IEEP NEWS RELEASE

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The November 2024 Employment Report

by

Manfred Keil[1]

OVERVIEW

The latest information regarding labor markets in California was released by the Employment Development Department (EDD) on December 20. It contains labor market data on the various Metropolitan Statistical Areas (MSAs) within the state, including the Inland Empire (Riverside County and San Bernardino County). Our analysis primarily focuses on the two counties here, but we will also briefly describe state wide developments.

The EDD publishes "raw" data, meaning it does not remove regularly occurring seasonal fluctuation. The difference in the EDD published data and the seasonally adjusted data is quite dramatic this month. While the EDD data shows a decrease in the unemployment rate of 0.2 percentage points (5.5 percent to 5.3 percent), there is **no change in the seasonally adjusted unemployment rate (5.4 percent)**. More importantly, the **EDD raw data shows relatively large employment gains overall and in some sectors, especially in the Logistics industry. This effect disappears once we take into account regularly occurring seasonal factors.**

For the non-seasonally adjusted data, you can consult the EDD document at (https://labormarketinfo.edd.ca.gov/file/indhist/rive$hws.xls).

Unemployment rates (seasonally adjusted) for the Inland Empire were close to 4% in February 2020 before the Coronavirus downturn, and reached that level again by mid-2022. Since then, there had been a slight, but significant, trend increase to 5.4 percent by October 2024. By comparison, the U.S. unemployment rate was 4.2 percent in November 2024. The California unemployment rate was 5.4 percent.

The raw data also indicates that the previously observed gap between San Bernardino County and Riverside County persisted last month, with both county unemployment rates falling by 0.2 percentage points (Riverside County: 5.4 percent, San Bernardino County 5.1 percent). The

[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. The author received valuable assistance from research analysts Yu-Chi Cheng and Suchen Hou.

decrease improved the relative rankings of the two counties when compared to the rest of California: San Bernardino County now is in 23rd place, while Riverside County moved up to 33rd.

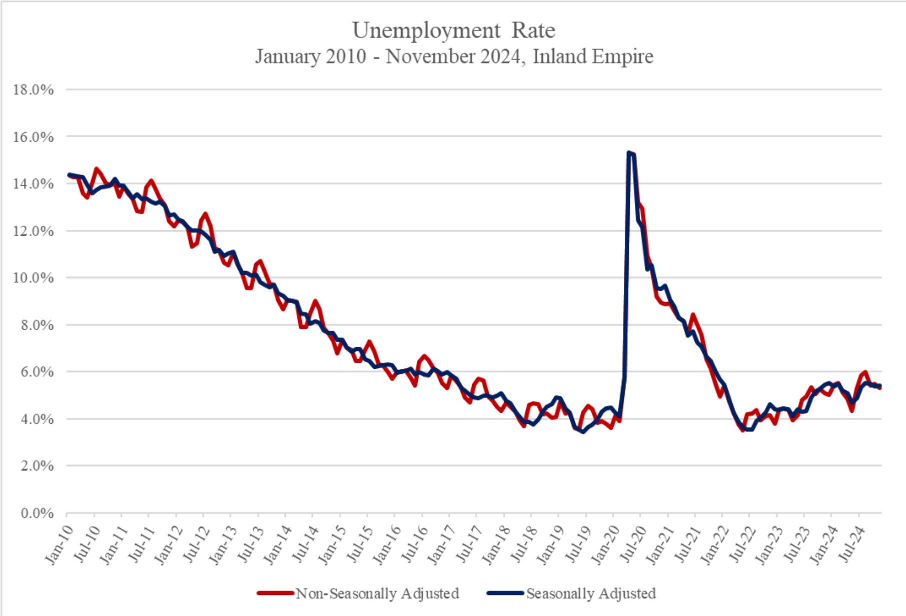
The ranking for the Southern California Association of Government (SCAG) counties is as follows:

6.	Orange County	4.0%
21.	Ventura County	4.9%
23.	San Bernardino County	5.1%
33.	Riverside County	5.4%
36.	Los Angeles County	5.8%
58.	Imperial County	19.0%

If you decompose the change in the unemployment rate into changes in the labor force and employment, then the raw data shows a decrease in the unemployment rate because employment grew at a faster rate than the labor force. **The non-seasonally adjusted data indicates that 9,300 additional workers joined the labor force, and 14,000 workers found new jobs.** While it is encouraging to see a fall in the unemployment rate when positive employment growth outpaces positive labor force growth, this bright picture disappears when we seasonally adjust the data. **The seasonally adjusted data basically shows no change from the previous month**, with the labor force shrinking by 850 workers and employment increasing by 80 workers. Both changes are too small to have an effect on the overall unemployment rate.

One crude way to remove seasonality is to compare data from a year ago, and here, the news is similarly worrisome: the unemployment rate stood at 5.1% in November 2023 for the Inland Empire, that is it was 0.2 percentage points lower than in November 2024. (Note that a year ago, the non-seasonally adjusted unemployment rate also fell by 0.2 percentage points between October and November 2024).

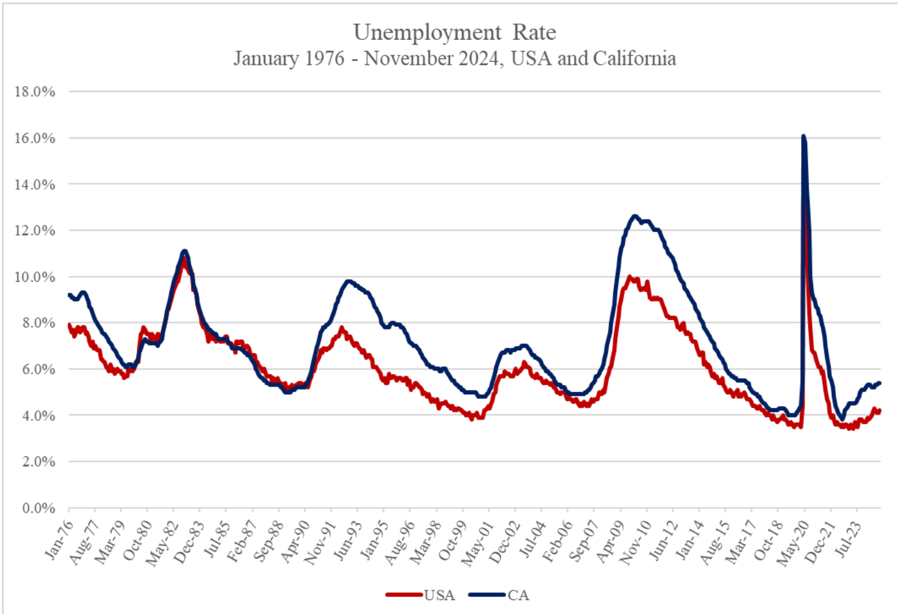
The graph below indicates that there has been a slight, but significant, trend increase in both the seasonally adjusted and non-seasonally adjusted unemployment rates for our region since mid 2022. The current reading does not reverse this trend. The recent expansionary monetary policy of a full percentage point (100 basis points) decrease in the Federal Funds Rate has not shown up in significant gains in the labor market yet.



CALIFORNIA

While California had the second highest unemployment rate (5.4 percent) among U.S. states (only Nevada's rate was higher at 5.7 percent), this is less of a concern for two reasons: (i) the state unemployment rate is typically above the national unemployment rate, and the current values are not significantly higher than they were historically, and (ii) the household data, which is used to calculate the unemployment rate, is currently distorted by factors related to immigration, which the U.S. Census Bureau does not seem to have captured adequately. For example, the household survey (Current Population Survey or **CPS**) survey indicates that **employment** is still roughly **500,000 workers below pre-pandemic levels**, but the more reliably establishment survey (Current Employment Statistics or CES) shows a healthy increase by 700,000 or an almost 4 percent increase.

Having said this, California's higher unemployment rate in the past can be explained by significant economic events such as oil price increases in the 1970s, the negative effect of the peace dividend in the 1990s, the dot.com recession in the early 2000s, and the collapse of the housing bubble during the Great Recession and its recovery from 2008-2014. Factors that have resulted in a higher state unemployment rate may include adjustments in the tech industry, a restructuring of Hollywood, and a courier services contraction. The figure below shows the national and state unemployment rates since 1976.



The overall picture for California remains worrisome when focusing on the household survey. Here the unemployment rate remained unchanged at 5.4% compared to October 2024. The labor force actually shrunk by 10,200, while employment declined by a larger margin (19,600). This mirrors the development from a year ago, where the labor force contracted by 10,800 while employment declined by 13,500. Generally, if the decline in employment growth outpaces the decline in the labor force growth, the unemployment rate increases.

Overall **employment decreased** over the last month by **19,600 jobs** (according to the household survey) and increased by **11,100** jobs (according to the establishment survey). Despite the aggregate small increase, there are some industries that did better than others. **The largest gains** in nonfarm employment were in **Private Education and Health Services**, **followed by Logistics**. **Professional and Business Services**, and **Information**, also showed notable increases. **Most job losses** occurred in **Financial Activities**, followed by **Other Services**.

Specifically,

- Private Education and Health Services saw an increase of 13,100 payroll jobs.
- Trade, Transportation, and Utilities (+5,700), Professional and Business Services (+2,600), and Information (+2,100) were the other major sectors that saw increases in employment since last month.
- Financial Activities was the biggest loser (-4,400), followed by Other Services (-3,300).

In terms of year-over-year change, Private Education and Health Services continues to lead by a large margin (+149,400), with Government coming in second (+57,700). Trade, Transportation, and Utilities (+33,200) and Professional and Business Services (+27,900) have also seen increases in employment over the past year. The biggest decreases since November 2023 were in Manufacturing (-42,800), followed by Information (-14,800) and Construction (-11,500).

INLAND EMPIRE

All data analyzed here is seasonally adjusted.

Changes from October to November 2024 are small, especially when compared to trend changes observed since Mid-2022. The Inland Empire labor force experienced a minor loss of 850 workers according to the household survey, while household-reported employment increased by 80. The Establishment Survey reported employment decreased by 250 individuals, but it is worth noting that the household survey includes commuters while the establishment survey does not. This resembles much the situation from a year ago, when there was little change in the seasonally adjusted data between October and November 2023.

The labor market of November is highly characterized by seasonal patterns, as we may observe from the divergence between seasonally adjusted and non-adjusted data. Logistics, the sector with the largest job creation in the Inland Empire since pandemic, only gained 420 jobs during the past month after seasonal adjustments; this is because of the expansions in response to Thanksgiving and the holidays were also observed in the past years, and thus have been smoothed out. Despite this, however, the Logistics sector has seen a positive 2.8 percent change from November 2023. On the other hand, there are sectors that experience changes related to structural demand changes over seasonal factors: Private Education and Health Services, carrying forward the momentum from previous months, is the largest contributor both in month-to-month (+2,020) and year-to-year terms (+20,200, or 6.9 percent increase).

Note that, the persistent gap between changes in aggregate employment reported by the household survey (CPS) and the establishment survey (CES), though still exists, has shrunk in magnitude and thus become less informative, compared to previous months.

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

- The largest industry-level gains were seen in Private Education and Health Services (+2,020), Government (+1,440), concentrated on the level of Local Government (+1,190). These are a fraction of the larger numbers reported by the EDD using raw data, but still stand out as the biggest expansions before seasonal adjustments.
- The most significant declines were in Leisure and Hospitality (-1,700), Financial Activities (-440), and Manufacturing (-250). All of the reductions mentioned above are scaled down from the EDD raw data.

- Compared to a year ago, the Private Education and Health Services sector has grown by 20,200, or more than 6%, while Manufacturing has decreased by 3,400, over 3.4%.

OUTLOOK

The national unemployment rate has increased slightly from 4.1 percent to 4.2 percent between October 2024 and November 2024 (U.S. aggregate labor market data is available during the first week of each month). The overall picture with respect to inflation and unemployment can better be described as “gliding” rather than the “soft landing” frequently mentioned over the last two years (a decline in the inflation rate without a recession). Inflation has proved to be more stubborn than previous assume, with the target inflation rate of 2 percent in sight, but not getting closer. The Federal Reserve lowered the Federal Funds Rate by 25 percentage points at its December meeting, but also signalled that there will only be two further reductions in 2025 instead of the previously predicted four. We expect the housing sector to be the primary beneficiary from the looser monetary policy, and forecast an increase in housing sales without much further increase in housing prices. The construction sector will also benefit from this.

As the threat of a government shutdown has shown, there is much uncertainty about economic policy in 2025 due to the change in administration. Higher tariffs on imports and mass deportations will potentially have a significant effect on trade and hence the logistics sector in the Inland Empire. Both policies also are expected to raise the inflation rate and hence will trigger a possible tightening of monetary policy. The situation will become clearer after President Trump’s inauguration later in January 2025.