

IEEP NEWS RELEASE
June 19, 2023

The May 2023 Employment Report
by
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OVERVIEW

The California Employment Development Department (EDD) released their May update for California and its regions on last Friday morning. It includes the latest labor market statistics for the Inland Empire, composed of Riverside County and San Bernardino County. The headline numbers show the region's unemployment rate increasing slightly after falling last month. The region's unemployment rate now stands at 4.4%.

According to the household survey, which measures employment *by residency* and therefore includes commuters, who make up 30% of the Inland Empire's labor force, the labor force has virtually remained constant from April to May (-100 employees). At the same time, employment decreased by 5,400, which caused the increase in the unemployment rate. That might sound alarming at first, but notice that last month's decrease in employment was 19,400, which is almost four times as high (the unemployment rate, however, went down in April due to an even larger drop in the labor force). Moreover, Current Employment Statistics, an establishment survey which only considers people working in the Inland Empire, shows a considerable employment increase (7,400). That could be a result of the Inland Empire's "first in, last out" recession characteristic, which suggests that the commuters, a big part of the Inland Empire's population, are among the first ones to lose their jobs in an economic downturn.

However, the raw numbers can be misleading because they are not seasonally adjusted. It is therefore possible to see fluctuations in employment that are not related to the business cycle but just depend on specific months of the year. Think about hiring before Christmas or laying off seasonal workers during the summer in Coachella Valley. The EDD does not seasonally adjust data for the Inland Empire, but we do. This gives us a more objective employment picture.

Applying these statistical filters to the raw data reported by the EDD makes the picture a bit more optimistic. In terms of the household survey, employment went down by 1,455 positions, while the labor force decreased by almost 3,344 positions. As a result, we get a seasonally adjusted

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unemployment rate of 4.3%, compared to 4.2% in March of this year. This does not sound as alarming as going from 4.1% to 4.4%, which is what the headline numbers tell us. We are still, however, well above of last summer's rate of 2.9%, which was a record-low for the region. This is somewhat concerning, but a comparison to the last few months gives a lot of hope: looking at the change from the beginning of the year, we see that the unemployment rate is down by 0.4 percentage points - a good signal from an economy that tends to be the first one to go into a recession. Bottom line, similar to the U.S. economy, we are looking at a mixed signal, with no clear direction of whether or not we are heading into a recession. Note that we have forecasted a national recession to start during the third quarter of 2023.

CALIFORNIA

Since December, we have seen a creeping increase in California's unemployment rate. This trend stopped in May, staying at the same level as last month - 4.5%. The constant unemployment rate was the result of a simultaneous increase in the labor force (24,700) and employment (9,900), which is a healthy picture. Even more positive news is that the state has added a total of 47,300 payroll jobs, following an upward trend from April. California has seen an average monthly increase of over 85,500 in Employment since April 2020. Still, we are not at the pre-pandemic levels both in terms of the labor force (-171,200) and employment (-193,300). Where have all the workers gone? Some have retired, some have left the state altogether.

Here are the highlights from the sector-specific analysis:

- Looking at monthly changes, the biggest gain was in Private Education and Health Services (+16,400), followed by Professional and Business Services (+11,700).
- The largest sectoral losses were seen in Manufacturing (-5,700) and Information(-2,800).
- Looking at the year-over-year changes, the heavyweight sectors were Education and Health Services (+163,800), Leisure and Hospitality (+126,200), and Government (+50,400).

INLAND EMPIRE

In this section we will focus on seasonally adjusted data. For the somewhat misleading non-seasonally adjusted data, you can consult the EDD document ([https://labormarketinfo.edd.ca.gov/file/indhists/ive\\$hws.xls](https://labormarketinfo.edd.ca.gov/file/indhists/ive$hws.xls)). The seasonally adjusted unemployment rate for the Inland Empire went up by 0.1 percentage points from 4.2% to 4.3% between April and May. It has also increased from the 3.6% seen a year ago, in May 2022.

The total nonfarm jobs increased by slightly over 10,500 positions, continuing the growth from the previous month according to the establishment survey (CES). However, according to the household survey (CPS), civilian employment went down by 3,344 jobs, getting back on the track of decline that we saw between December and February.

We see the second-biggest increase in employment in the Logistics sector (+2,282). The gains here are consistent with the boom in the Logistics sector since the COVID recession. For the fifth consecutive month, the Government sector saw an increase in employment (+975 workers). Most of the increase was in the Local Government sector, while Federal and State Government employment stayed roughly the same in May. The increase in local government employment is particularly encouraging since this sector was impacted severely during the COVID recession and has struggled to recover since.

Here are the highlights from this month's report:

- The largest increases in employment were seen in Construction (+3,287), Logistics (+2,282), and Leisure and Hospitality (+1,623).
- The only sectors that had decreases in the number of jobs were Manufacturing (-281), Federal Government (-84), and Information (-36).
- Since the beginning of the year, the fastest-growing sectors have been Other Services (+4.09%), Construction (+3.1%), and Leisure and Hospitality (+3.09%).