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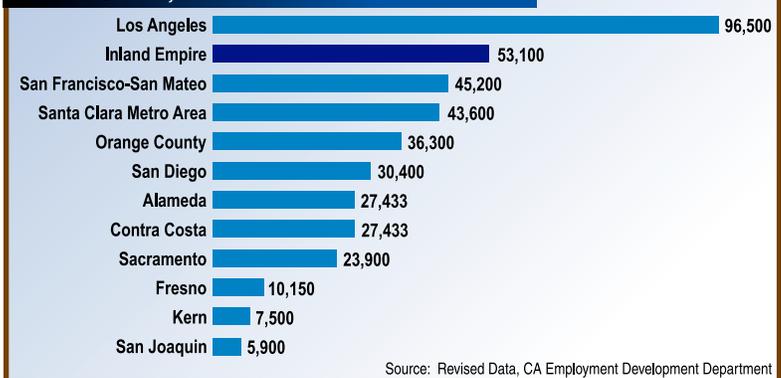
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INLAND EMPIRE 2015 FORECAST ... INCREASING PROSPERITY!

John E. Husing, Ph.D.

In 2015, the Inland Empire's growth will continue the rapid expansion that began in 2013 and 2014 when 51,075 and 53,117 jobs respectively were unexpectedly created, each up 4.2% (*Exhibit 1, next page*). The 2015 gain is expected to add another 51,250 jobs, up 3.9%. If this occurs, a total of 191,017 local jobs will have been created in the 2011-2015 recovery. That would be 48,083 or 33.6% more jobs than the -142,933 lost during the Great Recession. Average annual 2015 employment is forecasted at a record 1,350,733. Unemployment is forecasted to be 7.6% in 2015, down from 8.2% in 2014. Importantly, the inland area's 2014 growth each ranked second in California among California's metropolitan areas (*Exhibit A*).

A JOB GROWTH, MAJOR CALIFORNIA METRO AREAS California, 2013-2014



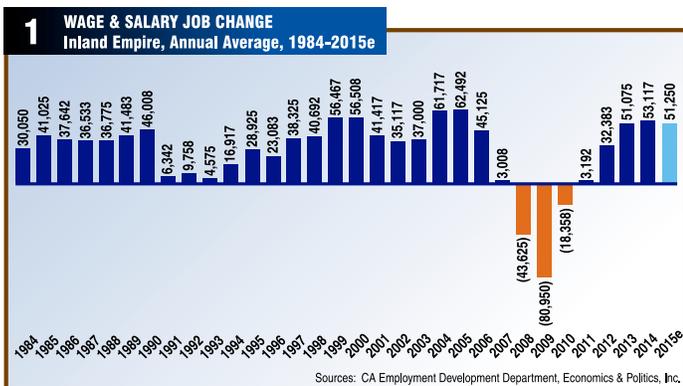
U.S. GROWTH

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 2010-2015, it has gained back 12,094,000 or 32.4% more jobs than were lost (*Exhibit 3*). Unemployment peaked at 10.0% in October 2009. It was down to 5.6% in March 2015. Meanwhile, the use of production capacity remains low at 78.4% in March 2015, up from the record low of 66.9% in June 2009 but below the 82.5% considered full capacity. In 2015, GDP is forecasted by the Federal Reserve to grow 2.3% to 2.8%. That provides a modest framework for national job growth since growth of 3.0% is considered "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 at 0.025% with the Fed still hesitating to raise it. The 10-year bond was a low 2.03%

Continued on page 2

in late April 2015 which allowed a 30-year mortgage rate of just 3.65%. The value of the U.S. dollar has risen 31.4% from its most recent low in August 2011. This means imports from the world are less expensive to Americans, while U.S. exports are more expensive to the world. That should help the Inland Empire's logistics sector. West Texas Intermediate oil prices were back to \$55.88 in late April, but were still down -45.5% from April 2014. This should encourage consumer spending in modest income areas like the Inland Empire.



INLAND EMPIRE ECONOMIC BASE.

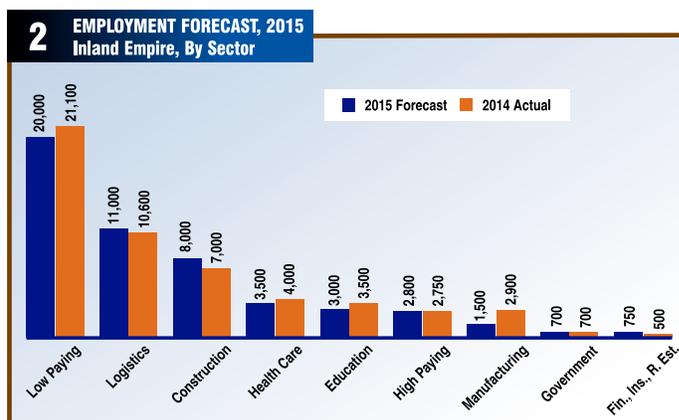
The five sectors now powering the Inland Empire's economic base are being helped by the national environment with **logistics** the primary beneficiary. Thus, the stronger dollar led imported containers entering through the ports of Los Angeles and Long Beach to move closer to record highs despite labor difficulties in late 2014. However, the stronger dollar caused containerized exports to drop. Still, combined two-way port volume reached a record 11.3 million twenty-foot equivalent containers in 2014 (*Exhibit 9*). Meanwhile, the fact e-commerce expanded at over 15% compounded in 2010-2015 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 10,600 jobs in 2014 (*Exhibit 4*) and up another 13,633 in early 2015 (*Exhibit 8*).

Construction has generally been one of the Inland Empire's strongest job creators. However, it faltered from 2006-2011. In that period, construction was off -68,400 jobs, or -56.3%. In 2012, construction job growth returned, up 3,500, followed by a gain of 7,400 jobs in 2013 and 7,000 in 2014. The sector has started 2015 gaining another 4,000 positions. Thus, 21,900 jobs have been recovered. However, that still leaves 68.0% missing (*Exhibit 11*). Market pricing is showing some power. New homes were up 21.5% from first quarter 2013-2015, showing developers have some ability to

raise prices. Existing home prices rose 31.8% in this two year period (*Exhibit 12*). Importantly, with rising existing home prices, the share of homeowners with underwater mortgages fell to 14.8% in fourth quarter 2014. It was 40.5% as recently as late 2012. This has caused foreclosures to fall to roughly 1,000 per month, down from a peak of over 12,500.

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 4,000 jobs in 2014 and is up another 5,400 in early 2015. Propelling this expansion has been the increasing demand from the Affordable Care Act plus the 22% of residents aged 55 and over and 27% under 18. Despite the sector's job growth, the Inland Empire remains underserved with one health care worker for every 35.8 residents versus the state's average of 28.0. That fact, combined with the poor public health metrics of the inland area means that health care employment will continue growing.

Manufacturing has had a small, positive impact in bringing outside monies into the Inland Empire's economy. The sector added 2,900 jobs in 2014 and is up another 1,400 in early 2015. Here, the restrained growth is due to state policies that tend to discourage expansion. That is seen in that the U.S. created 860,000 (7.5%) manufacturing jobs from 2010-2015 while California added only 29,400 (2.4%) (*Exhibit 6*). Locally, Cal State San Bernardino's Purchasing Managers Index stood at 59.0 in March 2015, the most recent in a string of readings over the 50.0 level, signaling expansion. The difficulty is that this positive environment has translated into only slow hiring, given the regulatory stresses affecting manufacturers.



Professional, engineering, scientific and managerial sectors have been an important addition to the Inland Empire's recent growth. These high paying sectors added 2,750 jobs in 2014 and are up another 3,000 in early 2015. This group migrates to the Inland Empire when its economy is strong, given the needs of the housing industry, a population

of 3.4 million people and an employment base of over 1.3 million jobs. Currently, it has replaced 7,100 of the 9,700 jobs lost in the recession.

In 2014, the Inland Empire's lower paying sectors including eating and drinking (7,000), social assistance (4,100), retailing (3,900), other services (2,000), employment agencies (1,900), administrative support (800), accommodation (750) and amusement (700) were in various stages of recovery (*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 physiological impact of the recent recession on family spending behavior. These combined sectors added 21,100 jobs in 2014 and were up another 20,800 in early 2015 (*Exhibit 8*).

CALIFORNIA'S GROWTH

In 2014, California added 534,917 jobs, up 3.1% (*Exhibit 7*). This has brought California's wage and salary employment to a record 16.1 million. The state has added another 483,267 jobs in early 2015 (3.1%), indicating a continuation of solid job growth into this year. In early 2015, California sectors most crucial to the Inland Empire saw job gains in construction (38,000; 6.0%), logistics (41,500; 3.6%), and professions and management (51,900; 3.6%). But, growth in health care (13,700; 1.8%) and manufacturing was relatively flat (13,300; 1.1%). Interestingly, the Inland Empire's growth in early 2015 was faster than the state in construction (9.0%), logistics (7.5%), management and professions (5.6%), health care (3.3%) and manufacturing (3.2%).

QER 2015 FORECAST

The 2015 Inland Empire forecast is for a gain of 51,250 jobs (3.9%) to 1,350,700. The forecast is for an annual average unemployment of 7.6%. 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 expected to grow:

1. Clean Work, Good Paying (Over \$70,000). The Inland Empire's better paying sectors are expected to add 3,500 jobs in 2015. This comes after the gain of just 3,450 positions in 2014. Managers and professionals will add 2,800 jobs as these sectors generally improve when the general economy strengthens. That compares to 2,750 in 2014. The reduction in budgetary pressures facing local, state and federal will see them gain 700 jobs in 2015, the growth as in 2014.

2. Clean Work, Moderate Paying (\$40,000-\$70,000). In 2015, the traditional office based and white collar sectors will add 7,250 jobs. This is down from 8,000 in 2014. Health care will grow by 3,500 jobs, down from

3,500 in 2014 as the sector reacts conservatively to the Affordable Care Act. Education will add 3,000 new positions, down from 4,000 last year unless school funding accelerates. Financial activities will expand by 750 positions up from 500 as small banks grow and a stronger real estate market helps real estate and allied firms. The group's growth will be blunted as larger banks see further consolidation.

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 2015, this strength continues with the combined group expected to add 20,500 jobs, equal to 2014. Logistics will grow by 11,000 workers with the increases in imports due to a stronger dollar and the expansion of fulfillment centers. Construction sector will again exert itself as the housing market joins industrial and infrastructure building with the sector adding 8,000 jobs after an increase of 7,000 in 2014. Manufacturing will be the weak link, up 1,500 jobs versus 2,900 in 2014 given the impact of the rising value of the dollar.

4. Lower Paying (\$15,000-\$30,000). Like most U.S. areas, the largest portion of the Inland Empire's economy is in sectors that pay lower incomes. In 2015, they are forecasted to add 20,000 jobs, down from 21,100 in 2014. While this is a lot of new jobs, it is believed to be less than last year's growth as families have still not adjusted to prosperity and are tending to be very conservative in their retail, consumer services, travel, eating out and other such consumption activities.

SUMMARY

In 2015, the Inland Empire economy should gain 51,250 jobs (3.9%), after adding 53,117 in 2014 and 51,075 in 2013. The expansion will continue partly because of the area's traditional advantages for blue collar sectors (*undeveloped land, modestly priced labor, growing population*), as well as continued growth in health care, a little manufacturing expansion and the addition of some growth in higher paying sectors. As these sectors add workers, they will bring dollars to the area that then circulate through its population serving sectors causing them to expand as well. Interestingly, 39.0% of growth is forecasted for lower paying sectors and 61.0% in moderate and better paying jobs. That is a very good mix as 50%-50% is a more normal distribution. ■

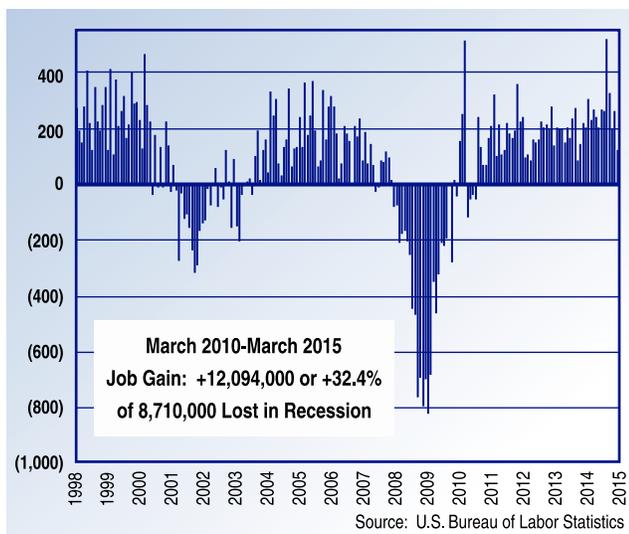
For further information on the economic analysis in the QER, visit Dr. John Husing's website at:

www.johnhusing.com

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

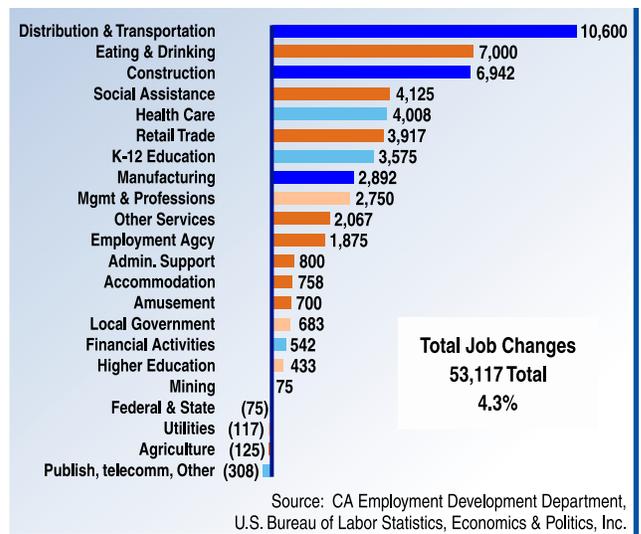


3 JOB CREATION OR DESTRUCTION U.S., 1998-2015, Seasonally Adjusted (000)



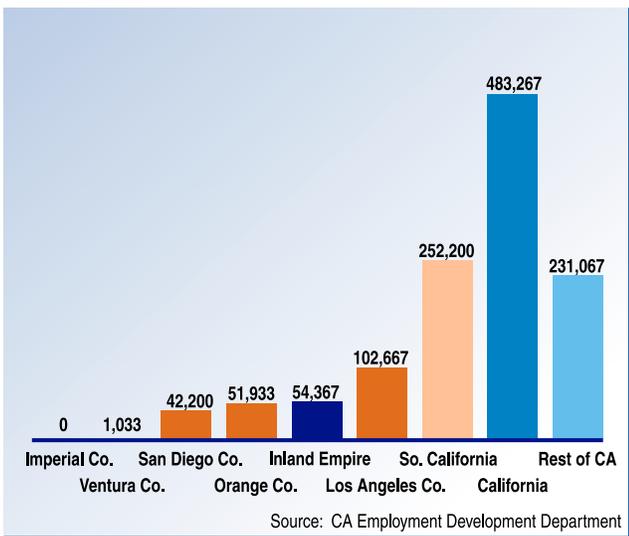
U.S. Job Creation. The deep 2008-2010 U.S. recession eliminated -8.71 million jobs (-6.7%). However, from March 2010 to March 2015, the economy created 12.1 million jobs. That represents 32.4% more the jobs than were lost. It means that the ocean of national forces affecting local economies like the Inland Empire continues to provide steady boosts to national employment. This situation is likely to be the norm for the foreseeable future. In this period, private firms added 12.1 million jobs alone or enough to recover 39.4% of the total of jobs that were lost. The public sector lost -613,000.

4 INLAND EMPIRE GROWING & DECLINING SECTORS Annual, 2013-2014



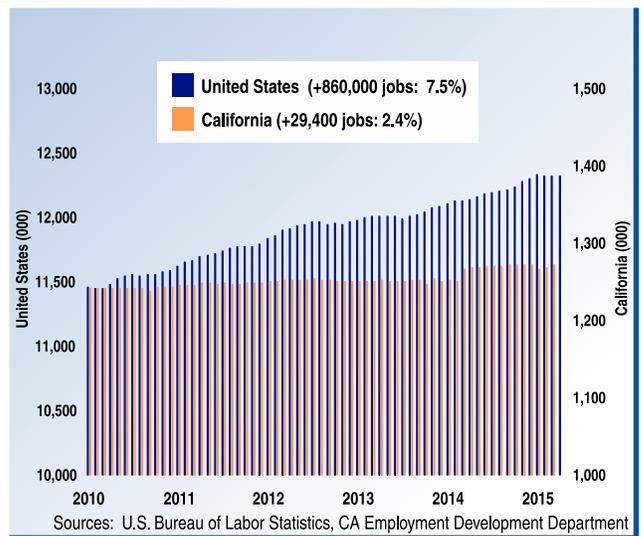
Growing & Declining Sectors. The Inland Empire added an annual average of 53,117 jobs in 2014. Among the lower paying industries (*red*), the leaders were: eating and drinking up 7,000 positions with social assistance adding 4,125. In the modest paying, blue collar group (*blue*), logistics led adding 10,600 jobs and construction created 6,942. In the modest paying white collar group (*lt. blue*), health care was up 4,008 and K-12 education grew by 3,575. In the high paying sectors, only management & professions did well, up 2,750 positions. Declines in faltering sectors were relatively small led by publishing and telecom (-308) and agriculture (-125).

5 WAGE & SALARY EMPLOYMENT CHANGE California Markets, January-March, 2014-2015



First Quarter 2015 Job Gains. The Inland Empire added an average of 54,367 wage and salary jobs in January-March 2015. This compared to 55,333 gain in first quarter 2014 (*not shown*). Southern California's growth of an average of 252,200 jobs was down from 232,400 a year ago. These data indicate a regional pickup from 2014's blistering start. By market, Los Angeles County (102,667) added the most jobs, followed by Inland Empire (54,367), Orange County (51,933) and San Diego County (42,200). The inland area's 4.2% growth rate for first three months of 2015 was the fastest in Southern California and above the average for the region (2.9%) and California (3.1%).

6 MANUFACTURING JOB TRENDS, SEASONALLY ADJUSTED U.S. & California, January 2010 - March 2015



CA vs. U.S. Manufacturing Jobs. From January 2010 to March 2014, the U.S. has added 860,000 seasonally adjusted manufacturing jobs, a gain of 7.5%. 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 29,400 jobs or 2.4%. Once a powerhouse, the state was responsible for just 3.4% 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 2014, the Inland Empire economy surged, adding 53,117 jobs, up 4.1%, while California created a net 534,917 jobs, up 3.1% (*Exhibit 7*). Employment growth in this region represented 9.9% of the jobs created in the state. That said, there were 10 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 six 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 logistics (7.5% v. 3.6%). Three other blue collar were also strong: mining (5.9% v. 2.2%), construction (9.0% v. 6.0%) and manufacturing (3.2% v. 1.1%). Also in this group were the lower paying administrative support (4.8% vs. 2.5%) and eating and drinking (6.3% v. 4.3%). As a group, the sector involved with "dirty work, moderate pay" outgrew the state (6.6% v. 3.1%).

In three sectors, the Inland Empire's growth was 1.3% to 1.9% above California. The high paying management and profession group led (5.6% v. 3.8%) followed by moderate paying health care (3.3% v. 1.8%) and financial activities (1.3% v. 0.2%).

SIMILAR GROWTH

In seven sectors, Inland Empire and California growth were within less than 1% of each other. Of these, only the local higher education sector outgrew the state (2.5% v. 2.4%). Retailing grew the same (2.3% v. 2.3%). Growing slightly less were K-12 education (3.0% v. 3.4%), local government (0.9% v. 1.4%), accommodation (4.9% v. 5.6%), social assistance (7.8% v. 8.4%) as well as utilities (-2.1% v. -1.3%). This category also included the combination of clean, work moderate paying sectors

7 JOB GROWTH RATES Inland Empire & California, 2013-2014					
Sector	IE: Job Change	% Job Growth	CA: Job Change	% Job Growth	% IE Job Growth Faster/Slower Than CA
Mining	75	5.9%	675	2.2%	3.7%
Mgmt & Professions	2,750	5.6%	51,925	3.8%	1.7%
Higher Education	433	2.5%	9,542	2.4%	0.1%
Local Government	683	0.9%	4,475	1.4%	-0.5%
Utilities	(117)	-2.1%	(750)	-1.3%	-0.8%
Federal & State	(75)	-0.2%	25,942	1.4%	-1.6%
Clean Work, Good Pay	3,750	2.0%	91,808	2.3%	-0.3%
Health Care	4,008	3.3%	13,733	1.8%	1.4%
Financial Activities	542	1.3%	1,433	0.2%	1.1%
K-12	3,575	3.0%	98,467	3.4%	-0.4%
Publish, telecomm, Other	(308)	-2.7%	9,317	2.1%	-4.8%
Clean Work, Moderate Pay	7,817	2.7%	122,950	2.5%	0.1%
Logistics	10,600	7.5%	41,458	3.6%	3.9%
Construction	6,942	9.0%	38,042	6.0%	3.1%
Manufacturing	2,892	3.2%	13,250	1.1%	2.1%
Dirty Work, Moderate Pay	20,433	6.6%	92,750	3.1%	3.6%
Admin. Support	2,067	4.8%	14,150	2.5%	2.3%
Eating & Drinking	7,000	6.3%	24,842	4.3%	2.0%
Retail Trade	3,917	2.3%	36,825	2.3%	0.0%
Accommodation	758	4.9%	66,700	5.6%	-0.6%
Social Assistance	4,125	7.8%	43,992	8.4%	-0.6%
Employment Agcy	1,875	4.7%	26,125	6.4%	-1.7%
Other Services	800	1.6%	5,067	3.5%	-1.9%
Amusement	700	4.0%	4,067	6.0%	-2.1%
Agriculture	(125)	-0.9%	5,642	1.4%	-2.2%
Lower Paying Jobs	21,117	4.1%	227,408	4.1%	-0.0%
Total, All Industries	53,117	4.1%	534,917	3.1%	1.0%

Source: CA Employment Development Department

(2.7% v. 2.5%), lower paying jobs (4.1% v. 4.1%) and clean work, good paying sectors (2.0% v. 2.3%).

INLAND EMPIRE WEAKNESS

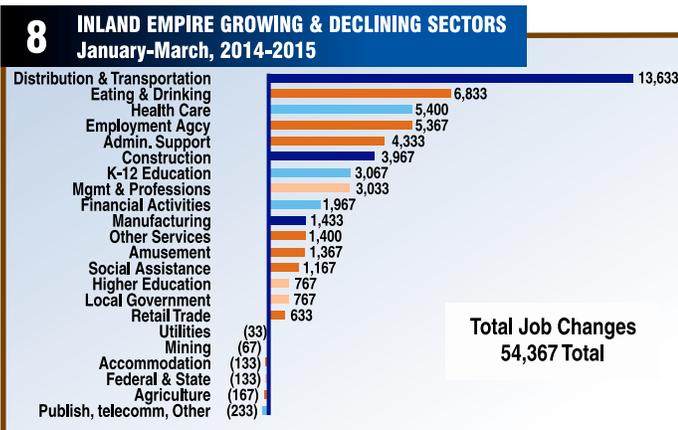
There were six sectors in which the Inland Empire's sectors underperformed California by 1.0% or more. Closest in performance was federal and state government (-0.2% v. +1.4%), employment agencies (4.7% v. 6.4%) and other services (1.6% v. 3.5%). Three weak sectors grew from over 2% to over 3% slower than the state: amusement (4.0% v. 6.0%), agriculture (-0.9% v. +1.4%) and the information group (-2.7% v. +2.1%).

JOB GROWTH

There is a similarity between the Inland Empire sectors that outperformed California in 2014 and the eight that created the most local jobs in first quarter 2015. It was true of five of these sectors: logistics (13,633), eating and drinking (6,833), health care (5,400), construction (3,967) and management and professions (3,033). But three of these faster growing sectors in 2015 underperformed the state last year: employment agencies (5,367), administrative support (4,333) and K-12 education (3,067) (*Exhibit 8*).

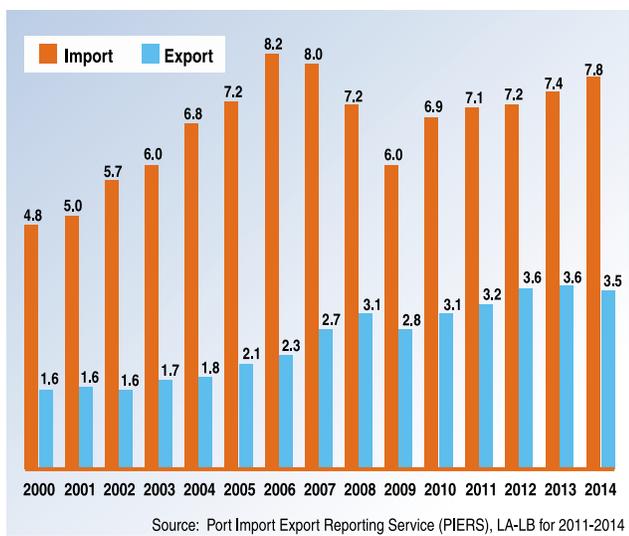
SUMMARY

The message from these data is that the composition and performance of job growth in the sectors of the Inland Empire's economy often closely follows that of California, with the particular exception of the blue collar group. In 2015, some sectors are awakening that were weak in 2014. Overall, the Inland Empire growth was stronger in both 2014 (4.1% v. 3.1%) and early 2015 (4.2% v. 3.1%).



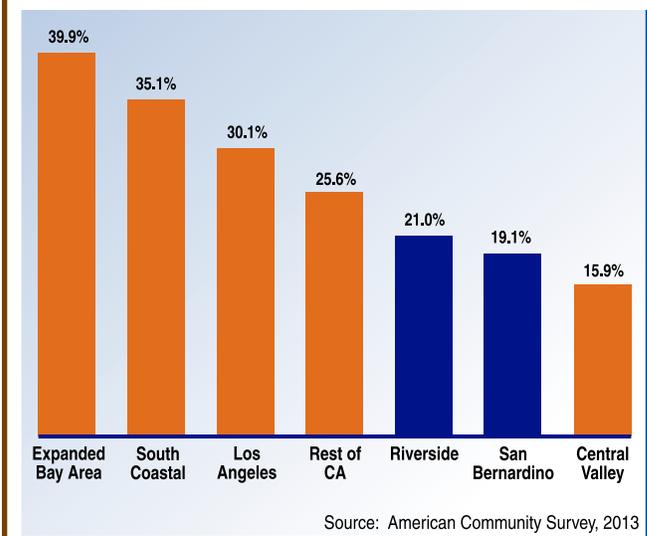
Source: CA Employment Development Department
U.S. Bureau of Labor Statistics, Economics & Politics, Inc.

9 IMPORT & EXPORT CONTAINER VOLUME, 2000-2014 Ports of Los Angeles & Long Beach (mil. teus)



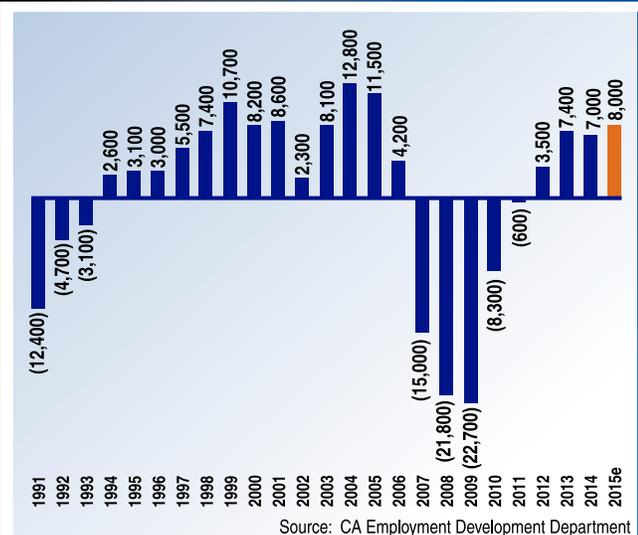
Port Volumes. A key driver of the Inland Empire's economy is the volume of cargo flowing through the ports of Los Angeles and Long Beach. In 2014, the two ports saw imported containers reach 7.8 million 20-foot equivalent containers (*teus*), third highest ever. This occurred despite port labor difficulties which slowed activity from July to December. With labor negotiations settled for five years, plus the dollar's recent strength, imports will likely set a record in 2015. This will drive up inland logistics employment since a lot of this cargo is processed in local warehouses. Exported containers declined slightly to 3.5 million *teus*. Here, the dollars strength may further dampen volume.

10 EDUCATIONAL ATTAINMENT: BA OR HIGHER Adults, 25 & Older, by Region, 2013



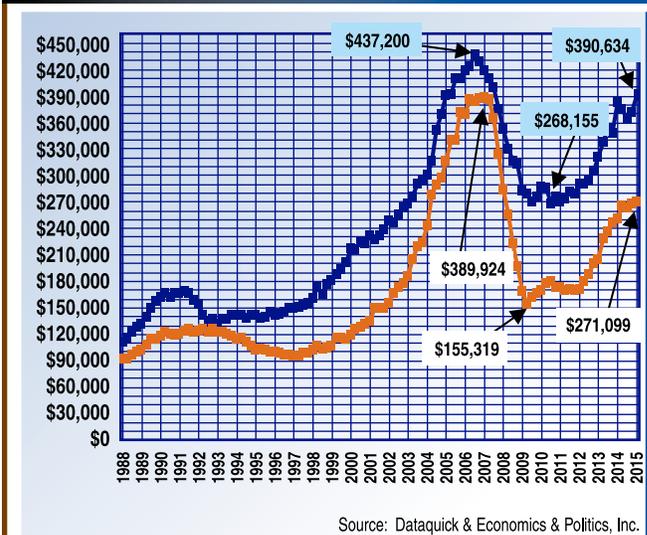
BA & Above. The Inland Empire's educational attainment has inhibited the ability of its professional, engineering, managerial and scientific sector to grow (2,750 of 53,117 new jobs in 2014 or 5.2%). Information technology has provided almost no growth in the area. This is due to the fact that Riverside County (21.0%) and San Bernardino County (19.1%) are at a competitive disadvantage based upon their shares of adults with bachelors or higher degrees compared to every other portion of California except the Central Valley (15.9%). In particular the high levels of well educated workers in Los Angeles County (30.1%) and the other southern coastal counties (35.1%) underscore the problem.

11 CONSTRUCTION EMPLOYMENT Inland Empire, 1991-2015e



Construction Employment. While Inland Empire construction employment is returning, the sector is far from having recovered. It added 3,500 jobs in 2012, 7,400 in 2013 and 7,000 last year, a total of 17,900. But that only brought the sector back to 77,000 jobs, roughly its 2000 level (80,000). During the Great Depression, it laid off -68,400 workers or -53.6% of those with jobs at the 2006 peak (127,500). The sector remains down -50,500 from that level. The forecast is another 8,000 new jobs in 2015 based upon homebuilder optimism, but they are having trouble finding workers as they have moved on to other sectors. It is unlikely the peak will be reached in this housing cycle.

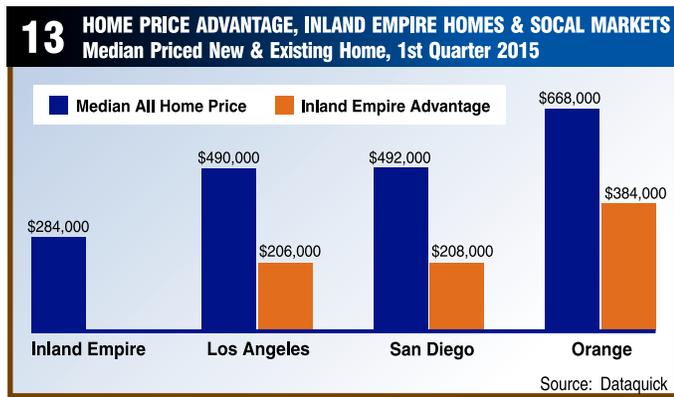
12 PRICE TRENDS, NEW & EXISTING HOMES Inland Empire, 1988-2015, Quarterly



Residential Prices. During 2015, the Inland Empire's residential prices continue their upward surge. Existing median home prices rose from \$250,834 in first quarter 2014 (not shown) to \$271,099 in first quarter 2015, up \$20,265 or 8.1%. Since the low of \$155,319 in second quarter 2009, prices have come back 74.5%. That still leaves them 30.5% below the all time record of \$389,924 in fourth quarter 2006. However, many homes sold in the 2005-2007 peak years were overpriced and purchased under questionable mortgage standards and have likely been lost to foreclosures. New homes have reached \$390,634 in first quarter 2015 putting them \$119,535 or 44.1% above existing home prices.

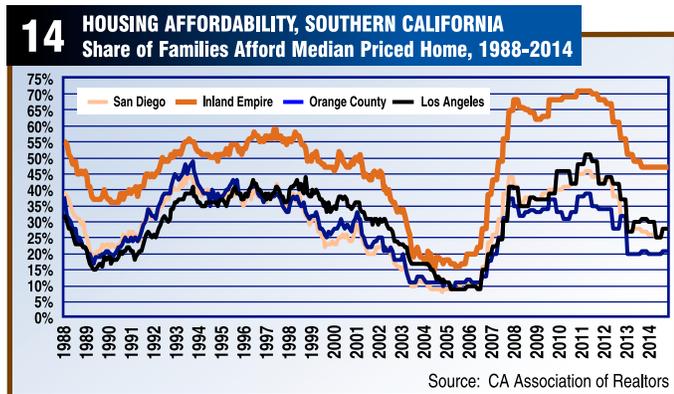
INLAND EMPIRE HOUSING MARKET MOVING TOWARDS “NORMAL”

Repeatedly in the last six 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. This is finally over and the sector is beginning to recover. As indicated on the previous page, construction employment grew 7,392 in 2013, 6,942 jobs in 2014 and is predicted at 9,000 for 2015 (*Exhibit 11*). Meanwhile, total permit valuations are up and foreclosures at low levels (*averaging about 1,000 a month versus a high of 12,500*). In addition, the inland region’s residential prices have increased significantly, up 74.5% from their all time lows (*Exhibit 12*).

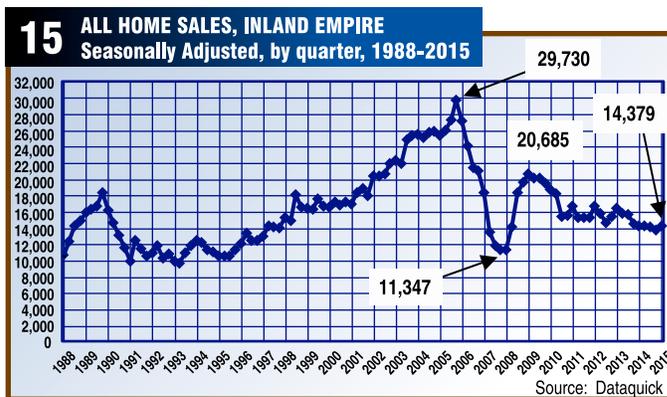


In first quarter 2015, the traditional pricing opportunities in the Inland Empire’s housing market remain in place (*Exhibit 13*). In 1st quarter 2015, the median priced Inland Empire home sold at \$284,000 (*half higher/half lower*). Compared to Los Angeles (\$490,000), a family can save \$206,000 migrating from that county. In the case of Orange County (\$668,000), a family moving to the Inland Empire can save \$384,000 on the median house. As people again begin to desire homes, these differentials will drive the inland home markets.

Further highlighting the cost differentials is the data on housing affordability (*Exhibit 14*). This compares the median incomes in each area to their home prices.



These measures have plunged in each of Southern California’s market with the rise in prices. However in the Inland Empire, 47% of local families could afford the area’s median priced home in fourth quarter 2014 and 53% could not. This is close to ideal where 50% can and 50% cannot buy the median home. In Los Angeles County, 27% could afford its median home while 73% could not. Orange County is the Southern California County with the highest median income. Nevertheless, just 21% could afford the county’s median priced home and 79% of families could not. Meanwhile, the higher incomes in the coastal counties mean that the families from those areas could afford more than 47% of Inland Empire homes. These facts are a necessary condition to restarting the migration of coastal families to the inland area. Despite these facts, the Inland Empire’s home markets have not yet 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 supply of homes on the market. Next has been the fact that homeowners want or need high price to sell their homes. Third, there are the tougher requirements to qualify for mortgage financing as lenders have demanded higher down payments, stronger incomes and better FICO scores. Fourth has been the reluctance of coastal county buyers to risk migrating away from their jobs. This is likely occurring because even though unemployment and job growth have improved, they remain issues in the minds of many families. Finally, the fact FHA has lowered the threshold of loans the agency will guarantee from \$500,000 to \$350,000 has also not been helpful for an area needing a housing recovery. These considerations must be overcome before a normal Inland Empire housing market will again exist. ■