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.
Regional employment recovered more than 54,000 jobs in the third quarter as statewide cases of COVID-19 subsided from the early summer surge. Consumer spending continued to recover in the two-county region, before losing momentum toward the end of September. San Bernardino and Riverside counties remain among the top five counties in the state in terms of the most COVID-19 cases, at 2nd and 3rd, respectively. However, the local unemployment rate tracks below California’s, proving marked resilience relative to other regions of the state.

Despite a tumultuous year, the Center for Forecasting expects the broader economic recovery to find a better rhythm in 2021, a prospect bolstered by positive vaccine news. The Center will recalibrate its outlook accordingly in subsequent releases.

In the last edition of the Inland Empire Business Activity Index, the UCR Center for Forecasting reported that taxable sales (a lagging indicator of local business activity and consumer demand) declined 9.5% in the region from the fourth quarter of 2019 to the first quarter of 2020. Data revisions have put that decline closer to 4.0%. Taxable sales declined by a further 5.2% between the first and second quarter of 2020, which is likely to be the sharpest decline of the pandemic recession. This makes the outlook for third-quarter taxable sales more positive, although the current surge in COVID cases, renewed restrictions, and uncertain stimulus relief provide substantial downside risk.

Business activity in the Inland Empire bounced back significantly in the third quarter of 2020, reversing an annualized decline of 26.5% in the second quarter of 2020 to an annualized increase of 16.0% in the third quarter.

BUSINESS ACTIVITY INDEX
INLAND EMPIRE, 2005 TO 2020
Analysis by UCR Center for Economic Forecasting and Development
The Pandemic’s Impacts and Non-Impacts On Residential Real Estate

As the COVID-19 pandemic continues, this quarter’s release spotlights the housing market, a sector that has defied expectations in the Inland Empire throughout the pandemic. Compared to massive drops in employment and business activity, the housing market has remained relatively unscathed. Homebuyer sentiment took a hit in March and April as buyers and sellers grappled with the new constraints on the home-buying process. From March to April 2020, prices of existing single-family homes declined 2.3%, while sales fell 24.9%. The drop was short lived however, with home sales and prices recovering swiftly. Year-over-year home price appreciation in the Inland Empire tracked into double-digits in July 2020 and has continued to increase through October. Similarly, home sales quickly rebounded, increasing 55% from the second to the third quarter of 2020. Historically low mortgage rates, resulting from market concerns over the pandemic’s economic impact, and persistent low inventory, have added upward pressure in response to the surge in demand.
In Riverside County, where the median price of existing single-family homes was $429,000 in September 2019, home prices now stand, as of September 2020, at $480,000, an 11.8% increase. The surge in San Bernardino County was even larger, increasing 19.4% from $315,000 in September 2019 to $359,000 a year later. Additionally, both counties saw similar jumps in year-over-year home sales, with Riverside County experiencing an increase of 28.0% and San Bernardino County 19.8%. Across broader Southern California, these jumps were fairly typical – higher than the 16.4% increase in Los Angeles County, but lower than the 31.3% and 32.8% jumps seen in Orange County and San Diego County respectively.
The upswing in home sales is similar to what occurred in the early stages of the housing boom following 9/11 when, their nesting instincts roused, people opted to spend more time at home. Similarly, the COVID-19 pandemic has resulted in people spending more time at home, prompting a shift toward homeownership and increased spending on home improvements.

However, the current environment is far more bifurcated. Most improvements have occurred at the upper-end of the housing market, reflecting the resilience of jobs in financial, professional, and technical services. While this improvement is real, parts of the housing market are struggling. In the Inland Empire, nearly 26% of the region’s labor force is employed in industries most impacted by the pandemic – Leisure and Hospitality, Retail Trade, and Other Services. The slowing labor market recovery, and vast discrepancy between highly impacted industries and those that have weathered the storm more successfully, hints at how far the housing market can continue to strengthen without significant progress in containing and minimizing the threat from the virus. It’s unlikely that the current housing market surge will be sustained until the spread of the virus is controlled and the labor market experiences a more robust and diversified recovery.

While the Inland Empire housing market has mirrored many other California metro areas, experiencing a short, sharp contraction followed by an unexpected surge in home sales and price activity, the trajectory of the apartment rental
market in the Inland Empire has taken a different path. Countless stories in the media have detailed the impact of the COVID-19 pandemic on the apartment market in dense urban areas such as Los Angeles and San Francisco. In these areas, apartment rents are experiencing historic declines as work-from-home remains the new normal and urban dwellers seek out more spacious accommodation. While the cost of renting an apartment is falling in many urban areas, this is not the case in the Inland Empire, where year-over-year rent growth maintained a healthy pace through September 2020.
There are a number of reasons why rent trends in city centers do not mirror those of nearby suburban areas. The pandemic’s effects on everyday life have certainly been more pronounced in cities than suburbs. Stay-at-home orders and business restrictions have rendered many of the things that attract people to cities – live entertainment, bars and restaurants, public festivals, etc – virtually non-existent. As a result, many renters are questioning whether it still makes sense to pay a premium for city living. While the median rent fell 9.6% and 3.0% from September 2019 to September 2020 in San Francisco and Los Angeles respectively, apartment rents in the Inland Empire were 2.5% higher in September 2020 than they were a year earlier.

Across California’s major metropolitan regions, the Inland Empire's apartment market is unique in its response to the COVID-19 pandemic. Instead of the rent drops seen in every other metro area, apartment rents in the Inland Empire continued to climb throughout 2020, with every submarket across the Riverside/San Bernardino region experiencing either significant rent gains or little change from the previous year. Overall, the region reported a 2.5% increase in average rents when compared to last year, reporting an average rent of $1,454 per unit in September 2020. The largest increases came from the Indio/La Quinta/Coachella, North Ontario, and University City/Moreno Valley submarkets, which reported average rent increases of 8.2%, 7.1%, and 3.9% respectively.
Moreover, the impact on vacancies in the region was mostly insignificant, with only a couple of exceptions. The North Ontario submarket reported a vacancy rate of 6.7% in September 2020, up from 4.1% the previous year. On the other hand, Perris reported a 5.4% vacancy rate in September 2020, down 7.2% from the year before. All other submarkets reported relatively insignificant numbers of +/- 0.7 percentage points year-over-year. These data points from the Inland Empire represent the broader story of how COVID-19 has affected the county's urban and suburban areas very differently.
Data on construction permits in the Inland Empire also suggests that the region is faring much better than its Southern California neighbors, with continued increases in both multifamily and single-family housing permits, as well as completions of new multifamily units in the first three quarters of 2020. Although San Bernardino County reported 2,298 single-family permits through August of 2020 – an insignificant decrease of 1% when compared to the year before – Riverside County reported 5,019 new permits for single-family housing units, a 22.2% increase.

Moreover, apartment completions through September 2020 have outpaced the rate of completions of any other year in the past decade: 1,661 completions were reported through September 2020, a 10.7% increase compared to last year. Nonetheless, the largest drops in new permits for the Inland Empire were seen in the multifamily sector, with Riverside County reporting an 87% year-to-date drop, and San Bernardino County reporting a 62.9% drop in the number of multifamily permits. This may be cause for concern, but it is not altogether surprising given the suburban nature of the region.
THE OUTLOOK

The Center’s near-term outlook for business activity in the Inland Empire has shifted once again, with output in the third quarter increasing substantially. While the recovery has not been as rapid as the downturn, the record pace of economic growth in the third quarter has still been historically faster than in previous business cycles. And consumer spending is the driving force behind the economic recovery. The sudden drop in consumer spending caused by health-mandated closures led to a historic collapse in business activity in the second quarter of 2020. While the federal stimulus backfilled consumer incomes, the closures effectively prevented consumers from spending money. However, as restrictions have eased and consumers and businesses have adapted to new health-related constraints, consumer spending has rebounded, driving the bulk of the recovery in the third quarter.

Of course, the outlook is not all positive. A genuine return to pre-COVID consumer demand cannot occur until the spread of the virus is controlled. Although the summer surge in cases finally subsided, the Inland Empire is now mired in another outbreak. Controlling the spread of the virus and maintaining momentum in the labor market will be key in the coming months. Therefore, in the interim, much depends on the recovery of the labor market and public policies that facilitate business activity. However, downside risks include more rigid public health mandates in response to the surge in new cases, as well as a dwindling federal stimulus and the uncertainty of a second stimulus package.