

IEEP NEWS RELEASE
October 20, 2023

The September 2023 Employment Report
by
Manfred W. Keil¹

OVERVIEW

The California Employment Development Department (EDD) released their September labor market update for California and its regions this Friday morning. It contains the latest labor market statistics for the Inland Empire (Riverside County and San Bernardino County).

We can summarize the report as follows: at face value, and at first sight, the report is positive. The unemployment rate for the Inland Empire decreased and both employment and the labor force increased. Unfortunately much of this was driven by regularly occurring seasonal factors. Filtering these out, which you must if you want to get an objective picture of the underlying economic situation, and the report is actually quite negative: the unemployment rate increased by a substantial amount, not decreased. But once more, it is useful to look at the underlying drivers for this. The unemployment rate can increase if people (re)joining the labor force outpace those who find new employment, and this is what happened last month. The bottom line is that the unemployment rate increased in the face of increasing employment numbers - which is the opposite of a very negative report, which would see employment decreasing while the labor force grows.

Now that we have summarized the report, it is time to dig in for the details.

Let's start with the headline numbers of this morning's report. As mentioned in the summary, this were encouraging, indicating that the region's unemployment rate decreased by a relatively significant amount (0.3 percent points). This represents a reversal from the previously observed trend, which showed ever higher unemployment rates since May of 2023.

The region's seasonally unadjusted unemployment rate now stands at 5.0%. Compared to California, where a 0.1 percentage point increase in the unemployment rate was caused by an unhealthy pattern of decreasing employment outpacing a shrinking labor force, here in the Inland Empire, both labor force and employment increased. In general, this is a healthy reason for a

¹ Keil: Chief Economist, Inland Empire Economic Partnership and Associate Director, Lowe Institute of Political Economy, Robert Day School of Economics and Finance, Claremont McKenna College. Keil received valuable assistance from research analysts Alina Hu, Ivan Kolesnikov, Arlo Jay, and Kiefer Tierling.

decrease in the unemployment rate, as we see increases in both employment and labor force and employment outgrowing labor force.

However, the raw numbers can be misleading because they are not seasonally adjusted. It is therefore possible to see fluctuations in employment that are not related to the underlying state of the economy or the business cycle but are primarily driven by the specific time (month) of the year. Think of hiring patterns before Christmas or laying off seasonal workers during the summer in the Coachella Valley. The EDD does not seasonally adjust data for the Inland Empire, but we do. This gives us a more objective employment picture.

Applying these statistical filters reverses the initially rosy picture. Seasonally adjusted, the unemployment rate *increased* by a *substantial* 0.7 percentage points. This brings the seasonally adjusted unemployment rate to 5.3%, compared to 4.6% in August of this year. The seasonally adjusted unemployment rate for the Inland Empire now sits above that of California, which currently stands at 4.7%. By comparison, the national unemployment rate is 3.8%, and, to put matters into perspective, California ranks 49 out of 50 states on the unemployment rate scale with only Nevada performing worse.

This seems very concerning at first glance, but recall that change in unemployment rate is approximately the percentage growth in labor force minus that of employment. Ideally you would like to see growth in both areas, meaning that the unemployment rate would stay roughly the same. Even better is when employment growth outpaces growth in the labor force. In the case of the Inland Empire, we would probably be more concerned if the significant increase in unemployment rate is the result of employment dropping.

So here are the underlying facts: the increase in the unemployment rate is primarily driven by an employment growth of over 4,900 being outpaced by a labor force increase of almost 20,500 positions. The large gap between the increase in the labor force and the modest rise in employment drove up the unemployment rate.

This is the second month for which the Inland Empire has seen a significant growth in the labor force. While we do not have enough data to find an accurate cause for this growth, it could be caused by workers, especially women, who dropped out of the labor force during the COVID-19 recession, finally returning to the labor force in larger numbers. However, we note that the labor force has already recovered and exceeded pre-pandemic levels. Therefore, this increase in labor force could be caused by in-migration into the Inland Empire from other regions. We also note that on the national level, we see a higher seasonally adjusted unemployment rate than seasonally unadjusted unemployment rates. For the U.S., the seasonally adjusted unemployment rate currently sits at 3.8%, 0.2 percent point higher than the unadjusted rate.

Bottom line, and similar to the U.S. economy, we are getting a mixed signal, with no clear direction of whether or not we are heading into a recession. Note that we have forecasted a national recession to start late in 2023, early in 2024, despite a large expected increase in GDP for the 3rd quarter.

CALIFORNIA

California's seasonally adjusted unemployment rate increased slightly to 4.7% in September after three consecutive months of holding steady at 4.6%. Employers added 8,700 non-farm payroll jobs. However, we observe a continued decline in both the state labor force (-17,700) and employment (-36,300) looking at the household survey. A healthy economy has both positive growth in employment and the labor force, with the unemployment rate changing as the result of the difference between the labor force growth and employment growth. For the unemployment rate to fall when we are in this positive environment, the growth in employment has to outpace the growth in the labor force. In this current negative scenario, the increase in unemployment rate is caused by the percentage decline in labor force outpacing the percentage decline in employment — this is a worrisome development.

What makes matters even harder to interpret is that there is a discrepancy between the household and payroll surveys. While typically the number of jobs within the state held by its residents and by listed by its employers are very similar, the increase of remote work and the gig economy may contribute to this new gap. There are other reasons for the two surveys to differ such as individuals holding more than one job or being self-employed.

Here are the highlights from the sector-specific analysis:

- Looking at monthly changes, the biggest gain was in Private Education and Health Services (+18,000), Leisure and Hospitality (+11,300), and Trade, Transportation and Utilities (+2,400).
- 6 sectors posted job losses with the most significant being Professional and Business Services (-10,900), Information (-7,300), and Manufacturing (-4,600). Losses were concentrated in high value added sectors which may lead to a disproportionate impact on value added measures of the economy such as GDP.
- Looking at Year-to-Year changes, the strongest sectors were Private Education and Health Services (+170,400), Leisure and Hospitality (+109,600), and Government (+52,300). The weakest sector was Information (-43,200).

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/indhists/rive\\$hws.xls](https://labormarketinfo.edd.ca.gov/file/indhists/rive$hws.xls)).

The seasonally adjusted unemployment rate for the Inland Empire went up by 0.7 percentage points from 4.6% to 5.3% between August and September. It has also increased from the 4.1% seen a year ago, in September 2022.

We see a slight decrease in Logistics sector employment (a little over 300). Once the biggest growth sector during the COVID-19 recession and the subsequent initial recovery, Logistics employment has decreased significantly by roughly 6,800 year to year. This follows a general national trend of decline in the Logistics sector. As consumers once again revert back to their pre-COVID-19 spending patterns, the Logistics sector employment suffers as a result. The promising increase of almost 5,000 in the Local Government sector turns into just 200 when seasonally adjusted, which is a prime example of why we need to use the filter. Still, while the Local Government sector was impacted severely during the COVID-19 recession, it has begun to recover following the steady growth since December 2022.

Construction is showing the largest month-to-month growth (roughly 2,000) and the highest growth rate since the beginning of the year (almost 6%). Intuitively, that should be caused by an increase in the number of housing starts, but that data is unavailable at the Metropolitan Statistical Area (MSA) level and hence for the Inland Empire or the two counties. However, we can look at the number of Building Permits issued, which should be a good proxy for housing starts. For Riverside County, the change is not that significant: the average for this year (up to July) went from 940 in 2022 to 960 in 2023. For San Bernardino County, on the other hand, the levels went from 450 to 760. However, construction involves more than private housing units being built. While we cannot imagine that in the current climate there would be any expansion in office building, it is possible that road construction generated part of the increase. We simply need more data here to make solid statements beyond conjectures.

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

- The largest increases in employment were seen in Construction (2,000), Private Education and Health Services (1,650), and Government (600). Local Government leads most of the growth in the Government sector.
- The sectors with the biggest decreases are Financial Activities (-450), Logistics (-325), and State Government (-300).
- Since December of 2022, the fastest-growing sectors have been Construction (+5.9%), and Private Education and Health Services (+4.2%). The sector with the biggest decline is Financial Activities (-2.8%).