IEEP NEWS RELEASE

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The May 2025 Employment Report

by

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OVERVIEW

The California Development Department (EDD) published labor market data for the month of May on June 17. Data at the state and regional level is always released towards the middle of the month, while the Bureau of Labor Statistics (BLS) makes national numbers available typically on the first Friday of each month - the next U.S. unemployment rate data will become available on July 3rd (given the holiday on Friday, July 4th). The upcoming reports will be of particular interest since U.S. real GDP shrunk for the first quarter of 2025, and two quarters of negative growth are often considered evidence of a recession (it is actually the dating committee of the National Bureau of Economic Research (NBER) that dates recessions, and does so by month). National unemployment rates have remained fairly constant at 4.2 percent, and are only slightly up from 4.0 percent in January 2025. Reliable forecasts by the Federal Reserve in Atlanta ("GDPNow") or the UCLA Anderson Forecast do not predict an imminent national recession, and instead view the 2025 first quarter GDP numbers as an aberration. Official numbers for the second quarter real GDP growth will not be released until the end of July 2025.

While the national picture looks positive, for the moment that does not imply that all U.S. states and/or regions are doing equally well. As we have pointed out repeatedly, California, and especially Southern California and the Inland Empire (Riverside County and San Bernardino County), currently rely primarily on three industrial sectors to generate employment gains. These are **Logistics** (Transportation, Warehousing, and Wholesale Trade), **Health**, and Local Government (especially **Public Education**). All three sectors are threatened by the negative

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impact of federal policies, and it is therefore likely that the economies will shrink over the next year, and unemployment will increase. As a result, state and regional unemployment statistics, such as the ones published in mid-June, are of particular interest.

Unfortunately EDD numbers for the Inland Empire (Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA)) are not seasonally adjusted, meaning that the EDD does not filter out movements that tell us little about the underlying state of the local economy, but simply reflect regularly occurring fluctuations (employment losses in the Coachella Valley every summer come to mind). In this sense, they may be misleading if we try to understand trends. Before we get to the seasonally adjusted data, the raw (published) data show a slight **decrease in the unemployment rate from 4.9 percent to 4.8 percent**. This is the fourth decline in a row, but it is still higher by 0.3 percentage points when compared to a year ago. What these numbers hide is that the labor force was shrinking by more than employment (both fell) caused the decrease in the unemployment rate from a month ago. This is an unhealthy combination (the change in the unemployment rate is approximately equal to the growth rate of the labor force minus the growth rate of employment). Still, the declines were very small, and certainly dwarfed by the increase in employment and the labor force from a year ago (there the labor force grew by 2.4 percent, and employment grew at 2.0 percent; hence the increase in the unemployment rate from a year ago - but for “healthy” reasons, meaning both the labor force and employment grew in the Inland Empire).

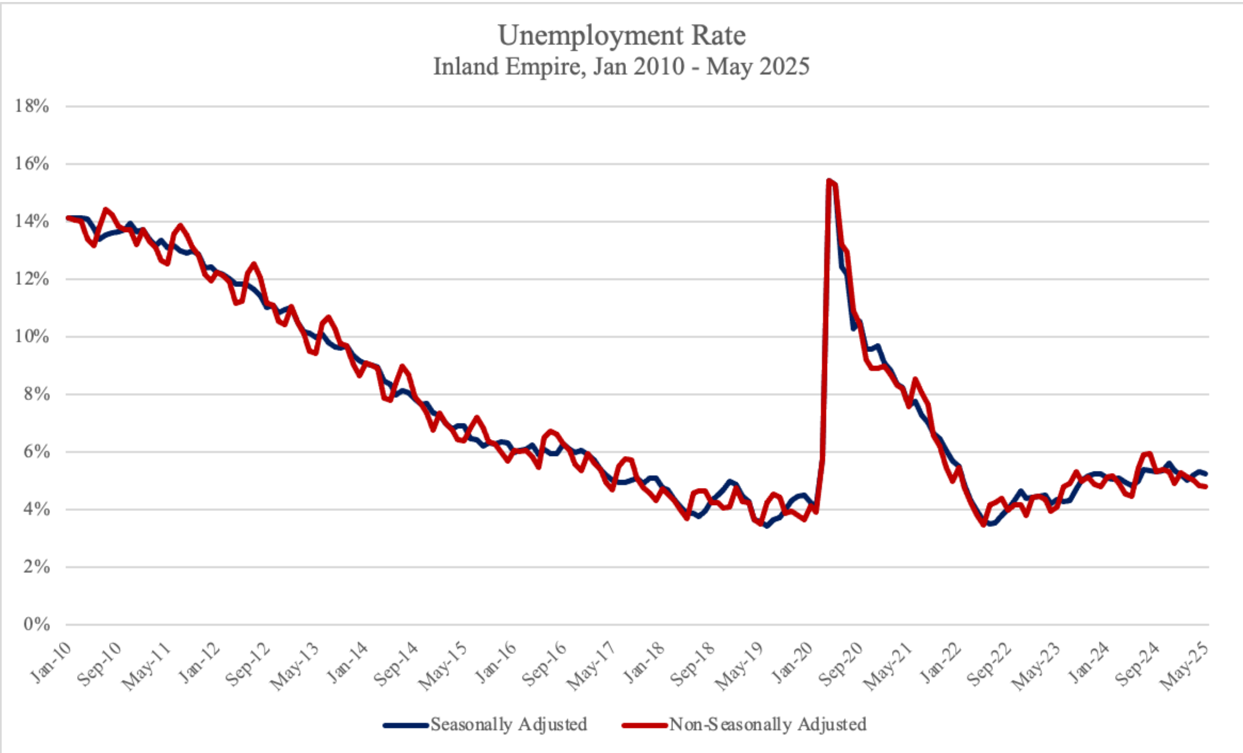
Both the employment and labor force data are generated from a household survey, which we believe is still inaccurate due to immigration issues. A larger survey, called Current Employment Statistics (CES), is based on employment numbers at establishments. In addition, for the Inland Empire, the numbers between the two surveys differ significantly since the establishment survey looks only at firms within our region, while the household survey measures employment by residents, including **commuters**. The CES indicates that employment actually grew by 3,100 positions from a month ago, and by 9,400 from a year ago (recall that the household survey indicated month-to-month growth of (-1,100) and year-to-year growth of 41,600).

However, the previous statement is based on using raw data. Once we **seasonally adjust the data**, we see a **0.1 percentage point decrease** from 5.3 percent in March 2025 to 5.2 percent in April 2025. While the seasonally adjusted unemployment rate remains above the non-seasonally adjusted rate, both are declining somewhat. For the seasonally adjusted rate, this is the result of **both labor force and employment growing -** with the employment growth of 3,800 outpacing labor force growth (+2,400). This is a healthier picture, as the two aspects are now in the second month of continuous increase. Seasonally adjusted, the non-farm payrolls went up by 2,800, which is slightly lower than the increase recorded by non-seasonally adjusted data.

Here, in our report, we will focus on seasonally adjusted data, since we want to gain insights into the cyclical state of the regional economy. The only time we report non-seasonally adjusted data is when we look at changes from a year ago (since annual changes, by definition, do not depend on seasonal fluctuations).

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

After removing regularly occurring seasonal fluctuations, this results in an **unemployment rate of 5.2 percent for the Inland Empire, which shows a decrease from the previous month**. The Inland Empire unemployment rate is almost identical to the state's rate this month after seasonal adjustment.



INLAND EMPIRE

The establishment survey shows that for the annual change in employment, which filters out seasonal fluctuations, out of the 9,400 new positions created, a whooping 287 percent were created by just three sectors: Logistics, Health, and Public Education - to clarify, this means that the other sectors together lost 18,600 positions - this is truly alarming and does not bode well for the near future of the Inland Empire in economic terms!

This numbers are alarming because national policies regarding tariffs, and federally induced cuts in health expenditures, coupled with shrinking student numbers in grades K-12, strongly suggest that we will not receive positive impulses from these three sectors in the near future. Local Government expenditures will actually not fall significantly since the government is relying on saved funds but these will be depleted within the next fiscal 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 **Professional and Business Services** (+1,300), **Local Government** (+640), and Logistics (+560).
- the most significant **month-to-month declines** were in **Construction** (-500), **Retail Trade** (-400), and **Federal Government** employment (-200).
- for **year-to-year growth** (relative to April 2024), **Private Education and Health Services (primarily Health)** has made the most significant contribution (+16,000). **Local government** has also been a significant job creator for the region, gaining (+9,600) jobs in the last year while compensating for the decline on both the state (-680) and federal (-600) levels.

CALIFORNIA

For the official website regarding California's state labor market numbers, go to:

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

At the **state** level, the **unemployment rate stayed the same (5.3 percent)**. This was the result of both employment and the labor force growing by 50,000 (when both the labor force and employment grow at the same rate, then the unemployment rate remains unchanged). As for a year ago, when the unemployment rate was 0.1 percentage points lower, employment growth was not quite as high as labor force growth, but both were positive.

California still has the third highest unemployment rate among the 50 states (Nevada and Michigan show a worse performance), and it is almost 1.1 percentage points higher than the national rate. Compared to a year ago, employment in California only went up by 0.5 percent, significantly less so than we see at the national level (1.1 percent). We will focus here more on the establishment survey, since we continue to have some doubts regarding the household survey: according to the CPS, employment is still some 18,900 workers short of pre-pandemic levels in February 2020 - the establishment survey actually suggests an increase of almost 360,000 workers.

For California, payroll jobs, as measured from the establishment survey, increased by 92,900 from a year ago. Of these 218,000 were **created by just two sectors: Health (and Private Education) and Government (primarily Local Government)**. This means that all **other sectors combined** (manufacturing, construction, financial services, etc.) **lost 125,100!** This is an extremely unhealthy picture for the state and should set off alarm bells in Sacramento, particularly given that the two driving sectors will suffer from financially induced cuts from the national level.

As for a month ago, the picture looks slightly better, with Health and Government only generating roughly 12,000 out of the additional 18,000 jobs created, meaning that the other sectors showed some life (creating 5,800 new positions; Leisure and Hospitality saved the day with 9,000 more workers - again, the remaining sectors showed declines).

The largest industry-level month-to-month gains were in Private Education and **Health Services** (+20,400), **Leisure and Hospitality** (+9,000), and **Government** (+1,500).

- the biggest winner by far for year-over-year changes was Private Education and **Health Services** (+165100). **Government** (+52,900) was the only other major industry that experienced an increase (primarily through public education employment, accordingly).
- the "biggest losers" this month were **Professional and Business Services** (-4,800), Construction (-1,900), and **Manufacturing** (-1,100).
- Looking at annual change, the biggest loser was **Professional and Business Services** (-40,400), while **Manufacturing** showed the second largest decline (-32,200).

OUTLOOK

Due to national policies on tariffs and health, we continue to **forecast a regional and state economic downturn starting in the third quarter of 2025, which will continue into 2026**. To stress, we expect employment numbers to fall in our area, despite the fact that the **U.S. will not experience a national recession**. The few sectors which currently carry the expansion in employment will not do so in the future, and there are no other sectors in sight that will make up for the slack. We do not expect the Federal Reserve to lower interest rates soon, despite the pressure to do so from President Trump, and even if it will do so before the end of the year, it will not be significantly enough (say 75 basis points) to stimulate housing starts sufficiently to make a difference in construction employment. Note that particularly residential construction depends to a significant amount on immigrant workers.

Many of President Trump's economic policies, such as the tariffs imposed on "Liberation Day" (April 2) and the cuts in Federal employment, have not shown up yet in labor markets, for a variety of reasons (hoarding of imports by companies, federal workers on severance pay not counting as unemployed, etc.) but will do so soon. Imports into the Ports of Los Angeles and Long Beach are already significantly down from a month ago.