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California Is Signaling a Recession. Will the Rest of the U.S. Follow?

The U.S. unemployment rate has fallen to historically low levels in the past two years, even as the Federal Reserve has ramped up interest rates to tamp down inflation. But record-low unemployment isn't the case any more in California, the nation's most populous state, where a steadily climbing unemployment rate might be moving beyond normalization and into treacherous territory.

It is tempting to write off California's unemployment spike as a localized effect of the tech industry's rebalancing. Yet, based on at least one economic indicator, the state's labor outlook is signaling that a nationwide downturn could be in the offing.

California's unemployment rate increased from 3.83% in August 2022 to 4.5% in May 2023; the national unemployment rate was 3.7% last month. That means California's three-month moving average rose by 0.63 percentage points relative to its low in the past year, putting the state in or near recession territory, according to the well regarded Sahm rule.

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