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The October Employment Report

by

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OVERVIEW

The California Employment Development Department (EDD) released their employment data for California and the Inland Empire this morning. The release coincides with the Bureau of Labor Statistics (BLS) making available data for all U.S. states. The data is based on two surveys taken around the 12th of October and hence cannot reflect developments later in the month. It certainly cannot reflect the opening of the U.S. economy for foreign tourists, which started at the beginning of this month and should have a more positive effect on the Leisure and Hospitality industry, which is still significantly behind its peak employment numbers of February 2020.

There are two surveys: the Current Population Survey (CPS), a household survey based on residency, and the Current Employment Statistics (CES), which is an establishment survey. Note that for the Inland Empire there can be large differences between the two surveys due to 20% of its labor force commuting into the coastal areas, primarily into the Greater Los Angeles area. The main takeaway from the California CPS numbers is that the unemployment rate decreased in line with the national pattern, but still falls behind the U.S. unemployment rate of 4.6%.

Looking at the CPS numbers, California's unemployment rate improved from 7.5% to 7.3%, a decline of 0.2 percentage points. The good news here is that the labor force basically remained unchanged while employment grew by 0.2% or 32,700 jobs. We would hope to see the labor force grow again in the near future. Some have labelled the current downturn the "Great Resignation" to describe people quitting their jobs and leaving the labor force. To look at California in a less positive light, note that the unemployment rate is still substantially above the U.S. rate of 4.6%, and has hardly changed since April of this year when it was 7.5%. The Congressional Budget Office considers 4.5% full employment for the nation.

The Inland Empire, on the other hand, has an unemployment rate of 6.3%, down 0.3 percentage points from a revised September number of 6.6%. However, these two numbers are not comparable since the California data is seasonally adjusted (SA) while the Inland Empire figure is non-seasonally adjusted (NSA). Using standard statistical techniques (X-12 method) to seasonally adjust the data, we find that the Inland Empire has a rate of 6.7% (SA) signifying a slight increase

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(of 0.1 percentage points). Also, if you want to put another negative spin on these numbers, then note that the Inland Empire ranks 42nd out of 58 California counties in terms of unemployment rates (1 would be best, 58 worst), where Imperial is last with an unemployment rate of 17.7% and Marin County leads the pack with 3.4%. By comparison to Southern California, we see San Diego at 5.3%, Orange County at 4.7%, Los Angeles County at 7.8%, and Ventura at 5.0% (all NSA).

INLAND EMPIRE

The Inland Empire saw a substantial decrease in the NSA unemployment rate, which dropped 0.3 percentage points, from 6.6% in September to 6.3% in October. Unfortunately this improvement in factors facing the Inland Empire is primarily due to regularly occurring seasonal factors. If you take these into account, then the SA unemployment rate for the Inland Empire actually increased by 0.1 percentage points from 6.6% to 6.7%. This means that the job gains seen were primarily due to recurring annual factors at this time of the year.

The unemployment rate is significantly smaller than in October 2020 when it stood at 9.4%. October 2021 shows an unemployment rate that is less than half of the maximum unemployment rate experienced (15.2% in April 2020). This drop points to a recovery from the regional downturn accompanying the Coronavirus recession (March 2020 to April 2020).

Turning now to the establishment survey, we see that much of the 27,000 job gain in employment from a month ago can be attributed to Government (+8,000), Logistics (+7,600), and Leisure and Hospitality (+3,700), which cumulatively make up over 70% of the overall job gains. Note that all the job gains in the Government sector were due to State and Local Government employment increases, since the Federal Government numbers actually decreased by 100. Moreover, most of the State and Local Government employment gains came through educational services. These numbers are not seasonally adjusted.

Since October 2020, or a year ago, nonfarm jobs have increased by 59,300 jobs from 1,502,600 to 1,561,900. However, the nonfarm jobs recovery since the pandemic drop is currently 98%, meaning the sectors taken together have almost completely bounced back to pre-COVID numbers. However, there is much variation between sectors, with Leisure and Hospitality still missing 27,400 jobs (15.3% of February 2020 employment). Government is also down 24,100 or 9.1% of the previously achieved peak. The biggest winner is the Logistics sector, which bodes well for the Inland Empire. One other piece of good news is that the Labor Force has actually grown in the Inland Empire compared to February 2020.

This month, there were no sectors that experienced job losses relative to the prior month, an improvement from September when Leisure and Hospitality, Education and Health Services, and

Wholesale Trade all saw job losses. This month, Mining and Logging saw no change in job numbers.

What is disappointing in the CES report are the relatively small gains in both Leisure and Hospitality, and Other Services, two sectors which were heavily affected by the Coronavirus downturn. Also note that the household survey saw 5,700 more jobs created than the establishment survey, the majority of which we attribute to employment increases outside the Inland Empire.

Looking at the bigger picture, the Inland Empire's unemployment rate (NSA) is 1 percentage point lower than California's unemployment rate of 7.3%. However, the Inland Empire still lags behind the national unemployment rate, which is 1.7 percentage points lower.

Here are the highlights from this month's report:

- The largest monthly gain was seen in Government, with 8,000 jobs added.
- Other industries that saw monthly gains include Logistics (+7,400), Leisure and Hospitality (+3,700), Retail Trade (+3,600), Educational and Health Services (+ 2,200), Professional and Business Services (+2,000), and Construction (+1,600).
- The Mining and Logging sector was the only not to gain jobs but did not lose any either.
- In total, the Inland Empire added 27,000 jobs and lost no jobs.

As of October, the Inland Empire has recovered 89% of the nonfarm payroll jobs lost during the pandemic shutdown of Spring 2020.

CALIFORNIA

California saw a modest decrease in the unemployment rate in October, dropping 0.2 percentage points from September's figures to 7.3% This drop was fueled by a gain of 96,800 nonfarm jobs in October, constituting almost a fifth (18%) of the total U.S. job gains seen during the last month. The seasonally adjusted labor force largely stayed the same (-0.04 percentage points), as compared to September, which saw a labor force increase fueled by the return of some previously discouraged workers.

California had the largest job gain of any U.S. state, ahead of Texas (+56,600) and New York (+43,900). However, California is still lagging in terms of the unemployment rate, remaining tied with Nevada as the state with the highest unemployment rate. Texas also saw a drop by 0.2 percentage points, dipping down to 5.4%, which is still above the national rate of 4.6%. Note, however, that Texas is currently benefiting from extremely high gasoline prices.

California continues to lead in year-over year nonfarm employment change, with an increase of 811,200 jobs between October 2020 and October 2021. Texas remained in second place, with an employment change of 661,300. These states' lead is unsurprising given the relative size of their populations.

Eleven of the twelve major industry sectors added jobs in October, while one registered job losses:

- Professional and Business Services accounted for 40% of the total employment gains in California, leading with a monthly increase of 39,500 positions. This stands as a major improvement over September's tepid gains in this sector of 6,900 jobs.
- Leisure and Hospitality held second place, seeing a monthly increase of 21,500. This stands as a modest decrease from last month's gain of 23,000 jobs, continuing the trend from the past couple months of slowing growth in this sector. It remains to be seen if the opening of international travel in November will reverse this slowdown.
- The next largest employment gains were seen in Logistics (+14,900), Retail Trade (+8,600), Construction (+7,500), Educational & Health Services (+5,400), and Financial Activities (+4,400).
- Together, Professional and Business Services, along with Leisure and Hospitality accounted for 63% of the total monthly job gains in California.
- The only sector to see a decline was Government, with a seasonally adjusted loss of 4,000 positions. This continues the trend from September, which saw a slight decline in Government employment as well. Both September and October stand in sharp contrast to August, where the Government sector was the leading source of state employment gains.

Looking at the year-to-year sectoral statistics, every major sector saw an increase in employment. The employment increase was led by Leisure and Hospitality (+306,000), Professional and Business Services (+165,600), and Logistics (+104,600).

As of October, California has recovered 67% of the nonfarm payroll jobs lost during the pandemic shutdown of Spring 2020.

SOUTHERN CALIFORNIA

We also investigate to what extent Southern California follows a pattern similar to the state of California and the Inland Empire. The unemployment rate fell -0.3 percentage points from 7.0% to 6.7%. This was driven by a total nonfarm employment growth of 1.3% from 9,172,600 to 9,291,700 jobs. The labor force grew 0.3% from 10,732,400 to 10,763,800. As of October 2020, Southern California total nonfarm employment was 8,829,600, indicating a year-over-year growth of 5.2%. Job counts are still 4.9% behind the pre-pandemic peak in February 2020.

In terms of sectoral employment growth, Southern California did not see any major industries losing over the last month. The largest gain was the Government sector, which added 26,800 jobs over the last month. Beyond that, we observe large gains in the Professional and Business Services (+21,800), the Educational and Health Services (+16,300), and the Retail Trade (+16,100) sectors.

Non-seasonally adjusted growth rates of the labor force and employment in Southern California closely align with those of the state, indicating that neither Southern California nor Northern California comes out on top as a clear winner or loser.

A sectoral analysis of Southern California can be summarized here:

- The largest monthly gain was in the Government sector, adding 26,800 jobs in October. This sector lost 189,000 jobs during the COVID-19 recession.
- The next 3 largest sectoral employment gains of the region include Professional and Business Services (+21,800), Educational and Health Services (+16,300), and Retail Trade (+16,100)
- The Southern California region saw no sectoral drops in employment.
- The civilian labor force grew by 31,400 (0.3%)
- Total nonfarm employment currently sits approximately 5% shy of pre-pandemic levels