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The July 2022 Employment Report

by

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OVERVIEW

The California Employment Development Department (EDD) released their employment data for California and the Inland Empire this morning. The unemployment rate of the Inland Empire currently stands at 3.9% for July 2022, a 0.1% decrease from the previous month. Given that the nation experienced a second consecutive quarter of negative growth during the first two quarters of 2022, which, by some, is deemed sufficient to declare a U.S. recession, and the fact that that the national unemployment rate fell to pre-COVID-19 levels of 3.5%, monthly readings of employment statistics gain even more significance. Note that the Inland Empire is often seen as a “First In-Last Out” area when it comes to downturn,.

Hence the 0.1% decrease in the regional unemployment rate is rather comforting. Time to celebrate? Not quite. The unemployment rate can actually fall with employment decreasing, as long as the labor force decreases by a larger rate. This is the case currently: both the labor force and employment are shrinking according to the household survey (Current Population Survey), and this is happening for a second month in a row. Hence the picture is less rosy.

One of the problems with the EDD release is that the data is not seasonally adjusted. There are regularly occurring seasonal fluctuations throughout the year. For example, retail trade, and leisure and hospitality employment typically decline after the Christmas holidays, as does employment in the Coachella Valley around the start of summer. The education part of the local government sector regularly lays off people this time around. For California as a whole, the unemployment rate in January is significantly higher than in December year in and year out. Therefore, seasonally adjusted unemployment data often gives us a better understanding of the economy. We therefore have to seasonally adjust the data ourselves, using standard statistical techniques. This will make it easier to see fundamental overall trends.

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Unfortunately, after seasonally adjusting the Inland Empire data, the unemployment rate actually *increased* from a relatively low 2.3% (revised) in June to 2.4% in July, showing a 0.1% increase for July 2022. Employment, after seasonal adjustment, shows a decrease of almost 2,000. By comparison, California's unemployment rate decreased from 4.2% to 3.9% after seasonal adjustment, showing a decline, although the numbers are still at a higher level compared to the Inland Empire.

INLAND EMPIRE

The raw data unemployment rate was 3.9% in July, decreasing 0.1% from the previous month. However, after seasonal adjustment, the unemployment rate increased 0.1% from 2.3% to 2.4%, which is still at a very previously unseen low level despite the small increase. The total nonfarm jobs fell by 4,000 according to the Current Population Survey (CPS). On the other hand, according to the Current Employment Survey (CES), which surveys establishments, the civilian employment increased by 18,800.

There are a variety of reasons why the two surveys (CPS and CES) may send different signals (self employment, multiple jobs, etc.), but for the Inland Empire, the biggest cause is the number of commuters. These are captured in the household survey but not in the establishment survey, which focuses on employment within the Inland Empire. Consider someone who lives in Upland (San Bernardino County) and works in Claremont (Los Angeles County). If this person loses their job in Claremont, the unemployment rate for Los Angeles County is unaffected, but the unemployment rate for San Bernardino will go up.

Here are the highlights from this month's report (here reported using seasonally adjusted data, which is not available from the EDD):

- The largest monthly gain was in the Education and Health Services (+939). Other industries that saw monthly gains (numbers shown here are rounded seasonally adjusted) include Government (+777),
- The largest monthly decrease was in Professional and Business Service (-1,373), Retail Trade (-535), and Logistics (-154).
- The Government sectors experienced the biggest decline of -13,500 jobs before seasonal adjustment. This was almost completely centered in the public education part of local government employment. This happens regularly every year. After seasonal adjustment, the sector actually gained 777 jobs. Not surprisingly, local Government is the biggest contributor to the change after seasonal adjustment (+962), which is encouraging since although it is still some 6,200 below the previous peak employment, it is recovering strongly.

CALIFORNIA

The unemployment rate (seasonally adjusted) for California dropped from 4.2% to 3.9% in July, which is higher than the U.S. unemployment rate at 3.5%. The current unemployment rate is within 0.2% of the pre-pandemic unemployment rate of 4.1% observed in February 2020.

Taking a closer look at the labor force data collected from the CES, labor force participation shows a loss of 23,400 workers, while employment increased by 23,500 jobs. Both the shrinking labor force and the growing employment contributed to the decrease in unemployment rate this month. However, the CES's total nonfarm jobs saw a significant increase of 84,800 jobs.

Looking beyond the aggregates, sector-specific analysis shows:

- other sectors that showed significant growth last month include Professional and Business Service (+20,500), Education and Health Services (+20,500), Leisure and Hospitality (+14,900), and Construction (+11, 400).
- Financial Activities (-1,900) experienced the largest and, in fact, the only sector with month-over loss.

Note that as of this month, the state is still below the peak employment and labor force levels experienced in February 2020, the peak of the previous economic expansion. This is not the case for the Inland Empire, primarily due to the large employment increases in its logistics sector. To be specific: the state employment level (seasonally adjusted) is still almost 165,600 short and the labor force is still 209,600 below the level. Contrast this with the Inland Empire: our region has generated about 96,000 additional jobs, while the labor force grew almost 57,000 compared to the end of the pre COVID-19 expansion. Thus, unfortunately, while the nation and our region have recovered from the pandemic, California's economy still need some time.