



School of Business
CENTER FOR ECONOMIC
FORECASTING & DEVELOPMENT



INLAND EMPIRE **BUSINESS ACTIVITY INDEX**

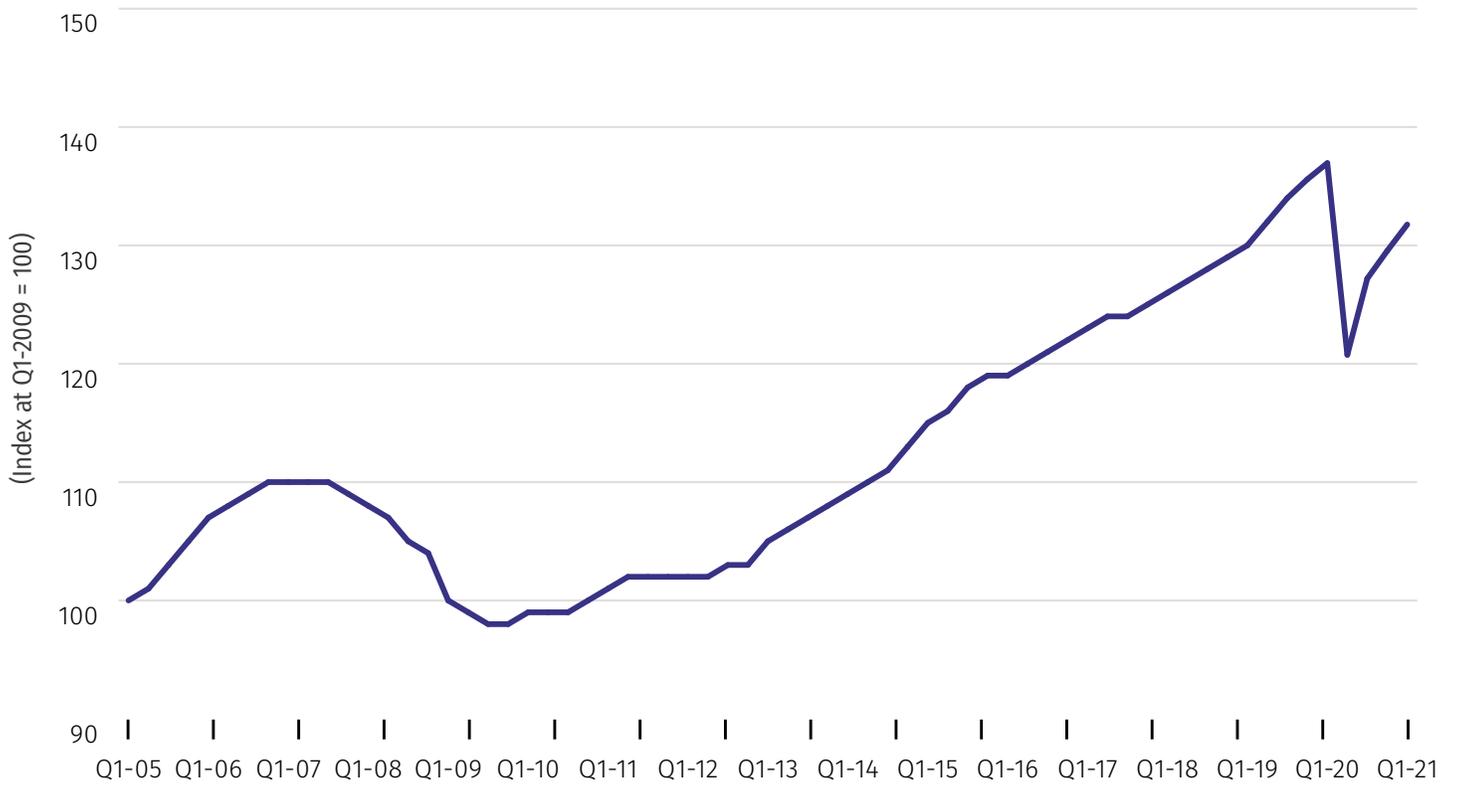
Summer 2021

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.

According to the latest available figures, business activity in the Inland Empire continued to recover from the COVID-19 pandemic in the first quarter of 2021, increasing by an annualized rate of 7.0%. This was 0.6 percentage points above U.S. Real Gross Domestic Product (GDP), which grew 6.4% over the same period.¹

From the first quarter of 2020 to the first quarter of 2021, business activity in the region fell -3.8% compared to the -0.4% decline in real national GDP. Because the region – and California overall – fell into a deeper hole with respect to output, the Inland Empire is poised to outpace growth in the nation over the coming quarters. Even so, with strong growth expected over the coming quarters, it's anticipated that the Inland Empire will hit pre-pandemic levels of business activity by the end of the year. With the fast pace of the vaccine rollout, and with restrictions on business activity easing, 2021 will see a strong upturn in hiring for the Inland Empire and California overall. A combination of high savings rates and continued fiscal and monetary support have set the stage for the economy's return to pre-pandemic trends by the end of the year.

¹ As delineated in the U.S. Bureau of Economic Analysis' advance estimate of GDP.



BUSINESS ACTIVITY INDEX

INLAND EMPIRE, 2005 TO 2021

Analysis by UCR Center for Economic Forecasting and Development



IN FOCUS:

The Inland Empire's Labor Market Recovery

While many economic indicators have either surpassed, or are close to surpassing, pre-pandemic levels, the recovery of the labor market continues to lag. The Inland Empire labor market added 5,800 jobs in April, meaning that there are around 4.6% fewer jobs in the region than in February 2020. This marks the third straight month of strong employment growth in the region following payroll declines in December 2020 and January 2021 when COVID-19 cases were surging and public health mandates were re-imposed. The region's unemployment rate held steady at 7.6% in April, significantly lower than in Los Angeles (MD) (11.7%) but higher than Orange County (6.0%). Although the Inland Empire's falling unemployment rate in the early months of the recovery was aided by a contracting labor force, in April the region's labor force expanded significantly, adding 8,600 workers. More importantly, with this growth the labor force in the Inland Empire has returned to pre-pandemic levels.

INDUSTRY	APR-21 (000S)	MAR-21 TO APR-21		FEB-20 TO APR-21	
		GROWTH (%)	CHANGE (000)	GROWTH (%)	CHANGE (000)
Total Nonfarm	1515.9	0.4	5.8	-4.6	-73.1
Accommodation and Food	127.3	4.2	5.1	-18.5	-29.0
Admin Support	107.5	2.5	2.6	-3.8	-4.2
Health Care	237.0	0.7	1.8	-0.1	-0.2
Retail Trade	177.9	0.5	0.9	-0.5	-0.9
Arts and Entertainment	11.4	6.7	0.7	-44.4	-9.1
Other Services	38.8	1.3	0.5	-18.8	-9.0
Wholesale Trade	65.1	0.5	0.3	-4.3	-2.9
Construction	110.1	0.2	0.3	-1.6	-1.8
Manufacturing	90.4	0.1	0.1	-9.8	-9.8
Real Estate	18.4	0.5	0.1	-11.7	-2.4
NR/Mining	1.3	2.3	0.0	2.7	0.0
Educational Services	18.1	0.0	0.0	-12.8	-2.6
Management	8.7	-0.8	-0.1	-2.3	-0.2
Information	8.7	-0.8	-0.1	-22.9	-2.6
Finance and Insurance	24.3	-1.0	-0.2	-3.5	-0.9
Prof Sci and Tech	43.8	-1.5	-0.7	-2.8	-1.3
Government	236.2	-1.1	-2.6	-10.2	-26.8
Transport, Warehouse, Util.	191.1	-1.6	-3.0	19.0	30.5

EMPLOYMENT BY INDUSTRY, INLAND EMPIRE

INLAND EMPIRE, 2020 TO 2021

Analysis by UCR Center for Economic Forecasting and Development



At the industry level, the largest jobs gains continue to occur in sectors hardest hit by the pandemic. Accommodation and Food Services led the month's employment gains, adding 5,100 jobs from March to April. Following this were Administrative Support (2,600), Health Care (1,800), Retail Trade (900), Arts and Entertainment (700), and Other Services (500). Payrolls in several sectors declined in April, including those in Transportation, Warehousing, and Utilities (-3,000), Government (-2,600), Professional, Scientific, and Technical Services (-700), and Finance and Insurance (-200).

The April declines in Transportation, Warehousing, and Utilities are something of an anomaly since the sector experienced substantial growth in the midst of the pandemic. Since February 2020, payrolls in Transportation, Warehousing, and Utilities have expanded by 30,500, a 19% increase. While the decline in spending at traditional retail stores has hurt brick-and-mortar retail, the shift towards e-commerce has been a boon for the Inland Empire's Logistics industry.



The Inland Empire continued to add jobs in April, and in total, the region has recovered 67% of the jobs it lost in March and April of 2020, outpacing the 48% figure for the state overall. In this regard, the Inland Empire also outpaces other metros in Southern California, with Los Angeles (MD) and Orange County recovering 36% and 47% of their lost jobs, respectively. Recovery among various industries in the Inland Empire has varied significantly. While industries such as Leisure and Hospitality and Other Services have seen strong growth in recent months, these industries still have a long way to go in recovering all jobs lost since April 2020's historic decline.

With the state and region hitting vaccination targets, the headwinds that restrained employment growth at the end of 2020 and beginning of 2021 have begun to wane. And with the state on track to fully reopen its economy on June 15th, it's anticipated that the Inland Empire will continue to add to its payrolls over the summer.



THE OUTLOOK

The UCR Center for Forecasting's near-term outlook for business activity in the Inland Empire remains positive, with gains expected to continue throughout 2021. Over the coming year, business activity in the region is forecast to rise between 6% and 10%. With this strong growth, it's anticipated that the Inland Empire will hit pre-pandemic levels of business activity by the end of the year.

While there has certainly been some economic fallout in the region, particularly for the labor market, the declines are not as severe as headlines would have you believe. More importantly, the majority of the declines in employment levels have been driven by the response to COVID-19, whether through public health mandates or changes in consumer behavior.

As vaccines boost consumer confidence in a return to normal activities, and lead to a further easing of business restrictions, the economic recovery in the Inland Empire and across the state will accelerate. In addition, the relative underperformance of the labor market in both the Inland Empire and California will likely translate into higher job gains in 2021, which will also translate into stronger increases in business activity.

Given the underlying strength in the economy, unprecedented consumer savings, and the high level of fiscal and monetary support from the government, the pandemic's economic effects will increasingly diminish. If it has not already, public discourse will soon begin to turn towards the state's long-standing challenges regarding housing affordability, inequality, population growth, and tight labor markets.