IEEP NEWS RELEASE
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The January 2024 Employment Report
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OVERVIEW

Once a year, at the beginning of March, the national release of the monthly labor market data coincides with the state and regional publication. This is due to annual major data revisions for the January report on the sub-national level. The report today is on the national labor market for February 2024. For California and the Inland Empire, it is for January 2024. The February 2024 report for the sub-national level will be released in two weeks.

To demonstrate the effect of the annual data revisions, we display employment in the Logistics industry (Transportation, Warehousing, WholeSale Trade). As you can see, the Logistics sector has lost more jobs than originally reported, especially since August 2023.
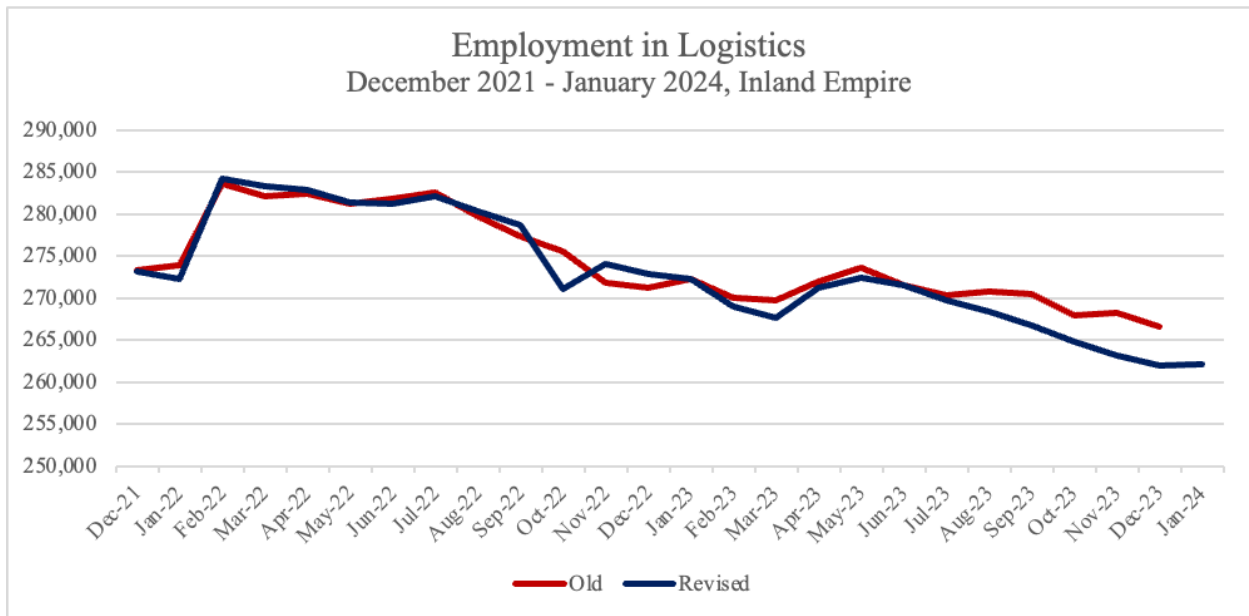
Employment in Logistics
December 2021 - January 2024, Inland Empire

On the other hand, Education and Health Services has gained more jobs than previously thought.
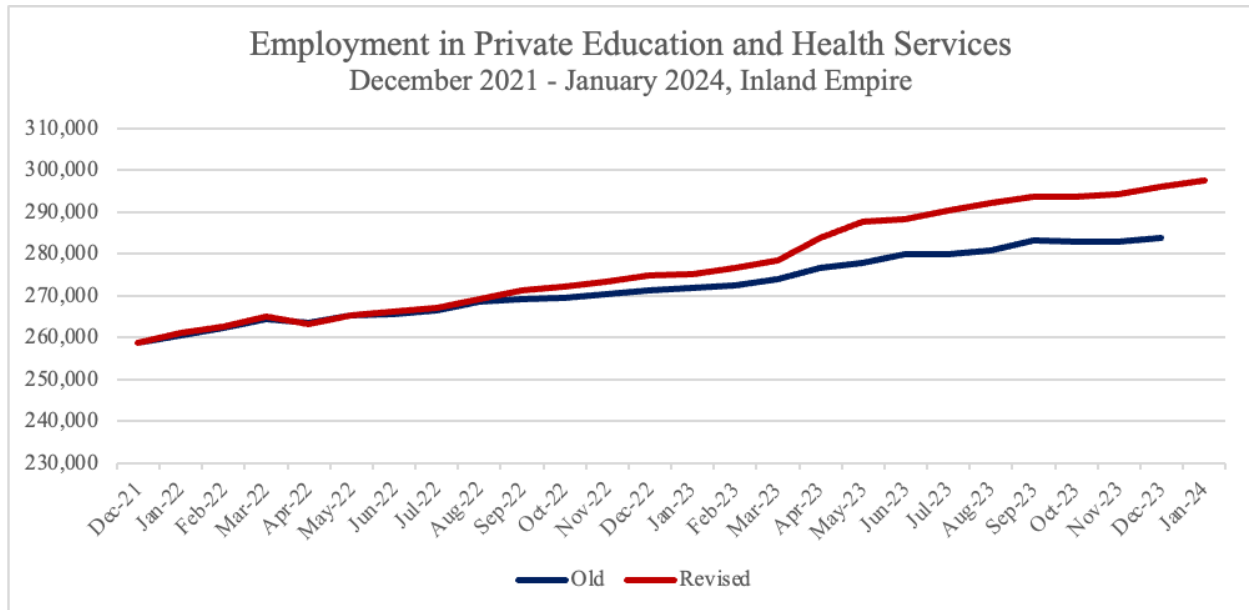
The **national picture** for February 2024 shows **continued strength in the labor market**, with employment increasing by 275,000, which is slightly higher than expected. Furthermore, the initial publication for January 2024 of 350,000 jobs gained, which was extraordinarily high, was revised downwards to a more consistent (with recent past levels) of just below 230,000. This is important, because the Federal Reserve was less likely to lower interest rates later this year if the job market was as hot as initially estimated. The central bank left interest rates unchanged after its meeting last week, but indicated that it is close to start lowering the interest rates in the near future as the policy makers become confident that "it will be appropriate to dial back," which Chairman Powell said they were "not far from it."

Labor market data comes from the Current Population Survey, CPS, a survey of about 60,000 households. It is based on residency. While the **U.S. unemployment rate** ticked up by 0.2 percentage points, **from 3.7% to 3.9%**, this is the result of people entering the labor force at a higher rate than being able to find jobs. Note that the change in the unemployment rate is roughly the difference between labor force growth and employment growth. Hence it is possible, as currently observed, for the unemployment rate to increase while employment actually increases. This is a healthy picture of the labor market. To get a better look at structural changes in the economy, you must consult the establishment-based survey (Current Employment Statistics, CES), which gives you employment by sector. Mission impossible almost achieved: a soft landing for the economy (reduction in inflation without coinciding recession).

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

Let us state upfront that there is a **large difference between the raw (non-seasonally adjusted) data and the seasonally adjusted data**. While for some months the difference is negligible, in January it is particularly high, since there are layoffs every year due to the post-holiday season. Hence it is not surprising that the largest raw data (non-seasonally adjusted) employment losses for the Inland Empire came in Retail Trade, Logistics, and Leisure and Hospitality. Filtering out these effects is important since they give you a false picture of the underlying economy.

California as a whole experienced a **significant increase in unemployment to 5.7% from 5.1%** the previous month. Total nonfarm jobs increased, continuing the expansion of the previous month. Additionally, total non-farm jobs increased 1.3% from a year ago in January 2023. Based on the revised residency-based survey (CPS), employment and the labor force expanded.

Headline figures indicate that **unemployment increased by 0.5 percentage points in the Inland Empire during January, ticking up to 5.5% from 5.0%**. This is concerning given the contraction in employment, but is less worrisome given the simultaneous growth of the labor force. This development represents a continuation of the downward trend in employment levels, but a return to the labor force growth seen during the preceding months. The increase in unemployment rate is caused by the decrease in employment (down 0.4 percentage points) paired with the increase in labor force (up 0.1 percentage points).

This development becomes far **less concerning when filtering out the effects of seasonal factors**, e.g. a decrease in employment in the retail sector after the holiday shopping season. The EDD report does not seasonally adjust for regional unemployment, but we adjust the data using standard statistical techniques to give us a better picture of the objective state of the labor market. **The seasonally adjusted unemployment rate decreased modestly from 5.7% to 5.6%**, caused by an increase in employment (up 0.4 percentage points) outpacing the increase in labor force (up 0.3 percentage points).

CALIFORNIA

Between December and January, the Golden State's seasonally adjusted unemployment rate increased slightly, from 5.1% to 5.2%, despite the addition of 58,100 non-farm payroll jobs. California's unemployment rate remains higher than the national rate, which held constant at 3.7% in January (but increased to 3.9% in February). The household survey recorded an increase in the state labor force (+15,300) but a decrease in employment (-8,000).

The discrepancy between the decrease in household reported employment (-8,000) and the payroll jobs increase (+58,100) comes from the difference between the two major economic surveys: CPS and CES. The difference between the employment statistics (a total of 66,100) could be due to virtual workers employed in California but living out of state. Other reasons for the difference are self-employment and people holding multiple jobs.

Here are sector-specific highlights:

- Private Education and Health Services continued its strong gains from last month, increasing by 18,100 jobs.
- Other major gains were seen in Professional and Business Services (+15,700) and Government (+10,800).
- Manufacturing is the only industry that reported a loss in jobs since December (-800).

Looking at changes from a year ago (January to January), Private Education and Health Services is once again ahead of the other industries, with a gain of 185,100 employees. Government came in second with an increase of 61,500 workers. The biggest decreases since January 2023 were in Information (-62,600) and Professional and Business Services (-44,800). The calendar year brought an overall 0.7 percentage point increase in unemployment across California (4.5% to 5.2%).
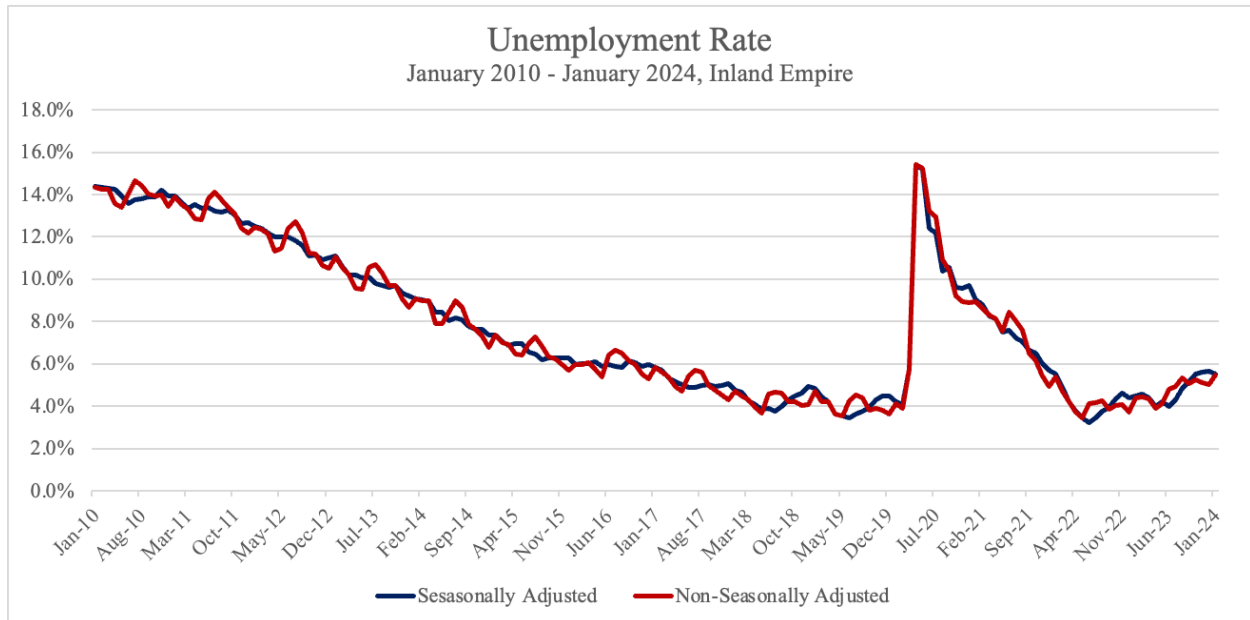
INLAND EMPIRE

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).

Compared to the **bleak picture painted by the raw data** (**decreases of -8,200 in Retail Trade, -7,400 in Logistics, and -6,500 in Professional and Business Services**), the **numbers we get after accounting for seasonal patterns give a lot of hope**. The biggest decrease was seen in Professional and Business Services (almost -1,200), at only a fifth of what non-seasonally adjusted data present it to be. Moreover, total employment reported did not go down 32,300 (which would represent an alarming 2%); instead, it went up by 4,800.
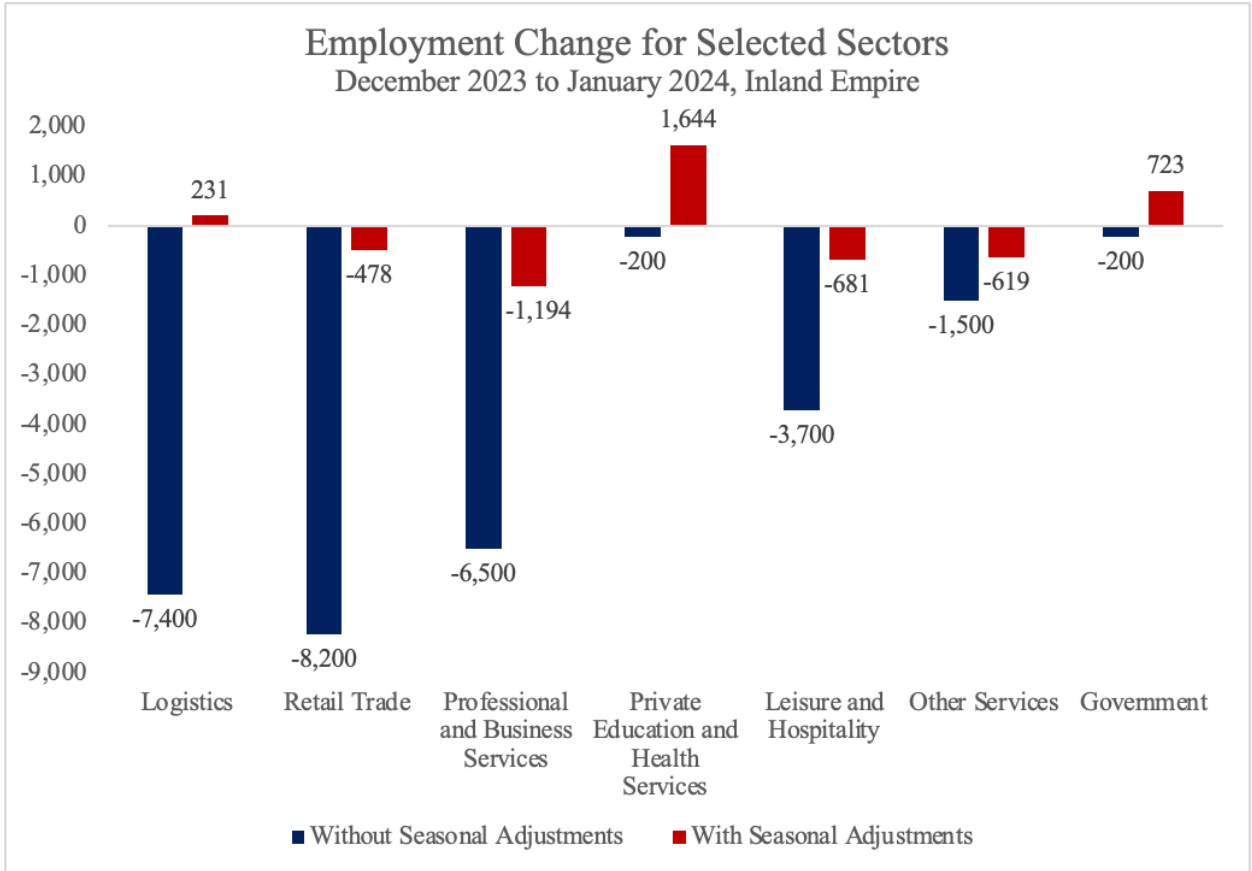
Maybe even more importantly, **the unemployment rate seasonally adjusted went down by 0.2%, not up by 0.5% non seasonally adjusted**, as seen in the raw data. This represented a **decrease from 5.7% in December to 5.6% in January**. Moreover, the change came in the healthiest way possible: through a **simultaneous increase in employment and labor force**, the former outpacing the latter (+9,100 and +6,200, respectively). After six consecutive months of increases in the civilian unemployment rate, this is an encouraging development. Moreover, the result holds despite the fact that we only observed significant employment increases during three months in 2023. However, the Inland Empire will need some more time to recover from the very

concerning decreases of 12,800 for the labor force and 13,600 for employment observed between November and December of last year.

Unemployment Rate
January 2010 - January 2024, Inland Empire

Legend: Sesasonally Adjusted — Non-Seasonally Adjusted

Additionally, the increase in employment reported by households (+9,100) aligned with the increase in establishment employment (+4,850). Hence residency measured employment increased by more than what establishments reported. This is potentially due to commuters, most of whom work in the coastal areas. The employment status of these commuters is reported by households, but not businesses in the region. This means that significant job growth among commuters could explain the difference for January.

Some of the sectors that traditionally see large employment decreases during January are Retail Trade, Logistics, and Leisure and Hospitality. This can all be attributed to the temporary hiring during the Holiday season. Raw changes from December 2023 to January 2024 are -8,200, -7,400, and -3,700 for the three sectors. After the seasonal adjustment, these turn into -500, +250, and -700.

Employment Change for Selected Sectors
December 2023 to January 2024, Inland Empire

Without Seasonal Adjustments values: Logistics -7,400; Retail Trade -8,200; Professional and Business Services -6,500; Private Education and Health Services -200; Leisure and Hospitality -3,700; Other Services -1,500; Government -200

With Seasonal Adjustments values: Logistics 231; Retail Trade -478; Professional and Business Services -1,194; Private Education and Health Services 1,644; Leisure and Hospitality -681; Other Services -619; Government 723

Bottom line: do not make major decisions based on non-seasonally adjusted data.

Here are some of the highlights from this month's report (**seasonally adjusted**):

- The largest increases in employment were seen in Private Education and Health Services (+1,650), Government (+720), and Logistics (+230)
- The sectors with the biggest decreases in employment are Professional and Business Services (-1,200), Leisure and Hospitality (-680), and Other Services (-620).
- Since January of 2023, the fastest-growing sectors have been Mining and Logging (+14.4%), and Private Education and Health Services (+8.2%). The sector with the biggest decline is in Logistics (-3.7%).