

# IEEP NEWS RELEASE

July 21, 2023

## **The June 2023 Employment Report**

by

Manfred W. Keil<sup>[1]</sup>

### **OVERVIEW**

The California Employment Development Department (EDD) released their June update for California and its regions on July 21. The two Inland Empire counties (San Bernardino County, Riverside County) are part of the release, although the data for the counties are not seasonally adjusted. The numbers are therefore potentially distorted by regularly occurring seasonal effects, such as the large number of employment terminations every summer in the Coachella Valley.

The headline numbers show the region's unemployment rate increasing significantly by 0.6 percentage points following a smaller increase in the previous month. The region's unemployment rate now stands at 5.0% (it was 4.4% in May). Unemployment rates in the two counties are typically very similar and that is the case currently with Riverside County showing a 5% unemployment rate, while San Bernardino County's rate is slightly lower (4.9%). Note that in the previous month (May), the unemployment rate had already increased by 0.2 percentage points, so that the two months combined increase is now a full 0.8 percentage points. The current unemployment rate is 0.9 percentage points above the value from a year ago (4.1%). *Year-to-Year changes* do not suffer from seasonal fluctuations, suggesting that this increase is caused by cyclical factors. Compared to a year ago, employment in the Inland Empire declined by slightly over 28,000, and the labor force shrunk by almost 10,000.

Why is the increase of concern if confirmed with the seasonally adjusted data? The survey on which the unemployment rate is based, is conducted by residency in the week surrounding the 12th day of the previous month. It therefore includes the 30% of the Inland Empire labor force that is commuting primarily into coastal regions. We see these commuters, on

average, to have lower human capital than those who can afford to live and work in the Greater Los Angeles area, and expect these workers therefore to be laid off first in a downturn. Counterintuitively, this suggests that the Inland Empire employment, when measured by residency, not by location of employment, is a leading economic indicator for the Greater Los Angeles area: it is similar to a lake freezing from the periphery.

So while it potentially makes sense to sound the alarm bell for an incoming national recession, perhaps starting in the third quarter, it makes less sense given that the Inland Empire unemployment rate actually decreased by 0.1 percentage points once we remove regularly occurring seasonal fluctuations. The seasonally adjusted unemployment rate for our area now stands at 4.4%, down from 4.5% in May, but up by 0.1% in April. This means that the unemployment rate in the two counties has basically remained constant since last October, but increased from its low of 3.5% in May 2022. Mind you, that value from over a year ago was lower than what we observed historically for the Inland Empire and was primarily due to the logistics sector expanding rapidly in the aftermath of the Coronavirus recession of March 2022 to May 2022. Still, both seasonally adjusted and non seasonally adjusted unemployment rates in the Inland Empire are 0.9 percentage points higher than from a year ago. Compared to the national numbers, the Inland Empire has not performed as well recently.

Using the seasonally adjusted data, employment fell by roughly -5,500 positions, which is substantially less than the raw data show (-12,700). Still, even the seasonally adjusted labor force shrank by 12,700 persons, and it is this amount of workers who are leaving the labor force that prevented the seasonally adjusted unemployment rate from showing a deterioration of the labor market.

The bottom line: while we have forecasted a national recession to start during the third quarter of 2023 (meaning now), we are still waiting for a clear signal that this is happening. Nationally, some of our sensors such as housing starts and the consumer sentiment index, have actually improved recently. While there are signs that the employment situation in the Inland Empire is worse than it was a year ago, the labor market still looks relatively healthy.

## **CALIFORNIA**

The Employment Development Department seasonally adjusts the data for the state and we therefore do not have to worry about seasonal effects distorting the data at this more aggregate level. California's unemployment rate inched up 0.1 percentage points compared to May and now sits at 4.6%. Compared to a year ago, the state unemployment rate is now 0.7 percentage points higher. This was the result of employment only adding 7,900 positions while the labor force grew by 13,600. When the percentage increase in the labor force exceeds that in employment, the unemployment rate increases (despite the positive employment growth). Still,

the increase of almost 8,000 positions is twice as high as the monthly average increase of 3,500 over the last year. Both employment levels and the labor force have not reached pre-pandemic peak levels: compared to February 2020, our state has lost roughly 185,000 jobs and the labor force has shrunk by 157,000. We do not expect the state to return to those numbers any time soon since many workers will not return to the labor force either because of retirement or outmigration.

The data we have looked at so far is from the household survey. It does not contain information that is sector specific. For that we have to turn to the establishment survey.

According to the Current Employment Statistics, the following sectors were the big winners: (i) Private Education and Health Services added 7,000 jobs since May, and 167,300 from a year ago (most gains over the year as well), (ii) Leisure and Hospitality increasing employment by 6,800 and 120,100 from June 2023 (second highest gain both monthly and year-to-year), (iii) Construction experienced a plus of 6,000 positions month-to-month and has added 9,300 over the last year. The biggest losers were: (i) Logistics (-7,600 compared to May), (ii) Other Services (-1,100) and (iii) Manufacturing (-600). Professional and Business Services, which had the third highest gain from a year ago with almost 50,000 positions, actually lost a small amount (-100) over the last month.

## **INLAND EMPIRE**

In this section we will focus on *seasonally adjusted data* from the establishment survey - these are firms that employ people within our two counties.. For the somewhat misleading non-seasonally adjusted data, you can consult the EDD document

(<https://labormarketinfo.edd.ca.gov/file/indhists/rivehws.xls>).

To briefly summarize the non-seasonally adjusted data from the EDD report: compared to a month ago, the biggest losers were: (i) Leisure and Hospitality (-1,600), and (ii) Logistics (-1,100). The biggest winners were (i) Construction (+700) and (ii) Other Services (+100), which includes health clubs, haircuts, and tattoos.

Here is a comparison of the EDD reported (non-seasonally adjusted) data and how these numbers change after we run them through a seasonal filter:

**Table 1: Sectors with Largest Employment Gains and Losses, Month-to-Month and Year-to-Year, June 2023 EDD Report and Author’s Calculations**

Sector	Non-Seasonally Adjusted Data		Seasonally Adjusted Data	
<b>Leisure and Hospitality</b>	-1,600	-2,900	-280	-3,360
<b>Logistics</b>	-1,100	-7,800	-30	7,690
<b>Construction</b>	700	1,700	370	1,750
<b>Other Services</b>	100	1,500	365	1,400
	Since May 2023	Since June 2022	Since May 2023	Since June 2023

Total nonfarm jobs, according to the establishment survey, decreased by 3,200 in the raw data compared to a month ago. However, over the year, it grew by 17,200 which presents a 1% increase. When we take regularly occurring seasonal fluctuations into account, then employment is actually up by 6,200 from May 2023, and 15,750. Again, the seasonally adjusted data looks better when compared to a month ago, while it is similar when looking at the numbers from June 2023. However, we do not expect a downturn in employment establishment numbers until later, if there was a recession. It is when the commuters cut back on spending that Inland Empire firms will start to suffer.

---

[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.