IEEP NEWS RELEASE

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The October 2024 Employment Report

by

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OVERVIEW

The Employment Development Department (EDD) released the latest report (November 15) detailing labor market developments for the 29 regional economies within California, and for the state. This report primarily focuses on the information relevant for the Inland Empire (Riverside County and San Bernardino County or the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA)).

Let us say upfront that not much has changed in the Inland Empire labor market over the last month. The headline generating non-seasonally adjusted **unemployment rate for the Inland Empire increased by 0.1 percentage points, from 5.4 percent in September to 5.5 percent,** in October**.** We don't dwell much on the small change especially since the **seasonally adjusted unemployment rate for the Inland Empire decreased by 0.1 percentage points, from 5.5 percent to 5.4 percent.** This is better news, except for it being the result of the seasonally adjusted labor force decreasing by more than total civilian employment. The **labor force saw a contraction of -15,900 (-0.7 percent) individuals, and employment fell by -12,900 (-0.6 percent).** Despite the slight decrease in unemployment, this paints a less rosy picture because both the labor force and employment shrunk. One crude way to remove seasonality is to compare data from a year ago. The news is similarly worrisome: the unemployment rate stood at 5.3% in October 2023 for the Inland Empire, that is it was 0.2 percentage points lower than in October 2024.

The non-seasonally adjusted unemployment rate for Riverside County was 5.6 percent in October while it was 5.3 percent for San Bernardino County. Out of the 58 counties in California, this ranks Riverside County in 36th place, and San Bernardino County in 33rd place. By comparison, here is the ranking for other counties in the Southern California Association of Government (SCAG) region:

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6. Orange County 4.1 percent
20. Ventura County 4.9 percent
33. San Bernardino County 5.3 percent
36. Riverside County 5.6 percent
44. Los Angeles County 6.1 percent
58. Imperial County 19.6 percent

The data released by the EDD comes in a non-seasonally adjusted form, which can be quite misleading at times of large regularly occurring seasonal variations (around holidays, summer months in the Coachella Valley, etc.). A good example of the possible magnitude of this effect was last month's report when the raw data (non seasonally adjusted) of the Inland Empire showed an unusually large decline of 0.6 percentage points in the unemployment rate. Time to celebrate a booming local economy since unemployment rates typically do not change by more than 0.1 or 0.2 percentage points? Hardly, since the unemployment rate actually went up by 0.1 percentage points once you remove regularly occurring seasonal effects. A good analogy may be temperature in Southern California. You would not place any weight on the average high temperature increasing from 75 degrees in March 2024 to an average high of 112 degrees in September 2024 since temperatures in the winter months are always lower than in the summer months. You certainly would not use that fluctuation as evidence of global warming. Rainfall variations may be another analogy to think of.

Our report therefore adjusts the EDD data to remove regularly occurring seasonal fluctuations and we will only make a few comments on the non-seasonally adjusted data for comparison purposes. For the non-seasonally adjusted data, you can consult the EDD document at (https://labormarketinfo.edd.ca.gov/file/indhist/rive$hws.xls).

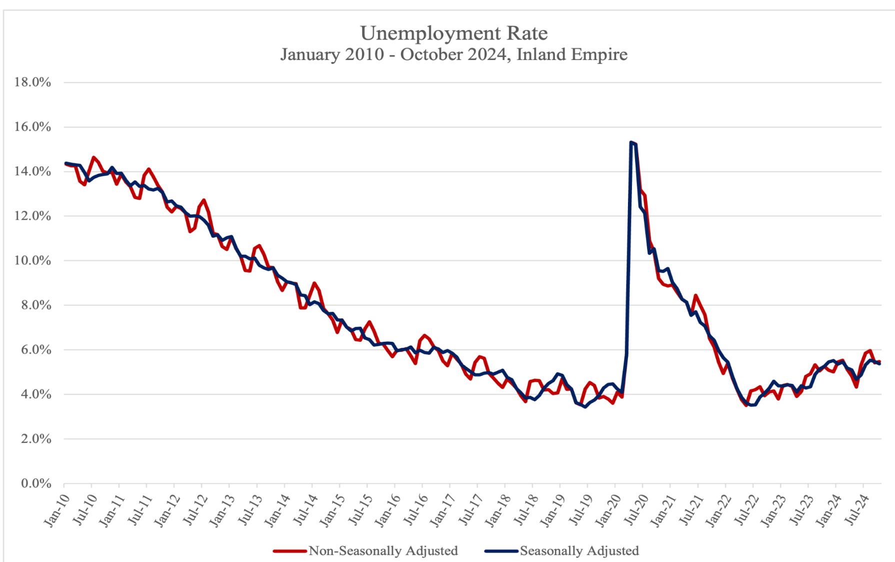
The news for our part of the country is that the **Inland Empire employment is showing changes in the labor market that are somewhat concerning. The decrease in the seasonally adjusted unemployment was due to both the labor force and civilian employment shrinking (by 16,000 and 13,000 respectively).** Note that the change in the unemployment rate is simply the difference in the growth rate of the labor force and employment. Hence unemployment rates can increase even if employment increases (namely if the labor force grows by more than employment). Last month, the unemployment rate did not fall because of employment increases; on the contrary, it fell because more people stopped searching for jobs than people losing jobs.

Labor market data used to calculate the unemployment rate is released nationally by the U.S. Department of Labor. It comes from a smaller household survey (unemployment, employment), which is conducted by residency; and a larger establishment survey (employment by sector), related to production within a geographical area. The latter therefore excludes commuters to the coastal areas who reside in the Inland Empire.

Focusing on the published (raw) data first: Total Employment decreased by 7,700 jobs and the Labor Force saw a decrease of 6,600 individuals (household survey). The unemployment rate increased slightly because of the decrease in employment being greater than the decrease in the labor force. People are losing jobs and leaving the workforce (evidence of "discouraged workers").

We used the same statistical filter to remove regularly occurring seasonal fluctuations from the sectoral employment figures mentioned earlier. Compared to October 2023, the Inland Empire lost 6,500 jobs in seasonally adjusted terms. The **two sectors that are the main negative driving forces** are **Durable Goods** (-3,700) and **Manufacturing** (-2,500). The industry sectors which saw the greatest growth since a year ago were **Private Education and Health Services** (+18,200), followed by **Government** (+9,400), with almost all growth coming from local government. Note that the three largest employers in the Inland Empire are Private Education and Health, Government, and Logistics in this order.

The seasonally adjusted unemployment rate shows a slight trend increase over the last two years or so (see the graph below), which is not surprising given the contractionary monetary policy stance of the Federal Reserve until recently. However, we are yet to see the full impacts of the Federal Reserve's recent 50 and 25 basis point cuts or how their rate path may be affected by the recent Presidential election.



CALIFORNIA

The overall picture for California remains worrisome. The household survey indicates that the unemployment rate had a slight uptick at 5.4% compared to 5.3% in September 2024. The labor force expanded by 7,200, while employment contracted by 5,800. This deviates from the trend of both labor force and employment growth over the past year: increases in labor force since October 2023 have greatly outpaced those in employment however, at 68,400 compared with 14,000. In general, if the labor force growth exceeds the employment growth, then the unemployment rate increases, explaining recent upward movement in the unemployment rate. Further, when we compare these numbers to the pre-Coronavirus downturn almost five years ago, then we see a labor force that is almost 200,000 smaller than what it was at the peak of the business cycle, with employment being a staggering 372,900 people below the level seen then. Hence the unemployment rate is a whole percentage point higher than it was then.

Overall **employment decreased** over the last month by **5,800 jobs** (according to the household survey) and by **5,500** jobs (according to the establishment survey), but some industries still fared well. The greatest portion of nonfarm employment increases came from **Private Education and Health Services** along with **Local Government**, followed by **Financial Activities and Trade, Transportation and Utilities**. The increase in the financial sector is encouraging because of the industry's high productivity. **Most job losses** occurred in **State Government**, driving an overall decline in government employment, followed by **Professional and Business Services**. The **local government** gained a significant **3,200 jobs**. These gains somewhat countered the state government losses of **10,900**, reversing last month's trend of major growth in state government outweighing a decline in local government employment. Federal government only gained 200 jobs.

While the labor demand in the health sector will continue to increase given that not all jobs posted last year were filled and because of the continuing larger numbers of baby boomers retiring, there will be a negative impact of additional hires in this sector for the next year given the availability of public spending on health.

Specifically,

- Private Education and Health Services saw an increase of 9,400 payroll jobs.
- Local Government (+3,200), Trade, Transportation, and Utilities (+2,600); Financial Activities (+2,600) were the other major sectors that saw increases in employment since last month.
- State Government was the biggest loser (-10,900), followed by Professional and Business Services (-8,300).

In terms of year-over-year change, Private Education and Health Services continues to lead by a large margin (+142,800), with Government coming in second (+56,300). Professional and Business Services (+20,100) and Trade, Transportation, and Utilities (+20,100) have also seen increases in employment over the past year. The biggest decreases since October 2023 were in Manufacturing (-37,900), followed by Durable Goods (-24,900) and Information (-14,800).

INLAND EMPIRE

In this section, we will f**ocus on seasonally adjusted data**.

Using the raw (non-seasonally adjusted) data, the change from the previous month seems to be mild and even appears to be slightly positive: labor force shrunk by 6,600, household-reported employment went down by 7,700, and establishment-reported employment went up by an impressive 16,900. However, when the numbers are seasonally adjusted the picture becomes less rosy.

We are seeing a continuation of the trend observed earlier this year: there is a significant difference between the changes reported by the household survey (Current Population Survey or CPS) and the establishment survey (Current Employment Statistics or CES). According to the CPS, the employment level went down by 12,900. However, according to the CES, which measures employment by geographical location of place of work and surveys establishments, employment went down by only 5,300. The last change (Establishment-reported employment) emphasizes the importance of seasonal adjustment, since the raw numbers were showing a very significant increase of almost 17,000 employees.

The discrepancy between numbers reported by CES and CPS could be due to (i) systematic differences in the surveys (subjective answer compared to company records; holding more than one job; self-employment, etc.) or due to commuters losing their jobs in coastal regions (roughly 20% of the Inland Empire labor force commutes to the coastal regions). Therefore, there is the suggestion that the majority of lost jobs can be attributed to less-skilled workers who commute to coastal regions for more attractive wages.

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

- The largest industry-level gains were seen in Private Education and Health Services (+700), Construction (+400), and Local Government (+300). These are a fraction of the larger numbers reported by the EDD using raw data.
- The most significant declines were in Logistics (-1,900), Manufacturing (-1,400), and Leisure and Hospitality (-1,000). Logistics employment increased in the raw data.
- Compared to a year ago, the Private Education and Health Services sector has grown by 18,200, or more than 6%, while Manufacturing has gone down by 3,700, or 3.7%.

OUTLOOK

The U.S. unemployment rate remained constant at 4.1 percent between September and October 2024 (national unemployment rate data is made available ahead of the state and county data). The national economy is on track for a "soft landing" (a significant reduction in the inflation rate without a coincident economic recession as measured by the unemployment rate). The Federal Reserve has lowered the Federal Funds Rate by 50 basis points following the September 2024 meeting and 25 basis points following the November 2024 meeting, with an additional reduction of 25 basis points forecasted before the end of the year. This should benefit the housing sector in particular, including an increase in the sales volume as housing loans become more affordable compared to the rates being paid by current house owners. It should also stimulate construction in particular and benefit overall employment.

As for the Inland Empire, the Logistics sector lost jobs after a period of strong growth. In general, however, the industry seems to have adjusted its expectations to be more in line with reasonably steady, but smaller, month-to-month increases despite some local restrictions, the threat of automation, and the recent passing of a bill by the state that will add significant additional costs to building new warehouses. The industry could pass the Government sector before the end of the year in terms of becoming the second largest employer in the region. We expect that the Government sector could shrink further due to the budget crisis in Sacramento.

The election outcome with its "trifecta" control of the Republican Party in D.C. introduces a significant degree of uncertainty into our outlook. In addition, the Republican Party made gains in the Inland Empire. As for national economic policy, we will have to make potentially significant adjustments to our forecasts depending on various policies that the incoming Trump administration is considering. Foremost we are talking about the imposition of high tariffs on goods from China, which potentially could divert container imports away from the Ports of Long Beach and Los Angeles (depending on where the imports will come from instead). Reduction in container imports will heavily impact the Inland Empire economy through the effects on the Logistics industry. Furthermore, a policy of "mass deportation" will affect sectors in California that rely on immigrants to produce output. Similarly, a return to policies that restrict legal immigration, especially of highly qualified foreign workers, will also disproportionately affect California and its regions. However, and again, matters will become clearer after President Trump's inauguration on January 20, 2025.