IEEP NEWS RELEASE

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The February 2025 Employment Report

by

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OVERVIEW

On March 28, the Employment Development Department (EDD) published the February labor market data for the state and its counties/Metropolitan Statistical Areas (MSAs). This allows us to look at the latest employment trends for California and our region, the Inland Empire (Riverside County and San Bernardino County). Data for the counties and MSAs is not seasonally adjusted and hence can send misleading signals regarding the labor market if we are interested in cyclical variations, i.e. forecasting if the Inland Empire will continue to see an economic expansion or go into a recession in the near future. We employ statistical filters to remove the seasonality from the data rather than focusing on the non-seasonally adjusted raw data. We also look at year-to-year changes, since this difference removes most of the seasonal fluctuations. For the raw data, you will have to consult the EDD website (https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html).

Last month, we stressed that the **Inland Empire economies are in a vulnerable situation** since almost **all employment gains were driven by just two sectors: Health and Public Education**. Since those two sectors will be affected negatively by President Trump's economic policies or by demographics, we forecast that the Inland Empire economy will peak within the next 12 months, unless other sectors can pick up the slack. Especially crucial here is the Logistics industry, which is the largest employer in San Bernardino County and the third largest employer in Riverside County. This sector has shown declining employment numbers in the recent past. Moreover, given President Trump's policy on tariffs, we cannot expect employment increases in Logistics over the year. It does not help either that the California state economy is in a similar situation.

We start with the headline news: the non-seasonally adjusted unemployment rate for the Inland Empire is 5.1 percent for February 2025. This is a drop of 0.2 percentage points from the previous months, and, more importantly, a 0.1 percentage points decline from February 2024. This suggests

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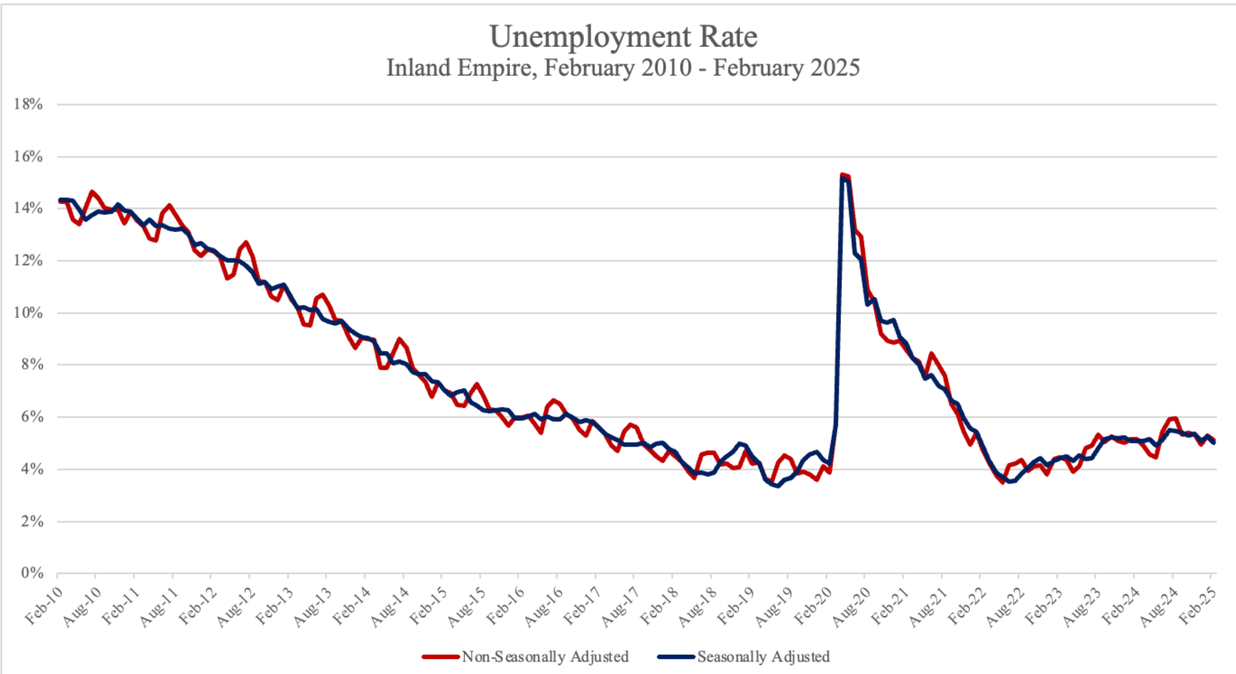
that **currently we are *not* seeing a deteriorating economic situation in the two counties yet.** Both Riverside County and San Bernardino County basically have the same non-seasonally adjusted unemployment rate, with Riverside County being slightly above San Bernardino's (5.2 percent versus 5.1 percent). After removing regularly occurring seasonal fluctuations, this results in an **unemployment rate of 5.0 percent for the Inland Empire, with a decrease of 0.2 percentage points from the previous month**.



INLAND EMPIRE

In this section, we will talk about seasonally adjusted changes in employment. While the decline in the seasonally adjusted unemployment rate was a positive development, it was the result of both the Labor Force and Total Employment (reported by Current Population Survey) shrinking, by 6,100 and 800, respectively. Hence the drop in the unemployment rate was primarily generated by individuals dropping out of the labor force (discouraged workers) rather than rising employment. That reverses the trend we have seen over the past year, with both the Labor Force and Total Employment growing by around 24,000, or roughly 1.1 percent..

Employment reported by CES (Current Employment Statistics) paints a similarly gloomy picture. Unlike the CPS, which reports employment by residency and includes people who **live** in the

Inland Empire, CES surveys the enterprises that are located here and therefore includes commuters who **work** in the greater Los Angeles region. CES-reported employment went down by 5,800, which is a significant decrease, compared to just 800 from CPS. A possible interpretation is that businesses within the region are struggling more than their coastal counterparts.

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

- The month-to-month gains by industry were in **Local Government** (+424), **Private Education and Health Services** (+219), and **Information** (+131).
- The most significant declines were in **Construction** (-2,700), **Leisure and Hospitality** (-1,158), and **Professional and Business Services** (-624).
- **Private Education and Health Services (primarily Health)** has been a significant engine of growth during the last year (+16,754). **Local government** has also been an important job creator for the region; the sector gained (+10,054) jobs in the last year, making up for state (-401) and federal (-327) declines.

CALIFORNIA

At state level, Payroll Jobs (CES, employment by place of work) declined marginally -7,500 jobs from a month ago, while Total Employment (CPS, employment by residency) went up by 10,900 from **January 2025**. A possible interpretation of this data could be that businesses are hiring more workers who reside in California, but remote workers who have been prompted to return to office are getting laid off. California's unemployment rate held steady at 5.4 percent compared to February 2025, but is 0.3 percentage points higher than a year ago, when it was 5.1 percent. California continues to have the second highest unemployment rate among the 50 U.S. states, and it is 1.3 percentage points higher than the national rate. Historically, differences of this magnitude are driven by unusual circumstances, such as the decline in the aerospace industry and shutdowns of military bases in the '90s, the housing bust coinciding with the Great Recession of 2008/2009, or the Coronavirus downturn and subsequent recovery, when California policies were more stringent than those of other states and its Leisure and Hospitality industry was particularly hard hit. Compared to a month ago, employment (as measured by the household survey) increased by 10,900 persons, while the labor force increased by 2,600. Since the change in the unemployment rate is approximately equal to the difference in the labor force growth rate and employment growth rate, the unemployment rate remained constant (after rounding).The largest industry-level month-to-month gains were in **Private Education and Health Services** (+18,400), **Government** (+3,600), and **Information** (+2,600).

- The biggest winner by far for year-over-year changes was also **Private Education and Health Services** (+159,300). **Government** (+58,100) was the only other major industry that experienced an uptick.

- The "biggest losers" this month were **Professional and Business Services** (-7,700), **Leisure and Hospitality** (-6,900), and **Financial Activities** (-4,700).
- By annual data, the biggest loser was **Professional and Business Services** (-47,800). **Manufacturing** was the second biggest (-34,000).

OUTLOOK

We continue to **be concerned regarding the development of the Inland Empire economy over the next 12 months**. Our **forecast is for a contraction in the local economy in the near future (2026)**. Our forecast is based on the fact that both in the state and in the region, we have a heavy reliance on two sectors generating employment: Health and Public Education. Neither one is expected to do as well from here on given national economic policies and demographic trends. The Logistics sector will not contribute positively given President Trump's tariff policies. The Greater Los Angeles area also will not send positive impulses, especially as a result of a structural decline in the Information sector (Hollywood). We consider today's data release showing w**arning signals for the near future**. The state and regional labor market signal vulnerability: only two sectors show expansion in employment: Health and Public Education. Take these two engines away, and you are faced with a recession, at least in this part of the country.

Logistics (Transportation, Warehousing, Wholesale), which is typically a driver in the Inland Empire economy (third largest employer, largest in San Bernardino County), is shedding jobs. This sector will not benefit from President Trump's tariff policies and hence will not offset the envisaged job losses elsewhere. While we do not comment on the national economy here, let us simply point out that there are other economic sensors (yield curve, consumer sentiment, stock market) that also suggest an upcoming recession for the U.S. While the inflation rate has come down slightly recently, it is still not close enough to 2 percent to forecast Federal Reserve interest rate cuts in the near future, which would presumably stimulate the housing market. Do not expect (at best) for the Federal Reserve to lower the Federal Funds Rate more than two times. We actually forecast a single drop of 0.25 percentage points (25 basis points), while UCLA's Anderson Forecast predicts none.

The positive outlook for both the state and the region would be that if some of the sectors that currently show a decline can turn matters around, then a recession could be avoided. There is some hope for manufacturing and information (movie industry) in California and Southern California, but these positive adjustments certainly have not arrived yet. If the turnaround does not happen, then the 58-month expansion is likely to end, at least for our state and region.