LOCAL NEWS • Analysis

The Inland Empire strikes back with its economic recovery

By **CONTRIBUTING WRITER** | |
PUBLISHED: September 9, 2021 at 8:00 a.m. | UPDATED: September 9, 2021 at 8:08 a.m.

By Manfred W. Keil and Lauren M. Kula | *Inland Empire Economic Partnership*

Some of us remember the words from the Pink Floyd song "Comfortably Numb": "I'll need some information first, just the basic facts, can you show me where it hurts?"

The basic facts on the labor market are not as easy to find as you might think by looking at published statistics. And yes, 16 months into the current expansion, there is still some pain around, more so in some industrial sectors than others.

Economic news seems muddled these days; amid renewed worries about the delta variant of the coronavirus and talk of hybrid work, we observed relatively strong national employment growth numbers in June and July paired with weaker than forecasted improvements in August. Output growth is still substantial, but most forecasters, including us, have adjusted downward their rosie outlook for the year. Inflation is rearing its ugly head and international tourism is still operating at very low levels in the U.S. As a result, the leisure and hospitality sector, which continues to be hurting, saw no employment growth in August.

Here in the Inland Empire we thought we were doing relatively well, in that we outperformed the state and many regions in California. The June employment report for Riverside and San Bernardino counties was a wake-up call: the unemployment rate increased in a single month by 0.8 percentage points to 8% and remained high, barely budging, in July.

The numbers are now above the state average, therefore we need to ask ourselves if our region should worry about the current economic recovery path it is on. The good news is the answer is "no worries" as long as you adjust statistics in a reasonable way.

Let's focus on the headline-making news: the unemployment rate. The Bureau of Labor Statistics releases the national labor market numbers for the previous month on the first Friday of the current month. The U.S. unemployment rate is now at 5.2%, down 0.2 percentage points from July, and 9.6 percentage points from the 14.8% it had reached in April 2020, during the depth of the coronavirus recession. The Congressional Budget Office considers 4.5% unemployment to be the rate observed at full employment. The national economy has recovered quite a bit, but we are still not that close to being completely healthy yet.

The change in the unemployment rate equals the difference between the labor force and employment growth rates. Your best outcome is a falling unemployment rate coinciding with a growing labor force, since that implies that employment growth has outpaced the changes in the labor force. A shrinking labor force ("discouraged workers") is not a healthy sign. The national and state picture would look worse if we ignored these workers since having fewer discouraged workers increases the unemployment rate. Hence we should adjust, at least in our mind, national and state unemployment rates upwards to take this into account.

Discouraged workers are those who stopped looking for a job, thinking they had no chance of finding one in the current economic climate. We want to stress from the beginning that the Inland Empire has had substantially fewer discouraged workers than the nation and the state when compared to February 2020. This gives the appearance of a regional unemployment rate being higher by as much as 2 percentage points when compared to the nation and the state. Adjusting the regional labor market for regularly occurring seasonal fluctuations further reduces the observed unemployment rate. Removing regularly occurring seasonal movements from both the regional labor force and employment lowers 1.3 percentage points. Leveling the playing field with the national and state numbers, we are really doing better than both state and U.S. numbers would initially indicate.

Let us elaborate a little more. Discouraged workers account for almost 2% of the pre-pandemic national labor force. Some may tell you that a large number of these individuals are not looking for a job because they have received relatively generous unemployment benefits and are better off not working than getting paid minimum wage. Others will point out that these dropouts include individuals who cannot look for work because their children were not in school. We tend to believe that the latter effect dominated during the coronavirus downturn and partial recovery since more women (1.7 million) have left the labor force than men (1.4 million). The difference does not seem to be large but note that there are fewer women in the labor force than men; the raw numbers translate into a 2.2% drop for women and a 1.6% decrease for men.

Without those discouraged workers, the U.S. unemployment rate would have stood at 7.1% instead of 5.2% in August 2021. For the nation, we are still 6.4 million people short from the previous peak employment, according to the household survey. Even with job growth numbers of 1 million each month, it will take us into early 2022 to recover remaining jobs lost. Add to that the fact that we need to find an additional 3.1 million jobs for those who dropped out of the labor force temporarily (we hope), and we will be well into summer 2022 before the real expansion will start at the national level. If employment growth is closer to the 500,000 observed for August in the household survey, then it will take twice as long (the establishment survey only showed an increase of 235,000).

The story is different in the Inland Empire. While typically our economy can be described as "First In, Last Out" in terms of jobs lost, which is a function of the large number of commuters, we seem to have done relatively well during the downturn and initial recovery. This is the result of the size of our logistics sector (transportation and warehousing plus wholesale trade) and the amount of goods shipments made during the pandemic. Logistics is doing well since imports from the Ports of Los Angeles and Long Beach have picked up again. Loaded inbound container traffic is up by 33% year-to-year and even 7% higher when compared to pre-coronavirus downturn numbers during the second quarter of 2019. The Inland Empire benefits from higher U.S. imports.

The bottom line: employment recovery is proceeding as we expected and forecasted previously. The hardest hit sectors continue to bear the brunt of the damage. At the same time, many of the other sectors of the economy are making their way forward and are contributing to the forward momentum of the national, state, and regional economy.

What other concerns are there? There is talk of finding a new Chairman of the Federal Reserve in February 2022 when Jerome Powell's first term ends. Depending on the candidate, the financial markets may react negatively, which would introduce more uncertainty into our forecast. As for now, we, and the betting markets, do not believe this will happen.

Manfred W. Keil is the Chief Economist, Inland Empire Economic Partnership (IEEP), Director, Lowe Institute of Political Economy, Claremont McKenna College (CMC). Lauren M. Kula is the Research and Forecast Manager, Lowe Institute of Political Economy, Robert Day School of Economics and Finance, CMC.

The Inland Empire Economic Partnership's mission is to help create a regional voice for business and quality of life in Riverside and San Bernardino counties. Its membership includes organizations in the private and public sector.

Newsroom Guidelines
News Tips
Contact Us
Report an Error

The Trust Project

Be the first to get the most important news.

Sign up for our Breaking News newsletter now.

Enter email to subscribe

SUBSCRIBE

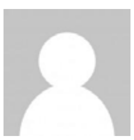
Want local news?

Sign up for *The Localist* and stay informed

Enter your email to subscribe

SUBSCRIBE

Tags: Coronavirus, coronavirus economy, Jobs, Top Stories IVDB, Top Stories RDF



Contributing Writer

SPONSORED CONTENT

Outside your way

By REI

Look around and take in the full view of how time is spent outside.

VIEW COMMENTS

Join the Conversation

We invite you to use our commenting platform to engage in insightful conversations about issues in our community. Although we do not pre-screen comments, we reserve the right at all times to remove any information or materials that are unlawful, threatening, abusive, libelous, defamatory, obscene, vulgar, pornographic, profane, indecent or otherwise objectionable to us, and to disclose any information necessary to satisfy the law, regulation, or government request. We might permanently block any user who abuses these conditions.

If you see comments that you find offensive, please use the “Flag as Inappropriate” feature by hovering over the right side of the post, and pulling down on the arrow that appears. Or, contact our editors by emailing moderator@scng.com.