The Inland Empire Business Activity Index tracks performance of the Inland Empire regional economy on a quarterly basis and is adjusted for seasonal variations. The composite indicator is estimated using a wide range of economic data including employment, economic output, income, real estate, and other indicators at the national, state, and metropolitan level.
Business activity in the Inland Empire grew a steady clip during the second quarter of 2018, increasing at a 2.6% annualized rate, according to the Inland Empire Business Activity Index produced by the UC Riverside School of Business Center for Economic Forecasting and Development. This fell below U.S. Gross Domestic Product (GDP), which advanced by 4.1% in the second quarter of this year according to initial estimates from the U.S. Bureau of Economic Analysis. In year-over-year terms, Inland Empire business activity grew by 4.0% from the second quarter of 2017 through the second quarter of 2018, a faster rate of growth than U.S. GDP, where year-over-year growth stands at 2.8%.

The 2.6% gain in the inland Empire’s estimated business activity during the second quarter was somewhat higher than the 2.2% gain experienced during the first quarter of 2018. The region’s business activity growth during the first quarter was on par with the growth rate for U.S. GDP (both advanced by 2.2%).

When the Inland Empire Business Activity Index is viewed alongside the region’s unemployment rate, which is in record low territory, and job gains that are outpacing the rest of Southern California, it is evident that the local economy has maintained a steady course through the first half of 2018, something that is expected to continue throughout the balance of the year.
The local Logistics sector made outsized contributions to business activity in the latest numbers, despite the current trade dispute between the United States and China. The Logistics sector has been a leading driver of growth in the Inland Empire and is experiencing continued improvement in goods movement activity in response to strong consumer demand locally and across the nation. Local job creation in the sector has eclipsed growth statewide, and warehouse/distribution properties remain in strong demand.

Recent gains in this sector stem from an acceleration in activity occurring through the San Pedro Bay ports of Los Angeles and Long Beach. Through the first half of this year, total container activity was up by 4.1%, with outbound containers up by 4.2% and inbound containers rising 5.2%. A portion of these trade flows, as well as those that move via air freight and truck transportation, pass through the Inland Empire at one point or another, and contribute to elevated levels of activity in the region. This is reflected in Logistics sector employment, which was up by 7.6% year-to-year as of June with just over 124,000 jobs.

The impact that the current trade tariffs will have remains to be seen. Part of this uncertainty is due to the fact that there is still an enduring threat of additional tariffs being enacted by both the U.S. and China. The San Pedro Bay ports accounted for more than one-third of the total value of imports from China in 2017, down from more than 53% in 2003. Of total imports from China, under 13% of the total value are commodities that are subject to the current round of tariffs, although that list could be expanded.

A combination of factors appears to have boosted trade numbers at the local ports and statewide during the first half of the year. Because of the strength of the U.S. economy, and steady economic growth among our trading partners, 2018 was expected to surpass 2017’s trade volume, which shattered the previous record for total throughput (outbound and inbound containers as well as empties) from 2006. However, uncertainty about trade policies may have caused some firms to shift their shipments to the early part of the year, making the outlook for the second half less certain.

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CHINA TRADE AND SAN PEDRO PORTS
2003 - 2018 YTD

Looking ahead, the Center for Forecasting anticipates business activity in the Inland Empire to increase between 2.5% and 3.0% in the third quarter of 2018. To date, the tariffs that have been enacted have not had any material influence on current economic growth—but it will be difficult to gauge the outlook if the tit-for-tat cycle continues. A true trade war will heighten uncertainty about the future of the economy and, in turn, could weaken economic fundamentals, but it is unlikely to tip the U.S. economy into a recession.