IEEP NEWS RELEASE
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The March 2024 Employment Report

by

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OVERVIEW

The California Employment Development Department (EDD) released their March labor market update for California and its regions on Friday, April 19. It contains the latest labor market statistics for counties and Metropolitan Statistical Areas (MSAs). Here we will focus primarily on the Inland Empire (Riverside County and San Bernardino County) or the Riverside-San Bernardino-Ontario MSA.

Here are the headlines: *California* continues with its below par performance by seeing reductions in its labor force and employment according to *household survey* (Current Population Survey or CPS). But this is not reflected in the *establishment survey* (Current Employment Statistics or CES), which shows an increase of employment of 28,000. Household survey data and establishment data on employment can differ for a variety of reasons, such as people holding down multiple jobs or being self-employed. However, it is unusual that they differ by the currently observed amount and direction of employment changes.

For the Inland Empire, the labor force basically remained unchanged, but employment increased significantly in the Inland Empire (by 0.4 percentage points in a single month). This implies that the unemployment fell by a similar amount (0.4 percentage points), which is large for a single month. The previous negative trend observed in the logistics industry (transportation, warehousing, wholesale trade) has stopped. Positive trends in the health and (private) education sector industry continue.

California as a whole experienced no change in the unemployment rate in March, with unemployment remaining at 5.3%. While historically speaking this number is relatively low, it is significantly higher than the U.S. national data (3.8%) and also high relative to other states (California continues to be at the bottom of the table, beating out Nevada to this distinction by 0.2 percentage points). State figures are seasonally adjusted by the EDD and we therefore do not have to worry about seasonal influences driving the currently elevated California unemployment rate.

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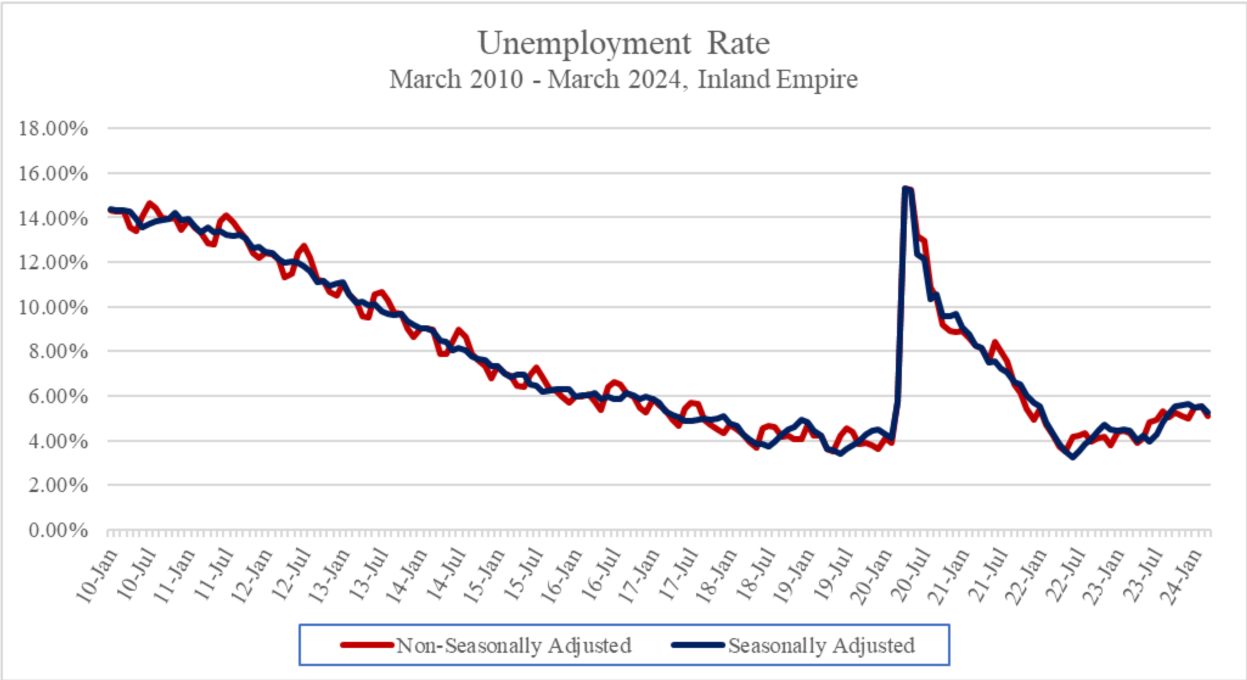
Total nonfarm payroll jobs increased this month, showing a recovery from the previous month's slight decrease. Nonfarm payroll jobs are higher compared to a year ago, up by 1.2% from March 2023, which is close to historically observed annual growth. Based on the revised residency-based survey (CPS), both employment and the labor force contracted this month by 8,100 and 4,100 residents respectively. More alarmingly, they continue to be below the February 2020 levels, which showed data at the end of the previous economic expansion and before the Coronavirus downturn. Since then, the labor force for California has shrunk by a quarter of a million people (250,000), and employment has fallen by over 400,000. Had people not left the labor force in such large numbers, the unemployment rate picture would look even worse: this is not the sign of a healthy economy!

Headline figures (non seasonally adjusted) indicate that unemployment decreased dramatically in the Inland Empire during March, dropping from 5.5% to 5.1%. For San Bernardino County, the unemployment rate was 5.1% while for Riverside County it was slightly higher at 5.2%. Out of 58 California counties, San Bernardino's unemployment rate ranks 19th, while Riverside's comes in at 21st (here 1st rank would indicate the lowest unemployment rate). By comparison, in Southern California Orange County has an unemployment rate of 3.9% and San Diego comes in at 4.4%. Ventura County is slightly higher at 4.6%, but it is a relatively small county by population. Los Angeles County, the largest in the state, has an unemployment rate of 5.2% and ties with Riverside County. In California, the county with the lowest unemployment rate is San Mateo (3.5%) and the highest are Imperial County (16.2%) and Calusa (19.2%).

The marked improvement in employment is encouraging however. When looking at underlying factors (employment and labor force), we have not seen a change in labor force but a slight increase in employment relative to the previous month. This move within the Inland Empire is not matched overall in the state. California experienced very little change to employment and labor force highlighting the difference in employment change seen in the Inland Empire.

This development for the Inland Empire becomes more interesting when filtering out the effects of any possible seasonal factors, e.g. regularly occurring employment increases in February after the post holiday low January employment figures. The EDD report does not seasonally adjust for regional unemployment, but we do so using standard statistical techniques to give us a more objective picture of the labor market. The seasonally adjusted unemployment rate for the Inland Empire decreased, from 5.6% to 5.3%, caused by an increase in employment (up 0.3 percentage points) outpacing the slight decrease in labor force (down a miniscule 0.03 percentage points). These numbers are significant since they imply that the unemployment rate drop is driven more by an increase in employment rather than any changes to the labor force. Essentially, the drop in unemployment rate reflects actual increases in the number of jobs. It also shows that unemployment rates may be halting the previous upward trend since the summer of 2022 (see the graph below).



CALIFORNIA

In March, the Golden State's unemployment rate remained unchanged from February (5.3%). California's unemployment rate remains the highest in the nation, and is significantly above the national rate of 3.8%. The household survey recorded declines in both the state labor force (-4,100) and employment (-8,100), but the percentage change in both these numbers were too similar to cause a change in the unemployment rate. These decreases in labor force and employment only further dig California into the hole, as labor force and employment are still below February 2020 levels, and the current unemployment rate is almost a full percentage point higher.

The establishment survey shows a slightly rosier picture with an increase of 28,300 non-farm payroll jobs over the last month. The same survey, which is based on a larger sample and also on employment records by firms, shows an increase in non-farm payroll jobs of over 300,000 since February 2020. There are a variety of reasons for the two surveys to differ, such as workers holding multiple jobs or being self employed. Regardless, the difference in outcomes is astonishing and we will have to monitor this further in the coming months.

Here are sector-specific highlights, which are based on the establishment survey that showed a net gain of jobs:

- Private Education and Health Services continued its strong gains from February, increasing by another 13,600 positions.

- Other major gains were seen in Government (+6,400), Professional and Business Services (+5,100), and Construction (+4,600).
- Manufacturing saw the biggest loss in employment since February (-5,300), followed by Information (-700).

Looking at year-to-year changes, Private Education and Health Services is also the leader over the other industries, with a gain of 181,700 employees. Government came in second with an increase of 64,900 workers. The biggest decreases since March 2023 were in Information (-53,600), followed by Manufacturing (-18,000).

According to the *household survey*, the last 12 months have seen a particularly poor performance by the state. The large 0.8 percentage point increase in the unemployment rate was the result of a growing labor force and decreasing employment: this is a bad scenario, with both factors resulting in an increase in the unemployment rate: new workers entering the labor force while employment is dropping. Again, the 0.6 percentage point decline in employment as measured through the household survey stands in contrast to the 1.2 percentage point increase in non-farm employment as measured through the *establishment survey*.

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).

In March, the *seasonally adjusted unemployment rate* for the Inland Empire decreased by 0.3 percentage points from 5.6% to 5.3%. Despite a slightly smaller change compared to that of seasonally-unadjusted data, this result nevertheless sends a relatively strong signal compared to the small 0.1 percentage point increase from January to February 2024. Changes in the unemployment rate are roughly the difference between labor force growth rates and employment growth rates. For the current month, we basically observe a constant labor force coinciding with an increasing employment picture.

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. Historically, that number is higher than the employment statistics we receive from the Total Nonfarm employment, which contains data from an establishment survey (CES). The establishment data indicates how many people are on payroll of the businesses that operate in the region, and hence are typically more reliable than the subjective answers from the household survey (CPS).

Comparison between CPS and CES reveals the essential character and patterns of the Inland Empire labor force. Similarly to the CPS numbers, the EDD does not seasonally adjust the CES numbers at the regional level. According to the Establishments survey, the seasonally adjusted employment went up by roughly 5,500. This is less than the increase of slightly more than 8,300 reported by CPS. The discrepancy could be due to (i) systematic differences in the surveys (subjective answer compared to company records; holding more than one job; self employed, etc.) or due to commuters finding more jobs in coastal regions (roughly 20% of the Inland Empire labor force commutes to the coastal regions).

In terms of the sectoral changes, Construction, which has been growing rapidly over the past year (113,200 to 117,400 from February 2023 to February 2024) has rebounded slightly from February 2024's negative move: it went up roughly 1,000, or 1%, this month. A similar rebound in Professional and Business Services can also be seen, with a 1,800 or 1% increase. Private Education and Health Services, continue to show the highest year to year growth with an increase of 8% since March of last year.

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

- The largest increases in employment were seen in Professional and Business Services (+1,700), Private Education and Health Services (+1,600), and Construction (+1,000).
- The sectors with the biggest decreases in employment are Manufacturing, primarily due to durable goods declines (-700), and Leisure and Hospitality (-200).
- Since December 2022, Logistics employment is down by 23,300, after increasing by 64,500 from February 2020 to December 2022. This suggests that the industry, which by now is the third largest employer for the Inland Empire, continues to be in adjustment mode after perhaps overhiring resulting from overly optimistic projections in the aftermath of the pandemic.