

Inland Empire Economic Forecast Conference

October 25, 2017

Forecast Highlights

The Inland Empire – consisting of Riverside and San Bernardino Counties – has been a powerhouse of employment and population growth in Southern California in recent years as gains have moved inland and saturated coastal economies have slowed. In terms of nonfarm employment, the Inland Empire realized a growth rate of 2.7% from July 2016 to July 2017, outpacing California as a whole by 1 percentage point.

This is welcome news for a region that was among the hardest hit during the ‘Great Recession’ and housing crisis of the last decade. The Inland Empire’s unemployment rate will finish the year below the 6% mark, with nearly every local industry adding jobs over the past year and employee wages on the rise.

Looking to the year ahead, the region will continue to experience job growth and income gains, supported by key industries such as international trade and goods movement, construction, and leisure and hospitality. Moving forward, population growth and increased demand for domestic goods and services is likely to play a major role in the Inland Empire economy. In response to robust gains in home values and tightening rental vacancies, residential construction is expected to pick up in 2018—easing current limitations in the affordable housing base.

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

- **Even as the pace of job creation has slowed, the Inland Empire has outpaced state and national job growth for five years running.**
- Job gains drove the unemployment rate down 0.5 percentage points over the last year, closing the gap between the Inland Empire and the state as a whole.
- Improvements in household finances have led to greater consumer spending in the region.
- Population growth slowed to less than 1% during the recession but is expected to remain slightly above the 1% mark this year and next.

Annual Growth Rates, Inland Empire

| Metric | 2015 | 2016 | 2017 |
|---------------------|------|------|------|
| Total Nonfarm Jobs* | 5.1 | 3.6 | 2.6 |
| Unemployment Rate* | 6.6 | 5.9 | 5.4 |
| Taxable Sales** | 4.8 | 6.0 | 2.1 |
| Population | 1.1 | 1.0 | 1.4 |

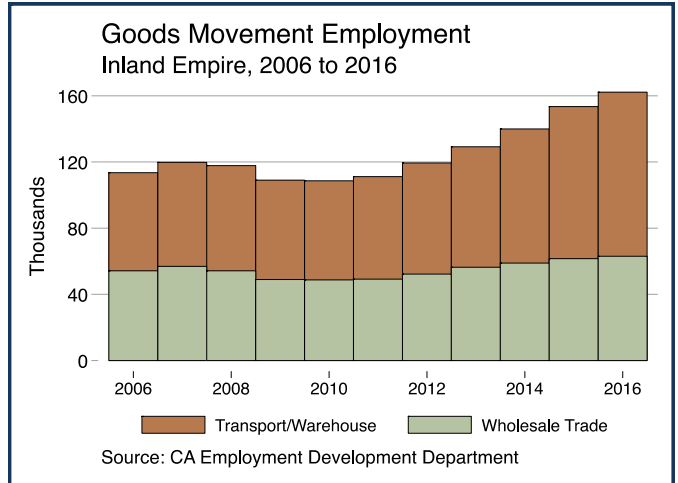
Sources: CA Employment Development Department, CA Board of Equalization, CA Department of Finance

*Based on year-to-date average through August

**Based on year-to-date total through June

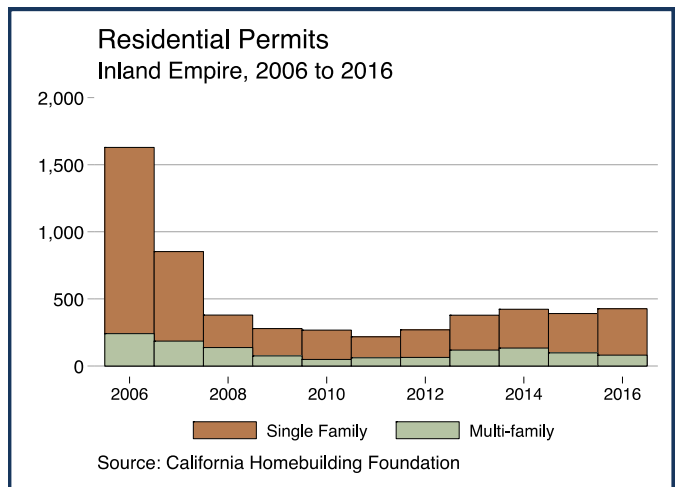
While the **Southern California international trade and goods movement sector** has seen mixed employment growth, the Inland Empire has remained a bright spot.

- Through August, container activity at the San Pedro Ports was substantially higher than one year earlier, with a significant bump in outbound/export containers.
- The Inland Empire has captured the lion's share of Southern California's job gains in the industry and offset some losses in neighboring metro areas, adding 3,300 positions over the past year.
- Increased **activity in this sector has driven demand for warehouse and other industrial property higher** and vacancy rates lower.



Like the U.S. and California, **the Inland Empire's housing sector still has room for improvement.**

- Home prices have increased but remain below the peak levels reached prior to the recession.
- Home sales are on the rise, but activity is proceeding at a moderate pace.
- While new home construction remains well below levels seen during the construction boom, permit levels did reach a post-recession high in 2016.
- **Despite low mortgage rates, would-be buyers face a number of hurdles** even though the Inland Empire is a relatively affordable part of Southern California: rising prices, high down payments, and tough underwriting requirements.



California surpassed the United States in economic growth last year and has added jobs at a faster pace than the nation in each of the last five years.

- Hovering near 5%, the state unemployment rate is approaching a 17-year low and is expected to constrain future growth.
- While the state's tech sector experienced setbacks recently, **nearly every industry added jobs in 2017.**
- Growing incomes and profits have fueled increases in taxable sales by consumers and businesses.
- **As the state affordability crises worsens, supply-oriented housing policy will continue to be critical** in supporting labor force growth.

Despite political instability, **the United States economy saw steady growth over the last year.** The national labor market continues to improve and every major industry, excepting retail trade, added jobs this year.

- Thanks in part to strengthening business investment, U.S. GDP is on track to grow at a faster rate in 2017 than in the last two years.
- With the U.S. unemployment rate near 4%, **the national economy is effectively at full employment**, which will give rise to wage gains this year and next.