UCR | School of Business

CENTER FOR ECONOMIC FORECASTING AND DEVELOPMENT

INLAND EMPIRE
BUSINESS ACTIVITY INDEX

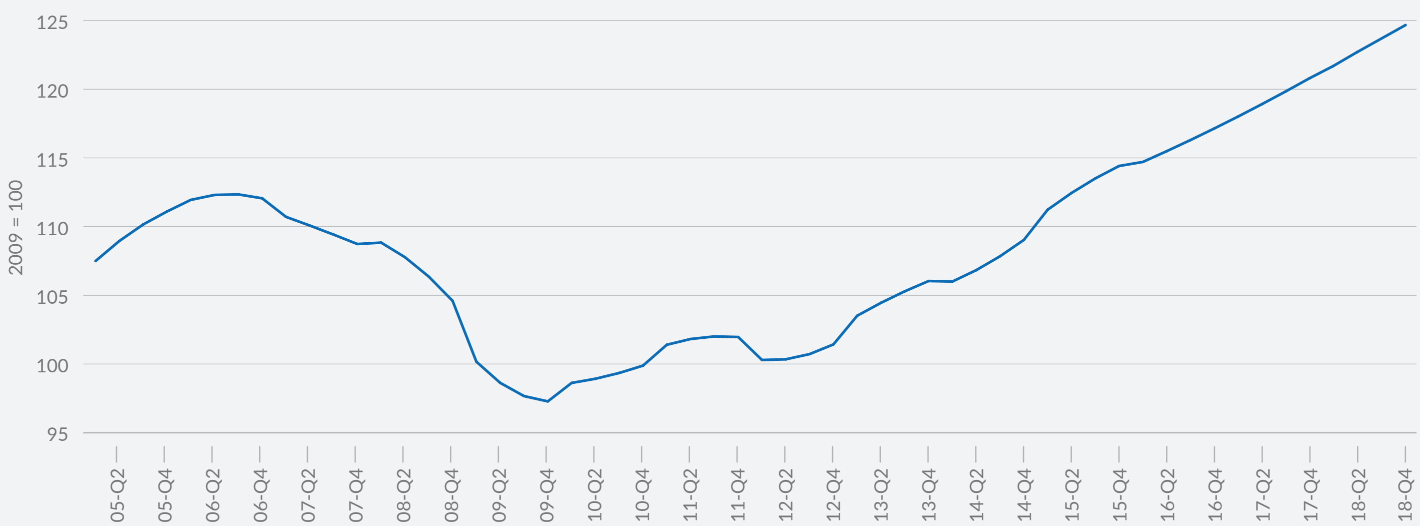
Quarter 4 | 2018

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.

INLAND EMPIRE
BUSINESS ACTIVITY INDEX

Business activity in the Inland Empire continued to advance at a steady pace in the fourth quarter of 2018 (the latest numbers available), increasing by an annualized rate of 2.2%. This falls slightly below the growth rate of U.S. Gross Domestic Product (GDP), which advanced by 2.6% over the same period. In year-over-year terms, business activity in the Inland Empire trailed the nation, growing by 2.4% from the fourth quarter of 2017 to the fourth quarter of 2018, compared to 3.1% growth for U.S. real GDP. This is a change from the last edition of the Inland Empire Business Activity Index when the region was outstripping the nation in year-over-year growth.

BUSINESS ACTIVITY INDEX
INLAND EMPIRE



Analysis by UCR Center for Forecasting

2018: A YEAR IN REVIEW

The Inland Empire stayed the course with a solid economic performance throughout 2018. The region remains one of California's fastest growing metros with total nonfarm employment increasing 3.2% year-to-year in 2018 compared to 2.0% in the state as a whole. These employment gains have also been broad based, led by solid increases in the region's time honored Logistics sector (transportation and warehousing employment), as well as in Health Care, Restaurants, and Local Government. Inland Empire residents benefited from improving economic conditions, as the unemployment rate in the local labor force declined 0.9 percentage points to 4.2%, a record low.

In addition to robust employment statistics, the strength of the local Logistics sector is also reflected in commercial real estate data. Rents for commercial property types were up across the board in the Inland Empire in 2018, reflecting an increase in demand. The strongest growth occurred in the Warehouse and Distribution segment of the commercial market, where rents grew by 5.1%. Vacancy rates were also down across commercial property types, with the exception of Warehouse and Distribution properties where vacancy increased 1.3 percentage points. This increase, however, was the result of an influx of new stock coming online in the second half of 2018.

900 University Avenue Riverside, California 92521 | Tel: 951-827-2792
cefd@ucr.edu | ucreconomicforecast.org

Construction activity in the Inland Empire is trending favorably, particularly for non-residential real estate. Despite growing 43.4% in 2017, non-residential construction activity continued its upward surge in 2018, with the total value of non-residential building permits increasing 6.3%. There was a noticeable slowdown in permitting activity in the commercial segment of the non-residential market, but the industrial segment and non-residential alterations kept nominal non-residential permit values above the elevated levels observed in 2017. Notably, a majority of the growth occurred in Riverside County (+13.4%) as compared to San Bernardino County (-2.4%).

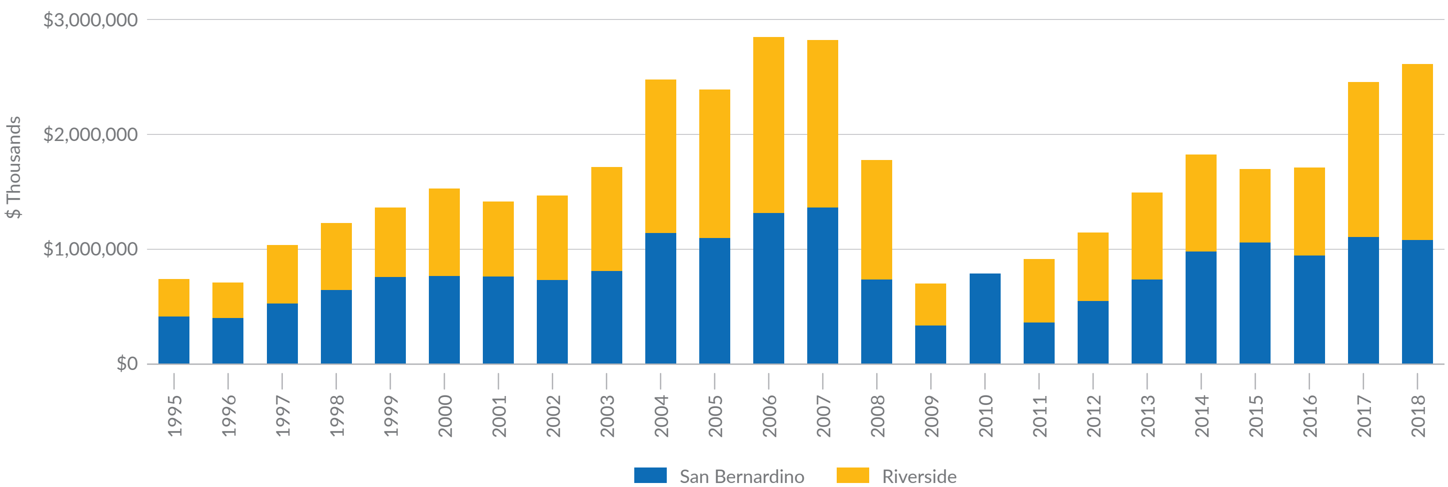
While non-residential construction activity experienced solid growth overall, residential real estate continued to turn in a mixed performance. The total number of residential permits issued in the Inland Empire in 2018 was slightly lower than in 2017 with 21 fewer units permitted. A drop off in permit activity occurred in San Bernardino County last year, whereas Riverside County increased permitting for single-family units by 76.9% and for multi-family units by 21.5%, enough to roughly match 2017. The increase in residential permits, however, was not enough to offset price growth for properties on the market. The median price for an existing single-family home in the Inland Empire increased 6.9% in 2018, despite a 6.8% decline in overall sales. Sales were also down 3.4% for existing condos while condo prices rose 7.1%. New home sales were in positive territory, increasing by 4.0% in 2018, although this is a relatively small segment of the region's overall real estate activity.

Although housing costs continue to consume a large portion of workers' paychecks in the Inland Empire (as they do in most of the state), incomes and consumption are both on the rise. Average weekly wages in the Inland Empire increased 2.0% year-to-year as of December 2018 while sales tax receipts were up 5.0% year-to-date through the first three quarters of last year (fourth quarter data was not available at the time of this writing).

Spending was up in nearly every major category, with the exception of Autos and Transportation, which was virtually flat. Fuel and Service Stations' spending increased 11.1% due to a rebound in oil prices, but because oil prices declined nearly 10% quarter-to-quarter in the fourth quarter of 2018, the annual figure will likely be less than two digits when all is said and done. Building and Construction spending rose by 9.3%, which reflects the increase in permit activity, particularly for non-residential real estate.

NON-RESIDENTIAL PERMIT VALUES

1995 TO 2018



Source: California Homebuilding Foundation; analysis by UCR Center for Forecasting

THE OUTLOOK

With 2018 in the books, there remains a considerable amount of uncertainty regarding the broader economic outlook for the coming year. Whether it's the ongoing trade dispute with China, stock market volatility, a decline in global growth among the world's largest nations, or slowing real estate markets both locally and nationally, there has been no shortage of eye-popping headlines. The UCR Center for Forecasting, however, remains confident that the Inland Empire is poised for solid economic growth in 2019, driven in part by sustained but somewhat slower growth nationally. Against this backdrop, the Center would expect to see better numbers in terms residential real estate activity, but still anticipates housing to remain on solid footing in the short term as economic fundamentals remain intact.

UCR | School of Business
CENTER FOR ECONOMIC FORECASTING AND DEVELOPMENT

900 University Avenue Riverside, California 92521 | Tel: 951-827-2792
cefd@ucr.edu | ucreconomicforecast.org