IEEP NEWS RELEASE

October 18th, 2024

The September 2024 Employment Report

by

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OVERVIEW

In its latest labor market data release, the Employment Development Department (EDD) of California published data on October 18 for the state and California county unemployment rates, together with information on sectoral employment changes. Here we focus on the development for the Inland Empire and briefly compare it to the state.

The news for our part of the country is that the Inland Empire is performing well, although its economy is not as "hot" as suggested by the non-seasonally adjusted data (the unemployment rate remained the same at 5.4% after removing regularly occurring seasonal factors). The state's unemployment rate also did not change, but California continues to be one of the worst performing states when compared to the rest of the country (only Nevada has a higher unemployment rate, with California tied for second place with Illinois).

The data, released nationally by the U.S. Department of Labor, comes from a smaller household survey (unemployment, employment), which is conducted by residency, and a larger establishment survey (employment by sector), related to production within a geographical area, thereby excluding commuters. Both surveys give us raw (non-seasonally adjusted) data for the Inland Empire, which distorts the underlying labor market data by including recurring seasonal effects such as summer lay-offs in the Coachella Valley, Thanksgiving travel, holiday related hirings before Christmas, etc. To remove these seasonal components, which at times can be quite large and misleading, we use a statistical filter to also provide seasonally adjusted data.

The headline generating **non-seasonally adjusted unemployment rate for the Inland Empire fell by an impressive 0.6 percentage points, from 6.0% in August 2024 to 5.4% in September**. There was also an unusually large gap between the published unemployment rates for the two counties which make up the Inland Empire (or the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA) as it is officially known), with **Riverside County showing a 5.6%**

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unemployment rate while **San Bernardino is listed at 5.2%**. (typically, the gap is 0.2 percentage points or less). One crude way to remove seasonality is to compare data from a year ago, and here, the news is less positive: the unemployment rate stood at 5.1% in September 2023 for the Inland Empire, that is 0.3 percentage points less than shown in the current number.

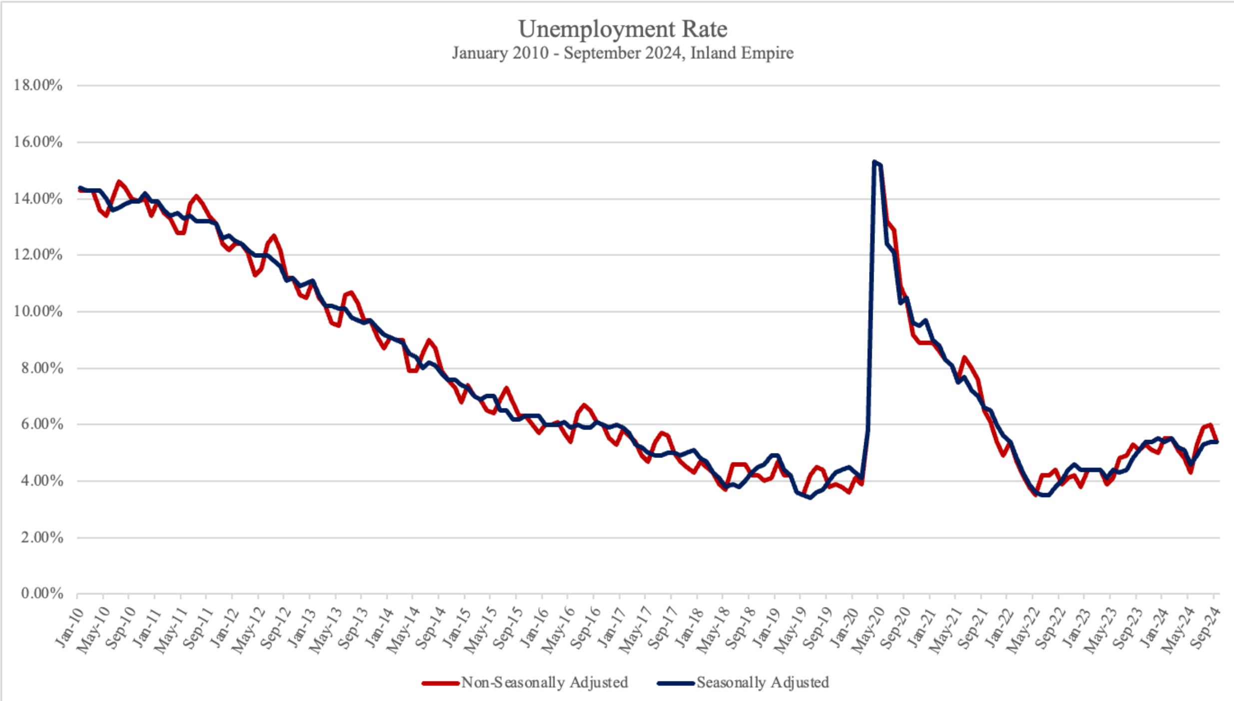
Focusing on the published (raw) data first: Total Employment increased by 16,500 jobs and the Labor Force saw an increase of 4,100 individuals. Seeing the unemployment rate decrease with both the labor force and employment increasing is the healthiest signal for the economy: people are both (re) entering the workforce and gaining jobs, with a faster rate of employment growth.

While looking at year-to-year changes removes seasonal fluctuations to some extent, it may also eliminate other relevant information, such as changes in the trend of labor market data. Unfortunately, the news from this EDD report becomes less encouraging with seasonally adjusted data. The **seasonally adjusted unemployment rate for the Inland Empire remained constant at August's level of 5.4%** - coincidentally the same as the EDD published non-seasonally adjusted rate; and very close to the state unemployment rate at 5.4%.

Using our **seasonally adjusted data**, from August 2024 to September 2024, the **labor force shrunk by -1,700 (-0.1%)** nearly matching the **employment contraction of -1,800 or -0.1%**. Hence the constant seasonally adjusted unemployment rate. This is less of a positive development that if the unemployment rate remained unchanged due to similar positive growth increases in both the labor force and employment. Hence the seasonally adjusted data paints a vastly different picture than what we saw from the non-seasonally adjusted observations.

We used the same statistical filter to remove regularly occurring seasonal fluctuations from the sectoral employment figures mentioned earlier. Compared to September 2023, the Inland Empire gained 4,200 jobs in seasonally adjusted terms. The **two sectors that are the main positive driving forces** are Private Education and **Health** (primarily health, +19,300) and Government (+14,200) with the majority within the government (+13,600) attributed to **local government.** The **biggest losers** are the **manufacturing** sector (-2,400) and Durable Goods (-1,800). Note that the three largest employers in the Inland Empire are Private Education and Health, Government, and Logistics in this order.

The seasonally adjusted unemployment rate shows a slight trend increase over the last two years or so (see the graph below), which is not surprising given the contractionary monetary policy stance of the Federal Reserve. However, we are yet to see the impacts of the Federal Reserve's recent 50 basis point rate cut, and the forecasted further reduction over the next 16 months, which could improve employment in coming months.



CALIFORNIA

The overall picture for California remains somewhat worrisome. The household survey indicates that the unemployment rate remained unchanged at 5.3% compared to August 2024. The labor force actually expanded by 13,700 while employment only increased by 2,100. This mirrors the development from a year ago, where the labor force expanded by 70,500 while employment only went up by 6,300. In general, if the labor force growth exceeds the employment growth, then the unemployment rate increases. Hence it went from 5.0% a year ago to 5.3% in September 2024 (the reason for remaining unchanged from a month ago is that the difference in percentage growth of the two components was too small). Still, when we compare these numbers to the pre-Coronavirus downturn almost five years ago, then we see a labor force that is almost 200,000 smaller than what it was at the peak of the business cycle, with employment being a staggering 367,600 people below the level seen then. Hence the unemployment rate is 0.9 percentage points higher than it was then.

This sort of development has resulted in California being close to the top in terms of state unemployment rates, with only Nevada being "ahead" of us (we continue to be tied with Illinois at 5.3%). Our state has the highest unemployment rate (5.3%) among the most populous states in the country with Texas (4.1%), Florida (3.3%) and New York (4.4%) performing significantly better. Still, judging by historical data, California is not looking as poorly as the ranking might suggest.

Overall **employment increased** over the last month by **2,100 jobs** (according to the household survey) and by **14,700** jobs (according to the establishment survey). The greatest portion of nonfarm employment increases came from **Private Education and Health Services** along with **Government**, followed by **Trade, Transportation, and Utilities**. **Most job losses** occurred in **Leisure and Hospitality,** followed by **Information**. The **state government** gained a significant **8,000 jobs**. These gains exceed the entirety of net government gains of **3,800**. Federal government only gained 100 jobs, while local government jobs **decreased significantly** by 4,300.

While the labor demand in the health sector will continue to increase given that not all jobs posted last year were filled and because of the continuing larger numbers of baby boomers retiring, there will be a negative impact of additional hires in this sector for the next year given the availability of public spending on health.

Specifically,

- Private Education and Health Services saw an increase of 9,600 payroll jobs.
- Government (+3,800); Trade, Transportation, and Utilities (+3,000); Financial Activities (+2,600) were the other major sectors that saw increases in employment since last month.
- Leisure and Hospitality was the biggest loser (-4,400), followed by Information (-2,400).

In terms of year-over-year change, Private Education and Health Services continues to lead by a large margin (+146,600), with Government coming in second (+75,700). Professional and Business Services (+35,200) and Trade, Transportation, and Utilities (+20,800) have also seen increases in employment over the past year. The biggest decreases since August 2023 were in Manufacturing (-28,600), followed by Information (-18,400).

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. The establishment data indicates how many people are on the payroll of businesses that operate within the region. As we mentioned earlier, without seasonal adjustment, the change seems to be very positive and impressive: labor force went up by 4,100, household-reported employment went up by 16,500, and establishment-reported employment went up by 9,600. However, when the numbers are adjusted to account for seasonal trends, the picture becomes much less rosy.

We are seeing a continuation of the trend observed earlier this year: there is a significant difference between the changes reported by the household survey (Current Population Survey or CPS) and the establishment survey (Current Employment Statistics or CES). According to the CPS, which measures employment by residency and conducts the survey at household level, the employment level went down by 1,800. However, according to the CES, which measures employment by geographical location of place of work and surveys establishments, employment went up by 4,100. 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 more commuters finding jobs in coastal regions (roughly 20% of the Inland Empire labor force commutes to the coastal regions). Therefore, there is the suggestion that though new positions were created in the Inland Empire, there has been greater opportunity for commuters outside of the region.

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

- The largest industry-level gains were seen in Government (+2,190, driven primarily by growth in Local Government, +2,090), Logistics (+1,200), and Private Education and Healthcare (+1,030).
- The most significant declines were in Construction (-1,100), Leisure and Hospitality (-560), and Other Services (-470).
- Logistics employment has almost caught up to Government employment (272,800 vs. 274,200).
- Compared to a year ago, the Private Education and Health Services sector has grown by 18,100, or more than 6%.

OUTLOOK

The U.S. unemployment rate fell slightly from 4.2% in September 2024 to 4.1% in October (national unemployment rate data is made available ahead of the state and county data). The national economy is on track for a "soft landing" (a significant reduction in the inflation rate without a coincident economic recession as measured by the unemployment rate). The Federal Reserve has lowered the Federal Funds Rate following the September 2024 meeting by 50 basis points, with two additional reductions forecasted before the end of the year. This should benefit the housing sector, including an increase in the sales volume as housing loans become more affordable compared to the rates being paid by current house owners. It should also stimulate construction and benefit overall employment.

As for the Inland Empire, the Logistics sector continues to add jobs after a mini slump which started in the middle of 2022 due to unrealistic expectations about continued strong increases in demand. The industry is more in line with reasonably steady, but smaller, month-to-month increases despite some local restrictions, the threat of automation, and the recent passing of a bill by the state that will add significant additional costs to building new warehouses. We expect for the industry to pass the Government sector before the end of the year in terms of becoming the second largest employer in the region. In part this will be due to the Government sector shrinking further due to the budget crisis in Sacramento