INLAND EMPIRE
BUSINESS ACTIVITY INDEX

Summer 2022

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.
Business activity in the Inland Empire has continued to advance at a solid clip, despite a drop-off in economic activity at the national level. The Center for Economic Forecasting estimates that business activity in the region increased at a 4.7% annualized rate during the first quarter of 2022, in stark contrast to the negative print of U.S. gross domestic product (GDP), which declined by 1.5%. Why the difference? There were very few (if any) signs of weakness in terms of economic activity in the Inland Empire.

Total nonfarm employment advanced 7.3% on a seasonally adjusted, annualized rate over the first quarter. The labor force has also expanded and is now larger than it was prior to the pandemic (the same is not true at the state level), and at 3.2%, the unemployment rate in the Inland Empire is at an all-time low (dating back to 1990 when the series begins). Flex/RD, Warehouse/Distribution, and Office properties all experienced a decline in vacancy rates over the first quarter, sales tax receipts were up nearly 21%, and construction activity for both non-residential and residential projects picked up markedly.
In Focus: Housing Market Woes

There has been an abundance of headlines recently about the increase in homes-for-sale listings and how the broader housing market is rapidly cooling. In the Inland Empire, inventory is indeed up, but barely, and the supply of available homes on the market has held steady below two months since late 2020. It would take two to three times current inventory levels to move the region out of a seller’s market as, historically, home prices tend to moderate at around six months of supply. A large surge in inventories is highly unlikely given that mortgage rates are rising, and many households took advantage of low rates and either moved or refinanced.
Home price appreciation in the Inland Empire and across the state can be tied to a handful of factors including low mortgage rates, limited supply, aging millennials entering their prime home-buying years, pandemic-induced migration into areas that have a housing shortage (such as the IE), and an increase in investors’ appetite for real estate because of weak performance in the stock market. According to data from Redfin, investors purchased 17.2% of the homes sold in the Inland Empire in the first quarter of 2022, up from 15% from one year prior. Nationally, investors bought up a larger share of the nation’s homes than ever before.
Rising rates should help temper double-digit home price appreciation, but real estate will remain a seller’s market in the Inland Empire. The Center for Economic Forecasting doesn’t foresee a scenario where the region’s home prices will rapidly decline, due largely to limited inventory in the market today. However, that doesn’t imply that there will be a sustained increase in price appreciation. The current forecast calls for a moderation in home price growth over the course of the next two years. It’s advisable to view housing market forecasts with caution as two years ago nobody predicted the rates of appreciation seen in the market today.

HOME PRICE APPRECIATION IN THE INLAND EMPIRE
2003 – 2024 FORECAST
Source: Zillow; Analysis by UCR Center for Economic Forecasting and Development
THE OUTLOOK:

The Center for Economic Forecasting’s short-term outlook for business activity in the Inland Empire remains positive, with the first quarter’s momentum expected to continue throughout 2022. During the year, business activity in the region is forecast to rise between 2.5% and 3.5% (please note that the error bands around the Center’s forecast have widened considerably in recent months). In terms of the macroeconomy, inflation is still more of a potential problem than an actuated one and the Federal Reserve critically needs to focus on shrinking its balance sheet. While the economy has plenty of momentum and will keep growing in the near term, it could eventually stagnate because of public debt and inflation’s subversive impact on investing. The current economic situation as it exists is not sustainable.