

IEEP NEWS RELEASE  
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**The October 2022 Employment Report**  
by  
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**OVERVIEW**

The California Employment Development Department (EDD) released their employment data and report for California and the California counties this morning. This includes the latest numbers (October 2022) for Riverside County and San Bernardino County (the Inland Empire). The headline news is that the unemployment rate of the region remains at historical low levels of 3.9%, and it is unchanged from the previous month. There are two surveys regarding employment:

- A household survey based on residency (Current Population Survey or CPS), which determines the unemployment rate;
- an establishment survey (Current Employment Statistics or CES), which focuses on jobs in production within the region, and therefore ignores commuters.

Looking at the raw numbers for the CPS, there is an increase in both the labor force (+7,000) and employment (+6,000). According to the CES, employment numbers look even better: nonfarm employment increased by 27,600.

These numbers paint a picture that is too optimistic, since they are non-seasonally adjusted. Seasonal adjustment of the numbers (which is done for the nation and the state but not for our region) takes into account recurring fluctuations that are simply due to the weather (think of construction in Chicago in December, or, closer to home, vacationing in Palm Springs in July) or spending habits (Christmas shopping and decline of retail spending in January). The Inland Empire experiences regular highly seasonal fluctuations due to businesses that prosper in the winter due to the warmer weather compared to other regions in the U.S. So called “snowbirds” travel to the Coachella Valley, for example, to spend money there over the winter months.

Therefore, although the unadjusted unemployment rate figure appears promising, this is likely due to seasonal factors. Using standard statistical techniques to seasonally adjust the data, the unemployment rate in October increased to 4.5%. This is a 0.4% increase from the previous

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month. Moreover, and again, using the seasonally adjusted data here, there is a decrease in both the labor force of close to 7,000 and employment of over 16,000 (if employment declines by more than the labor force, then the unemployment rate increases).

While it is tempting to write this off as some statistical trickery with the data, the overall picture is less promising when taking in consideration some of the national data. Consumer confidence, as measured by the University of Michigan survey, is near its all-time low, inflation is still at a 40 year high, and, most importantly, the current yield curve is inverted. The latter is important because since the 1960s, it has never been inverted without a subsequent national recession. Our forecasting equation puts the probability that we are in the last year of an economic expansion at roughly 25%. You can add to it that former Secretary of the Treasury Larry Summers stated that there has never been a situation for the WWII period where an inflation rate above 4% and an unemployment rate below 5% did not result in a recession. Given the current high inflation rate and low unemployment rate, the probability of a looming recession becomes even more evident, and employment in the Inland Empire will likely suffer as a result. The Inland Empire is known for its “First In, Last Out” economic behavior, and it is therefore important to look at our area for the first signs of an incoming storm. If you wish, “lakes freeze from the periphery.”

The economic situation looks even worse when comparing the Current Establishment Survey (CES) and Current Population Survey (CPS). After seasonal adjustment, employment fell by over 8,600 jobs according to the Current Establishment Survey (CES). Recall that according to the CPS, it fell by roughly 16,100. There are a variety of reasons why the two surveys (CPS and CES) may send different signals (self-employment, multiple jobs, etc.), but for the Inland Empire, the biggest cause is the large number of commuters. These are captured in the household survey but not in the establishment survey, which focuses on employment within the Inland Empire.

Consider someone who lives in Upland (San Bernardino County) and works in Claremont (Los Angeles County). If this person loses her job in Claremont, CPS employment for Los Angeles County is unaffected, but the CPS employment for San Bernardino will go down. 35% of the labor force in the Inland Empire commutes for work, mostly into the Greater Los Angeles area (Los Angeles County and Orange County). The “First In, Last Out” phenomenon arises because the commuters do not possess the same amount of human capital as those who can afford to work and live in the coastal areas. Hence the commuters are typically the first to get laid off when businesses in coastal areas are struggling. This is the second month of consecutive drops in CPS employment, suggesting a significant layoff of commuters. We see this as evidence that businesses in the Greater Los Angeles area are becoming more uncertain about the future state of the economy and therefore are cutting down on employees. At this point, several indicators have pointed towards this year being the last year of expansion, and a looming recession lies ahead.

## **CALIFORNIA**

Despite the prominence of layoffs in Silicon Valley, California crossed a major threshold by exceeding the number of total nonfarm positions held in February 2020, the last month of the previous economic expansion, and the month before the COVID-19 recession set in. This was thanks to a 56,700-job increase in nonfarm positions (the data is seasonally adjusted).

The Golden State did see a slight uptick in its unemployment rate, to 4.0% from 3.8% from the previous month. Said headlines aside: this increase was largely fueled by positions lost in retail trade; tech positions actually saw a small increase last month. The 0.2% increase is in line with the national unemployment rate, which saw the same percentage point increase to 3.7% from 3.5%. California also remains ahead of New York (4.4%) and it is on par with Texas (4.0%) for unemployment rate.

Continuing the trend from last month, California once again saw a decline in labor force participation, with 5,100 civilians dropping out of the labor force. Although labor force participation is elevated compared to last year, this is a potential trend to focus on in future labor market developments. That being said, compared to the 63,000 people who exited the labor force in September 2022, this decline is relatively small.

The sector-specific analysis is as follows:

- Sectors experiencing month-over-month growth, were Education and Health Services (+16,800), and Professional and Business Services (+16,400).
- The most significant losses were seen in the Government (-8,700), and in Construction (-100) sectors.
- Looking at the annual change, Leisure and Hospitality, not surprisingly, saw a significant increase, adding 146,600 positions from October 2021 to October 2022. Education and Health Services saw similar gains of 141,700 jobs during the same time frame.

## **INLAND EMPIRE**

Despite the increase in the seasonally adjusted unemployment rate, the rate clearly has fallen significantly compared to the 6.8% seen a year ago in October 2021. However, for the first time in 7 months, the current unemployment rate has increased above the 4.4% unemployment rate level seen in the pre-recession month of February 2020. The total nonfarm jobs decreased by over 8,600, almost six times greater than the decrease in the previous month, according to the CES. In addition, according to the CPS, civilian employment decreased by over 16,100, a somewhat larger decrease than seen in the previous month. These are worrisome figures, since commuters, once laid off, will spend less locally, thereby resulting in layoffs at businesses within the Inland Empire.

We see the biggest increases in employment in the Construction sector (almost +1,300). While employment in the government sector had been increasing in previous months, this trend stalled in both September and October, with local and state governments both experiencing decreases. At the same time, employment fell considerably in the Leisure and Hospitality sector, (roughly by 4,000), which is almost twice as large a drop as during in the previous month.

Here are the highlights from this month's report (the numbers reported here are seasonally adjusted data, which is not available from the EDD):

- The Construction sector experienced the largest job gain in October (+1,291). This was the only sector which seeing significant gains in October.
- The Government sector experienced considerable job declines in October. The Local Government again saw job declines (-2,168) and the State Government also saw losses (-139). Employment for the Federal Government actually increased slightly (+144).
- The sectors that saw the most significant declines for October were: Leisure and Hospitality (-4,007), Professional and Business Services (-1,119), Retail Trade (-1,011), and Education and Health Services (-929).