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There’s more to the economy than unemployment rates

By **CONTRIBUTING WRITER** |
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By Manfred W. Keil and Robert Kleinhenz | *Inland Empire Economic Partnership*

It took the Golden State a few months to take the lead, but we finally did it: as of February 2024, California finally caught up with Nevada and we are now the U.S. state with the highest unemployment rate at 5.3%. This is not a typical scenario, and you have to look back to the dividends of the end of the cold war or the Coronavirus shutdown when our home state carried that distinction. Other states with high unemployment rates include Washington on the West Coast, Connecticut and New Jersey on the East Coast, and Illinois in between. Which states are at the other end? North Dakota at 2.0% and South Dakota at 2.1%.

The national unemployment rate stands at 3.9%, substantially lower than California's. However, the 1.4% gap between the national and state rate is in line with historical averages, meaning that while it is unusual to find California as the leader of the pack, it is quite common to place it in the top three or so. This may be attributed in part to differences in industrial composition between the economies and socio-economic factors. Ignore differences in seasonal factors since the data we focus on is reported with typical seasonal fluctuations filtered out.

Unemployment rates also vary widely across the state. Of the 58 counties within California, the highest unemployment rates are in Colusa County (20.4%) and Imperial County (17.2%), the latter typically having the highest rate among the regions of the country. Both Riverside County and San Bernardino County, which make up the Riverside-San Bernardino-Ontario Metropolitan Statistical Area or the Inland Empire, are in the middle of the pack in 22nd and 20th place with rates of 5.6% and 5.4%, respectively. These rates are higher than a year ago.

So, how bad is bad? Ranking states and regions from top to bottom is interesting, especially since it typically results in political statements that focus on such extremes. However, from an economic point of view, it is more important to understand the "why" not the "what."

Unemployment rates are determined by dividing the number of unemployed persons by the labor force, which is made up of both the employed and unemployed. The unemployment rate falls if employment growth is positive as long as the labor force does not grow. In fact, it will fall as long as employment growth outpaces the labor force growth. On the other hand, the unemployment rate will go up even if employment does not fall or even grows, as long as the labor force increases by more. In general, employment growth outpacing labor force growth is a sign of a relatively healthy economy, but when both the labor force and employment shrink, the economy is slowing or contracting, even if the unemployment rate falls. This is not healthy. In California's case, recent weak employment growth stands out.

Let's look at the Inland Empire.

At 5.5%, the unemployment rate for the Inland Empire is up by 1.1 percentage points from February 2023. It is also 1.6 percentage points higher than in February 2020 (3.9%), the month preceding the start of the pandemic. That does not sound good, but the explanation is that our labor force increased by 65,000 people – perhaps because more discouraged workers have decided to look for work again or because of outmigration from the coastal areas – while employment is 27,000 workers higher. Taken together, these figures paint a picture of a growing economy even as the unemployment rate has increased. Moreover, employment increased despite the recent and highly publicized job losses in the logistics (transportation, warehousing, wholesale) sector, meaning that growth in other sectors is offsetting the momentum lost as the logistics sector slows.

The story is different elsewhere in Southern California.

Los Angeles County has the worst record. It experienced a large employment decline of 6%. Had the labor force not shrunk by roughly the same amount (5%), then the unemployment rate of Los Angeles County would have increased by that number, and would now stand at 11.3% instead of the seemingly normal 5.0%. It was "saved" by a combination of outmigration and people quitting the labor force. Orange County and Ventura County did slightly better but also ended up with lower employment and a shrinking labor force.

So what is the situation in California?

The labor force is still 1% below its February 2020 level while employment is 2% lower than its pre-pandemic level. In absolute numbers, employment is lower by 410,000 and the labor force is 243,000 or close to a quarter of a million smaller compared to just before the pandemic. California's unemployment rate is 5.3% now, compared to 4.4% in February 2020. Like Los Angeles County, the state's labor market has been adversely affected in recent years by a shrinking labor force, due to people retiring or otherwise leaving the labor force, and outmigration, as reflected in population numbers of the past few years.

What do we make of all of this?

Neither the state nor coastal Southern California have fully recovered from the pandemic, but the Inland Empire has. Employment across the state and its regions should pick up this year as leading sectors such as logistics, tech, and entertainment experience employment growth. And let's face it, neither one of us

Meanwhile, having recovered all employment lost since the start of the COVID-19 downturn, and showing a growing labor force, the Inland Empire is doing relatively well. While its unemployment rate is elevated, this is simply a function of more people moving into our region and not all, so far, being able to find a job.

Manfred W. Keil: Chief Economist, Inland Empire Economic Partnership and Associate Director, Lowe Institute of Political Economy, Robert Day School of Economics and Finance, Claremont McKenna College

Robert Kleinhenz: Cal State Long Beach, CEO, Kleinhenz Economics.

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