

# IEEP and Lowe Institute ECONOMIC ANALYSIS

## **The May 2026 Employment Report**

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by

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### **INLAND EMPIRE**

The California Economic Development Department (EDD) released its latest labor market data for May 2026 today. The published information is for the 29 Metropolitan Statistical Areas (MSAs) of the state, including the Inland Empire (Riverside County and San Bernardino County). The state data is typically released roughly two weeks after the national data becomes available, which was on June 5.

Working with the raw data given to us by the EDD is not efficient when it comes to objectively analyzing the underlying state of the economy for the majority of the MSAs since the data contains regularly occurring seasonal fluctuations. Similarly, to the methods that the EDD uses for the state data, we therefore also use statistical techniques to remove these components from the data (think of summer employment for the Coachella Valley, post-holiday layoffs, Christmas hiring, public education in June/July, etc.)

The main take away from the raw data release is that the unemployment rate in the Inland Empire fell from 4.9 percent in April to 4.6 percent in May, a significant decline of 0.3 percentage points. It was also 4.9 percent a year ago, which is more relevant since year-to-year changes typically remove some seasonally related fluctuations. However, even in the raw data, the year-to-year decline was generated by the labor force shrinking by more (-1.9 percent) than employment (-1.6 percent). After seasonally adjusting the data, we actually observe a higher unemployment rate for the Inland Empire: the May rate is 5.3 percent, a small decline from the 5.4 percent rate observed in April 2026, and below the 5.5 percent unemployment rate from a year ago. Hence there is a marginal improvement (see Figure 1 below), but the regional rate is the same as the state unemployment rate.

Unemployment rates are calculated by residency using household surveys (Current Population Survey or CPS). Hence, a commuter to the coastal region who loses her job in Los Angeles

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County (say) will only show a loss in employment in the Inland Empire, not in Los Angeles County. To get a better picture of employment *within* the Inland Empire, we should consult the establishment survey (Current Employment Statistics or CES).

In general, the unemployment rate changes because of the difference in the growth rate of the labor force and employment. If the labor force does not change and employment increases, then the unemployment rate falls; this is the most intuitive scenario. However, the unemployment rate will also fall if employment does not change but the labor force shrinks. A healthy combination would be an increase in the labor force coinciding with a larger increase in employment. Unfortunately, the opposite is currently the case, regardless of whether you look at the raw data or the seasonally adjusted data: the unemployment rate in the Inland Empire has fallen because of the labor force shrinking by more than the decline in employment. This is not a healthy combination. The decline in the labor force is not only limited to the Inland Empire. It also occurs for the state and the nation. To what extent this is the result of immigration policies or other factors is not clear at this point.

The table below lists the seasonally adjusted data for both the CPS and the CES. Overall there is a significant decline in employment for residents at the aggregate level, both in the month-to-month numbers (-6,400) and the year-to-year figures (-34,000). Total Nonfarm employment decreased by slightly more than -1,300 relative to April 2026, and decreased by around -2,900 when compared to May 2025. The difference suggests that commuters residing in the Inland Empire experienced heavier job losses than residents who worked locally.

The job gains/losses are not evenly distributed across the various economic sectors. The annual decline of Inland Empire nonfarm jobs of -2,900 positions was the result of the difference between jobs gained in the Health sector of 17,300 and the combined loss in all other sectors of roughly -20,000 jobs! Notably, the largest decline comes from Construction (-6,100), Professional and Business Services (-5,200), and Manufacturing (-3,900). Unfortunately, compared to data from a month ago, the Health sector shed roughly -1,100 positions. We are concerned that this may be an early sign of Federal cuts in health expenditures showing an effect on this sector, and expect a further downward trend in the near future. This would result in more significant employment losses within the Inland Empire, since the other two sectors with large employment shares, Local Government (public education) and the Logistics sector either show a declining number of jobs or only weak expansions.

Figure 1 displays both the raw and seasonally adjusted data. The non-seasonally adjusted data, in orange, shows more volatility but, in general, swings back to the smoother series after temporarily diverting from it due to regularly occurring seasonal deviations. Both rates indicate a trend increase in the unemployment rate since mid-2022. Table 1 presents the underlying data after seasonal adjustment.

For the raw data, go to (<https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html>)

**Figure 1: Unemployment Rate, Inland Empire, Jan 2010 - May 2026, NSA (orange) and SA (blue)**



**Table 1: Labor Market Data, SA, Inland Empire, May 2026<sup>2</sup>**

Data Seasonally Adjusted

	May 25	Mar 26	Apr 26	May 26	Percent Change	
					Month	Year
Civilian Labor Force (1)	2,254,942	2,215,961	2,221,599	2,212,961	-0.4%	-1.9%
Civilian Employment	2,130,019	2,100,476	2,102,396	2,096,021	-0.3%	-1.6%
Civilian Unemployment	124,922	115,485	119,203	116,940		
Civilian Unemployment Rate	5.5%	5.2%	5.4%	5.3%		
(CA Unemployment Rate)	5.3%	5.5%	5.3%	5.3%		
(U.S. Unemployment Rate)	4.3%	4.3%	4.3%	4.3%		
Total Nonfarm	1,721,406	1,720,540	1,719,825	1,718,510	-0.1%	-0.2%
Mining and Logging	1,613	1,612	1,699	1,715	0.9%	6.3%
Construction	112,838	107,512	107,199	106,748	-0.4%	-5.4%
Manufacturing	95,806	92,374	91,941	91,908	0.0%	-4.1%
Durable Goods	56,827	54,726	54,542	54,532	0.0%	-4.0%
Non-Durable Goods	38,986	37,576	37,407	37,386	-0.1%	-4.1%
Logistics	267,831	267,621	267,997	268,025	0.0%	0.1%
Retail Trade	181,709	181,235	181,962	182,443	0.3%	0.4%
Utilities	5,594	5,537	5,537	5,496	-0.7%	-1.7%
Information	12,241	11,836	11,771	11,040	-6.2%	-9.8%
Financial Activities	43,729	42,390	42,063	42,124	0.1%	-3.7%
Professional and Business Services	158,678	154,313	154,082	153,525	-0.4%	-3.2%
Private Education and Health Services	337,094	355,055	355,526	354,399	-0.3%	5.1%
Leisure and Hospitality	186,297	185,709	185,944	186,091	0.1%	-0.1%
Other Services	51,274	51,870	51,883	51,768	-0.2%	1.0%
Government	265,752	262,928	262,894	262,781	0.0%	-1.1%
Federal Government	20,458	18,416	18,273	18,367	0.5%	-10.2%
State Government	28,845	28,105	27,967	27,789	-0.6%	-3.7%
Local Government	216,342	216,204	216,517	216,481	0.0%	0.1%

<sup>2</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).

Here is the summary of the winners and losers using seasonally adjusted data from the previous month (April 2026), as well as from one year ago (May 2025).

- **For month-to-month growth, Retail Trade** gained 480 positions, making it the biggest winner, followed by **Leisure and Hospitality (+150)**. Increases in other sectors are, once again as we have seen in the past month, minimal.
- The largest declines are seen in **Health services (-1,100)**, **Information (-730)** and **Professional and Business Services (-560)**. The marginal increase in the federal government is eclipsed by the declines in both state and local government levels.
- For **year-to-year growth** (relative to May 2025), the sector with the largest employment gain was **Private Education and Health Services (+17,000)**, **primarily in Health**. Similar growth is not seen in any other sectors, with the biggest loser being **Construction (-6,100)** followed by **Professional and Business Services (-5,200)** and **Manufacturing (-3,900)**.

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

**Alarm bells are starting to ring for the Inland Empire:** there are three pillars that support the house with a good view (current employment situation): Health, Local Government, and Logistics. The three sectors combined have an employment share of roughly 50 percent of overall jobs within the region. There is clearly a **lack of diversification**, which has been recognized by many. Of the three sectors, two (Health and Local Government) have seen recent employment declines, and the Logistics sector is only now recovering slightly from the “Freight Recession.” Since the Health sector is the single industry with large employment increases recently, loss of this growth engine will result in significant employment declines and increases in the unemployment rate in the region.

The lack of diversification is not new to the Inland Empire. During the late ‘90s, the region relied heavily on military expenditures with subsequent negative effects from the “peace dividend.” The housing boom of the early years of the 2000s (pre 2006) then ended in the burst of the housing bubble with a more significant impact on the Inland Empire than for the state and the nation. Decision makers in the Inland Empire should focus on the danger of history repeating itself over the next few years.

## **CALIFORNIA**

The state data indicate little change from the data released in the previous month. The household survey shows that **the unemployment rate remained at 5.3 percent. It is substantially higher than the national rate (4.3 percent)**. Furthermore, for April our state shared the “lead” with Delaware, and was therefore higher than in 48 other states. Among the most populous states, Texas had a 4.3 percent unemployment rate in May, Florida was at 4.8 percent (April), and New York came in at 4.6 percent (April). California’s unemployment rate remains 1.8 percentage points

above the level we saw during the previous economic peak in February 2020. It increased from 3.5 percent to the currently observed 5.3 percent rate.

Even though the unemployment rate remained unchanged, this does not imply that the two components that determine the unemployment rate also were constant. For the state, we observe a shrinking labor force (-52,800) coinciding with declining employment (-44,100). For the year-to-year change, the numbers are even more alarming: compared to May 2025, there are -142,500 fewer people in the labor force now, and -96,000 fewer workers. The establishment survey (Current Employment Statistics or CES) also shows little change, with total non-farm jobs increasing by 3,100 from a month ago. However, nonfarm jobs actually show an increase in almost 103,000 positions, which is quite different from the large decline suggested by the household survey. Employment numbers from the two surveys can differ for a variety of reasons, primarily since the CES looks at the number of jobs at establishments and is based on a larger sample size, whereas the CPS gets its data by interviewing households.

**While overall nonfarm employment** in California increased by 3,100 in May, the underlying changes by sector are not even. Health (and Private Education) showed the largest increase (+6,200 jobs), with Leisure and Hospitality adding a similar amount (+5,900). It was encouraging to see that the bloodletting in the Information sector has stopped, at least temporarily, with employment actually increasing (+2,400). The biggest losers were Professional and Business Services (-6,900), Other Services (-5,000), and Logistics (-2,400), indicating that the “Freight Recession” is not over yet at the state level.

While California experienced a small month-to-month increase in Nonfarm jobs, the U.S. saw a much larger change (+115,000) even taking into account the differences in population size.

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>

To analyze longer-term trends, it is probably more informative to analyze sectoral year-to-year changes. **The picture is alarming regardless of whether you look at the establishment survey or the household survey:** While our state gained 102,900 Nonfarm jobs, 141,000 were created by a single sector (Health and Private Education). Of all the jobs shed, the Government saw a decline (-26,200), followed by Information (-15,100) and Manufacturing (-13,100). According to the household survey (CPS), the state employment fell by almost 100,000 (-96,000). The labor force has shrunk by almost -160,000 over the same period. Similar to the nation, our state has seen

relatively high real GDP growth rates. They are actually slightly higher for California than for the U.S. for the latest data available. This suggests that **the jobless boom continues**.

## **OUTLOOK**

**There is not much new information contained in the labor market report released today.** We see employment continue to shrink according to the household survey, or move sideways if we look at the establishment survey (“jobs”). This suggests that **Artificial Intelligence continues to produce relatively high output growth rates coinciding with stagnating employment** (“jobless growth”). As a result, there are relatively **large productivity gains** for the state economy as a whole, and these are **concentrated in the Information sector and in Professional and Business Services**.

The apparent end to the Middle East conflict has seen Brent Oil prices falling back to below the \$100 a barrel level. Currently they sit at \$80. As a result, gasoline prices for the U.S. have fallen back below the \$4 level at the pump, although they are higher in California for reasons not related to the war activities. Kevin Warsh has replaced Jerome Powell as the Chairman of the Federal Reserve, but the Federal Funds Rate (FRR) remained unchanged at the June meeting. Financial markets now place a 65 percent probability on a rate hike by September of this year. The median prediction from the voting members of the Federal Reserve Committee members is that there will be a 25 basis points (bps) increase by the end of 2026, with the FFR returning to current levels by the end of 2027. As a result, we do not expect additional stimulus from monetary policy, which means that most likely construction, automobile sales, and durable consumption expenditures will not grow significantly.

**We continue to be concerned regarding the future of the California economy**, since the positive aspects rely heavily on three pillars: the Health (and Private Education) sector, Local Government (Public Education), and Leisure and Hospitality. We are worried that the Health sector in California will see employment declines due to reduced federal funds, which will not be replaced in the near future, even if measures such as the wealth tax (billionaire’s tax) pass in November. Public Education will see declines due to unfavorable demographics (decline of 5 to 18 year olds). On the positive side, the booming stock market ensures that state government revenues will continue to come in higher than expected.

The employment picture slightly improves if we look at the establishment survey, which does not include commuters and hence jobs that Inland Empire residents hold in the coastal areas. Still, even for nonfarm employment within the Inland Empire, we see a decline of -1,300 jobs from April 2026, and -2,900 from a year ago (May 2026). To make matters worse, one of the three pillars of the Inland Empire economy, the Health (and Private Education) sector is starting to see falling employment. The sector shed -1,128 positions, compared to a month ago, although it still shows a gain of over 17,000 jobs relative to May 2025. Together with Local Government (Public Education) and Logistics, the three sectors employ more than 50 percent of workers in the region. The Local Government sector also lost a small number of jobs from a month ago, while Logistics gained a small number. The gains were not sufficient to overcome the number of jobs lost in Health (and other sectors) to prevent the decline in overall nonfarm jobs.