Jobless Growth or the Ghost Economy: Should the Inland Empire Worry?

by

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There is much talk these days about the so-called jobless growth. Here is the story: Output in goods and services has been expanding at relatively high rates for both the nation and California, while employment growth has been weak. Whether the number of jobs are moving sideways or shrinking depends on which labor market survey you trust. The household survey (Current Population Survey), which is based on interviewing a sample of households and is used to calculate the unemployment rate, shows declining employment over the past year for the U.S., California, and the Inland Empire. By contrast, the larger establishment survey (Current Employment Statistics), which counts jobs rather than workers, indicates that employment has remained roughly unchanged. We will not know the official growth rate of output or productivity for 2025 in the Inland Empire until annual County GDP figures are published by the Department of Commerce at the end of 2027. Nevertheless, our own unofficial calculations suggest that economic activity has continued to expand at a pace above its historical average.

Some, in the financial press, have interpreted the recent jobless growth as reflecting a revival of U.S. productivity growth. The newsmagazine *The Economist* has labeled the rise in productivity the "Lazarus Effect" given that high output per worker growth had been "dead" or below long-term historical averages since the start of the Great Recession in 2008. Currently, the U.S. performance in terms of accelerated real GDP growth (2.6 percent from a year ago) is even more remarkable when comparing the numbers with other highly developed countries. Japan's real GDP has grown at a rate of 0.6 percent from a year ago, Germany at 0.3 percent (with two quarters of negative growth), Canada is at 0.7 percent, the Euro area at 0.8 percent, etc.
These countries clearly have not experienced the jobless growth we see domestically.

Not everyone, including us, is convinced that the U.S. economy has entered a sustained high-productivity growth era. According to a study by the Federal Reserve in San Francisco, you should be cautiously optimistic rather than declaring a productivity revolution. Here is why.

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Some have attributed the recent high output/low employment growth to a boom in Artificial Intelligence (AI) investment and have painted an alarming picture of the future where fewer and fewer workers will be needed to produce a given amount of output. Silicon Valley, for example, is actively placing multi-million dollar bets on the rise of "One-Person Corporations" and solo-founder startups. Yet the timing makes AI an incomplete explanation for current trends. Productivity growth began accelerating several years before large language models entered widespread commercial use. More likely explanations include broader adoption of digital technologies, organizational adjustments following the pandemic, increased business investment, and continued efficiency gains in sectors such as Professional and Business Services, Information, and Mining. The Information sector, for example, has seen employment decreases of -10 percent since October 2022, while output in that sector has increased by 24 percent over the same time. That is a huge increase in productivity. However, this sector only employs slightly less than 2 percent of U.S. workers. A more significant sector in terms of employment share (almost 15 percent of workers), Professional and Business Services, which also has a large share of technology related jobs, lost close to -2 percent of its jobs while increasing its output by 8 percent over this period.

We have had repeated false alarm episodes of "machine replaces man" in the past, from the Luddite episodes in the 19th century to horses being replaced by cars at the beginning of the 20th century, to President John F. Kennedy identifying automation and machine displacement as the "major domestic challenge of the Sixties." Then there was the computer revolution and the dot.com web explosion of the '90s. Throughout all these episodes, unemployment did not increase significantly over time. Though disrupting existing jobs, they created new forms of employment and did not lead to permanently higher unemployment. In fact, the U.S. unemployment rate in 1900 was approximately the same as it is now. This shows that technological progress has tended to replace tasks rather than workers (think of gas station attendants or bank tellers). If previous technological revolutions are any guide, the full productivity effects of AI are more likely to emerge gradually over the coming decade. However, maybe this time it's different.

Known as the "dismal science," economists frequently have been forecasting negative consequences from technological advancements. Recently, the "ghost economy," as jobless growth is sometimes referred to, has received considerable attention. Frankly, the concern of an economy, where output continues to grow while employment stagnates, is primarily based on observations from two quarters of extraordinary output growth in 2025 (second and third quarter) and the forecast by some for the rest of 2026. The recent productivity resurgence is not uniform across the economy. Clement Bohr of UCLA's Anderson Forecast shows in a cross plot of real GDP growth against nonfarm employment growth that recent observations for 2025 and 2026 do not appear as outliers (extraordinary high output growth for observed employment growth) for the national economy as a whole. Instead, they appear to lie relatively close to a longer-term trend line of observations. We believe that the hype regarding jobless growth is generated by focusing on a

few sectors of the economy such as Information, and Professional and Business Services, where productivity gains have been especially strong.

For the Inland Empire, the key question is whether the recent national and California productivity revival proves temporary or marks the beginning of a sustained trend. The answer is “no” since Information and Professional and Business Services, and Information only play a minor role in the Inland Empire. For the two sectors combined, the current employment share is less than 10 percent, while over 50 percent of the employment is generated by the Health sector, Logistics, and Local Government (public education) employment.

We are more concerned with the freight recession, cuts in public education due to demographics, and health because of federal policies, which are resulting in major cutbacks for the industry. The changes from productivity growth, even if they filter through to the Inland Empire, will replace tasks not workers, as mentioned above. The more important challenge may be ensuring that workers possess the skills needed to benefit from a more productive economy. Increasing human capital in our area remains the main longer-term task for decision makers here. Graduating more students with a high school or a college degree is just part of the equation. The other part is to make the Inland Empire more attractive for 20 to 29 year olds to become residents after graduation.