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The October 2023 Employment Report

by

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OVERVIEW

The California Employment Development Department (EDD) released their October labor market update for California and its regions this Friday morning. It contains the latest labor market statistics for the Inland Empire (Riverside County and San Bernardino County).

Commented [1]: There will be a recession starting in december/early january
Mild recession
Leading economic indicators
Sahm rule
3month q avg exceeds min of prev 12 years 0.5 sahm now sits at 0.3
If ur goes up by 0.1 and stays in december then hits 0.5
Ie first in last out, commuters will get laid off first –less human capital

The headline numbers show the region's unemployment rate increasing by 0.2 percentage points, jumping from 4.9% to 5.1% in October. At first glance, an increase of this size is of concern but looking at the underlying components (employment, labor force), we see an increase in both the labor force and employment. Such a change is more desirable than a decrease in employment and the labor force, or even a decrease in employment while the labor force holds stead. When labor force increases outpace employment increases, e.g. more people (re)joining the labor force, we see an increase in the unemployment rate, as is the case currently for the Inland Empire. While this is not the ideal scenario (ideally we would prefer employment growth to outpace labor force growth), this increase in the unemployment rate is also not as alarming as it might seem at first glance.

Unfortunately much of this increase in employment was driven by regularly occurring seasonal factors, and the raw numbers can therefore be quite misleading. It is therefore possible to see fluctuations in employment that are not related to the underlying state of the economy or the business cycle but are primarily driven by the specific time (month) of the year. Think of hiring patterns before Christmas or laying off seasonal workers during the summer in the 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 reverses the initial picture. Seasonally adjusted, the unemployment rate decreased by 0.1% (good news), leaving the seasonally adjusted unemployment rate at 5.2%, compared to 5.3% in September of this year. However, the seasonally adjusted unemployment rate for the Inland Empire continues to be above that of California, which currently stands at 4.8%. To

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make matters worse, California has one of the highest state unemployment rates in the country (it ranks 49 out of 50 state unemployment rates with only Nevada performing worse. By comparison, the national unemployment rate is 3.9%.

What makes this more concerning is that the slight drop in the Inland Empire unemployment rate is caused by a decreasing labor force outpacing decreasing employment (negative scenario). Recall from our earlier discussion that the change in unemployment rate is driven roughly by the growth in employment and growth in the labor force. When the labor force decreases more quickly than employment, the unemployment rate decreases, but this is hardly a healthy scenario.

Note that we have forecasted a mild national recession to start early in 2024, despite a large increase in GDP for the 3rd quarter (data was released last month) and a forecast of a significantly smaller growth for the 4th quarter. The alternative, favored by the majority of Wall Street Journal forecasters calls for a "soft landing" or a slow positive GDP growth in the face of reducing inflation back to the Federal Reserve target of 2%. Our forecast is based on "sensors" or leading economic indicators, most of which are ringing alarm bells. In addition, there is the so-called Sahm rule, which says that if the unemployment rate average of the last 3 months exceeds by more than 0.5% of the average of the preceding year, then we are in a recession. To put this into context, if the national unemployment rate increases by another 0.1% and stays at this level in December, then we will hit the 0.5% threshold before the end of the year. Moreover, the Inland Empire follows the "first in, last out" cyclical pattern of employment. The labor force in the Inland Empire contains a heavy share of commuters (20%, hence the rush hour traffic), and commuters are generally laid off first when there is a recession hitting the coastal area since commuters generally have lower human capital than those who reside and work in the coastal areas. What this means is that if there is a recession coming, it will hit the Inland Empire first. If you have not been concerned yet, you should be worried now. While some of the employment decreases/unemployment rate increases have been driven by structural factors (the logistics industry adjusting to lower demand in transportation), we increasingly see labor market behavior responding to cyclical factors.

CALIFORNIA

In October, the Golden State's unemployment rate saw a slight increase to 4.8% compared to September. This increase is in line with national numbers, as last month the U.S. also saw a 0.1 percentage point increase in the unemployment rate. On the positive side, employers added 40,200 non-farm payroll jobs. On the flip side, the household survey recorded a decline in the state labor force (-11,100) and employment (-28,800).

The discrepancy between the payroll jobs increase and the decrease in employment and labor force comes from the difference between two major economic surveys: the Current Population Survey (CPS) and the Current Employment Survey (CES). The household survey, or CPS, measures unemployment by interviewing households. By contrast, CES talks to employers and thus does not include self-employment such as gig workers; this survey saw an increase in payroll jobs at odds with statewide household statistics.

Here are sector-specific highlights:

- Private Education and Health continued its strong gains from last month, increasing by 13,200 positions.
- Other major gains were seen in Leisure and Hospitality (+5,100), Trade, Transportation, and Utilities (+6,900), and Logistics (+5,000).
- The only industry that saw a decrease in employment was Financial Activities (-300).
- For year-to-year changes, Private Education and Health Services is once again ahead of the other industries, with a gain of 152,400 employees. Leisure and Hospitality saw an increase of 90,000 workers, Government - of 40,400. Biggest year-to-year decreases were in Information (-32,700) and Professional and Business Services (-12,600).

INLAND EMPIRE

In this section we will focus on seasonally adjusted data. For the non-seasonally adjusted data, you can consult the EDD document at

(https://labormarketinfo.edd.ca.gov/file/indhist/rive$hws.xls).

The seasonally adjusted unemployment rate for the Inland Empire decreased by 0.1 percentage points from 5.3% to 5.2% between September and October. However, it increased by a whole percentage point from the 4.2% seen a year ago, in October 2022.

Seasonally unadjusted numbers are showing a positive dynamic in Leisure and Hospitality: employment went up by 600, or 0.3%. However, when we seasonally adjust the data, the picture does not look as good: between September and October, the sector lost more than 3,300 workers, which is the largest decrease this month. Note that Leisure and Hospitality is a cyclically sensitive sector, meaning it reacts more to cyclical fluctuations, as households spend less money on dining It means that normally, during this time of the year, Leisure and Hospitality sees a much larger increase in employment (caused, potentially, by more people coming to the Coachella Valley for example).

A very similar situation occurred in Logistics (Transportation, Warehousing, Wholesale Trade), which saw a “nominal” increase of 5,000 workers (the second-biggest change for this period, exceeded only by Local Government), which translates into a decrease of more than 2,800 (1.1%) when you seasonally adjust the data. This continues the trend of falling employment in the sector that experienced unprecedented growth during and after the pandemic economic downturn, but has been shrinking since December 2021. Combined with the dynamics in Leisure and Hospitality, as well as Manufacturing (decreased by almost 300), this begs a question: if consumers were not cutting down on their expenses, where would it be going? Given the Inland Empire's "First-In-Last-Out" recession characteristic, the answer can be slightluy unsettling.

Here are some of the highlights from this month's report:

- The largest increases in employment were seen in Local Government (1,750), Construction (1,150), and State Government (250)
- The sectors with the biggest decreases in employment are Leisure and Hospitality (-3,300), Logistics (-2,800), and Professional and Business Services (-1,450).
- Since December of 2022, the fastest-growing sectors have been Construction (+7.6%) and Private Education and Health Services (+4.5%). The sector with the biggest decline is Financial Activities (-3.8%).