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.
The latest estimates of business activity in the Inland Empire were weaker than expected, with overall business activity increasing by just 0.8% annualized rate during the first quarter of 2019. This was noticeably slower than the advance estimate of U.S. gross domestic product (GDP), which came in above consensus estimates at 3.2% for the first quarter of this year. Similarly, in year-over-year terms, the growth rate of business activity in the Inland Empire cooled to 1.6% from the first quarter of 2018 to the first quarter of 2019, slower than the 3.2% year-over-year growth rate for U.S. GDP.

**A SYNCHRONIZED SLOWDOWN**

Although the Inland Empire economy has continued to grow, the pace of growth has slowed markedly in recent months. The region's 1.2% employment gain in March 2019 was less than half of the 3.8% gain achieved one year earlier. Total nonfarm employment growth in the Inland Empire had been outpacing both the nation and the state since early 2012, but a noticeable downshift in growth began in the second half of last year. The slowdown isn’t unique to the Inland Empire, but more of a regional transition occurring across Southern California as the current expansion has been constrained by slow growth in the labor force. Employment growth in the state as a whole cooled to a 1.4% pace in March, while the San Francisco Bay Area experienced a 2.3% rate of growth and Southern California saw just 0.8% growth. The Inland Empire is now growing at the same rate as San Diego (1.2%) but is still outpacing Los Angeles County (+0.7%) and Orange County (0.6%).
The slowdown in job growth, implied by the latest estimates of payroll jobs, is consistent with the recent trend in household employment figures for the Inland Empire, which come from a separate survey of individuals on the basis of where they live. It’s clear from the chart below that the drop off in growth has occurred in both payroll and household employment for Inland Empire residents. This has significance for the region’s industries and residents, since more than 80% of the Inland Empire’s working population work within the Inland Empire.

**INLAND EMPIRE EMPLOYMENT GROWTH**

**YEAR-OVER-YEAR GROWTH (%), JAN-12 TO MAR-19**

Source: California Development Department; analysis by UCR Center for Forecasting

**NONFARM EMPLOYMENT GROWTH COMPARISON**

**YEAR-OVER-YEAR GROWTH (%), JAN-12 TO MAR-19**

Source: California Development Department; analysis by UCR Center for Forecasting

The slowdown in job growth has been anticipated for some time but is not a reason to believe that the Inland Empire economy is taking a turn for the worse. The Center for Forecasting remains cautiously optimistic that the region’s economy will remain on a positive trajectory but advance more slowly in the coming quarters. The current growth outlook for 2019, while positive, is lower than in the previous edition of the Inland Empire Business Activity Index, reflective of the slowdown in the labor market that has taken place. Absent a newfound increase in the state and regional labor force, or a surge in productivity, which doesn’t happen over short time frames, regional output growth will be constrained by a limited supply of labor into the near future. For the second half of 2019, the Center for Forecasting expects business activity to grow just above 2%. Stay tuned.