

Economic Update

LMIID Advisory Group Meeting

October 4, 2018

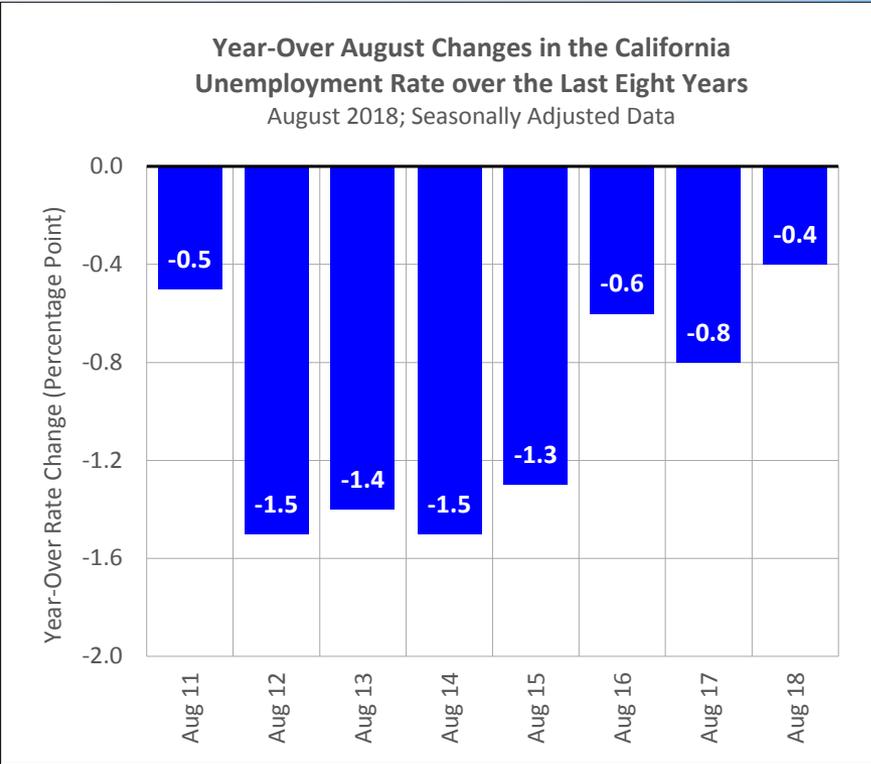
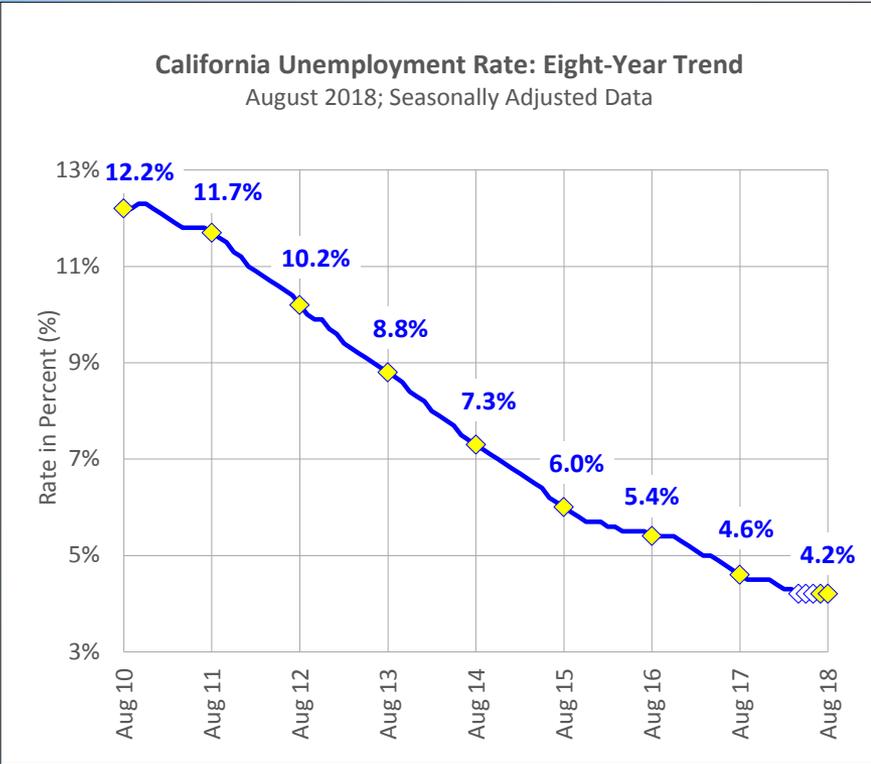
Paul Wessen

Employment Development Department

Labor Market Information Division

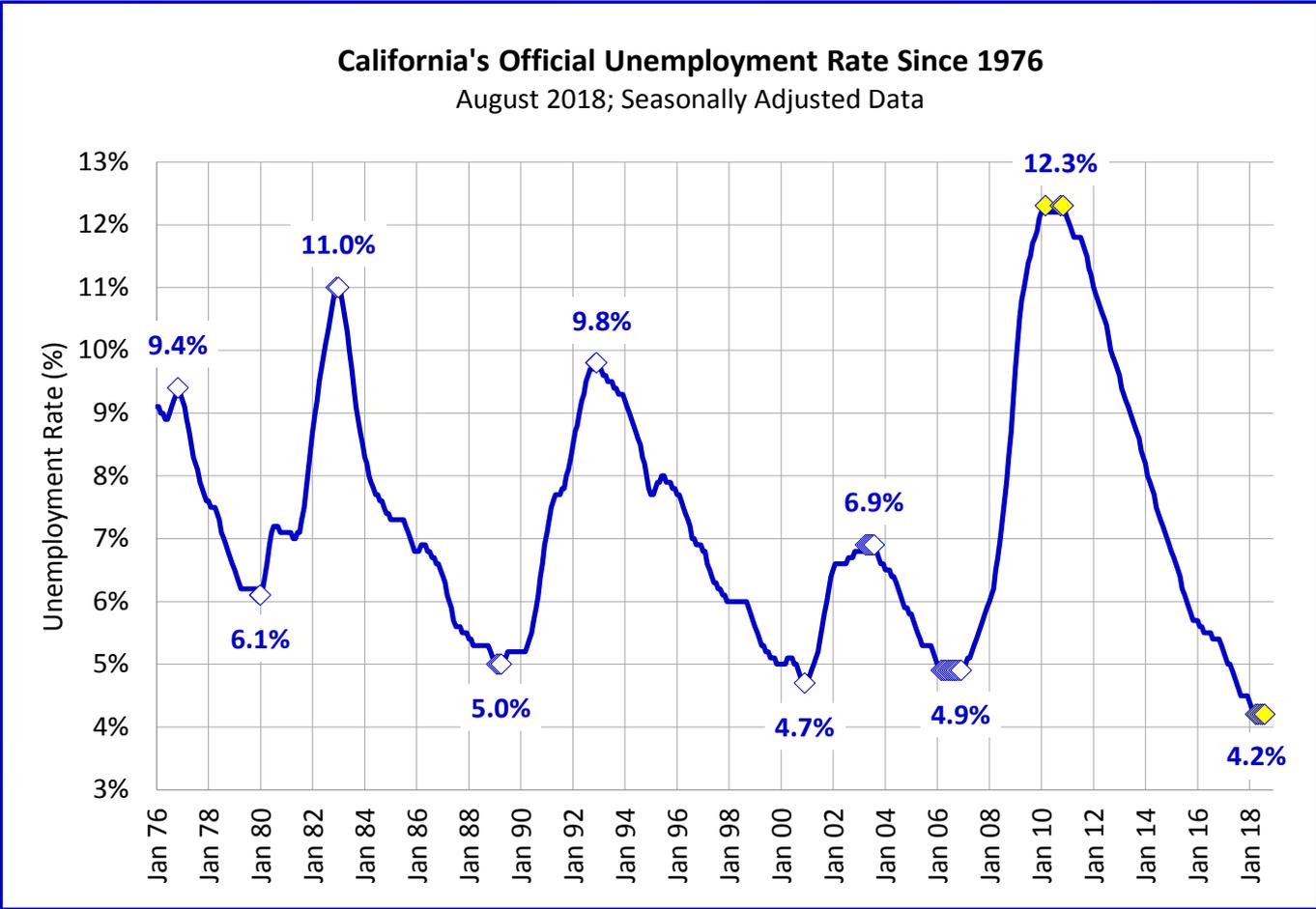
California Unemployment Rate

- California's seasonally adjusted unemployment rate held steady at 4.2 percent for the fifth consecutive month in August 2018. The rate at which California's unemployment rate appears to be tapering off. The year-over, 0.4 percentage point decrease in August 2018 was the smallest year-over rate decrease the state has had in August over the last eight years.

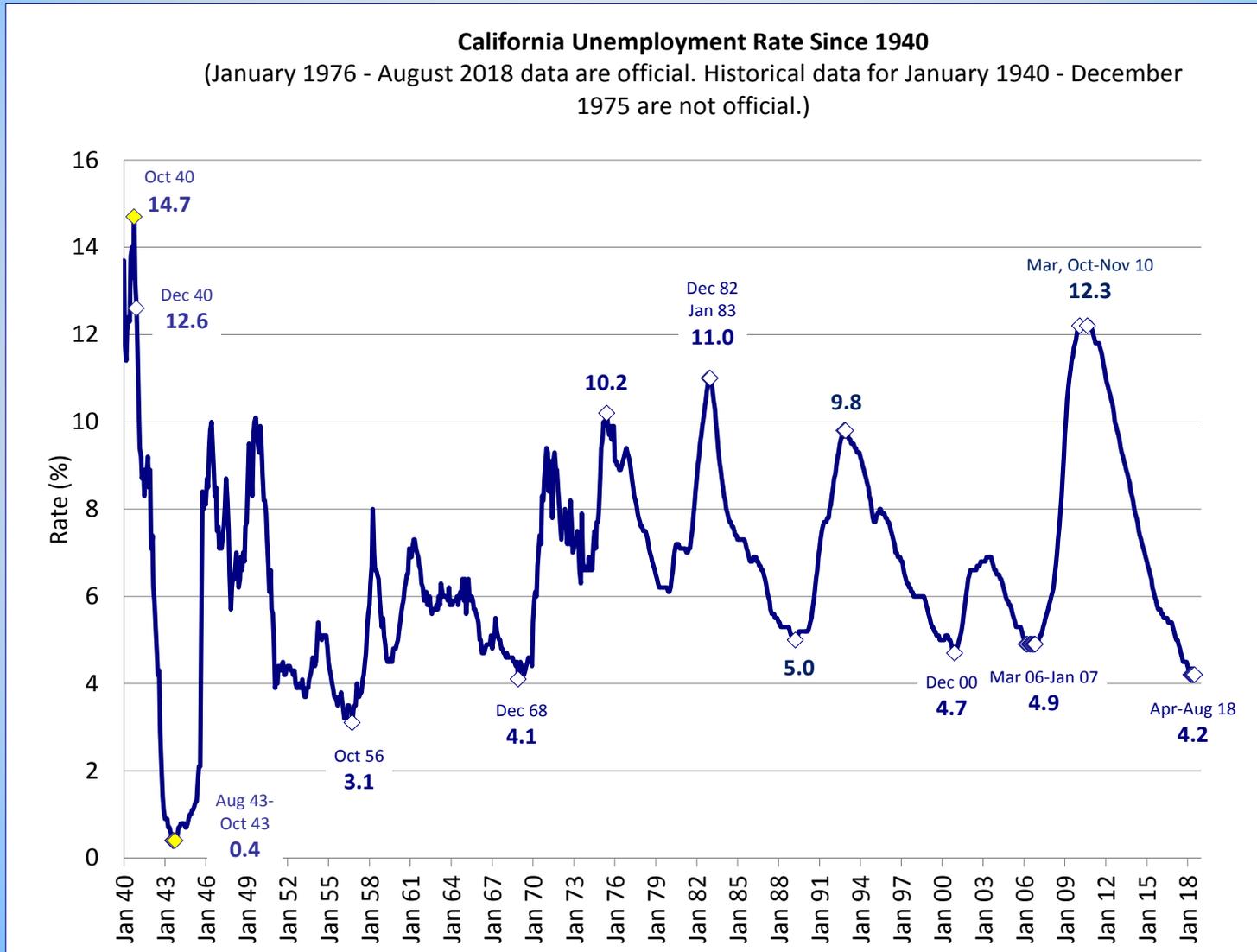


California's Unemployment Rate is at a Record Low

- The 4.2 percent unemployment rate of the last five months (through August 2018) is a record low for California in an official data series extending back to the beginning of 1976.



Unofficial historical data from before 1976 indicate that California's current unemployment rate is the lowest it has been since May 1969.



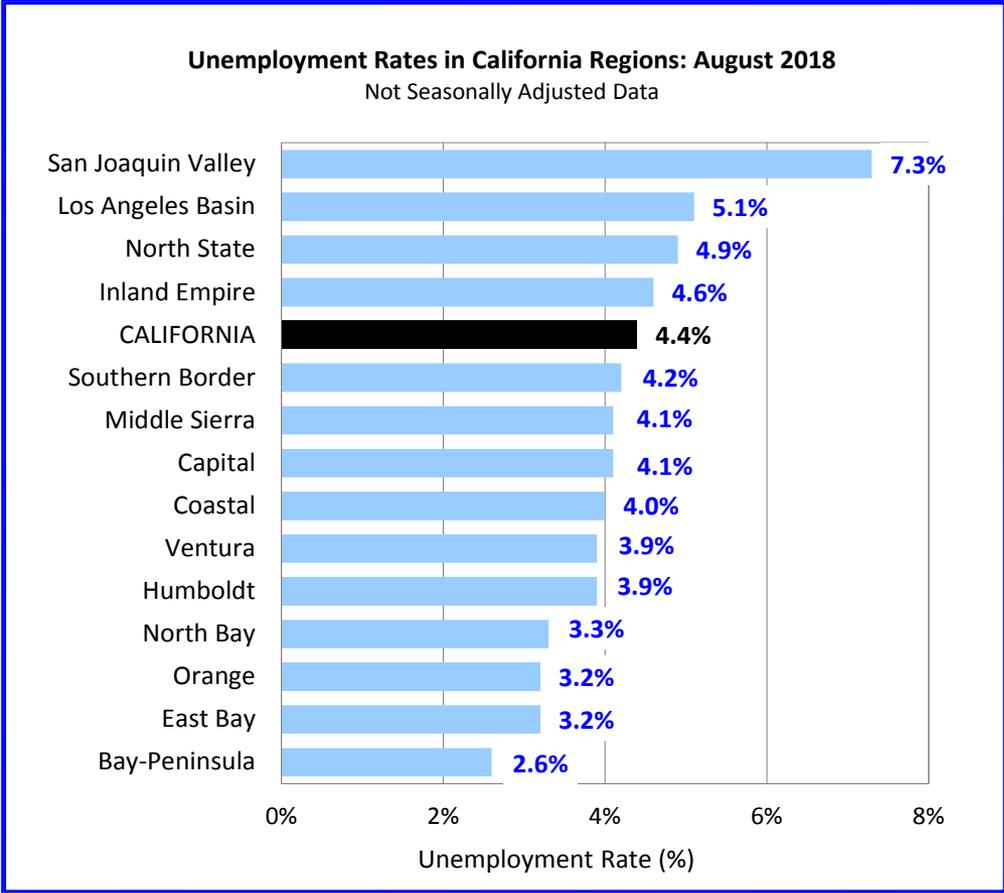
Unemployment Rates in California Counties, August 2018 (Not Seasonally Adjusted)

- Six Bay Area counties had unemployment rates below three percent in August 2018. A total of 26 California counties had unemployment rates below four percent.

August Unemployment Rates in California Counties					
August 2018 - Preliminary; Not Seasonally Adjusted Data					
<u>COUNTY</u>	<u>RATE</u>	<u>COUNTY</u>	<u>RATE</u>	<u>COUNTY</u>	<u>RATE</u>
CALIFORNIA	4.3%				
SAN MATEO	2.3%	CALAVERAS	3.8%	ALPINE	5.3%
MARIN	2.4%	SACRAMENTO	3.9%	DEL NORTE	5.3%
SAN FRANCISCO	2.4%	SANTA CRUZ	3.9%	PLUMAS	5.3%
SANTA CLARA	2.6%	SOLANO	3.9%	SISKIYOU	5.5%
SONOMA	2.7%	VENTURA	3.9%	TEHAMA	5.5%
NAPA	2.8%	YOLO	3.9%	SAN JOAQUIN	5.6%
				SUTTER	5.8%
SAN LUIS OBISPO	3.0%	SAN BERNARDINO	4.2%	MODOC	5.9%
ALAMEDA	3.1%	TRINITY	4.2%	STANISLAUS	5.9%
ORANGE	3.1%	TUOLUMNE	4.2%		
CONTRA COSTA	3.2%	MONTEREY	4.3%	YUBA	6.0%
PLACER	3.2%	LASSEN	4.4%	GLENN	6.2%
NEVADA	3.4%	SAN BENITO	4.5%	MADERA	6.2%
SAN DIEGO	3.4%	BUTTE	4.7%	FRESNO	6.6%
EL DORADO	3.5%	LAKE	4.7%	KINGS	6.7%
INYO	3.5%	RIVERSIDE	4.7%		
MONO	3.5%	SHASTA	4.7%	MERCED	7.0%
HUMBOLDT	3.6%	MARIPOSA	4.9%	KERN	7.3%
MENDOCINO	3.6%			COLUSA	8.2%
SANTA BARBARA	3.6%	LOS ANGELES	5.1%	TULARE	8.7%
AMADOR	3.8%	SIERRA	5.1%	IMPERIAL	20.3%

Unemployment Rates in California Regions, August 2018 (Not Seasonally Adjusted)

- Regional unemployment rates ranged from a low 2.6 percent in Bay-Peninsula to a high of 7.3 percent in San Joaquin Valley in August 2018.



Unemployment Rates in California Regions, August 2018 (continued.)

In August 2018, 11 of California's 14 regions had their lowest August unemployment rates on record in a series dating back to the beginning of 1990. The exceptions were:

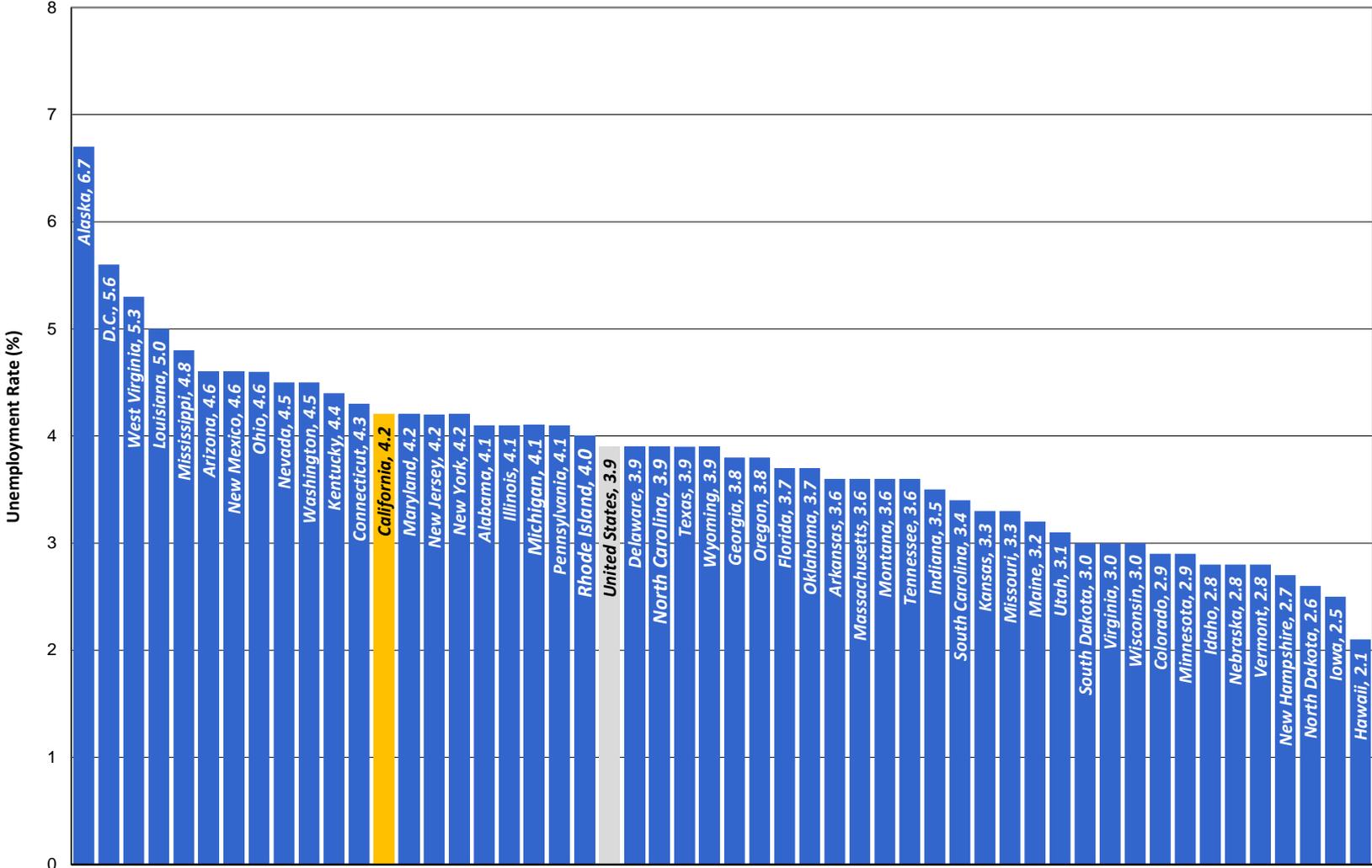
- Southern Border, whose 4.2 percent rate tied August 1999 as the lowest August rate on record.
- Orange County, whose 3.1 percent rate was its lowest August unemployment rate since August 1999.
- Los Angeles Basin, whose 5.1 percent rate tied August 2017 as its lowest August unemployment rate August 2006.

The unemployment rate in the Southern California area as a whole, which includes the Inland Empire, Orange County, Los Angeles Basin, and Ventura regions, was 4.5 percent in August 2018. This was the area's lowest August unemployment rate on record.

The unemployment rate in the Bay Area as a whole, which includes the Bay-Peninsula, East Bay, and North Bay regions, was 2.8 percent in August 2018.

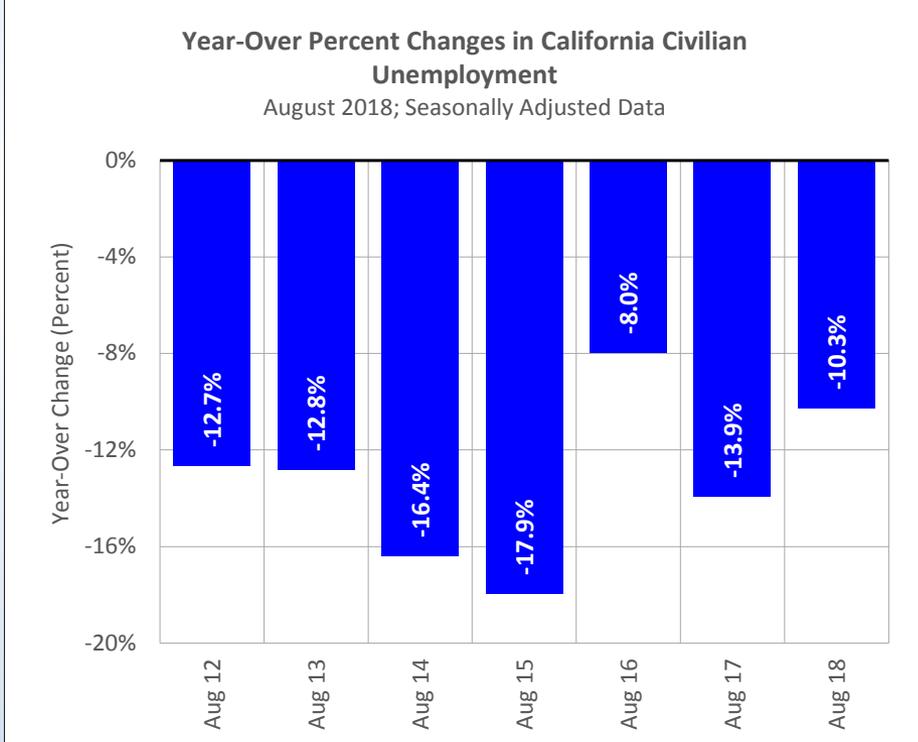
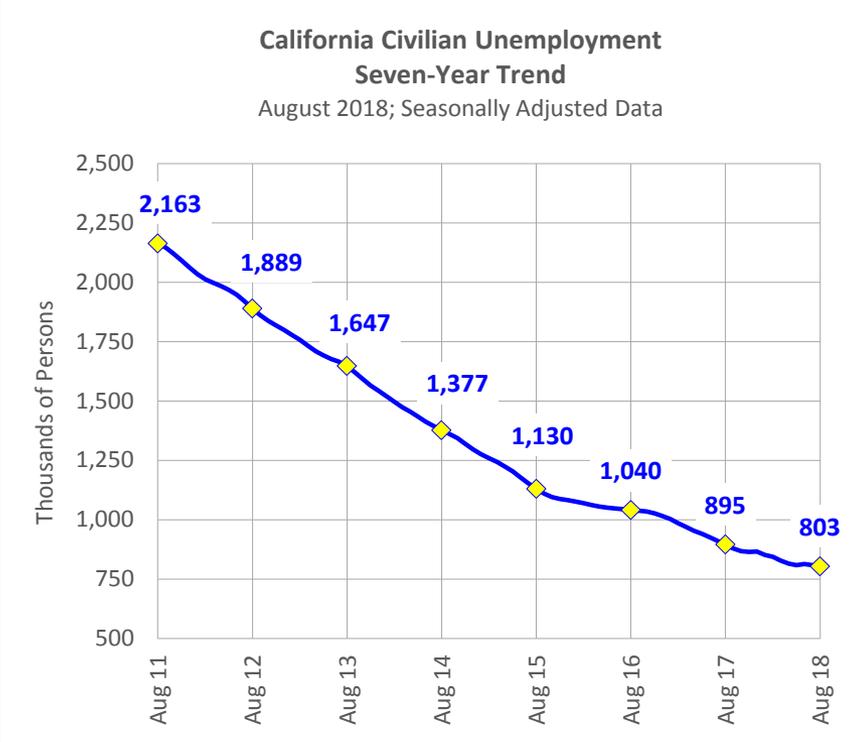
California's August 2018 unemployment rate ranked 13th highest among states.

State Unemployment Rates, August 2018
(Seasonally Adjusted Data)



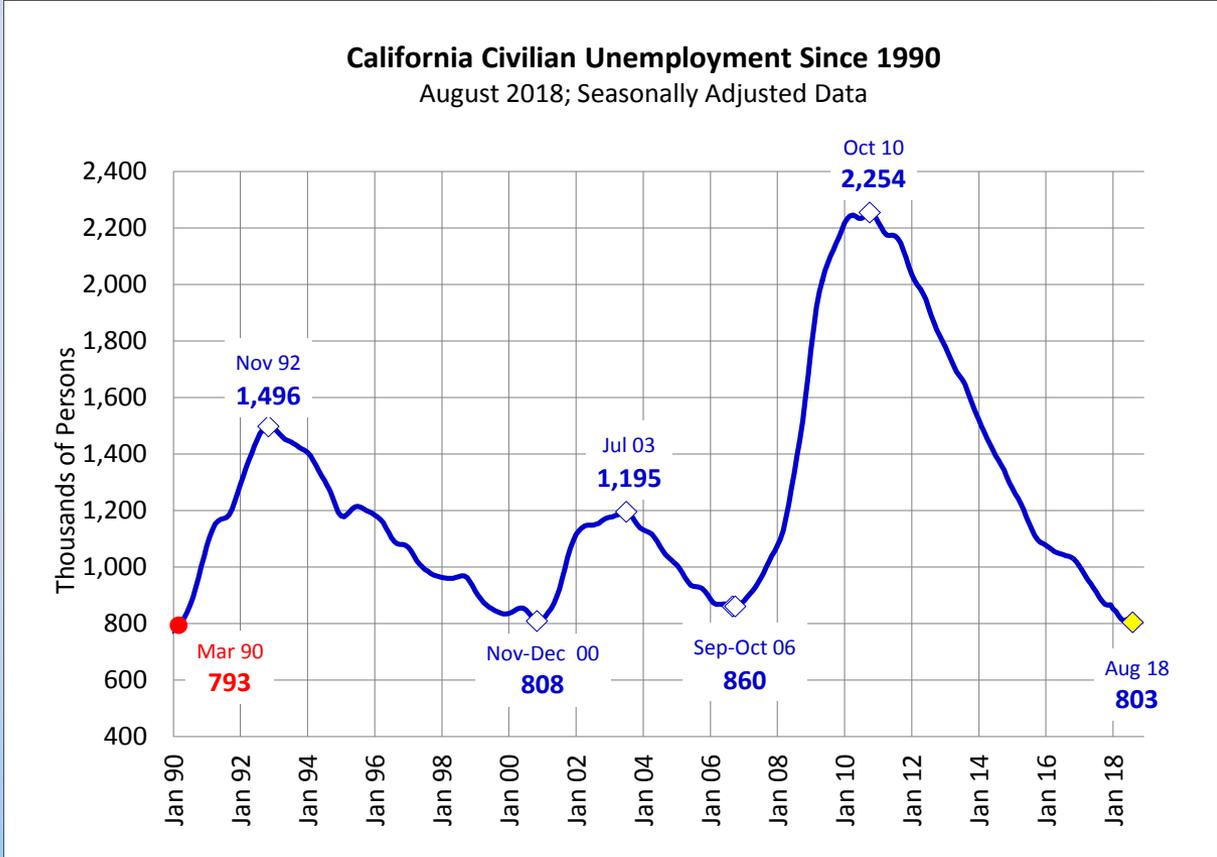
California Civilian Unemployment

- The number of unemployed Californians fell by 5,000 persons to 803,000 in August 2018. The number of unemployed Californians continues to fall at a decent clip. Year-over, California civilian unemployment decreased by 92,000 persons (10.3 percent) in August.



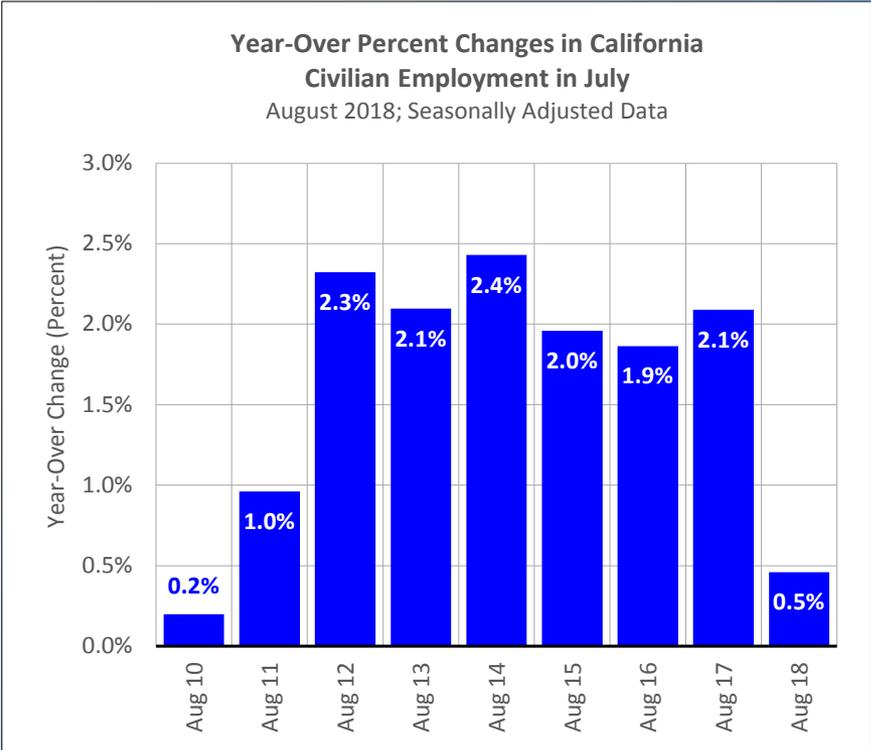
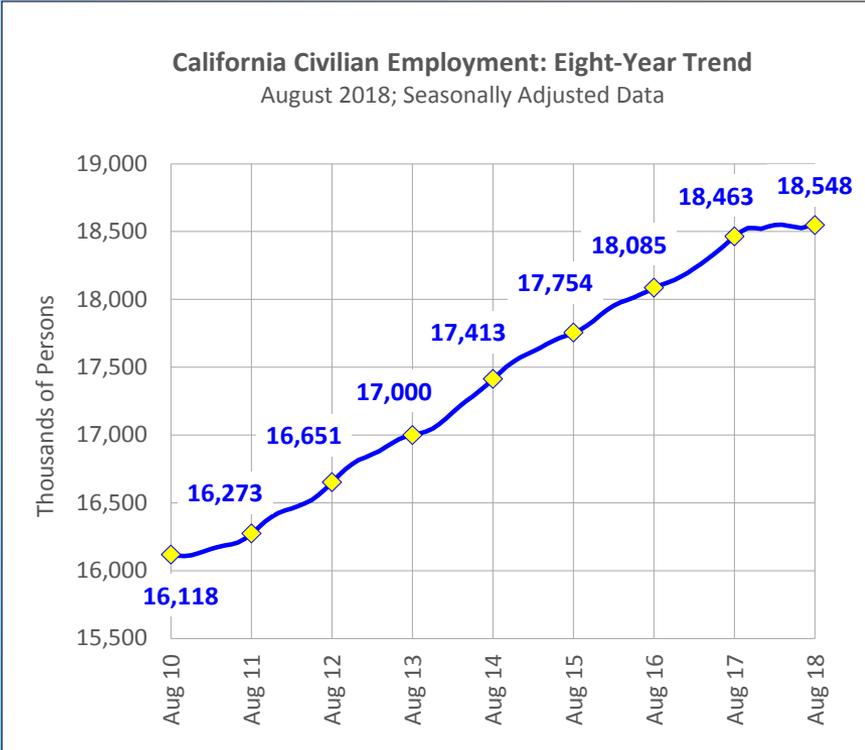
California Civilian Unemployment

- The number of unemployed Californians fell by 1,451,000 persons from October 2010 through August 2018. There were 57,000 fewer unemployed Californians in August 2018 than there were in September and October 2006, which was the pre-recession low. In fact, fewer Californians were unemployed in August 2018 than in any month since March 1990.



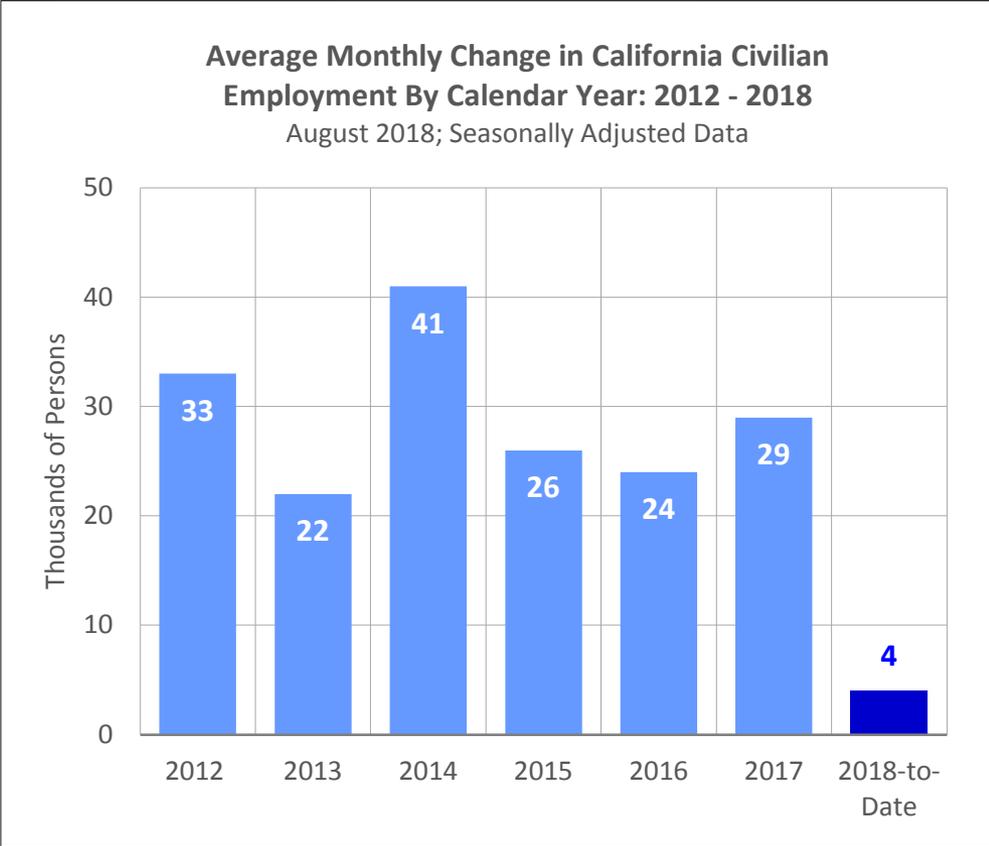
California Civilian Employment

- The number of employed Californians has flattened out noticeably in recent months. Although the number of employed Californians increased by 85,000 persons (0.5 percent) over the year in August, just 22,000 persons of this increase occurred over the ten-month period from October 2017 through August 2018. The year-over civilian employment gain in August 2018 was the weakest of any August since 2010.



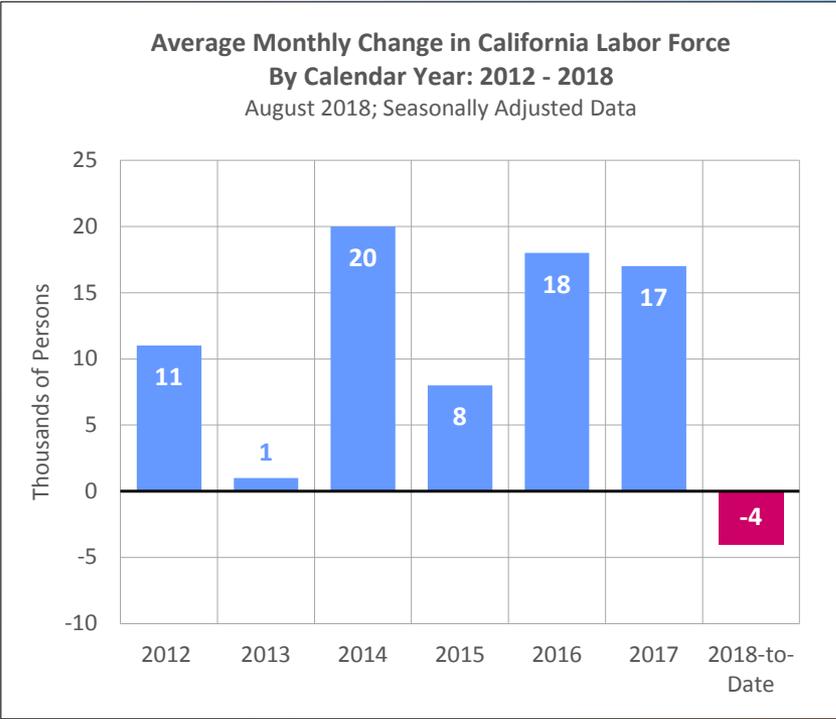
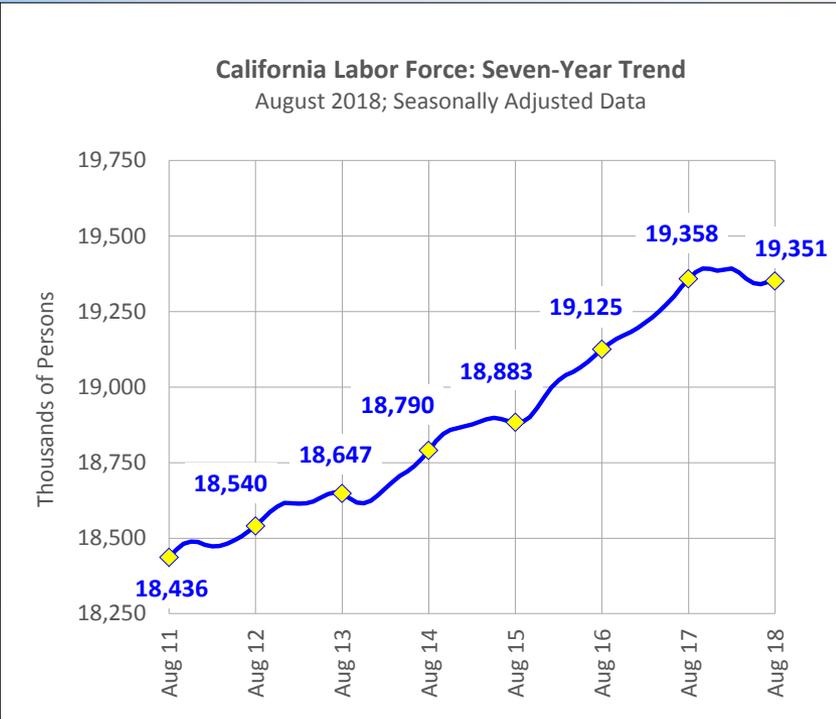
California Civilian Employment

- Year-to-date in 2018, the number of employed Californians has grown by just 28,000 persons, or by an average of under 4,000 persons a month. This is a fraction of the average employment gains that the state sustained in earlier years of the expansion.



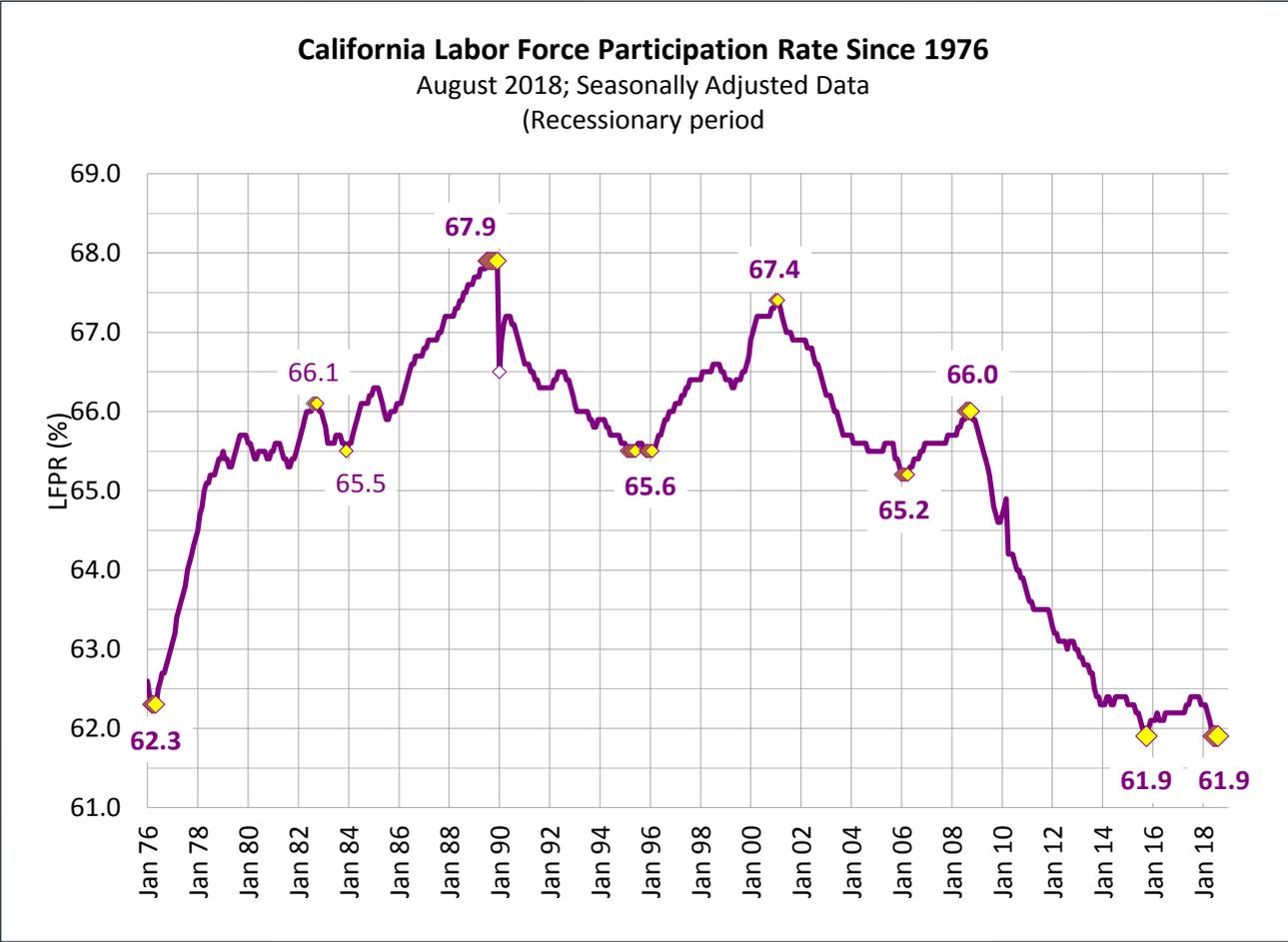
California Labor Force

- California's labor force has also flattened over the last year. In fact, labor force shrank by 7,000 persons over the 12-months ending in August 2018. This was the state's first year-over labor force loss since February 2010. Year-to-date in 2018, California's labor force has shrunk by 35,000 persons, for an average loss of 4,000 persons per month.



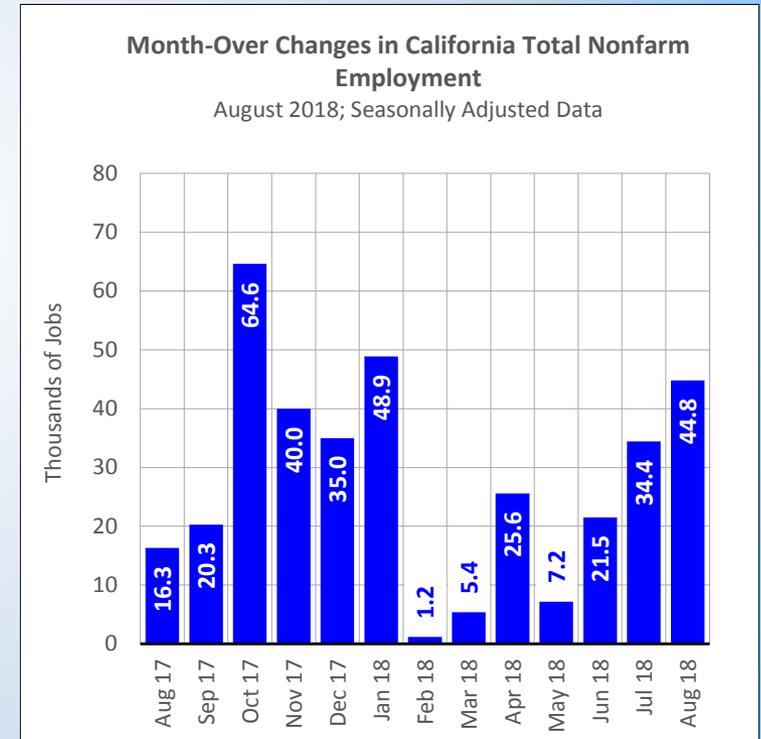
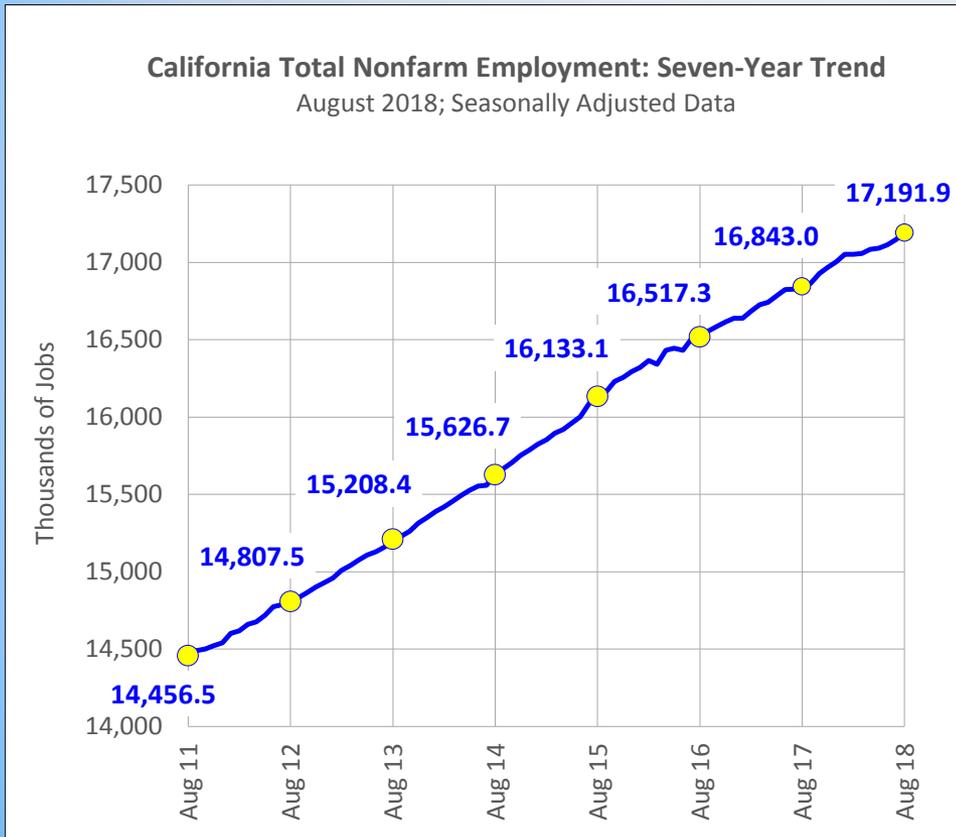
California Labor Force Participation Rate

- California's labor force participation rate held steady at 61.9 percent for the third consecutive month in August 2018. The tied a record low in a series dating back to the beginning of 1976.



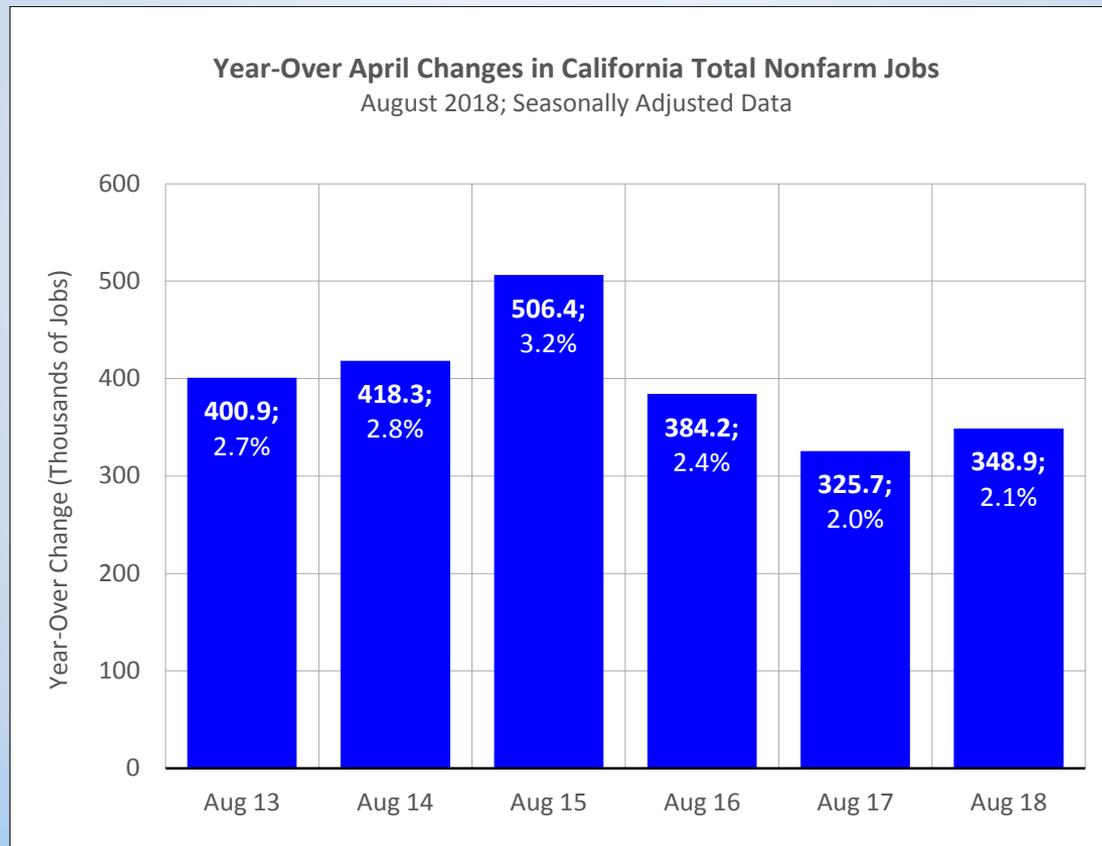
California Total Nonfarm Employment (Jobs)

- From a jobs perspective, California's employment expansion continues to motor along and shows little sign of stopping anytime soon. A 44,800-job gain in August 2018, boosted California's total nonfarm job gain over the last three months to 100,700 jobs.



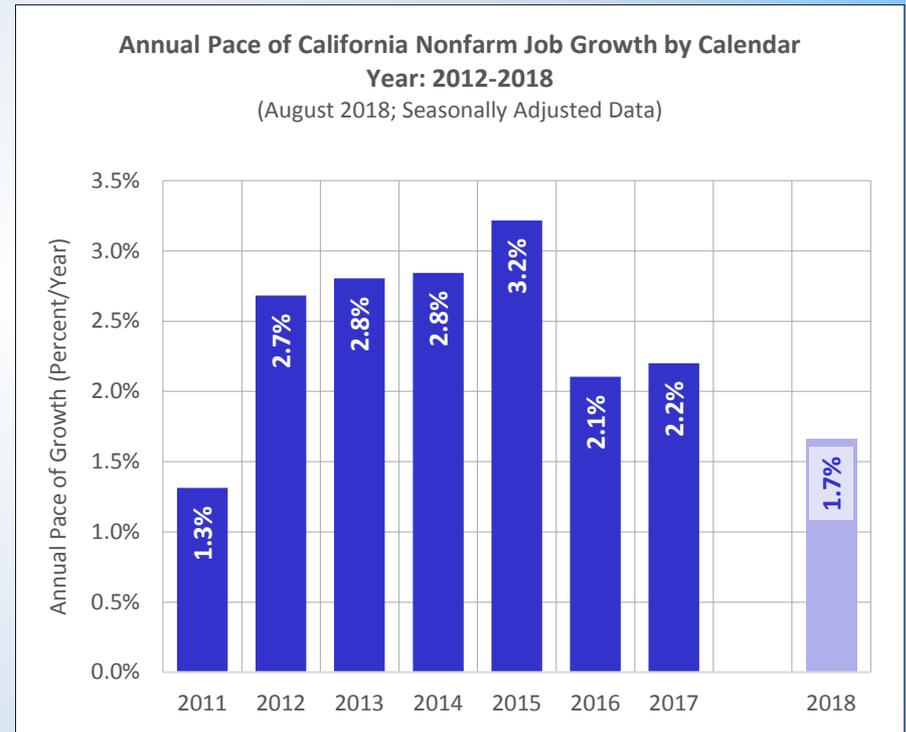
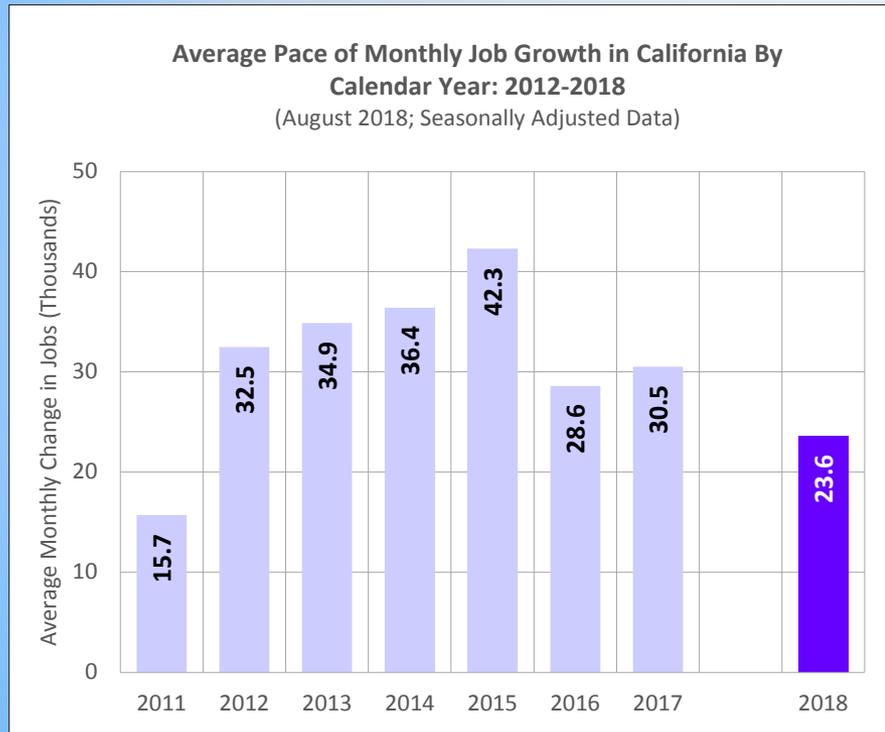
California Total Nonfarm Employment

- Year-over, California gained 348,900 nonfarm jobs (2.1 percent) in August 2018. This was the state's strongest year-over job gain since earlier this year in February. California has now sustained year-over job gains of over 300,000 jobs for 75 of the last 76 months.



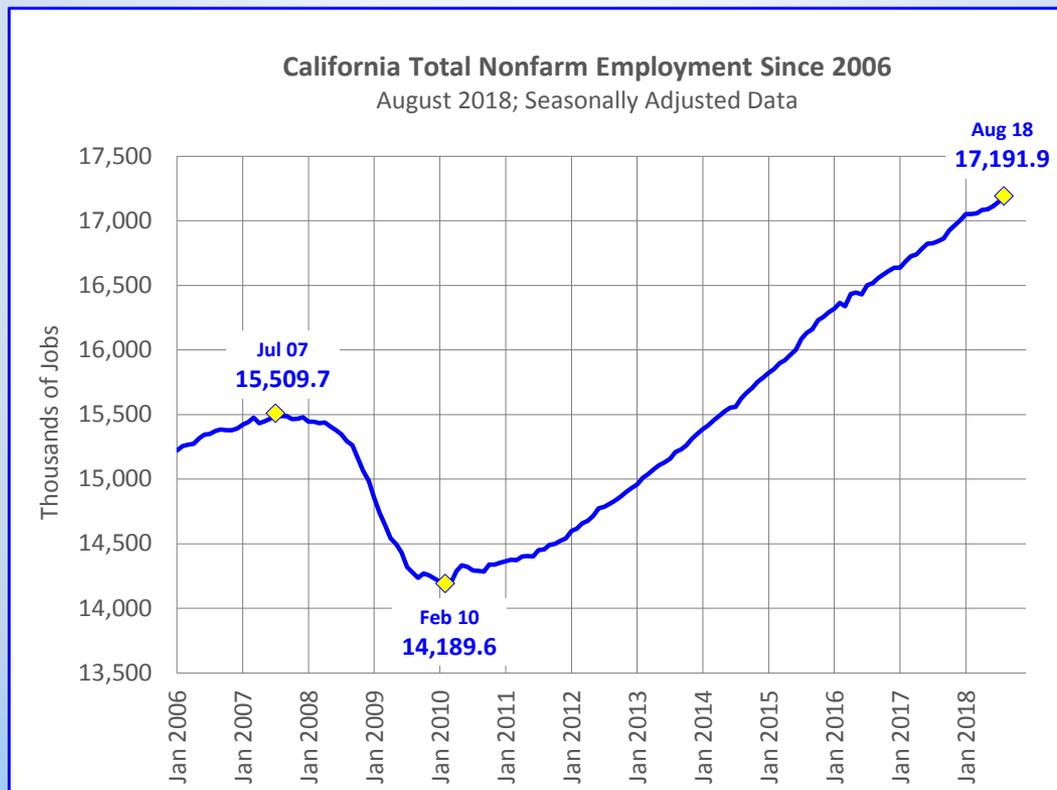
2018-to-Date (Through August)

- The pace of nonfarm job growth in California in 2018-to-date is somewhat below that of prior years of the expansion. A similar slowdown in job growth was apparent in the data at this same time last year in 2017 but California closed the year with strong job growth.



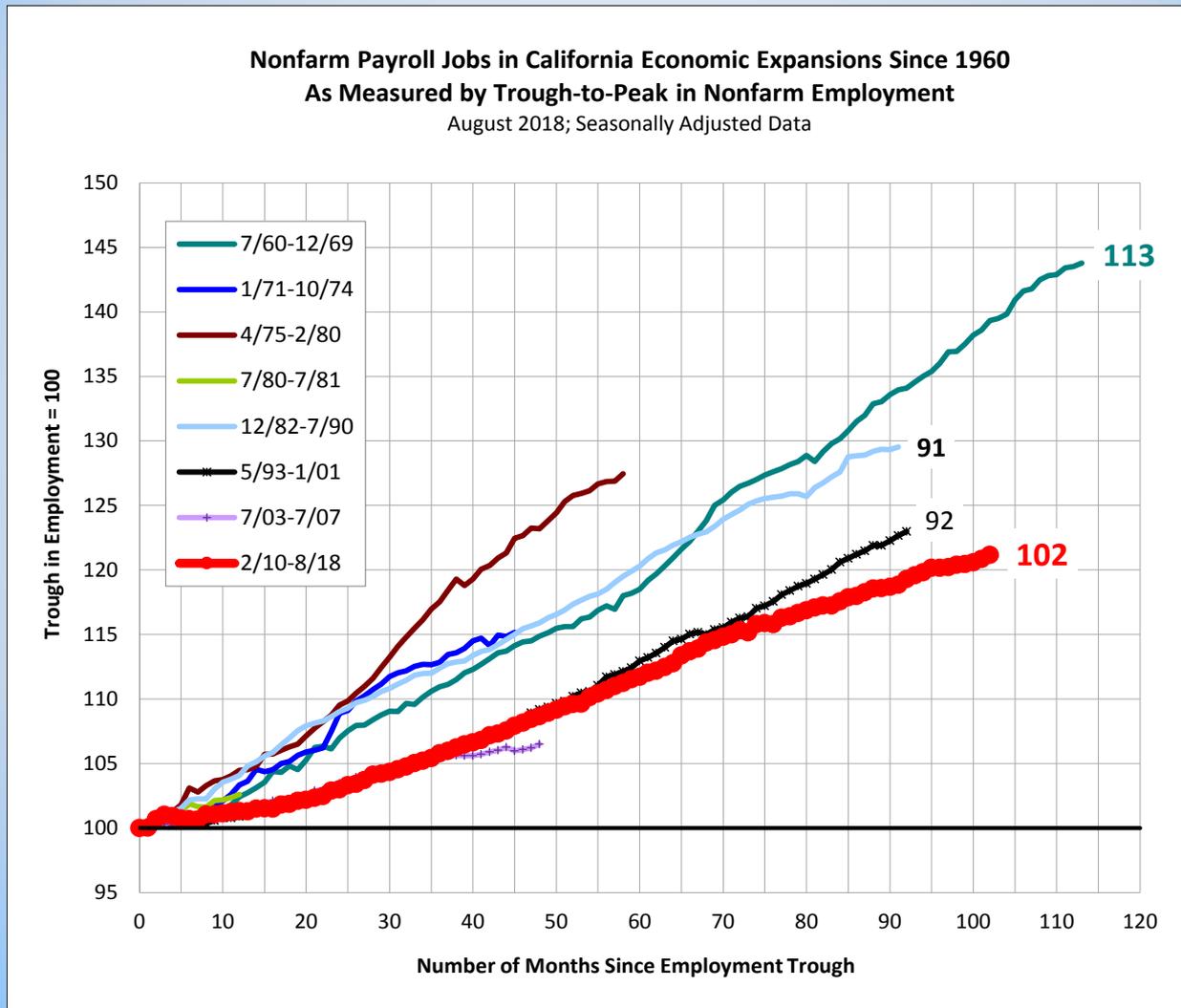
The biggest story of the California economy continues to be the length and strength of the ongoing employment expansion.

- California added 3,002,300 nonfarm jobs from the recessionary low in February 2010 through August 2018, an increase of 21.2 percent.
- California added an average of 29,400 jobs per month over the February 2010 through August 2018 period. It has gained an average of 33,600 jobs per month over the last three months (June-August 2018).
- In August 2018, California total nonfarm employment was 1,682,200 jobs, or 10.8 percent, higher than the pre-recession peak in July 2007.



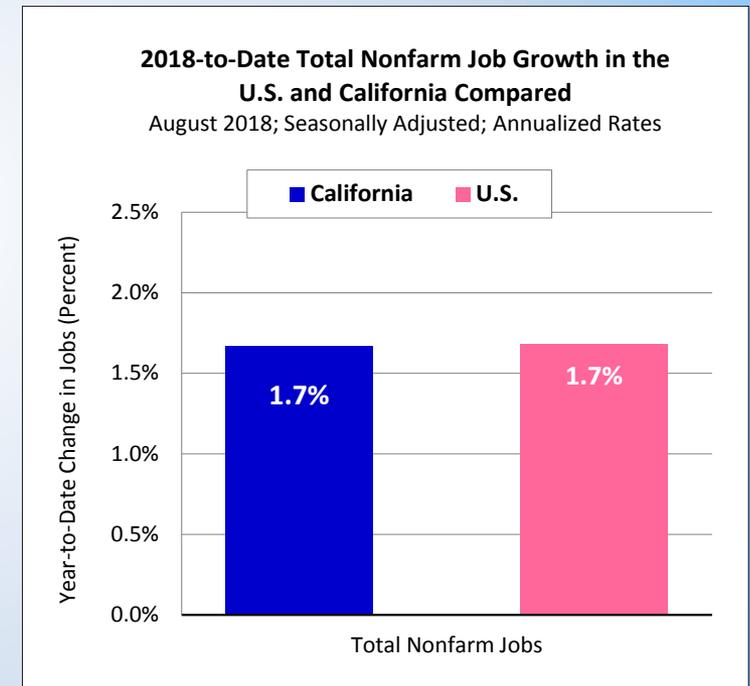
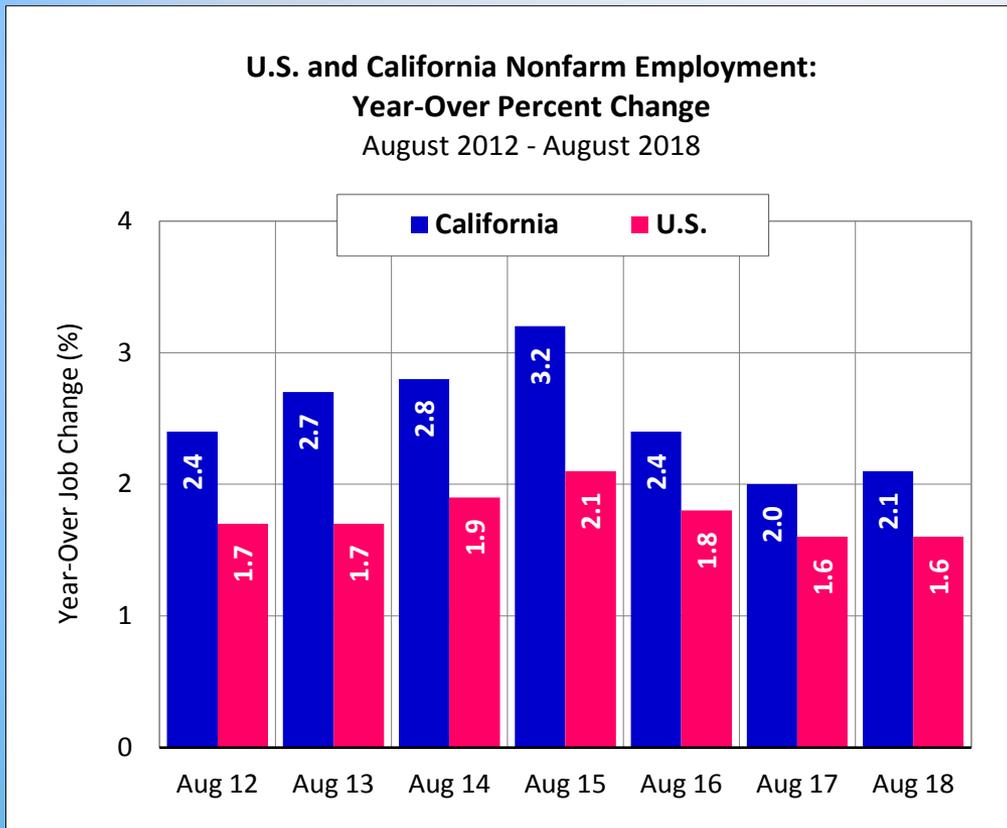
California's Employment Expansions Since 1960

- California's employment expansion turned 102 months old in August 2018, making this the state's second longest expansion in the post-World War II era.



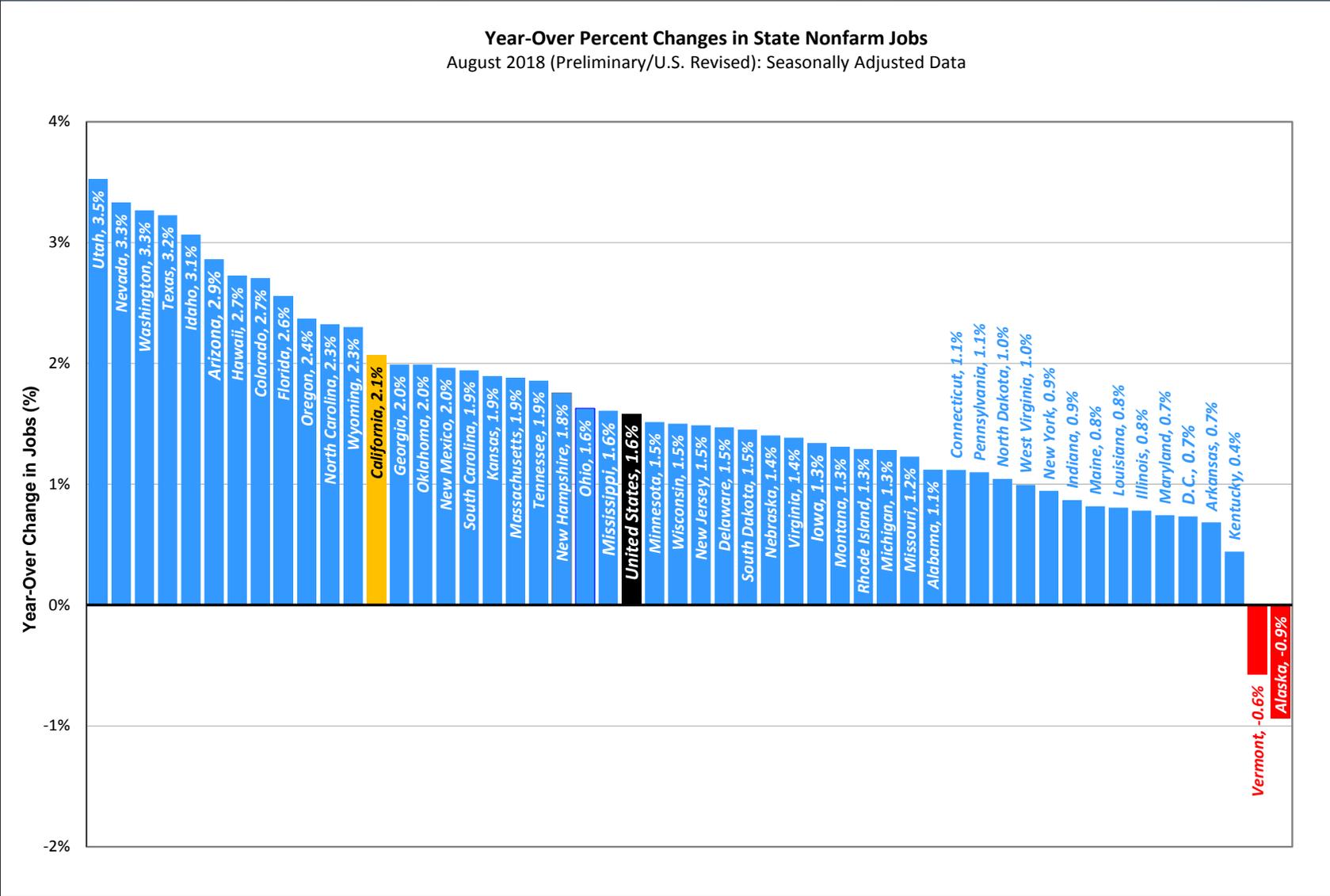
California and the Nation Compared

- California, the nation's most populous state, has been a key driver of the nation's employment expansion. The pace of nonfarm job growth in California has consistently outpaced the nation's over the course of the employment expansion. That said, California and the nation have had an identical pace of job growth in 2018-to-date.



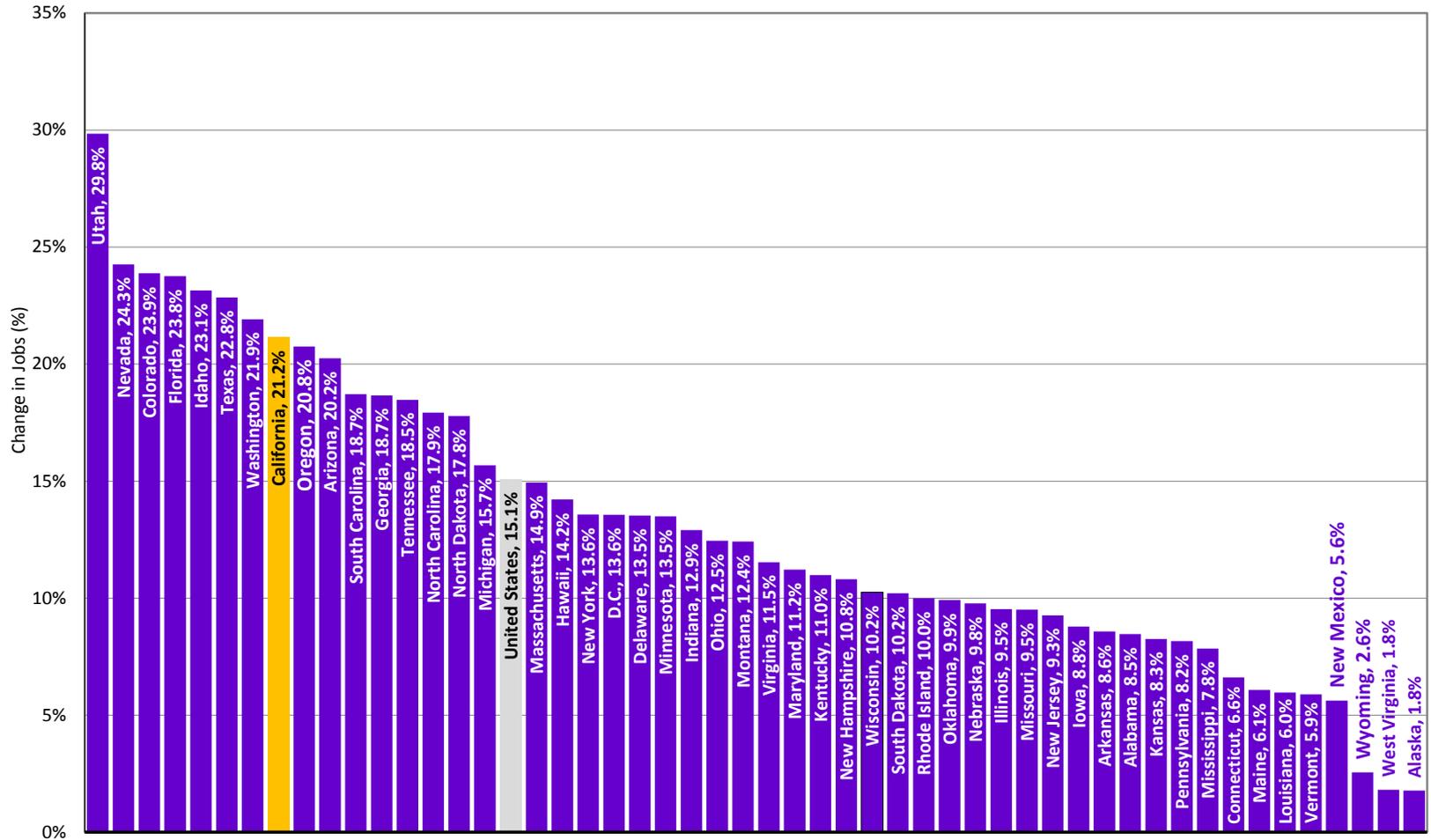
Year-Over Percent Change in Nonfarm Jobs in U.S. States, August 2018

- Only Texas (394,500 jobs) had a larger year-over job gain than California (348,900) in August 2018. California's 2.1 percent year-over job gain in August ranked 13th among states.



California's 3 million-job gain from February 2010 through August 2018 was the largest among states. Texas was a distant second with a 2.3 million job gain. California's 21.2 percent job gain over this same period ranked 8th highest among states.

Percent Changes in State Nonfarm Jobs Since February 2010
August 2018; Seasonally Adjusted Data



California Area Jobs

Year-Over, Aug. 18

Year-Over Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metropolitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs)

August 2018; Seasonally Adjusted Data

<u>Change in Number of Jobs</u>		<u>Change in Percent</u>	
CALIFORNIA	348,900	CALIFORNIA	2.1%
<u>Largest Areas (>950,000 jobs)</u>		<u>Largest Areas (>950,000 jobs)</u>	
Los Angeles-Long Beach-Glendale MD	64,400	<i>San Jose-Sunnyvale-Santa Clara MSA</i>	<i>3.8%</i>
Riverside-San Bernardino-Ontario MSA	51,100	<i>Riverside-San Bernardino-Ontario MSA</i>	<i>3.5%</i>
San Jose-Sunnyvale-Santa Clara MSA	42,000	<i>San Francisco-Redwood City-S. San Francisco MD</i>	<i>2.1%</i>
San Diego-Carlsbad MSA	23,900	Oakland-Hayward-Berkeley MD	1.8%
San Francisco-Redwood City-S. San Francisco MD	23,200	Sacramento--Roseville--Arden-Arcade MSA	1.7%
Oakland-Hayward-Berkeley MD	21,300	San Diego-Carlsbad MSA	1.6%
Sacramento--Roseville--Arden-Arcade MSA	16,300	Los Angeles-Long Beach-Glendale MD	1.4%
Anaheim-Santa Ana-Irvine MD	13,100	Anaheim-Santa Ana-Irvine MD	0.8%
<u>Middle-Sized Areas (100,000 to 400,000 jobs)</u>		<u>Middle-Sized Areas (100,000 to 400,000 jobs)</u>	
Fresno MSA	10,600	<i>Salinas MSA</i>	<i>3.8%</i>
Stockton-Lodi MSA	7,100	<i>Fresno MSA</i>	<i>3.1%</i>
Bakersfield MSA	6,700	<i>Stockton-Lodi MSA</i>	<i>3.0%</i>
Santa Rosa MSA	5,500	<i>San Rafael MD</i>	<i>2.8%</i>
Salinas MSA	5,300	<i>Santa Rosa MSA</i>	<i>2.7%</i>
Oxnard-Thousand Oaks-Ventura MSA	4,700	<i>Bakersfield MSA</i>	<i>2.6%</i>
Modesto MSA	3,600	<i>Visalia-Porterville MSA</i>	<i>2.5%</i>
San Rafael MD	3,200	<i>Santa Cruz-Watsonville MSA</i>	<i>2.3%</i>
Visalia-Porterville MSA	3,100	<i>San Luis Obispo-Paso Robles-Arroyo Grande MSA</i>	<i>2.2%</i>
San Luis Obispo-Paso Robles-Arroyo Grande MSA	2,600	<i>Modesto MSA</i>	<i>2.1%</i>
Santa Cruz-Watsonville MSA	2,400	Oxnard-Thousand Oaks-Ventura MSA	1.5%
Santa Maria-Santa Barbara MSA	1,600	Santa Maria-Santa Barbara MSA	0.9%
Vallejo-Fairfield MSA	1,000	Vallejo-Fairfield MSA	0.7%
<u>Smaller Areas (<100,000 jobs)</u>		<u>Smaller Areas (<100,000 jobs)</u>	
Merced MSA	3,100	<i>Merced MSA</i>	<i>4.6%</i>
Redding MSA	2,500	<i>Redding MSA</i>	<i>3.8%</i>
Chico MSA	2,400	<i>Madera MSA</i>	<i>3.7%</i>
Madera MSA	1,400	<i>Chico MSA</i>	<i>2.9%</i>
El Centro MSA	1,100	<i>El Centro MSA</i>	<i>2.1%</i>
Hanford-Corcoran MSA	300	Hanford-Corcoran MSA	0.8%
Napa MSA	100	Yuba City MSA	0.2%
Yuba City MSA	100	Napa MSA	0.1%

California Area Jobs

Feb. 10-Aug. 18

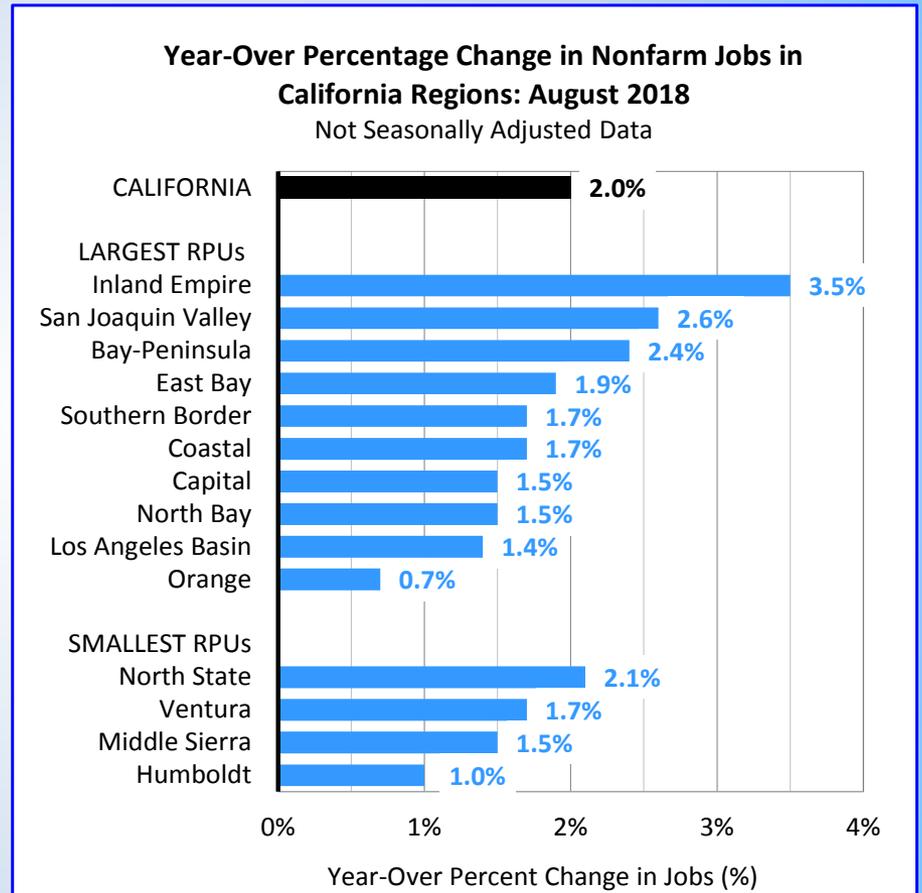
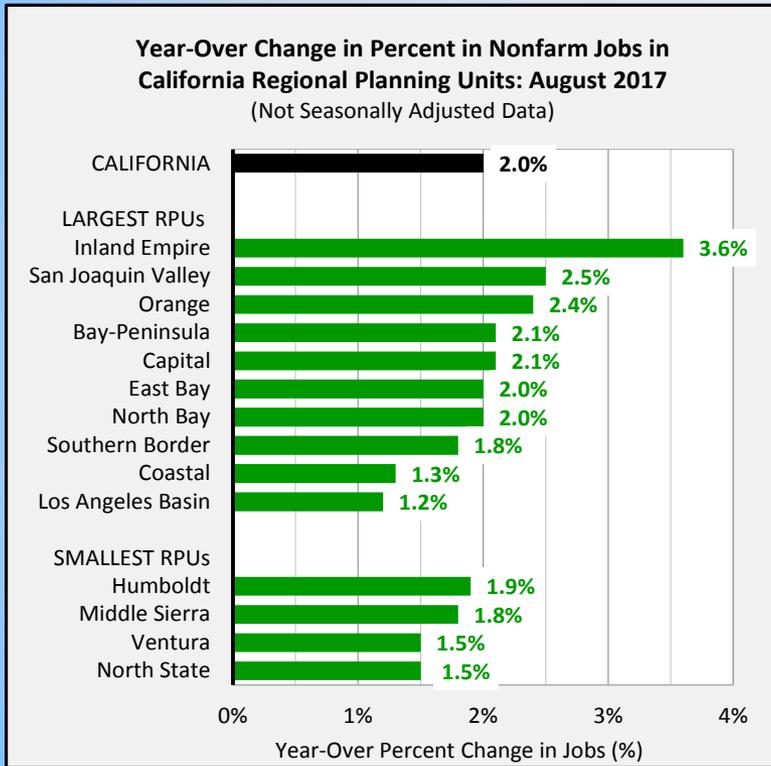
Jobs Expansion

Changes in Total Nonfarm Jobs in California's Seasonally Adjusted Metropolitan Divisions (MDs) and Metropolitan Statistical Areas (MSAs) Over the Course of the Employment Expansion

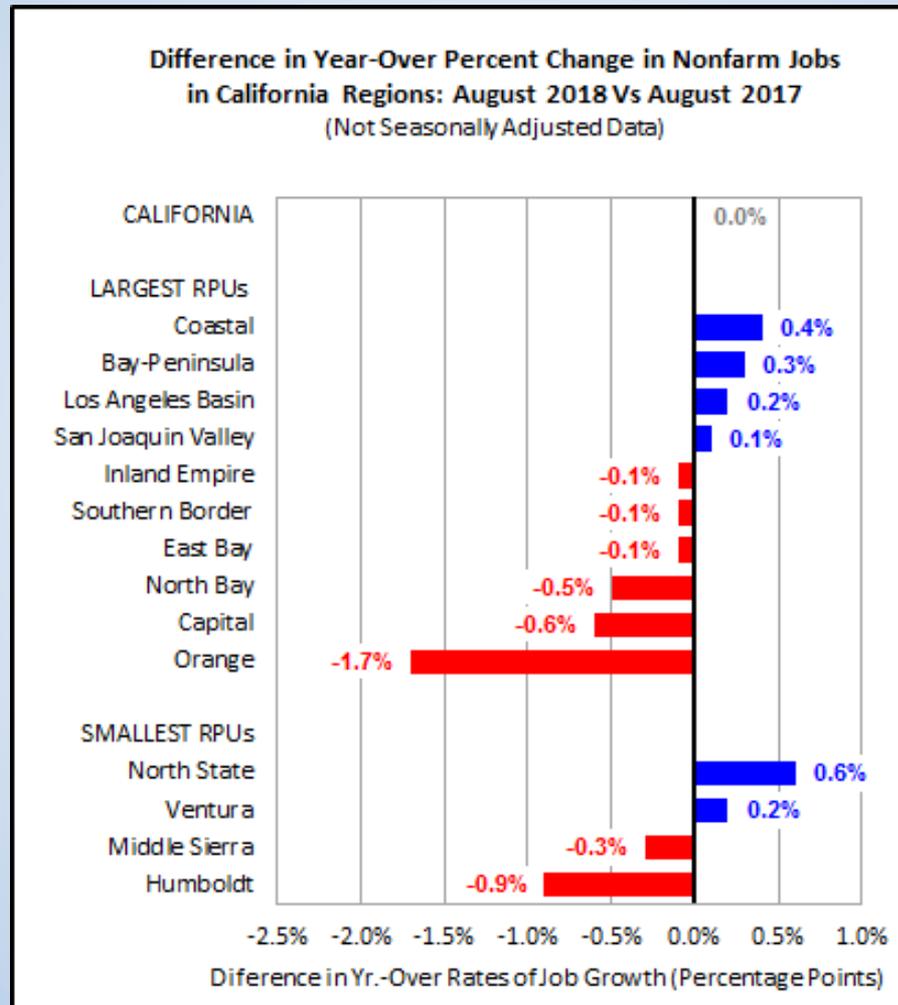
February 2010 - August 2018; Seasonally Adjusted Data

<u>Change in Number of Jobs</u>		<u>Change in Percent</u>	
CALIFORNIA	3,002,300	CALIFORNIA	21.2%
<u>Largest Areas (>950,000 jobs)</u>		<u>Largest Areas (>950,000 jobs)</u>	
Los Angeles-Long Beach-Glendale MD	605,500	<i>San Francisco-Redwood City-S. San Francisco MD</i>	<i>33.8%</i>
Riverside-San Bernardino-Ontario MSA	362,100	<i>San Jose-Sunnyvale-Santa Clara MSA</i>	<i>32.8%</i>
San Francisco-Redwood City-S. San Francisco MD	287,900	<i>Riverside-San Bernardino-Ontario MSA</i>	<i>31.6%</i>
San Jose-Sunnyvale-Santa Clara MSA	282,000	<i>Oakland-Hayward-Berkeley MD</i>	<i>21.6%</i>
Anaheim-Santa Ana-Irvine MD	276,000	Anaheim-Santa Ana-Irvine MD	20.3%
San Diego-Carlsbad MSA	247,400	San Diego-Carlsbad MSA	20.1%
Oakland-Hayward-Berkeley MD	210,500	Sacramento--Roseville--Arden-Arcade MSA	18.8%
Sacramento--Roseville--Arden-Arcade MSA	156,900	Los Angeles-Long Beach-Glendale MD	15.5%
<u>Middle-Sized Areas (100,000 to 400,000 jobs)</u>		<u>Middle-Sized Areas (100,000 to 400,000 jobs)</u>	
Fresno MSA	65,100	<i>Santa Rosa MSA</i>	<i>26.3%</i>
Stockton-Lodi MSA	48,100	<i>Stockton-Lodi MSA</i>	<i>24.7%</i>
Santa Rosa MSA	44,100	<i>San Luis Obispo-Paso Robles-Arroyo Grande MSA</i>	<i>24.6%</i>
Oxnard-Thousand Oaks-Ventura MSA	36,800	<i>Fresno MSA</i>	<i>22.4%</i>
Bakersfield MSA	36,500	<i>Santa Cruz-Watsonville MSA</i>	<i>21.5%</i>
Modesto MSA	27,800	San Rafael MD	20.2%
San Luis Obispo-Paso Robles-Arroyo Grande MSA	23,400	Visalia-Porterville MSA	19.0%
Santa Maria-Santa Barbara MSA	21,400	Modesto MSA	18.5%
Visalia-Porterville MSA	20,600	Vallejo-Fairfield MSA	16.8%
Vallejo-Fairfield MSA	20,200	Salinas MSA	16.2%
Salinas MSA	20,100	Bakersfield MSA	16.0%
San Rafael MD	19,900	Oxnard-Thousand Oaks-Ventura MSA	13.5%
Santa Cruz-Watsonville MSA	18,500	Santa Maria-Santa Barbara MSA	13.2%
<u>Smaller Areas (<100,000 jobs)</u>		<u>Smaller Areas (<100,000 jobs)</u>	
Chico MSA	13,200	<i>Merced MSA</i>	<i>22.1%</i>
Merced MSA	12,700	Napa MSA	19.5%
Napa MSA	11,900	Chico MSA	18.6%
Redding MSA	8,900	Yuba City MSA	16.4%
Yuba City MSA	6,200	Madera MSA	15.0%
El Centro MSA	5,400	Redding MSA	15.0%
Madera MSA	5,100	El Centro MSA	11.0%
Hanford-Corcoran MSA	2,600	Hanford-Corcoran MSA	7.0%

Regional Year-Over Job Growth Trends

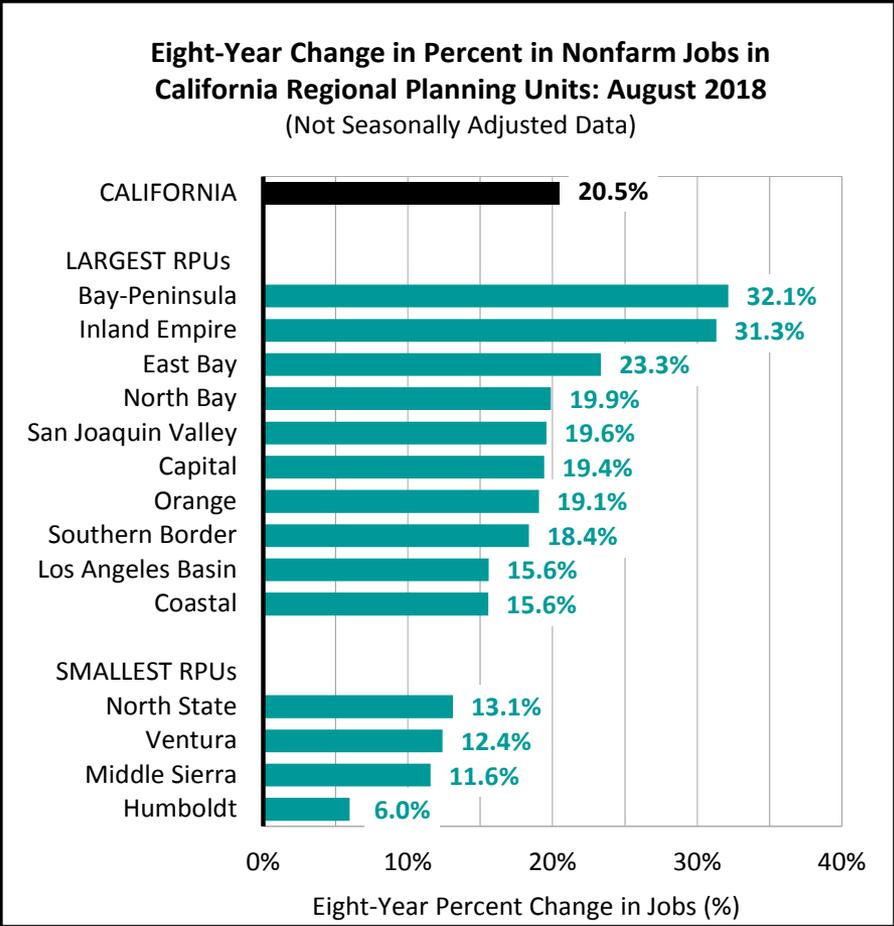


Changes in the Pace of Regional Year-Over Job Growth: August 2018 Vs August 2017



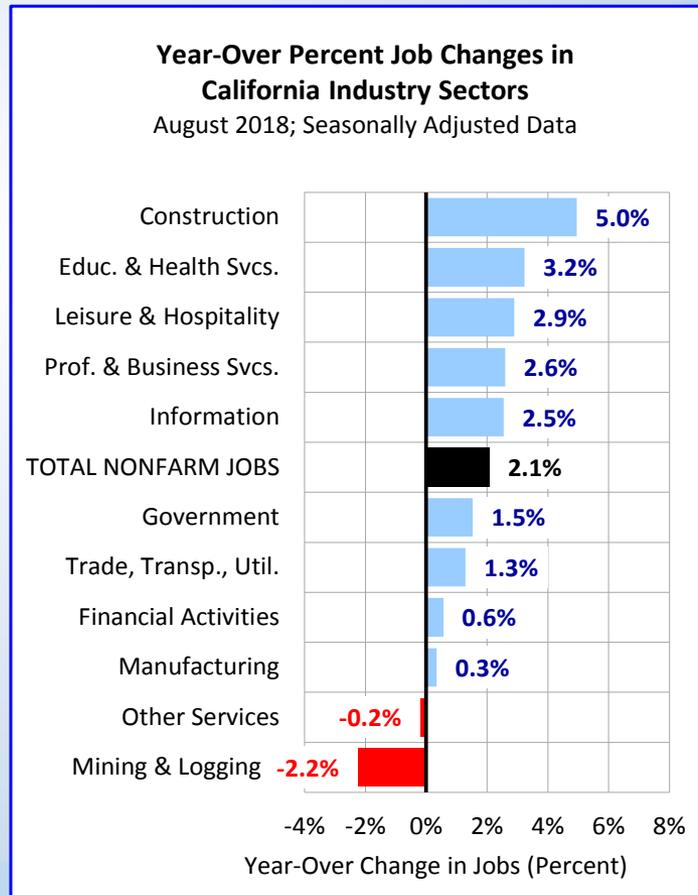
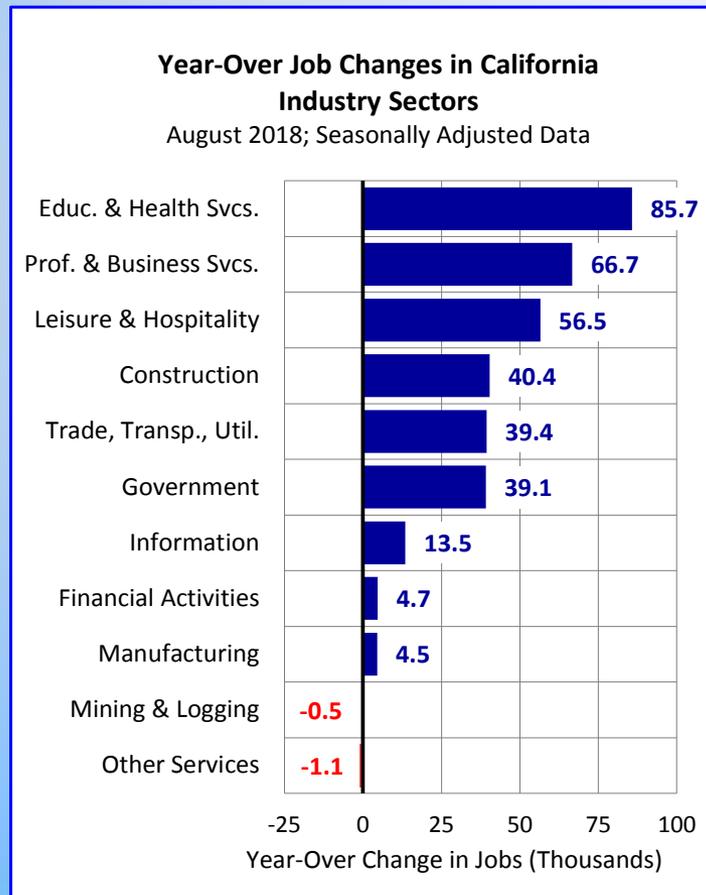
Regional Job Growth Over the Course of the Expansion: August 2010 - August 2018

Not Seasonally Adjusted Data



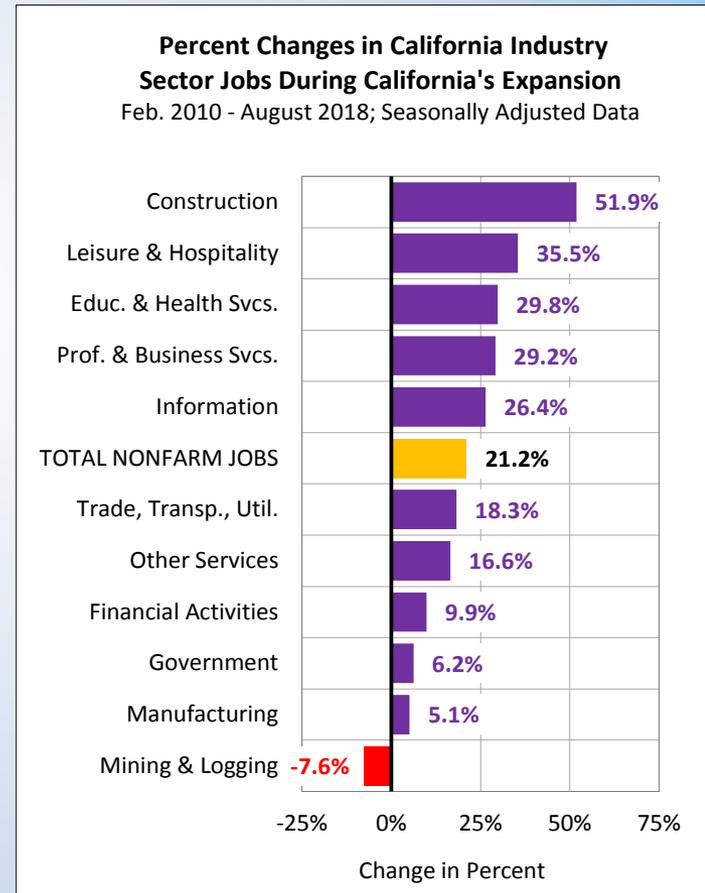
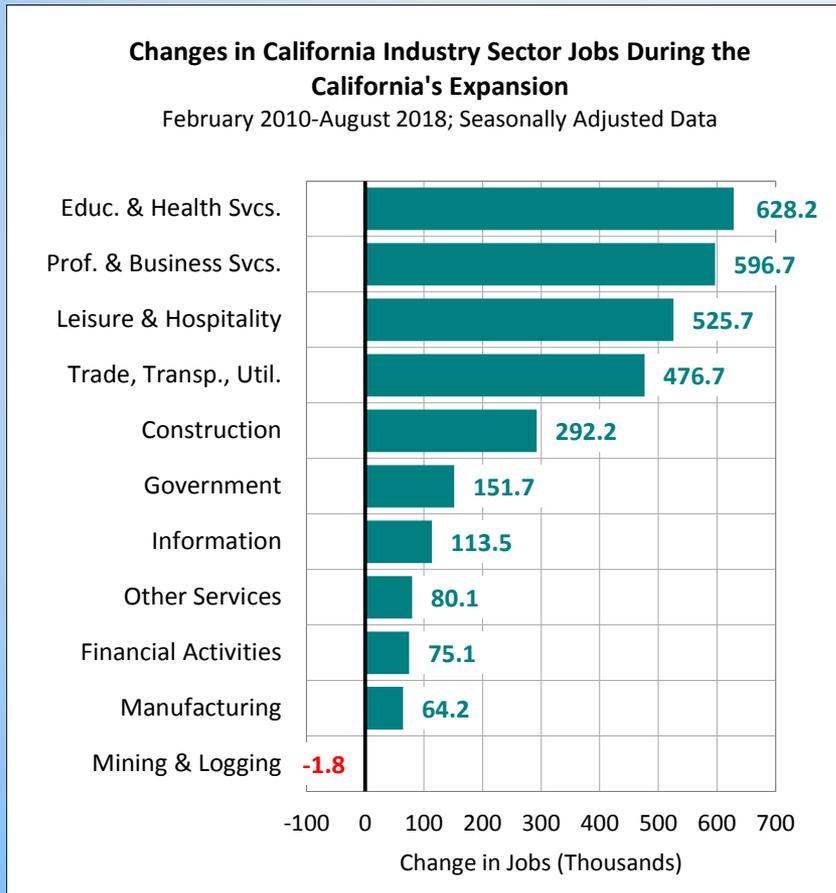
California Industry Sector Trends: Year-Over Job Growth, August 2018

- California has experienced broad-based industry job growth across industry sectors over the last year, with nine of its 11 major industry sectors experiencing year-over job gains. Four sectors grew at a faster pace than the overall economy over the last year: construction, educational and health services, professional and business services, and information.



California Industry Sector Trends: February 2010 – August 2018 Expansion

- Every major California industry sector except the tiny logging and mining sector has contributed jobs to California's jobs expansion. The same four industry sectors that drove California's job growth over the last year have been the drivers of employment growth over the course of the 102-month expansion.



Economic Outlook

Question: California's employment expansion is now 102 months old (8 ½ years) old and counting and shows little sign of ending anytime soon. In just 11 months we will equal the longest expansion on record. Aren't we overdue for another recession?

→ If one adopts a purely historical perspective, perhaps. However, recessions, while each having unique triggers and attributes, are caused by fundamental imbalances in the economy which build to the point at which they can no longer be sustained. No such imbalances are apparent in the California or national economy. Strong and adverse external shocks to the economy can also trigger a recession but are inherently unpredictable. Many economists (including those at the UCLA Anderson School) fear an unbridled trade war with China or unraveling of global trade agreements could tip the economy into recession, but markets have been largely unfazed by actions to date.

Question: With unemployment at a record low and below three percent in many areas, isn't the labor market starting to run out of workers? Are labor shortages brewing for skilled workers that will snuff out job growth?

→ None of this has happened yet despite the fact that California's unemployment rate first dropped below its previous record low of 4.7 percent one year ago in August 2017. California has nevertheless continued to experience a healthy pace of job growth that has been broad-based across industry sectors and region's of the state. While one sometimes hears reports of shortages of construction workers, construction was California's fastest growing over the last year and over the course of the expansion. Unemployment rates have dropped below three percent in several Bay Area counties, but the region continues to enjoy strong job growth. Moreover, that region's--and the state's--high technology and information industries continue to grow. Full employment would seem to be a more apt description of California's labor market.

Economic Outlook (Continued.)

Question: What about the high cost of living (most notably for housing and lodging) in California, and particularly its large urban areas along the coast? Isn't this having a damaging effect on California's labor market and making the state economy less competitive?

- ➔ If it is, we aren't seeing much overt evidence of this in the labor market data. After eight-and-a-half years of sustained employment growth and economic expansion, California continues to experience a stronger pace of year-over job growth than the nation and all but a dozen other states. Job growth over the last year was broad-based across industry sectors and all areas of the state experienced job growth over the last year, including those areas in the Bay Area where housing prices are the highest. That said, the data suggest that there has been some economic spillover away from the coast to more inland areas such as the Inland Empire and northern San Joaquin Valley. Moreover, anecdotal stories abound of workers moving inland from higher cost urban areas and abiding longer commutes in order to find more affordable housing. The two-hour drive from Sacramento to the City is now a memory.
- ➔ By all accounts, California is not having another housing bubble, but is instead grappling with a structural deficit in housing supply. The problem is that demand for housing exceeds available supply for houses, driving home prices up.

Barring unexpected events or shocks to the economy, California's employment expansion is expected to continue over the next couple of years. The pace of job growth is expected to slow over time in the full employment economy. According to economic forecasters at the UCLA Anderson School, 2020 looms as a rather pivotal year.

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