California Data Revisions Reveal: Warning Lights Are Flashing for the Inland Empire Economy

by

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On Friday, March 14, the California Development Department (EDD) provided our first look at the Inland Empire's labor market and industries in 2025. Data covering January for the state and its 29 Metropolitan Statistical Areas (MSAs) was released following the EDD's annual benchmarking and revision process. There were significant annual data revisions, which, eliminated some puzzles and inaccuracies from previous releases, although others persist. All in all, we continue to see a bleak outlook for both the state and the region for through this year and into 2026.

To begin with, there was a large discrepancy between the household survey (Current Population Survey or CPS) and the establishment survey (Current Employment Statistics or CES) regarding employment following the Coronavirus recession of 2020. In particular, the household survey showed a *decline* in 394,200 workers across the state since the start of the Coronavirus pandemic in February 2020, but the establishment survey indicated a 452,400 *increase* in non-farm employment, which equals roughly a 0.5 percent growth rate per year; not great but okay for a state that just lost a congressional seat due to the decline in its population. The household survey also indicated a drop in the labor force of 192,900 since February 2020.

There are always some differences between the two data sources due to self-employment, people holding multiple jobs, individuals working remotely for a California company who live out of state , and similar circumstances. However, it is unusual to observe a difference between the two of this magnitude: basically a difference of 850,000 workers. There was some speculation that illegal undocumented persons had not been properly taken into account by the household survey, which relies partially on census data.

More worrisome for our region were the industry employment figures from the establishment survey. For the period from December 2023 to December 2024, the three largest employers in the Inland Empire (Logistics, Health, and Public Education) generated 22,800 new jobs year-on-year, while the rest lost a 12,700 positions! To clarify, all other sectors (manufacturing, construction, finance, etc.) lost jobs in 2024 with the exception of Retail Trade which generated a miniscule 300 new ones. Low wage sectors added 28,100 positions, while high wage jobs shredded -6,400. This gives a dim outlook for our region, especially since Logistics, Health, and Public Education are going to be negatively impacted either by President Trump's policies on tariffs and federal health expenditures cuts, or simply by demographics (shrinking student numbers for grades K to 12).

The newly updated and benchmarked data release contained significant revisions, but did not alleviate our concerns. Here is what the new data shows. First of all, "we" have found some of the lost labor force. First, the new data shows that the labor force for the state actually grew by 76,700 workers from February 2020 to January 2025, rather than shrinking by almost 200,000, likely due to upward revisions in the state wide international immigration over the past few years. Second, household employment fell by only 132,400 according to the revised numbers, instead of a decline of almost 400,000. While this is a considerable improvement, the state is still 0.7% shy of its pre-pandemic household employment levels. Third, new establishment data were revised downwards. Based on the newly benchmarked data the gain in nonfarm jobs was lowered to 386,500 positions at California establishments from the 452,000 gain that was reported previously. While a large discrepancy between the two surveys continues to exist, it is smaller now than previously thought. Taken together, these figures portray a mixed picture for the state economy, with growth mainly occurring in a handful of sectors, and weakness elsewhere.

To clarify the picture the Inland Empire economy currently is in, the revised data for January 2025 illustrate the region's vulnerabilities. Fifty-one percent of employment in Riverside County and San Bernardino County is generated by Logistics, Private Education and Health (primarily Health), and Government (primarily Local Government, specifically public education). Here comes the big "but:" in the data revisions, the Logistics industry shed 700 jobs from January 2024 to January 2025. Out of the 2,500 nonfarm jobs gained year-to-year, Private Education and Health have created 28,200, while all rest lost 25,700. Other than Retail Trade (+500), all sectors, without exception, have laid off workers in from January 2025 to a year ago.

With the region's heavy reliance on logistics, we have placed most of our eggs into one basket, while relying heavily on population-serving sectors such as health care, government, retail trade, and leisure and hospitality to serve as employment anchors. While this strategy has served us well in getting to this point of economic development, there is a need for diversification. We don't want to end up where we were in the '90s and the run-up to the Housing Bust: then, just as now, we bet heavily on a few horses, and eventually they failed us (cut in military and aerospace expenditures, burst of the housing bubble).

Setting aside warning signals from the national level (significant drops in consumer sentiment, year-to-year decline in housing starts, inverted yield curve, reduced hours of work in the manufacturing sector, etc.), it is reasonable to forecast sluggish conditions for the two counties of the Riverside-San Bernardino-Ontario MSA over the next 18 months, with a strong possibility of a decline in economic activity, weakness in the labor market, and an increase in the unemployment rate.

The Inland Empire boat is starting to approach a Level 4 white water rapid at increasing speed. Let's hope that the main guide in the boat knows this, and can help steer the raft through the rapid without too many of the paddlers going under water.