IEEP NEWS RELEASE

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The August Employment Report

by

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The Employment Development Department (EDD) released data for August this morning. At face value, the employment numbers seem more promising for the Inland Empire than either one of the past two months. They also are better than what we could have expected given the national employment release numbers at the beginning of September. Unfortunately this positive impression fades once we look at the data in more detail: the recovery is certainly stalling in the Inland Empire. This resembles the national but not the state picture where numbers this months were consistently more positive.

When looking at non-seasonally adjusted (official) data for the Inland Empire, we saw a slight decrease in the unemployment rate of 0.3 percentage points. It is now 7.6% after jumping up by 0.8 percentage points to 8% in June and a marginal decrease of 0.1 percentage points to 7.9% in July. This seems positive, but looking at the seasonally adjusted (SA; calculated at the IEEP) August unemployment rate, we need to reconsider the above statement regarding the economy. Different from the raw data, the Inland Empire SA unemployment rates were consistently decreasing over the past few months, showing a slow but steady improvement. However this steady decline was interrupted in August when we saw an increase in the SA unemployment rate for the first time since November 2020, growing by 0.3 percentage points to 6.9%: all signals show us that the recovery is stalling. We want to stress here that seasonally adjusted our region still looks considerably better than the raw data (6.9% unemployment rate versus 7.9%).

This increase we observe with the seasonally adjusted rate is sending us a different signal than both the national and state unemployment rates. In the United States, both the SA unemployment rate (down 0.2 percentage points to 5.2%) and non-seasonally adjusted rate (down 0.4 percentage points to 5.3%) have been decreasing steadily. For California, we see a similar pattern, with the SA unemployment rate decreasing from 7.6% in July to 7.5% in August, and the non-seasonally adjusted employment rate decreasing from 7.9% to 7.5% in August.

Though this is somewhat mildly discouraging, it is compounded by the fact that the drop in the official Inland Empire unemployment rate is primarily due to a decrease in the labor force of 18,000 individuals over the last month. Much of this decrease could be due to discouraged workers (individuals no longer interested in searching, either because they believe they will be unable to find a job in the current market or because the available jobs are not to their liking).

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INLAND EMPIRE

In the Inland Empire, total nonfarm jobs increased by only 5,500 from July to August continuing the trend of recovery according to the CES (Current Establishment Survey). Note that this establishment survey only looks at jobs within the Inland Empire while the Current Population Statistics looks at residents of the Inland Empire regardless of where they are working; this includes commuters. On the other hand, we see the CPS reporting a -11,000 *decrease* in total nonfarm employment in the Inland Empire. The key here is that, while jobs in the Inland Empire have *increased*, the number of employed Inland Empire residents has *decreased***.** However the numbers are small, and we don't want to stress the difference too much - after all, they are based on a relatively small sample and hence are subject to measurement errors.

Within the Inland Empire, the three sectors that had the biggest increase in jobs were Government (+4,300), Trade, Transportation, and Utilities (+1,500), and Professional and Business Service (+800). The increase in Government jobs is mostly due to the surge in local government Educational Services (+4,900). This is interesting compared to last month where Education Services had the biggest job loss (-12,600). The increase is likely due to the start of the school year since temporary employees such as substitute teachers and janitors that lost jobs at the end of the school year are back to work. The increase in Trade, Transportation and Utilities indicates the continuous economic recovery in that sector. Compared to August 2020, when trade was devastated by the pandemic, this sector's employment has increased by 25,400. With the U.S. economy revving up, import levels increased which affects transportation and warehousing. In addition, the pandemic stimulated a surge in e-commerce. These benefit the Inland Empire since it is the center of numerous warehouses. Also, interestingly, Leisure and Hospitality, the sector that continues to be most negatively affected from the downturn, did not change in employment levels. Same story as for the U.S.

A summary of the sectoral analysis is as follows:

- The three sectors which saw the largest increase in employment were Government (+4,300); Trade, Transportation, and Utilities (+1,500), and Professional and Business Service (+800)
- Of the 4,300 jobs that the Government sectors gained, local government made up the biggest gain (+5,000) while state and federal government actually dropped by 700. The gain in local government is mostly credited to Educational Services (+4,900) as a result of the start of the school year
- The sectors that saw a decrease in employment were Construction (-1,200), Educational and Health Services (-400), Retail Trade (-400), and Information (-200).
- Unfortunately, the declining pattern in Educational and Health Services continued from last month and is of concern in particular given the resurgence of Covid-19 cases with the Delta Variant
- Leisure and Hospitality did not change over the month

CALIFORNIA

California saw a 0.1% decrease in the seasonally adjusted unemployment rate from the prior month, with the July rate standing at 7.6% revised downward from 7.7%. This decline is mainly attributed to the increase of 104,300 (0.63%) in total nonfarm jobs from July to August 2021. The labor force experienced an increase of 55,300 in August 2021, improving from 50,300 in July 2021, further signaling that previously discouraged workers are progressively returning to the labor force. Unlike what we saw in July, where the number of unemployed increased and wiped out employment gains, August saw a decrease in the number of unemployed by 2,200.

The statewide total nonfarm jobs increase of 104,300 jobs from July to August was the largest increase in nonfarm employment of any state. This accounts for 44% of the United States 235,000 increase in total nonfarm employment. Texas held a distant second place, only adding 39,300 jobs and New York in third with a gain of 23,500. Year-to-year, the state added 874,300 jobs, well ahead of both Texas and New York, who both added fewer than 681,000 positions over the year. Although an impressive gain, this increase is still smaller to the staggering year-over-year 1.2 million job gain seen this past April and May.

Nine of twelve major industries added jobs compared to May, while two lost jobs and one exhibited no growth:

- Government led all industries with 46,900 new positions. This increase was solely powered by an increase in local government (+60,000), whereas both federal (-42,500) and state (-9,200) government employment declined.
- Leisure and Hospitality exhibited slower growth than last month, only adding 33,100 jobs in comparison to July's increase of 52,800.
- Professional & Business Services exhibited stronger growth than in July, adding 14,000 positions.
- Together, Government, Leisure & Hospitality, and Professional & Business Services accounted for 90% of the job gains in August.
- Health Care and Social Assistance lost 7,500 positions in August, a further blow to a sector that suffered the second-largest losses during the shutdown after Leisure and Hospitality.
- Retail Trade was the only other industry to also lose positions, declining by 800 from July. Logistics also exhibited no growth in August.

Almost every major sector added jobs in yearly terms, led by Leisure and Hospitality (+360,200), Professional & Business Services (+158,300), and Other Services (+74,300). Mining and Logging was the only sector who experienced job losses, with a decrease of 100.

As of August, the state has recovered 62% of the nonfarm jobs lost during the Spring 2020 pandemic shutdown.