Mixed Signals in California’s Labor Market Recovery

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California's labor market recovery slowed in September, as employers added just half as many jobs this month (47,400) as last, the lowest monthly gain since January. Nineteen months after the onset of the pandemic, California’s unemployment rate is tied for the highest in the nation (7.5%), and the state has yet to recover one-third of the jobs lost in early 2020. At the same time, historically high levels of job turnover—coined by some as the “Great Resignation”—along with high levels of job openings and wage growth complicate the picture of economic recovery.

**Job openings and resignations are historically high.** The “Great Resignation” is a little less great in California than nationally, but more Californians quit their jobs in August than at any point in the last two decades. Even though job openings are also historically high, turnover among those already employed contributes to slower job growth overall.

In August, 408,000 people quit their jobs, accounting for 2.5% of the state’s workforce, an historically high share. This “Great Resignation” is at least partially *delayed* resignation. During the worst of the pandemic,
the number and rate of resignations were well below normal, as many workers held onto jobs amid the uncertain labor market. For 12 months during the pandemic, there were over 1 million fewer resignations than expected based on the pre-pandemic trend. Resignations have picked up since the spring, but they still only represent a small share of what the pandemic suppressed.

Quitting can sometimes lead to better worker-employer matches, but this requires sufficient job openings. California does have an historically high share of job openings, though it’s still below the rate nationwide. However, there are more unemployed workers per job opening here than in other states, which could reduce job options for Californians seeking work or looking to change jobs, though this may vary across sectors.

**Wages are higher, contributing to job opportunity.** Persistently higher wages while jobs are still recovering in aggregate is a strong signal of the demand for workers in California. Higher wage opportunities may be one reason workers are choosing to switch employers, or quit and search for new work, at this point in the economic recovery.

The hard-hit leisure and hospitality sector has seen the largest growth in average weekly wages—a 16% increase compared to this time pre-pandemic (13.5% for the US). Employment increased faster in this sector in September than in any other sector. At the same time, the relatively small number of new jobs in this sector (23,300) made little dent in the remaining shortfall (about 370,000) compared to February 2020. Higher wages are thus not the only factor affecting workers’ job choices; health concerns, work conditions, and family considerations continue to loom large.
Labor force participation remains substantially below pre-pandemic levels. Though some workers may be exploring new employment opportunities, a sizeable share have not returned to the labor force.

The persistent shortfall in labor force participation is largest among women with children under age 5 (the presence of young children does not affect participation for men); at the same time, the difference between men and women overall is relatively small. This suggests that as of late summer/early fall, family decisions about work—which may factor in child care options, health, earning potential, and savings—continued to shift the odds that mothers with young children were working.

Labor force participation has recovered more among white and Black Californians and those with some college education or a degree. Notably, labor force participation remains 2% to 3% below 2019 levels for prime working-age groups, but exceeds 2019 levels among teenagers (16–19) and those near retirement age (55–64).

While the picture is mixed, recovery is trending in the right direction for California. For those who are changing jobs, strong wage growth and job openings are likely expanding opportunities. While employment and labor force participation are slow to tick up, especially for certain groups of workers, wage growth in hard-hit sectors like leisure and hospitality is a positive sign for labor demand. It’s too early to tell how persistent these patterns will be. Monitoring recovery across socioeconomic groups will be key to formulating responses to lingering gaps in the labor force.
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