UC RIVERSIDE University of California School of Business
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Inland Empire Economic Forecast Conference
October 11, 2018

Forecast Highlights

The Inland Empire—consisting of Riverside and San Bernardino Counties—has rebounded strongly from the trough of the Great Recession in terms of employment, income, and population growth. Gains in population have been due in part to the ongoing quest for affordable housing—the Inland Empire is one of the most affordable regions in the state. From July 2017 to July 2018, nonfarm employment in the Inland Empire increased 3.4%, outpacing California as a whole by 1.4 percentage points.

For a region that was among the hardest hit by the recession and the mortgage market meltdown of the past decade, this is welcome news. The Inland Empire has sustained a faster pace of nonfarm employment growth than the state since April 2012 and the region's unemployment rate will finish the year at around the 4% mark. Nearly every local industry has added jobs over the past year and employee wages are on the rise.

Looking to the year ahead, the region will continue to experience job growth and income gains. Although the relative affordability of the Inland Empire has insulated it from the flattening labor force growth occurring in many parts of the state, additional housing units will be necessary to ensure continued growth. In the future, population growth and increased demand in key sectors such as Logistics and Manufacturing will continue to play a major role in the Inland Empire economy.

The economy of the Inland Empire has come a long way in the past few years.

- **Even as the pace of job creation has slowed, the Inland Empire has outpaced state and national job growth for six years running**.
- Job gains have pushed the Inland Empire's unemployment rate below that of California's as a whole.
- The Inland Empire's growth in taxable receipts has outstripped growth in other metropolitan areas of Southern California.
- The Inland Empire is the only region in Southern California where the population is growing by more than 1% annually.

Annual Growth Rates, Inland Empire

Metric	2016	2017	2018
Total Nonfarm Jobs*	3.6	3.5	3.4
Unemployment Rate*	6.0	5.0	4.1
Taxable Receipts**	6.6	2.0	7.9
Population	0.9	1.3	1.2

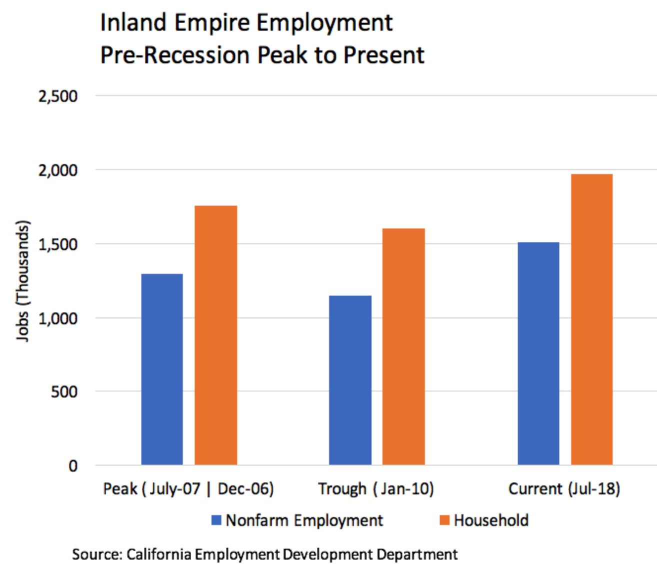
Sources: CA Employment Development Department, CA Board of Equalization, CA Department of Finance

*Based on year-to-date average through August

**Based on year-to-date total through the first quarter

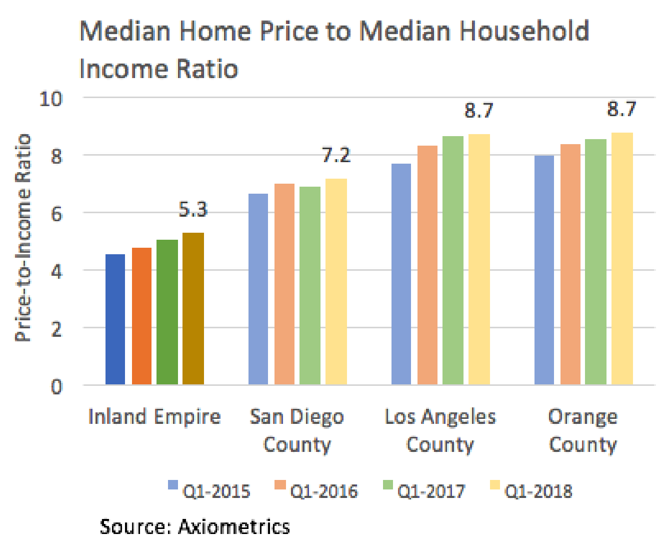
The Inland Empire has become a hot region for jobs; local businesses are adding workers faster than local residents are finding work.

- From July 2017 to July 2018, the Inland Empire added 50,100 jobs, surpassing the County of Los Angeles, which added 48,000.
- Local gains have been broad-based, across myriad industries. The Professional and Business Services sector leads the pack with 9,500 jobs added over the year.
- With employment 90% above its prerecession peak, the Logistics sector has also performed well, led by surges in employment in Truck Transportation and Warehousing and Storage.



Like the U.S. and California, **the Inland Empire's housing market faces a significant shortage.**

- Even though the Inland Empire is a relatively affordable part of Southern California, **would-be buyers face a number of hurdles:** rising prices, higher mortgage interest rates, and tough underwriting requirements.
- The Inland Empire's steadily growing economy, the accompanying income and job gains, and low interest rates imply there is room for home prices to continue to appreciate.
- Year-over-year increases in rent in the Inland Empire are outpacing the rest of Southern California.
- Permitting activity in housing construction has slowed in 2018 compared to 2017.



California continues to land in record territory with its unemployment rate at 4.2% for the fourth month in a row (as of July 2018).

- So far in 2018, all but the Natural Resource/Mining industry have experienced job gains in California.
- Sluggish home sales are symptomatic of the state's tight housing market, which is mainly due to lean supply and strict lending standards as compared to the height of the housing bubble.
- High housing costs will impede California's economic growth over the long term to the extent that these costs serve as a deterrent to labor force growth.

The U.S. economy has been on a solid upswing but current international trade battles could spell trouble.

- Growth in GDP and industrial production has been the best the U.S. has seen in recent years.
- The tax plan passed last year was not an overhaul but a short-term stimulus that borrows from the future.
- Looking forward, GDP growth will soften for the rest of this year and edge down in 2019.
- Inflation has heated up recently but that does not indicate higher permanent inflation.