employment aligning with a decrease in industry employment, as one might expect, in December we saw civilian employment decrease while industry employment increased.

Different from the state as a whole, note that commuters play a special role for the Inland Empire. Close to 400,000 people, roughly the population of Coachella Valley, travel from our two counties to the coastal regions every day. These commuters are captured by the household survey (CPS) but not by the establishment survey (CES). To give you an example, if my employer, Claremont McKenna College, would terminate my appointment at the Robert Day School of Economics and Finance, the unemployment rate of Los Angeles County (of which Claremont is part of) would remain unchanged, but San Bernardino's unemployment rate would increase (since I reside in Upland). As a result, the establishment survey may show results quite different from the household survey.

The seasonally adjusted numbers show a significant difference between these employment statistics. Civilian employment in the Inland Empire decreased by 17,000, while employment reported by businesses in the region increased by a total of 5,300. This means that there were a total of 22,300 layoffs, the difference between the two statistics, that are not explained by the employer-reported statistics. While this number is significant, it is not surprising: it is the third month of 2023 where the gains in employer-reported employment have outpaced decreases in household-reported employment by more than 18,000 (there was a difference of 20,300 in January and a difference of 18,500 in May of this year). These unexplained layoffs, historically rare but beginning to become more common could show a restructuring of commuting patterns in the Inland Empire. They also may reflect structural adjustments in the logistics industry, which has seen substantial employment declines since December of 2021. We attribute those losses to adjustments from an overly optimistic outlook of employers in the logistics industry following the initial recovery from the Coronavirus downturn.

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

- The largest increases in employment were seen in Leisure and Hospitality (+2,038), Construction (+1,383), and Retail Trade (+1,249),
- The sectors with the biggest decreases in employment are Logistics (-1,609), Professional and Business Services (-423), and Financial Activities (-324).
- Since December of 2022, the fastest-growing sectors have been Construction (+8.8%) and Government (+4.8%). The sector with the biggest decline is Financial Activities (-5.5%).