IECONOMY

The Inland Empire is a puzzle when it comes to recent economic growth

BY MANFRED KEIL AND MARK SCHNIEPP

INLAND EMPIRE ECONOMIC PARTNERSHIP

The following analysis is based on government statistics.

We are sounding an alarm bell regarding the employment situation in the Inland Empire and Southern California. However, we question the reliability of the numbers published by California's Employment Development Department regarding the household-based employment survey, due to the effect of recent international in-migration of people.

Former President Donald Trump's international in-migration policies led to a decline in the California population. Natural population growth based on deaths and births also contributed. There had also been significant state-to-state out-migration. That combination resulted in a loss of a Congressional seat.

There has been a surge in international in-migration over the last three years because of President Joe Biden's policies. California now shows a small population increase for 2024. These migrants should be reflected in the labor force and household survey of employment, but we feel they are not yet. Jobs are increasing at a higher rate, but total employment, as reported by the surveyed population, has moved laterally since early 2022. Whether or not this is temporary or if it can be fixed over time, remains to be seen. Our alarm bell is ringing based on available data sources.

Here is what the available data tell us.

Compared to February 2020, the last month before the coronavirus downturn, the labor force in the Inland Empire expanded by 30,600 people or 1.4%, according to the household survey, or Current Population Survey. That translates into annual growth of roughly 0.4%, not a number to write home about; but it beats Los Angeles County, Orange County, Ventura County, San Diego County, and the state, none of which have returned to pre-pandemic labor force levels. To reiterate: based on the official government household survey, all regions in Southern California, with the exception of the Inland Empire, have experi ` a shrinking labor force over the last four years.

Should we be impressed with the Inland Empire labor force growth? Well, over the period prior to the COVID-19 downturn, from February 2016 to February 2020, the Inland Empire labor force grew at 7.2%, and from February 2020 to February 2024, the growth rate was 5.2%. Bottom line: our region is doing better than the “losers” but not nearly as well as it used to before the COVID period.

At the same time, employment growth has also been weaker: jobs, which include those from commuters to the coastal areas, increased by almost 20,900, or 1.0%, since February 2020; an abysmal 0.25% a year, on average. The change in the unemployment rate is roughly equal to the difference between labor force growth and employment growth, which was 0.4 percent. Hence, the unemployment rate in the Inland Empire has increased from 3.9% in February 2020 to 4.3% in May 2024.

The picture gets worse when we adjust for seasonal fluctuations; considering these, then the current Inland Empire unemployment rate actually stands at 4.8% — although this is not particularly high by historical standards. Perhaps we can feel a bit better by comparing ourselves to our neighbors: San Diego County lost almost 24,000 jobs, Orange County close to 60,000, and Los Angeles County almost 280,000, which represents almost 90% of the California Job loss of 400,000 over the period.

The only reason why unemployment rates of the Southern California counties have not shot up more dramatically (they even decreased in some cases) is because of the shrinking labor force. Peter, Paul, and Mary’s song “Where Have All the Flowers (workers) Gone” comes to mind. Maybe “other states have picked them every one” is a possibility, but there are others as well, such as remote work, retirement or raising a child. Perhaps the Inland Empire is less affected by this because of its relatively lower cost of living, which may have lured younger residents into the area. As the labor force gets older (baby boomers), there definitely will be less employment and a shrinking labor force.

While “Schadenfreude” can be satisfying in the short-run, it is not a virtue that we want to pursue here. So let’s worry less about other regions outside of the Inland Empire.

Assuming employment, as measured by the Current Population Survey, has increased it is of interest to figure out if the gains were uniform across all sectors or whether we can spot trends.

For analysis of industries, we turn to Current Employment Statistics, which is an establishment survey. This survey is more reliable when it comes to employment statistics due to its larger size, and the fact it is an establishment survey, which doesn’t rely on subjective answers of whether someone’s been looking for a job. However, it cannot measure unemployment or the labor force.

For starters, COVID-19 caused employment declines primarily in five sectors in California. Let’s list the five industries with the date of their employment recovery in the Inland Empire when compared to February 2020.

Leisure and Hospitality, March 2022

Private Education and Health, December 2021

Retail Trade, October 2021

Other Services, October 2022

Professional and Business Services, February 2021

As you can see, by late 2022 the losses incurred had been recovered. In addition, Logistics employment (Transportation, Warehousing, and Wholesale Trade) boomed until mid-2022 because of consumers shifting away from service consumption to consumer durables. While that sector has seen a loss of almost 21,000 jobs since then, employment is still considerably higher than before the pandemic. Bottom line: the recovery from the Coronavirus downturn can explain little in recent employment developments in the Inland Empire.

The Current Employment Statistics numbers look more positive and excluding commuters cannot be the entire explanation for this. At any rate, according to the CES, employment within the Inland Empire grew by roughly 110,000 or 7% since February 2020 (annual growth of roughly 1.75% a year).

Focusing on employment changes from a year ago (May 2023 to May 2024) paints a bleak picture. We created 16,800 jobs last year but the growth engine relied on two sectors, namely the two largest employment sectors in the area: private education and health care, which added 17,000 jobs (16,300 in health services), and government (addition of 11,800 positions). That means the other sectors combined shed 12,000 over the year. These numbers set off alarm bells.

We hope to make you aware of the fact the Inland Empire is currently not relying primarily on logistics growth. Consider this scenario: one, for some reason, the government sector does not expand like it has been (state budget deficit comes to mind), and two, the health sector has decided it has expanded sufficiently (especially with public sector funding drying up — see the recent decision to postpone minimum wage increases in the sector). Under this scenario, the Inland Empire is vulnerable to an economic contraction in the near future.

Manfred Keil is chief economist, Inland Empire Economic Partnership, associate director, Lowe Institute of Political Economy, Robert Day School of Economics and Finance, Claremont McKenna College. Mark Schniepp is director of California Economic Forecast, Santa Barbara.

The Inland Empire Economic Partnership's mission is to help create a regional voice for business and quality of life in Riverside and San Bernardino counties. Its membership *includes organizations in the private and public sector.*