

# IEEP NEWS RELEASE

April 3, 2026

## The January 2026 Employment Report

by

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### OVERVIEW

Due to **major annual data revisions**, the California Employment Development Department (EDD) will publish three labor market data sets for the state and its counties within the next 30 days. The first release occurred on April 3, and reports on the **January 2026 job situation**. The release date also coincides with the publication of the March 2026 national labor market numbers, which saw the U.S. unemployment rate fall from 4.4 percent to 4.3 percent.<sup>2</sup>

Monthly employment data come in two forms: (i) a household survey (Current Population Statistics (CPS)), and (ii) a larger establishment survey (Current Employment Statistics (CES)). Separate monthly data for Riverside County and San Bernardino County are only available from the household survey on a monthly basis. Monthly establishment survey data for the two counties is published once a year and with a significant delay, (it is not available yet for 2025). However, the EDD releases the combined data for the two counties (Inland Empire) **in a seasonally unadjusted form** monthly as the “Riverside-San Bernardino-Ontario” Metropolitan Statistical Area (MSA).

Unfortunately, **the seasonally unadjusted (raw) data can be quite misleading** since the EDD does not filter out regularly occurring seasonal fluctuations. This results in relatively large employment swings that are unrepresentative of the underlying strength/weakness of the area. For example, the unemployment rate increases every January as seasonal workers related to the Christmas holidays hiring are let go. Another example is the end of the school year, when significant numbers of Local Government workers (public education) lose their jobs, at least temporarily. Summer employment in the Coachella Valley (Riverside County) is yet another

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<sup>2</sup> Unfortunately, the EDD data release did not occur until late in the afternoon, while typically all tables are updated in the morning of the data release. As a result, we were unable to publish the report until April 6.

event, when uncomfortably high temperatures keep tourists away and result in temporary closings in the leisure and hospitality industry.

We start with the headline (non-seasonally adjusted) unemployment rate for the Inland Empire. It increased from 5.1 percent in December 2025 to 5.4 percent in January 2026, or by 0.3 percentage points. At face value, this is bad news. However, note that it increased by similarly large amounts every year from December to January: by 0.4 percentage points from December 2024, and by 0.7 percentage points from December 2023. 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 procedure as the EDD does for the state, the **unemployment rate for the Inland Empire actually decreases by 0.1 percentage points from December 2025 to January 2026**: it now stands at 5.4 percent (identical to the non-seasonally adjusted rate and the state unemployment rate). It is also 0.6 percentage points lower compared to the July 2025 level (see Figure 1 below). This information is consistent with the raw data comparison from a year ago, when the unemployment rate was 5.3 percent.<sup>3</sup>

A slight dampener to the good news is that the unemployment rate fell due to the decline in the labor force outpacing the decline in employment (for the raw data, the labor force also shrank, but employment fell by more). The implication is that even for the seasonally adjusted data, the unemployment rate would have increased had it not been for a shrinking labor force. This could be due to (illegal) immigrants dropping out of the labor force, or people giving up looking for work (“discouraged workers”).

Without getting into the details reported to you below, if you to limit yourself to just remembering one or two facts from our analysis here, then note that (i) **the labor market in the Inland Empire is currently quite stable**, and (ii) that this statement relies on **employment growth in a single industry: Health**. If federal cuts in health payments are not offset by the state (note that we are not advocating for a billionaire’s tax here), then you can expect a full-blown employment recession for 2026.

## **INLAND EMPIRE:**

Figure 1 displays both the seasonally adjusted and the (raw) non-seasonally adjusted unemployment rate for our region since 2010. The seasonally adjusted rate shows less month-to-month fluctuations (for obvious reasons). There has been a trend increase since the middle of 2022.

Table 1 below also shows the sectoral employment changes seasonally adjusted.

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<sup>3</sup> When comparing year-to-year changes, you do not need to seasonally adjust data since you are comparing January to January, unless an unusual seasonal factor was present at either point.

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 - January 2026**

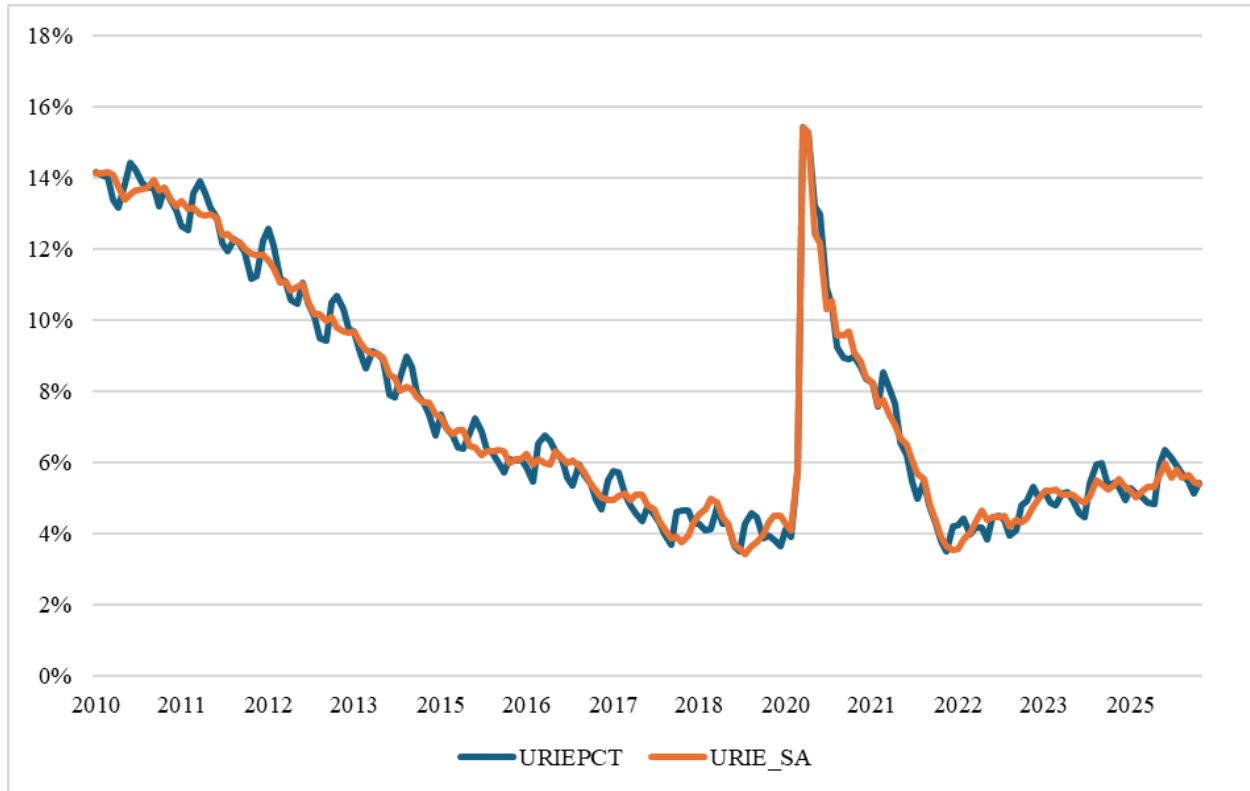


Table 1 indicates that **out of the roughly 14,700 jobs created over the last 12 months, a single sector (Health) generated a little over 27,000**. This means that the other sectors combined lost roughly 12,000 jobs. The “Biggest Losers” were Construction (-5,500) and Professional and Business Services (-3,750). Overall, the Inland Empire almost gained 1 percent of non-farm jobs.

Looking at the Household survey instead, then the reason that the unemployment rate increased from 5.2 percent to 5.4 percent over the last 12 months was that employment actually fell while the labor force was stagnant. How can the two surveys give you such a different picture? The answer is that **the household survey contains commuters who are local residents, while the establishment survey does not**. This means that firms within the Inland Empire are doing better than firms outside the Inland Empire that employ Inland Empire residents. This is not good news since the Inland Empire is often described as “first in, last out.” It is potentially the first sign of a recession coming, but we need more data before we are ready to forecast this.

The month-to-month picture looks better: **the Inland Empire gained 5,100 jobs (seasonally adjusted) when compared to December 2025**. Most of the gains came from Health (2,300), with other sectors gaining less than 1,000 positions.

**Table 1: Labor Market Data, SA, Inland Empire, January 2026<sup>4</sup>**

Data Seasonally Adjusted

|                            | Jan 25    | Nov 25    | Dec 25    | Jan 26    | Percent Change |       |
|----------------------------|-----------|-----------|-----------|-----------|----------------|-------|
|                            | Revised   | Revised   | Revised   | Prelim    | Month          | Year  |
| Civilian Labor Force (1)   | 2,225,698 | 2,261,963 | 2,255,174 | 2,225,889 | -1.3%          | 0.0%  |
| Civilian Employment        | 2,109,659 | 2,134,535 | 2,132,133 | 2,106,289 | -1.2%          | -0.2% |
| Civilian Unemployment      | 116,039   | 127,427   | 123,041   | 119,600   |                |       |
| Civilian Unemployment Rate | 5.2%      | 5.6%      | 5.5%      | 5.4%      |                |       |
| (CA Unemployment Rate)     | 5.4%      | 5.5%      | 5.5%      | 5.4%      |                |       |
| (U.S. Unemployment Rate)   | 4.0%      | 4.5%      | 4.4%      | 4.3%      |                |       |

|                                       |           |           |           |           |        |
|---------------------------------------|-----------|-----------|-----------|-----------|--------|
| Total Nonfarm                         | 1,713,091 | 1,717,024 | 1,722,733 | 1,727,813 | 0.9%   |
| Mining and Logging                    | 1,596     | 1,716     | 1,595     | 1,597     | 0.1%   |
| Construction                          | 112,991   | 107,076   | 106,677   | 107,488   | -4.9%  |
| Manufacturing                         | 96,088    | 93,892    | 93,763    | 93,556    | -2.6%  |
| Logistics                             | 266,427   | 267,000   | 267,791   | 268,458   | 0.8%   |
| Retail Trade                          | 181,897   | 180,609   | 181,432   | 181,070   | -0.5%  |
| Information                           | 12,297    | 11,941    | 11,936    | 11,700    | -4.9%  |
| Financial Activities                  | 43,497    | 43,171    | 42,900    | 42,607    | -2.0%  |
| Professional and Business Services    | 159,109   | 154,194   | 155,287   | 155,345   | -2.4%  |
| Private Education and Health Services | 329,439   | 352,122   | 354,482   | 356,776   | 8.3%   |
| Leisure and Hospitality               | 186,255   | 186,585   | 186,465   | 186,894   | 0.3%   |
| Other Services                        | 50,477    | 51,242    | 51,332    | 51,774    | 2.6%   |
| Government                            | 265,272   | 263,064   | 262,970   | 263,149   | -0.8%  |
| Federal Government                    | 21,121    | 18,402    | 18,379    | 18,290    | -13.4% |
| State Government                      | 29,283    | 28,352    | 28,274    | 28,263    | -3.5%  |
| Local Government                      | 214,740   | 216,237   | 216,050   | 216,418   | 0.8%   |

Here is the summary of the winners and losers using seasonally adjusted data from a month ago (December 2025) and from a year ago (January 2025):

- Only Private Education and **Health Care** (+2,300) saw a month-to-month increase of more than 1,000 jobs.
- Construction saw the biggest month-to-month decline (-780). Still, it was less than a 1,000 jobs.
- For **year-to-year growth** (relative to January 2025), the sector with the biggest employment gain was Private Education and **Health Services** (+14,700), **primarily Health**. All other sectors combined saw a net loss of -12,000 jobs. Here the biggest loser was Construction (-5,500) followed by Professional and Business Services (-3,750), with Local Government seeing a -1,700 increase.

<sup>4</sup> 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).

### *Data Revisions*

The EDD made its annual data revisions and provided the new employment estimates with the current data release. Using the non-seasonally adjusted (raw) data to keep comparisons as clean as possible, here are the major changes in the CES data that occurred.

Overall, Nonfarm employment did not change by much: only 3,700 jobs were added. This does not seem worthwhile writing about, except for the fact that some sectors have seen massive changes. Local Government (Public Education), for example, had almost -20,000 for December 2025 than previously listed (and -18,200 for November 2025). At the same time, (Private Education and) Health saw an increase of almost +24,000, cancelling the overall effect from the Government employment decline.

Other sectors that saw adjustment of more than 1,000 workers in December 2025 were Professional and Business Services (-6,200) and Manufacturing (+3,000). The CPS numbers were unaffected since these are based on a national household survey. Hence, there is no change in the unemployment rate.

**The bottom line effect for the Inland Empire is that it will be less able to rely on Local Government to provide impetus for employment growth in the area.** This is somewhat not surprising given the demographics of 5 - 18 year olds in the state and in the Inland Empire, which has been shrinking numbers for some time.

### *General Outlook: Riverside-San Bernardino-Ontario MSA*

Our general picture of the Inland Empire economy at our last State of the Region conference on February 17, 2026 (Ontario Convention Center) was that of “A House with a View sitting on Three Stilts.” Meaning: the current view was quite nice (we did not foresee the outbreak of the Iran war on February 28), but if you removed one of the three stilts, the house would come crashing down. The three stilts referred to the following three industries:

- Education and Health (primarily Health and less so Private Education)
- Local Government (think of Public Education)
- Logistics (Transportation, Warehousing, Wholesale Trade).

**We now have cut two supporting pillars (Logistics, Local Government), and Federal policies regarding MediCal mean that we are shaking the one remaining pillar.** These three industries have an employment share of 50 percent! This means that all other sectors, which include Manufacturing, Construction, Leisure and Hospitality, etc., only generate as much employment when added together, as these three sectors.

Logistics has not done well since the middle of 2022 (“freight recession”). However, when we compare the current employment numbers to those in February 2020 (the month before the COVID-19 downturn), then the employment increase is remarkable: 63,000 workers. Health continues to do well. What the data revisions have revealed is that our view of Local Government

employment has been somewhat misguided: Local Government (Public Education) has only generated approximately 1,700 jobs over the last 12 months, and only roughly 350 from a month ago.

Decision makers in the Inland Empire must avoid the mistakes that were made in the '90s and at the turn of the millennium: putting all of your eggs in one basket and then being surprised and without an alternative plan when the eggs break. This happened to military related employment in the aftermath of the "peace dividend" (think of aerospace) in the '90s, and with the housing boom and bust before the 2008-2009 "Great Recession."

## **CALIFORNIA**

State data, just like the observations for the Inland Empire, were heavily impacted by the annual benchmark data revisions made for the previous year; and to a lesser extent to previous data. We discuss these in more detail below.

Looking at the California labor market in more detail, we see that the (seasonally adjusted) unemployment rate decreased from 5.5 percent in December 2025 to 5.4 percent in January 2026 (by comparison, the U.S. unemployment rate at the same time fell from 4.4 percent to 4.3 percent). This seems good news until you realize that the state unemployment rate fell because of the labor force declining by more (-15,800 workers or -0.1 percent) than employment (-5,100 or -0.03 percent). A healthy economy would see both the labor force and employment increasing.

The gap to the U.S. unemployment rate remained constant at 1.1 percentage points. It is not unusual for our state to have a higher unemployment rate than the nation. However, observing a difference of the current magnitude is out of the ordinary. California continues to have the highest state unemployment rate among the 50 U.S. states. It has also remained unchanged from the unemployment rate observed a year ago (January 2025). When we compare the unemployment rate to the last month before the COVID-19 downturn, then California still has a rate that is a full percentage point higher.

Nonfarm employment, as measured by the CES, on the other hand, increased by a relatively large number (+93,500) in January. Note that for the U.S., the increase in Nonfarm employment in January was 160,000. **Hence, almost 60 percent of all Nonfarm jobs created in the U.S. were generated in California!** The contrasting results from the household survey and the establishment survey are somewhat surprising. Both surveys often show similar results, especially if it comes to larger geographical areas, such as U.S. states. While the household survey measures employment by residency and the establishment survey looks at employment within the geographic area, it is not likely that out of office workers could explain a difference of this magnitude. Other reasons for the two surveys to create different results are new businesses, self-employment, holding multiple jobs, illegal immigration, etc.

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>

**The California labor market continues to raise concerns. The Health industry is the only sector that provides strong employment growth.** Given the likelihood of federal aid cuts for the sector, we do not forecast that sector to continue to generate jobs as it did in the past. There is no other sector currently that seems to be willing to carry the baton. GDP increases will be driven by AI (“jobless boom” or better, “**ghost economy**”), but that does not give us much hope for employment growth in the near future.

#### *Data Revisions*

Largely, comparing the new Nonfarm employment numbers to the old ones at the state level, mirror those described above for the Inland Empire, except that they are magnified. While total nonfarm employment was some 40,000 workers higher than previously assumed, Local Government employment was downgraded by -58,000 workers. The reason for the employment having increased is the result of Professional and Business Services having 46,000 more workers than previously assumed, and Health (and Private Education) having 42,500 additional workers. Gains of this magnitude are visible throughout 2025, at least after March.

Together two sectors that gained the largest numbers registered almost 90,000 workers that were not previously in the data. This is more than twice the overall upward adjustment for Nonfarm employment. The implication is that the other sectors saw a net downward adjustment, with State Government (+16,100), Manufacturing (+10,800) and Financial Services (+8,700) bucking the trend.

## **OUTLOOK**

Given the current situation regarding the Iran war, we cannot expect the Federal Funds Rate (FFR) to be lowered more than once for the rest of 2026. Almost certainly, there will be no change at the end of May 2026 meeting of the Federal Reserve Open Market (FOMC), which will be the last under Chairman Powell. The Federal Reserve has signaled one decline by December 2026, and given the likely increase in the inflation rate given the spike in gasoline/diesel price, this will not happen until later in the year, if at all. Financial markets currently list the probability of a rate cut by June 2026 at roughly 12 percent. Hence, we cannot expect housing starts and housing sales to increase in the near future. Neither Construction, Automobile Sales, nor Durable Consumption Expenditures will receive additional stimulus as a result.

**Lack of Diversification is the biggest structural problem for the Inland Empire, with the three largest employers (Health, Local Government, and Logistics) holding a 50 percent share of overall employment within the region.** Given the massive data revisions in the employment report released by the EDD, the region can no longer count on Local Government to provide much power to move the area forward. The situation for the Logistics sector has stabilized and the slight downward adjustment observed since Mid-2022 seems to have been completed. However, renewed tariff increases and, perhaps more importantly, gasoline/diesel price hikes (prices at the pump are up by more than \$1 and have now reached an average of \$6 for California) will have a negative impact on the Logistics industry. **Both energy cost increases and the stock market decline may well result in consumption tanking in general.** If this were to happen, then expect an employment recession for 2026.