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The May 2024 Employment Report

by

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OVERVIEW

On Friday, June 21, the California Employment Development Department (EDD) released the latest labor market information for the State of California, its counties, and the state Metropolitan Statistical Areas (MSAs). Our report focuses on the Inland Empire (Riverside County and San Bernardino County), also referred to as the Riverside-San Bernardino-Ontario MSA, with some reference to the state data, which was also released.

The headlines read as follows (in bold):

The figures you will read about in the newspaper will, at first, give you reason to celebrate: the published unemployment rate for the Inland Empire fell by a remarkable half a percentage point from 4.8% in April to 4.3% in May. As a result, it has moved below the state unemployment rate. However, an intelligent reader realizes that there are regularly occurring seasonal fluctuations that affect the labor market (think about construction in January in Chicago, or Passenger traffic in Palm Springs in August). Without filtering out those factors, you can get a misleading picture (such as taking summer temperatures in the Coachella Valley of 120 degrees as a sign of global warming). The EDD does not seasonally adjust regional data, but we use standard statistical techniques to do so.

Here is what you should focus on. The unemployment rate for April in the Inland Empire was not 4.8%, but higher once you remove regularly occurring seasonal factors: it actually was 5.3%; bottom line, it was already higher. What does the current decline of the non-seasonally adjusted unemployment rate drop of 4.8% to 4.3% translate into? There actually was a decline in the seasonally adjusted rate from 5.3% to 4.8%. Therefore, the decline of 0.5 percentage points is real, regardless of seasonal adjustment - although the seasonally adjusted rate is still half a percentage point above the non-seasonally adjusted rate.

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So why not celebrate? Simple mathematics will show you that the change in the unemployment rate is approximately equal to the difference in the percentage growth of the labor force and employment. Hence, the unemployment rate could fall by 0.5 percentage points if the labor force does not grow but employment increases by 0.5 percentage points. This makes sense intuitively. However, from April to May 2024, a falling labor force outpaced the modest employment growth, and this is clearly a less desirable way to see a decline in the rate. Employment actually increased by 0.1 percentage points, but that positive development was outpaced by the decline in the labor force of 0.6 percentage points. Bottom line, had the labor force not shrunk by a substantial amount (14,000), the unemployment rate would have been close to unchanged.

Looking at year-to-year changes, the unemployment rate has approached the previous year's level of 4.5% but we are not quite there yet (4.8%). There is one important difference to the monthly decline: compared to a year ago, both the labor force is smaller (1,100) and employment is lower (7,500). Therefore, again, these are not numbers to write home about.

When it comes to employment, the establishment survey (Current Employment Statistics or CES) shows an increase in non-farm employment of 2,300, and including farm workers, it increased 2,400.

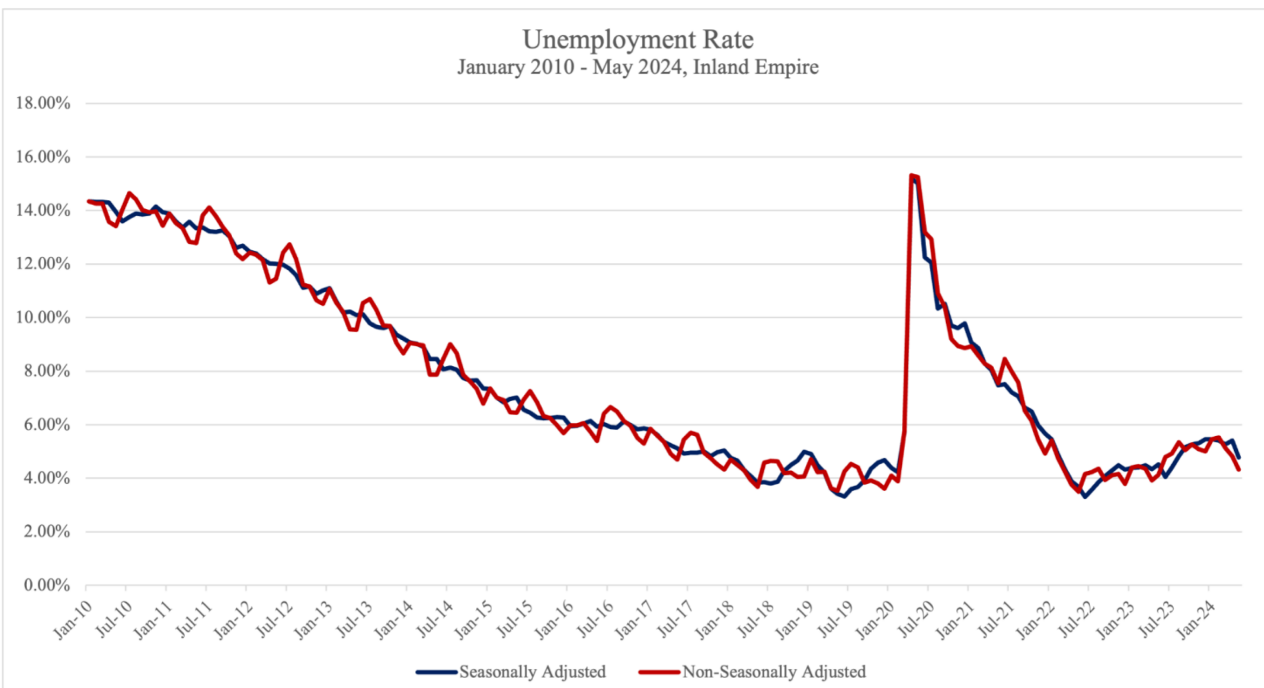
Compared to May 2023, using Current Employment Statistics (CES), the Inland Empire added 19,000 jobs (seasonally adjusted). The two sectors that are the main drivers are Private Education and Health (mostly health, +18,000) and Government (mostly local government, 11,000). That means that the other sectors shed roughly 10,000 jobs, with the biggest losers being the Logistics sector (-3,300) and Leisure and Hospitality (-4,100). The two sectors lost over 34% of the total job losses. This continues a recent trend. Note that the three largest employers in the Inland Empire are Private Education and Health, Government, and Logistics in this order.

San Bernardino County and Riverside County rank 26th and 28th in terms of (not seasonally adjusted) unemployment rates where San Mateo County 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 (7), Santa Clara County (11), San Diego County (14), Ventura County (15), Los Angeles County (38).

If this does not sound very positive, it could be worse, you could be looking at the state picture: California as a whole experienced a slight drop in the unemployment rate in May, with unemployment falling from 5.3% to 5.2%. While historically speaking this number is relatively low, it is significantly higher than the U.S. national rate (4.0%). It is also 0.8 percentage points higher than what it was in February 2020; and it is also high relative to

other states (California continues to be at the bottom of the table, beating out Nevada to this distinction by 0.1 percentage points). For that matter, if we go with the (admittedly more subjective) household data (Current Population Survey or CPS) then, for the state of California, we are over 250,000 workers below the labor force level from February 2020, and there are over 400,000 fewer workers employed. These numbers are staggering. Had people not left the labor force in such large numbers, the unemployment rate outlook would be even worse: this is not an indicator of a healthy economy! These rather bleak numbers contrast with employment showing a growth of 356,900 from the establishment survey, which is a 2% increase over February 2020. Discrepancies of this magnitude between the household survey and the establishment survey are unusual and whether they are due to work from home and outmigration, or failure of the Census Bureau to include immigrants needs to be seen.

What about the competitors we are worried about? Florida added 6,000 jobs, which is not a lot for the month, and Texas increased employment by 41,800 California? 43,700 despite having a much larger economy.



CALIFORNIA

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

California continues to have the highest unemployment rate across U.S. states, beating out Nevada for the top slot.

California expanded employment over the last month by more than 47,000 jobs in those industries that expanded. The majority of the growth, close to 75%, is accounted for by expansion seen in four sectors: Leisure and Hospitality, Private Education and Health, Professional and Business services, and Government. Specifically,

- Leisure and Hospitality continued its strong gains from April, increasing by another 10,200 positions.
- Private Education and Health Services (+9,300), Professional and Business Services (+9,000), and Government (+5,600) were the other three winners.
- Information saw the biggest loss in employment from April (-1,900), followed by Manufacturing (-1,400).

Looking at year-to-year changes, Private Education and Health also shows the largest gains compared to the other industries, with a plus of 158,300 employees. Government came in second with an increase of 59,400 workers. The biggest decreases since May 2023 were in Information (-42,600), followed by Manufacturing (-21,600).

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 Nonfarm 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 2600, significantly more than the 400 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).

In terms of the sectoral changes, Private Education and Health, which experienced rapid increases during the past year (gain of 16,750 jobs between May 2023 to May 2024), has seen a slowing in its previous trend in May 2024 by adding 370 jobs, an increase of roughly 0.1% month to month. However, the data shows a small decrease in the most recent year-to-year report. A similar rebound is seen in the Logistics sectors, 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 1,900 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 increases in employment were seen in Logistics (+1,900), Government (+650), and Private Education and Health Services (+370).
- The sectors with the biggest decreases in employment from the previous month are Construction (-400), Durable Goods (-400), and Manufacturing (-320).
- Since May 2023, Logistics employment is down by -2,500, after increasing by 64,500 from February 2020 to December 2022. This suggests that the industry, which is the third largest employer for the Inland Empire, continues to be in adjustment mode after perhaps over hiring resulting from overly optimistic projections in the aftermath of the pandemic. Nevertheless, combining the seasonally adjusted data and the report from the previous month, continuous gains in the sector signal the cooling-down's alleviation and provide prospects for sustained growth.
- Logistics and Private and Health Services are leading all industries in gaining employment since February 2020, adding roughly 47,500 and 46,000 jobs, respectively, through the pandemic. However, if looking at the Year-to-Year change, meaning the change from May 2023, Logistics has lost its momentum, losing 2,500 jobs as the early over hire began its backlashes; on the other hand, Private and Health Services have become the major contributor of employment growth that saw a 16,700 growth in the past year.

OUTLOOK

We have more recent data available at the national level and here the unemployment rate has increased slightly from 3.9% to 4%. As a result, we do not expect to see much positive change for either the state or the region when the June numbers are published. California has to deal with a large budget deficit, which will require further cuts in government expenditures, and the effect of higher minimum wages in some labor markets. For the Inland Empire, one of the leading industries, Logistics, is in a transitional slump currently, adjusting from overly optimistic expectations about the future of warehousing and transportation from the earlier phases of the economic recovery.

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

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