Where is Employment Heading in the Inland Empire: The January 2024 Employment Report

by

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Once a year, at the beginning of March, the national release of the monthly labor market data coincides with that of the state (California) and regional publication (Inland Empire). This is due to major annual data revisions for the January report on the sub-national level. The numbers released on March 8 by the Employment Development Department (EDD) are for January 2024, while the U.S. Department of Labor published the February 2024 data. The February 2024 report for the sub-national level will be released in the middle of March.

We can get the national analysis out of the way fairly quickly: there was a higher than expected increase in the employment numbers (275,000) while the even higher initially released January numbers were revised downwards to more reasonable levels (229,000). Yes, the unemployment rate did increase from 3.7% to 3.9%, but that was due to a healthy employment growth being outpaced by an even larger increase in the labor force. Since then, the inflation numbers have also been published, and while they did not improve further significantly for the month and by the magnitude many of us had hoped for, the U.S. economy continues to be on a path for a *soft landing* (reducing inflation rates to 2% without creating a recession). This is important, because the Federal Reserve will be less likely to lower interest rates during the summer if the job market was as hot as initially estimated and inflation remains sticky above the 2% target. The central bank left interest rates unchanged after its meeting last week, but indicated that it is close to start lowering the interest rates in the near future as the policy makers become confident that "it will be appropriate to dial back." Chairman Powell said they were "not far from it." As the UCLA Anderson Forecast put it in its most recent report, we are on a *path to normalcy*.

With the national numbers out of the way, let us focus on our state and region. For the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), some of the annual revisions were substantial. For example, in the Inland Empire, the Logistics industry lost significantly more jobs (some 5,000 depending on which month you focus on) since last summer than originally assumed and shows a steeper downward trend in employment. On the other hand, Education and Health Services has gained more jobs than previously thought, roughly 10,000 more and the numbers are

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even more upward trending, confirming it as this industrial sector with the largest share of labor in the Inland Empire.

The headline news for the Inland Empire is that the unemployment rate jumped up by half percentage points, increasing significantly from 5.0% to 5.5%. Is it time to panic? Since the Inland Empire's economy is often described as "First In, Last Out," shall we take this as the first sign of the national economy tanking after all, resulting in a "Hard Landing" (decrease in inflation coinciding with a recession)? We will argue here that the initially bleak picture is simply an artifact of the data, generated by regularly occurring seasonal patterns. Without getting too technical, we will try to convince you that you should look at *seasonally adjusted data* rather than the raw data released by the EDD. While for some months the difference is negligible, in January it is particularly high, since there are layoffs every year due to the post-holiday season (this can be seen even more dramatically if you look at the construction industry in, say, Chicago or New York, or holiday travel at LAX). Hence, it is not surprising that the largest raw data (non-seasonally adjusted) employment losses for the Inland Empire came in Retail Trade, Logistics, and Leisure and Hospitality. Filtering out these effects is important since they give a misleading picture of the underlying economy. Total employment reported did not go down 32,300 (which would represent an alarming 2%); instead, it went up by 4,850.

Additionally, the increase in employment reported by households (+9,100) aligned with the increase in establishment employment (+4,850). Note that residency measured employment increased by more than what establishments reported. This is probably due to commuters, most of whom work in the coastal areas. The employment status of these commuters is reported by households in the region, not by establishments. This means that significant job growth among commuters could explain the difference for January.

To stress this point, let us get more specific. Compared to the bleak picture painted by the raw establishment data (decreases of -8,200 in Retail Trade, -7,400 in Logistics, -6,500 in Professional and Business Services, and -3,700 in Leisure and Hospitality), the numbers we get after accounting for seasonal patterns are much more positive. The biggest decrease was seen in Professional and Business Services (almost -1,200), at only roughly a fifth of what non-seasonally adjusted data indicated. For Retail Trade (-500), Logistics (+250), and Leisure and Hospitality (-700) numbers also look less worrisome. Bottom line: do not make major decisions or inferences based on non-seasonally adjusted data.

Applying standard statistical techniques to remove seasonal regularities results in the (seasonally adjusted) unemployment rate actually *falling* by 0.1 percentage points (from 5.7% to 5.6%) for the Inland Empire. Moreover, the change came in the healthiest way possible: through a simultaneous increase in employment and labor force, the former outpacing the latter (+9,100 and +6,200, respectively). After six consecutive months of increases in the civilian unemployment rate, this is an encouraging development. Moreover, the result holds despite the fact that we only observed significant employment increases during three months in 2023. The Inland Empire will need some more time to recover from the very concerning decreases of 12,800 for the labor force and 13,600 for employment observed between November and December of last year. Despite this caveat, the Inland Empire continues to be the poster child of the economic recovery from the COVID-19 recession, outperforming the coastal areas (*bifurcated recovery*), the Bay area including Silicon Valley, and California as a whole. While we will continue to see some structural adjustment between the various industries of the region, we are on a positive path as far as the economy as a whole is concerned.