

# **Economic Update**

**LMID Advisory Group**

**October 23, 2014**

**Paul Wessen**

**Employment Development Department**

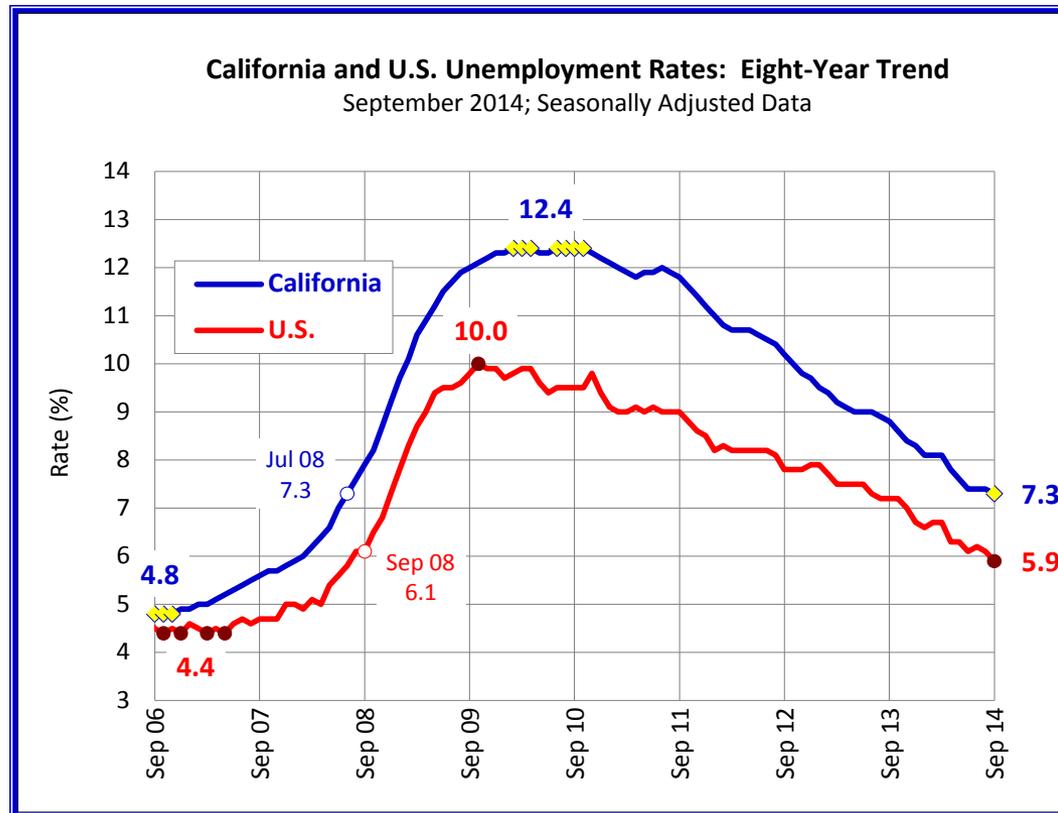
**Labor Market information Division**

## The California and U.S. Economies are expanding...

- Job growth both nationally and in California continues to expand at a steady and sustained pace and shows little sign of slowing down.
- Unemployment has fallen to its lowest level in six years and continues to fall steadily.
- The nation finally recovered the total nonfarm jobs it lost during the Great Recession in May. Since bottoming out in February 2010, the nation has gained nearly 10 million jobs. California erased its recessionary job losses in June and has gained 1.4 million jobs since February 2010.
- While this is news to celebrate, the U.S. and California labor markets have only managed to get a little beyond where they were entering the recession. They have yet to catch up with the population growth that has occurred over the last seven years.

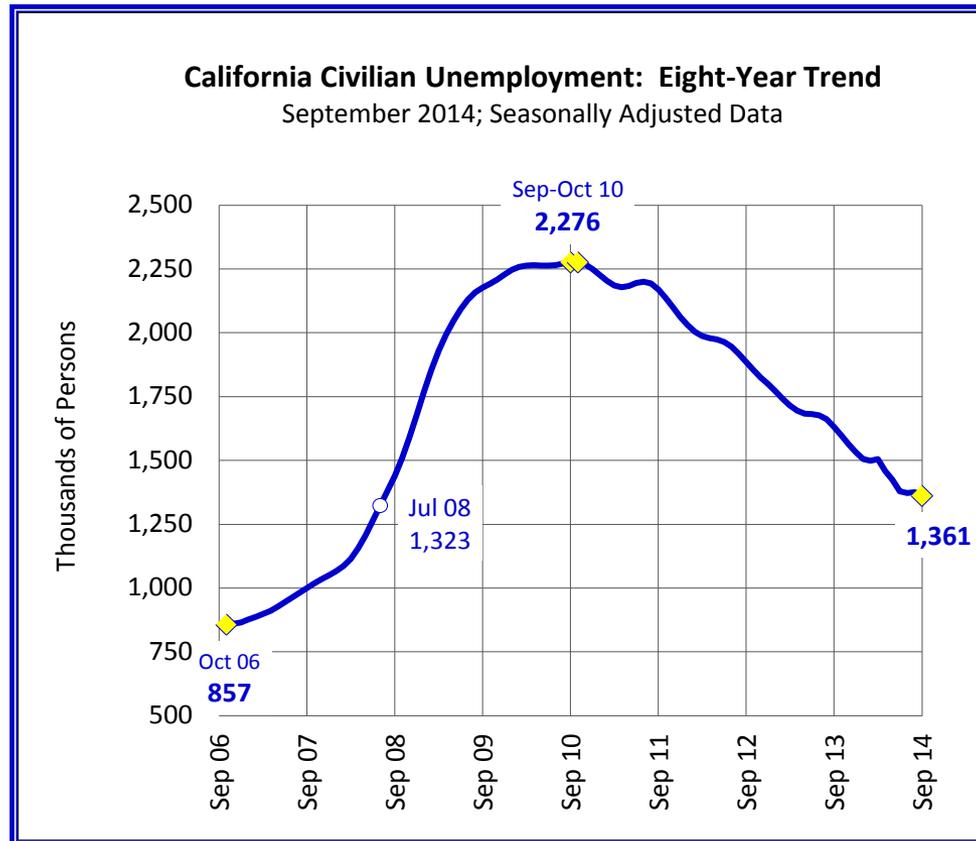
## Unemployment Rate

The U.S. unemployment rate fell to 5.9 percent in September 2014. This was the first time the U.S. rate has dipped below 6.0 percent since July 2008. California's unemployment rate dipped to 7.3 percent in September 2014. This was the state's lowest unemployment rate since July 2008. California's September 2014 unemployment rate was 5.1 percentage point (ppt.) lower than its recessionary peak, but remained 2.5 ppt. above its pre-recession low. The U.S. rate was 4.1 ppt. lower than its recessionary high, but remained 1.5 ppt. higher than its pre-recession low.



## California Civilian Unemployment

There were 1,361,000 unemployed Californians in September 2014, the fewest there have been since July 2008. Unemployment continues to trend downward. The number of unemployed Californians fell by 271,000 persons (16.6 percent) over the year and by 915,000 persons from the recessionary peak in September and October 2010. However, 504,000 more Californians were unemployed in September 2014 than there were at the pre-recession low in October 2006.



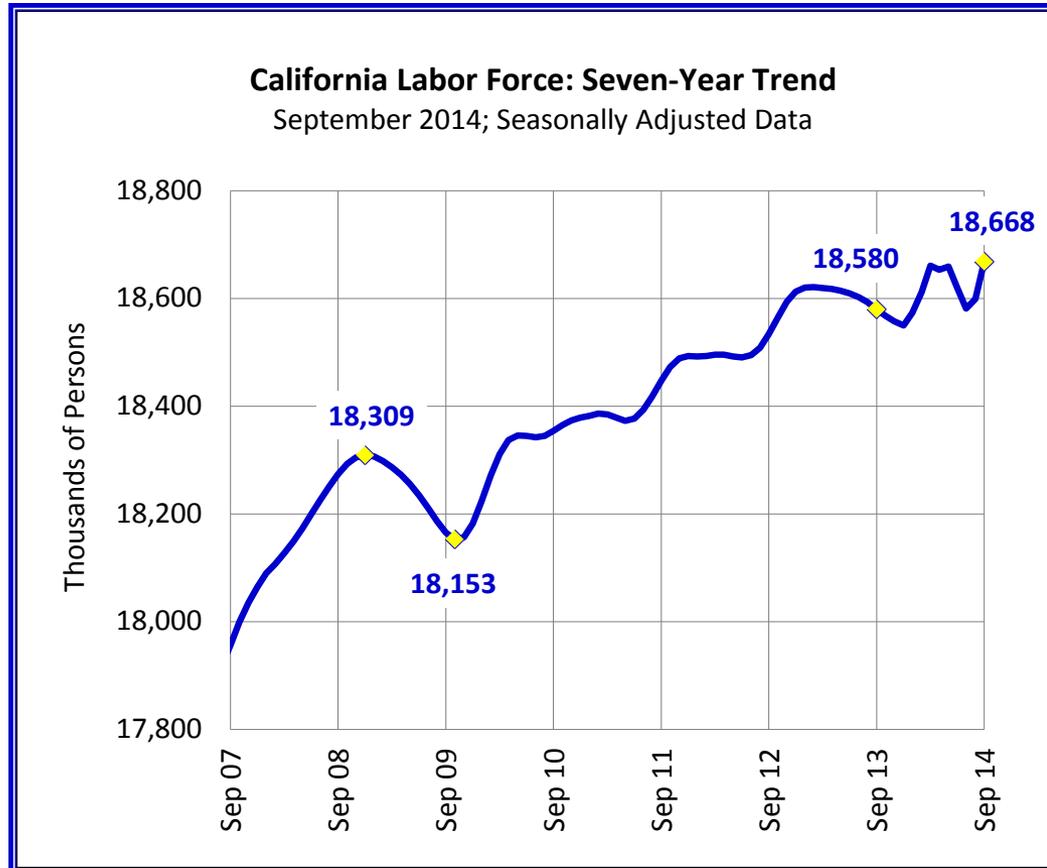
## California Civilian Employment

There were 17,307,000 employed Californians in September 2014. Their number grew by 359,000 (2.1 percent) over the year and by 1,359,000 persons since the recessionary low in November 2009 to an all time high.



## California Labor Force

California's labor force is also growing, but slowly and unevenly. It grew by 88,000 persons (0.5 percent) over the year ending in September 2014 and by 515,000 persons (2.8 percent) since October 2009.



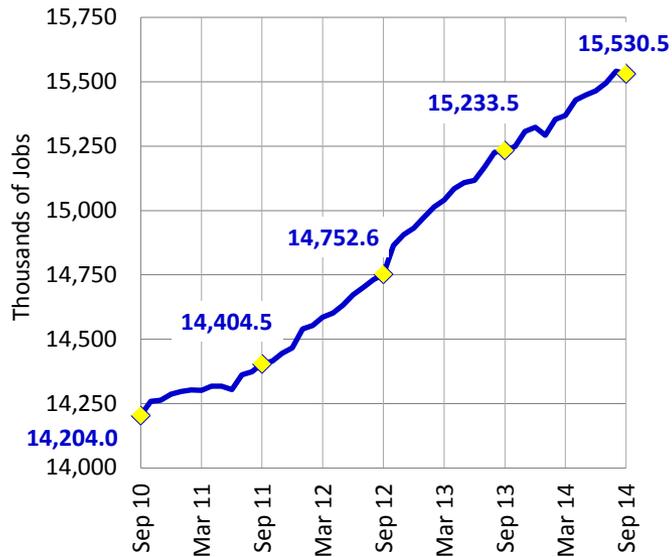
## California Nonfarm Payrolls: September 2014

California lost 9,800 jobs in September 2014, following a 44,900-job in August. The September job loss was unusual—just California’s third in the last 40 months—but likely caused by an atypical seasonal pattern associated with an early labor Day and start to the school year/end of summer travel season

➔ The three most seasonal California industry sectors in September are government, educational and health services, and leisure and hospitality. In September 2014, these three industry sectors lost a combined 19,100 jobs. In August 2014, they gained a combined 15,300 jobs.

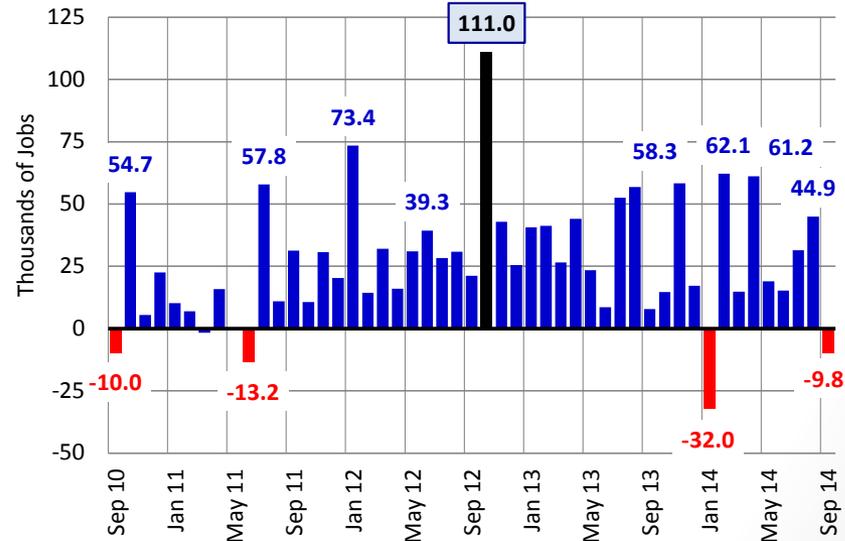
**California Total Nonfarm Payroll Jobs  
Four-Year Trend**

September 2014; Seasonally Adjusted Data



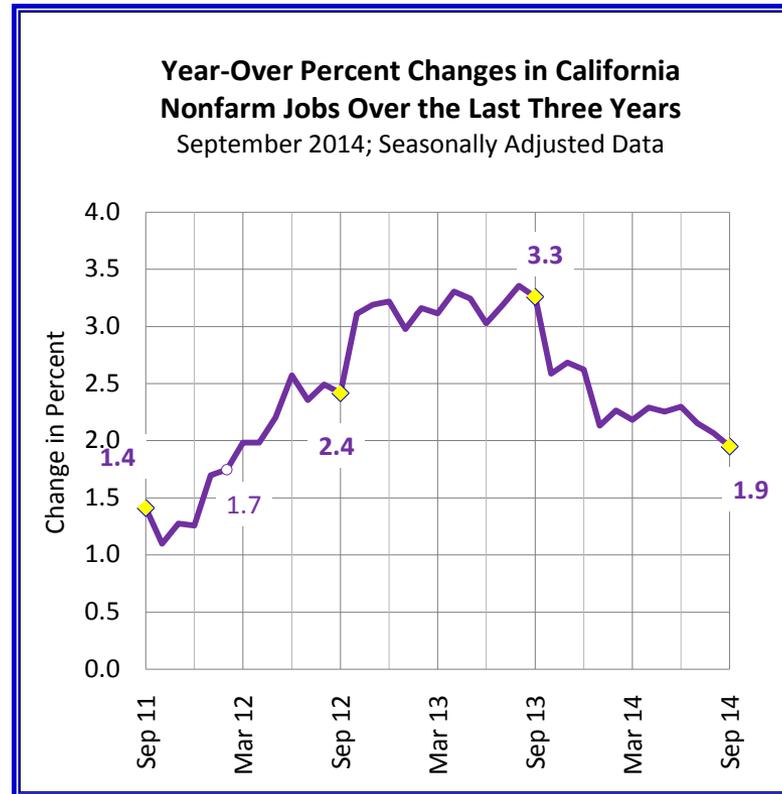
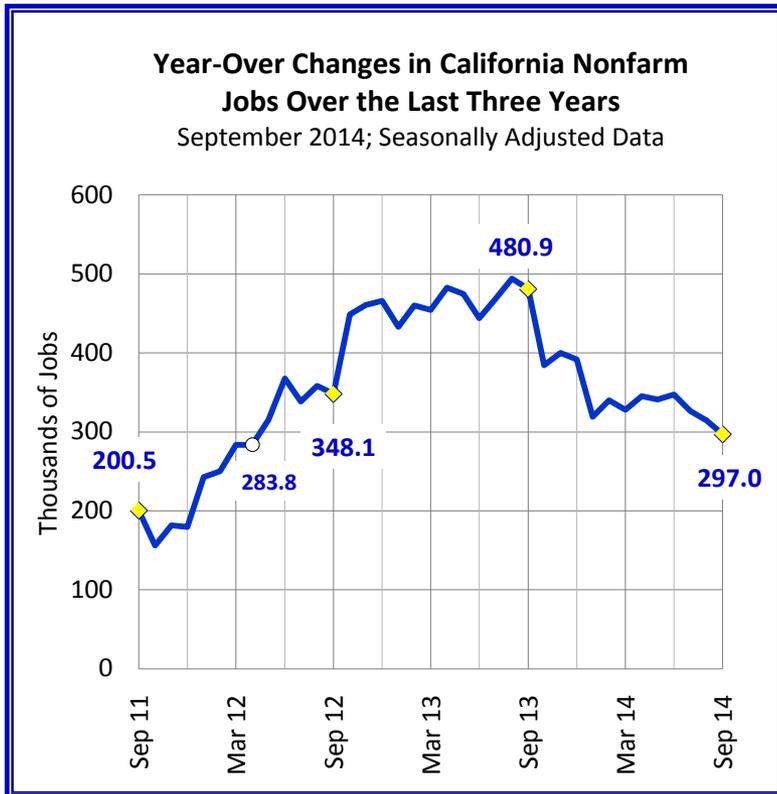
**Month-Over Changes in California Total Nonfarm Jobs Over  
the Last Four Years**

September 2014; Seasonally Adjusted Data



## California Nonfarm Payrolls

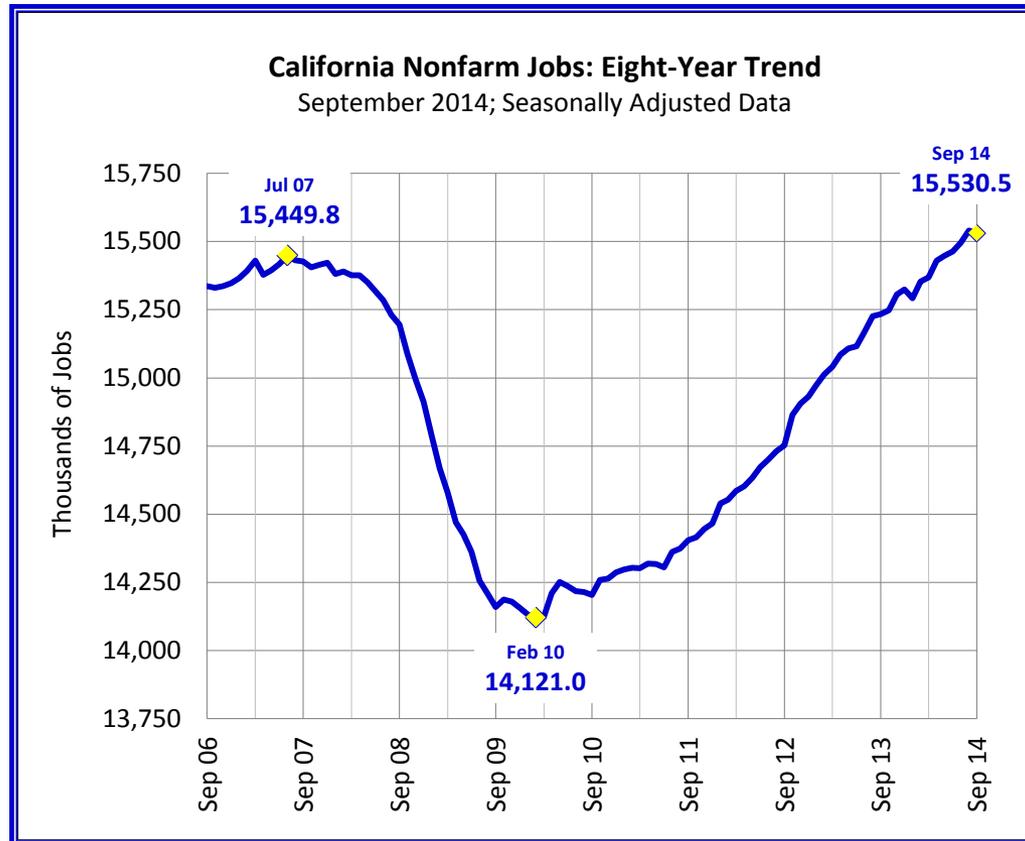
California gained 297,000 nonfarm jobs over the year ending in September 2014, a gain of 1.9 percent. While a healthy gain, this was the first time California's year-over job gains have dipped below 300,000 since April 2012 and below 2.0 percent since February 2012.



## California Nonfarm Payrolls

California's steady jobs expansion shows little sign of abating. California's total nonfarm job gains since the beginning of the employment expansion in February 2010 grew to 1,409,500 jobs in September 2014.

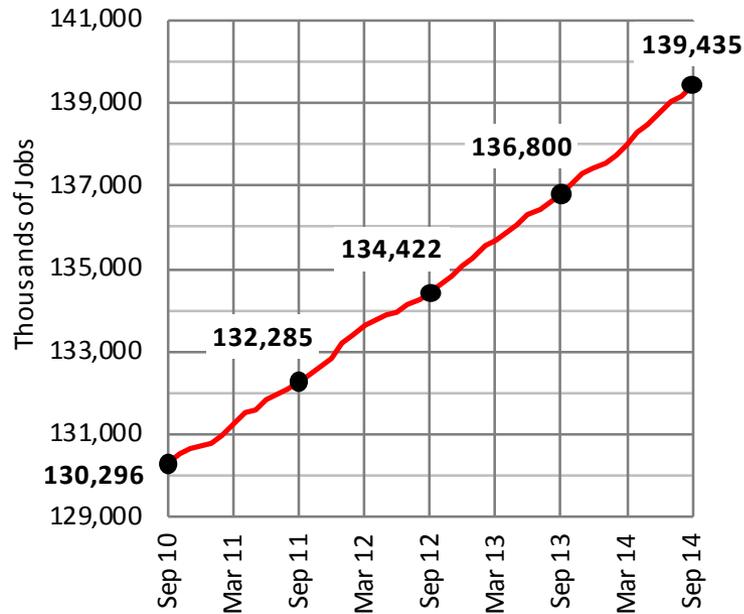
➔ A car analogy may best summarize job growth conditions in California in September. The engine of the over 4 ½ year old car continues to purr along fine, but the tires seem to have lost some of their tread in recent months and are no longer gripping the road quite as firmly as they once did. However, the brakes are working fine, as indicated by the job loss in September.



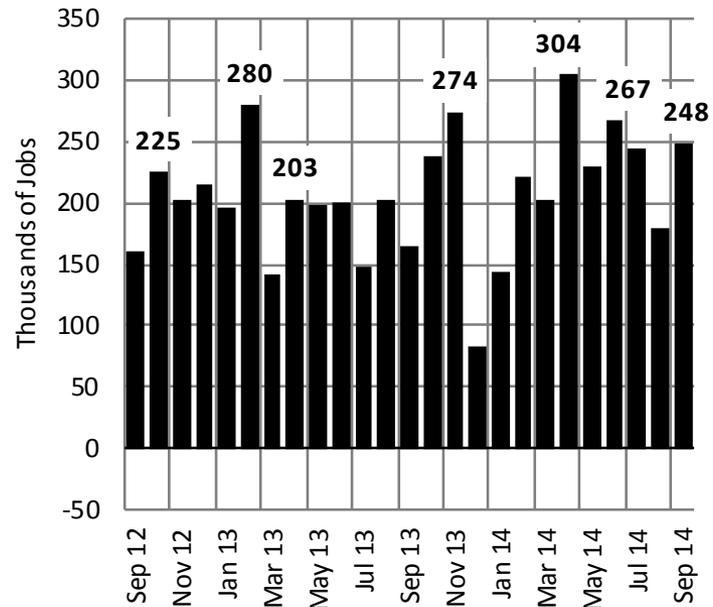
## U.S. Nonfarm Payrolls

The nation added 248,000 total nonfarm jobs in September 2014, and has now gained jobs in 48 consecutive months (55 in the private sector).

**U.S. Total Nonfarm Jobs: Four-Year Trend**  
September 2014; Seasonally Adjusted Data

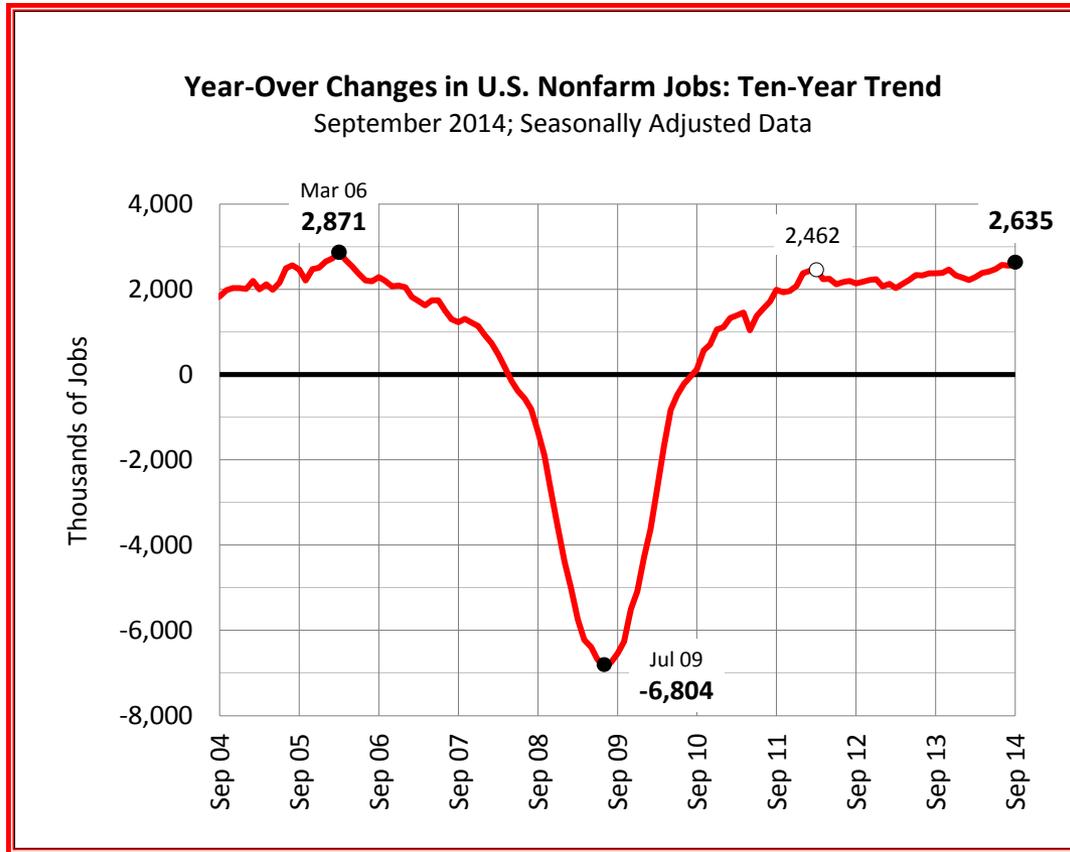


**Month-Over Changes in U.S. Nonfarm Jobs**  
September 2014; Seasonally Adjusted Data



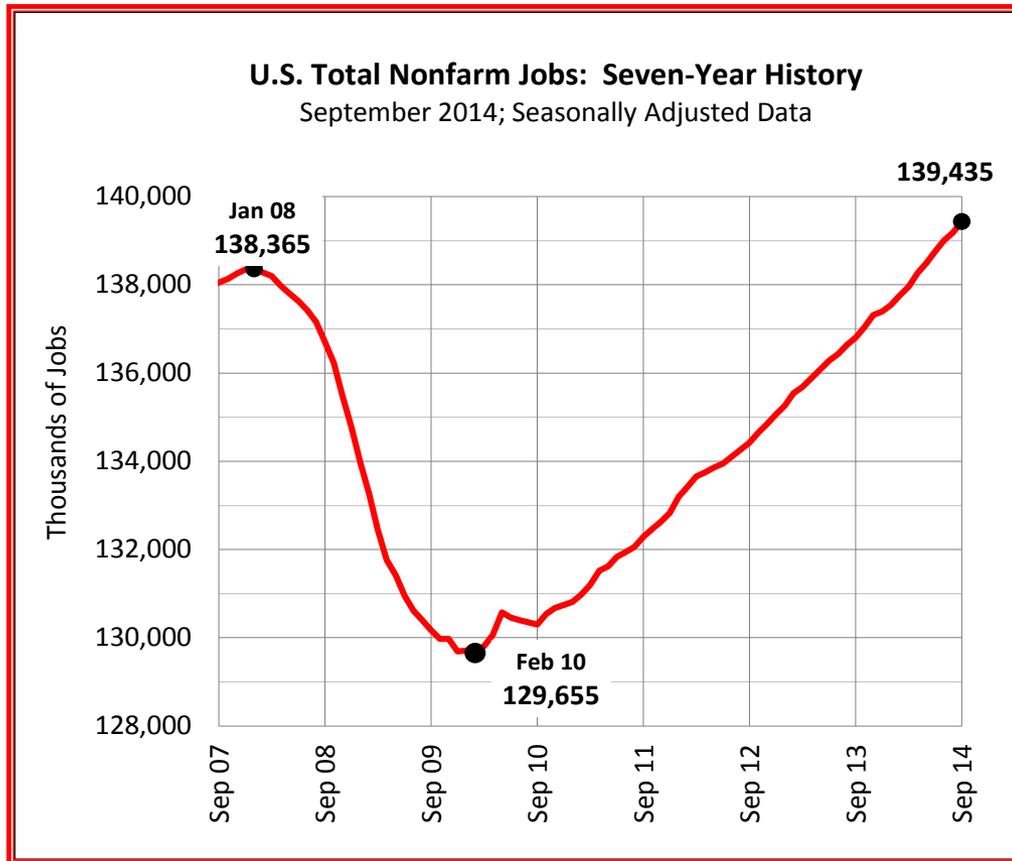
## U.S. Nonfarm Payrolls

The pace of national job growth has strengthened in recent months. The nation's year-over job gains totaled 2,635,000 in September 2014, a gain of 1.9 percent. This was the nation's largest year-over job gain in number since April 2006. A strong national economy only benefits California.



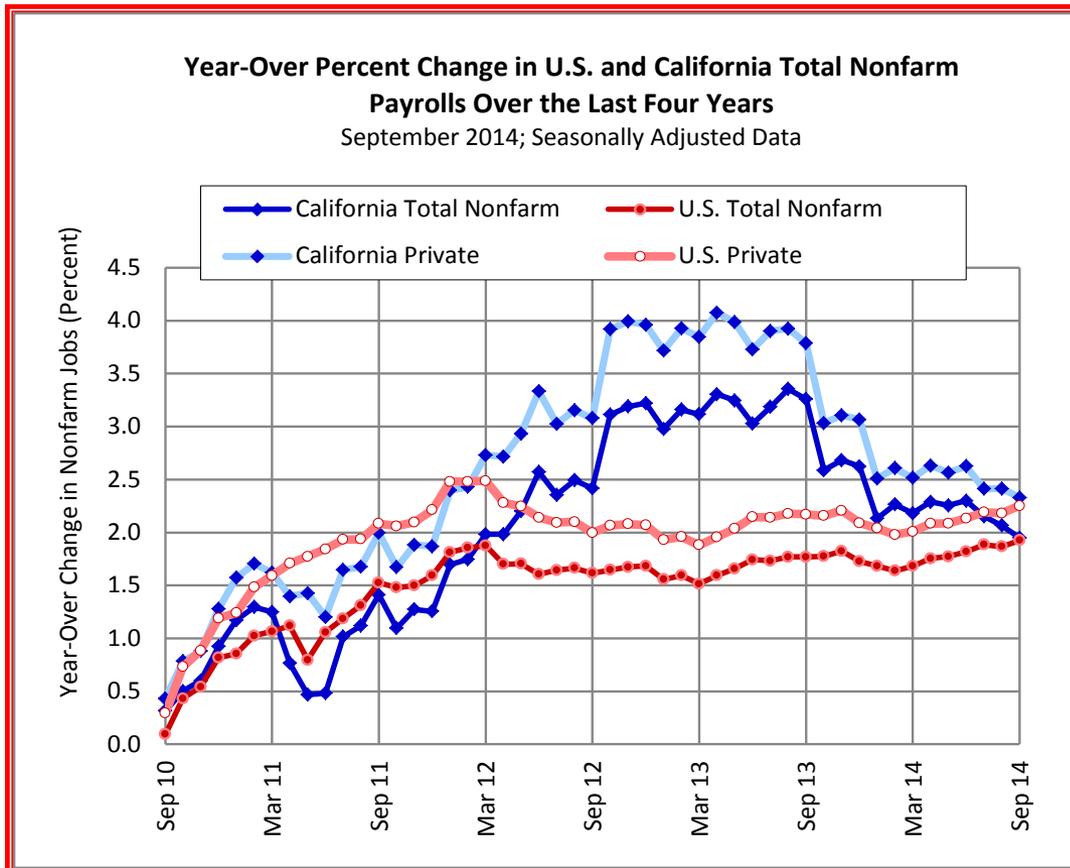
## U.S. Nonfarm Payrolls

U.S. nonfarm payrolls grew by 9.8 million jobs from the recessionary low in February 2010 through September 2014.



## California and U.S. Job Growth Trends Compared

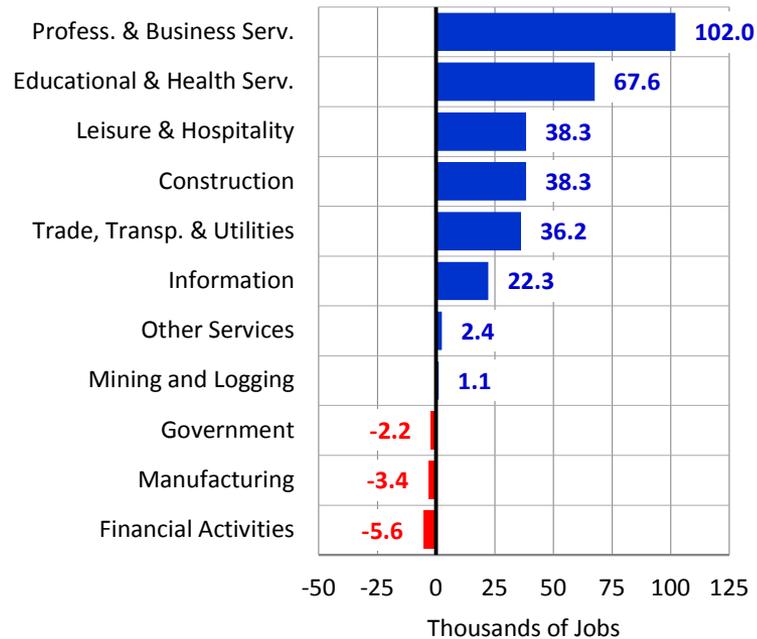
The rates of year-over job growth in California and the nation converged in September. The pace of job growth in California had outpaced the nation's over the prior 2 ½ years.



## Year-Over Industry Job Growth in California, September 2014

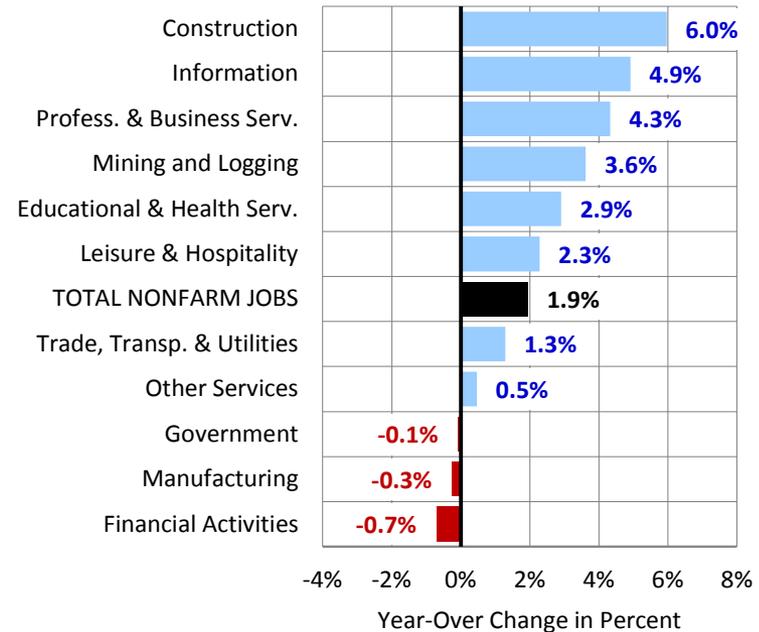
### Year-Over Changes in the Number of California Industry Sector Jobs

September 2014; Seasonally Adjusted Data



### Year-Over Changes in California Industry Sector Jobs in Percent

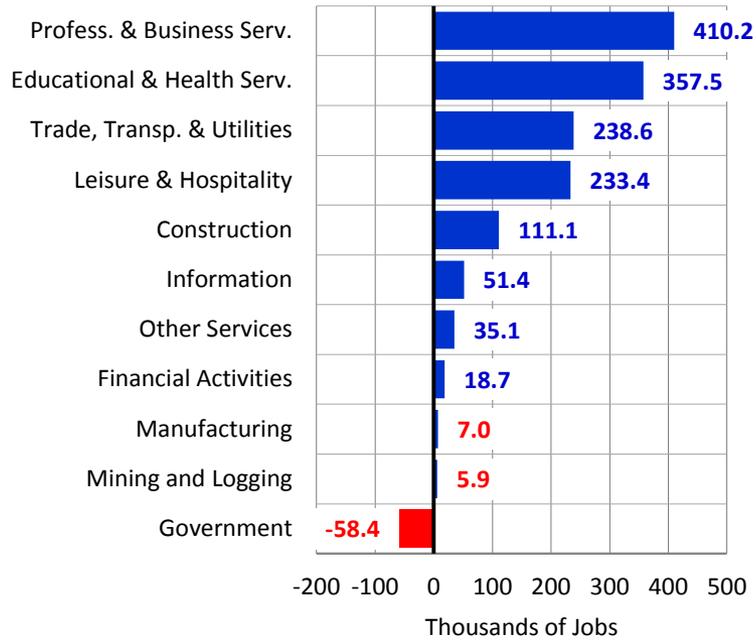
September 2014; Seasonally Adjusted Data



# Industry Job Growth in California Over the Course of the Expansion: February 2010- September 2014

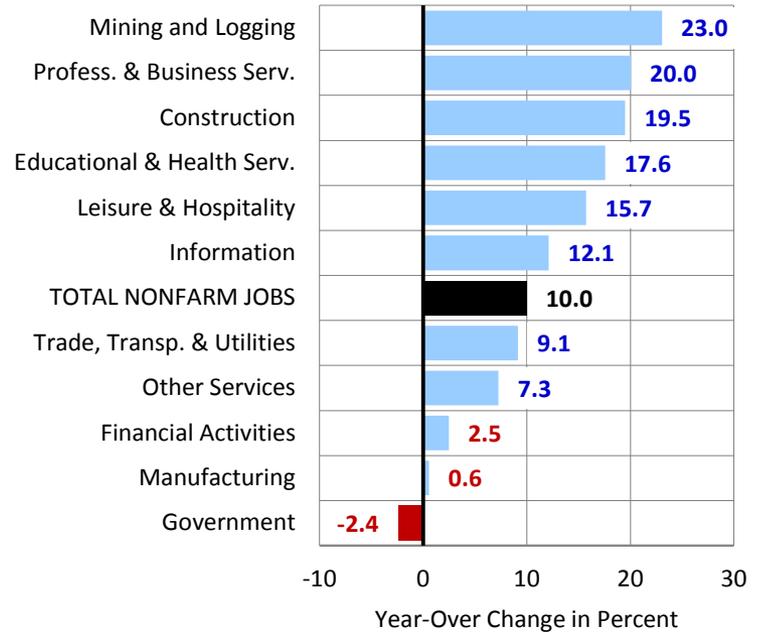
## Changes in the Number of California Industry Sector Jobs in the Current Expansion

Feb. 2010 - Sep. 2014; Seasonally Adjusted Data



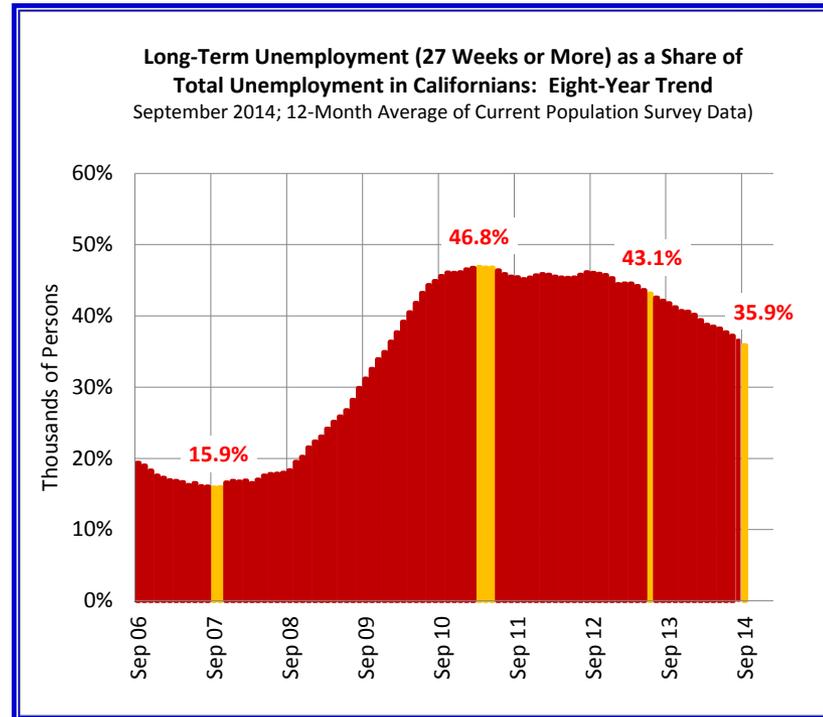
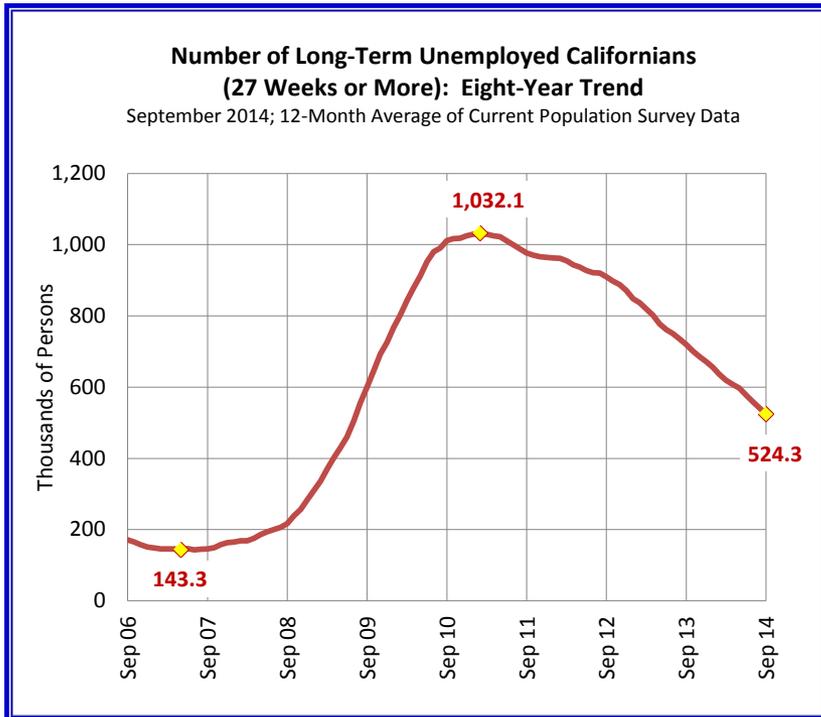
## Percent Changes in California Industry Sector Jobs in the Current Expansion

Feb. 2010 - Sep. 2014; Seasonally Adjusted Data



## Other Labor Market Indicators: Long-Term Unemployment (27 weeks or more)

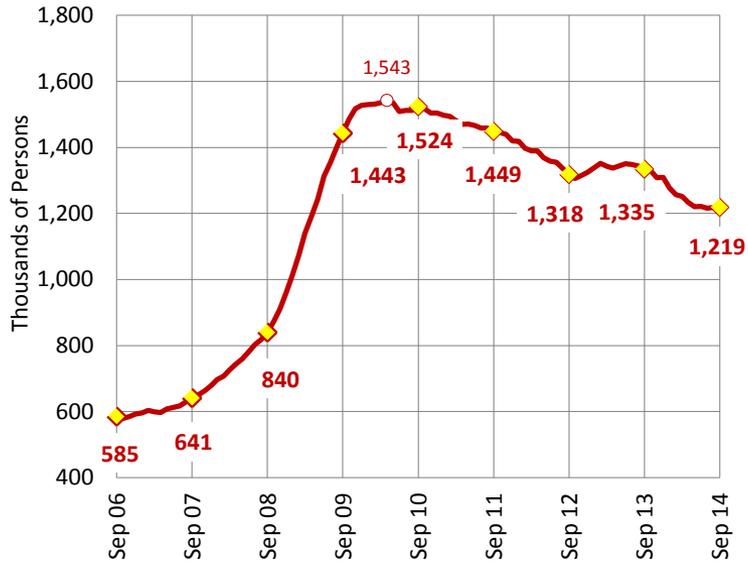
The number of long-term unemployed Californians remains elevated, but is decreasing steadily and headed in the right direction. What isn't clear is what proportions of the long-term unemployed are finding work or simply leaving the labor force.



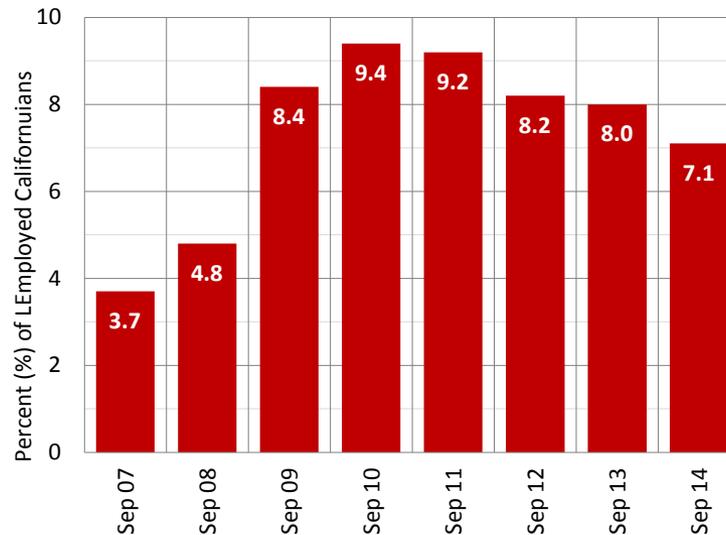
## Other Labor Market Indicators: Individuals Working Part-Time for Economic Reasons

The number of working Californians who desire full-time work but could only find part-time work or had their hours reduced for economic reasons skyrocketed during the recession, and has only gradually fallen since. In September 2014, the lion's share of these workers were those who wanted to work full-time hours but had to settle for less.

**Californians Who Work Part Time for Economic Reasons: September 2006 - September 2014**  
(12-month Average of Current Population Survey Data)

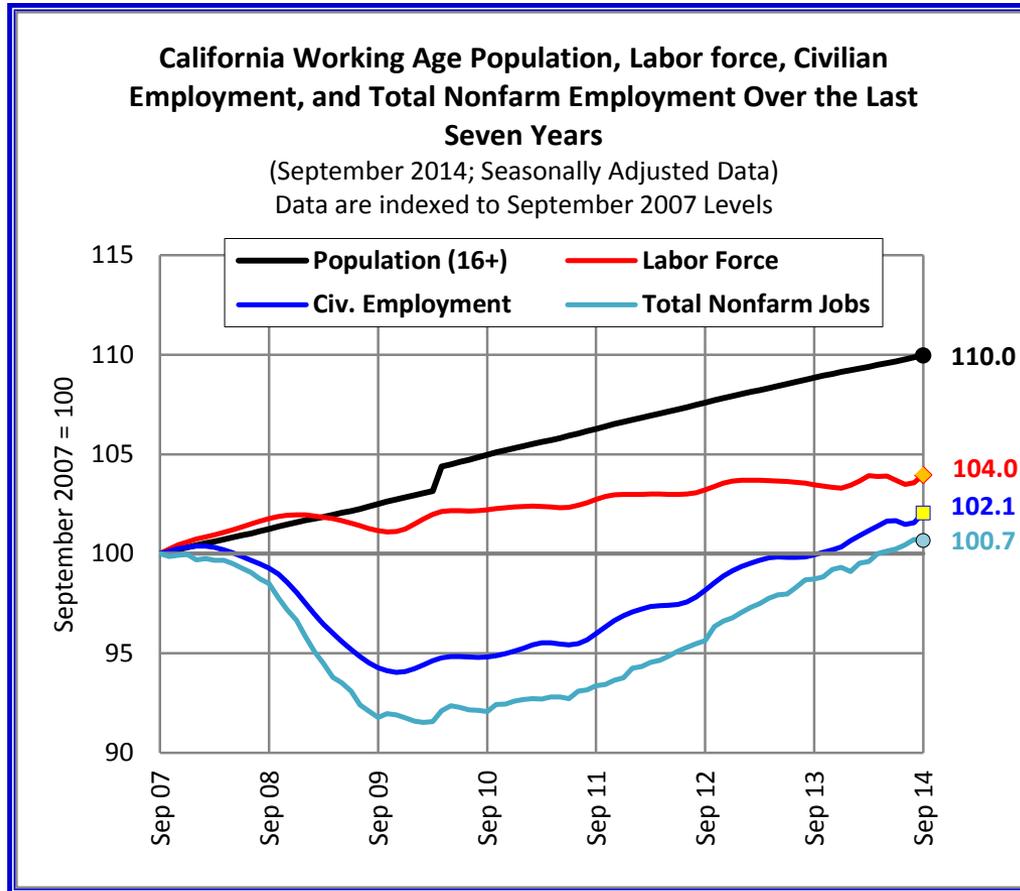


**Percentage of Employed Californians Who Work Part Time for Economic Reasons: September 2007 - September 2014**  
(12-Month Average of Current Population Survey Data)



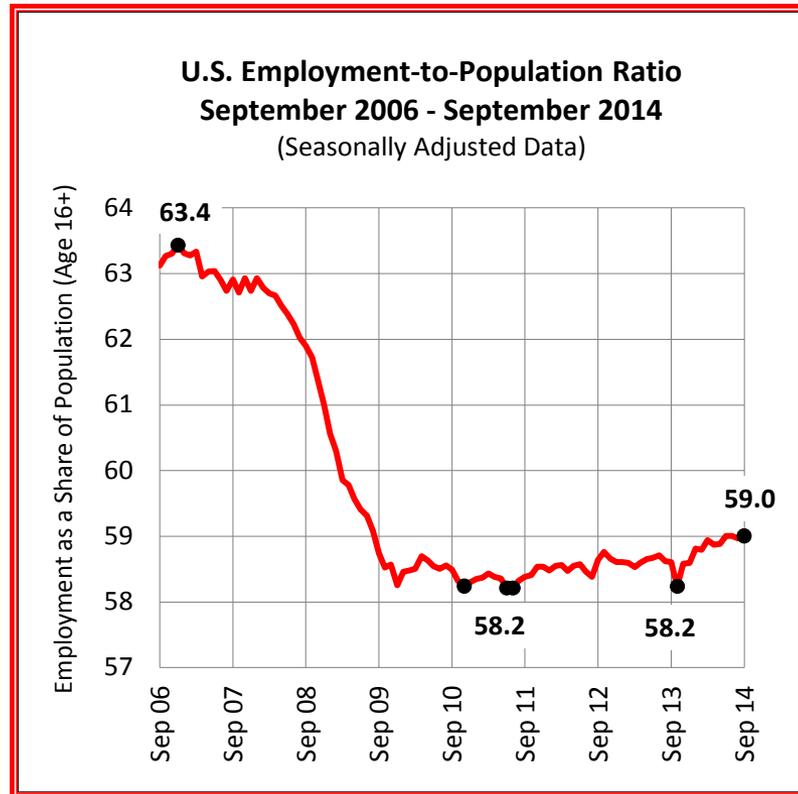
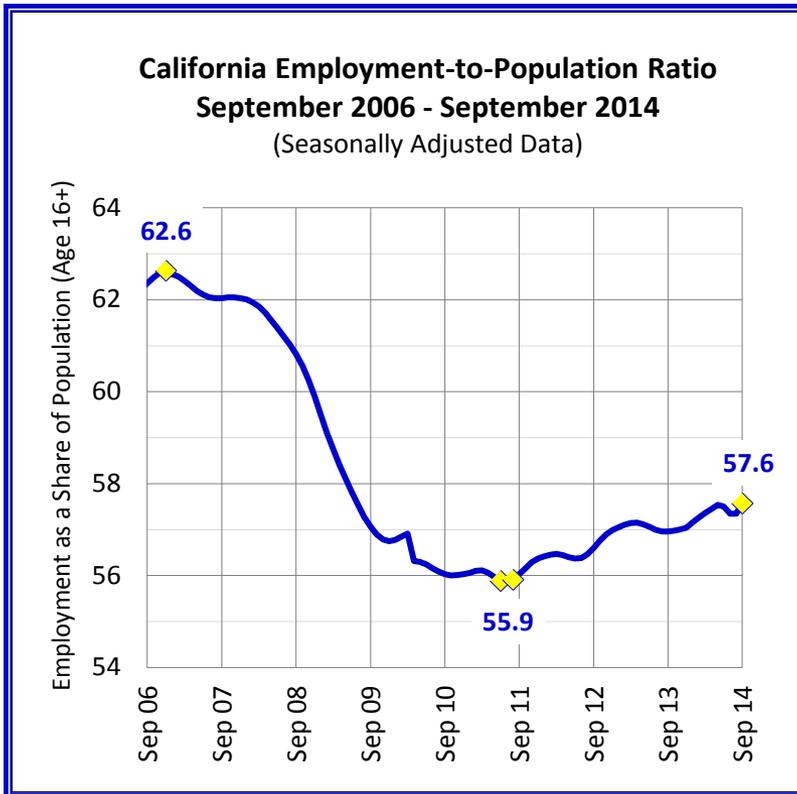
## So far, so good. Enter population.

Labor market conditions look different if one factors in the working age population, which has grown by 2.7 million persons (10.0 percent) over the last seven years of the business cycle.



## Employment-to-Population Ratio: California and the U.S

The percentage of employed persons in the working age population plummeted in both California and the nation during the recession, and has hardly risen during the recovery.



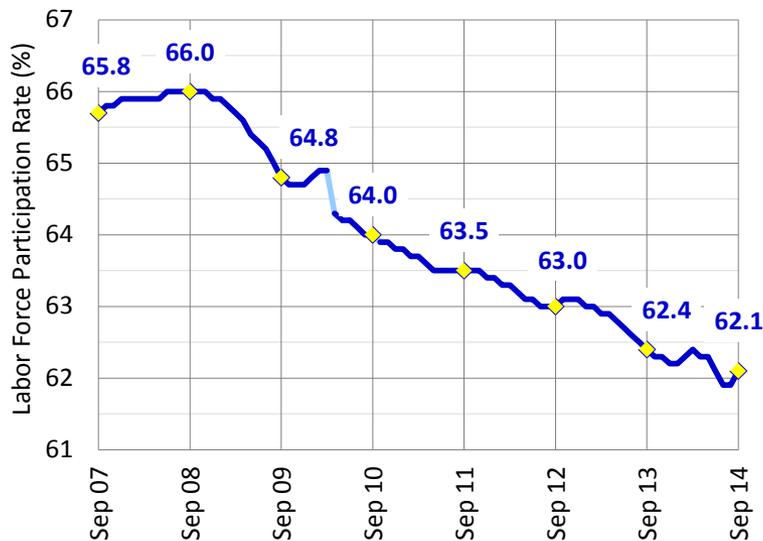
## Labor force Participation Rate (LFPR): California and the U.S.

Labor force participation in California and the nation continues to decline in California and the nation, despite their improving economies. Usually one assumes that a strong economy will lure persons who are marginally attached to the labor force into the economy and a weak economy will push them to leave.

### California Labor Force Participation Rate: Seven-Year Trend

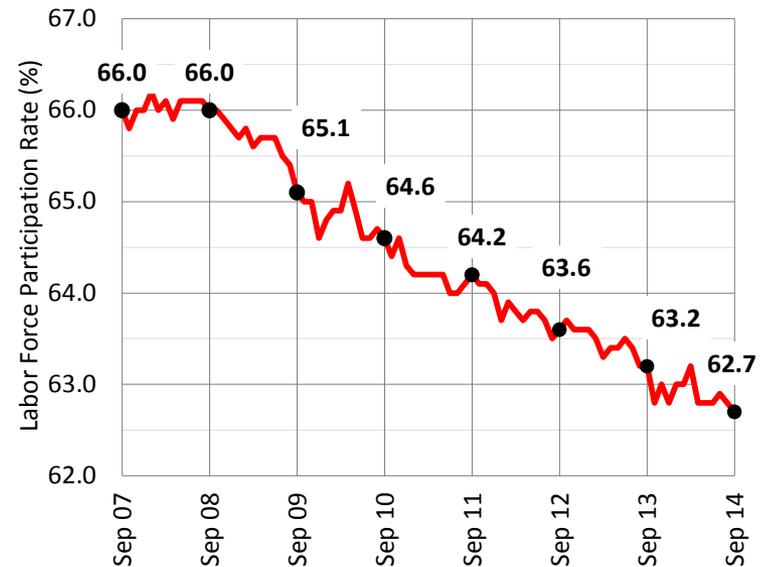
September 2014; Seasonally Adjusted Data

(Note: Light blue line signals the introduction of 2010 Census Data into the labor force model.)



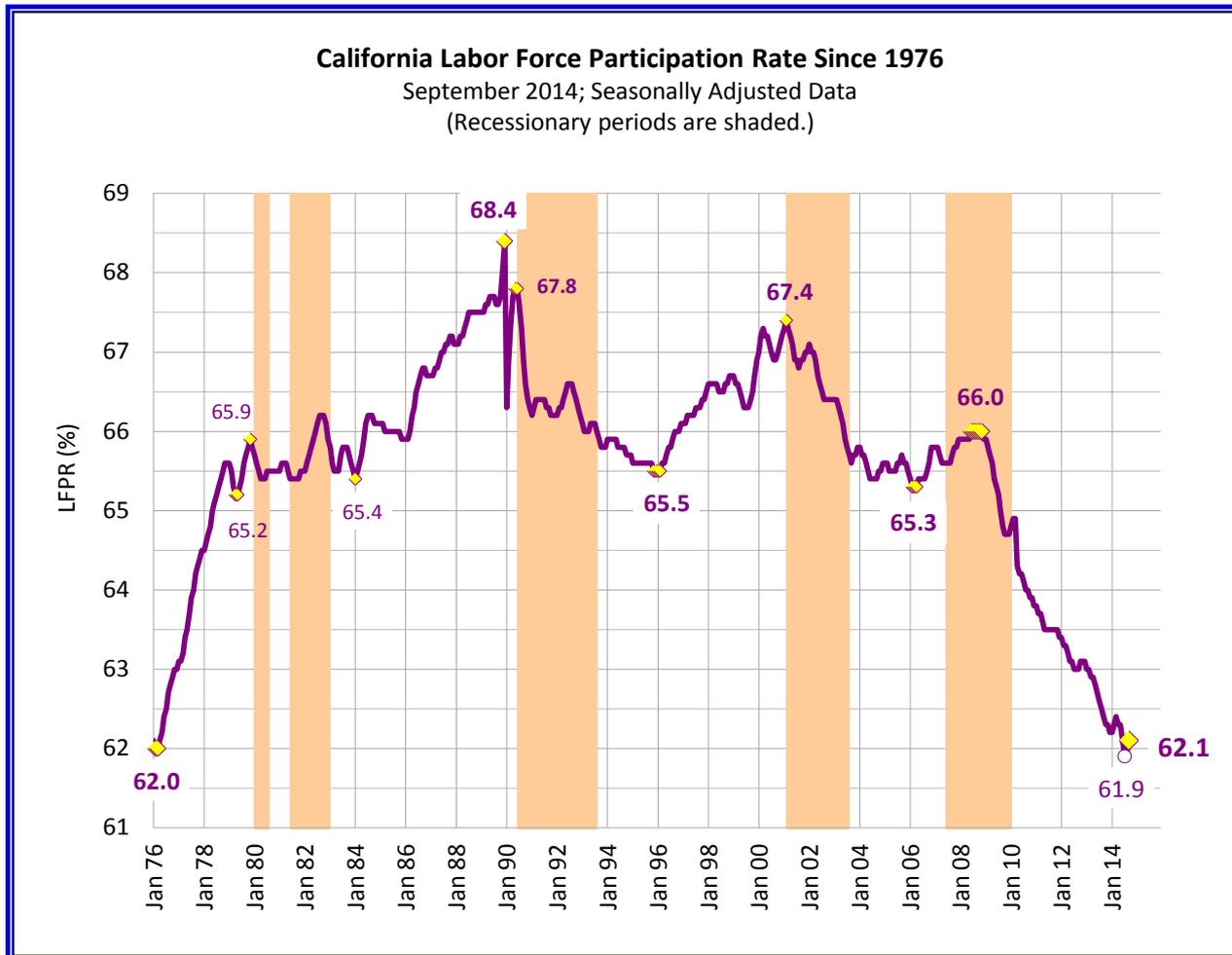
### U.S. Labor Force Participation Rate: Seven-Year Trend

September 2014; Seasonally Adjusted Data



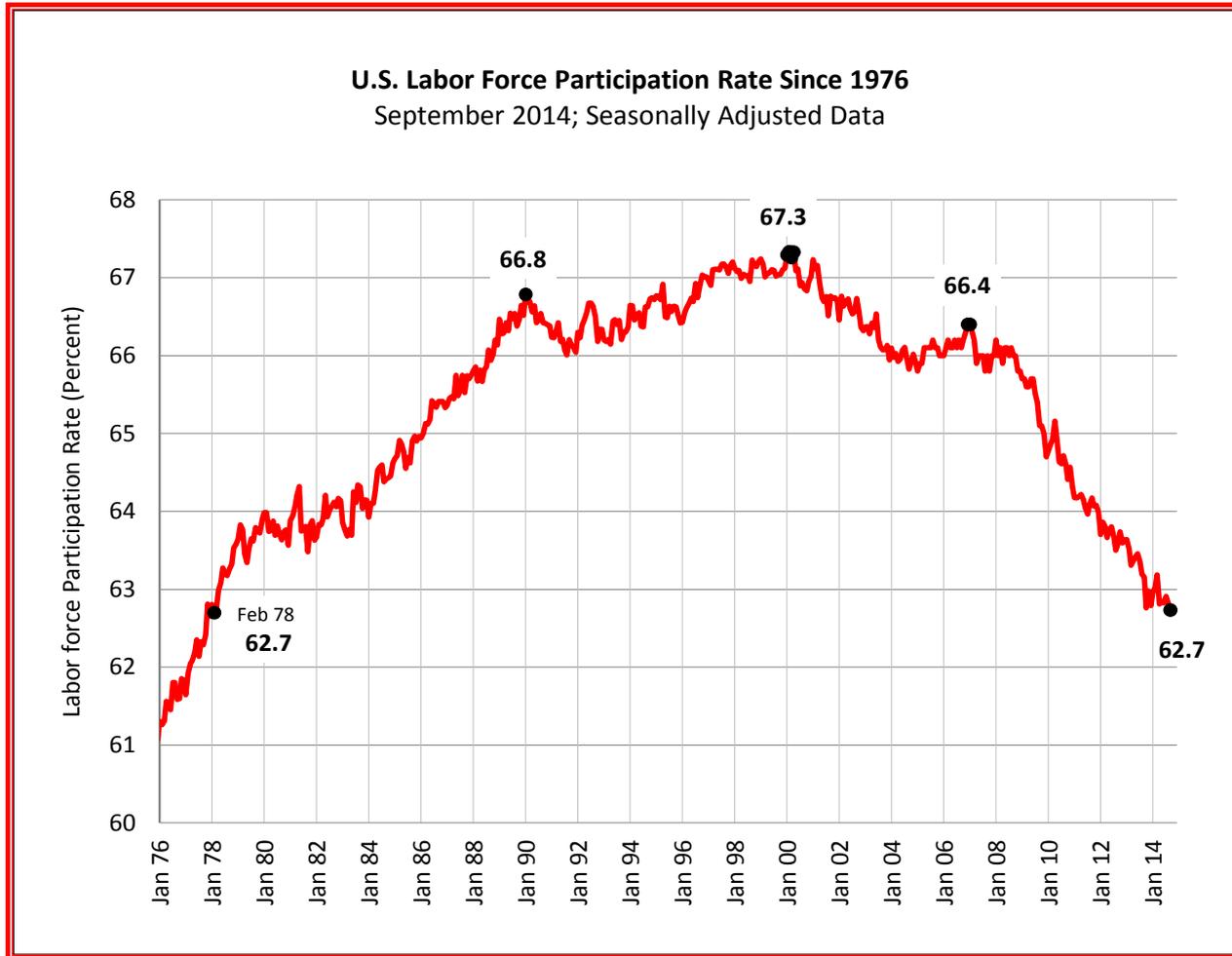
## Labor force Participation Rate (LFPR)

In fact, labor force participation in California has fallen to a record low level in recent months, in an official data series going back to January 1976...



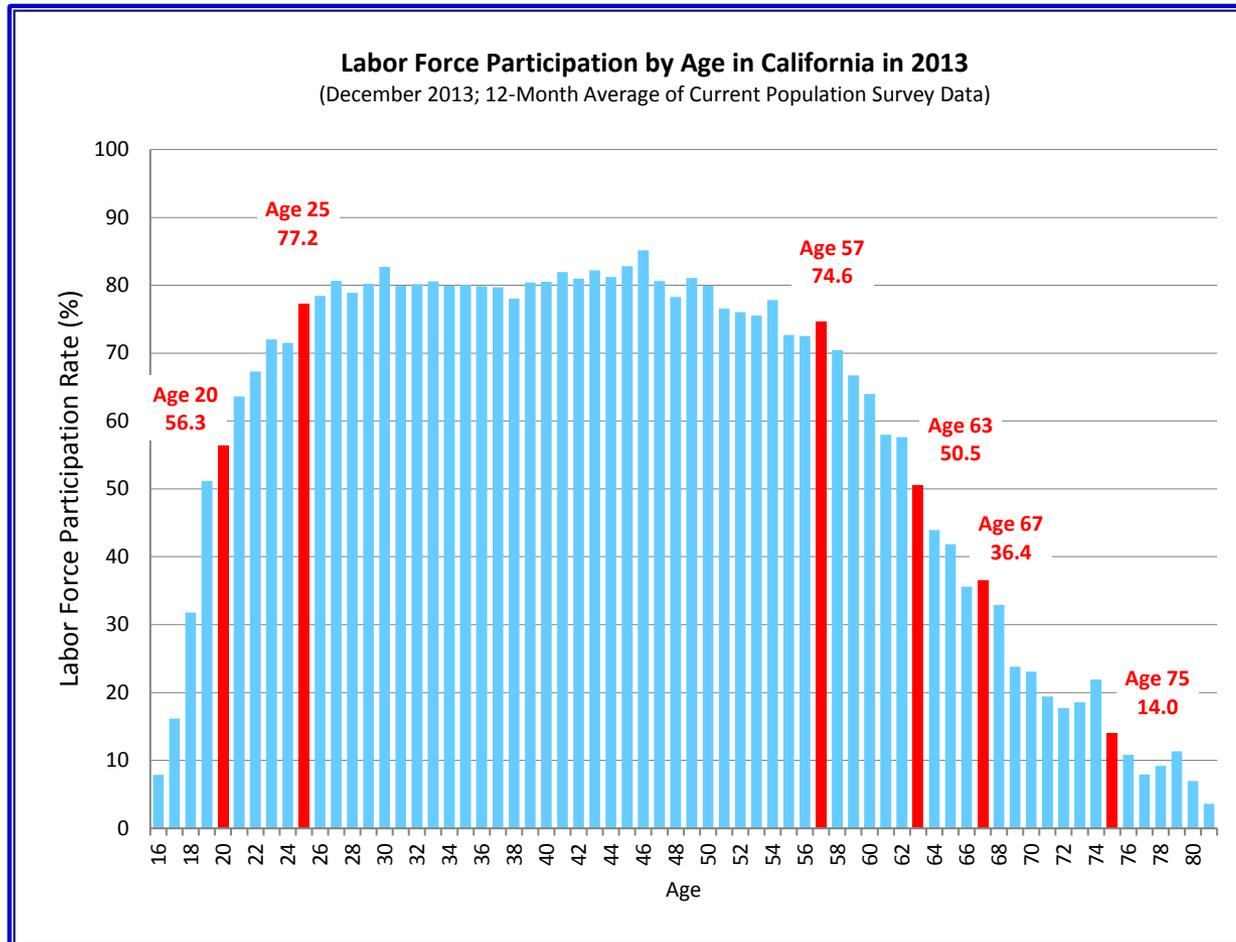
## Labor force Participation Rate (LFPR)

...and national labor force participation has fallen to its lowest level since February 1978.



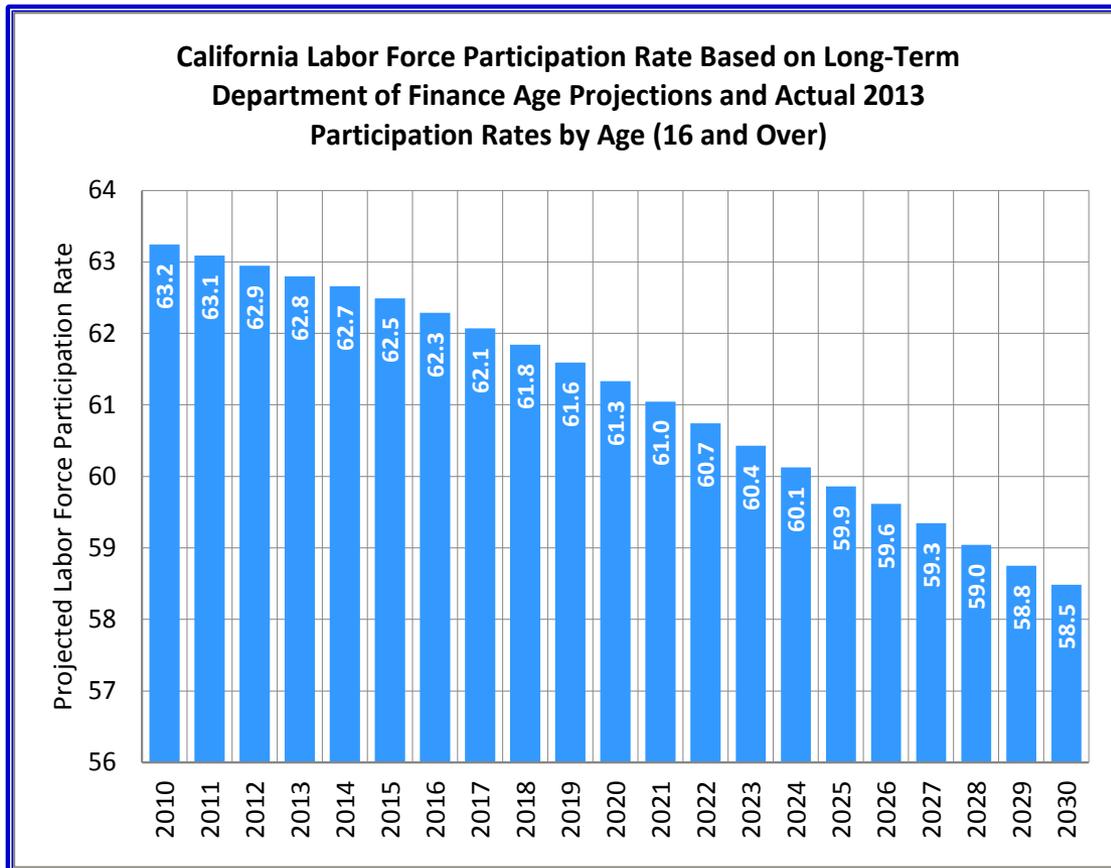
## California's Declining LFPR: What Role do Aging Baby Boomers Play?

California's labor force participation continues to decline even as the economy expands. To what degree are aging and retiring baby boomers pulling the rate down?

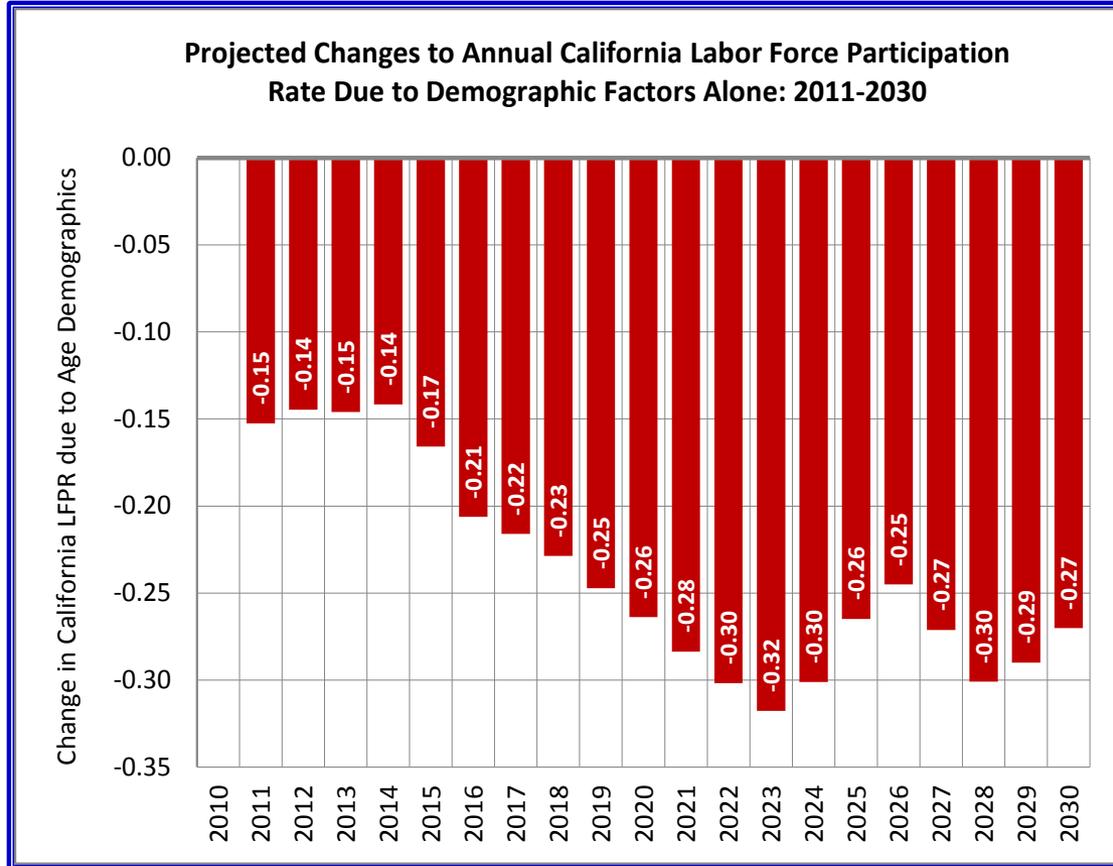


\* The California Department of Finance publishes population by age projections for the years 2010 through 2060, from which estimates of California's working age population by age can be calculated.

\* Applying 2013 LFPR by age estimates to the DOF age estimates allows one to project annual labor force totals and labor force participation rates based solely on changing age demographics.

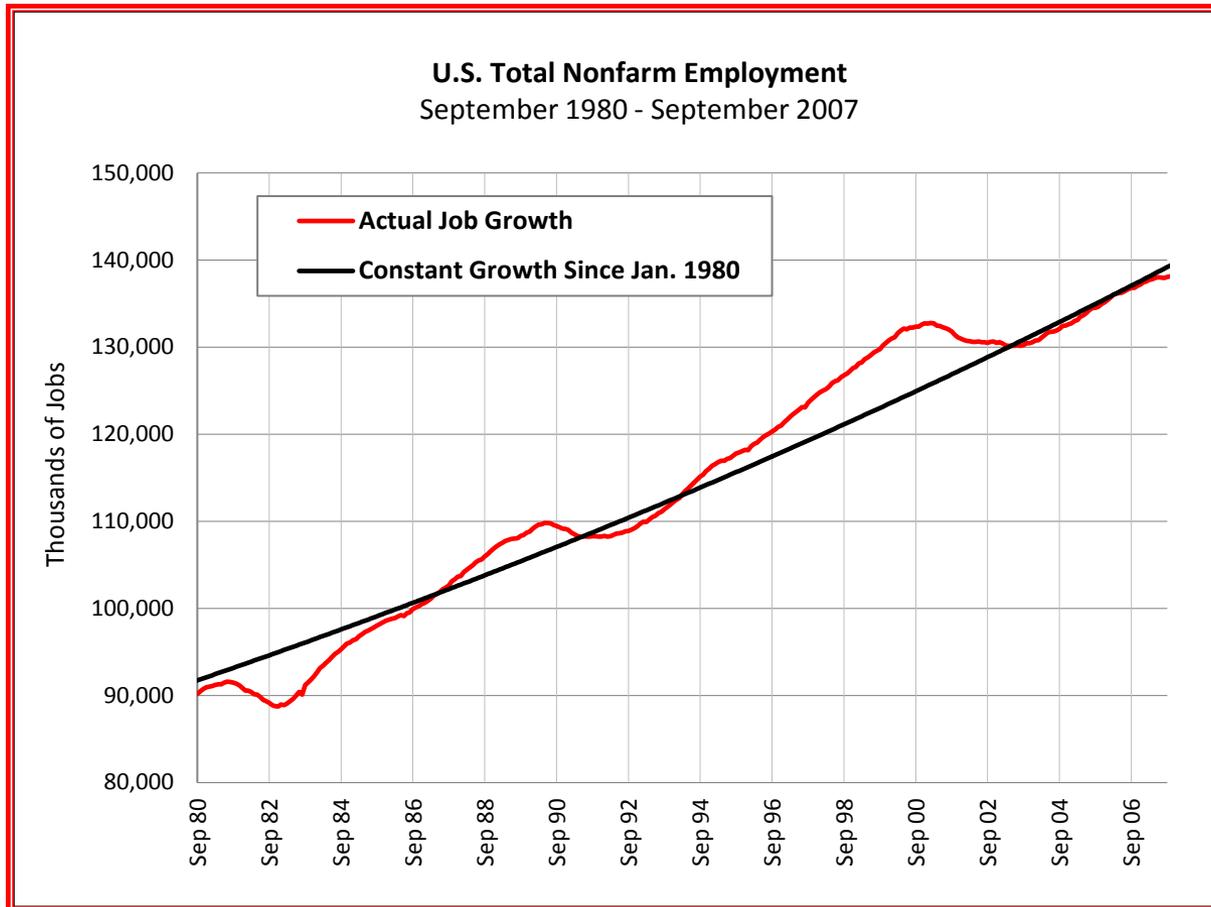


➔ Demographics have played a contributing role in the trend of declining labor force participation in California in recent years, and will assume a larger role in the years to come. However they only explain part of the decline. What else is going on in the economy?

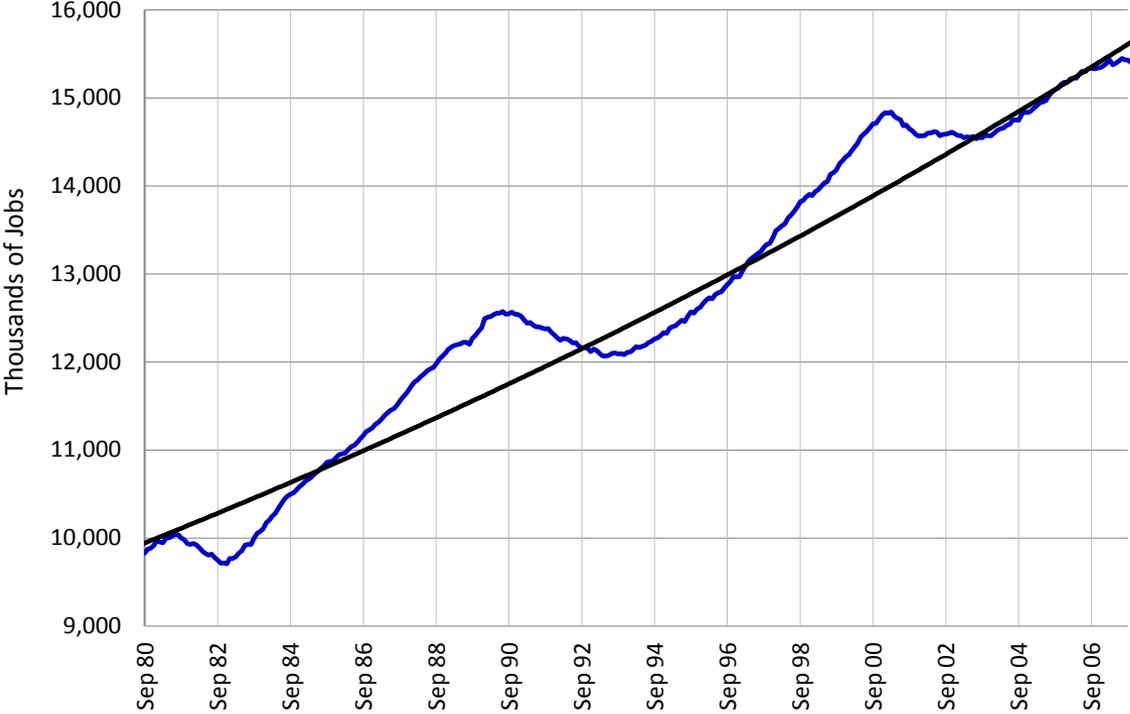


## Actual Job Growth vs Potential Job Growth in the U.S. and California

The following charts show the total nonfarm employment trends in the U.S. and California from September 1980 through September 2007. They show that employment grows with the population. They also show that despite the peaks and valleys of the business cycle, employment tends to converge on a constant growth trajectory, which one might call the normal employment growth path.

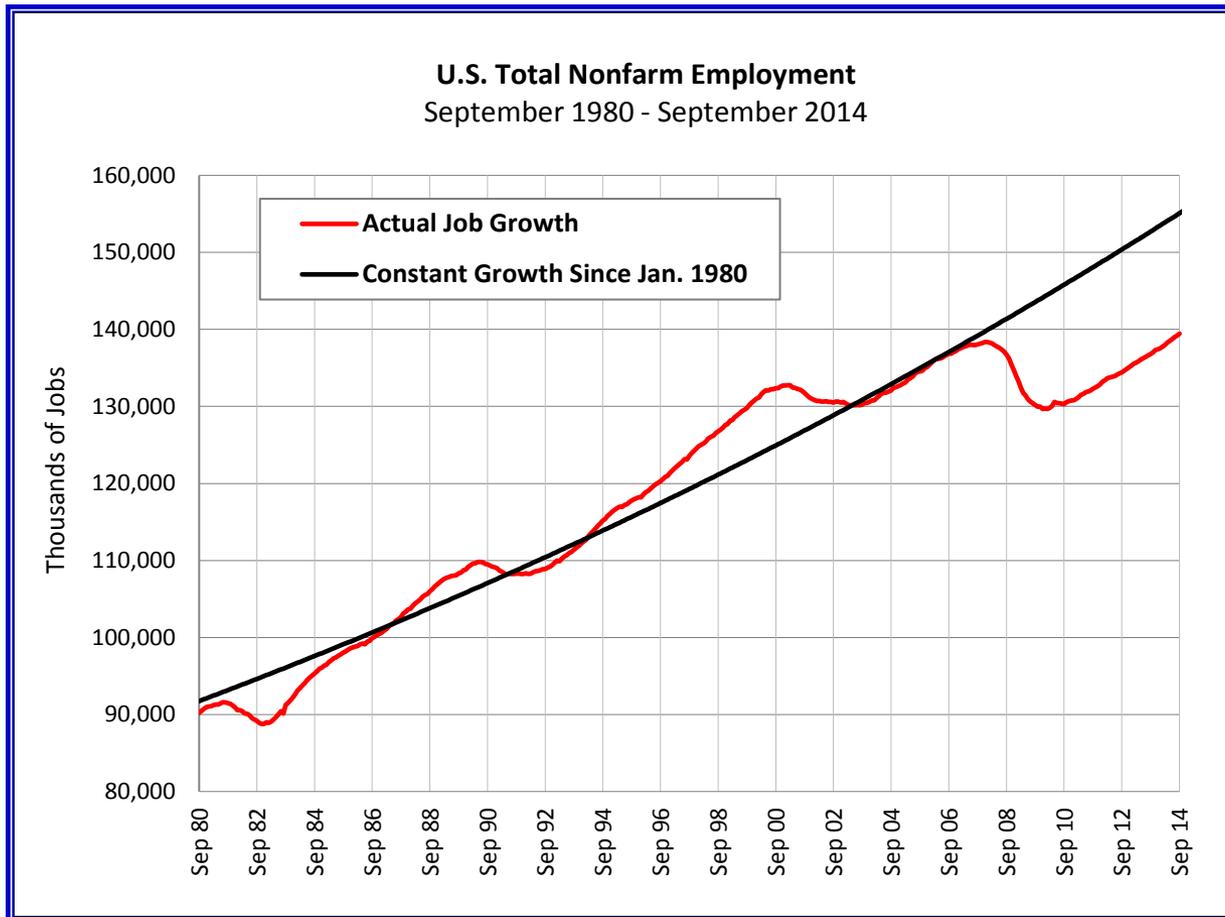


**California Total Nonfarm Employment**  
September 1980 - September 2007

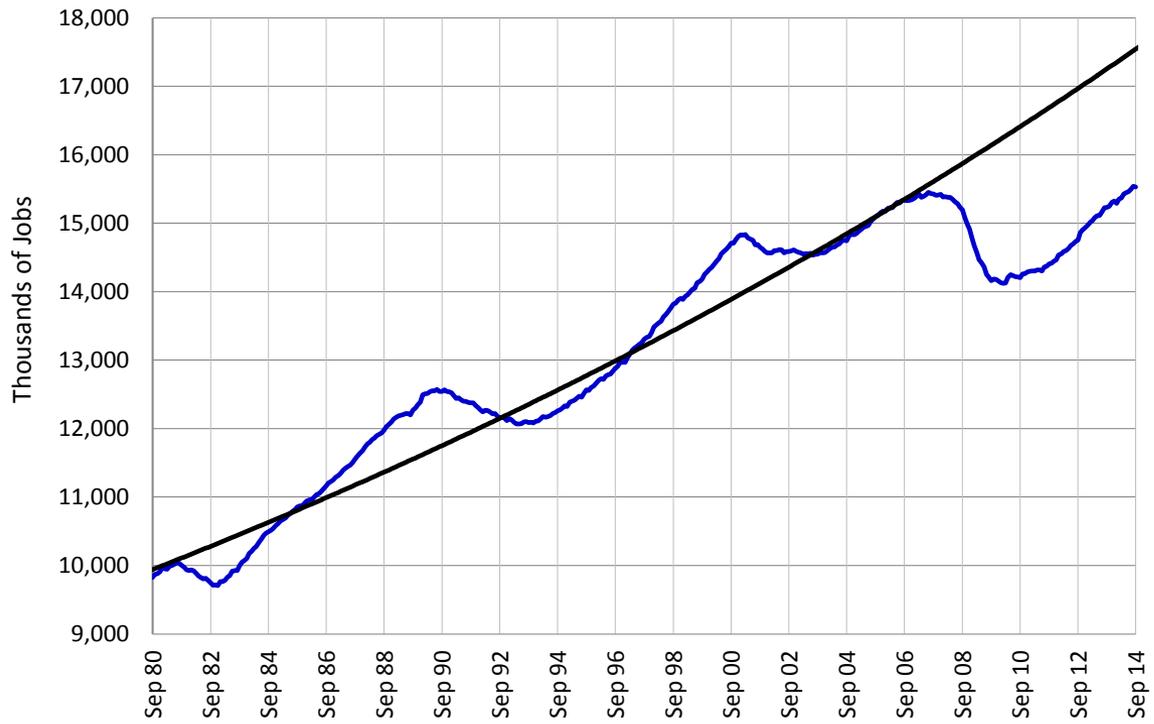


## What happens if one includes the Great Recession and subsequent recovery?

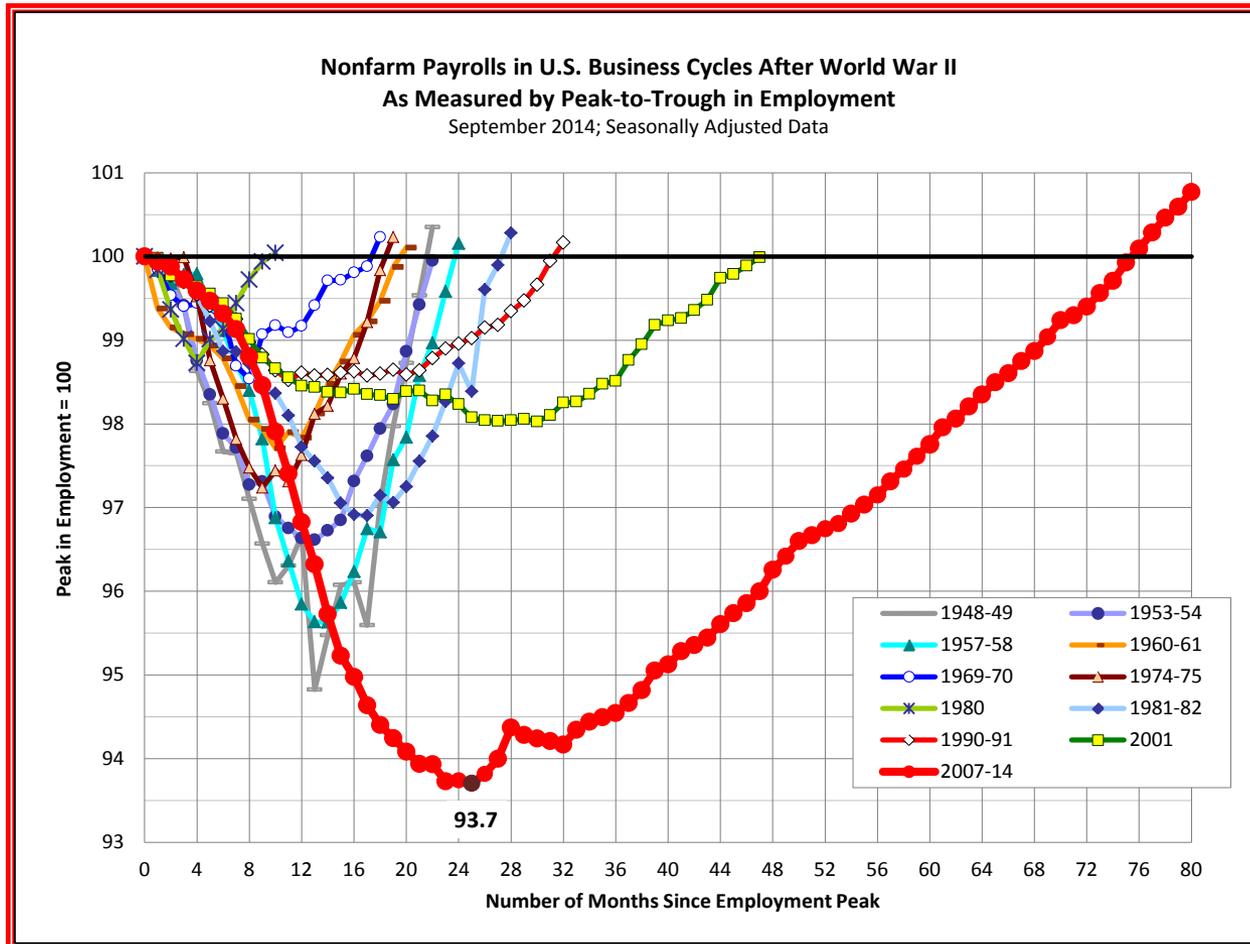
A noticeable gap appears between where the economy is today and where it should be on the normal job growth trend.



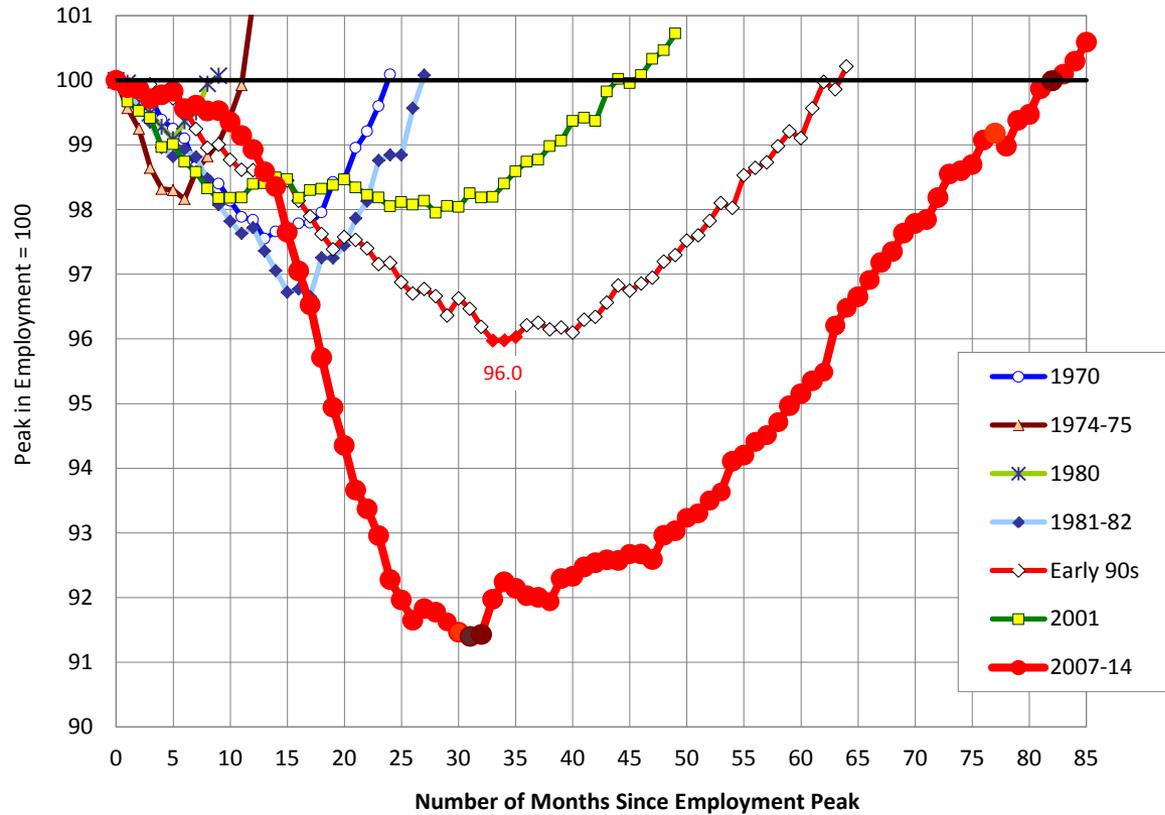
**California Total Nonfarm Employment**  
September 1980 - September 2014



It is the gap between where the employment is today and where it should be that appears to be the source of lingering weakness in the labor market. How large this gap might be is debatable, but appears to be overstated if one assumes a constant growth trend since 1980.

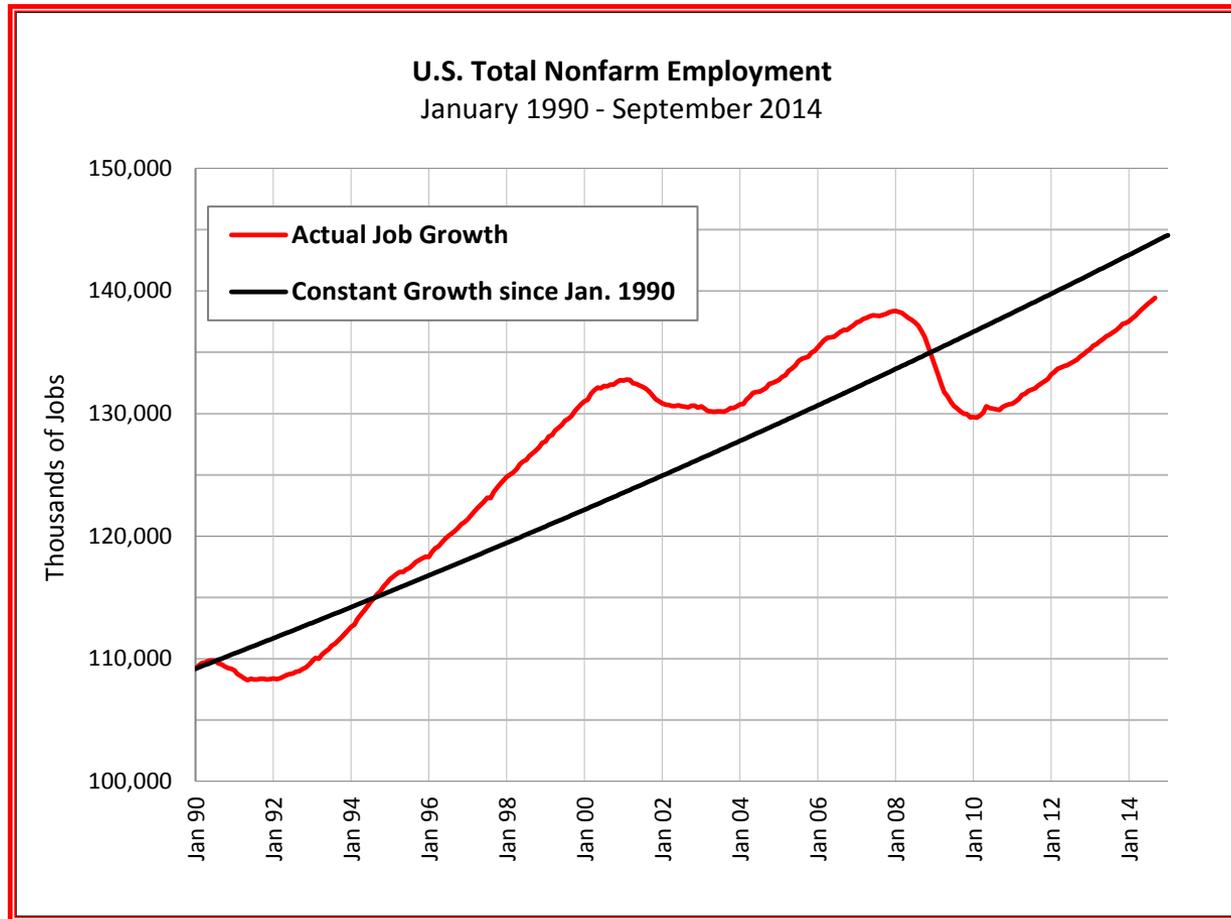


**Nonfarm Payrolls in California Economic Downturns 1970 to Present**  
**As Measured by Peak-to-Trough in Nonfarm Employment**  
August 2014; Seasonally Adjusted Data

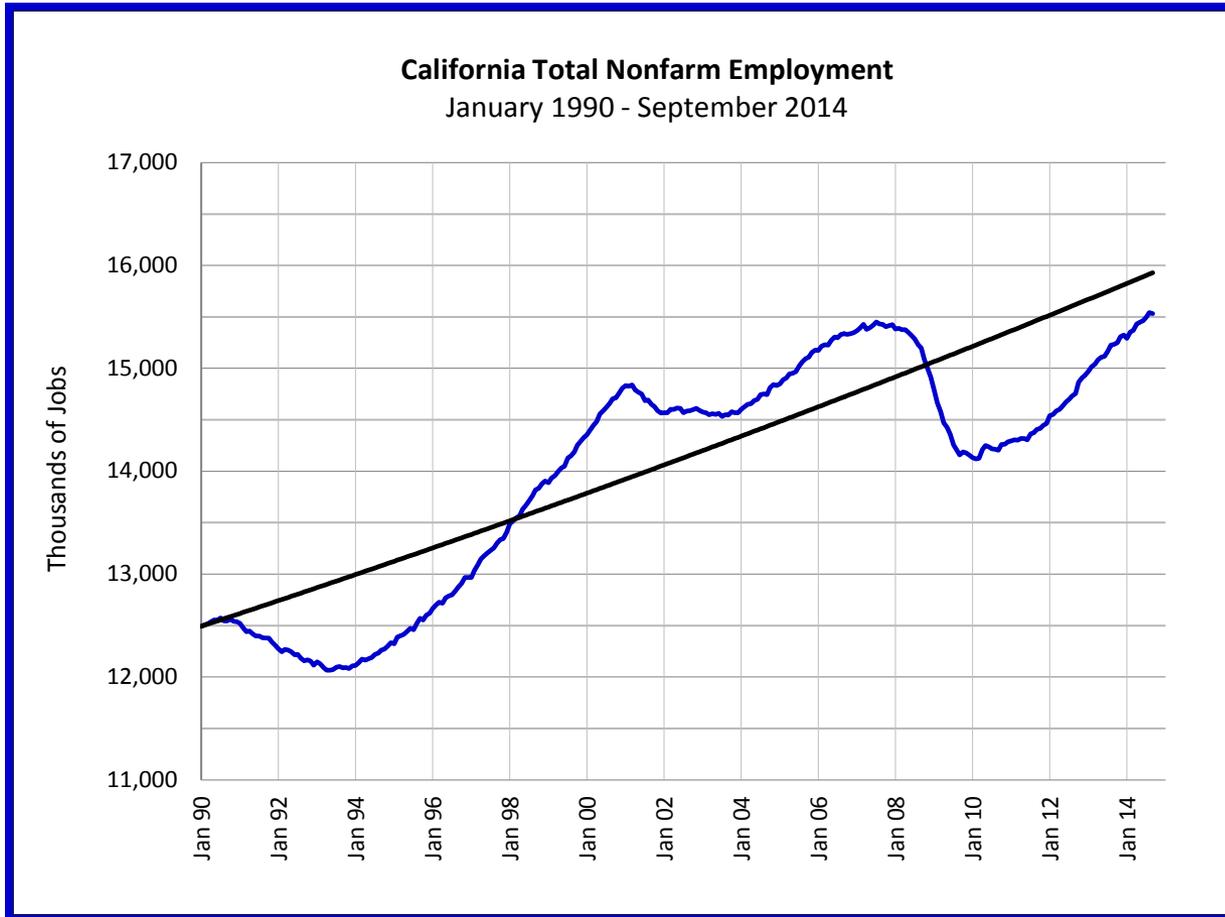


Both the U.S. and California economies have experienced U-shaped business cycles since 1990. The V-shaped cycle may be a thing of the past. What does the employment gap look like if one assumes constant growth since 1990?

➔ Nationally, the gap is smaller and narrowing (but only gradually).



**What does the employment gap look like if one assumes constant growth since 1990?**  
In California, the gap is narrowing much more rapidly.



**Why does the gap persist?** Possible, but by no means exhaustive, explanations.

- While the U.S. and California labor markets have recovered from the severity of the recession, which is no small achievement, they have yet to recover from its length.
- Economic Restructuring
  - End of the bubble economy, at least for the time being.
  - Shift in housing market from exurban development to infill has caused has led to restructuring in some sectors such as construction, retail trade, and financial activities.
- Labor-saving technologies and business practices.
  - Continued automation of production (robotics, etc.) and offshoring.
  - Expansion of automated services that displace workers such as online banking, online retailing, self-checkout stands in stores, computer/phone driven customer service, etc.
  - Rise of on-call work and scheduling.
  - Rise of informal work arrangements such as Uber and Airbnb.
  - Centralized check-outs in department stores/less customer service.
- Other/etc.

➔ As long as the employment gap persists it will be an employer's job market due to surplus labor, some workers will continue to be displaced over the long-term, and disillusionment about the prospects of finding a job among the more marginally attached workers to the labor force.