Mid-Summer Night's Economic Dream, Act 2:
The State and Regional Picture

by

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On Friday, July 18, the California Employment Development Department (EDD) released the labor market data for June 2025. At face value, you could have been shocked to read that the unemployment rate for the Inland Empire went up by 1.1 percentage points in a single month, from 4.8 percent to 5.9 percent. Jumps of this magnitude are highly unusual in labor market data (note that for the nation, the unemployment rate just decreased from 4.2 percent to 4.1 percent). This begs the question whether we have already moved into a serious regional downturn, something that we have warned about previously.

First, you can relax (a little). Things are not as bad as they first appear for now. The Inland Empire data released by the EDD does not filter out regularly occurring seasonal fluctuations. Similarly to employment decreasing every winter in the construction industry in Chicago (say) or retail sales jobs disappearing every January, there are many jobs in the Inland Empire that show large seasonal fluctuation. In the Coachella Valley, for example, employment decreases by roughly 12 percent every summer, as leisure and hospitality positions melt in regular temperatures of over 110 degrees. Note that a year ago, the unemployment rate in the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA) went up by 0.9 percentage points from May 2024.

This does not mean that it is safe to go back into the water. There are two reasons to be very concerned. First, we can remove regular (year-by-year) seasonal fluctuations to produce a seasonally adjusted unemployment rate. It is 5.6 percent, and while it increased from 5.4 percent from May 2025, it is not the large increase seen in the raw numbers. Still, the numbers are 0.6 percentage points higher than a year ago, and year-to-year changes do not suffer from regularly occurring seasonal factors. Bottom line, the Inland Empire labor market is weakening, no doubt. Second, changes in the labor market are not uniform - some sectors gain, and some lose jobs. Here is the major problem for the Inland Empire: there are only two sectors that have generated employment gains from a year ago. Health and Local Government (primarily public education). Year-to-year employment increased by 17,700 positions, and the two sectors generated 29,800. That means that the other sectors (construction, manufacturing, logistics, retail sales, etc.) lost a combined number of 12,100 jobs.

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To make matters worse, national policies are neither going to favor health services nor public education. Dipping into reserves, we may be safe from most public education cuts for a year, but the sector is not going to expand much this year. If tariff uncertainty prevails much longer and beyond August 1, there will be meaningful reductions in cargo shipments entering the Ports of Long Beach and Los Angeles, and Inland Empire facilities for processing, assembly and distribution. This feature threatens job creation in 2025.

AI is making matters worse for the sector: Logistics is growing more vulnerable to the substitution of AI processes for workers. AI can power robots and automated systems that handle principal tasks like packing and sorting goods in warehouse and distribution center settings. Robots have replaced warehouse jobs that comprise the logistics labor market, and they will continue to do so. Best advice: Fasten your seatbelts.

The picture looks not quite as bleak for the state economy, but looking at California's economy is nevertheless also not a rosy picture. The state has one advantage over the Inland Empire: only 42 percent of jobs depend on Health, Government, and Logistics, while for the Inland Empire, it is 51 percent. Note that given the administration's tariff policies, an expanding logistics industry is not going to pull us out of the difficult situation. Still, it also means that the current major drivers of year-to-year employment gains (out of 101,100 jobs created from a year ago, 216,500 were generated by Health and Government, leaving a loss of 115,400 for the other sectors) will even have to pull harder to keep the state economy afloat.

We strongly believe that AI is playing a major role already at the state level in firms hiring fewer people than otherwise. As AI tools and technologies continue to advance, companies are increasingly exploring ways to leverage AI to enhance productivity, automate certain tasks, and reduce cost. Consequently, displacement of jobs by AI is no longer a warning; it has become a reality. Hence, we predict that the current pace of job growth will turn negative for the year. We have witnessed the loss of 70,000 tech jobs in California since the beginning of 2023; 18,000 of those are in software development. We have also seen the elimination of 50,000 jobs in TV, Film and Sound recording, and 8,000 jobs in advanced manufacturing since early 2023.

The crucial question for decision makers now has to be regarding the policy options that will bring higher income producing industrial sectors into our area. We put most of our eggs (Logistics, Health, Local Government) in one basket, and we did well, so far, in doing so. If these were three financial stocks, we certainly picked the winners over the last 15 years or so. However, it is time to diversify, and to do so now before the (labor market) crash.

If the two counties could attract other sectors to play a more significant role, for example, Professional and Business Services, Finance and Real Estate, Information, etc., then there would be less of a need to commute to coastal areas, solving one of the biggest problems in the region.

To find ways to accomplish this must be the major task of the leadership in our region for the near future.