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 second quarter of 2021, increasing at an annualized rate of 8.0%. This outpaces U.S. Real Gross Domestic Product (GDP), which grew 6.6% in the second quarter\(^1\).

From the second quarter of 2020 to the second quarter of 2021, business activity in the region grew 11.1% compared to a 12.2% increase in real national GDP. Moreover, the Inland Empire is poised to outpace growth in the nation over the coming quarters. However, this is largely because the region – and California overall – fell into a deeper hole with respect to output than did the nation. 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.

While many aspects of California’s economy are back on track, there are concerns surrounding the resurgence of COVID-19 cases related to the Delta variant. However, with a large portion of California’s population now vaccinated, the spread of the virus will not have the same impact on the economy as it did in 2020.

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\(^1\) As delineated in the U.S. Bureau of Economic Analysis’ advance estimate of GDP.
In Focus: The Inland Empire’s Housing Market

The housing market has been by far the brightest spot in the Inland Empire’s economy over the last two years. The market's strong performance in the region is likely driven by three factors. First, typical homebuyers (higher-income earners) have been less affected by the pandemic-driven labor market downturn. Second, mortgage rates are at historically low levels, spurring purchase activity. And third, inventories are near historic lows. These factors have combined to push offers far over asking price seven as buyers waive inspections and other contingencies in an attempt to get a leg-up on the competition.

With this backdrop, home prices in the Inland Empire continue to increase rapidly. From the second quarter of 2020 to second quarter of 2021, the median single-family home price rose 24.7%. This is stronger growth relative to Orange County (22.5%), but trails growth in Los Angeles (27.5%) and San Diego (25.8%) Counties.
Part of the reason the Inland Empire is experiencing more rapid growth is because it is one of the last relatively affordable housing markets in Southern California. At a median price of $482,000, the region’s existing single-family homes are significantly more affordable than those in Los Angeles ($841,000), Orange ($983,000), and San Diego ($802,000) Counties.

After home sales dropped during the second quarter of 2020 due to the pandemic, demand surged in the second half of last year and has continued growing into 2021. With demand persistently strong, existing single-family home sales in the Inland Empire increased 62.5% from the second quarter of 2020 to second quarter of 2021, keeping pace with San Diego County (61%), but trailing growth in Los Angeles (84%) and Orange (105%) Counties.
Federal economic stimulus and low interest rates have led to an increase in the demand for housing throughout California, however, supply has not risen to meet that demand. In August 2021, there were just two months of housing supply available on the market in Riverside County and 2.4 months of supply in San Bernardino County. For context, a balanced market typically equates to six to seven months of supply. Moreover, a buyer’s market is considered to be seven months of supply and above, while a seller’s market is six months of supply and under\(^2\).

The strong fundamentals that were in place at the start of this ‘hot’ housing market imply there is still headroom to grow. And with inventory so low, it will take years for builders to catch up because demand also remains high. One note of caution: If inflation begins to heat up consistently, mortgage rates will take a similar jump and the market could downshift rapidly. But these effects, if they occur, are unlikely within the next two years.

Moreover, there is little evidence of supply relief anytime soon, as the number of building permits issued for multi-family housing units over the past three years has declined, while the number of single-family permits issued has remained relatively constant. In other words, there are no indications that supply constraints in the short-term will be resolved by the construction of new housing.

\(^2\) National Association of Realtors
The Center for Economic Forecasting’s near-term outlook for business activity in the Inland Empire remains positive, with gains expected to continue into 2022. Over the next two quarters business activity in the region is forecast to rise between 3% and 6%. With this strong growth, it’s anticipated that the Inland Empire will hit pre-pandemic levels of business activity by the end of 2021.