IEEP NEWS RELEASE
May 17, 2024

The April 2024 Employment Report

by

Manfred W. Keil[1]

OVERVIEW

The California Employment Development Department (EDD) released its April labor market update for California and its regions on Friday, May 17. It contains the latest labor market statistics for counties and Metropolitan Statistical Areas (MSAs). Here we will focus primarily on the Inland Empire (Riverside County and San Bernardino County), also referred to as the Riverside (Riverside-San Bernardino-Ontario) MSA.

The headlines read as follows (in bold):

For the Inland Empire, the labor force and employment saw similar but very small growth. Hence[2] there was only a very small change (increase) in the seasonally adjusted unemployment rate from 5.3% to 5.4%. The labor force grew marginally faster when compared to employment (this may be the result of not all the new entrants in the Inland Empire labor force being able to find a job). The EDD release shows a decline in the unemployment rate to 4.8% from 5.1% in March, but this is misleading at best, since the decline was due to regularly occurring seasonal factors.[3] For those who do not trust statistical techniques to remove seasonal patterns, then a comparison with labor market numbers from a year ago may contain more information.[4] According to the household survey (CPS), the unemployment rate has gone up from 3.9% to 4.8% (a significant increase of 0.9 percentage points) since employment by residents fell by almost 15,000 while the labor force expanded by almost 5,000. Both factors would increase the unemployment rate. Note that the CPS contains data for commuters, while the CES basically does not (only workers who commute east into the Inland Empire, a total of roughly 100,000 compared to over 300,000 commuting into coastal areas).

---

[1] 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. Keil received valuable assistance from research analysts Yu-Chi Cheng, Suchen Hou, Arlo Jay, Ivan Kolesnikov, and Ethan Sattley.

[2] the change in the unemployment rate is approximately the difference between the labor force growth and employment growth

[3] You would not compare the 8 a.m. temperature in Palm Springs with the 1 p.m. temperature and make statements regarding weather patterns by stating that the morning temperature is cooler.

[4] This is also not without problems if you think of the data being trended.

Compared to April 2023 and using the CES establishment survey, the Inland Empire added 21,000 jobs. The two sectors that are the main drivers are Private Education and Health (mostly health +18,700) and Government (mostly state and local government, +12,000). That means that the other sectors must have shed a total of 9,400 jobs, with the biggest losers being the Logistics industry (-4,300) and Leisure and Hospitality (-3,800). The two sectors lost over 85% of the total job losses.

San Bernardino County and Riverside County rank 22nd and 23rd in terms of (not seasonally adjusted) unemployment rates where San Mateo County has the lowest unemployment rate (ranked first) and Imperial County the highest (ranked 58th). Other counties you may be interested in for comparison purposes (with their rank in parenthesis): San Francisco (2), Orange County (6), Silicon Valley (7), San Diego County (12), Ventura County (13), Los Angeles County (19).We will point out below that the picture looks less negative for the Inland Empire once we analyze the underlying numbers.

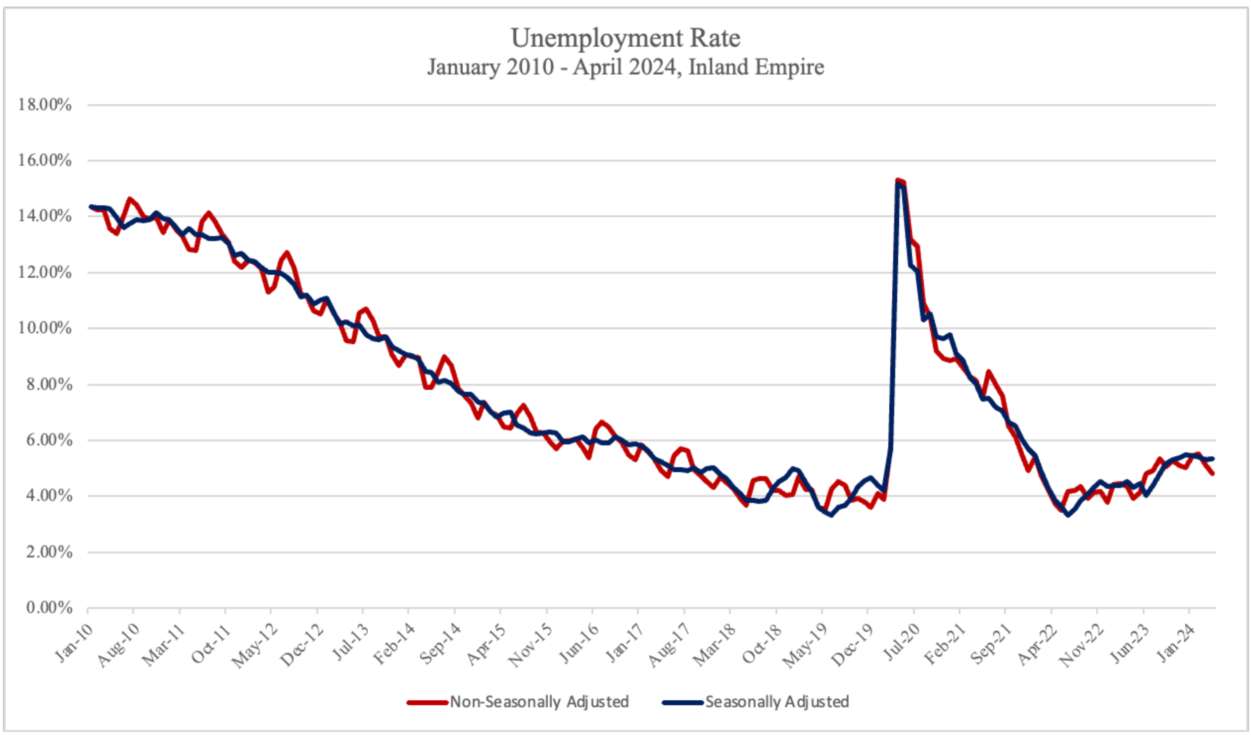
If this does not sound very positive, it could be worse, you could be looking at the state picture: California as a whole experienced no change in the unemployment rate in April, with unemployment remaining at 5.3%. While historically speaking this number is relatively low, it is significantly higher than the U.S. national data (3.9%). It is also 1.1 percentage points higher than what it was in February 2020; and it is also high relative to other states (California continues to be at the bottom of the table, beating out Nevada to this distinction by 0.2 percentage points). For that matter, if we go with the (admittedly subjective) household data (Current Population Survey or CPS) then, for the state of California, we are over 200,000 workers below the labor force level from February 2020, and there are over 400,000 fewer workers employed. These numbers are staggering. Had people not left the labor force in such large numbers, the unemployment rate outlook would be even worse: this is not an indicator of a healthy economy!

What about the competitors we are worried about? Florida added 45,300 jobs and Texas increased employment by 42,600. California? 21,600 despite having a much larger economy.

To be fair, the establishment survey, which is much less subjective, shows an increase in employment of over 300,000 since February 2020. While the two surveys typically show discrepancies, seeing a difference of this magnitude is unusual. At this point, we are not sure what causes this, whether it is outmigration, in-migration not captured by census data, workers holding multiple jobs, more self employment, or another reason. Once we get census adjustment regarding the population, some of the puzzle should be cleared up. State figures are seasonally adjusted by the EDD and we therefore do not have to worry about seasonal influences driving the currently elevated California unemployment rate.

The 5,200 increase in nonfarm payroll jobs represents a slowdown from March's employment growth of 18,200. Nonfarm payroll jobs are higher compared to a year ago, up by 1.2% from March 2023, which is close to historically observed annual growth rates. Based on the revised residency-based survey (CPS), Employment has gone up by a much smaller amount, 5,800, while the labor force contracted by 100.

This development for the Inland Empire becomes more interesting when filtering out seasonal effects. The EDD report does not seasonally adjust for regional unemployment, but we do so using standard statistical techniques to give us a more objective picture of the labor market. The small increase in the unemployment rate is driven more by an increase in the labor force rather than any significant changes to the number of employed. Essentially, the increase in the unemployment rate reflects increases in the number of people looking for jobs. It also shows the previous increasing trend of unemployment rates since the summer of 2022 may be slowing (see the graph below).



CALIFORNIA

Here are sector-specific highlights, which are based on the establishment survey. There were slightly more than 21,000 jobs created by industries that expanded. Over half of them by the Private Education and Health Services, and almost exclusively in Health Services within that sector.

- Private Education and Health Services continued its strong gains from March, increasing by another 11,900 positions.

- Other major gains were seen in Logistics (+4,100), Leisure and Hospitality (+3,100), and Government (+2,600).
- Construction saw the biggest loss in employment since March (-6,000), followed by Manufacturing (-5,300), and Professional and Business Services (-4,100),

Looking at year-to-year changes, Private Education and Health Services is also the leader over the other industries, with a gain of 178,700 employees. Government came in second with an increase of 61,300 workers. The biggest decreases since April 2023 were in Information (-43,000), followed by Manufacturing (-22,800).

According to the *household survey*, the last 12 months have seen a particularly poor performance by the state. The large 0.8 percentage point increase in the unemployment rate was the result of a growing labor force and decreasing employment: this is a bad scenario, with both factors resulting in an increase in the unemployment rate: new workers entering the labor force while employment is dropping. Again, the 0.6 percentage point decline in employment as measured through the household survey stands in contrast to the 1.2 percentage point increase in non-farm employment as measured through the *establishment survey*.

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).

From March to April, the *seasonally adjusted unemployment rate* for the Inland Empire increased by 0.1 percentage points from 5.3% to 5.4%, which is slightly higher than the 5.3% of the seasonally adjusted California state level.

Both the labor force and employment numbers come from the household survey and reflect the employment status of the workers who reside in the region but do not necessarily work here. However, the household survey does not account for laborers working for multiple jobs and is further subject to the inaccuracies of self-report. Historically, that data is higher than the employment statistics we receive from the Total Nonfarm employment due to the larger numbers of commuters from the Inland Empire into the coastal regions. The establishment data indicates how many people are on the payroll of the businesses that operate within the region, and hence are typically more reliable.

Comparison between CPS and CES reveals the essential character and patterns of the Inland Empire labor force. According to the Establishments survey, the seasonally adjusted employment went up by roughly 3,100, which is less than the 4,700 increase reported by the CPS data. The discrepancy 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 finding more jobs in coastal regions (roughly 20% of the Inland Empire labor force commutes to the coastal regions).

In terms of the sectoral changes, Private Education and Health services, in which rapid increase was seen in the past year (gained 22,000 jobs between March 2023 to March 2024), continues its rising trend in April 2024 by adding 1,300 jobs. However the data shows a small decrease in the most recent year to year report. A similar rebound is seen in the Logistics sectors, which has preserved its growing momentum from previous months to create an additional 2,500 jobs, suggesting a reverse of the cooling-down as observed since the summer of 2022.

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

- The largest increases in employment were seen in Logistics (+2,500), Private Education and Health Services (+1,300), and Government (+1,200).
- The sectors with the biggest decreases in employment from the previous month are Construction (-2,200) and Professional and Business Services (-1,500).
- Since April 2023, Logistics employment has been down by -3,300, after increasing by 64,500 from February 2020 to December 2022. This suggests that the industry, which is now the third largest employer for the Inland Empire, continues to be in adjustment mode after perhaps overhiring resulting from overly optimistic projections in the aftermath of the pandemic. Nevertheless, combining the seasonally adjusted data and the report from the previous month, continuous gains in the sector signal the cooling-down's alleviation and provide prospects for sustained growth.

OUTLOOK

Given the substantial fall in national employment creation between April and May (we will not see the regional data until mid June), do not expect much of an improvement in the labor market either for California nor the Inland Empire. Moreover, as a result of the relatively poor performance of our state and region compared to the national picture, it would not be surprising to see the state and regional seasonally adjusted unemployment rate to increase next month. The continued adjustment in household spending patterns (away from consumer durables towards services) and the projected government deficit, we cannot see an expanded role for neither the logistics industry nor the government sector. Given the current declines in manufacturing, construction, and professional and business services, it is not clear which sector, other than the health industry, can make up for the slack.

For a more detailed analysis of raw data, go to:

https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html