

IEEP NEWS RELEASE

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The January 2025 Employment Report by Manfred Keil¹

OVERVIEW

The California Employment Development Department (EDD) today released the January 2025 labor market data for California and its 58 counties, including Riverside County and San Bernardino County. This follows the annual data revisions that are always conducted at this time of the year. The major revisions result in a delay of the employment data for January, the data for February 2025 will be published later this month.

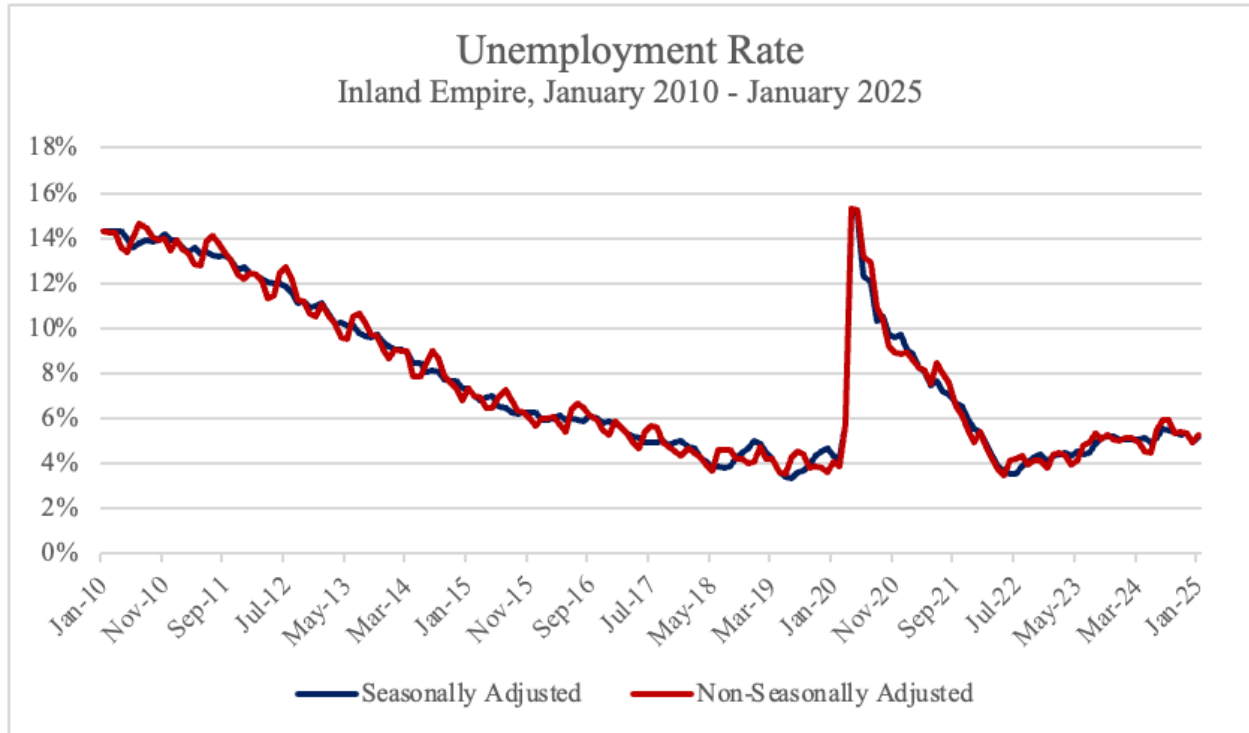
The headline news is that the **state, but especially the Inland Empire**, are sitting in a very **vulnerable situation**: almost all employment gains are driven by two sectors, Health and Public Education. Even Logistics is losing jobs when we look at data from a year ago. If you take away these two drivers, perhaps due to federal cuts in health expenditures and demographics of students resulting in fewer teachers, then you are looking at employment losses for California and the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), or, in other words, a recession.

To give the reader an idea of the magnitude of the revisions: December 2024 nonfarm employment in California fell from 19,129,499 to 18,032,400, or by almost 100,000 workers. This represents a drop of 0.5 percent in employment, which is significant (think of the situation where the labor force remained constant and employment fell by half a percentage points: this would result in an increase of the unemployment rate by half a percentage point). Fortunately for the state, this was not the scenario: the state unemployment rate actually decreased by 0.1 percentage points to 5.4%, still close to the top among the 50 states in the nation.

We leave it for others to comment on labor market developments and primarily report on movements within the Inland Empire here. The Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA) is the second largest in California when measured by population, and only

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lags the Greater Los Angeles area in terms of residents. We will also briefly summarize state-wide developments.



The Inland Empire unemployment rate, using seasonally adjusted data, increased from 5.1 percent (December 2024) to 5.3 percent (January 2025). While this jump is smaller than with the non-seasonally adjusted data, it is still substantial. It is also 0.1 percentage points higher than a year ago, showing that economic conditions are not improving, to put it positively.

The state unemployment rate declined (seasonally adjusted) by 0.1 percentage points, from 5.5 percent to 5.4 percent. California experienced a slightly higher employment growth than an increase in its labor force; this is a healthy combination. The unemployment rate remains 1.3 percentage points above the U.S. average and still is one of the highest among U.S. states. The good news is that the California unemployment rate declined slightly while the national unemployment rate increased (by 0.1 percentage points).

INLAND EMPIRE

We will report either seasonally adjusted data here (for changes from a month ago) or look at annual changes from January 2024 to January 2025 which are (mostly) not affected by seasonal fluctuations. For the raw data, you will have to consult the EDD website (<https://labormarketinfo.edd.ca.gov/data/employment-by-industry.html>). The non-seasonally

adjusted data, for example, show a decline of 39,700 and a relatively large increase in the unemployment rate from 4.9 percent to 5.3 percent. But such increases in the unemployment rate are not unusual since January unemployment includes people who have lost seasonally related employment related to the Christmas holidays and, to a lesser extent in California, weather conditions.

The picture we get for the **year-to-year changes in employment looks bleak**, especially if we think about the (near) future implications for the region. The increase in the Inland Empire unemployment rate by 0.2 percentage points (from 5.1 percent to 5.3 percent) is actually not bad news, since it was driven by the growth in the labor force outpacing employment growth. The interpretation is that more people in the Inland Empire joined the labor force, but that not all of them were able to find a job. Employment growth, according to the household survey (Current Population Survey or CPS) was 1.1 percent.

The growth in Inland Empire employment by the CPS survey is higher than what we observe from the establishment survey (Current Employment Statistics or CES). Here jobs only grew by a meagre 2,500 compared to a year ago (0.1 percent growth). Differences in the employment numbers between the two sectors are driven for a variety of reasons, but the CES includes commuters from the Inland Empire into the coastal areas, while the CES only looks at employment numbers within our region.

Here is the reason why you should be concerned: the **employment growth is driven by two sectors (Health, and Public Education)**. **All other sectors** (Mining and Logging, Construction, Manufacturing, Logistics, Information, Finance, Leisure and Hospitality, Other Services, Professional and Business Services) **lost jobs**. The magnitudes are stunning: Health (and Private Education) and Public Education (Government) gained 28,200 jobs, while the other sectors combined lost 25,700.

To stress this fact: the **Inland Empire is completely relying on two sectors (which do not include Logistics) for generating new jobs at the moment**. These two sectors will be negatively affected in the coming year by public cuts in health expenditures, and public education being negatively affected by demographics of the student body (in addition to cuts from the Trump administration). The economic forecast for the **Inland Empire** calls for a **contraction over the next year** even without taking into account the effect of tariffs.

Here are some of the sectoral highlights from this month's report:

- The largest industry-level month-to-month gains were in **Private Education and Health Services** (+1,100) and **Government** (+990), primarily in **Local Government** (+730). These seasonally adjusted estimates are much higher than the raw data suggests.

- The most significant declines were in **Logistics** (-3,300), **Leisure and Hospitality** (-1,600), and **Construction** (-856). Logistics shrank despite being a significant driver of growth since 2020 (+49,000).
- Private Education and Health Services has been a significant engine of growth during the last year (+18,000, 6.2%) and five years (+58,000, 22.5%). Local government has also been an important leader for the region; it gained (+10,500) jobs in the last year, making up for state (-400) and federal (-100) losses.

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At state level, Payroll Jobs (CES, employment by place of work) stayed exactly the same at 18,032,400, while Total Employment (CPS, employment by residency) went up by 17,600 from December 2024. A possible interpretation of this data could be that businesses are hiring more workers who reside in California, but remote workers who have been prompted to return to office are getting laid off. Moreover, the Labor Force went up by 11,300, which is a smaller increase than Total Employment, which led to a slight drop in the Unemployment Rate, from 5.5% to 5.4%.

- The “biggest winners” this month were: **Private Education and Health Services** (+18,500), **Other Services** (+1,900), **Manufacturing** (+1,600), and **Government** (+1,600).
- The biggest winner by far for year-over-year changes was also **Private Education and Health Services** (+148,200). **Government** (+58,300) was the only other major industry that experienced an uptick.
- The “biggest losers” this month were **Trade, Transportation, and Utilities** (-14,200), **Information** (-3,900), and **Financial Activities** (-2,800).
- By annual data, the biggest loser was **Professional and Business Services** (-49,400). **Manufacturing** was the second biggest (-33,400).

OUTLOOK

We consider today’s data release showing **warning signals for the near future** that is for the rest of 2025 and 2026. The state and regional labor market signal vulnerability: only two sectors show expansion in employment: Health and Public Education. Take these two engines away, and you are faced with a recession, at least in this part of the country.

Logistics (Transportation, Warehousing, Whole Sale), which is typically a drivers in the Inland Empire economy (third largest employer, largest in San Bernardino County) is shedding jobs. This sector will not benefit from President Trump’s tariff policies and hence will not offset the envisaged job losses elsewhere. While we do not comment on the national economy here, let us simply point out that there are other economic sensors (yield curve, housing starts, consumer sentiment) that also suggest an upcoming recession for the U.S. While the inflation rate has come down slightly recently, it is still not close enough to 2 percent to forecast Federal Reserve interest rate cuts in the near future, which would presumably stimulate the housing market.

The positive outlook for both the state and the region would be that if some of the sectors that currently show a decline can turn matters around, then a recession could be avoided. There is some hope for manufacturing and information (movie industry) in California and Southern California, but these positive adjustments certainly have not arrived yet. If the turnaround does not happen, then the 58 month expansion is likely to end, at least for our state and region.