

IEEP NEWS RELEASE
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The August 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 non-seasonally adjusted unemployment rate, which is the officially released statistic, of the Inland Empire currently stands at 4.2% for August 2022, a 0.2 percentage point increase from the previous month. Given that the nation experienced a second consecutive quarter of negative growth during the first two quarters of 2022, coupled with the fact that the national and state unemployment rates also increased by 0.2 percentage points, the increase in unemployment rate in the Inland Empire is not particularly comforting. Is this confirming the impression given to you by some that we are in a recession already?

The short answer is, no, but you have to look a little deeper. If you dig in beyond the headline, the picture starts is better than it seemed at first. Let's first focus on the household survey (Current Population Survey, interviews conducted by location). Looking at the raw numbers there, we see that employment actually increased by 6,400 compared to July. Then why did the unemployment rate go up? Because there was an increase of the labor force by even a larger amount (12,700) – these are people who are joining the labor force who previously did not look for work. The change in the unemployment rate is approximately the difference between the labor force growth and employment growth. If the labor force grows faster than employment does, then the unemployment rate will increase (as it did). We become concerned if either employment shrinks, or even while it grows, if the labor force shrinks (discouraged workers). Of course we would prefer employment growth to outpace labor force growth, and while this is not the case in the current month, it is second best. Also note that both the labor force and employment were shrinking last month.

Another way to get a better understanding of the employment data is to put it through a seasonal filter (seasonal adjustment). This removes regularly (seasonally) occurring components from the data and gives you a more objective picture of what is going on. 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

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Government sector regularly lays off people this time of the year. For California as a whole, the unemployment rate in January is significantly higher than in December year in and year out.

Unfortunately, after seasonally adjusting the Inland Empire data, the unemployment rate actually *increased* from a relatively low 2.6% (revised) in July to 3.4% in August, showing a 0.8 percentage point increase for August 2022. While this is a substantial increase in the seasonally adjusted unemployment rate, it is worth noting that this is merely a result of labor force significantly outgrowing employment, and both growth rates remains positive for this month. Moreover, despite this significant increase, the seasonally adjusted unemployment rate continues to be lower than the raw unemployment rate for the Inland Empire. It is also significantly lower than the seasonally adjusted unemployment rate for California (4.1%).

INLAND EMPIRE

The biggest increases in employment happened in the Professional and Business sector (roughly 2,150). However, the Professional, Scientific and Technical Services subsector only increased by 530 after seasonal adjustments, meaning that the larger part of the growth was contributed by lower-paying jobs. The positive trend in the Government sector employment continues from last month. After seasonal adjustment, jobs in the Government sector increased by almost 1,200, which is even more so than the approximately 800 job increase last month. Once again, Local Government was the biggest contributor in the increase as employment, showing an increase of 1,410.

Here are the highlights from this month's report using seasonally adjusted data:

- The Professional and Business sector experienced the biggest gain in August, increasing by almost 2,150 after seasonal adjustments.
- Other industries that saw monthly gains after seasonal adjustments are: Government (+1,178), Leisure and Hospitality (+989), Educational and Health (+532), Manufacturing (+90), and Financial Activity (+11).
- The Retail Trade sector saw the largest losses in August, decreasing by almost +1290. Other industries that saw monthly losses after seasonal adjustments are: Construction (-1,174), Other Services (-536), Logistic (-213), and Information (-42).

CALIFORNIA

The unemployment rate (seasonally adjusted) for California came out to be 4.1% in August, a 0.2 percentage points increase from last month. It is and 0.4 percentage points higher than the U.S. rate at 3.7%. However, despite the increasing unemployment rate, the total non-farm jobs actually increased by 19,900.

The increase in the unemployment rate a little discomfoting. However, it is assuring to see that the current unemployment rate is still within 0.2 percentage points of the pre-pandemic unemployment rate level of 4.1%, observed in February 2020. Furthermore, the year-over decrease in the unemployment rate of about 3 percentage points compared to the in August 2021, when it was 7%, continues to show a solid growth in the labor market.

Taking a closer look at the labor force data collected from the CPS, labor force participation shows a gain of 32,400 workers. This is especially encouraging since just last month we saw a shrinking of California's labor force by 23,400 workers.

Looking beyond the aggregates, sector-specific data shows:

- Other sectors which showed significant growth last month include Leisure and Hospitality (+9,800), Logistics (+6,000), Professional and Business Services (+4,900), and Education and Health Services (+4,100)
- Information (-3,800), experienced the largest month-over loss. Other sectors which experience month-over loss were Manufacturing (-1,200) and Construction (-1,700)

Here are some highlights of the sectoral analysis. As the most affected sector by the pandemic, the strong performance of Leisure and Hospitality indicates continued recovery from the pandemic recession. Furthermore, the positive trend in Professional and Business Services is worth noting since the sector usually consists of high-paying jobs.

Note that as of this month, the state's labor force has finally caught up to its peak labor force level experienced in February 2020, the peak of the previous economic expansion. However, employment is still behind the peak level of about 170,000. This is not the case for the Inland Empire, primarily due to the large employment increases in its logistics sector. Contrast this with the Inland Empire: our region has generated about 103,000 additional jobs, while the labor force grew by slightly more than 86,300 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 needs some time.