The September 2022 Employment Report  
by  
Manfred W. Keil¹

OVERVIEW

The California Employment Development Department (EDD) released the employment statistics for California and the Inland Empire this morning. The report sends a mixed picture in terms of an economy that is potentially moving towards a recession. However, we want to state up front that there is no clear indication from this data release that the economic situation is worsening significantly and that we are marching towards a recession. Let us elaborate.

The raw (not seasonally adjusted) data for the Inland Empire (San Bernardino County, Riverside County) shows a historically very low unemployment rate of 3.9% for the Inland Empire. It currently stands in September 2022 (it was 6.4% a year ago). The two county unemployment rates are very similar, with San Bernardino County showing a slightly lower rate (3.8%) when compared to Riverside County (4.0%). Similarly remarkable is the large 0.4 percentage point drop from the previous month. The underlying raw numbers indicate an increase in both the labor force (+2,200) and employment (+10,100) according to the household survey (Current Population Survey - CPS), which is conducted by residency and hence includes the large number of commuters from the Inland Empire region into the coastal areas. Hence, the decrease in unemployment is a result of employment outgrowing the labor force, rather than a contraction in the labor force, which paints a healthy picture.

However, when considering the nature of employment in the Inland Empire, the picture we get from the raw data is not quite as rosy as it seems at first. The Inland Empire is sensitive to seasonal fluctuations and these have little to do with the strength of the underlying economy. Much of the Inland Empire (think of the Coachella Valley) benefits from the warm weather we receive in the fall relative to other areas in the U.S. Therefore, although the decrease in unemployment seems promising, we need to determine to what extent this was simply due to seasonal factors.

So here are the less encouraging figures using seasonally adjusted data:

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. Keil received valuable support from the following research analysts: Alina Hu, Dean Ah Now, Sasha Rothstein, Emelle Stottele, Zachary Torrey, and Edward Wu.
Seasonal adjustment turns the positive employment growth from the raw data into a decline in employment of 12,600 when using the household survey data (CPS). According to the establishment survey, employment only fell by 1,500 jobs (Current Employment Statistics - CES). While in general, there are a variety of reasons for the two surveys to show different results (self-employment, multiple jobs, etc.), for the Inland Empire, the biggest cause is the number of commuters. These are captured in the household survey but not in the establishment survey, which focuses on employment within the Inland Empire.

Let us explain the relevance with a specific example: consider someone who lives in Ontario (San Bernardino County) and works in Pasadena (Los Angeles County). If this person loses her job in Pasadena, the unemployment rate for Los Angeles County is unaffected, but the unemployment rate for San Bernardino will go up. While employment in both counties falls, unemployment only increases in the Inland Empire. Over 35% of the labor force in the Inland Empire commutes for work to the coastal areas in Los Angeles and Orange County, and to a lesser amount to San Diego County. The commuters normally exhibit the “first in and last out” behavior when it comes to recessions. Since they are, on average, lesser skilled than those who can afford to live in the coastal areas, they are often the first to get laid off when businesses in coastal areas are struggling. The fact that the household survey signals a larger number of people losing their job is a worrisome signal.

After seasonal adjustment, the unemployment rate is slightly higher than the raw data (3.9%): it stands at 4.1%. Here is the bad result: it showed a significant increase of 0.5 percent points from the 3.6% value seen last month. Of course this is still an improvement from the situation seen a year ago: the unemployment rate has fallen significantly since then compared to the 6.8% in September 2021. It also remains below the 4.4% unemployment rate from February 2020, the last month prior to the Coronavirus downturn.

**INLAND EMPIRE: Industry Specific Analysis**

As in previous months, we see the biggest increase in employment in the Logistics sector (+1,218). This increase was primarily fueled by an increase in employment in wholesale trade, which added 1,050 jobs in September. Employment in the government sector also was increasing: local government employment continued to grow while it fell for the state and federal government. At the same time, employment fell considerably in the sectors of Retail Trade and Leisure and Hospitality (down by 2,475 and 1,527 jobs respectively).

Here are the highlights from this month’s report (reported using seasonally adjusted data, which is not available from the EDD). Note the somewhat worrisome fact that Retail Trade, Leisure and Hospitality, Profession and Business Services, and even Construction showed seasonally adjusted declines in job numbers.
The Logistics sector experienced the largest job gain in September (+1,218). The Education sector also showed considerable job gains (+1,063) in September.

The Government sector as a whole saw a job decline. In September, the number of jobs at the state government declined by (-253) as did government jobs at the federal level (-59). However, the Local Government experienced considerable job growth (+313) which is significantly less than the numbers published by the EDD (+4,300) which simply means that local government traditionally hires a lot in September.

The sectors experiencing job declines for September were Retail Trade (-2,475), Leisure and Hospitality (-1,527), Construction (-687), and also Professional and Business Services, although the drop was quite small (-286).

**CALIFORNIA**

California’s seasonally adjusted unemployment rate decreased from 4.1% to 3.9%, closing the gap with the national average of 3.5%. This decrease in the unemployment rate seems to be in line with the gains in nonfarm payroll, which saw an additional 6,500 jobs last month. However, we will show below that this is not the case since the unemployment rate only fell due to more people leaving the labor force than the number of jobs lost, which is unhealthy. Nationally, although California ranks 37th in terms of state unemployment rates, it remains ahead of both Texas (4.0%) and New York (4.3%).

Over the long run, the fall in the unemployment rate represents an improvement in California’s economic conditions. The state’s current unemployment rate is 2.5% lower than its 6.4% unemployment rate in September 2021 and, more importantly is slightly lower than the February 2020 pre-pandemic unemployment rate of 4.1%.

Examining the data about the labor force results in a less optimistic interpretation of the state of the economy. According to the CES, California added 6,500 nonfarm payroll jobs in September. On the other hand, the CPS claims that total civilian employment fell by 20,100 jobs. There is no obvious reason for a discrepancy of this order. According to the CPS, the unemployment rate fell because the labor force contracted and many unemployed people exited the labor force, painting a less optimistic picture of California’s economic recovery.

Examining this data beyond the aggregates, the industry-specific (CES) analysis shows:

- The sectors that displayed significant job growth last month were Education and Health Services (+15,000), and Leisure and Hospitality (+8,700).
- The sectors that experienced significant month-over losses were Government (-16,100), Trade, Transportation, and Utilities (-2,300), and Financial Activities (-1,100).
• From a year-over-change perspective, the following sectors showed the biggest improvement: Professional and Business Services (+134,100 jobs), Leisure and Hospitality (+153,400 jobs), Trade, Transportation, and Utilities (+118,900 jobs).