California’s Jobs Recovery Has Been Stronger than We Thought
Every year, the Bureau of Labor Statistics revises their estimates of employment, and this year’s revisions have changed our understanding of California’s job recovery last winter. Overall, employment is still below pre-COVID levels and unemployment is 1.3 points above pre-COVID levels. The hardest-hit service sectors are driving most of the jobs shortfall, but other important parts of the economy are also still recovering. A wide variety of factors will shape jobs in these sectors in the year ahead. Some of these factors, such as COVID’s trajectory and remote work policies, have persisted over the past two years, while others are more recent—including supply chain problems, inflation, and difficulties filling job vacancies.

According to today’s estimates, employment is about 2% (or 353,000 jobs) lower than it was two years ago. As of February, 1 million Californians were looking for work, compared to 3 million during the worst part of the pandemic. As job opportunities have picked up, many who left the labor force have returned: 61.6% of Californians over age 16 are working or looking for work, about 1 point below the pre-COVID
rate. The pace of the COVID recovery has been unprecedented: jobs have recovered as much over the past two years as 6 years after the onset of the Great Recession.

The revised BLS data paints a more favorable picture of the labor market recovery than the estimates we saw in December 2021. Indeed, the average monthly growth in 2021 increased from 79,500 to 87,400 jobs per month and December’s employment was about 250,000 jobs higher than originally estimated.

Revisions are necessary because official employment estimates come from a monthly survey of approximately 4,000 establishments, which must be benchmarked to the “complete” count of jobs derived from state unemployment insurance tax records. In periods of dramatic economic change—such as the pandemic—this survey benchmarking is critical.

The revised estimates show that in March and April 2020, the state lost 44,000 more jobs than initially estimated. However, the recovery from the pandemic-induced low in April 2020 was stronger than previously estimated: between May and December of 2021, the state recovered 80% of the jobs lost instead of 72%. The largest revisions were in the educational services sector as well as the hardest-hit service sectors: accommodation and food services; arts, entertainment and recreation; and other services.

As of February, 75% of the 353,000 jobs shortfall is in the hardest-hit service sectors (mostly accommodation and food service, one of the largest sectors in the economy).
The shortfall in government employment also contributes to the remaining gap in jobs. Overall, the sector is about 110,000 jobs below pre-pandemic levels. As noted in an earlier post, local government employment is the driver of these declines; state government employment has increased slightly.

Other sectors have exceeded their pre-pandemic job levels. After losing 100,000 jobs initially, professional and technical services gained about 120,000. The transportation and warehousing sector lost about 50,000 jobs initially but has since gained 160,000.

While the overall jobs trajectory is positive, workers and businesses in some sectors continue to struggle. Wages have increased markedly in accommodation and food services, as employers seek to draw workers back to a sector battered by the pandemic. But job openings remain elevated, which could reflect temporary hiring frictions—or it could signal longer-term changes in the workforce.

In addition, the strong demand for goods that has boosted the transportation and warehousing sector is also driving supply chain bottlenecks and price pressures. Supply chain issues have caused ripple effects across sectors, which could slow the employment recovery.

These headwinds will continue to buffet California’s economy and some of its workers and businesses. But the state should be well positioned to address economic challenges in the context of a rapid recovery. In the coming months, we will start to see whether shifts such as remote work and muted employment in leisure and hospitality become permanent or return to prior patterns. These concrete indications of the post-COVID economy should guide California’s efforts to spur economic growth and prepare for future workforce needs.
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