

**THINK REGIONALLY**



by  
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Every day a thousand thoughts cross our mind. Most thoughts concern our family and loved ones.

For those of us in the work force much of our thought focuses on the job, our career goals and our co-workers. Many times it is not till the evening news when we think about politics, our national economy, the world situation or just how our favorite team is doing. Hopefully we carve out a thought for the poor and suffering. So in that long list of thoughts there is not much time left to think about our region. Yet every thought in the previous list is affected by the economic and quality of life reality of our region, the Inland Empire.

The United States government’s Bureau of the Census defines the Inland Empire as the **River-side-San Bernardino-Ontario metropolitan area**, which covers more than 27,000 square miles and includes the entirety of San Bernardino and Riverside Counties. If the Inland Empire were a state we would currently be the 26<sup>th</sup> largest state in the nation. Soon our region’s population will pass Kentucky and be able to claim a population greater than half the states in the nation.

Now, while most of us do not spend inordinate amounts of time thinking regionally, myself and the organization I head, the Inland Empire Economic Partnership, do just that: we think about ways to better the business climate and quality of life of our two county regions. We do this because the economies of our two counties are interlinked. Moreover, our regional economy is tied to the larger Southern California economy, which in turn is part of the 9<sup>th</sup> largest economy in the world (just behind Italy and larger than Russia), the State of California. This, of course, is a major force in the largest economy in world... that of the USA.

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**QUARTERLY  
ECONOMIC REPORT**

RIVERSIDE & SAN BERNARDINO COUNTIES, CALIFORNIA

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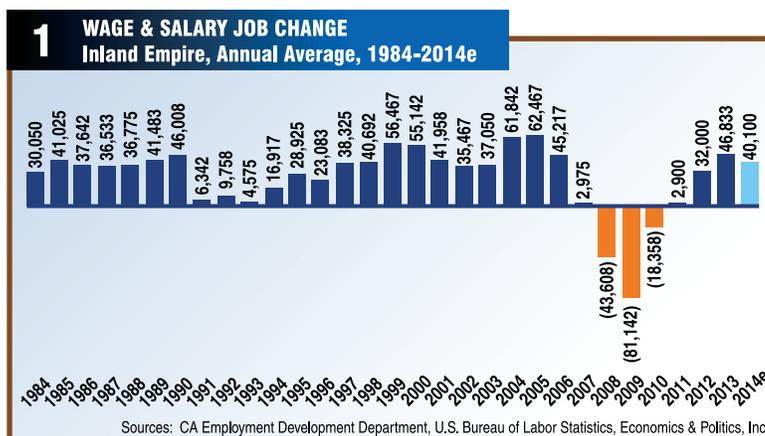
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**INLAND EMPIRE 2014 FORECAST ...  
BUILDING ON AN EXPANSION!**

*John E. Husing, Ph.D.*

In 2014, the Inland Empire’s growth will continue the extraordinary expansion that hit in 2013 when 46,833 jobs were unexpectedly created. The 2014 gain is expected to add another 40,100 jobs. If this occurs, a total of 121,833 local jobs will have been created in 2011-2014. That would be 85.1% of the -143,108 lost from 2008-2010 during the Great Recession (*Exhibit 1*). Average annual 2014 employment is forecasted at 1,281,108, up 34%. This follows a 2013 gain of 3.9% (*Exhibit 2*). Unemployment is forecasted to be 8.5% in February 2014, down from 9.4% in March 2013.



**U.S. GROWTH**

The U.S. economy supplies the ocean of forces affecting its regions. In 2008-2010, the country lost -8,710,000 jobs (-6.7%). From March 2010 to February 2014, it has gained back 7,896,000 or 90.3% of the jobs that were lost (*Exhibit 3*). Unemployment peaked at 10.0% in October 2009. It was down to 6.7% in February 2014. Meanwhile, the use of production capacity remains low at 78.4% in February 2014, up from the record low of 66.9% in June 2009 but below the 82.5% considered full capacity. In 2014, GDP is forecasted by the Federal Reserve to grow 3.0%. That provides a modestly strong framework for national job growth since growth of 3.0% is consider “normal.”

With a large share of workers and productive capacity unused, the Federal Reserve has been able to keep interest rates low without fear of inflation. The overnight federal funds rate is nearly at zero (*February 2014: 0.07%*). The 10-year bond was a low 2.73% in March 2014 which allowed a relatively low 30-year mortgage rate of 4.34%. Until recently, the value of the U.S. dollar was generally falling. It is still doing so against the Chinese Yuan but has risen against the Yen and Euro. Where U.S.

*Continued on page 2*

exports were becoming cheaper to most foreign buyers, that picture is now more mixed. The key national difficulty in 2013 has been eliminated in 2014 with Congressional actions on a budget. While lower federal spending is helpful to the debt, the recent rapid timing of the declines has dampened U.S. economic growth and job creation.

## INLAND EMPIRE ECONOMIC BASE

The four sectors that normally power the Inland Empire's economic base are being somewhat helped by the national environment with logistics the primary beneficiary. Thus, the number of imported containers entering through the ports of Los Angeles and Long Beach is moving closer to record highs, while a weaker dollar vis-à-vis Asia has led to record volumes of containerized exports. Combined, two-way port volume reached a record 11.0 million twenty-foot equivalent containers in 2013 (*Exhibit 9*). Meanwhile, the fact e-commerce expanded at over 15% compounded in 2010-2013 (*Exhibit 10*) has caused even conventional retailers to begin aggressively embracing Amazon.com's strategy of creating and staffing large regional fulfillment centers. Their goal is to respond to on-line consumers with same-day deliveries. With its available land for large facilities, many of these are locating in the Inland Empire. Inland logistics job growth thus remains strong, adding 8,817 jobs in 2013 (*Exhibit 4*) and up another 5,850 in early 2014 (*Exhibit 8*).

Construction has generally been one of the Inland Empire's strongest job creators. However, it faltered from 2006-2011. In that period, the region was down a net of 137,233 total jobs, with construction off -68,433, or 49.9% of the area's loss. In 2012, construction job growth returned, up 3,542, followed by a gain of 6,733 jobs in 2013. The sector has started 2014 up another 3,650 positions. Slowly, the sector's environment is improving. New home permits reached 6,473 in 2013, up 36.6%. Fourth quarter 2013 new home prices were up 14.1%, showing some developer pricing power. Existing home prices rose 23.6%. Importantly, with rising prices, the share of homeowners with underwater mortgages has fallen to 19.2%. It was 54.9% in late 2009. This has helped cause foreclosures to fall to their lowest level since before 2007 (*Exhibit 12*). Meanwhile, construction workers are benefitting from infrastructure and industrial projects with total valuation of all permits reaching \$3.6 billion in 2013 (*Exhibit 11*).

Health care was the only Inland Empire sector to expand employment through the recession. That growth continues with out-patient clinics, medical offices hospitals, and nursing homes hiring workers. The sector added 2,975 jobs in 2013 and is up another 1,350 in early 2014. Propelling this expansion has been the increasing demand from the 1,075,807 people added in the region from 2000-2013 (26.3% of California's 4,093,385 new residents). Despite the sec-

tor's job growth, the Inland Empire remains underserved with one health care worker for every 36.8 residents versus the state's average of 28.5. That fact, combined with the poor public health metrics of the inland area means that health care employment will continue growing. With Obamacare adding at least some of the 877,969 local residents who were uninsured in 2012, the demand for services and the need for jobs in this sector will increase in 2014.

Manufacturing has had a very small, positive impact in bringing outside monies into the Inland Empire's economy. The sector added 142 jobs in 2013 but is up another 800 in early 2014. Here, the restrained growth is due to state policies that tend to discourage expansion. That is seen in that the U.S. created 620,000 (5.4%) manufacturing jobs from 2010-2014 while California added only 7,300 (0.6%) (*Exhibit 6*). Locally, Cal State San Bernardino's Purchasing Managers Index stood at 50.3 in February 2013, the most recent in a string of readings over the 50.0 level signaling expansion. The difficulty is that this positive environment has not translated into hiring, given the regulatory stresses affecting manufacturers.

In 2013, the Inland Empire's population-serving sectors including eating and drinking (5,750), retailing (2,533) amusement (883) and other services (692) were in recovery mode (*Exhibit 4*). This is the case as the larger amounts of the money flowing into the region from basic sectors like logistics, construction and medical care are being re-spent locally. However, growth remains muted because of the restrained inflow of funds via manufacturing and the continuing difficulties facing federal, state and local government (-1,908). Here, the inland area is like an Old Western gold mining town with some mines bringing lots of money to town but others in trouble. Local population serving sectors (*like general stores, saloons*) are thus expanding, but modestly.

2 EMPLOYMENT FORECAST BY SECTOR & GROUP Inland Empire, 2014e							
Sector	2012	2013 Actual Change	Percent Change	2013	2014 Forecasted Change		
					2014	2014	Percent
Mgmt, Professions & Supply Chain	49,317	1,892	3.8%	51,208	2,500	53,708	4.9%
Higher Education	16,742	233	1.4%	16,975	500	17,475	2.9%
Local Government	74,075	(925)	-1.2%	73,150	400	73,550	0.5%
Federal & State Government	38,217	(983)	-2.6%	37,233	0	37,233	0.0%
Other	6,983	(200)	-2.9%	6,783	(200)	6,583	-2.9%
<b>Clean Work, Good Pay</b>	<b>185,333</b>	<b>17</b>	<b>0.0%</b>	<b>185,350</b>	<b>3,200</b>	<b>188,550</b>	<b>1.7%</b>
Health Care	114,658	2,975	2.6%	117,633	3,200	120,833	2.7%
Administrative Support & Info	57,000	2,425	4.3%	59,425	3,000	62,425	5.0%
Local Public/Private Education	111,875	2,850	2.5%	114,725	1,500	116,225	1.3%
Financial Activities	40,792	1,167	2.9%	41,958	900	42,858	2.1%
<b>Clean Work, Moderate Pay</b>	<b>324,325</b>	<b>9,417</b>	<b>2.9%</b>	<b>333,742</b>	<b>8,600</b>	<b>342,342</b>	<b>2.6%</b>
Distribution & Transportation	115,892	8,250	7.1%	124,142	8,000	132,142	6.4%
Construction	62,592	6,733	10.8%	69,325	8,000	77,325	11.5%
Manufacturing	86,667	142	0.2%	86,808	300	87,108	0.3%
<b>Dirty Work, Moderate Pay</b>	<b>265,150</b>	<b>15,125</b>	<b>5.7%</b>	<b>280,275</b>	<b>16,300</b>	<b>296,575</b>	<b>5.8%</b>
Hotel, Amuse, Eat	129,342	6,858	5.3%	136,200	6,000	142,200	4.4%
Retail Trade	162,283	2,533	1.6%	164,817	4,500	169,317	2.7%
Employment Agcy	36,517	1,492	4.1%	38,008	1,500	39,508	3.9%
Other Services	40,058	692	1.7%	40,750	1,000	41,750	2.5%
Agriculture	14,967	(358)	-2.4%	14,608	0	14,608	0.0%
Social Assistance	36,200	11,058	30.5%	47,258	(1,000)	46,258	-2.1%
<b>Low Paying Work</b>	<b>419,367</b>	<b>22,275</b>	<b>5.3%</b>	<b>441,642</b>	<b>12,000</b>	<b>453,642</b>	<b>2.7%</b>
<b>Total, All Industries</b>	<b>1,194,175</b>	<b>46,833</b>	<b>3.9%</b>	<b>1,241,008</b>	<b>40,100</b>	<b>1,281,108</b>	<b>3.2%</b>

Columns may not add due to rounding  
Source: CA Employment Development Department, Economics & Politics, Inc.

## CALIFORNIA'S GROWTH

In 2013, California added 453,350 jobs, up 3.0% versus 2.4% in 2012 (*Exhibit 7*). This has brought California's wage and salary employment back to its 2006 level. The state added another 368,500 jobs in early 2014 (2.3%), indicating a continuation of modest job growth into this year (*Exhibit 5*). In early 2014, California sectors most crucial to the Inland Empire saw job gains in construction (33,700; 5.4%), logistics (33,000; 2.8%) and health care (60,650; 3.1%). But, manufacturing was flat (-200; -0.02%). Interestingly, the Inland Empire's growth in early 2014 was faster than the state in construction (5.6%), logistics (4.7%) and manufacturing (0.9%) but slower in health care (1.2%).

## QER 2014 FORECAST

The 2014 Inland Empire forecast is for a gain of 40,100 jobs (3.2%), to 1,281,108. The area's February 2014 unemployment rate of 9.4% (second *worst among major metropolitan areas*) should drop to an annual average 8.4% partially through local expansion and partly from jobs taken by commuters working in coastal counties. These estimates were created sector by sector based upon local trends, with allowance for the area's strengths and weaknesses plus its relationship to California and U.S. trends (*Exhibit 2*). All four broad areas of economic activity are expect to grow.

**1. Clean Work, Good Paying (Over \$70,000).** The Inland Empire's better paying sectors are expected to add 3,200 jobs in 2014 or 1.7%. This comes after the gain of just 17 positions in 2013 (0.0%). Managers and professionals will add jobs as these sectors generally take off when the general economy strengthens (2,500; 4.9%). Higher education will increase by 500 jobs (2.9%) after adding 299 in 2013 as budgets are healing. Similar, the reduction in budgetary pressures facing local governments (400, 0.5%) and federal and state government (0; 0.0%) will stop their decline. Mining and utilities will lose -200 positions (-2.9%) due to problems created by the loss of the Santa Onofre nuclear plant.

**2. Clean Work, Moderate Paying (\$40,000-\$70,000).** In 2014, the traditional office based and white collar sectors will add 8,600 jobs or 2.6%. Health care will grow by 3,200 jobs (2.7%) as the sector starts reacting to growing demand because of Obamacare and its continuing need to catch-up with past population growth. Administrative support and information sectors will expand, up 3,000 jobs, as companies need much more support since the economy is strengthening (5.0%). Fortunately, local K-12 schools are growing again and should add 1,500 workers as the legislature reverses some of the shrinkage created by recent funding cuts (1.3%). Financial activities will expand by 900 positions (2.1%) with small banks growing and a stronger real estate market helping real estate and allied firms. The group's growth will be blunted as larger banks see further shrinkage.

**3. Blue Collar, Moderate Paying (\$40,000-\$65,000).** The Inland Empire's modestly educated labor force and lower costs for homes and industrial facilities have historically caused its moderate paying blue collar firms to be among its fastest growing sectors. In 2014, this strength is returning with the combined

group expected to add 16,300 jobs (5.8%). Logistics will grow by 8,000 workers (6.4%) with the increases in international trade and the expansion of fulfillment centers. The construction sector is beginning to again exert itself as the housing market joins industrial and infrastructure building. Together, these activities will cause construction to add 8,000 jobs (11.5%) after a strong increase of 6,733 in 2013. This will occur because Southern California now has a housing shortage, and inland prices remain a regional bargain. Industrial activity will continue given the strong demand for facilities and a vacancy rate of just 4.0%. Infrastructure activity will pick-up thanks to the availability of greater local sales tax revenues. Manufacturing will be the weak link, up only 300 jobs (0.3%) as a gain in product demand will barely overcome the reluctance to hire in light of California's heavy-handed regulatory climate.

**4. Lower Paying (\$15,000-\$35,000).** Like most U.S. areas, the Inland Empire's largest sectors are those paying lower incomes. In 2013, they added 22,225 jobs (5.3%). In 2014, they are expected to add another 12,000 jobs or 2.7%. The local hotel, amusement and restaurant sectors are expected to gain 6,000 jobs (4.4%) in part because of increasing tourism in the Coachella Valley. Retailing will finally begin to accelerate adding 4,500 positions (2.7%) as stores increase their hiring in the wake of retail sales growth of 10.7% in 2011 and 9.6% in 2012 and 7.0% in 2013. Similarly, with the inland area's growing economic base, other services activity will increase by 1,000 jobs (2.5%). Employment agency growth will expand by 1,500 jobs (3.9%) as economic growth leads to more temporary hiring. The dollar's low value vis-à-vis Asia means agricultural values should increase, but job growth will remain flat due to increased uses of technology (0.0%). With the recession starting to end, social assistance will likely decline (-1,000; -2.1%) after soaring in recent years.

## SUMMARY

In 2014, the Inland Empire economy should gain 40,100 jobs (3.2%), after adding 46,633 in 2013, 32,000 in 2012 and 2,900 in 2011. The expansion will continue partly because of the area's traditional advantages for blue collar sectors (*undeveloped land, modestly priced labor, growing population*), though an expansion of these sectors will remain somewhat suppressed by California's adversarial regulatory environment. Health care will remain a bright spot given the needs of a population that has been underserved with demand growing with health insurance sign-ups. Governmental job losses will cease as budgets are being rebuilt. With these influences impacting the local economic base, the inland area's population serving sectors except social assistance should expand significantly. ■

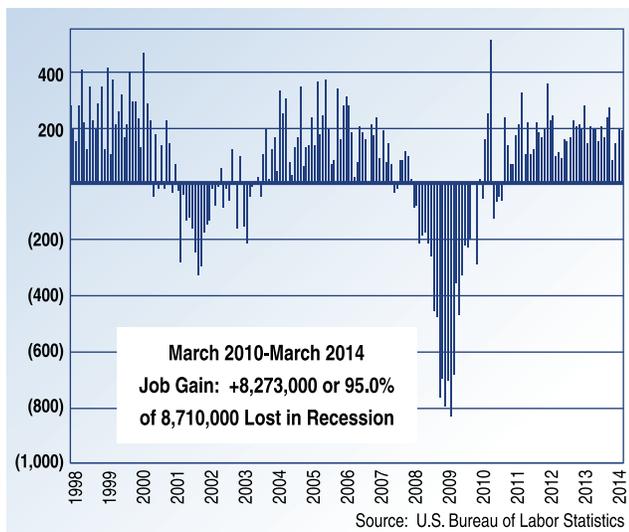
For further information on the economic analysis in the QER, visit Dr. John Husing's website at:

[www.johnhusing.com](http://www.johnhusing.com)

You'll also find pages on Dr. Husing's background, speaking engagements, downloadable presentations, adventures, and other items of interest.



### 3 JOB CREATION OR DESTRUCTION U.S., 1998-2014, Seasonally Adjusted (000)



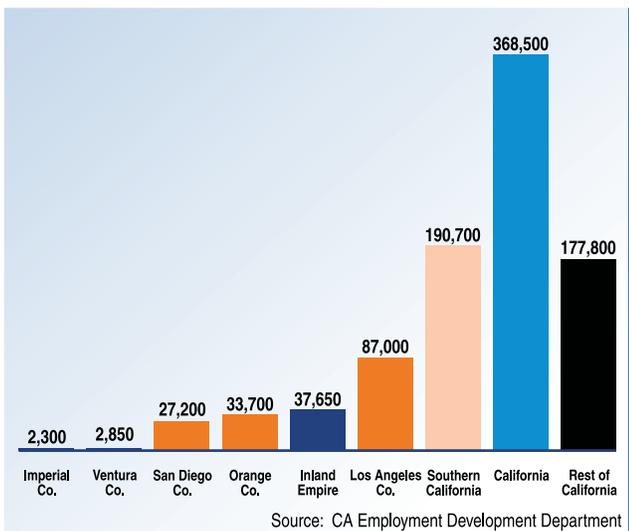
**U.S. Job Creation.** The deep 2008-2010 U.S. recession eliminated -8.71 million jobs (-6.7%). However, from March 2010 to March 2014, the economy created a net of 8.27 million jobs. That represents 95.0% of the jobs that were lost. It means that the ocean of national forces affecting local economies like the Inland Empire continues to provide slow but steady boosts to employment. This situation is likely to be the norm for the foreseeable future. In this period, private firms added 8.94 million jobs or enough to recover 102.7% of their jobs that were lost. However, the public sector lost -670,000.

### 4 INLAND EMPIRE GROWING & DECLINING SECTORS Average January-December 2012-2013



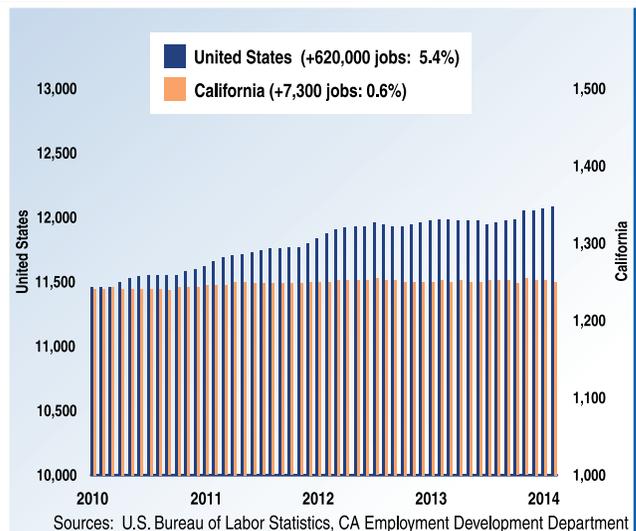
**Growing & Declining Sectors.** The Inland Empire added an annual average of 46,833 jobs in 2013. Among the lower paying industries, social assistance was up 11,058 positions and eating & drinking added 5,750. In the modest paying, blue collar group, logistics added 8,817 and construction created 6,733 as it finally began recovering. In the modest paying white collar group, health care and K-12 education, grew by 2,975 and 2,850 jobs respectively. Weakness remained in the high paying sectors with only management & professions doing well, up 1,325 positions. Declines in faltering sectors were relatively small, led by federal & state government (-983) and local government (-925).

### 5 JOB CHANGES California Markets, January-February, 2013-2014



**Job Gains in Early 2014.** The Inland Empire added an average of 37,650 wage and salary jobs in January-February 2014. This compared to 46,050 a year ago. Southern California's growth of an average of 190,700 jobs was down from 272,350 a year ago. These data indicate a regional slowdown from last year's blistering start. By market, Los Angeles County (87,000) added the most jobs, followed by Inland Empire (37,650), Orange County (33,700) and San Diego County (27,200). The inland area's 3.1% growth rate for first two months of 2014 was the fastest in Southern California and above the average for the region (2.3%) and California (2.4%).

### 6 MANUFACTURING JOB TRENDS. SEASONALLY ADJUSTED U.S. & California, 2010-2014 (000)



**CA vs. U.S. Manufacturing Jobs.** From January 2010 to February 2014, the U.S. has added 620,000 seasonally adjusted manufacturing jobs, a gain of 5.4%. This has occurred as some production that left the country has returned, technology production has grown and the automotive industry has expanded. Unfortunately, California has not participated in this growth. In this period, its manufacturing employment grew by just 7,300 jobs or 0.6%. Once a powerhouse, the state was responsible for just 1.2% of the nation's manufacturing job expansion. Given the cost advantages of the Inland Empire within California, these facts have wounded a potentially important sector for the area.

# COMPARISON OF INLAND EMPIRE VS. CALIFORNIA JOB CHANGES

During 2013, the Inland Empire economy surged, adding 46,833 jobs, up 3.9%, while California created a net 453,383 jobs, up 3.0% (*Exhibit 7*). Employment growth in this region represented 10.3% of the jobs created in the state. That said, there were 11 sectors in which the area's growth rate exceeded California's rates and 11 where it fell short. This is determined by subtracting the growth rates for California from those of the inland region by sector.

## INLAND EMPIRE STRENGTH

There were five sectors in which the Inland Empire's growth exceeded that of California by two percent or more. The strongest performing sector in the Inland Empire was social assistance (up 30.5% v. 19.4%) though the local data's validity is questionable. Two blue collar, logistics (7.3% v. 3.5%) and construction (10.8% v. 7.8%), also showed considerable strength. Next were K-12 education (2.5% vs. 0.1%) followed by administrative support (5.8% v. 3.6%). Sectors exceeding California's growth by over 1% but under 2% were amusement (5.6% v. 3.7%) and financial activities (2.9% v. 1.1%).

## SIMILAR GROWTH

In seven sectors, Inland Empire and California growth were within under 1% of each other. Those outgrowing the state by under 1% included health care (2.6% v. 1.8%), eating and drinking (5.8% v. 5.1%), mining (0.7% v. 0.2%) and manufacturing (0.2% v. -0.1%). Those growing slower included retail trade (1.6% v. 1.8%) and other services (1.7% v. 2.1%) as well as management and the professions (2.9% v. 3.8%).

## INLAND EMPIRE WEAKNESS

There were eight sectors in which the Inland Empire's sectors underperformed California by 1.0% or more. The weakest performance was among agriculture (-2.4% v. 3.1%) and the information group (-1.9% v. +3.5%). Three weak sectors grew

## 7 JOB GROWTH RATES Inland Empire & California, 2012-2013

Sector	IE: Job Change	% Job Growth	CA: Job Change	% Job Growth	% IE Job Growth Faster/Slower than CA
Amusement	3,200	18.8%	23,633	9.7%	9.1%
Social Assistance	11,058	30.5%	101,200	19.4%	11.2%
Logistics	8,817	7.3%	38,517	3.5%	3.9%
Construction	6,733	10.8%	46,267	7.8%	2.9%
K-12 Education	2,850	2.5%	1,100	0.1%	2.4%
Administrative Support	2,642	5.8%	20,000	3.6%	2.2%
Amusement	883	5.6%	9,475	3.7%	1.9%
Financial Activities	1,167	2.9%	8,800	1.1%	1.7%
Health Care	2,975	2.6%	23,625	1.8%	0.8%
Eating & Drinking	5,750	5.8%	57,975	5.1%	0.7%
Mining	8	0.7%	67	0.2%	0.5%
Manufacturing	142	0.2%	(1,208)	-0.1%	0.3%
Retail Trade	2,533	1.6%	29,042	1.8%	-0.3%
Other Services	692	1.7%	10,500	2.1%	-0.4%
Mgmt & Professions	1,325	2.9%	49,158	3.8%	-0.8%
Higher Education	233	1.4%	10,058	2.4%	-1.0%
Federal & State	(983)	-2.6%	(7,808)	-1.5%	-1.0%
Accommodation	225	1.6%	5,200	2.6%	-1.0%
Local Government	(925)	-1.2%	708	0.1%	-1.3%
Employment Agcy	1,492	4.1%	23,492	6.2%	-2.1%
Utilities	(208)	-3.6%	(408)	-0.7%	-2.9%
Publish, telecomm, Information	(217)	-1.9%	15,350	3.5%	-5.4%
Agriculture	(358)	-2.4%	12,275	3.1%	-5.5%
<b>Total Growth</b>	<b>46,833</b>	<b>3.9%</b>	<b>453,383</b>	<b>3.0%</b>	<b>0.9%</b>

Source: CA Employment Development Department

by over 1% to under 3% slower than the state: utilities (-3.6% v. -0.7%), employment agencies (4.1% v. 6.2%) and local government (-1.2% v. 0.1%). Growing slower than California by exactly 1.0% were the accommodation (1.6% v. 2.6%), federal and state government (-2.6% v. -1.5%) and higher education (1.4% v. 2.4%).

## JOB GROWTH

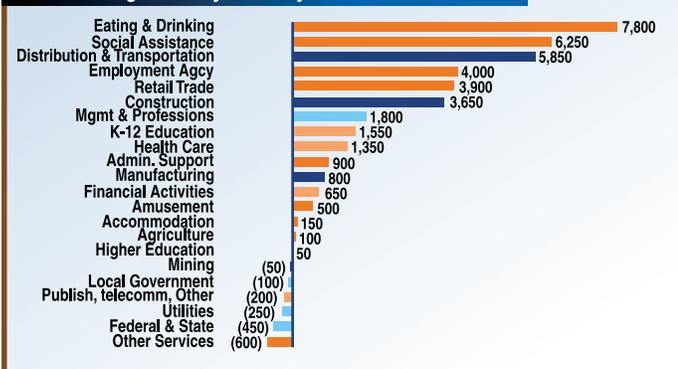
There was a similarity between the Inland Empire sectors that outperformed California and those that created the most local jobs. Thus, five of the eight fastest growing local sectors exceeded the state's growth rates by the most: social assistance (11,058), logistics (8,817), construction (6,733), K-12 education (2,850) and administrative support (2,642). The exceptions were health care (2,975) and eating and drinking (5,750) which barely exceeded the state's growth rates, and retail trade (2,533) which just fell short.

In the first two months of 2014, the Inland Empire's fastest growing sectors have been somewhat rearranged with lower paying sectors responsible for four of the top five sectors: eating and drinking was up 7,800 from early 2013, social assistance remained strong, up another 6,250, with employment agencies (4,000) and retail trade (3,900) showing increased hiring. Only logistics cracked this group, up 5,850 additional jobs over 2013. Construction ranked sixth up 3,650 more jobs (*Exhibit 8*).

## SUMMARY

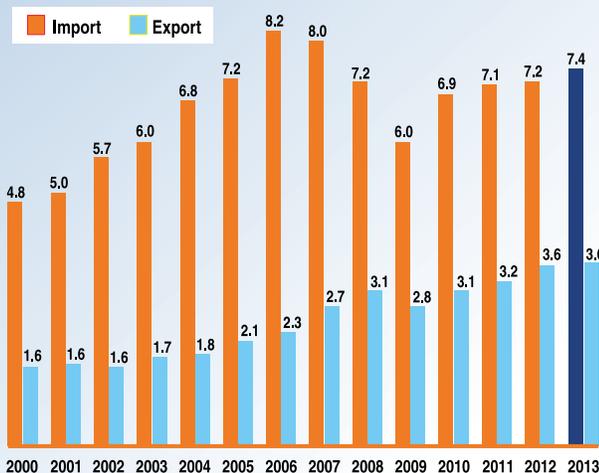
The message from these data is that the composition and performance of job growth in the sectors of the Inland Empire's economy appears to be somewhat closely following that of California, with overall growth stronger in both 2013 (3.9% v. 3.0%) and early 2014 (3.1% v. 2.4%). California's performance is thus crucial to job growth in the region. ■

## 8 INLAND EMPIRE GROWING & DECLINING SECTORS Average January-February 2013-2014



Source: CA Employment Development Department

## 9 IMPORT & EXPORT CONTAINER VOLUME, 2000-2013 Ports of Los Angeles & Long Beach (mil. teus)



Source: Port Import Export Reporting Service (PIERS), collected from Vessel, LA-LB for 2011-2013

**Port Import & Export Volumes.** One of the key drivers of the Inland Empire's economy is the volume of cargo flowing into and out of the ports of Los Angeles and Long Beach. In 2013, the two ports have seen a strong performance. Imported containers returned to 7.4 million 20-foot equivalent containers (*teus*) in 2013, the third highest volume. Exported containers tied a record of 3.6 million *teus* set in 2012. These data bode well for inland logistics employment as much of this cargo is processed in local warehouses.

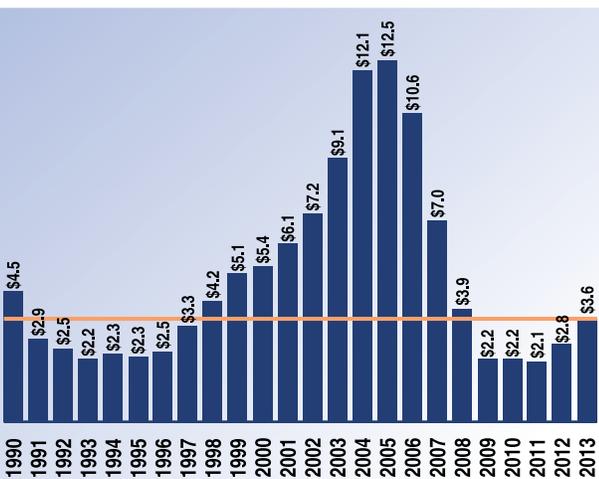
## 10 U.S. E-COMMERCE GROWTH RATES Quarter Over Same Quarter Prior Year, 2000-2013



Source: Bureau of the Census

**E-Commerce Growth.** Also driving the Inland Empire's logistics sector is the rapid pace of e-commerce growth. Except for a steep decline during the Great Recession in 2008-2009, the growth of internet-based sales has been in the high double digits. Since the start of 2010, sales have continually grown at just over 15.0% compounded. The result has been the development of large fulfillment warehousing operations to react to this trend with an eye to 24-hour home deliveries. With large amounts of undeveloped land in the eastern valley and desert areas, much of the job growth associated with the impact of this expansion in Southern California will be in the Inland Empire.

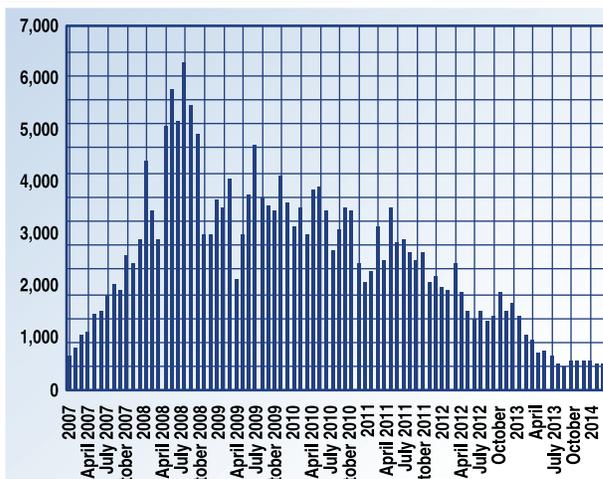
## 11 TOTAL BUILDING PERMIT VALUATION Inland Empire, 1990-2013 (billions)



Source: Construction Industry Research Board, Construction Construction Home Building Foundation

**Building Permit Valuation.** Employment data are finally showing increases in construction employment in the Inland Empire with gains of 6,733 jobs in 2013 and 3,650 in early 2014. This shows up in the value of total building permits (*not including public infrastructure*) which reached \$3.6 billion in 2013, highest since 2008 and above the levels during much of the mid to late 1990s. The sector still has a long way to go, but it is finally adding some energy to the local economy.

## 12 FORECLOSURE PROCESS COMPLETED Inland Empire, 2007-2014

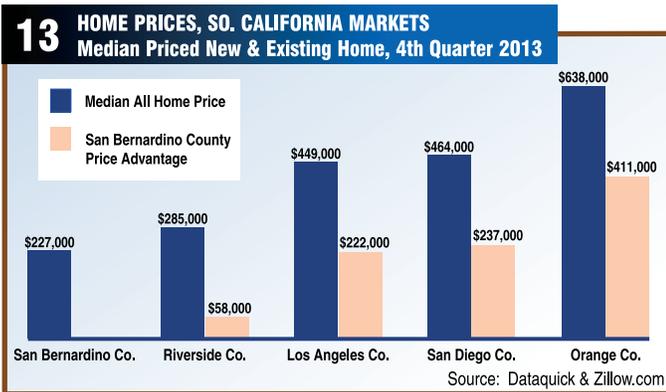


Source: Foreclosureradar.com

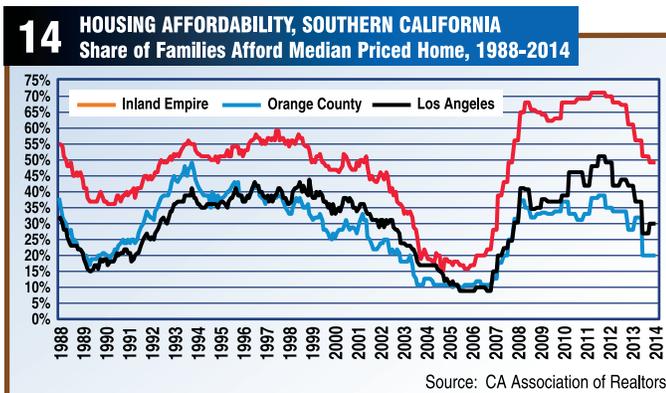
**Foreclosed Trend.** In the Inland Empire, foreclosure levels have plunged to the lowest levels since before 2007. In part, this is because existing home prices having increased 59.3% since the 2009 low giving people greater incentives to keep their properties. Also, the rate is down today because many of those who unwisely bought homes or refinanced during the housing bubble having already lost their homes. In January and February 2014, the number of homes taken each month was just 548. That compared to 744 and 903 in January and February 2007, when the problem began to emerge. This is another sign that the housing market is beginning to return to normal.

## INLAND EMPIRE HOUSING MARKET MOVING TOWARDS “NORMAL”

Repeatedly in the last five years, the ability of the Inland Empire’s economy to return to normal has been held up by the depression in its residential real estate market. There are clear signs that this is finally coming to an end. As indicated on the previous page, construction employment grew 6,733 jobs in 2013 and 3,650 in early 2014 with total permit valuations up (*Exhibit 11*) and foreclosures at low levels (*Exhibit 12*). Meanwhile, the inland region’s residential prices have increased significantly, up 56.8% from their all time lows (\$165,629 up to \$259,689).

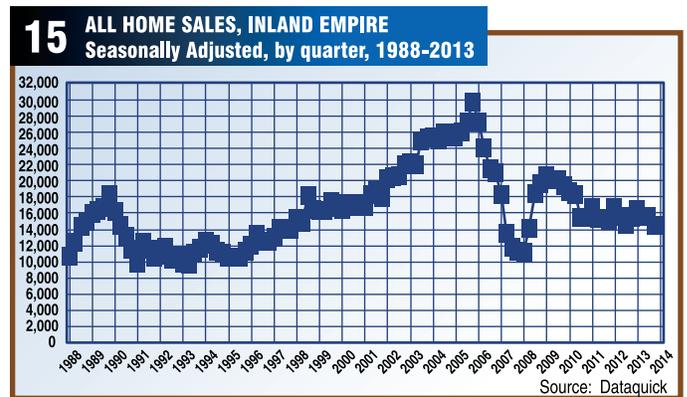


That said, the traditional pricing strength of the Inland Empire’s housing market remains in place (*Exhibit 13*). In 4<sup>th</sup> quarter 2013, the median priced San Bernardino County home was sold at \$227,000 (*half higher/half lower*). Compared to Los Angeles (\$449,000), a family can save \$222,000 migrating to that county. They can save \$164,000 if they migrate to Riverside County (\$285,000). Compared to Orange County (\$638,000), a family moving to San Bernardino can save \$411,000 on the median house. They would save \$353,000 migrating to Riverside County. As people again begin to desire homes, these differentials will drive the inland area’s home markets.



Further highlighting the cost differentials is the data on housing affordability (*Exhibit 14*). This compares the median incomes in each area compared to the home prices. These measures have plunged in each of Southern California’s market with the rise in prices. However, the Inland Empire showed that 49% of local families could afford the area’s median priced home. This was only the case for 30% of Los Angeles County’s families and 20% of Orange County’s households. Not only that, the higher incomes in the coastal counties mean that the families from those areas could afford more than 49% of Inland Empire homes. Again, this is a necessary condition to start to see the inland area’s housing demand return to normal.

These facts in place, the Inland Empire’s home markets have not seen an increase in sales (*Exhibit 15*).



For 14 quarters in a row, seasonally adjusted home sales have been stuck in a range on either side of 15,000 sales. Several factors have caused this to be the case. First has been the reduction in the number of foreclosures, reducing that source of supply reaching the market. Second, there are the tougher requirement to qualify for mortgage financing as lenders have demanded higher down payments, stronger incomes and better FICO scores. Third has been the reluctance of homeowners to risk migrating away from their jobs when unemployment and job growth, while becoming better, remain issues in the minds of many workers. The fact that FHA is lowering the threshold of loans the agency will guarantee from \$500,000 to \$350,000 will also not be helpful for an area struggling to get its housing market to fully recover. These considerations must be overcome before a normal Inland Empire housing market will again exist. ■

# INLAND EMPIRE ECONOMIC PARTNERSHIP

*Continued from front page*

So one might ask, how does one better a regional economy? The answer is with a lot of work. A lot of work because we have barriers in our way like our educational attainment rates, nonstop growth, reluctance to cooperate, lack of resources and growing poverty rates.

First our baccalaureate attainment rate. Only 19% of our region's residents have a bachelor's degree, meaning 81% of our residents do not. Further, of that 81% of residents almost 42% did not complete high school. So what does this mean? It means we are a region heavily dependent on economic sectors that have little to no educational requirements to enter. That is why manufacturing, goods movement and logistics and construction are critical to the Inland Empire's economy and job base.

IEEP sees the need and supports our region's educational leaders as they work to educate our area's children from the earliest opportunities parents have in the home to college graduation. And for those in the modern economy who may not choose a college path, we support the finest workforce training that our region can provide.

Second, the last 25 years has seen unprecedented growth in the Inland Empire. Since 1990 alone our population has grown from 2,588,793 to 4,293,892 in 2012. The Southern California Association of Governments predicts we could grow to 6 million by 2035 with the County of Riverside becoming the second largest county in the state next to Los Angeles.

Third and fourth, the residents of the two counties move freely across the county lines working, shopping and playing from

the wine county of Temecula, the forests of Lake Arrowhead and Big Bear and the deserts of Palm Springs and the High desert communities. Unfortunately, too often elected officials, business and community leaders, although rightly looking after local issues, have failed to see the value of working collectively and regionally. And the cost of that has been our region's lack of ability to attract the resources that our area is properly entitled to, like the resources available through philanthropic institutions that support the non-profit sector.

Finally, of all the issues we have the most troubling to me is our growing rate of poverty. Using the same years as I previously referenced for population growth, in 1990 306,417 or 11.8% of Inland Empire residents were defined as living below the poverty line. In 2012 that number was 809,234 or 19% of our population living in poverty and today in 2014 the number has only grown.

The members of the Inland Empire Economic Partnership are business leaders, elected officials, college presidents and chancellors, non-profit and community leaders from throughout Riverside and San Bernardino Counties. They care about our region and its future. They want to tackle the hard problems that face our region and also celebrate the beauty and benefits of working and living in the Inland Empire. Our members want to build a better Inland region.

Of course that begins when we all take a little time to think regionally.

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