IEEP NEWS RELEASE
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The July 2024 Employment Report

by
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OVERVIEW

The California Employment Development Department (EDD) published the monthly labor market survey on Friday, Aug 16. This is the most up to date labor market information for the Inland Empire and its two counties. The same report shows data for all 58 California counties and the state total. Here we primarily focus on the Inland Empire.

The data is released in **non-seasonally adjusted** form, meaning it does not remove regularly occurring seasonal fluctuations such as pre-Christmas hiring by firms, summer lay-offs in the Coachella Valley, or snow-birds arriving from Canada during the winter.

The **non-seasonally adjusted unemployment rate** in the Inland Empire went **up by half a percentage point from 5.3% in June 2024 to 5.8% in July 2024.** Riverside County's unemployment rate is marginally higher (5.9%) than San Bernardino's (5.7%). Even if we compare the unemployment rate **from** that of **a year ago**, which, to some extent, removes seasonal fluctuations, we observe an **increase from 4.9% to 5.8%**, or almost one percentage point. This is the second month in a row that saw substantially elevated levels of unemployment from, admittedly, historically low numbers. The alarm bells regarding the employment situation in the Inland Empire last month, which we started to sound two months ago, are ringing louder.

Overall there was a **decrease of 12,600 nonfarm jobs, d**riven by seasonal layoffs in local public education of jobs, primarily in local government. However, private industries had a net gain of 5,300 positions, with two-thirds of the gains in just **two sectors**: **Professional and Business Services** (+1,900), and **Health** (+1,700).

The **Government sector**'s behavior is an excellent textbook example to illustrate how non-seasonally adjusted data can be misleading. Education institutions regularly lay off large numbers of people in June and July as one school year ends, only to reverse this action later in the year

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when a new school year begins. For example, in 2023, the decline in government jobs from June 2023 to July 2023 was 17,600 and in 2022, it was 13,200, but these losses were mainly due to seasonal changes in the staffing needs of public education. Reacting to these layoffs with alarm would be futile.

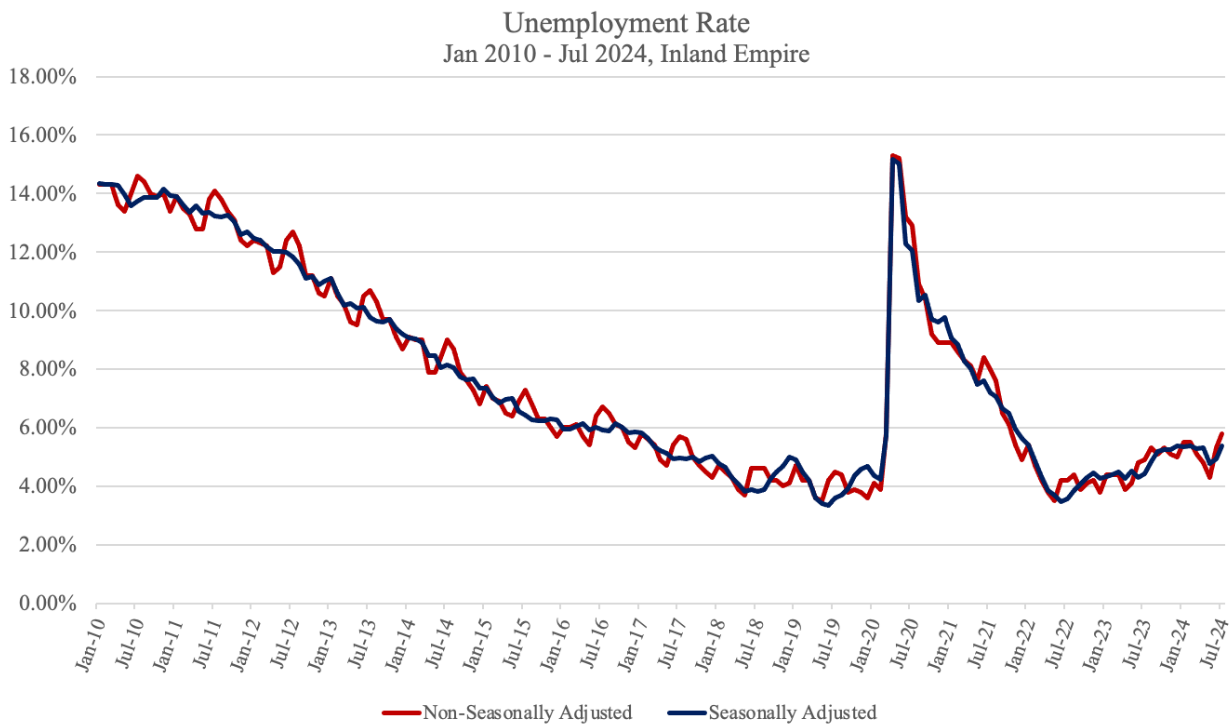
Comparing this year with prior years reveals the seasonal and recurring nature of these job changes in a crude way. After applying a seasonal filter, **employment in the Inland Empire actually went up by 34,200 people compared to a year ago**, or a solid 2.1% increase. The **biggest job creators** were **Private Education and Health (+21,300) and Government (+11,300)**. Between these two sectors, 95% of job growth occurred. This is an extraordinarily and somewhat worrisome high fraction, since much of the funding comes from public sector sources.

While looking at year-to-year changes removes seasonal fluctuations to some extent, it may also eliminate other relevant information. Hence, we will apply a statistical method that attempts to just remove regularly occurring seasonal fluctuations from monthly data to give you a more objective picture. Unfortunately, the news from this EDD report does not get better with seasonally adjusted data. The **seasonally adjusted unemployment rate for the Inland Empire still went up by half a percentage point (+0.5). It was 4.9% in June and is 5.4% now** - somewhat lower than the EDD published non-seasonally adjusted rate, but not unexpected given the Fed's efforts to slow the economy over the last two years.

The change in the unemployment rate is simply the difference between the labor force growth (in percent) and employment growth (in percent). Using our **seasonally adjusted data**, from June 2024 to July 2024, the **labor force grew by +8,100 (+0.4%)** and **employment decreased by (-2,300) or (-0.1%)**. Hence the increase in the seasonally adjusted unemployment rate of 0.5%. (We can do the same calculations with the raw data made available to us by the EDD: the labor force drew by +19,900 or 0.4%, and employment added +7,300 positions or (+0.1%), which adds up to an increase half a percentage point (+0.5%).

We used the same statistical filter to remove regularly occurring seasonal fluctuations from the industry employment figures mentioned earlier. Compared to July 2023, the Inland Empire lost 6,500 jobs in seasonally adjusted terms. The two sectors that are the main positive forces are Private Education and Health (mostly health, +21,400) and Government (mostly local government, +11,000). The seasonally adjusted increase in local government suggests that seasonal job losses were smaller than normal for the month of July. The biggest losers are the manufacturing sector (-2,600) and Other Services (-350). Note that the three largest employers in the Inland Empire are Private Education and Health, Government, and Logistics in this order.

Not all geographic areas within California or within a county show the same unemployment rate. There is quite some variation depending on socio-economic factors and industrial composition. San Bernardino County and Riverside County rank 29th and 33th respectively in terms of (not seasonally adjusted) unemployment rates where San Mateo County still 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 (9), Santa Clara County (9), San Diego County (16), Ventura County (18), Los Angeles County (41).



CALIFORNIA

California and Illinois' unemployment rate stands at 5.2% while Nevada's unemployment rate is slightly higher at 5.4%, the highest unemployment rate across states (Illinois is tied with California as the next highest level). This relatively high number should send a warning signal.

Compared to pre-COVID 19 levels, the household survey (CPS) shows a decline in the labor force of -230,000 people, and a decline in employment of almost -380,000. Stunning numbers indeed. While the unemployment rate only went up by +0.8% from 4.4% to 5.2%, it would have been substantially higher without the shrinking labor force. Yet the establishment survey shows an increase in employment of almost 400,000 people. While the two surveys typically give you different numbers due to people holding more than one job, the self-employed, etc., the difference is typically not of this magnitude. We believe that the Census Bureau has not found a proper way to currently include in-migration of workers.

What about the most recent experience of the state with its competitors? In the latest month-to-month changes, Florida lost over 12,000 jobs, while Texas saw an increase of 38,000. California, despite having a much larger economy, only added 7,300 jobs—over five times less than Texas.

Here are sector-specific highlights, which are based on the establishment survey (the EDD seasonally adjusts the data for the state).

California overall **expanded employment** over the last month by more than **21,100 jobs**, the greatest portion of which came from the Government sector, alongside with Private Education and Health Services. Specifically,

- The largest month-over-month gains were seen in Government, increasing by another 19,200 positions.
- Private Education and Health Services (+12,300), Construction (+2,700), and Leisure and Hospitality (+1,800) were the other three winners.
- Trade, Transportation, and Utilities (including the Logistics sector) saw the biggest loss in employment from June (-4,300), followed by Manufacturing (-3,100).

Looking at year-to-year changes, Private Education and Health shows the largest gains compared to the other industries, with a plus of 161,100 employees. Government came in second with an increase of 87,000 workers. Despite experiencing the largest dip, the Trade, Transportation, and Utilities has seen positive changes of 5,400 over the past year. The biggest decreases since July 2023 were in Information (-25,000), followed by Manufacturing (-21,300).

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).

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. The establishment data indicates how many people are on the payroll of the businesses that operate within the region.

In July, a divergent trend occurred in the changes of CPS and CES, which should bring some attention and reflections on the essential character and patterns of the Inland Empire labor force. According to the Establishments survey, the seasonally adjusted employment increased slightly by 740, while the CPS data reports a large fall by roughly 2400. 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 fewer commuters finding jobs in coastal regions (roughly 20% of the Inland Empire labor force commutes to the coastal regions). Therefore, we may draw the raw conclusions that though new positions were created in the Inland Empire, some of its commuters have lost their jobs there and have found new employment within the region.

To gain a clearer understanding of the current trend, it is useful to compare both the raw and seasonally adjusted data for the labor force and total employment. According to the latest CPS records, the labor force has shown steady growth, regardless of seasonal adjustments. In contrast, an initial increase of 10,500 positions in June 2024 has recently shifted to a modest decline of 2,300 employees.

In terms of the sectoral changes, Private Education and Health, which experienced rapid increases during the past year (gain of 21,470 jobs between July 2023 to July 2024), continues to gain by adding 2,300 jobs, an increase of roughly 0.7% month-to-month. Although the Logistics sector remains one of the largest employers in the Inland Empire, there has been a slight employment decrease of 700. This trend indicates that the sector is now experiencing more stable growth, in contrast to the large fluctuations seen during and shortly after the pandemic.

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

- The largest percentage increases in employment were seen in Private Education and Health Services (+2,300) and Leisure and Hospitality (+1,300).
- The most significant declines were observed in Logistics (-700), Government (-690), and Retail Trade (-150), all contributing to the drop in civilian employment.
- After half a year of continuous employment increases in the Logistics sector, there is a recent decline of 700 jobs. Since July 2023, Logistics employment has risen by 1,600, building on a significant increase of 50,500 jobs from February 2020 to December 2022. Although there has been a recent reduction of 700 jobs, the sector's ongoing positive employment trend signals a gradual stabilization and potential for further growth.
- Private Education and Health Services, and Logistics remain at the forefront of post-pandemic job recovery, each adding approximately 50,000 jobs since February 2020. This robust growth trend has continued from previous months, suggesting a positive outlook for these sectors. However, when examining year-over-year changes, logistics has experienced a recent net gain of 1,600 jobs since July 2023, despite a recent loss of 700 jobs in the sector. Although the recent increase is modest compared to the sector's overall post-pandemic performance, it represents a reassuring sign of stability and adjustment.

OUTLOOK

The national unemployment rate increased from 4.1% to 4.3% in July 2024, accelerating from the trend of the previous month-to-month changes. Using the so-called Sahm statistic, unemployment rates at the national level have now sufficiently increased for the National Bureau of Economic Research to label the current month/quarter to be in a recession. However the former Federal Reserve economist, Claudia Sahm, who created this measure, has sent out notices that “this time it’s different” and that despite her measure indicating an economic downturn, it is highly unlikely that we are already in a recession. For example, the recent increase in the national unemployment rate was the result of labor force growth outpacing employment growth, meaning we are still observing employment growth. Note that the inflation rate has now fallen below 3% for the first time since March 2021 and that we expect the Federal Reserve to start lowering interest rates with their September 2024 meeting. A “soft landing” (reduction in inflation towards the 2% target without a recession) is within reach.

Here in the Inland Empire, it is encouraging to see that the Logistics sector is starting to pick up economic activity. The sector was in a mini-slump after being the main driving force out of the Coronavirus recession. Most likely, due to overly optimistic projections, employment in the Logistics industry peaked by mid-2022 (seasonally adjusted) and since then had shown declines, which were significant.

Currently, there are only two sectors in the Inland Empire that are holding up the economy: Health and Government. Given the current California budget situation, we do not think that the two sectors can be the main drivers in the future, and it is therefore good to see that the third largest employer, Logistics, is expanding again. We would be more optimistic about the outlook if other sectors would chime in.

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

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