

6.8% Unemployment—Is the California Economy That Weak?

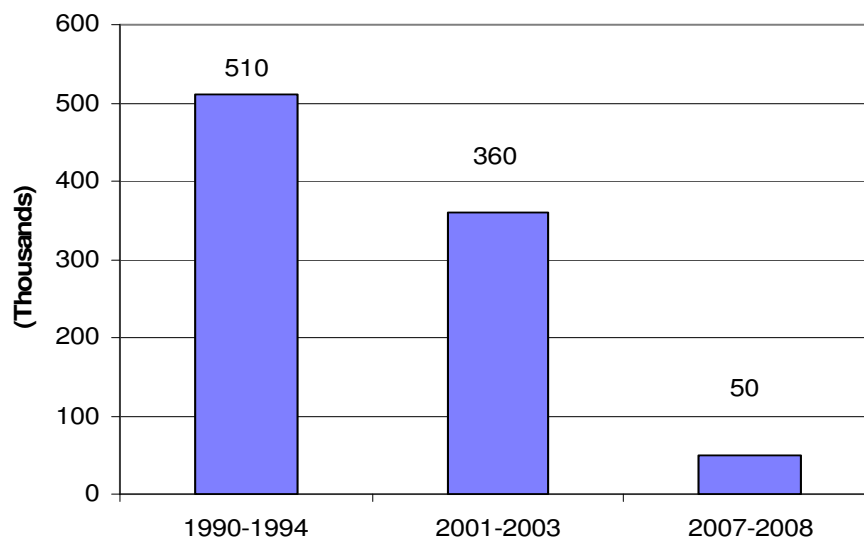
Each month the California Employment Development Department reports on the latest month's trends in jobs and unemployment. The June 2008 release reports a large jump in the state's unemployment rate to 6.8% in May 2008 from 6.2% in April. The last time the unemployment rate in California was this high was in November of 2003 as the long period of job loss after the Internet bubble burst was coming to an end. The 6.8% rate will undoubtedly be the headline story about this month's employment trends but does it accurately reflect that a sharp economic slump took place last month?

There is no question that the state economy is in a slowdown and that the slowdown will probably last for at least another year continuing the pressure on state and local government budgets into 2009 and 2010.

But job losses are small so far relative to past downturns. From the peak in July 2007, non-farm wage and salary jobs have declined by 49,600. The decline in May 2008 was 10,900 jobs of which 9,600 were in construction. In addition the April job loss was revised downward from 800 jobs to 9,100 so California has lost 20,000 jobs in the past 2 months.

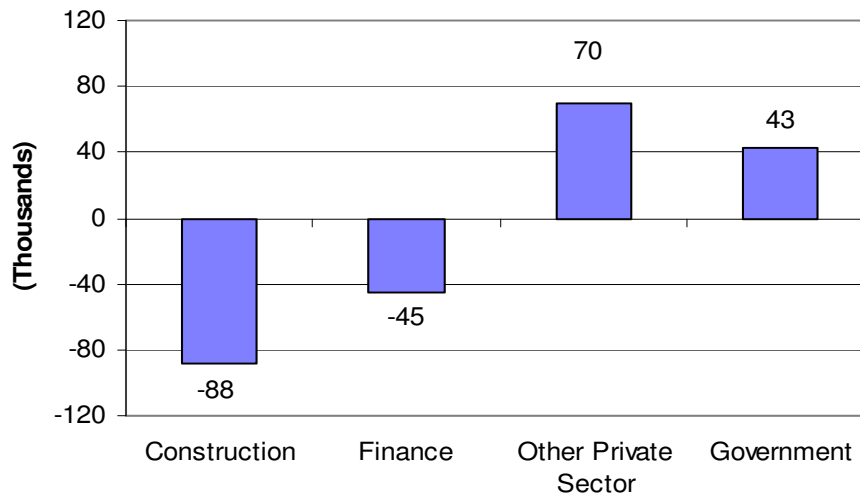
Still, current job losses of 50,000 are far less than peak job losses in California in the downturns that began in 1990 and in 2001.

Peak Job Loss in California Downturns



Recent job losses are concentrated in construction-related sectors. Not only were most of last month's job losses in construction, this has been true for the past 12 months as well. Construction and finance have accounted for 133,000 job losses, which were partially offset by gains of 70,000 in other private sector activities (mostly in health care) and 43,000 added government jobs.

California Job Trends May 2007-May 2008



The one silver lining is that housing-related job losses are probably nearly over. By next year at this time, there will be more jobs related to housing in the California economy because building and sales levels have declined so far that some rebound, however modest, is likely.

The continuing bad news is that consumer spending could fall a lot further. One overlooked statistic in the jobs report is that Retail Trade jobs have declined for four months in a row and are now more than 15,000 below year ago levels.

It is the consumer who will decide how long this slowdown lasts and how deep it becomes. So far consumer spending has not plummeted despite rising gas and food prices and the impact of gas prices on other prices such as airfares and goods delivered by truck.

So the job outlook ranges from flat to lower job levels a year from now depending on the consumer. Still, it would take a major drop in consumer spending to reach job loss levels experienced in the last two California economic downturns.

What to Make of the Unemployment Rate Jump?

There is no way to make turn the unemployment rate increases into anything but disappointing news. But the magnitude of recent jumps seems out of line with what is going on the in reported job estimates.

For the past 12 months California lost nearly 20,000 jobs while the number of unemployed residents jumped by nearly 300,000. In May 2008, the state lost 10,900 jobs while the number of unemployed residents was reported to increase by 115,900. How can this be?

There are three possible explanations. First, some previously self-employed workers, for example in construction or real estate, may have lost their job. This would count as an increase in unemployment but would not show up as job losses in the wage and salary job estimates that exclude self-employed workers.

Second, some of the new unemployed residents may be new entrants to the workforce. They became unemployed, not by losing a job, but by virtue of starting to look for work when no new jobs were being added. There is some confirmation for this from the unemployment insurance records. The California Employment Development Department reports that there were approximately 100,000 more residents receiving unemployment benefits in May 2008 compared to May 2007.

And the third possibility is that this month's survey results (the unemployment estimates come from a relatively small sample) could be a fluke and that next month's estimates will show a drop in California's unemployment rate.

The bottom line is that this month's jobs report confirms the ongoing weakness in California's economy in line with national trends but probably does not signal that the bottom fell out of the economy in May 2008.

**California's Unemployment Picture
May 2007-May 2008**

