IEEP NEWS RELEASE
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The July 2024 Employment Report

by

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OVERVIEW

With a delay due to cyber security issues, the California Employment Development Department (EDD) published the results of the monthly labor market survey on Friday, July 19. The report gives us the most up to date labor market information both for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), or the Inland Empire, as the two counties together are commonly referred to. The report also lists labor market developments for all 58 California counties and the state aggregate numbers. This news release primarily focuses on the Inland Empire.

The report could be title "**The Good, the Bad, and the Ugly**." The EDD does not clean up the data for regularly occurring seasonal fluctuations. These can be, at times, quite significant (think of passenger traffic at LAX around Thanksgiving or Christmas or in Palm Springs during the summer). The summer months usually show declines in employment due to summer employment in private and public education (Government). In the Coachella Valley (Riverside County), an astonishing 8% of the labor force are laid off every summer as tourists no longer flock to the Coachella Festival or the subsequent Stagecoach event.

Having prepped you for the "**Bad**," how bad is bad? **The non-seasonally adjusted unemployment rate in the Inland Empire went up by a full percentage point from 4.3% in May 2024 to 5.3% in June 2024.** Even if we compare the unemployment rate with that **from a year ago**, which, to some extent, removes seasonal fluctuations, we observe an **increase from 4.8% to 5.3%**, or a whooping half percentage point.

We rang alarm bells regarding the employment situation in the Inland Empire last month. According to the non-seasonally adjusted data, the **alarm is starting to sound louder**.

By now you will be searching for "**The Good**." There is actually mildly good news behind these disastrous non-seasonally adjusted numbers. Once you use statistical filters to remove the seasonal

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component from the data (the EDD does not do that for the Inland Empire), then the **unemployment rate actually fell from a seasonally adjusted 4.8% in May 2024 to 4.7% in June 2024**. To stress the fact: it was a regularly occurring seasonal event that inflated the published unemployment rate figures. A more informative number indicates that the **employment situation in the Inland Empire has not changed from a month ago, if nothing else, it got a bit better**. Also, the seasonally adjusted unemployment rate is now half a percentage point below the non-seasonally adjusted rate (4.8% versus 5.3%).

The change in the unemployment rate is simply the difference between the labor force growth (in percent) and employment growth (in percent). From May 2024 to June 2024, the labor force grew by 9,000 (0.4%) and employment increased by 10,500 (or 0.5%). Hence the decline in the seasonally adjusted unemployment rate of 0.1%. (We can do the same calculations with the raw data made available to us by the EDD: the labor force drew by 8,500 or 0.4%, but employment shrunk by a stunning 12,600 or (-0.6%), which adds up to an increase of a whole percentage point (1%).

Compared to a year ago (June 2023), the non seasonally adjusted unemployment rate decreased from 4.8% (June 2023) to 4.7% (June 2024), meaning it basically remained unchanged. According to that data, employment outpaced labor force growth by a little.

Bottom line: when using seasonally adjusted data, the labor force and employment in the Inland Empire are growing. While our unemployment rate (seasonally unadjusted) is higher than that of our neighboring counties (Greater Los Angeles, San Diego County, Ventura County), all of those counties have seen shrinking labor force and employment numbers, which is not healthy.

There is a more objective survey, namely the establishment survey (Current Employment Statistics, CES) where establishments are polled to deliver employment numbers (these establishments cannot provide us with unemployment or labor force data though).

When it comes to **employment, the establishment survey** (Current Employment Statistics or CES) **shows an increase in non-farm employment of 12,300**, and including farm workers, it increased 12,600.

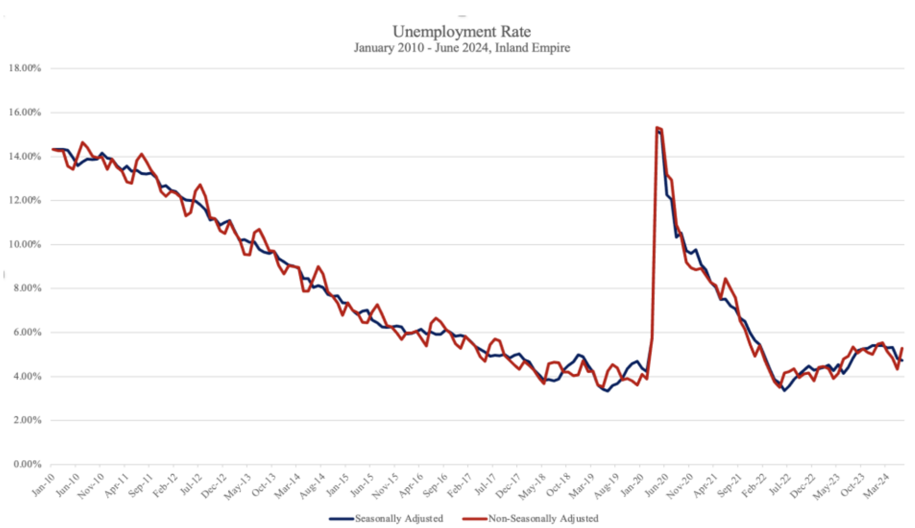
Compared to June 2023, using Current Employment Statistics (CES), the Inland Empire added 30,300 jobs (seasonally adjusted). The **two sectors that are the main drivers are Private Education and Health (mostly health, +21,400) and Government (mostly local government, +12,000).** The biggest losers are the manufacturing sector (-2,500) and Leisure and Hospitality (-2,200). Note that the three largest employers in the Inland Empire are Private Education and

Health, Government, and Logistics in that order. This is "**The Ugly**." If it was not for the two largest employers in the Inland Empire, we would have seen an employment decline when compared to a year ago. What is "less ugly" in this month's report is that the third largest employer in the Inland Empire, Logistics, finally seems to reverse its decline from the temporary peak reached in mid-2022.

San Bernardino County and Riverside County rank 28th and 34th in terms of (not seasonally adjusted) unemployment rates where San Mateo County still 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 (7), Santa Clara County (10), San Diego County (18), Ventura County (19), Los Angeles County (41).

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 June, with an unemployment rate of 5.2%. While historically speaking this number is relatively low, it is significantly higher than the U.S. national rate (4.1%). It is 0.8 percentage points higher than what it was in February 2020; and it is also high relative to other states (California is still at the bottom of the table, although now tied with Nevada at 5.2%). **Unfortunately we are unable to retrieve the specific data for California from the EDD website due to current cybersecurity and cloud issues**. Although it is safe to assume that California remains below pre-pandemic levels of employment and its labor force, based on the household survey.

What about the **competitors** we are worried about? **Florida** added nearly 10,000 jobs, which is not a lot for the month, and **Texas** increased employment by 49,100. California? 22,500, half as much as Texas despite having a much larger economy.



CALIFORNIA

Here are sector-specific highlights, which are based on the establishment survey.

California maintains the highest unemployment rate among U.S. states, equaling that of Nevada.

California expanded employment over the last month by more than 22,500 jobs in those industries that expanded. Over two-thirds of them by Retail Trade, Logistics, and the Government.

Specifically,

- The largest month-over-month gains were seen in Trade, Transportation, and Utilities, increasing by another 9,800 positions.
- Government (+5,200), Information (+4,000), and (Private Education and) Health Services (+3,200) were the other three winners.
- Manufacturing saw the biggest loss in employment from May (-2,900), followed by Other Services (-2,900).

Looking at year-to-year changes, Private Education and Health shows the largest gains compared to the other industries, with a plus of 156,600 employees. Government came in second with an increase of 60,200 workers. The biggest decreases since June 2023 were in Information (-29,000), followed by Manufacturing (-25,900).

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. 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 Non-farm 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 increased by roughly 12,600, significantly more than the 10,500 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 fewer commuters finding jobs in coastal regions (roughly 20% of the Inland Empire labor force commutes to the coastal regions).

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. In the latest CPS records, the labor force has exhibited consistent growth irrespective of seasonal adjustments. Conversely, an initial decline of 13,000 employees has been reversed into a notable surge of 10,500 positions. Seasonal adjustments account for temporary fluctuations tied to specific times, such as summers in Southern California deserts. Therefore, the significant employment growth post-adjustment highlights robust underlying economic drivers of growth since February. Moreover, the sustained growth of the labor force over recent months suggests a normalization that could potentially be more sustainable moving forward.

In terms of the sectoral changes, Private Education and Health, which experienced rapid increases during the past year (gain of 21,390 jobs between June 2023 to June 2024), is persisting in its gains by adding 3900 jobs, an increase of roughly 1.3% month to month. A comparable steady rise is seen in the Logistics sector, which has continued its growing trend from previous months and maintains its position to be one of the Inland Empire’s strongest sectors, creating an additional 2,800 jobs, suggesting a more stable growth rather than the boom and bust observed 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 (+3,900), Logistics (+2,800), and Government (+1,200).
- Since June 2023, Logistics employment is up by +1,500, after increasing by 50500 from February 2020 to December 2022. This suggests that the industry, which is the third largest employer for the Inland Empire, is gradually adjusting after perhaps over-hiring resulting from overly optimistic projections in the aftermath of the pandemic. Continuous gains in the sector signal the cooling-down's alleviation and provide prospects for sustained growth.
- Logistics, and Private Education and Health Services are still leading all industries in post-pandemic job recoveries, both adding approximately 51,000 jobs since February 2020. This strong momentum has been preserved from the previous months and is projecting a positive outlook. The image is more promising, if and only if we look at the Year to Year Changes, meaning the percentage change from June 2023, Logistics has gained 1,500 jobs – small compared to its overall post-pandemic performances, but nevertheless at least a temporary reassuring sign of change from the backlashes it experienced that we have see continuingly in the past months.

OUTLOOK

The national unemployment rate increased from 4.0% to 4.1% in June 2024. While the labor market in the U.S. is somewhat cooling down, we still do not see strong enough signs to call for an imminent recession. The national inflation rate has also reached levels that are low enough for the Federal Reserve to decrease the Federal Funds Rate at their September meeting (but not at their July meeting). A "soft landing" is almost achieved.

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. Hence there were only two sectors in the Inland Empire that were 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 the other sectors would chime in.

Note that the Inland Empire has been characterized as "First In, Last Out" in terms of business cycles. While this seems strange, at first, that the region should be a sensor of a near future recession, it makes sense once you realize that a large number of workers commute into the coastal regions. These commuters are more marginal when it comes to employment decisions in the coastal regions since they cannot afford to *live and work* in the Greater Los Angeles area, and to a lesser extent, in San Diego County. After all, no one gets satisfaction out of the often brutal commute, and therefore it is safe to assume that these commuters would prefer to live in the coastal regions if they could afford to do so. Since these workers are more marginal to companies, they will be laid off first, and hired back last. This resembles a lake which freezes from the periphery first, and thaws there last.

One of the biggest factors which will determine the near future state of the U.S. economy, will be the elections in November. Most of our forecasts were based on the assumption that a single political party will not hold the majority in all three branches of the national government. This assumption is looking less likely by the week and we will have to adjust our forecasts in the near future.