IEEP NEWS RELEASE

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The June 2025 Employment Report

by

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OVERVIEW

Headline news first. The unemployment rate for the Inland Empire increased by a large number (1.1 percentage points), from 4.8 percent to 5.9 percent in June, compared to May 2025. It is also 0.5 percentage points higher than a year ago (June 2024: 5.4 percent, June 2025: 5.9 percent). However, much of the month-to-month increase is due to regularly occurring seasonal patterns in the data. The Employment Development Department (EDD) does not seasonally adjust data for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). We employ standard statistical techniques to remove the seasonal fluctuations. Removing these results in a significantly better outlook: after seasonal adjustment, the **Inland Empire unemployment rate stands at 5.6 percent, up 0.2 percentage points up from May 2025 (5.4 percent). Compared to a year ago, it still increased by over half a percentage point, from 5.0 percent to the current level of 5.6%.**

Bottom line, the alarm bells we have been ringing over the last few months now sound much louder. We may be witnessing the forecasted regional downturn already.

National labor market data, including the unemployment rate, are published earlier, typically on the first Friday of each month. Hence we know, by now, that the national unemployment rate for June 2025 fell by 0.1 percentage points from 4.2 percent to 4.1 percent. Changes in the unemployment rate are approximately equal to the difference between the growth rate of the labor force and the growth rate of employment. While the national news at the beginning of the month

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was good, it was achieved by positive employment growth coinciding with a slightly shrinking labor force. This could indicate discouraged workers dropping out of the labor force, or migrants deciding to leave the labor force. The unemployment rate is gathered from a household survey and hence does not involve employers indicating the number of jobs at their establishments.

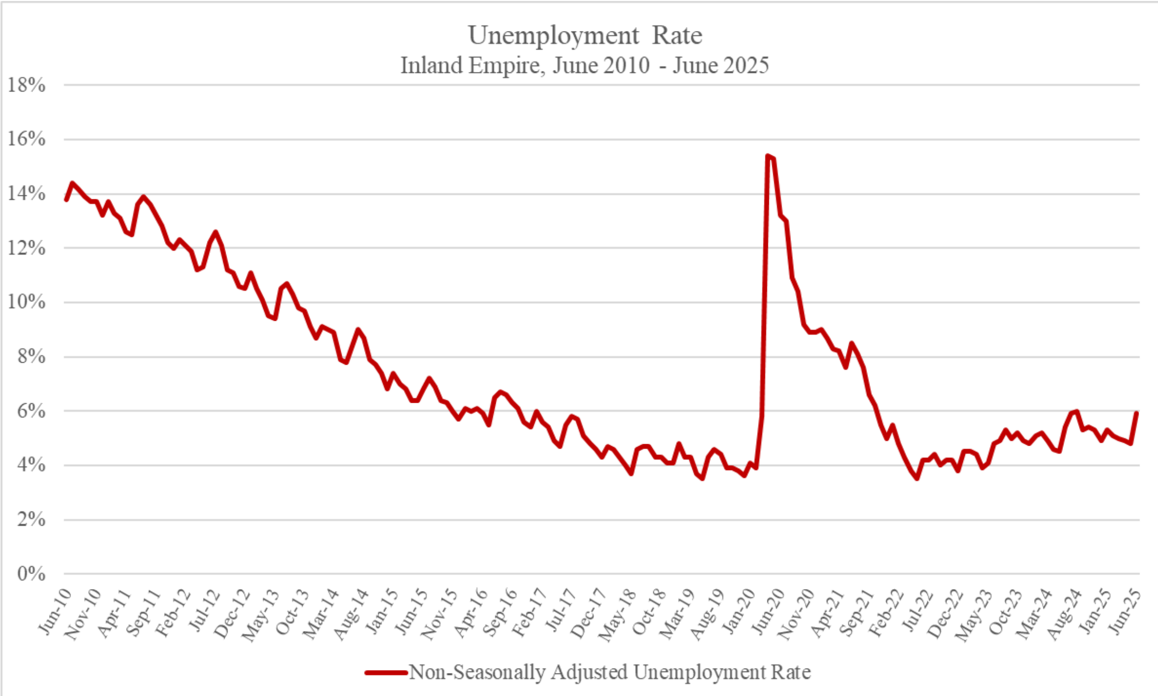
State and regional data are made available in the middle of the month, and the EDD released the June numbers on Friday, July 18. We had previously warned that the employment picture for both the state, but especially the Inland Empire, does not look very positive: employment gains from a year ago basically were the results of only three sectors generating more employment: Local Government (public education), Health, and Logistics. The remaining sectors are losing jobs. Moreover, the three pillars that hold up the building are threatened by national policies, which are about to impact all three of them to differing degrees.

The main question for the June employment report is to what extent the expected significant decline in regional employment materialized has. The answer is, not yet. After seasonal adjusting the data, employment still went up from May 2025, albeit by a relatively small number (about 250). The reason for the unemployment rate to increase was that the labor force grew by more (that is a good sign), namely by roughly 6,250). Ideally, both the labor force and employment would grow, with employment growth outpacing the labor force growth (in which case, the unemployment rate falls). Job gains from a year ago are still centered on three sectors: Health, and Local Government. Logistics (Transportation, Warehousing, and Wholesale) has stopped being a major contributor to employment growth in the Inland Empire.

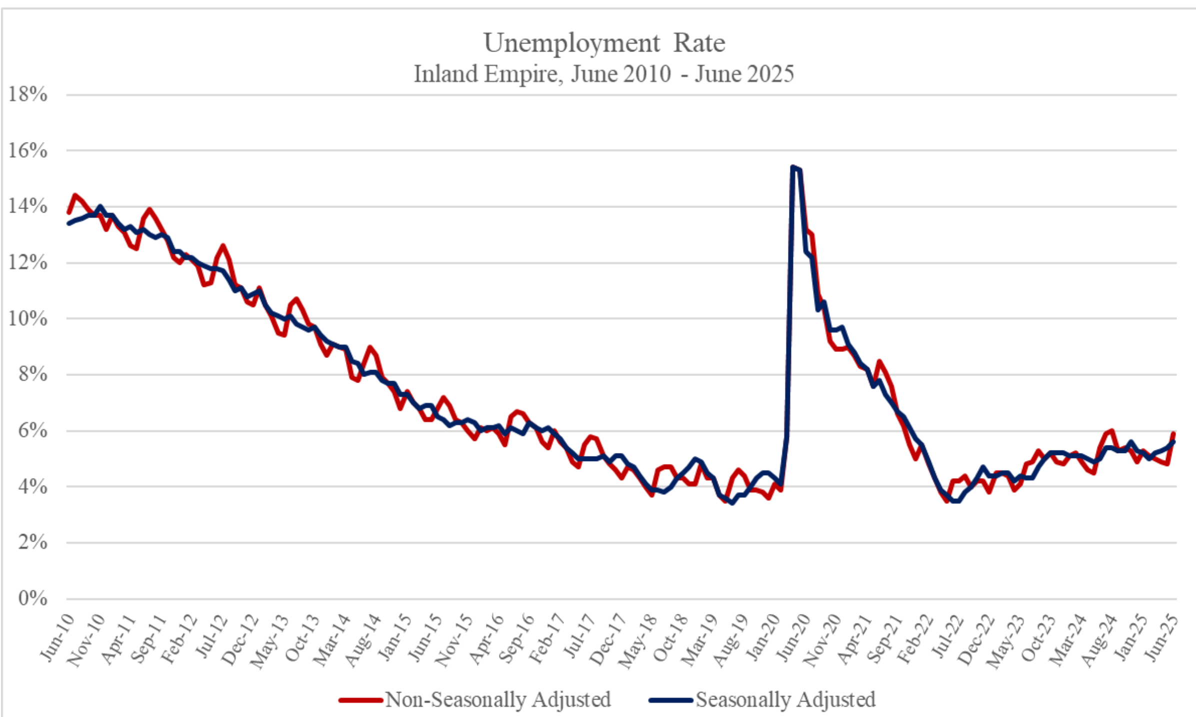
When looking at establishment survey data, which is based on a larger sample, we focus on seasonally adjusted data only, which is not available from the EDD. We do not report seasonally adjusted data for year-to-year changes since annual changes do not depend on seasonal patterns. According to the establishment survey, which does not include information from commuters, employment in the Inland Empire grew by almost 7,500 positions, which is much larger than the household survey suggests. This implies a growth rate of 0.4 percent in employment.

To look at the raw data, go to the EDD website
(https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html).

The figure below shows the seasonally adjusted unemployment rate increasing by 0.2 percentage points. The regional unemployment rate is at the same level as California's (5.4 percent). Note also that the MSA unemployment rate is now 1.5 percentage points higher than the U.S. unemployment rate (4.1 percent for June 2025).



For comparison, we also show the seasonally adjusted unemployment rate and the non-seasonally adjusted rate (see below). Non-seasonally adjusted data is clearly more volatile.



INLAND EMPIRE

The establishment survey shows that gains in employment have been miniscule over the past month (+260), compared to the increase in the labor force (+6,240). The top three sectors in month-to-month employment increases were Local Government (public education), Leisure and Hospitality, Health Services. All other sectors either showed a decline in jobs, or increases of less than 200 positions - the exception was Construction (+360), reversing a year-to-year decline for the last month.

Looking ahead, do not expect Logistics, Health, or Local Government to remain the driving force in employment growth. National policies will impact negatively on the three pillars of employment growth - and we can see that already with the Logistics sector. Note that employment losses in Local Government will be delayed for at least a year due to shifting funds so that deficits will not be as severe this year.

Here are some of the sectoral highlights from this month's report after seasonal adjustment:

- The largest **month-to-month increases** by industry were in **Local Government** (+2,900), **Leisure and Hospitality** (+2,600), and **Private Education and Health Services** (+2,500)**.**
- The most significant **month-to-month declines** were in **Professional and Business Services** (-800), **Logistics** (-300), and **Information** (-100).
- For **year-to-year growth** (relative to June 2024), **Private Education and Health Services (primarily Health)** has made the most significant contribution (+18,000). The **Government** sector overall has been the second largest job creator, which is mostly contributed by the **Local government** level (+12,600) jobs in the last year, compensating for the decline on both the state (-500) and federal (-700) levels. Note that seven sectors showed employment losses, most visible in construction (-5,200), Leisure and Hospitality (-3,400), and manufacturing (-2,800).

CALIFORNIA

This section provides a summary of the state numbers, which are reported in more detail on the official website regarding California's state labor market numbers:

https://edd.ca.gov/en/about_edd/news_releases_and_announcements/unemployment-May-2025/

At the **state** level, the **unemployment rate increased slightly from the 5.3 percent over the past two months, now being at 5.4 percent.** Payroll jobs have declined by 6,100 in June, coinciding with a growing labor force (+21,700). **California now shares the highest unemployment rate among the 50 states** with Nevada, and it is 1.3 percentage points higher than the national rate.

For California, payroll jobs, as measured from the establishment survey, increased by 153,100 from a year ago. Once again, of the total year-to-year growth 216,500 were **created by just two sectors: Health (and Private Education) and Government (primarily Local Government)**. This means that all **other sectors combined** (noticeably in Professional and Business Services, Manufacturing, Financial Activities, Information, etc.) **lost 63,400.**

Zooming into the month-to-month changes, indicate a persistent pattern of unmatched changes between sectors. This should remain an alarm for potentially more severe fallouts.

- The largest industry-level month-to-month gains were in **Private Education and Health Services** (+9,900), **Leisure and Hospitality** (+4,300), and **Construction** (+3,800).
- The "biggest losers" this month were **Professional and Business Services** (-4,800), Construction (-1,900), and **Manufacturing** (-1,100).
- Regarding the year-to-year changes, the biggest "winner" was still **Private Education and Health Services** (+163,400). **Government** (+53,100) was the only other major industry that experienced an increase (primarily through public education employment, accordingly)
- On the year-to-year scale, the biggest "loser" was **Professional and Business Services** (-46,100), followed by **Manufacturing** that suffered a decline by 37,900.

OUTLOOK

At the national level, we disagree with the majority of forecasters regarding the probability of a recession within a year. The majority of forecasters surveyed by the Wall Street Journal put a close to 50 percent probability on a recession occurring in the U.S. within the next 12 months. We see the negative growth in real GDP during the first quarter of the year as an abnormality and expect real GDP growth for the second quarter to be just below +2 percent, and therefore close to the consensus view of "Blue Chip" forecasters. To view a real time forecast for the current quarter economic growth, consult the Atlanta Fed's measure of GDPNow. We feel that growth is going to be lower over the next 12 months, falling to just below 0.5 percent, which, although not negative, rings an alarm.

Our forecast for California and the Inland Empire regarding real activity is less rosy. We expect national policies on tariffs and health to hit two of the three main pillars that support employment increases at the state and regional level. As a result, we expect overall employment levels to shrink over the coming year. Further negative impulses from Local Government Spending, e.g. on education, seem to have been postponed for another year, due to re-allocation of funds in Sacramento. Despite the pressure from President Trump, we do not expect additional stimulus from a lowering of interest rates by the Federal Reserve. With Jerome Powell in place, the Fed is unlikely to lower the Federal Funds Rate by more than 0.5 percentage points - our forecast is that they will not lower it at all during 2025. This is due to inflation actually increasing from the current pace of almost 3%. Expect the inflation rate to reach 4.5% by the end of the year. If the President succeeds in removing Mr. Powell before the term is over on grounds of misconduct related to the

Fed's spending on building renovations, then financial markets will react by increasing long term interest rates, thereby taking away any stimulus from lowering short term interest rates.