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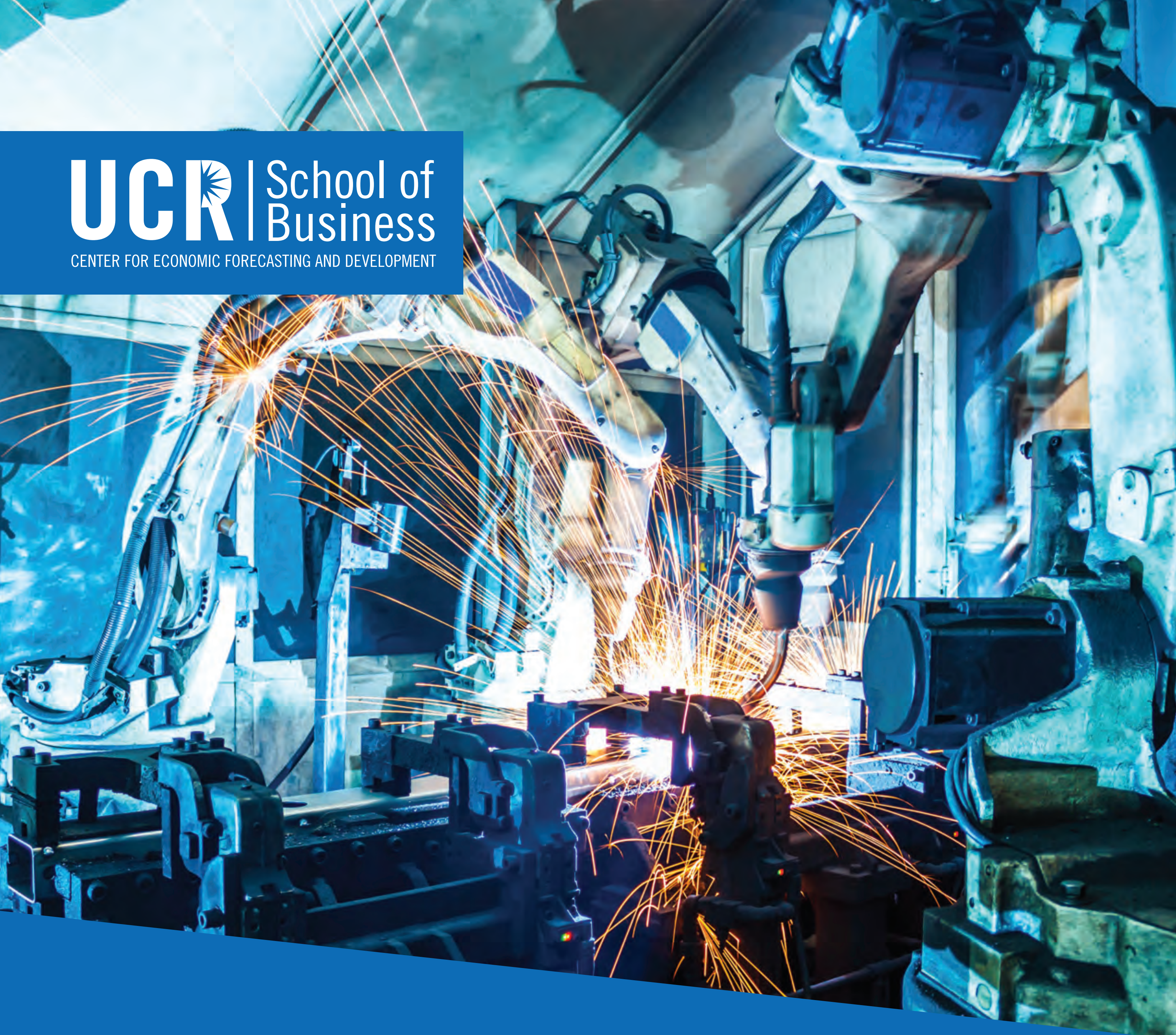


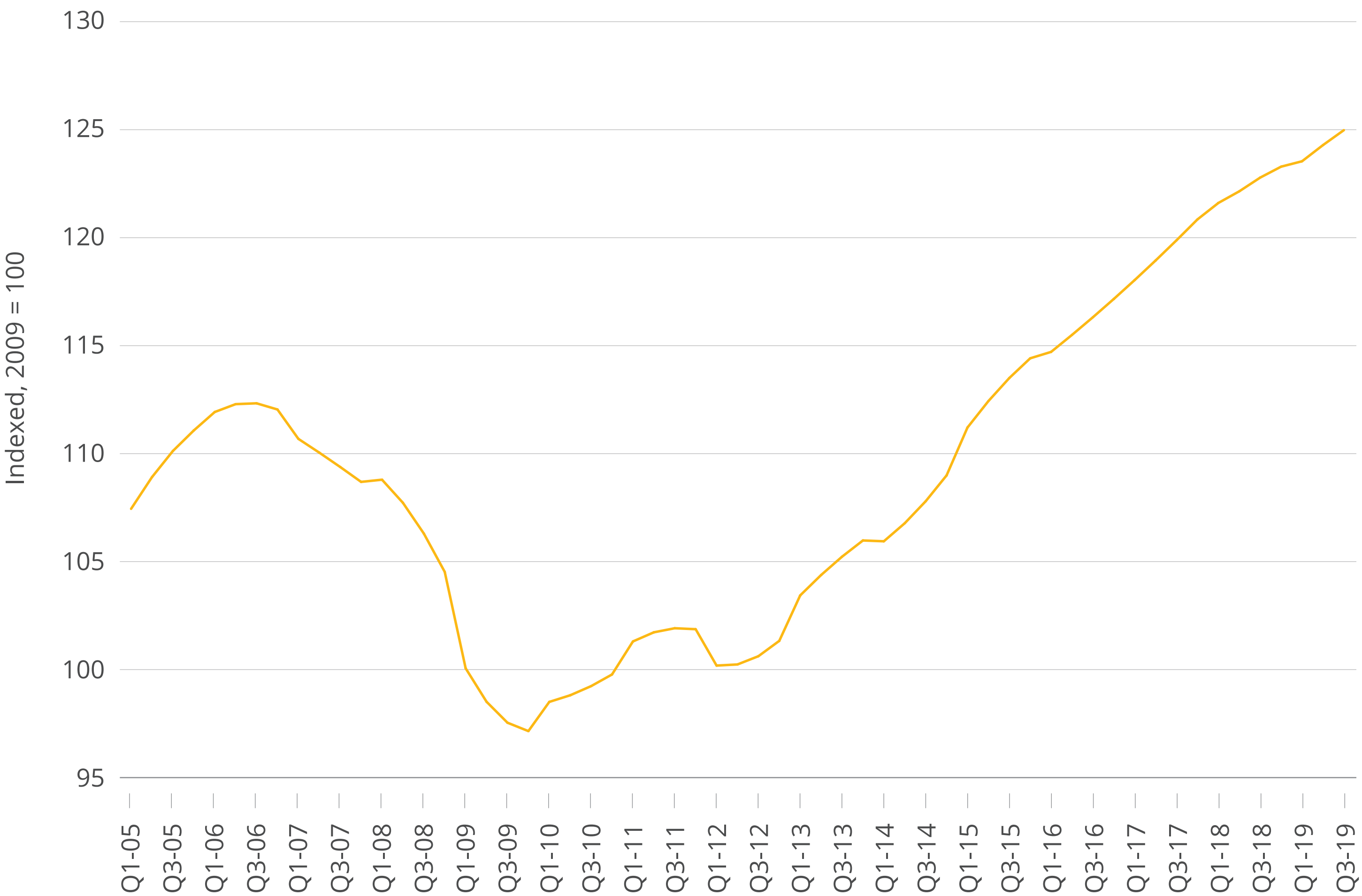
INLAND EMPIRE
BUSINESS ACTIVITY INDEX

Quarter 3 | 2019

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 expand at a steady pace in the third quarter of 2019 (the latest numbers available), increasing by an annualized rate of 2.3%. This exceeded the growth rate of U.S. Gross Domestic Product (GDP), which increased by 1.9% over the same period. This marks the second consecutive quarter in which growth in Inland Empire business activity surpassed the national rate. From the third quarter of 2018 to the third quarter of 2019, business activity in the Inland Empire was roughly on par with the national growth rate, advancing by 1.8%, compared to 2.0% growth for U.S. real GDP.

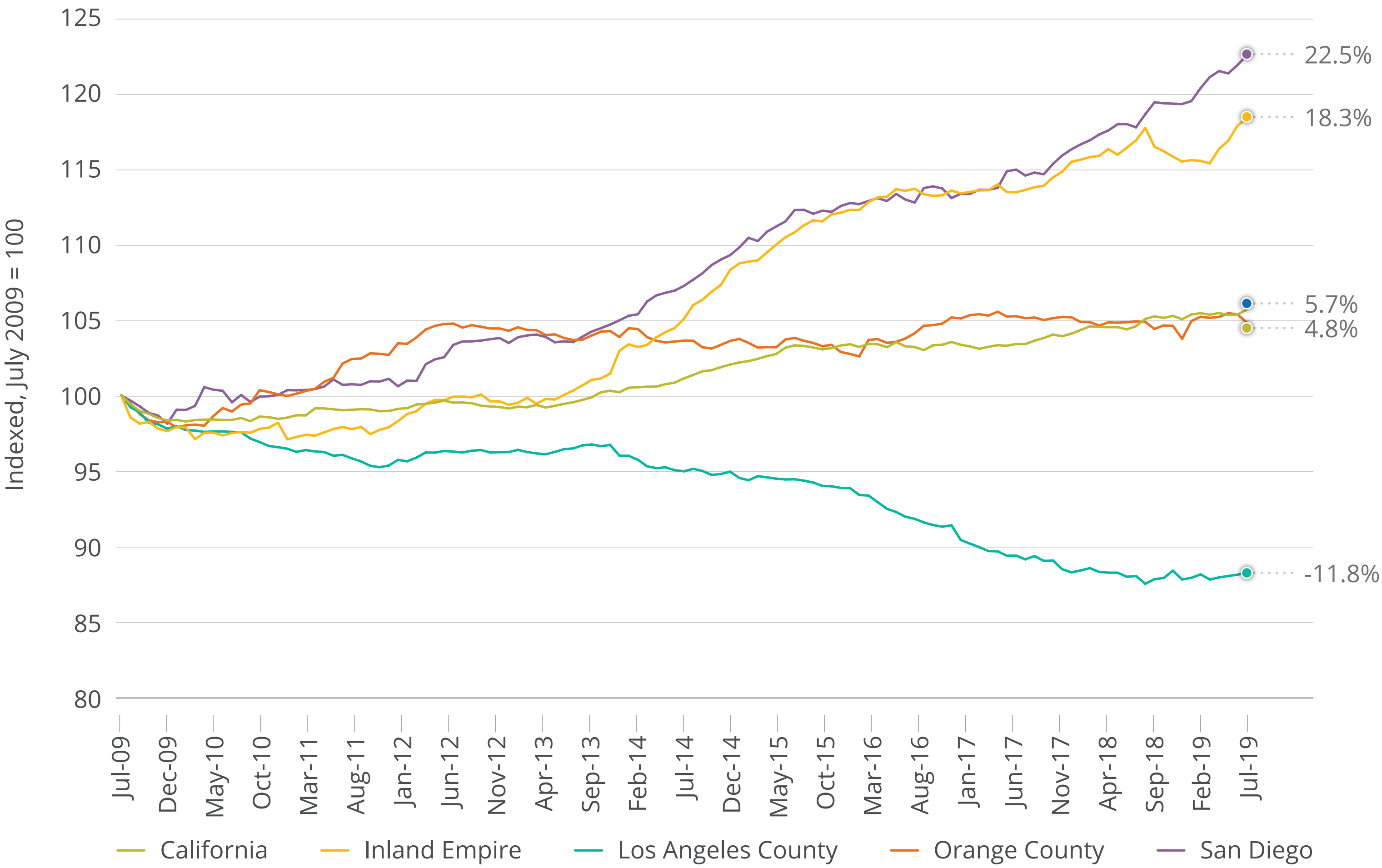
IN FOCUS:

Manufacturing

At both the state and national level sustained employment losses in the Manufacturing sector have occurred for decades, largely due to advances in technology that have reduced the number of workers required to produce manufactured goods. However, Manufacturing has made somewhat of a comeback since the depths of the Great Recession.

The graph below displays indexes rather than employment levels to better highlight the sector's relative growth among Southern California employment centers since the end of the recession. In the State of California, employment in Manufacturing has increased 5.7% since the end of the recession, although the longer-run trend has been one of sustained decline. By comparison, in the Inland Empire, Manufacturing employment has increased by 18.3% since the recession's end. During this time, the Empire has outperformed Orange and Los Angeles Counties, but has trailed San Diego County.

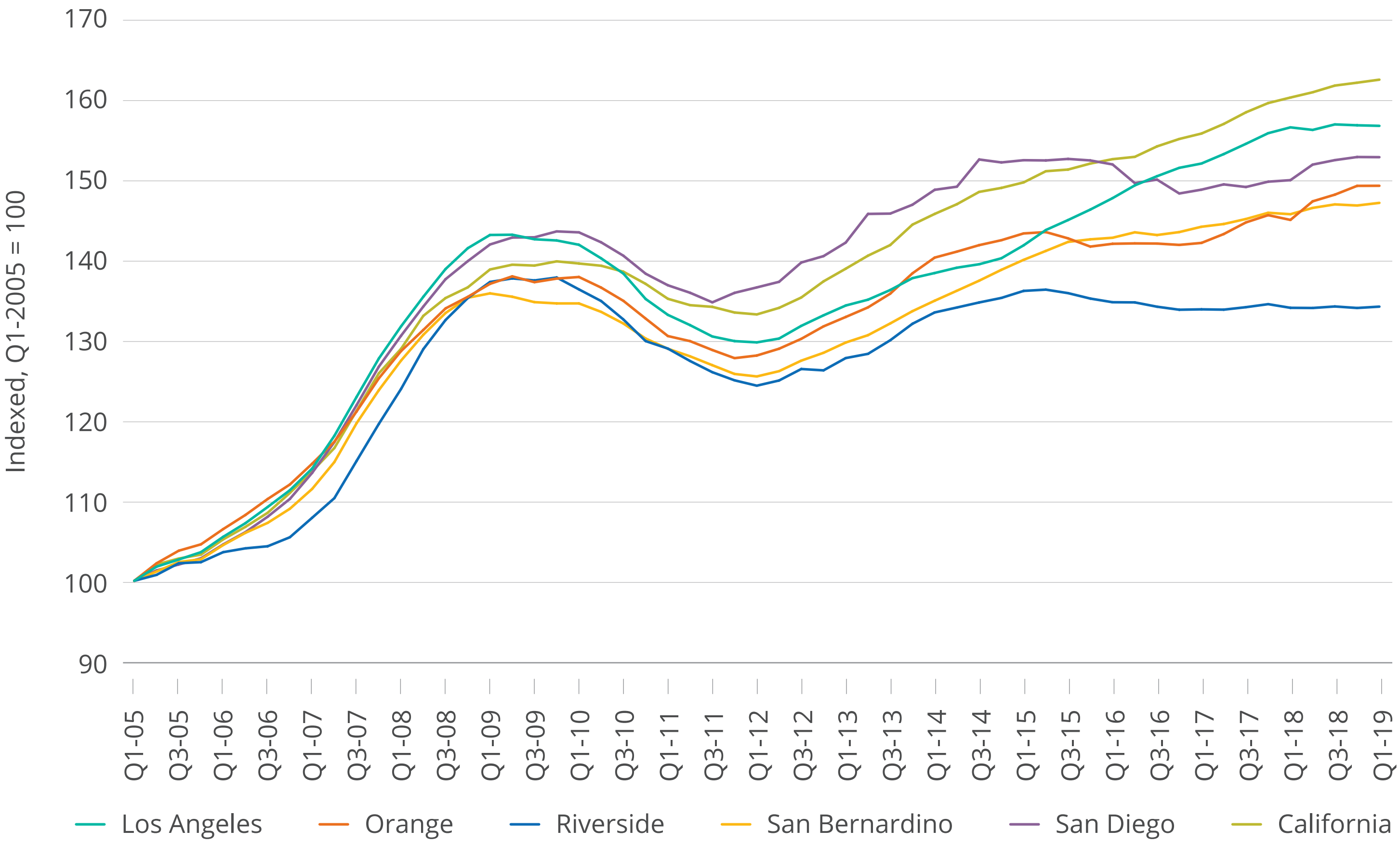
Since 1976, Manufacturing employment in the Inland Empire has nearly doubled, while areas such as Los Angeles County have experienced sustained declines, regardless of the business cycle. The Inland Empire has fared better than its neighbors because other parts of Southern California were heavily specialized in Apparel and Aerospace and Defense Manufacturing, which have been declining industries nationally.



INDEXED MANUFACTURING EMPLOYMENT
SELECTED SOUTHERN CALIFORNIA AREAS
Source: California Employment Development Department, Analysis By UCR Center for Forecasting

Manufacturing tends to be a highly cyclical industry, and during the recession, between 2006 and 2009, the sector's employment in the Inland Empire declined 28.6%. Substantial declines occurred in Transportation Equipment and Fabricated Metal Manufacturing. While the Inland Empire's Manufacturing sector has not fully recovered, it is an important growth industry that accounts for a large share (9%) of Gross Regional Product, and a smaller share of nonfarm employment (less than 7%). The recent employment gains in the industry are welcome, and have been largely concentrated in Food, Fabricated Metal, and Plastics Manufacturing, which together account for roughly 36% of the Manufacturing jobs added in the region since the end of the recession.

Manufacturing is comprised of a number of different sub-sectors, with some segments of the industry producing higher-value output, such as Computer and Electronic Manufacturing.



INDEXED REAL OUTPUT PER WORKER
SELECTED SOUTHERN CALIFORNIA AREAS
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Analysis By UCR Center for Forecasting

By contrast, Apparel Manufacturing tends to be lower value. The chart above displays real indexed output per worker in Manufacturing since 2005.[1] Notably, growth in output per worker has been pronounced at the state level as it has been influenced by the performance of the San Francisco Bay Area, which specializes in Computer and Electronic Manufacturing. There is also a notable divergence between the performance of Riverside and San Bernardino Counties over this period. Growth in San Bernardino's output per worker has held steady, while Riverside's output has been relatively flat for the last four years. The growth slowdown in Riverside County's output can be traced to employment in Computer and Electronic Manufacturing, which has slowed in Riverside County but increased slightly in San Bernardino County.

[6] To calculate output per worker we first derived a level of manufacturing GDP by taking each county's Manufacturing payrolls as a percentage of California's Manufacturing payrolls. These shares were then allocated to California Manufacturing GDP and divided by the number of Manufacturing workers in each area.

The Outlook

The Center's near-term outlook for business activity in the Inland Empire remains positive, with gains expected to continue into 2020. Over the next year, business activity in the region is forecast to rise between 1.9% and 2.4%. While the Inland Empire can count on years of growth in the Logistics sector and other key industries, the prospect of future labor shortages, caused in part by California's high cost of living relative to other parts of the nation, and a dwindling supply of workers, could limit economic growth over the longer term.

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