The State of the Region 2025 Economic and Election Report

by

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Economic Outlook United States

General Conditions Today

Economic Growth

Inflation adjusted ("real") GDP grew nationally at a rate of 2.2 percent (annualized) during the fourth quarter of 2024, the latest data point available. This is a somewhat weaker reading compared to the third quarter (3.0 percent) and the second quarter (2.7 percent). It has reverted to the long-term average of 2.4 percent since the beginning of the recovery from the Great Recession in 2009 (to 2019). While the Biden years saw a 3.2 percent real GDP growth, the Congressional Budget Office (CBO) considers long-term growth currently only to be 2.1 percent. Hence the **U.S. economy is growing at a rate that is compatible with full employment growth.**

GDP growth during the fourth quarter of 2024 was primarily driven by consumption expenditures (up 4.2 percent) and residential investment (up 5.3 percent). Since consumption makes up two-thirds of total expenditures in the economy, this translated readily into healthy GDP growth. Besides housing, consumers favored spending on vehicles and clothes, in addition to medical care and transportation. The reason this did not result in growth as strongly as recently observed was that businesses allowed inventories to be drawn down significantly (negative inventory investment), related to some extent to the Boeing strike.

The uncertainty created by President Trump's "on-again-off-again" impositions of tariffs on goods from Mexico and Canada should result in a build up of inventory investment. China is already facing a 10 percent tariff in addition to the tariffs imposed by the first Trump administration (by the time we are writing the report) and the fear of escalation of the trade war will almost certainly prevent inventories to be further drawn down in January of 2025. Tariffs on steel and aluminum have been added.

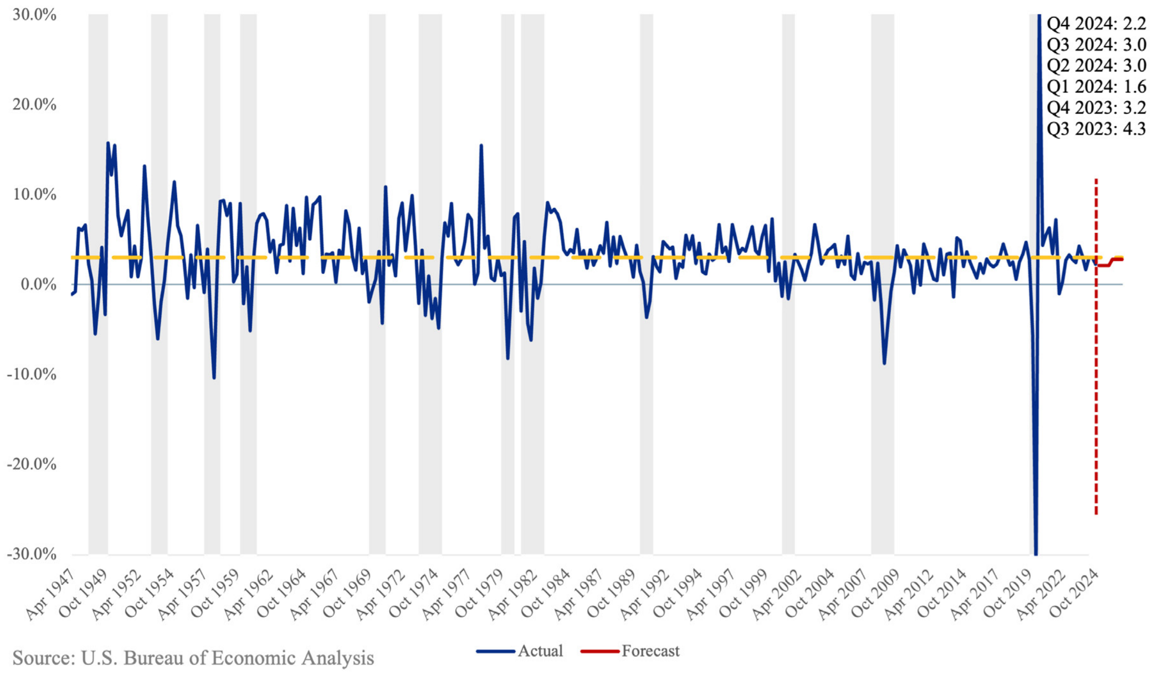
The Federal Reserve in Atlanta has a "GDPNow" measure which predicts current quarter real GDP growth based on data becoming available in real time: the forecast is 2.9 percent for 2025 Q1. The scenario is likely to produce a **"soft landing"**[2] or, as Federal Reserve Chairman Powell prefers to call it, "the good outcome." After the publication of the latest inflation numbers, which show continued levels above the target, "gliding" seems to be a more appropriate term.

Monetary policy has shifted from restrictive mode towards neutral or even perhaps expansionary mode, as the U.S. central bank started to be concerned about a slowdown of economic activity last year. **We expect no national recession in 2025, and GDP growth will resemble that of recent history.** There are currently no alarm bells from leading economic indicators to signal an end to the almost 5-year-long economic expansion, with perhaps Consumer Sentiment being one of the exceptions.

The Federal Reserve lowered the Federal Funds Rate (FFR) by 25 basis points in November putting it into a range of 4.50 percent to 4.75 percent. It did so again in December with a target range of 4.25 - 4.50 percent. However it left the interest rate unchanged during its January 2025 meeting, despite the "demand" from President Trump to lower interest rates.

2. We define "soft landing" if, starting from an inflation rate of above 4 percent and an unemployment rate below 5 percent, policy makers bring down the inflation rate to the 2 percent target without causing a recession. The term, technically, has its origin in landing a spacecraft "softly" on the moon. The question is not whether or not there will be a recession in the future - clearly there will be one at some point. Instead, the question is whether the landing will be achieved in the near future - which, until recently. we had taken it as a given.

FIGURE 1: REAL GDP GROWTH, U.S., QUARTERLY, SAAR, BILLIONS OF CHAINED 2017 DOLLARS, 1947 Q1 - 2024 Q4 (ACTUAL), FORECAST 2025 - 2026



Source: U.S. Bureau of Economic Analysis

- 2024 Quarter 4 showed real GDP growth of 2.2 percent.
- Looking at annual growth rates from a year ago, we observe a value of roughly 2.5 percent growth (yellow line shows 3 percent long run average) over the last 12 months, the lowest since 2023 Q1.
- Two quarters of negative growth in 2022 published earlier were due to measurement error, not recession, and have now revised down to a single quarter of negative growth.

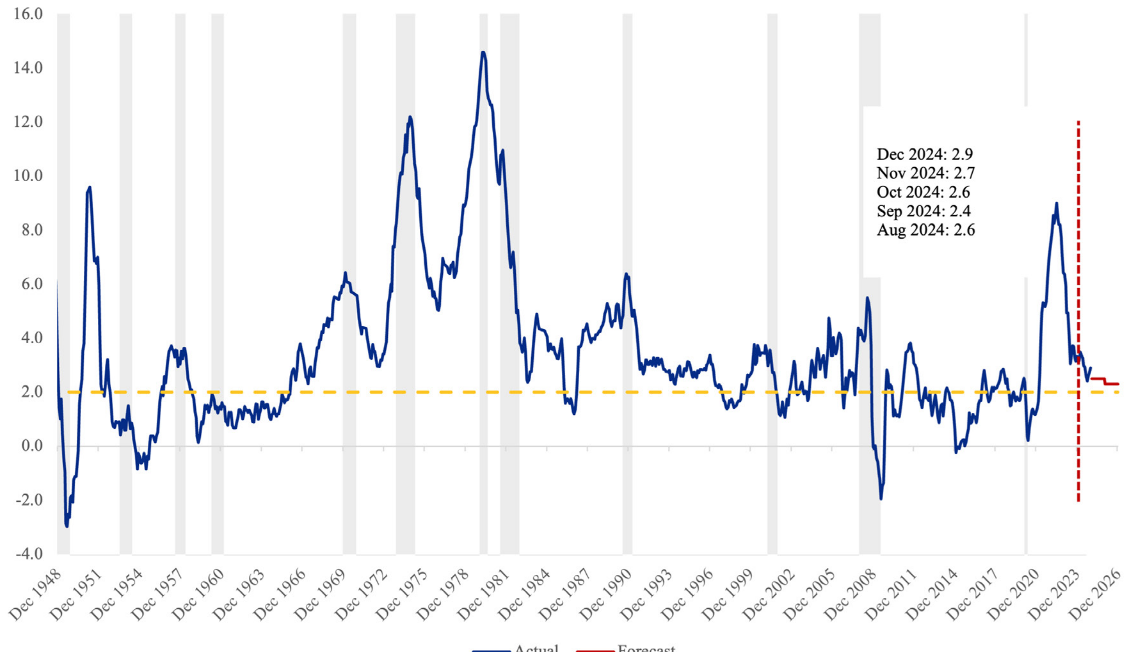
INFLATION

Following the Great Recession, the Federal Reserve kept the FFR at 0 percent from December 2008 to November 2015, and again from March 2020 to February 2022. By **June 2022 inflation rates reached 9%** (annual percentage change, "all items" Consumer Price Index) due to supply chain interruptions coinciding with the Biden administration spending $3.1 trillion to stimulate the economy and reverse the decline from the Coronavirus downturn. Elevated unemployment rates, lasting over several years, were avoided at the cost of inflation. To this day, prices for goods and services are roughly 20 percent higher than they were in early 2021. With hindsight, these higher prices, not weak economic growth, proved to be one of the major causes of the Democrats being defeated in the 2024 Presidential election. Subsequently, there was a rapid rise in the FFR involving 11 step increases, at a pace not seen since the 1980s (5 percentage point increase in roughly a year), reaching a **peak in the 5.25 percent - 5.50 percent range** during the summer of 2023. The purpose of this policy was to slow down economic activity to lower the inflation rate to the **target of 2 percent.**

Inflation (measured as the growth in prices from a year ago) has not yet reached this target. The Consumer Price Index was at 2.9 percent in the last release (December 2024), while the Fed's preferred measure based on the personal consumption expenditures price index excluding food and energy, rose at 2.5 percent, and has seen a slight increase (it had reached 2.2 percent during Q3.

Why did the Fed's rate hikes not slow the economy? A word of caution. It is **real interest rates, not nominal interest rates**, that affect economic activity. Due to higher inflationary expectations, real interest rates were negative until mid-2022, and even recently only reached 5 percent, which is elevated, but not high by historical standards. This explains, in part, why we did not see a recession so far.

Figure 2: Inflation, Consumer Price Index, U.S., January 1948 - December 2024, Forecast 2025-2026, Percentage Change from a Year ago, SA, All Items



Source: U.S. Bureau of Labor Statistics

- Inflation slowly decreased over the past two years after its peak at 8.9% in June of 2022, moving towards its 2% target (yellow line); latest number is 2.5% for Personal Consumption Expenditure Price Index.
- Inflation target may not be achieved soon due to the new administration's economic policies.
- The Federal Reserve typically increases interest rates to counter inflation.

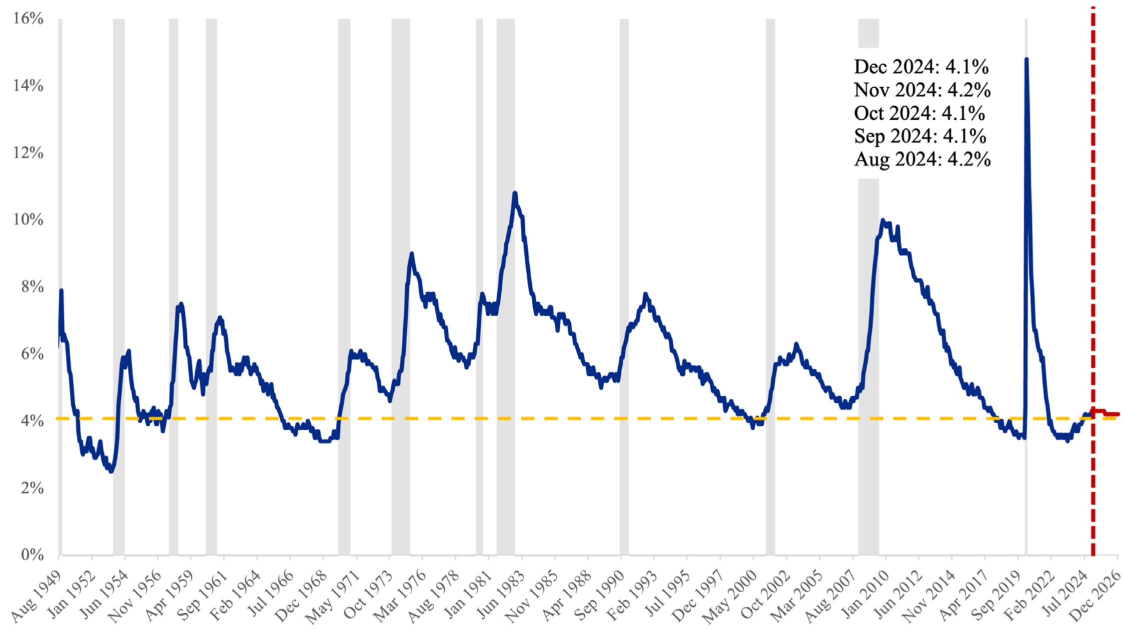
Labor Markets

The **national labor market** continues to be **tight by historical standards**: the unemployment rate in January 2024 was 4 percent. It has basically remained the same since June 2024. Given the pace at which the U.S. economy is still adding jobs, we view this as evidence of the economy continuing to expand rather than slowing down or even contracting. In addition, and differently from previous episodes of low unemployment rates, we currently observe a relatively high volume of unfilled job openings, which has resulted in relatively **high levels of wage growth**. Nominal wages have increased at a rate of about 4 percent. This statistic was as high as 6 percent in 2023, and it continues to outpace inflation, meaning that **real wages are still increasing** by around 1.5 percent. To clarify, a real wage increase means that you have to work fewer hours to buy a basket of goods which includes jeans, flights to New York City, food, etc.

Exchange Rate

Both exchange rates and trade considerations matter to most Inland Empire businesses and policy makers, since they affect leading industries in the regional economy. First, the volume of trade impacts the Logistics Industry in both counties, and Logistics is the number one employer in San Bernardino County, and has the third largest employment share in Riverside County.

Figure 3: Unemployment Rate, SA, U.S., August 1949 - January 2025 (actual), Forecast 2025 - 2026



Source: U.S. Bureau of Labor Statistics

- The national unemployment rate fell slightly to 4.0%, keeping it basically constant over the last six months.
- The 4.0% unemployment rate represents a low jobless rate by recent historical standards.
- In the post-pandemic context, we are approaching labor market normalization with low unemployment levels.

Second, there is the effect that exchange rates have on the economy of the **Coachella Valley**, which plays a significant economic role as part of Riverside County. The majority of the nine cities of the Coachella Valley heavily depend on tourism and a large fraction of the expenditures come from so-called "snow-birds," especially those from the Western Canadian provinces. Hence it affects the Leisure and Hospitality industry. There is also a significant fraction of real estate owned by Canadians in the Coachella Valley.

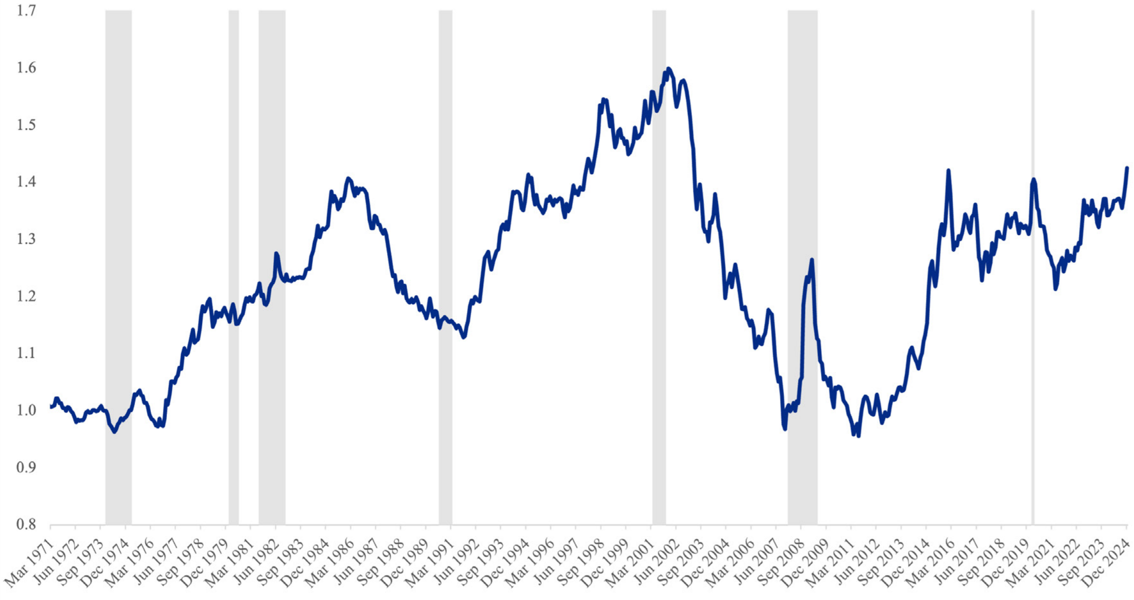
The Canadian Dollar has depreciated by 14 percent since March of 2021, and by almost 7 percent from a year ago. The U.S. dollar has also appreciated against almost all major currencies over the previous year (Mexico 16.1 percent, China 1.1 percent, Japan 4.7 percent, Euro 3.1 percent, Korea 6.7%, Taiwan 4.6 percent), which will (i) make it more expensive for foreign tourists to come here, and (ii) make imports cheaper and U.S. exports more expensive. In itself, these currency movements imply more imports and fewer exports.

To illustrate the effect of the **Canadian Dollar exchange rate** on tourism and the residential housing market, consider a 40 percent depreciation of the Canadian dollar similar to what we observed from 2010 to 2015. Tourism from Canada will suffer significantly as a result. Trevor McKenzie and wife Justine Fortin used to spend $C 5,000 for a vacation to escape to arctic vortex in Canada. However, to do so this year, they have to put down $C 7,000. Vancouver, Calgary and Banff do not look as bad anymore as they used to be.

In addition, think of a Canadian who purchased a house in Palm Springs in 2010. Putting the house on the market slightly below the local price allows Canadians to sell the house quickly while making a substantial profit. Reverse calculations can be made easily for the 2001 to 2007 period when the Canadian

Dollar appreciated by 40%. Current levels in the Canadian Dollar/U.S. Dollar exchange rate suggest that there will be no additional positive impulses in Coachella Valley tourism or in the housing market triggered by Canadian residents. Fewer Canadians will flock south and more Canadian residents might be tempted to sell their homes in the area.

Figure 4: Canadian Dollar to U.S. Dollar Spot Exchange Rate, March 1971 - December 2024



Source: FRED

- C$/US$ has appreciated by 14 percent since March 2021, 6 percent from a year ago.
- Canadian dollar appreciated by roughly 40% from late 2007 to early 2016.
- Regarding most other currencies (Euro, Yen, Yuan, Won, etc.), the U.S. Dollar has appreciated over the last year, increasing imports slightly and discouraging exports.

What You Can Expect

We need to say upfront that this year, more so than in most previous years, there is **more uncertainty involved in our forecast**. This is the result of President Trump announcing certain policies (tariffs on Mexico and Canada, for example), only to postpone them shortly afterwards. At this point, we assume that the 10 percent tariffs on goods imports from China will remain in place, and that the Chinese government will retaliate by placing a similar surcharge on certain U.S. exports.

The forecast for 2025 is that the U.S. central bank will lower the FFR by another 50 basis points, which is two fewer reductions compared to recent expectations. We now expect the FFR to end up in the range of 3.75 - 4.00 percent at year's end. To put this into perspective, a 3 percent rate is seen as neither stimulating nor restricting monetary policy, assuming an inflation rate of about 2 percent.

This is where the **difficulties of forecasting monetary policy** start as a result of the Republican Party winning all three branches of the Federal government. Higher tariffs and more restrictive immigration policy will add direct inflationary pressure from import prices and the labor market. The Trump administration claims that these inflationary pressures will be countered through deregulation and lower gasoline prices. The former will take time to work itself through the system, and the second is doubtful given current prices for oil in the markets.

If President Trump's policies result in higher inflation rates, then the Federal Reserve will have to counter these by changing the path of lowering interest rates further. The main reason for keeping the interest rates at the current level is the result of the Fed dealing with the same uncertainties we see in forecasting the effect of President Trump's policies on the economy. Think of this as a **"wait and see"** approach. Note that Chairman Powel's term does not end until 2026.

The national economy will continue to grow close to a healthy pace in 2025, but somewhat slower than recently observed.[3] The inflation rate will not get significantly closer to the 2 percent target in early 2025 and will continue to remain significantly above it. Mortgage rates, which declined significantly until August 2024, have increased since then and are stuck at close to 7 percent. They will not fall until the Fed will lower the FFR. Lower interest rates should result in higher sales activity in the housing market since owners, who currently hold a low interest rate mortgage, will be more tempted to cash in their gains and move into larger houses.

While we were hoping to see increased levels of housing starts, we are no longer as optimistic as before. The January 2025 fires will require an increased number of construction workers to be directed into those two areas. In addition, the residential building industry will face worker shortages if a significant number of the workers are deported. Increased building costs from potential tariffs on Canadian lumber will/would also slow down housing starts.

Business investment in equipment and software will continue to be strong due to the more optimistic outlook of firms under the Trump administration, and the AI revolution. Consumption expenditures, on the other hand, are not expected to increase at the pace seen this quarter, given the drop in consumer confidence in January (4 percent month-to-month, 10 percent year-to-year), although the continued tight labor market should prove to be beneficial.

Unemployment rates will basically remain the same for 2025. We do not make forecasts regarding financial variables. These can best be observed from forward rates in various markets. We assume that President Trump will find a way to end the war in Ukraine, perhaps to extract more "rare earth" material from

3. UCLA Anderson Economic Forecast for the Nation, December 2024 (2024 fourth quarter edition).

that country if China will reduce its exports of these. Furthermore, we assume that the conflict in the Middle East will not flare up. We doubt that the president will be able to follow through with his policy proposal of turning the Gaza strip into the Mediterranean resort of the region (Mare-a-Gaza?). Moreover, we do not see much potential from resumed economic growth in Europe, especially with Germany entering its third year of recession. Many countries will be forced to increase their share of military expenditures.

To summarize: imposing a 10 percent tariff on goods from China will have the effect of reducing both imports and exports (trade) while leaving the trade deficit unchanged. The effect on the Inland Empire and the ports will be significant. If President Trump decides to impose a 25 percent tariff on goods from Mexico and Canada, then that would send the California, and perhaps the U.S. economy, into a recession due to supply chain disruptions. Note that the stock market reacted accordingly by seeing the Dow Jones drop by almost 700 points before President Trump reversed the initial plan on tariffs on Mexico and Canada.

If you wonder what to take away from the national outlook, it will be the Fed's underlying motto of "wait and see." As more data for 2025 Q1 is received, we will see how much of a reversal of recent GDP growth is in store, if any. Economists expect some effect on prices and demand from new tariffs imposed. But the myriad of substitution effects are impossible to predict, and imported goods on which these tariffs are imposed will bear less of a price increase than the original tariffs.

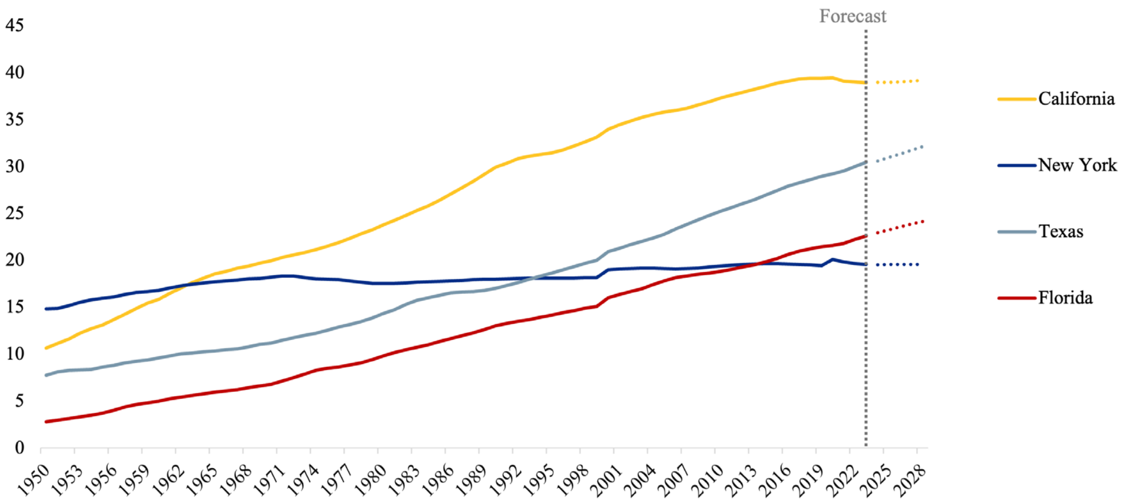
Table 1: U.S. Economy, Present and Forecast, 2023 - 2026

United States	2023	2024	2025	2026
Real GDP Growth	2.5	2.4	2.0	1.9
Inflation	4.1	3.3	2.6	2.8
Unemployment Rate	3.6	4.1	4.3	4.2
Employment Growth (CES)	2.4	1.6	1.0	0.6

Economic Outlook California

California has lost a congressional seat due to a **decline in population** from 2020 to 2023 for the first time in its nearly 175 year history. By 2023, the population had shrunk to the 2015 level, largely due to a **net out-migration of people**. This exodus has been accompanied by high profile **firms** moving their headquarters (Chevron, Oracle, Hewlett-Packard, Toyota, Jamba Juice, Tesla, Space X, etc.). On a more positive note: California's population is growing again (slightly) in 2024, and is projected to do so from here on at a relatively low rate of roughly 0.2 percentage points a year. According to the Department of Finance, California will not reach a population level of 40 million until 2033.

Figure 5: Population in Millions, California, New York, Texas, and Florida, 1950 - 2028 (projection)



Source: U.S. Census Bureau

- California is the most populous state in the U.S., followed by Texas, Florida, and New York.
- Rankings can change over time: New York used to be the biggest state, but was passed by California, Texas, and Florida.
- Population growth in California is fairly flat since the start of the COVID-19 episode.

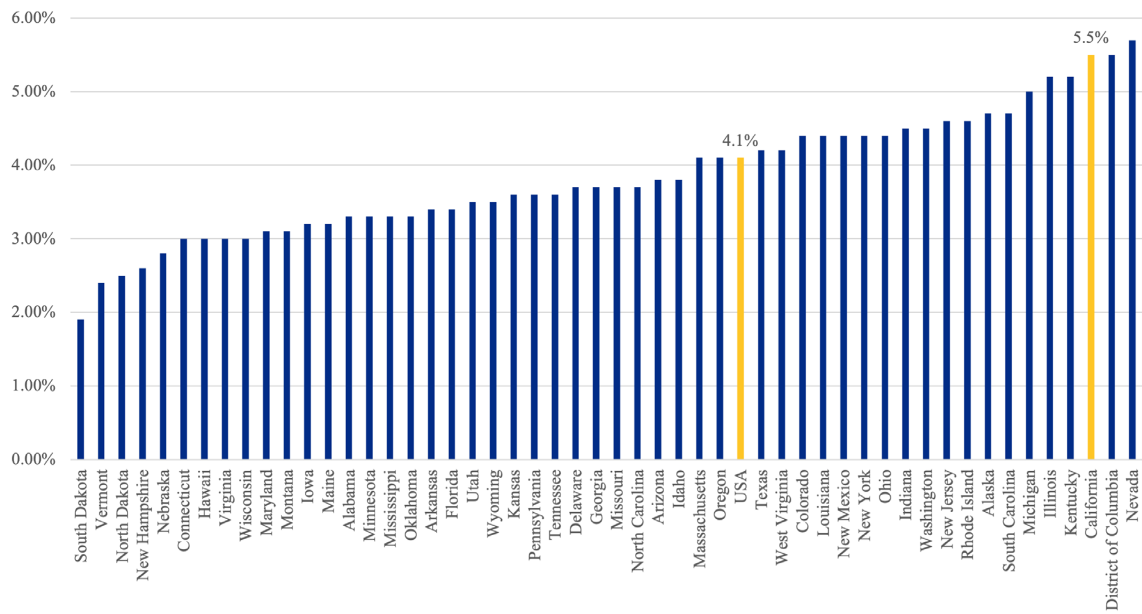
The size of California's Gross State Product ranks right behind that of Japan but is higher than India's and the U.K.'s. A better measure of the "wealth of a region" is per capita GDP. Here California remains in 4th place among U.S. states, behind the State of New York, Massachusetts, and Washington. Texas is 17th and Florida 36th.

The current performance of **California's economy shows a mixed picture, at best**. California, more so than other states, shows signs of a possible regional contraction in the near future, and annual growth rates of its Gross State Product have gone from a relatively high 3.7 percent in 2023 to only 2.8 percent in recent data. Still, this number is only slightly below the national real GDP growth rate.

The effects of the higher interest rate policies of the Federal Reserve are more visible here than elsewhere; reductions in the FFR should have a positive influence on output and employment. The December 2024 **unemployment rate** of 5.5 percent is the **second highest among U.S. states**, ranking California 49th (Nevada has the highest at 5.7 percent). In general, California unemployment rates tend to be higher than the national rate, regardless of cyclical fluctuations.

Compared to February 2020, the last month before the Coronavirus downturn, California's **unemployment rate is 1.1% higher.** The change in the unemployment rate can be approximated by the difference between the growth rate of the labor force and the growth rate of employment.

FIGURE 6: U.S. STATE UNEMPLOYMENT RATES, SEASONALLY ADJUSTED, DECEMBER 2024



Source: U.S. Bureau of Labor Statistics

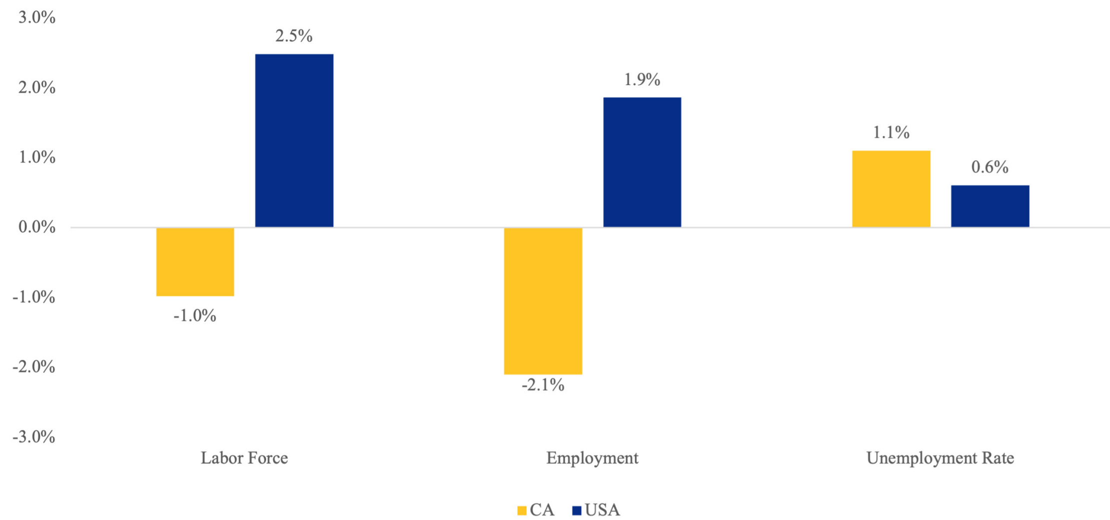
- California has the second-highest state unemployment rate.
- California unemployment rate levels is higher than the national average.
- The higher state unemployment rate is not a recent phenomenon, but can typically be observed over time.

Using most recent numbers and compared to February 2020, California's labor force shrunk by 193,000 people or by 1 percent, while employment fell by 394,000 or 2.1 percent. By comparison, the U.S. unemployment rate increased (by 0.6 percentage points) over the same period because the labor force grew by more (2.5 percent) than employment (1.9 percent). The national development displays a relatively healthy picture: people are joining the labor force, but not all are able to work. Not so the state picture: the unemployment rate went up for a less desirable scenario.

The shrinking labor force, taken at face value, is of concern. Out-migration is the obvious explanation, but additional numbers may come from early retirements of discouraged workers, or some workers deciding to spend more time raising children. If you dig deeper into the numbers by performing a regional analysis, you will notice that areas dominated by agriculture have traditionally been losing workers and that this has continued. However, it is the decline in the Bay Area employment that is new and worrisome. You will note below that both Riverside County and San Bernardino County (and hence the Inland Empire) have not seen a shrinking labor force - this adds migration from the coastal areas into inland areas as another explanation. The same holds for the Stockton-Lodi MSA area, and adjacent states to California, such as Nevada and Arizona closer to the border.

Focusing more on **developments from a year ago (December 2023 to December 2024),** California employment fell by 13,800 according to the **household survey** (negative growth) but increased by 180,500 according to the **establishment (enterprise) survey**. This means that non-farm payrolls increased by 1.0%. Discrepancies between the two surveys are not unusual, especially for Riverside County and San Bernardino County where a large part of the difference is due to commuters (the household survey measures employment by residency, while the establishment survey asks firms about employment levels).[4] However, there are deeper causes here as the national labor force calculations show for January 2025: there will be upward revisions in the household survey data, and downward revisions in the establishment data. The same will happen for California, but not until the revised data is published in March. The reason for the significant revisions was that the U.S. Census has not captured the relatively large influx of immigrants.

Figure 7: Change in Unemployment Rate, Employment Growth Rate, and Labor Force Growth Rate, CA and U.S., Seasonally Adjusted, February 2020 - December 2024[5]



Source: U.S. Bureau of Labor Statistics

- Change in the unemployment rate equals approximately the difference in growth rate of labor force and employment.
- Compared to pre-COVID-19 dates, California's unemployment rate has increased due to lower employment relative to a shrinking labor force.
- U.S. economy shows a healthier picture with both labor force and employment increasing.

Using the establishment survey, the year-to-year increase in California employment looks relatively positive until you dig deeper to find that **103% of the 180,500 jobs created were generated by just two sectors: Private Education and Health** (primarily Health) **(129,500) and Government (56,700)**. This means that all other sectors combined actually lost jobs. Both sectors rely heavily on public expenditures, and you can expect cutbacks here in the near future. Employment in education is also bound to decline, given demographics; add to that out-migration, and the education sector (both public and private) is about to suffer. There will be a lower demand for workers involved in these sectors, both for teachers and administrators.

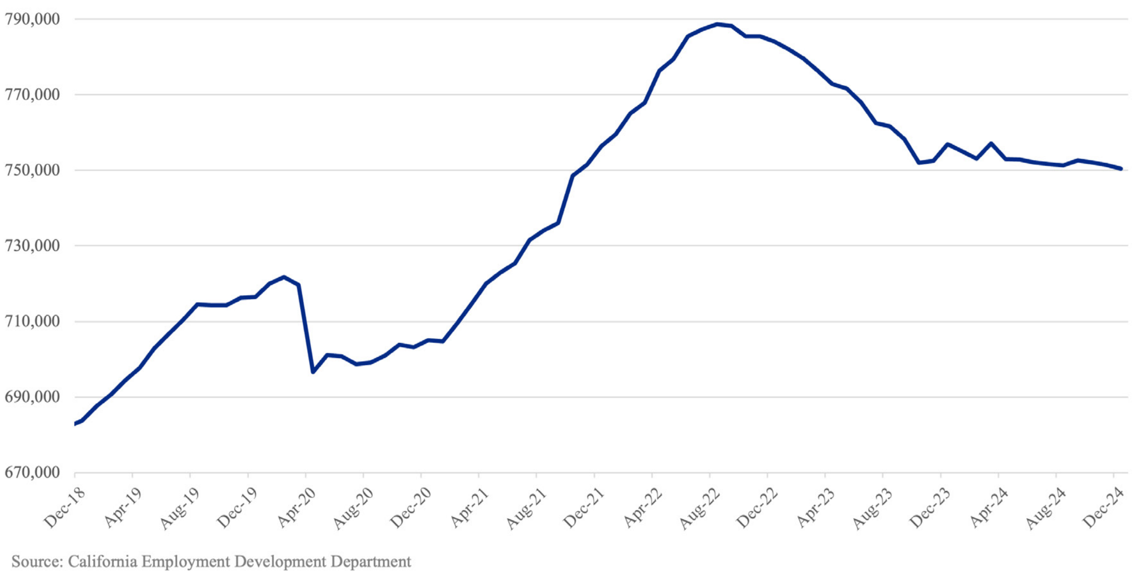
4. One of us (Manfred Keil) resides in San Bernardino County but works in Los Angeles County. Were he to lose his job and become unemployed, the unemployment rate in Los Angeles County would remain unaffected, but the unemployment rate in San Bernardino County would increase.
5. We did not include the January 2025 numbers for the U.S. here, since the California unemployment rate will not be available until the middle of March.

Looking at this from a different angle, namely **Low Wage Sectors versus High Wage Sectors**, the warning signals continue to flash. The Low Wage Sectors (Construction, Government, Trade-Transportation-Utilities, Private Education-Health Services, Leisure and Hospitality, Other Services) gained almost 218,000 jobs, while the High Wage Sectors (Manufacturing, Mining and Logging, Financial Activities, Information, Professional and Business Services) lost roughly 37,500 positions.

Given this situation, we do not see sufficient momentum for strong growth in California in 2025. Information, Manufacturing, and mining all experienced job losses. More importantly, the job growth that still occurs is not evenly spread across industries and/or regions: there will be regional variation with a **bifurcated recovery**. This time the **coastal regions are going to suffer more than the inland regions**, which have a higher share of Low Wage Sectors.

Technology related jobs and employment in engineering are pillar industries for California. Technology Services has seen a worrisome downward movement in employment from the peak in mid-2022. While the decline may have bottomed

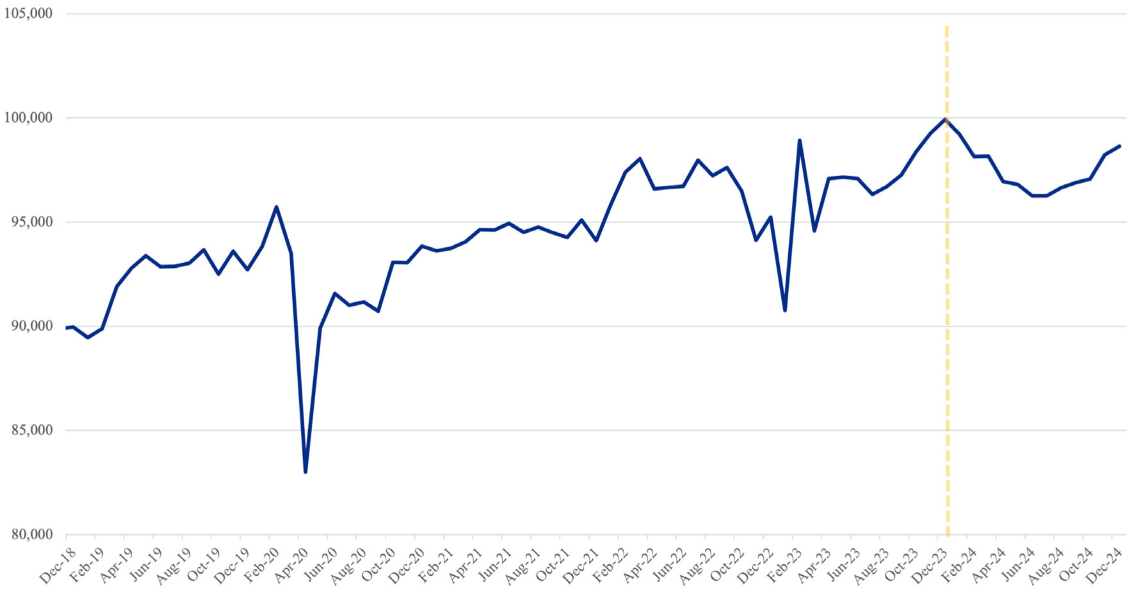
Figure 8: Employment in Technology Services, in thousands of jobs, Seasonally Adjusted, California, September 2018 - December 2024



- Employment in Technology Services continues to be weak.
- Technology sector has seen significant layoffs, which were circulated by the popular press.
- There is no sign yet of a recovery from the lows reached at the end of 2023/beginning of 2024.

Over the last year, Construction lost 12,500 positions, which does not suggest that there are a large number of infrastructure projects in place. Jobs related to the burnt down properties of the January 2025 fires will add jobs eventually, but not significantly so until 2026. The Heavy and Civil Engineering Construction sector reached a peak early in 2024. Manufacturing (not shown here) has not picked up either, with the whole sector shedding jobs (- 45,700) over the last year. There is no sign that onshoring of more business activity within California has happened so far.

Figure 9: Employment in Heavy and Civil Engineering Construction, Seasonally Adjusted, California, September 2018 - December 2024



Source: California Employment Development Department

- Heavy and Civil Engineering is not contributing currently to employment expansion in the state.
- While recovering all jobs lost during the COVID-19 downturn, the expansion starting in early 2022 has not lasted.
- The sector is currently in a slight incline.

Commercial Real Estate

While utilization within the industrial market has only strengthened since the pandemic, the office market continues to weaken and shows no signs of recovery. Utilization estimated for the nation-wide office market has been falling since before the pandemic. The **vacancy rate eclipsed 20 percent** at the end of the second quarter of 2024, the **highest level since records have been kept**. This will represent a drag on state economic growth, although it is not a major factor.

Millions of square feet of space continued to be dumped on the sublease market. Present conditions reveal an office market having experienced the **worst year of absorption ever recorded**, comparable to the Great Financial Crisis of 2007-2009. The "poster child" for office market weakness is **San Francisco**, which not only has the highest vacancy rate in the State, but also in the nation. The 2024 Q2 vacancy rate has the city at 36.8% vacancy and 39.1% availability.

Both tech-heavy and urban core markets are the hardest hit from a basis point change in vacancy, while suburban-centric markets showed more durability, illustrated by the Inland Empire posting a modest vacancy rate decline compared to pre-covid levels.

6. CBRE, San Francisco Office Market Figures, July 9, 2024, page 2, https://www.cbre.com/insights/figures/greater-los-angeles-office-snapshot-q1-2024

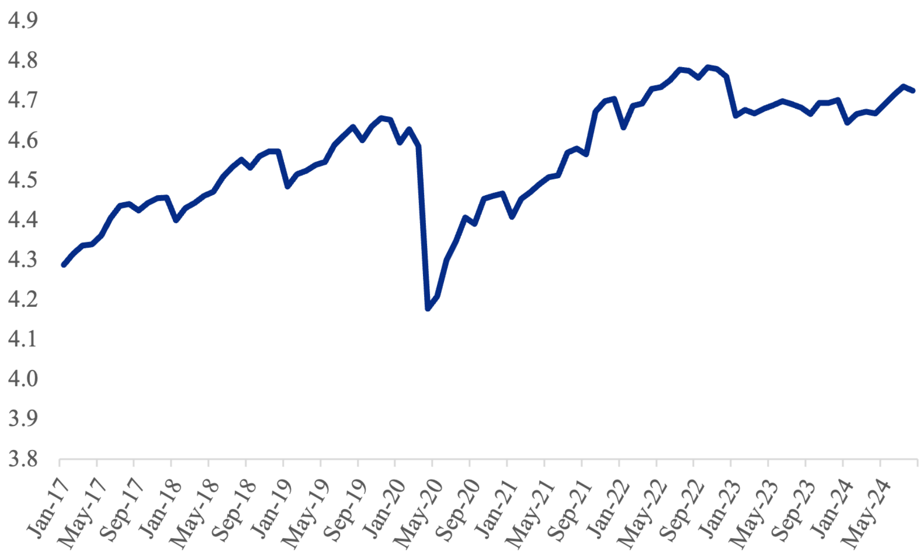
Table 2: Office Market Vacancy Rates, California Cities or Counties, 2024 Q2

Office Market Vacancy Rate
California Regions 2024 Q2

Jurisdiction	Rate	Source
San Francisco	36.8	CBRE
San Jose	17.8	Kidder Mathews
Silicon Valley	19.5	CBRE
San Mateo	20.3	Cushman & Wakefield
Palo Alto	8.7	Kidder Mathews
Los Angeles County	23.3	CBRE
Los Angeles downtown	31.5	CBRE
San Fernando Valley	19.5	CBRE
Orange County	14.7	CBRE
San Diego downtown	30.0	Kidder Mathews
San Diego County	14.3	CBRE
Sacramento	17.6	CBRE
Inland Empire	8.5	CBRE
Ventura County	17.2	CBRE

While office space supply is near the lowest levels observed in a generation, office-using employment is at or near record highs. Normally the office market should show low levels of vacancy and rising rents. The opposite is true due to **office-using workers no longer using office space** at levels seen previously, although there are signs that this situation is reversing itself slowly. The kinds of jobs that fueled a boom in office leases before the pandemic are also those most amenable to remote work. This has given rise to the high vacancy rates in metro California.

Figure 10: Office Using Employment, California, Millions of Jobs, June 2019 - December 2024



- While new development has declined marginally since early 2024, industrial development remains strong.
- Decline coincides with softening demand for industrial product.
- Despite higher vacancy rates, there is optimism for this sector.

There has been a **strong run of new industrial development in recent years**, especially in **Southern California**. New development has diminished in 2024 in sync with higher financing rates, construction costs, and softening demand for industrial products. The return of traffic at California's seaports and continuing high consumption levels are contributing to more positive sentiment among industrial developers despite rising vacancy rates this year.

Housing Market

Home prices rose modestly over the last year, but interest rates were somewhat lower than a year earlier resulting in a slight improvement in affordability from 2023 to 2024. As such, home sales rose 4.3 percent from 258,000 in 2023 to 269,000 in 2024. Sales in recent years have been noticeably weak compared to long term trends. Home sales in California have averaged 430,000 over the last 25 years. Weak sales have been largely constrained in recent years by a continued **lack of for-sale inventory** and weak new home production, **putting upward pressure on prices**. Mortgage rates for all of 2024 were slightly lower than in 2023 (6.7 percent vs. 6.8 percent), but at 6.95 percent in January, the average rate on a 30 year fixed rate mortgage was at its highest in the last six months. The January rate is 2.5 times higher than in January 2021 when mortgage rates were near their all-time lows at 2.75 percent. High interest rates reduce the pool of qualified buyers and reduce demand for housing. Taken together, elevated interest rates and stubbornly low inventory explain the extraordinarily low sales numbers today.

While **sales are at all time record lows**, median **home sales prices at all time record highs**. The median sales price of a home was $867,500 in 2024, up 6% from $815,200 a year earlier.

Housing starts/building permits are some of the strongest leading economic indicators in business cycle analysis. While permits had returned to pre-pandemic levels in 2021, they have decreased

Figure 11: Existing Home Sales, California, Seasonally Adjusted, December 2017 - December 2024

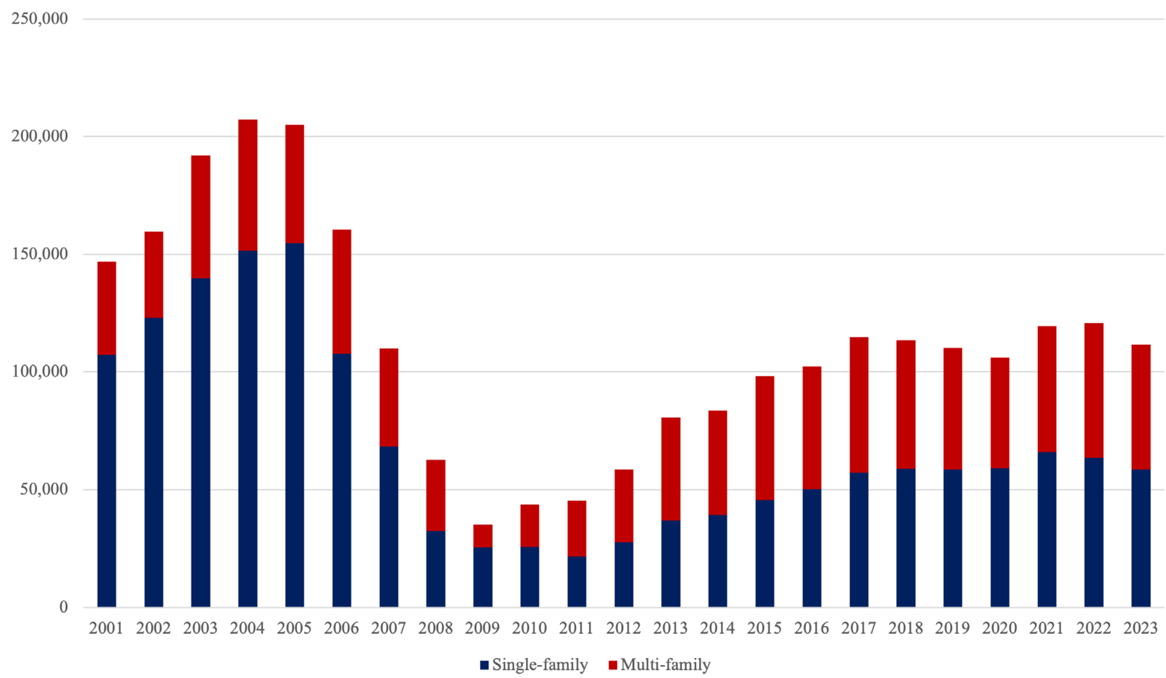
- Sales continue to be at a low level, although recovered from end-of-2022. These are depression levels.
- The low levels of supply have contributed to continues rising median housing prices.
- Lower demand also plays a factor caused by higher interest rates.

every year since then. Builder sentiment, and in turn, building activity, have responded to the increase in interest rates in recent years. Given the painful lessons of the housing downturn that accompanied the Great Recession, they have been careful not to get ahead of market demand.

How bad is bad? During the 1990s, there were 109,000 average annual total permits for a population of 31.5 million people in California. During this decade (2020s) so far, we have an average of 111,000 for a population of 39 million. Hence there are nearly 8 million more people, but only 2,000 more annual permits.

There is hope that permits will improve with the Federal Reserve easing its tight interest rate policy. Lower interest rates should have a positive effect on this interest rate sensitive sector, increasing the pool of qualified buyers at a time when much of the Millennial generation is in its prime years for buying a home.

Figure 12: New Private Housing Units Authorized by Building Permits for California, 2001 - 2024



- Housing Permits decreased 9.9% from 111,000 units in 2023 to 100,000 in 2024.
- Permits are significantly below previous peak levels, despite the Federal Reserve's September decision to lower the interest rates.
- Since housing starts are leading indicators in business cycle analysis, this is not a positive signal for the California economy in 2025.

The 2025 Outlook

The California labor market is weak, judging either by unemployment rates or by the vast majority growth in employment being concentrated in sectors that depend on public funding and/or are low wage sectors. We expect cutbacks in government expenditures to have a negative impact on employment in the Government and Health sectors. Of particular concern is also the relative decline of employment for the High Tech and Film (Information) industry. The film industry will continue to be a problem sector in 2025 and generate a drag on California employment growth, especially in the Greater Los Angeles area. High Tech employment currently is negatively affected nationwide by the advancement in artificial intelligence and automation. In addition, California receives a disproportionate amount of the southern border immigration surge. This group of immigrants has shown a higher unemployment rate than native born workers given recent data. Expect California to show the highest state unemployment rate when the January and February numbers are published, partially as a result of increased unemployment related to the Pacific Palisades and Altadena fires.

Further indications for a weakening state economy are the relatively high vacancy rates in the office market and the low level of new housing permits. However, the outlook for the 2025 economy is more auspicious than a year ago. Lower levels of inflation should result in more positive consumer sentiment and increased aggregate demand despite the depletion of household savings recently observed. The hope is that lower interest rates will provide a stimulus for interest-rate sensitive markets and industries, especially sales in the new and existing home markets, but also in the industrial market.

Additional stimulus should come from the Leisure and Hospitality sector as more Chinese tourists visit California. Airline passenger traffic is almost back to 2019 levels at the major airports. In anticipation, hotel Construction is sharply higher now already. While residential construction will favor the inland areas, there is much infrastructure work currently underway, and will continue to play a role according to the Governor's five year plan. Substantial construction will occur in the areas that were devastated by the January 2025 fires, but this will not have an employment impact until 2026. The reduction in mortgage lending rates will stimulate the existing housing market and will contribute more to general economic growth in 2025. Logistics output and employment will play less of a role than in the past given President Trump's tariff policies. The 10 percent charge on goods from China will reduce imports from that country. Given that this reduction in imports will most likely have no effect on the trade deficit (exports will also decrease due to the appreciating U.S. Dollar) we expect for some of the imports to shift to other Asian countries, such as Vietnam, Korea, and Japan. Goods from these countries will be shipped to California first, and as a result will lessen the negative effect on the logistics industry. Imposing further tariffs on Canada and Mexico will be more disruptive, since these would affect supply chains in a significant way. The Panama Canal no longer experiences drought conditions, with normal rainfalls having occurred in 2023 and 2024. Expeclopt no additional traffic from reduced passages through the Panama Canal. The East Coast Dock Strike would have resulted in additional container traffic routed to California and away from Houston, Savannah, and the East Coast and Gulf Ports, but the parties came to an agreement in early October. Looking at the more distant future, we believe that the film industry will continue to decline in importance in the Greater Los Angeles area, but that technology related job growth will resume starting in 2026. There is hope of additional impulses from the Aerospace industry related to defense spending and and from medical device manufacturing. The bottom line is that we forecast a geographically uneven development, with coastal areas hurting more than inland areas. Different from the Great Recession of 2008/2009, the inland areas, including Riverside County and San Bernardino County, are in better shape than the coastal areas, where the brunt of the relative decline of certain sectors, such as Information (Film and Tech) will be felt. The lost jobs in Hollywood are gone permanently, not just temporarily. However, laid off workers in that industry are not going to remain unemployed for years. Instead, they will move on to other lines of work (meaning they will drop out of the entertainment industry) or they will follow the industry to wherever it is moving (other states, countries). This adjustment will take time, though. There is one dark horse: Artificial Intelligence. It is not clear yet to what extent the increased use of AI will create jobs in the state, but there is upside potential here.

TABLE 3: MAJOR ECONOMIC INDICATORS, CALIFORNIA, CURRENT AND FORECASTS

California	2023	2024	2025	2026
Real GDP Growth	2.8	2.8	1.5	0.9
Inflation	4.0	3.2	2.6	2.9
Unemployment Rate	4.7	5.3	5.7	5.8
Employment Growth (CES)	0.9	1.0	1.0	0.9
Population	39.1	39.1	39.2	39.2

Political Trends And Economic Outlook Inland Empire

Inland Empire Political Trends

Although **California remains solidly blue**, the **state shifted marginally to the right in the 2024 election**. The **Inland Empire contributed to that movement**, with Donald Trump becoming the first Republican candidate to win the region's presidential vote since 2004. The voting patterns of the 2024 election, especially the shift of meaningful numbers of Latino voters toward Trump and the Republican Party, could have longer term effects on two-party competition in the region. In this section, we provide a brief overview of the political history of California and the Inland Empire, changes in their presidential votes between 2020 and 2024, variation within the Inland Empire in the shift toward Trump, and potential implications on these trends for the region's political future.

California has become one of the nation's bluest states, but it was not always so. In the ten presidential elections between 1952-1988, California voted for the Republican candidate nine times, often by large margins. This pattern changed decisively in 1992 when California cast its electoral votes for Democrat Bill Clinton: Between 1992-2024, California has chosen the Democratic candidate in nine straight presidential elections. Last November, Trump regained the presidency by improving on his 2020 performance nationally, including, critically, in swing states. Trump again predictably lost the deep-blue state of California, but by a tighter margin than four years before. In 2020, Joe Biden defeated Trump in California by nearly 30 points, 63.5% - 34.3%; in the recent election, Kamala Harris' statewide margin over Trump narrowed to 20 points, 58.5% - 38.3%, an improvement that helped Trump win the national popular vote in 2024. Trump increased his vote share in 45 of California's 58 counties, and flipped nine of them, all in the state's inland region, from blue to red.

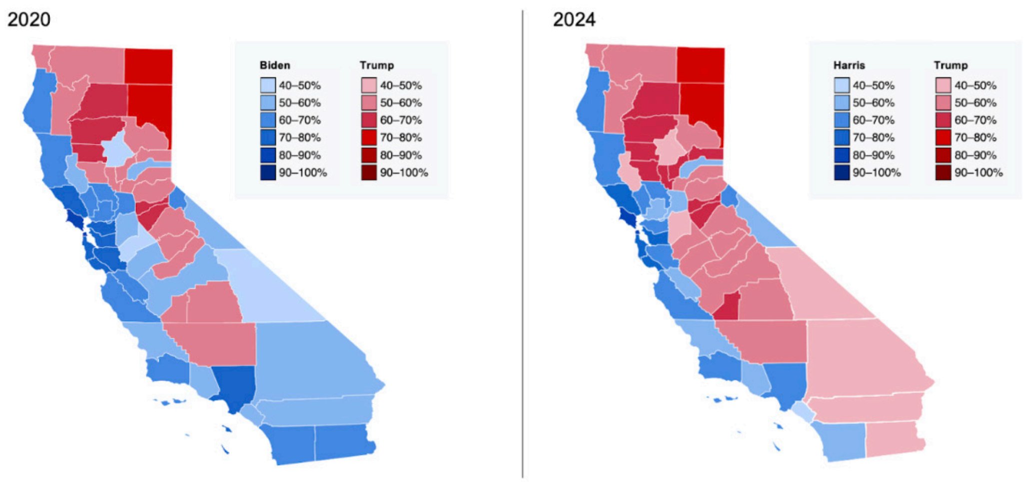
Two counties that moved into Trump's column in 2024 were San Bernardino County and Riverside County. For much of their histories, the two counties have voted nearly in lockstep and tended to lean Republican, with Riverside County a bit more closely aligned with the GOP. In recent decades, however, both counties were drifting left, voting for Democratic candidates in the past four presidential elections and electing larger numbers of Democrats to legislative offices. For example, in 2012, Democrat Raul Ruiz unseated Republican Mary Bono Mack in a congressional district centered in the Coachella Valley, and Democrats Mark Takano, Pete Aguilar, Norma Torres, and Judy Chu also now represent districts that in part encompass areas of the Inland Empire formerly represented by Republicans. In 2020, Riverside County supported Biden over Trump by eight percentage points, 53 percent - 45 percent, and San Bernardino County favored Biden by a wider 11-percentage point margin, 54.2 percent - 43.5 percent.

By contrast, in 2024, Trump narrowly defeated Harris in Riverside County, 49.3 percent - 48.0 percent, and in San Bernardino by a slightly larger margin, 49.7 percent - 47.5 percent. The Inland Empire's 2024 conversion to Trump, combined with similar shifts in other inland parts of California, helped reestablish the **state's East-West partisan divide**. In this alignment, the state's coastal regions are solidly Democratic, whereas its interior is more competitive between the two parties. This Inland-Coastal divide was pronounced at the turn of the 21st century but blurred in recent years as parts of the state's interior became increasingly blue. This return to the East-West alignment in 2024 was strengthened when long-Democratic Imperial County, in the state's southeastern corner, moved to the Republican column.

Looking at local results within the Inland Empire, one can see that Trump made gains across the board. The two-county region has 52 cities. In 2020, Trump won only 18 of them, but in 2024, he flipped 12 others to win 30. In San Bernardino County, the five cities that converted to Trump were Chino, Chino Hills, Grand Terrace, Highland, and Rancho Cucamonga. In Riverside County, seven cities made the switch: Banning, Corona, Eastvale, Hemet, Jurupa Valley, Lake Elsinore, and San Jacinto. Moreover, comparing the gap in the two-party vote between Trump and Biden in 2020 and between Trump and Harris in 2024, Trump improved his performance in nearly every city. In Riverside County, for example, Trump lost the two-party vote in the City of Coachella in 2020 by a whopping 59.7-point gap (79.8 percent - 20.17 percent); in 2024, he lost Coachella again, but by a much narrower margin: 63.8 percent - 36.2 percent, or a 27.6-point gap. Comparing the two elections, Trump narrowed the distance from his opponent in Coachella by 32 points. Trump similarly shifted the vote margin in the Riverside County cities of Perris (+25.2), Jurupa Valley (+19.7), and Moreno Valley (+18.5). Meanwhile, in San Bernardino County, Trump made large gains in Adelanto (+24.8), Rialto (+22.6), Fontana (+20.6), San Bernardino (+20.0), Montclair (+19.0), Colton (+18.6), and Ontario (+18.4). Conversely, in only seven of the region's 52 cities, Trump performed less well against Kamala Harris in 2024 than against Joe Biden in 2020. These cities were Rancho Mirage (-10.4), Indian Wells (-8.2), Palm Springs (-5.6), Big Bear Lake (-4.3), Palm Desert (-1.6), Needles (-1.5), and Menefee (-0.5).[7] Table 4 highlights these shifts in Inland Empire presidential voting by city in 2024.

What accounts for the movement toward Trump in the Inland Empire? Of course, many factors contributed to this outcome, but analysts have pointed to one factor that could have long-term

FIGURE 13: PRESIDENTIAL VOTE IN CALIFORNIA BY COUNTY, 2020 AND 2024



Source: California Secretary of State

7. California Secretary of State, Supplement to the Statement of Vote November 3, 2020, General Election Political Districts within Counties for President, https://elections.cdn.sos.ca.gov/sov/2020-general/ssov/pres-by-political-districts.pdf;
California Secretary of State Statement of Vote: General Election November 5, 2024, https://www.sos.ca.gov/elections/prior-elections/statewide-election-results/general-election-nov-5-2024/statement-vote;
Riverside County Registrar of Voters, Presidential General Election: Election Results, November 5, 2024, https://voteinfo.net/november-5-2024-election;
San Bernardino County Registrar of Voters, Election Summary Report, San Bernardino County General Election November 5, 2024, https://results.rov.sbcounty.gov/Results/20241105/;
Harvard Voting and Election Science Team (VEST) https://dataverse.harvard.edu/dataverse/electionscience;
Jeff Horseman, "Here's how Donald Trump won the Inland Empire, city by city: President-elect is the first Republican in 20 years to win Riverside, San Bernardino counties." The Press-Enterprise, January 9, 2025, https://www.pressenterprise.com/2025/01/05/heres-how-donald-trump-won-the-inland-empire-city-by-city/, and accompanying dataset.

implications for the region's politics--namely, the **shift of a significant percentage of Hispanic voters toward Trump and the Republican Party**. California Hispanics have historically supported Democrats, on balance, and the Latino electorate's growth in recent decades has contributed to the Democratic Party's dominance in the state. In 2024, however, national exit polls showed rising support for Trump among Latinos--especially Latino men. According to Edison Research, a leading polling firm that supplies exit polling data to major news organizations, Trump lost the vote of Hispanic men in 2020 by 13 points, 59 percent - 36 percent. In sharp contrast, in 2024, Trump won the support of Hispanic men by 10 points, 54 percent - 44 percent. According to the 2024 national exit poll, Trump did less well among Hispanic women (trailing 39 percent - 58 percent), and thus lost the Latino vote overall (46 percent - 51 percent), but still made major inroads among this important demographic group. Although some critics contend that exit polls do not reliably measure Hispanic voting, most observers agree that in 2024 a large number of Hispanic voters shifted toward the GOP in California and across the nation. A closer look at Inland Empire election results indicates that Hispanics shifted toward Trump in the region, as well. According to Census Bureau estimates, San Bernardino and Riverside Counties are, respectively, 55.9 percent and 51.9 percent Hispanic, and Latinos comprise a large and growing share of the Inland Empire electorate. The Hispanic population is more concentrated in some areas of the region than others, and in 2024 many Inland Empire cities with the largest percentage of Hispanics moved furthest toward Trump. For example, the City of Coachella, which swung 32 points toward Trump in 2024, is more than 96 percent Hispanic. Perris, which moved 25 points in Trump's direction, is more than 78 percent Hispanic; similarly, Rialto, which is more than 74 percent Hispanic, shifted 23 points toward Trump last year. By contrast, the cities in the region with the lowest percentage Hispanic population (e.g., Indian Wells, Rancho Mirage, Canyon Lake, Temecula) either shifted further from Trump in 2024 or less positively in his direction. Similarly, looking at presidential voting at the legislative district level, we can see that the region's state Assembly districts with higher percentages of Hispanic population moved further toward Trump in 2024 than districts with lower percentages of Hispanics.[8]

TABLE 4: INLAND EMPIRE CITIES WHERE TRUMP GAINED THE MOST SHARE OF THE TWO-PARTY VOTE AND CITIES WHERE HE LOST VOTE SHARE IN 2024 VS. 2020

City	County	Largest Gains in Trump Vote Share 2024
Coachella	Riv	32.10%
Perris	Riv	25.20%
Adelanto	SB	24.80%
Rialto	SB	22.60%
Fontana	SB	20.60%
San Bernardino	SB	20.00%
Jurupa Valley	Riv	19.70%
Montclair	SB	19.00%
Colton	SB	18.60%
Moreno Valley	Riv	18.50%
Ontario	SB	18.40%

City	County	Losses in Trump Vote Share 2024
Menifee	Riv	-0.50%
Needles	SB	-1.50%
Palm Desert	Riv	-1.60%
Big Bear Lake	SB	-4.30%
Palm Springs	Riv	-5.60%
Indian Wells	Riv	-8.20%
Rancho Mirage	Riv	-10.40%

Sources: California Secretary of State, U.S. Census Bureau, Riverside County Registrar of Voters, San Bernardino Registrar of Voters

8. U.S. Census Bureau Quickfacts for individual cities, n.d., https://www.census.gov/quickfacts/fact/table/US/PST045224; California Secretary of State Statement of Vote November 5, 2024, Riverside County Registrar of Voters, Presidential General Election November 5, 2024, https://voteinfo.net/november-5-2024-election; San Bernardino County Registrar of Voters, Election Summary Report, November 5, 2024.

Table 5: Increase in Vote for Trump Between 2020 and 2024 by California Assembly District, Ranked by Percentage Hispanic Population

Assembly District	% Hispanic Population	Swing to Trump 2024
36	65.7	12.3
53	62.6	17.5
45	62.4	15.5
39	57.3	16.1
60	59.5	17.5
58	58.1	15.1
50	56.5	15.5
63	33.9	6.8
34	32.6	4.6
47	32.6	2.5
71	30.7	3.4
41	28.7	4.1
59	25.3	5.1

Sources: U.S. Census Bureau, California Secretary of State, San Bernardino County Registrar of Voters, Riverside County Registrar of Voters

Looking beyond the presidential contest, the political trends in the Inland Empire were mixed. Both counties narrowly supported Republican Steve Garvey (52 percent - 48 percent) in his failed race for U.S. Senate against Democrat Adam Schiff, but continued to elect more Democrats than Republicans to state and federal legislative seats. That said, in two notable state Assembly races, voters in the Inland Empire and surrounding areas replaced Democrats with Republicans, with Leticia Castillo capturing the 58th Assembly District stretching from the city of Riverside to Corona, and Jeff Gonzalez flipping the 36th Assembly District, which connects the Coachella Valley with Imperial County. Republican incumbents also fended off challenges in several competitive districts in the region: In the closest races, Greg Wallis defeated Democratic challenger Christy Holstege in the 47th Assembly District, Rosilicie Ochoa Bogh outpolled Democrat Lisa Middleton in the Senate District 19, and Ken Calvert turned back another challenge from Democrat Will Rollins in the 41st Congressional District. In other races, incumbents in both parties easily retained their seats, preserving for now a status quo whereby Democrats hold a majority of the region's congressional seats and a roughly equal number of region's state legislative seats.

What do the voting trends in 2024 portend for the **Inland Empire's political future**? In the recent election, voters in the region shifted right and, for the first time, narrowly supported Trump. As noted above, at least some of that movement can be attributed to changing voting patterns by the region's large and growing Hispanic population. There is some evidence (especially the election of new Republican legislators in formerly Democratic, majority-Hispanic districts) that this shift could spread, thus making the region a greater target of opportunity for Republicans. But any such predictions must be held loosely, considering the many demographic, economic, and cultural changes that are reshaping contemporary politics. Under these circumstances, the Inland Empire's political future is very much in play.

The Inland Empire in 2024: Economic Conditions

The current economic conditions in the Riverside-San Bernardino-Ontario MSA can best be described as "The Good, The Bad, and The Ugly." The bottom line is that 2024 was a mixed bag, 2025 will not be much better. Still, the Inland Empire will outperform California and the Greater Los Angeles area.

Current Conditions

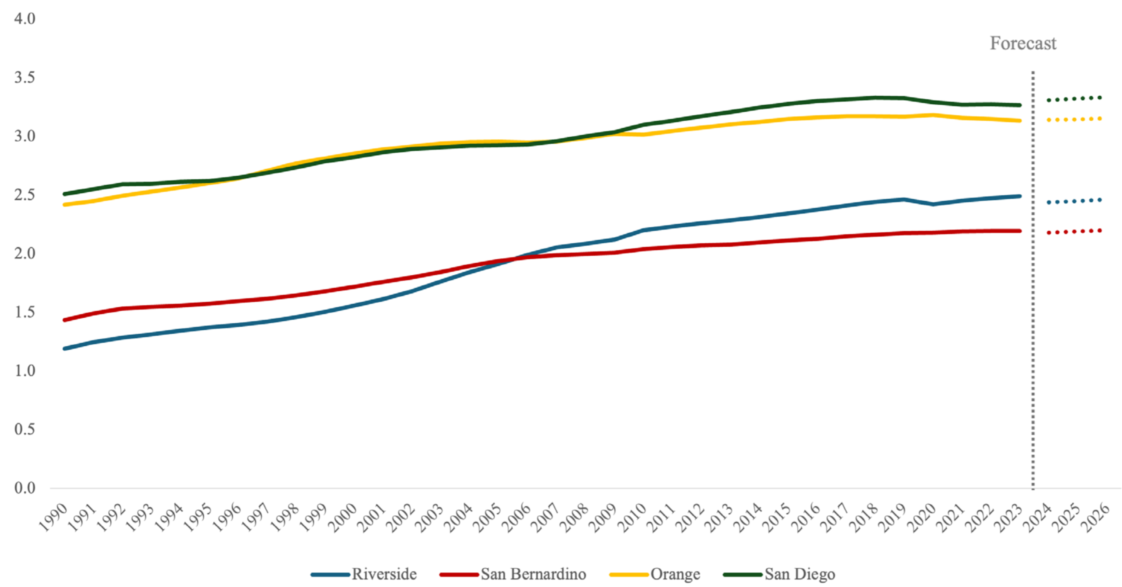
General: Population, Commuting, Housing, Education Levels

With 2.5 million and 2.2 million residents, Riverside County and San Bernardino County are the fourth largest and fifth largest counties in California when measured by population. Population growth either stalled during the pandemic (San Bernardino County) or even declined marginally (Riverside County), but has resumed since.

The Inland Empire recently became the 12th most populous MSA in the U.S. (4.7 million residents), passing the San Francisco MSA. There are roughly 380 MSAs consisting of one or two counties. New York-Jersey City-Newark is the largest, with Greater Los Angeles MSA (Los Angeles-Long Beach-Anaheim) in 2nd place.

To realize the significance of this, the Boston-Cambridge MSA is in 11th place (250,000 more residents and shrinking), with Greater Phoenix-Mesa in 10th. Together, Greater Los Angeles and the Inland Empire form the Los Angeles-Long Beach Combined Statistical Area (CSA). CSAs are adjacent MSAs with economic ties measured by commuting patterns. Hence when we analyze the County economy of the two counties, we have to take into account its interaction with the other counties in the CSA.

Figure 14: Population, Riverside County, San Bernardino County, Orange County, San Diego County, Annual, Millions of People, 1990 - 2024 (Actual), 2025 - 2026 Forecast



Source: Dept of Finance, State of California

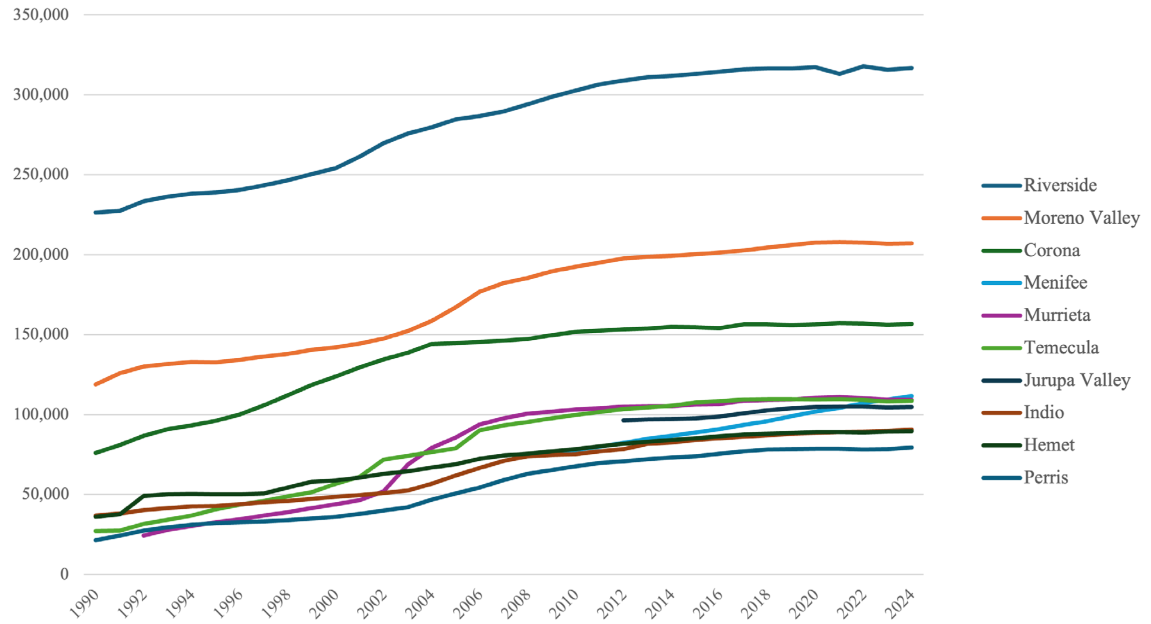
- Riverside County experienced the most significant population increase, with a growth of 109% since 1990, while San Bernardino County has grown by 54%.
- Neither Riverside norSan Bernardino county have experienced a significant drop in 2020.
- Since 2006, Riverside County has been more populous than San Bernardino County.

There is quite some variation in the number of residents among the ten **biggest** cities within the two counties. For Riverside County, the top three are larger by a significant number (Riverside, Moreno Valley, Corona) while the rest are bunched together. For San Bernardino County, the four largest separate themselves from the rest (San Bernardino, Fontana, Ontario, Rancho Cucamonga).

In Riverside County, Menifee has seen significant growth recently and it is now in 4th place, perhaps at the expense of neighboring Murrieta and Temecula. The three cities at the southern tip of the I-15 together have approximately 300,000 residents. Corona was on the path to become the second largest city until about 2003. Moreno Valley's growth has slowed down significantly since 2012. In general, there has been slower growth following the housing bubble bust.

In San Bernardino County, Victorville's and, to a lesser extent, Hesperia's growth since 2003 stand out. Victor Valley will probably benefit from the railway terminal being built for the Brightline train. This will also give the Victor Valley a railroad connection to Rancho Cucamonga and the Metrolink. Jurupa Valley's recent ascent deserves mentioning.

FIGURE 15A: TEN LARGEST CITIES IN RIVERSIDE COUNTY, 1990 - 2024



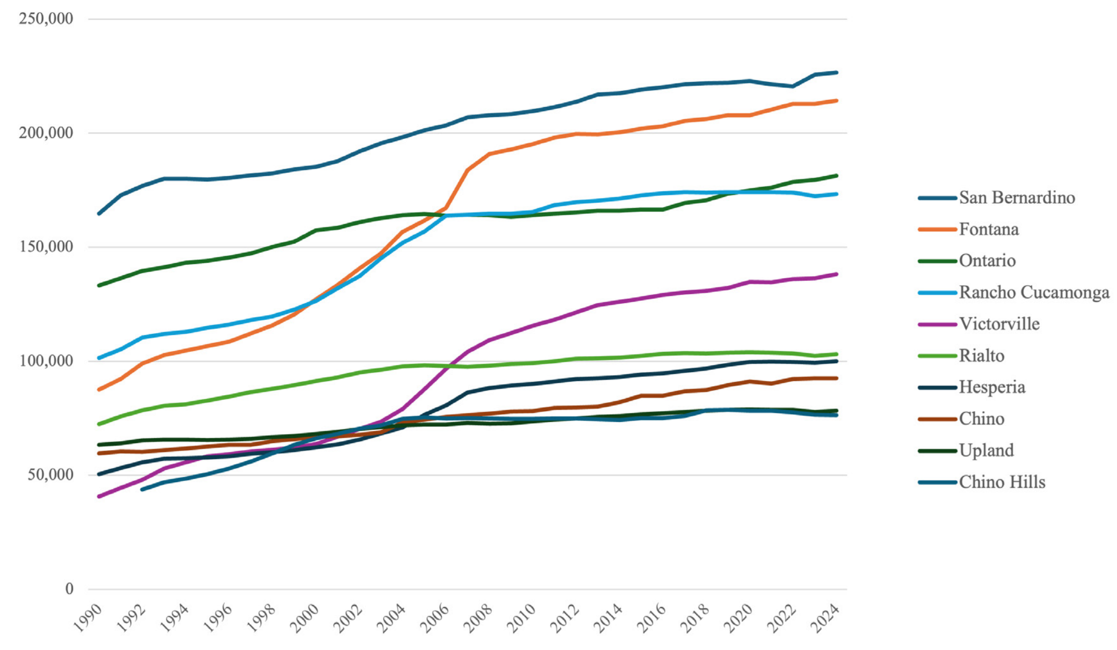
Source: Dept of Finance, State of California

- Growth in the ten largest cities has slowed since the Great Recession of 2008/2009.
- The three largest cities (Riverside, Moreno Valley, Corona) are in a higher population category.
- The three cities in Southern Riverside County are all at the same population level, with Menifee having made the most gains since its incorporation.

The second most important socio-economic characteristic that helps in understanding the Inland Empire relates to the number of commuters who travel daily into the coastal area and back. Here Riverside County is at par with San Bernardino County, although significantly more commuters from Riverside County travel into Orange County, while San Bernardino commuters end up more frequently in Los Angeles County. The numbers are large relative to the overall labor force, and explain why the I-10/CA-60/I-210 and the CA-91 experience such slow moving traffic during rush hour. While Riverside County has more commuters leaving the county than San Bernardino

County, the number of commuters into the coastal areas is almost identical: Riverside County has 176,000, while San Bernardino County has 173,000. To put this into perspective, the number of commuters is the equivalent of roughly the population of the Coachella Valley being on the road (and on trains). Note that a larger number of commuters travel from Riverside County into San Bernardino County than the reverse.[9]

Figure 15b: Ten Largest Cities in San Bernardino County, 1990 - 2024



- Growth in the ten largest cities has slowed since the Great Recession of 2008/2009.
- The four largest cities are in a higher population category, but well below the Riverside population levels.
- Cities including Fontana and Victorville have seen drastic growth between 2000/2010.

Table 6: Commuters, Riverside County and San Bernardino County, Origin and Destination, 2022

	INTO San Bernardino	FROM San Bernardino	INTO Riverside	FROM Riverside
San Bernardino	---	---	78,500	114,000
Riverside	114,000	78,500	---	---
LA County	61,000	133,000	17,000	53,000
Orange	13,000	37,000	16,000	76,000
San Diego	1,000	3,000	7,000	47,000
Total	**189,000**	**251,500**	**118,500**	**290,000**
Share of Total Empl	**23%**	**30%**	**14%**	**34%**

9. The distance from Moreno Valley to Anaheim is 47 miles. Driving at 60 mph, the round trip would take roughly 1 hour and 40 minutes. Leaving Moreno Valley on a Thursday at 7am and returning from Anaheim at 4pm., the trip will take 3 hours and 20 minutes.

The third most important characteristic to help you understand the dynamics of the Inland Empire is related to its **housing market**. Table 7 lists median price changes for the Inland Empire counties, and compares these to other areas in Southern California. Home selling values are at all time record highs, having overcome the price correction in early 2023. The principal reason for higher prices is the lack of inventory which has constrained supply proportionately more than demand. Homes in the Inland Empire are clearly more affordable compared to the coastal areas. Housing prices are higher in Riverside County than in San Bernardino County. Home selling values are at all time record highs, having overcome the price correction in early 2023.

Table 7: Median Single Family Home Prices, Change in Price and Sales, 2023-2024

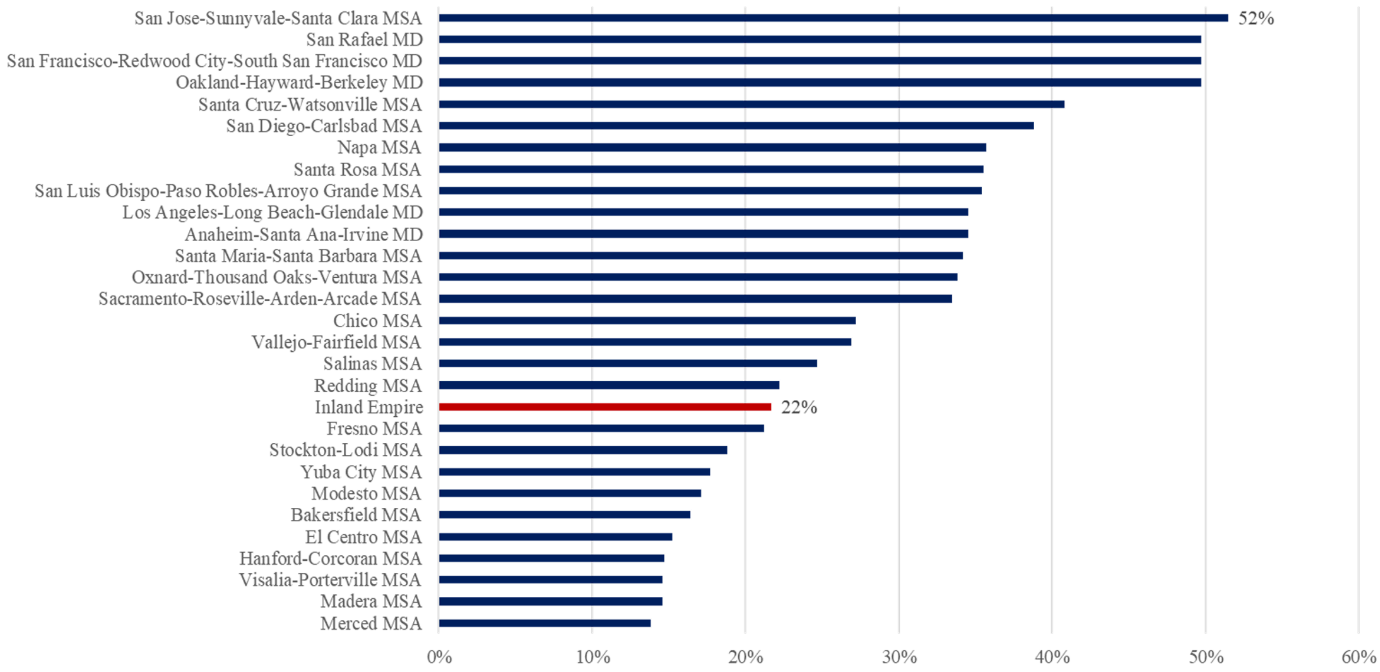
Median Prices and Sales of Homes in Southern California					
Southern California	**2023/12**	**2024/11**	**2024.12**	**Price YTY% Chg**	**Sales YTY% Chg**
Los Angeles	$853,340	$937,030	$912,370	6.9%	0.0%
Orange	$1,300,000	$1,375,000	$1,362,000	4.8%	0.0%
Riverside	**$605,000**	**$628,000**	**$624,790**	**3.3%**	**0.0%**
San Bernardino	**$475,000**	**$510,000**	**$490,950**	**3.4%**	**0.0%**
San Diego	$911,500	$975,000	$975,000	7.0%	0.0%
Ventura	$882,500	$912,000	$895,000	1.4%	0.0%
California	$819,820	$852,880	$861,020	5.0%	0.0%

The fourth aspect central to the understanding of the working of the Inland Empire is related to the amount of human capital in the region, as measured by the percent of prime-age workers with at least a Bachelor's Degree. If that percentage is relatively high, then firms who need qualified workers are more likely to settle in the area. Lack of sufficiently high levels of human capital in an area, on the other hand, results only in low-wage sectors to enter the area. Note that part of the reason for commuters to travel daily into the coastal areas is the lack of a larger number of high wage jobs in the Inland Empire. Given the stress of the daily commutes, workers with higher human capital are willing to tolerate it in order to get higher pay and more affordable housing.

Figure 16 compares the percent of prime-age workers in the Inland Empire with that of the other MSAs in California in 2019. The 22% number for the Inland Empire is significantly below the U.S. average of about 37%, but, not surprisingly, is similar to the Stockton-Lodi MSA, which is the Bay Area equivalent to the Inland Empire. On a more positive note, the percent of Prime-Age Workers in the Inland Empire increased to 25.2% by 2023, continuing an upward trend observed previously (in 2014, it was only 19.9%). Similarly the percent of Prime-Age Workers with at less than a high-school diploma has decreased from 20.3% in 2014, to 18% in 2019, and to 16.7% in 2023.

Note that this description of commuters also explains why the Inland Empire has the **"First In, Last Out"** attribute attached to it regarding **business cycles**. Consider three types of employees in the Southern California area: those who work and reside in the coastal areas (Type A), those who commute from the Inland Empire (Tybe B), and those who work and reside in the Inland Empire (Type C). Type B must be endowed, on average, with higher human capital than Type C, otherwise they would not undertake the tedious and costly commutes, and instead work for lower wages in the Inland Empire. Clearly they would prefer to work in the Inland Empire if salaries were higher. The commuters also must have lower human capital than Type A, because otherwise they could afford to live in the coastal areas.

FIGURE 16: PERCENT OF PRIME-AGE WORKERS WITH AT LEAST A BACHELOR'S DEGREE
CALIFORNIA MSAS AND MDS, 2019



Assume that economic activity starts to slow down in the coastal areas: Type B workers will be laid off first before Type A lose their jobs. But unemployment is measured by residency, and therefore unemployment rates in the Inland Empire will go up while in the coastal areas they initially remain the same. The reverse is true in the recovery: lakes freeze from the periphery and melt from the center. Hence it appears as if the inland regions are a leading economic indicator for the coastal regions.

Economic Conditions: Gross Regional Product

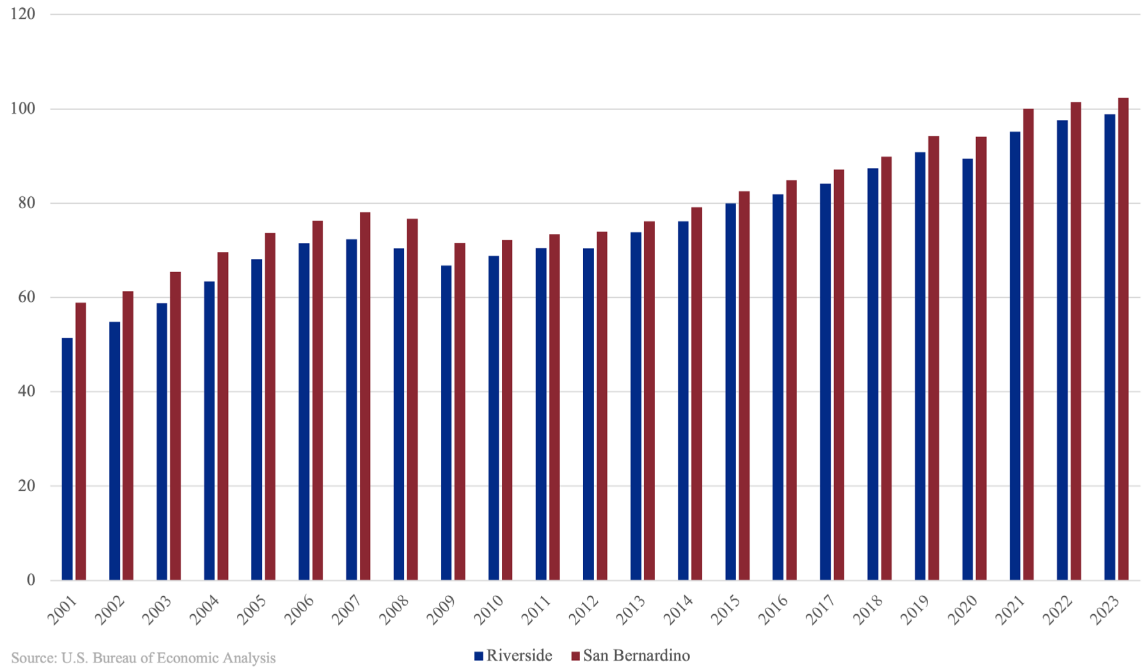
The latest available data for **real GDP**, the most general measure of economic activity within the region, show that Riverside County's real Gross County Product grew at a rate of 1.4% in 2023[10], while San Bernardino's real GDP grew at 0.5%, almost a whole percentage point less. Hence growth for the MSA lies in between at 1.1%. Note that GDP does not measure the output produced by commuters. This is a **slow growth rate** when compared to the nation (2.9%), and it was even low when compared to the state's performance in 2023 (2.0%).

Note that the two counties of the Inland Empire only took one year to recover the lost output from the Coronavirus downturn. This is very different from the **Great Recession recovery**, when **the MSA did not reach** 2007 **pre-recession levels until 2013 or six years later**. The Inland Empire was one of the epicenters of the burst of the housing bubble and the initial recovery took much longer here than in the state and country. U.S. real GDP had recovered by 2010, and California's by 2011.

In order to have a gauge of how well an area is doing, we should compare the **growth rate of the Gross County Product** with the growth rates of the Gross State Product (of California) and the Gross Domestic Product (of the U.S.). Gross County Product is not available prior to 2000.

10. The U.S. Department of Commerce, Bureau of Economic Analysis only releases annual county GDP, and with a substantial delay. The 2023 publication will not be available until early December of 2024. The Lowe Institute at Claremont McKenna College is working together with UCLA's Anderson Forecast to develop a quarterly model of regional GDP that will result in a more timely release of this central economic variable.

Figure 17: Gross County Product, $ billions of 2017 dollars, Riverside County, San Bernardino County, 2001 - 2023



Source: U.S. Bureau of Economic Analysis

- By 2021, real Gross County Product recovered the losses from the COVID-19 downturn, faster than the recovery from the Great Recession.
- 2022 and 2023 real Gross County Product growth was positive but low compared to historical levels.
- Inland Empire's lower output growth in 2022 and 2023 reflects lower growth for the state.

Before the Great Recession, Riverside County saw truly amazing growth rates of almost 7% or more (by comparison, U.S. real GDP has grown at an annual average of 3% since 1896 and slightly less recently). Similarly, San Bernardino County showed growth rates of more than 4.5% from 2002-2006. To understand growth rates of this magnitude, note that a growth rate of 7% a year implies that it will only take roughly 10 years for output to double. The Great Recession hit the Inland Empire early (with first signs of a slowdown in 2006) and particularly hard in 2008. During the 2013-2019 period, both counties' output and the state output grew at similar magnitudes, and certainly outpaced growth in the nation. Over the last two years, growth in the two counties has been lower than that at the national level, and lower than California's for 2023.

Growth in output, however, depends to a large extent on the growth in the labor force. In the short run, growth in the labor force is particularly sensitive to changes in the population in the form of in-migration of people. A better measure of how much the "wealth of the region" is improving is when we take into account the number of residents in the area. This is called the **per capita Gross County Product**.

The performance of the Inland Empire counties stunning performance earlier is less impressive when we realize that much of the growth in output was generated by a relatively large inflow of residents. The Great Recession now looks definitely worse with per capita growth rates basically being negative for six years (for the two counties, this must have been the "Really Great Recession"). The recovery was solid but not spectacular when compared to the state recovery. Growth over the last three years is less impressive.

Figure 18: Real GDP Growth Rates, Inland Empire, California, and the United States, 2001 - 2023

- The Inland Empire saw extremely high growth rates in real GDP until the Great Recession.
- The MSA took longer to recover lost output in post 2009 recovery.
- There were higher growth rates mirroring the state output growth in the run-up to the COVID-19 downturn.

Figure 19: Real GDP Per Capita Growth Rates, Inland Empire, California, and the United States, 2001 - 2023

- Per Capita growth rates are less impressive early in the new millennium.
- The Great Recession was particularly painful when measured by per capita real GDP growth.
- The Inland Empire's recent performance is less impressive.

Inland Empire Labor Market

Labor market data at the county level is available until December 2023 - or even until December 2024 if we look at the MSA level. The data show large employment increases starting in May of 2020, at the end of the Coronavirus downturn.

Here is the big picture: The **initial recovery phase (second half of 2020 and early 2021) was more beneficial for the inland regions**. The **bifurcated recovery** favored Riverside County and San Bernardino County due to the role that the Logistics industry (Warehousing, Transportation, Wholesale) played here. There was already an increased trend in online purchases of goods prior to the pandemic, which accelerated due to the shut down of in-person shopping. This, and continued container import shipments from Asia through the Ports of Los Angeles and Long Beach, also required an expansion in warehouse spaces - The Economist magazine now refers to the Inland Empire as the "warehouse capital of the world." Similarly, the real estate company CBRE just announced that the Inland Empire has the largest number of industrial leases in the U.S. during the first half of 2024.

For 2024, regardless as to which survey you analyze, employment in the Inland Empire grew by +17,600 or 0.8 percent (household survey) and by +22,600 or 1.3 percent (establishment survey). Since the labor force increased by the same amount as employment (0.8 percent), the unemployment rate basically remained the same (it actually fell slightly from 5.0 percent to 4.9 percent).

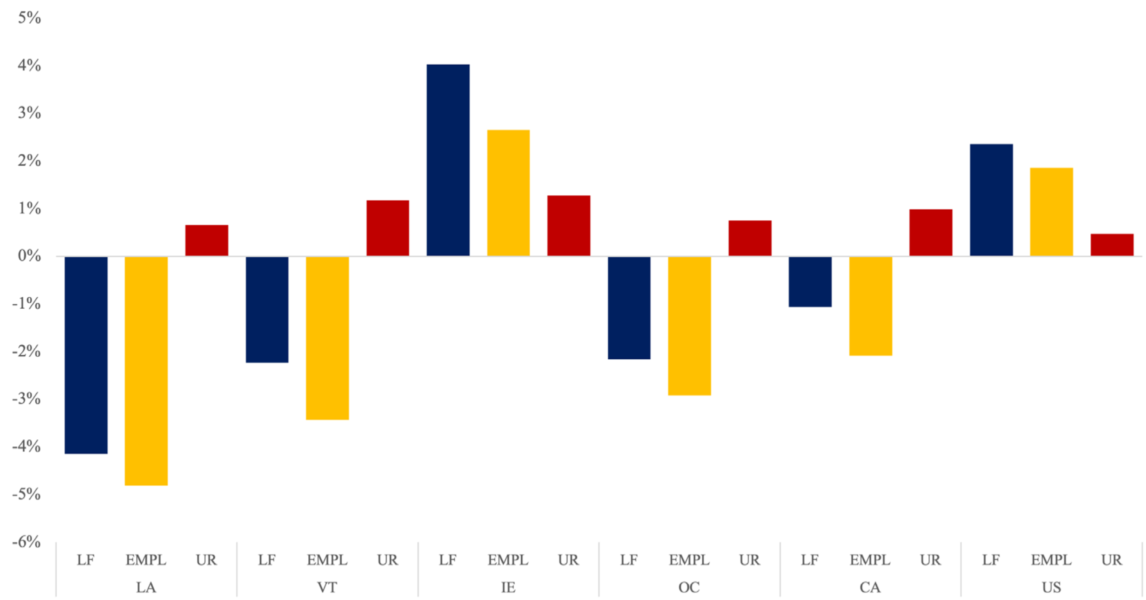
To classify this employment growth to be "good" or "bad", we need to compare these numbers to other areas. Historically, **our region did better than in 2023**, when employment shrunk by 9,000 or 0.4 percent according to the household survey. This was primarily due to **adjustments in the Logistics industry**, which had overestimated the need for transportation related employment following the post Coronavirus boom. Looking at the first Trump administration years, here are our first **concerns**: for the years 2017, 2018, and 2019, employment increased by close to 50,000 workers for each of the three years (roughly by 2.2 percent). We are not observing these types of numbers for 2024.

Los Angeles County showed slower job growth than the Inland Empire both on the household survey (0.3% increase) and the establishment survey (1% increase). Its unemployment rate increased by 0.7 percentage points. Orange County performed even worse on both the household survey (0.2% increase) and the establishment survey (0.6% increase). Ventura County has similar growth rates to LA County, but shows a 0.1 percentage point drop in the unemployment rate

Bottom line, we could classify 2024 as a mildly successful year in the labor market for the Inland Empire. Over the last five years, we show an increase in both the labor force and employment. **Contrast that with the state numbers, where both have been shrinking**. California is still 400,000 employees short of the pre-pandemic numbers coinciding with a 200,000 person increase in unemployment, resulting in a 1.1 percentage point increase in the unemployment rate to 5.5%. While the Inland Empire unemployment rate also increased by a percentage point from 3.9 percent to 4.9 percent, it did so while both employment and the labor force increased; the labor force grew by more (3.8 percent) than employment (2.6 percent) did. This is a healthier outcome than what the state numbers show (see Figure 20).[11]

11. We expect the data revisions that will be released in March will show a) faster overall growth compared to current estimates in the household survey numbers, and b) better performance across the region's industries, with more industries likely seeing employment gains compared to current numbers.

Figure 20: Change in Unemployment Rate, Growth Rates of Employment and Labor Force, Seasonally adjusted, Feb 2020 & Jul 2024



Source: California Employment Development Department, U.S. Bureau of Labor Statistics

- Unemployment rates have increased in all of Southern California and the state.
- Changes in unemployment rates equal approximately labor force growth minus employment growth.
- LA County, the Ventura MSA, Orange County, and California have seen unemployment rate increases coinciding with declines in both the labor force and employment.

Note that **the Inland Empire relies heavily on three sectors for its employment**. These are (i) Health Services, (ii) Local Government, and within that, Educational Services), (iii) Logistics (Transportation, Warehousing, Wholesale Trade). These three sectors make up roughly half of the employment within the Inland Empire.

The good news here is that those three sectors kept on growing in 2024 by 4.2 percent, generating 35,500 new jobs. The bad news here is that for the entire Inland Empire, the total job count across all industries only increased by 22,600. Here comes the ugly: **Almost all other sectors shed jobs in 2024**. These were Construction (-3,700), Manufacturing (-3,300), Information (-100), Financial Activities (-500), Professional and Business Services (-2,500), Leisure and Hospitality (-900), and Other Services (-2,000). The exception is Retail Trade (+300) positions. To stress: **the rest of the economy combined shed jobs**. **What makes this particularly worrisome is weakness in the high value added sectors in the Inland Empire** (the reason why so many workers commute into the coastal areas). Moreover the three **sectors that are driving growth, either seem most vulnerable to President Trump's policies on cutting back on government expenditures and tariffs, or will see reductions in expenditures due to demographics**.

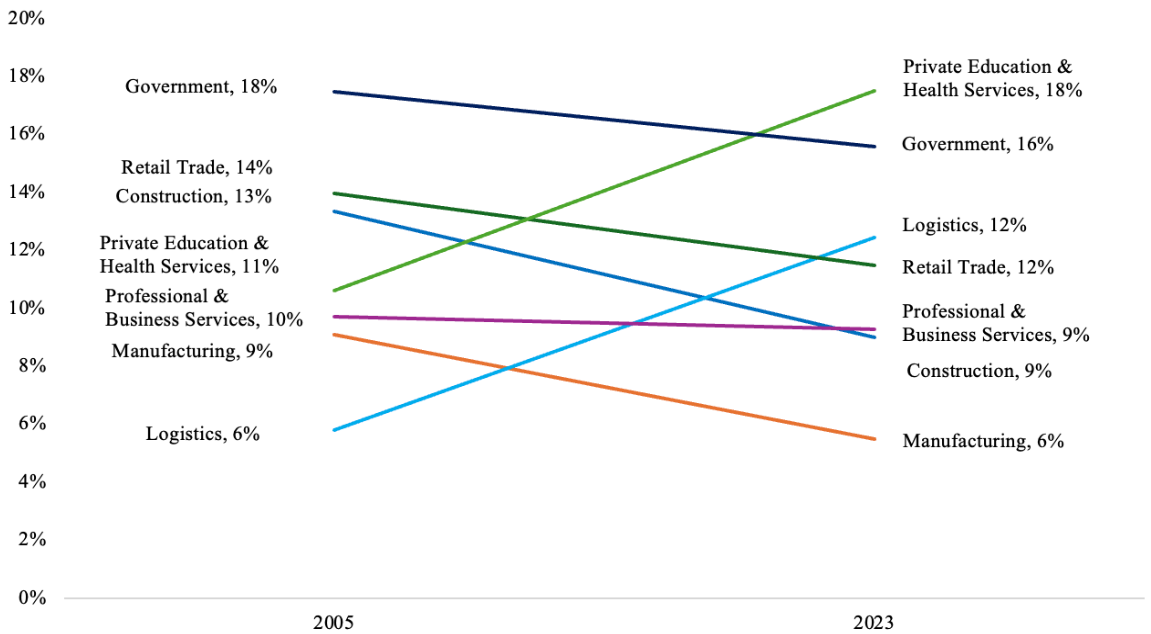
Riverside County vs. San Bernardino County Analysis

For **Riverside County**, it only took until October 2021 to retrieve all jobs lost during the COVID-19 downturn. Since then, it has added another 51,200 non-farm jobs. At the end of December 2023, there were 838,500 workers who held jobs inside Riverside County (CES). The **three largest employment industries were: (i) Private Education and Health Services (18 percent of all jobs), (ii) Government (16.0 percent), and (iii) Logistics (12 percent).**

Of course recovering all jobs in the aggregate does not mean that each sector has done so, or that the expansion has been equal across sectors. It is well-known that the COVID-19 downturn primarily affected employment in the Leisure and Hospitality Sector, Retail Trade, and Health Services (somewhat surprisingly, at first; however patients avoided going to hospitals and/or see doctors, including dentists, if at all possible). "Other Services" (Spas, Manicure and Pedicure, Tattoo Parlours, hairdressers, etc.) was also heavily affected, but the sector simply does not have a large number of workers to make much of a difference in the aggregate.

These three sectors (Health, Public Education, Logistics) were not always as dominating in Riverside County as they are now. Here we compare the employment share in 2023 with the situation just before the burst of the housing bubble in 2005 (Figure 21a). Note the sharp increase in Education and Health Care, and in Logistics. Construction, and Manufacturing have seen significant declines, which is not surprising since the Great Recession sometimes was referred to as a "Mancession." Most of the jobs lost then were in the two industries dominated by males.

Figure 21a: Change in Industrial Share of Employment, Riverside County, 2005 and 2023

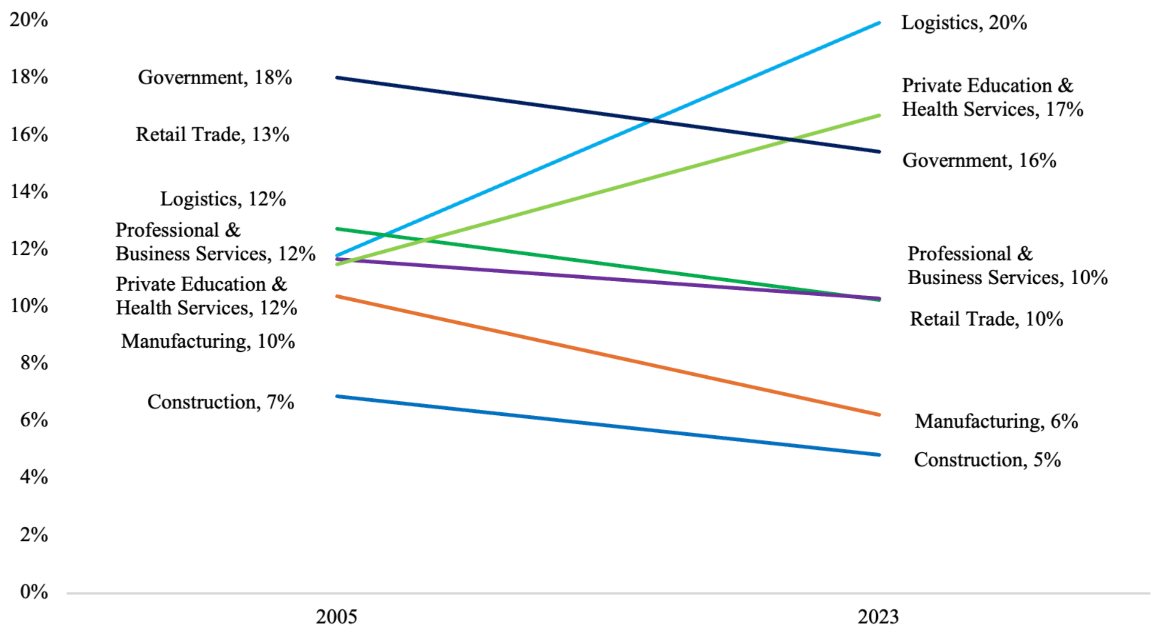


Source: California Employment Development Department

- Health Services and Logistics have seen the largest employment share increases over time.
- Manufacturing and Construction are the biggest losers, followed by Retail Trade.
- The three largest employment sectors are now Health Services, Government, and Logistics.

For **San Bernardino County**, the employment growth has been similar. Here it only took until July 2021 to recover the jobs lost, primarily due to the hiring in the logistics industry. San Bernardino County also added more jobs since then (+69,100, CES), which is not reflected in the somewhat slower GDP growth rate recently (again: GDP only measures goods and services produced within the area, not the goods and services produced by commuters; moreover, generating more employment in low-wage sectors, such as logistics, does not increase GDP by as much as increases generated by high-wage sectors). By December 2023, there were 880,000 workers employed within San Bernardino County, 40,000 more than in Riverside County. The **three largest employment industries were: (i) Logistics (20 percent of all jobs), (ii) Private Education and Health Services (17 percent), and (iii) Government (16.0 percent)** (see Figure 21b).

Figure 21b: Change in Industrial Share of Employment, San Bernardino County, 2005 and 2023

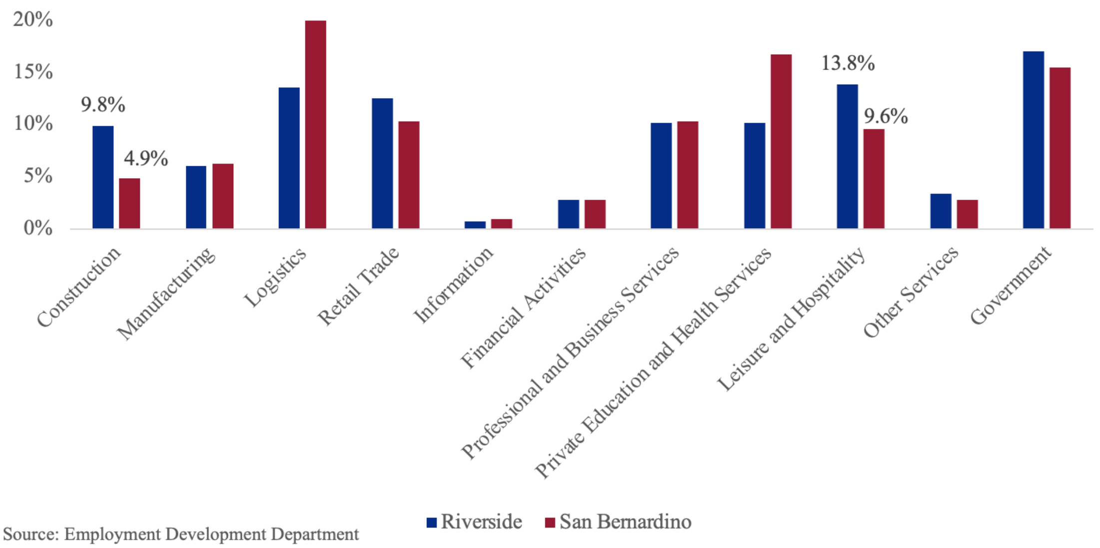


Source: California Employment Development Department

- The Logistics sector experienced the most significant increases in employment share from 2005 to 2023.
- Manufacturing and Construction see the largest decreases in employment share, followed closely by Retail Trade.
- The top three employment sectors are now Logistics, Private Education & Health Services, and Government.

Figure 22 provides you with the summary of the current industrial composition for the two counties. While the industrial composition is similar, there are some important differences: **San Bernardino County has a significantly higher share of employment in Logistics and Health Care, Riverside County employs more people (percentage wise) in Construction and in Leisure and Hospitality; the other sectors look very similar**. Note also that the picture looks strikingly different if we perform the same analysis between the two counties and the coastal areas.

Figure 22: Share of Employment by Industry, Riverside County and San Bernardino County, 2023



Source: Employment Development Department

- Riverside County has a relatively higher share of employment in Construction and Leisure and Hospitality.
- San Bernardino County has a relatively higher share in Logistics and Health Services.
- The employment share differences in the other sectors are negligible.

Figures 23a and 23b provide information about the relative performance (jobs added) for the different sectors in both counties over the last five years (beginning of the Coronavirus downturn and subsequent recovery and expansion).

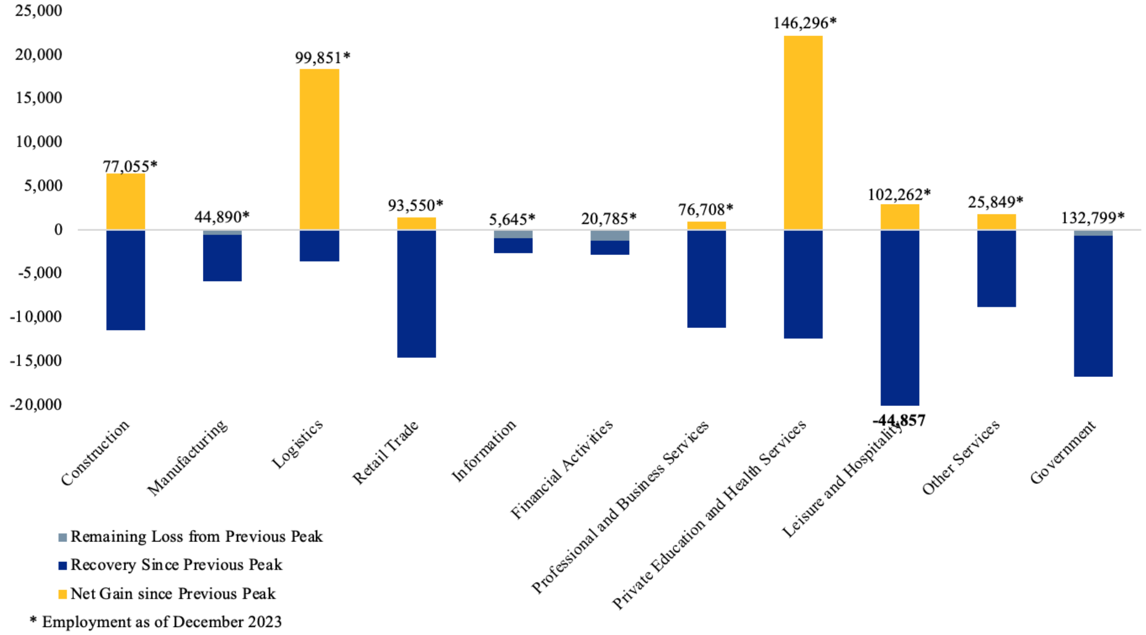
Note that the relative ranking by employment of the two counties reverses when we look at the household (CPS) survey. Here Riverside County shows 1,104,300 workers, while San Bernardino has 968,200. Both numbers are higher primarily due to commuters.

For **Riverside County**, most of the "new" jobs came in Health Services, Logistics, and Construction. Figure 23a shows the initial impact on the sectors (in blue) and the subsequent recovery/expansion (in yellow) until December 2023. The Logistics sector did not contract by much (using monthly data) and displays the second largest expansion. Health Services, while showing declining employment initially, not only recovered all positions lost but led in terms of employment expansion, but also had the largest subsequent employment expansion. Manufacturing, Information, Financial Activities, and Government have not returned to February 2020 levels of employment. Note that Leisure and Hospitality has seen an expansion since then.

San Bernardino County also has Logistics and Health as the two sectors that have gained the most jobs since the downturn, but the order is reversed here, with Logistics being the "winner." Note that Government (Local Government/ Education) has seen an increase in employment, which was not the case for Riverside County.

As with Riverside County, **it is the Low Wage Sectors that show higher employment growth rather than High Wage Sectors**. This is not a healthy picture for the long-run. We consider sectors that have above average wages in California as **high wage sectors** (Manufacturing, Mining and Logging, Financial Activities, Professional and Business Services), while sectors with below average wages in California are labeled as **low wage sectors** (Construcion, Government, Logistics, Private Education and Health Services, Leisure and Hospitality, Other Services).

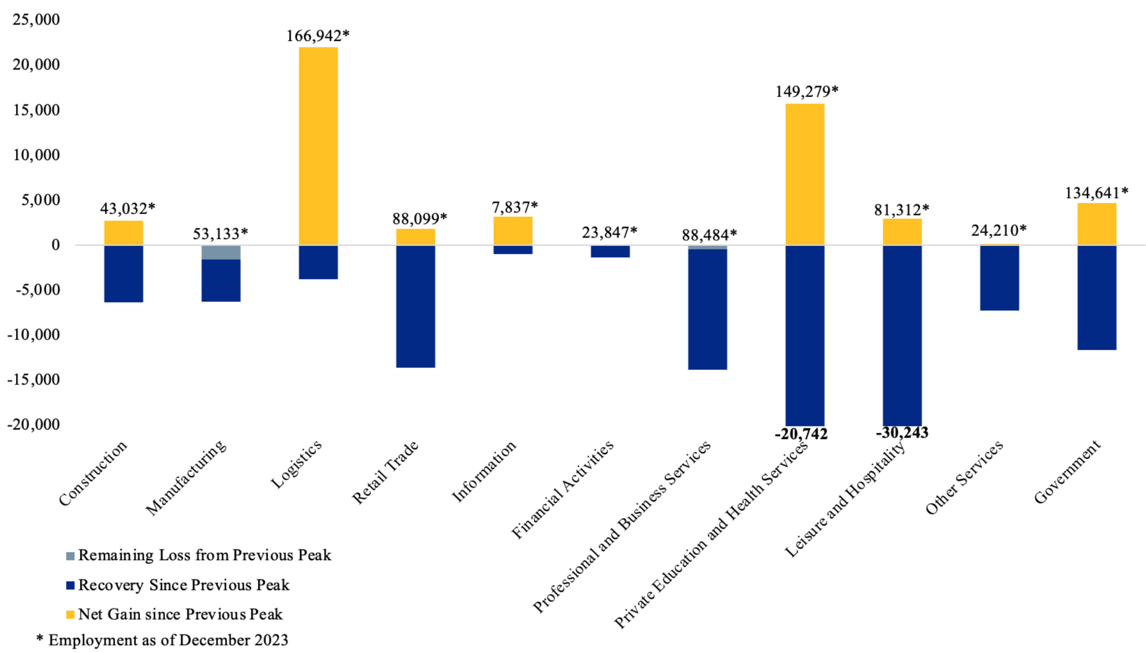
Figure 23a: Change in Employment by Sector, Riverside County, Seasonally Adjusted, February 2020 and December 2023



Source: California Employment Development Department

- Leisure and Hospitality saw the largest employment decline following the COVID-19 crisis, followed by Government, Retail Trade, and Health Services.
- Leisure and Hospitality not only recovered all jobs lost, but has expanded compared to February 2020.
- Manufacturing, Information, Financial Activities, and Government still have not fully recovered.

Figure 23b: Change in Employment by Sector, San Bernardino County, Seasonally Adjusted, February 2020 and December 2023



Source: California Employment Development Department

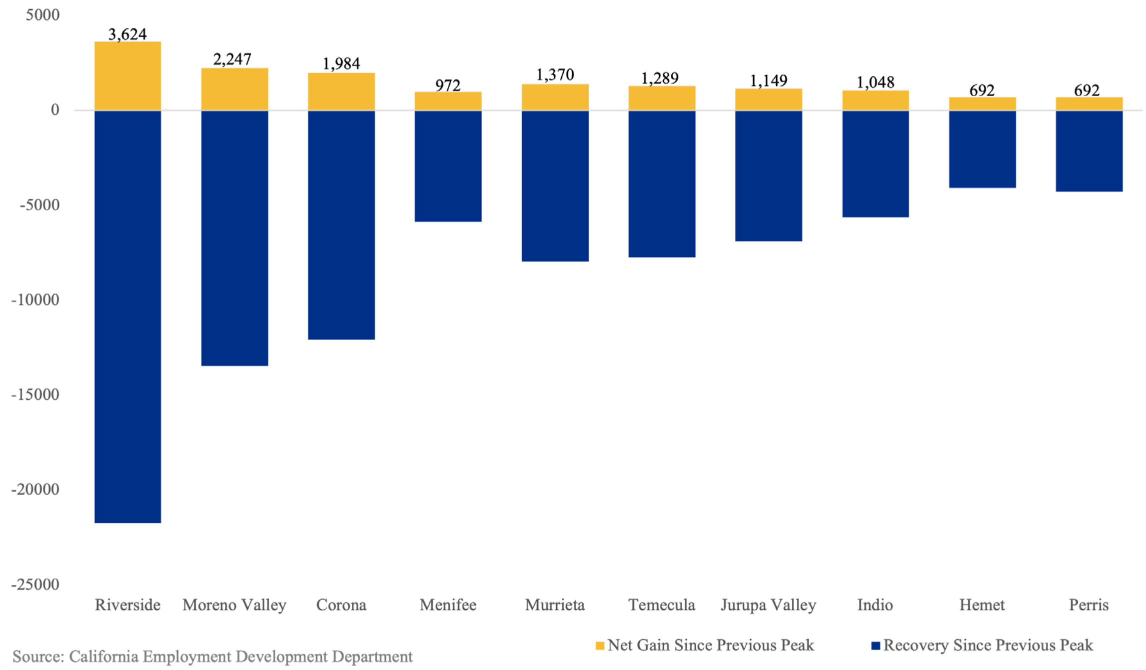
- Leisure and Hospitality saw the largest employment decline following the COVID-19 crisis, followed by Private Education and Health Services.
- The Logistics not only recovered all jobs lost, but has expanded tremendously compared to February 2020.
- Manufacturing and Professional and Business Services still have not fully recovered.

Given that the ten largest cities in Riverside County have different industrial compositions, and are of different population size, it is not surprising to see that they show different paths during the shutdown and the subsequent recovery. The City of Riverside lost close to 18,000 jobs, but it is three times the size of Murrieta and Temecula, both of which lost about 7,500 positions. Riverside also seems to have done relatively well in the recovery.[12]

Given its size in terms of employment and share of generating real GDP in the Inland Empire, the **Logistics Industry** deserves a closer look (Figures 24a and 24b). Data for 2024 are not yet available at the county level. However, employment data for the Inland Empire show that the adjustment process is over and that the Logistics industry has seen small job gains in 2024. The correct image is a large expansion, followed by a much smaller downward correction.

Note that almost 105,000 employees work in the Logistics Industry. With hindsight, it seems that the Logistics industry had an overly optimistic outlook, perhaps extrapolating the employment gains since the pandemic into the future, and being worried about finding sufficient workers for the increased demand. Employers did not correctly predict the shift back of consumption from durable goods to services (restaurants, hotels, etc.). This has resulted in major layoffs in the Logistics industry and a coinciding decline in value added. While the **Logistics industry clearly has expanded in Riverside County compared to February 2020** (the last month of the previous expansion), it has **contracted from its peak in mid 2022**.

Figure 24a: Change in Employment, Top 10 Cities in Riverside County, Seasonally Adjusted,February 2020 & December 2024

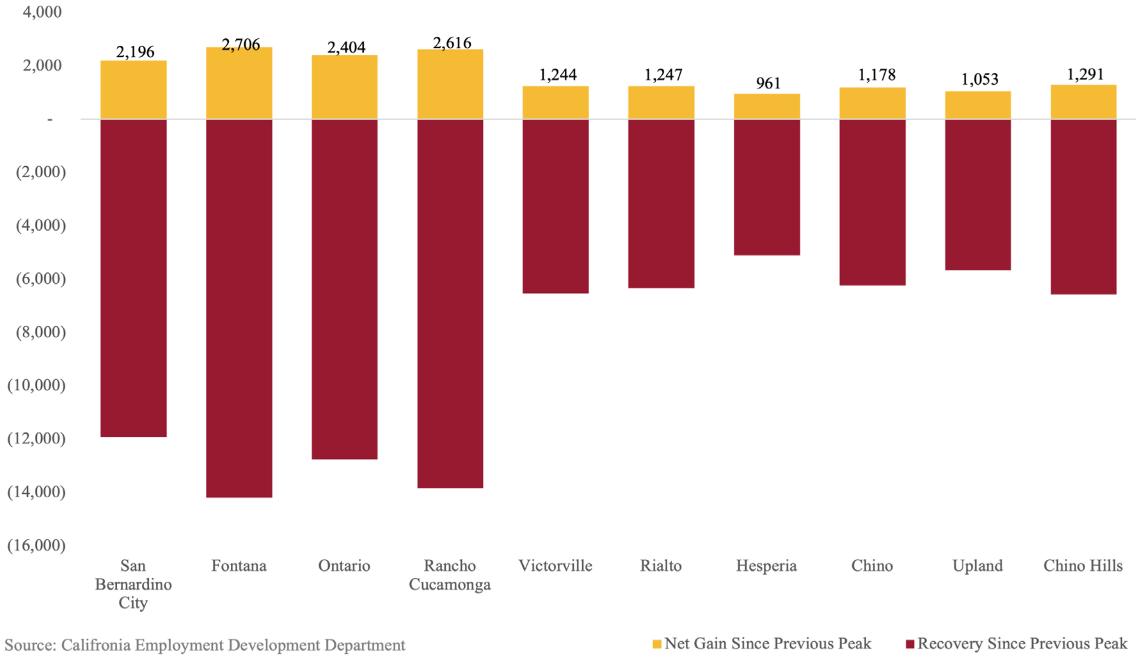


Source: California Employment Development Department

- Riverside City had the most job losses during the pandemic, but also gained the most, reasonable given its size.
- Job losses and gains decreased with the size of the cities, except for Menifee and Perris.
- Manifee had less job losses compared to Murrieta, Temecula, and Jurupa Valley, despite being larger than all three.

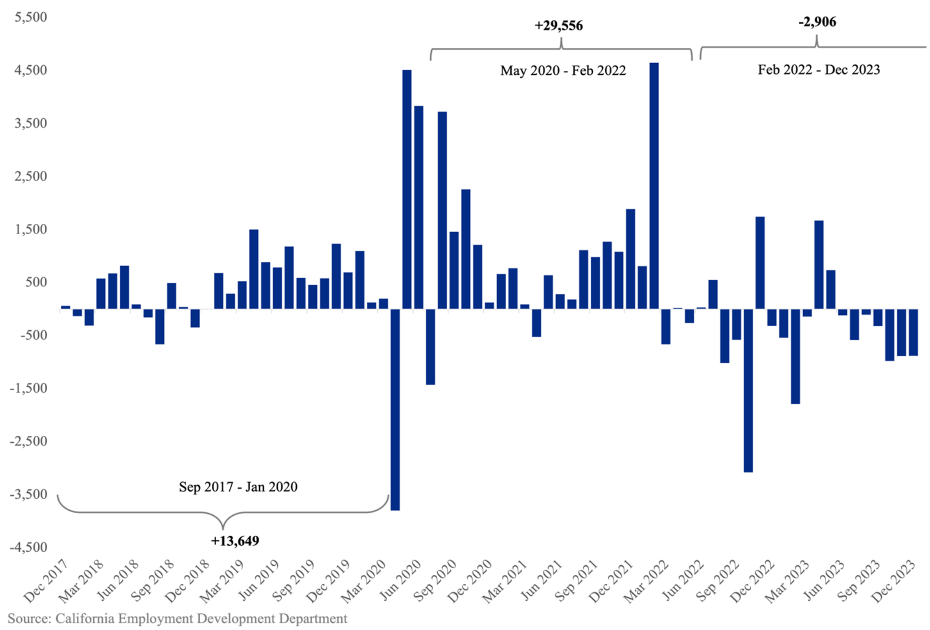
12. It is relatively easy to calculate percentage changes given that we provide the total employment in the graph.

Figure 24b: Change in Employment, Top 10 Cities in San Bernardino County, Seasonally Adjusted, February 2020 & December 2024



- Fontana had the most job losses during the pandemic and gains afterwards, even more than the largest city, San Bernardino City.
- Job losses and gains did not follow the sizes of each city, with the top four cities seeing more dramatic changes and bottom six cities experiencing more even fluctuations.
- Hesperia had the least losses and gains, despite being larger than Chino, Upland, and Chino Hills.

Figure 25a: Change in Employment, Logistics, Seasonally Adjusted, Riverside County, Sep 2017 - Dec 2023



- The Logistics industry saw a massive expansion starting in 2018 prior to the COVID-19 event and is at roughly 100,000 employees currently.
- The hiring boom intensified with the Coronavirus downturn and the initial recovery.
- Since 2022, and especially the middle of the year, the Logistics industry has contracted.

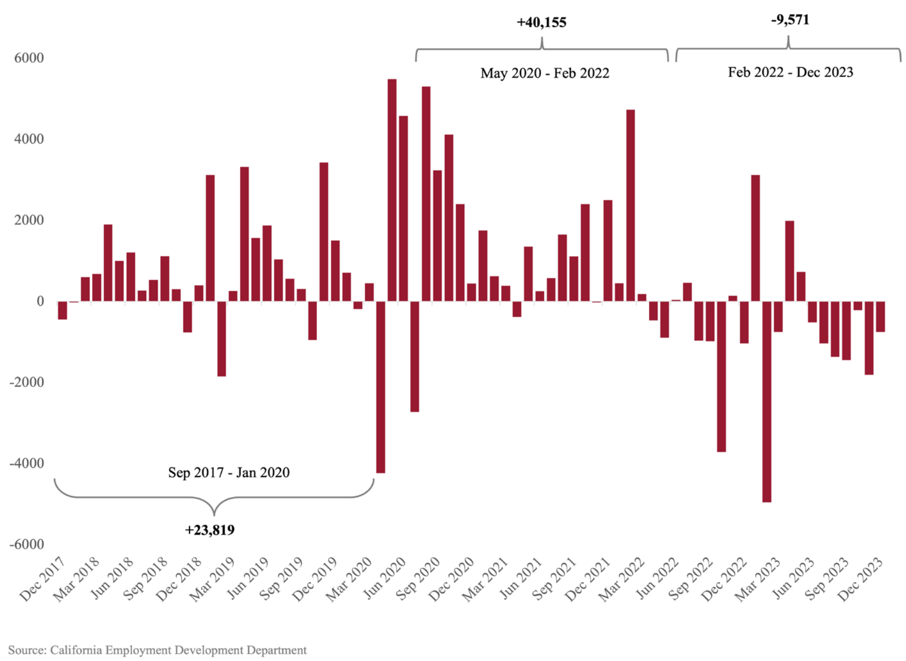
The employment picture for San Bernardino County looks very similar. However, movements in Logistics employment are amplified here, perhaps not too surprising given how much more dominant the Logistics industry is here. The take-away here is similar to that from Riverside County: a large post Corona-virus downturn expansion has been followed by a smaller contraction for the sector. This contraction does not change the fact that the Logistics Industry has become the top employer in San Bernardino County.

While, in principle, we could display graphs for the major industrial sectors here (two digit industries, North American Industrial Classification System - NAICS), we just want to focus on two more sectors that we consider important for the Inland Empire, its past history, and its future. They are the two high-wage sectors of Professional and Business Services, and Manufacturing.

Professional and Business Services has marginally lost importance over time in the Inland Empire (see Figures 20a and 20b above). Yet it is this sector that attracts the better educated commuters from the Inland Empire to make the daily trip to the coastal regions. The aggravating commute during rush hour could be avoided if the Inland Empire was able to attract more firms in this sector to settle here.

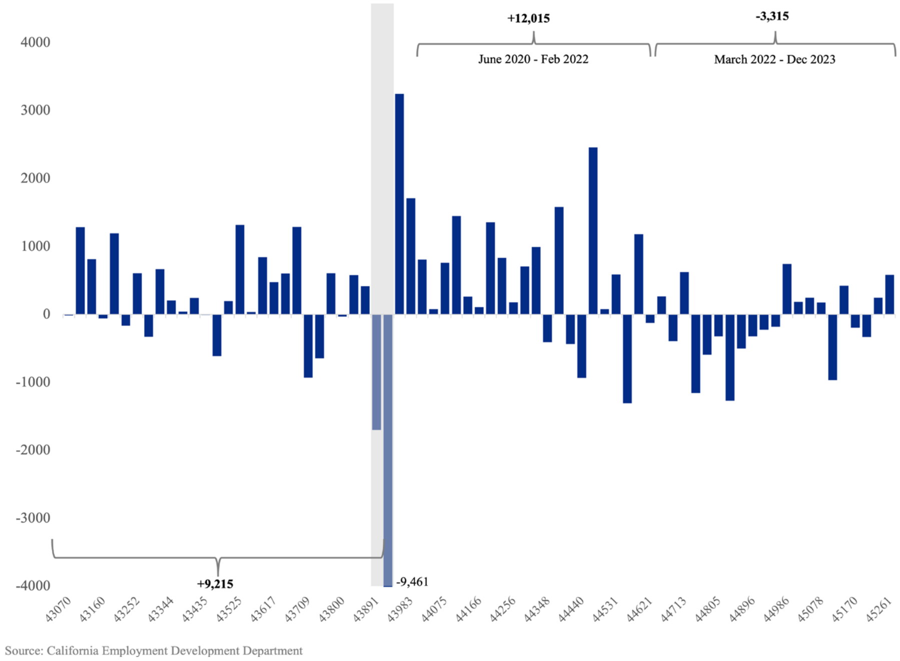
The data for Riverside County show that there was some expansion initially over the last five years, although it was not close in magnitude to the expansion in Logistics jobs. A quarter of the jobs gained have subsequently been lost. The picture for San Bernardino County is similar, although magnified in terms of job gains and losses.

FIGURE 25B: CHANGE IN EMPLOYMENT, LOGISTICS, SEASONALLY ADJUSTED, SAN BERNARDINO COUNTY, SEP 2017 - DEC 2023



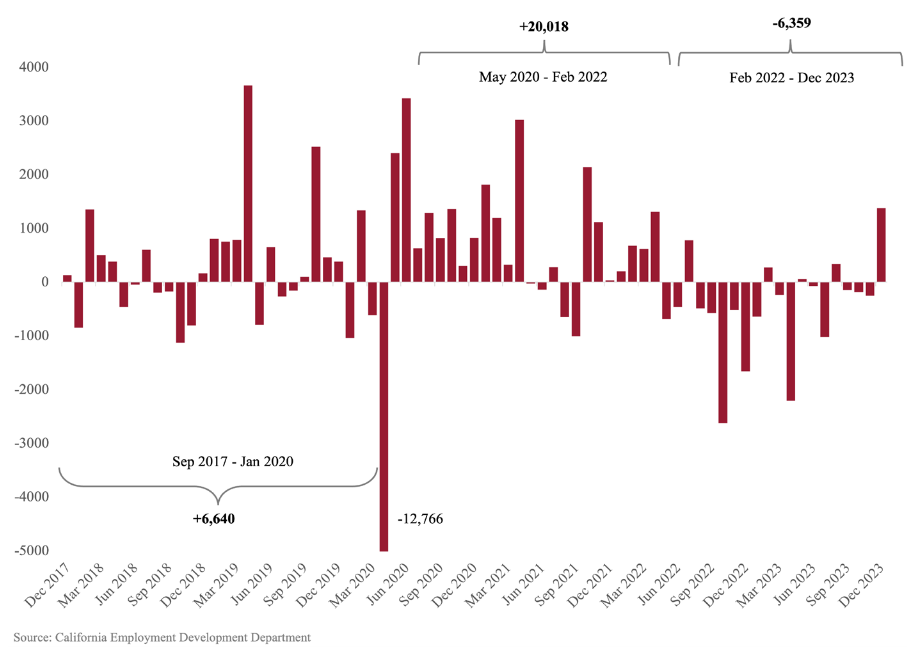
- The logistics industry in San Bernardino had a hiring boom during the initial recovery from Covid.
- However, since 2022, growth has slowed down and the industry has contracted.

FIGURE 26A: CHANGE IN EMPLOYMENT, PROFESSIONAL AND BUSINESS SERVICES, SEASONALLY ADJUSTED, IN THOUSANDS OF JOBS, RIVERSIDE COUNTY, SEP 2017 - DEC 2023



- Professional and Business Services have seen the second most year-to-year job losses recently.
- While the sector is not among the top three top employment sector, there are roughly 80,000 positions here.
- Given the profile of commuters, you would hope to see continuous employment expansion in this sector.

FIGURE 26B: CHANGE IN EMPLOYMENT, PROFESSIONAL AND BUSINESS SERVICES, SEASONALLY ADJUSTED, SAN BERNARDINO COUNTY, SEP 2017 - DEC 2023

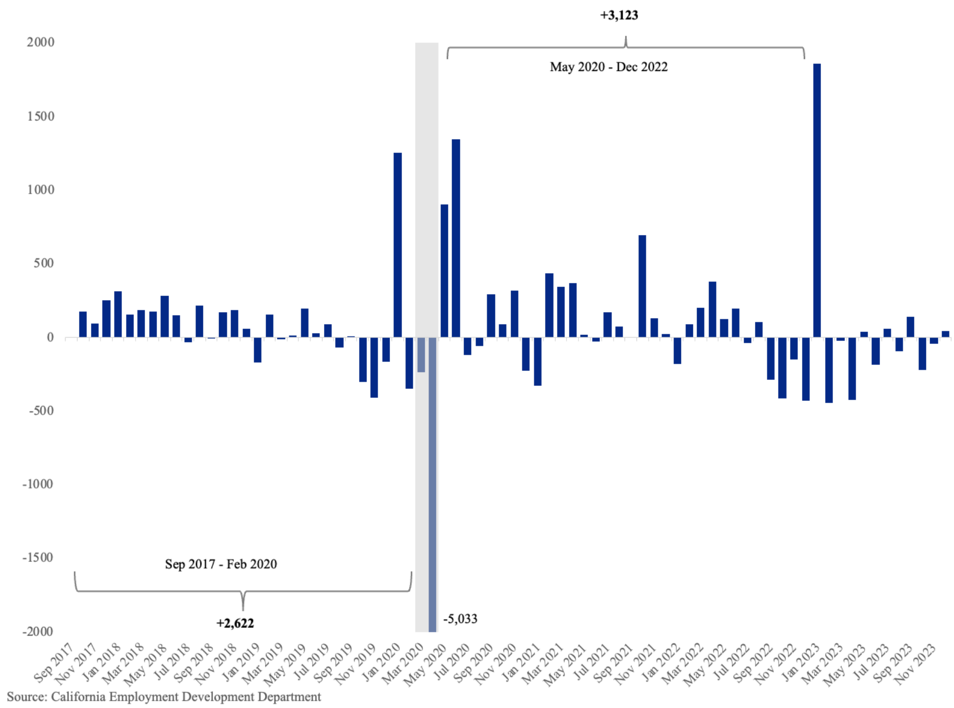


- The professional and business services sector was hit especially hard in the beginning of the pandemic, dropping to -12,766 change in March of 2020.
- Like in the logistics industry, the professional and business services sector saw a mild hiring boom during the initial post-Covid recovery.

Another high-wage sector is Manufacturing. Together with Construction, employment in this sector has declined since the Great Recession (see Figures 21a and 21b). Neither sector is even close to the employment share it had prior to 2007. Figures 26a and 26b show that the decline did not reverse itself in the more recent past. Perhaps Riverside County has fared marginally better here than San Bernardino County. A good description would be that the sector continues to show weakness without contracting significantly.

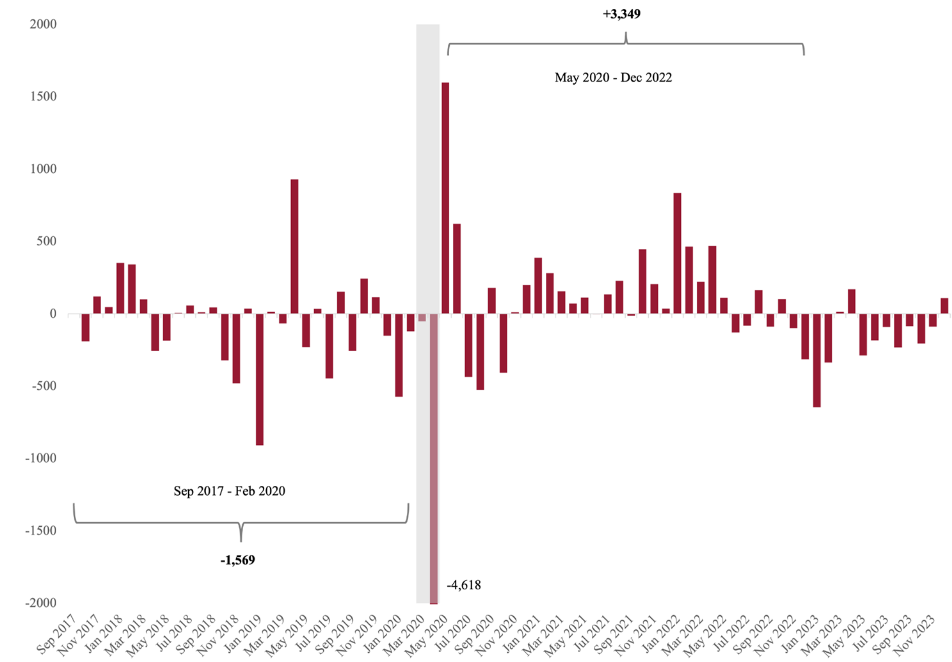
Manufacturing and Real Estate were weak, but not contracting. Note that while manufacturing is a relatively high value added sector, only 1 out of 20 workers in Riverside County are employed here. The sector has lost importance over time, similar to the Construction sector: only slightly more than one out of 20 workers in the Inland Empire is employed in Manufacturing.

Figure 27a: Change in Employment, Manufacturing, Seasonally Adjusted, in thousands of jobs, Riverside County, Sep 2017 - Dec 2023



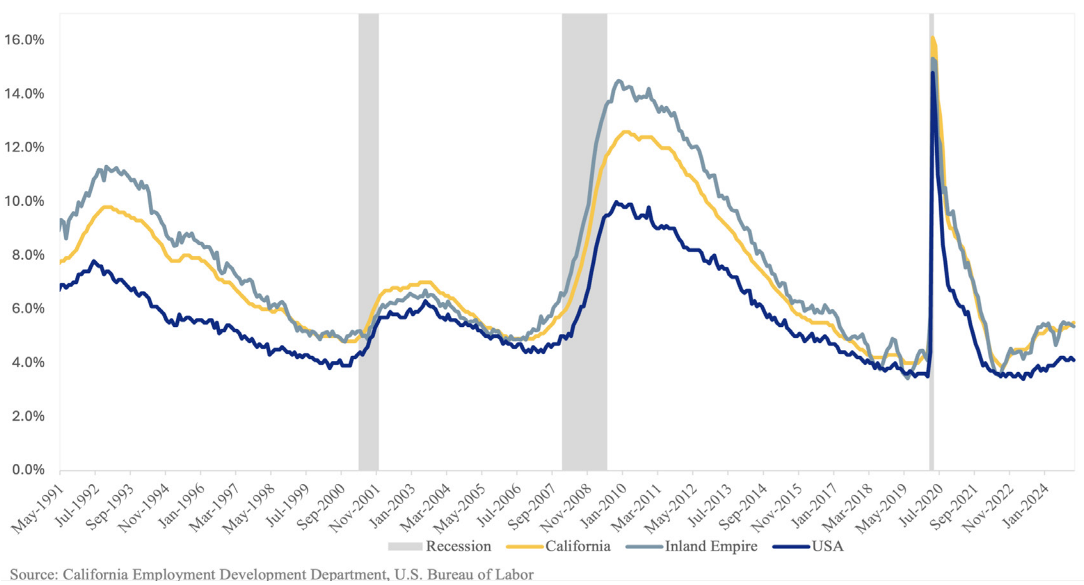
- Manufacturing recently is consistently shedding small number of jobs, with the exception of one relatively large hiring spike.
- The relative decline in this sector is a reflection of manufacturing shrinking both at the national and state level.
- Only 6% of all jobs in Riverside County are in Manufacturing.

FIGURE 27B: CHANGE IN EMPLOYMENT, MANUFACTURING, SEASONALLY ADJUSTED, IN THOUSANDS OF JOBS, SAN BERNARDINO COUNTY, SEP 2017 - DEC 2023



- Similar to Riverside County, manufacturing comprises 6% of total employment in San Bernardino County.
- The manufacturing sector in both counties demonstrated strong growth, with steady monthly job gains throughout 2021, while this upward momentum reversed in 2022.
- Since April 2022, this sector has experienced minor job losses on a monthly basis, with occasional periods of hiring.

FIGURE 28: UNEMPLOYMENT RATE, INLAND EMPIRE, JANUARY 1990 - DECEMBER 2024



- Unemployment rates in the Inland Empire tends to be higher than for the state and the nation.
- The exception is the dot.com recession at the turn of the millennium when the contraction was centered in the Bay area.
- Following the Coronavirus downturn, unemployment rates in the Inland Empire have mirrored those at the state level.

Unemployment

Shifting from employment to unemployment, we note that the unemployment rate in the Inland Empire increased from 3.9% to 5.1% from mid 2022 until now (December 2024), which is a significant jump. The unemployment rate is still low by historical standards (see Figure 28), but not particularly low if we look at business cycle peaks (unemployment rates just to the left of the gray shaded areas). The overall unemployment rate for the MSA masks quite some large variation across the cities within the two counties. Tables 8a and 8b show the unemployment rate of the largest cities within the region. These differences are even more pronounced during recessions.

TABLE 8A: UNEMPLOYMENT RATES, SAN BERNARDINO COUNTY CITIES, 2022

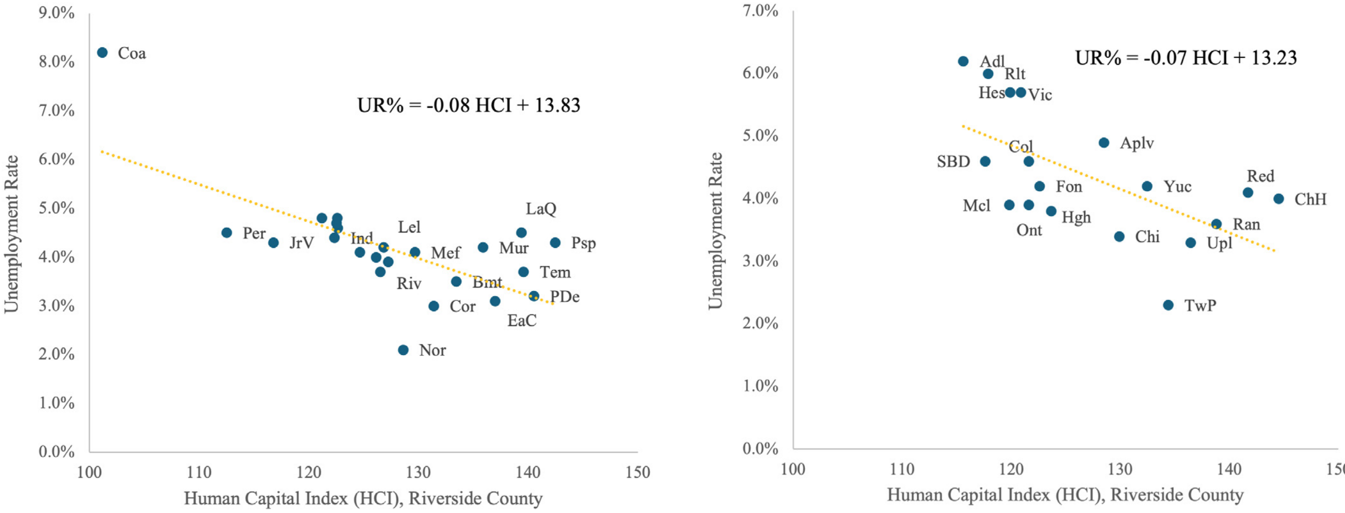
City Name	Abbreviation	Unemployment Rate
Big Bear Lake	BBL	3.1%
Chino Hills	CHH	3.2%
Loma Linda	LOL	3.4%
Redlands	RED	3.6%
Rancho Cucamonga	RAN	3.7%
Yucaipa	YUC	3.8%
Upland	UPL	3.9%
Montclair	MCL	4.1%
Chino	CHI	4.2%
Ontario	ONT	4.4%
Fontana	FON	4.5%
Colton	COL	4.8%
Highland	HGH	4.8%
Rialto	RIT	5.3%
Barstow	BAR	5.4%
Apple Valley	APV	5.8%
San Bernardino	SBD	5.9%
Grand Terrace	GTR	5.9%
Twentynine Palms	TNP	6.0%
Hesperia	HES	6.6%
Yucca Valley	YUV	6.7%
Victorville	VIC	7.1%
Adelanto	ADL	9.9%
Needles	NEE	10.1%
San Bernardino County		**4.8%**

TABLE 8B: UNEMPLOYMENT RATES, RIVERSIDE COUNTY CITIES, DECEMBER 2024

City Name	Abbreviation	Unemployment Rate
Indian Wells	INW	3.7%
Norco	NOR	3.7%
Corona	COR	3.8%
Eastvale	EAC	3.8%
Murrieta	MUR	3.9%
Temecula	TEM	4.2%
Cathedral City	CAT	4.4%
Palm Desert	PDE	4.4%
Beaumont	BMT	4.5%
La Quinta	LAQ	4.5%
Riverside	RIV	4.5%
Jurupa Valley	JRV	4.7%
Palm Springs	PSP	4.7%
Wildomar	WIL	4.8%
Lake Elsinore	LEL	5.1%
Moreno Valley	MRV	5.1%
Menifee	MEF	5.3%
Blythe	BLY	5.6%
San Jacinto	SJA	5.8%
Indio	IND	6.0%
Perris	PER	6.0%
Banning	BAN	6.3%
Hemet	HEM	7.1%
Desert Hot Springs	DHS	7.2%
Rancho Mirage	RAM	7.2%
Coachella	COA	10.7%
Riverside County		**5.0%**

There are a variety of reasons that can explain these variations. First and foremost must be the average level of education across the cities. Here we have developed a "human capital index" which, in essence, reflects the average years of education (a level of 120 is the equivalent of 12 years of average number of years of education in that community). There are a variety of other reasons why the unemployment rates differ by cities, which we have not taken into account here. Initial experimentation shows that the geographical proximity to the coastal areas matters, particularly when it comes to economic downturns.

Figure 29: Unemployment Rate Differences by Major Cities, Riverside County and San Bernardino County, 2023



- Cities with lower human capital have, on average, higher unemployment rates.
- The City of Coachella stands out with a significantly lower level of education among the Riverside County cities.
- Palm Springs, Palm Desert, Temecula, and La Quinta have the highest level of average human capital.

The 2025 Outlook

Economic growth for the Riverside-San Bernardino-Ontario MSA is expected to rise modestly in 2025. Last year, in our outlook, we were concerned about two major headwinds related the uncertainty surrounding the 2024 presidential election. This caused problems for both consumer and business spending decisions and future plans. These uncertainties have been replaced by potential decisions by President Trump regarding (i) tariffs, (ii) deportation, (iii) fiscal policy (especially taxes), and (iv) regulation. Even the Federal Reserve is unwilling to make forecasts into the near future exceeding a few months ahead without more clarity on these issues. This makes forecasting beyond 2025 extremely difficult. For example, the Federal Reserve is likely to hold off with further cuts in interest rates until the summer of 2025, although President Trump has “demanded” the Federal Reserve to cut interest rates further.

Regardless, the beginning of an expansive consumer credit policy has begun with the previous interest cuts in 2024, and it is expected to continue. This will generate positive impulses for the Inland Empire economy. Still, we expect the MSA economy to outperform the state economy but not the national economy.

Our outlook for 2025 is based on the assumption that President Trump’s proposed policies on tariffs and deportation will not have an immediate effect on trade and construction. Part of this is the larger role that the Logistics industry plays in the MSA. Transportation, Warehousing, and WholeSale have moved into third place in terms of overall employment share; they are actually the largest employer in San Bernardino County (third largest in Riverside County). The opening of new facilities in 2025 will require new workers, and the continuation of imported goods consumption by U.S. consumers will drive goods transportation and distribution upwards this year, unless President Trump decides in March to follow through with his initial tariffs on Mexico and Canada.

There are some clouds on the horizon for the Logistics sector in addition to the potential tariffs: Governor Newsome signed AB 98 which focuses on siting and design standards in this industry. Starting in 2026, new and expanding distribution centers can only be built if certain new standards are being met. These include restrictions on the distance from so-called sensitive sites, and requires that new developments are limited to roads that serve commercial uses. While much of the currently allocated space is already in the entitlement process and therefore will be exempt, these regulations will certainly play a role regarding future investment plans for this industry.

The two sectors with the highest employment share in the Inland Empire, (Private Education and) Health, and Government (Local Government; Public Education), will not contribute much to employment growth in 2025. A large share of expenditures on health comes from public sources. Given the budget problems that the state faces, expect public expenditures to be curtailed for the next year.

Construction and the housing sector will benefit from the lowering of interest rates started by the Federal Reserve in September. The Federal Funds Rate will fall by an additional 25 to 50 basis points between now and December 2025. This will stimulate housing sales and housing starts. In addition, there is pent-up demand from two sources: (i) many workers will continue to work from home (despite some companies, such as Amazon, demanding for their employees to now work five days at the office), and (ii) households who were holding on to their low-interest mortgage rates rather than moving into higher valued houses, will finally be enticed to trade-up from their old properties. In addition, there is a large chunk of households with members in their early 30s who are looking for their first home to buy. Both effects will stimulate the housing sector and the construction industry. More home sales and at current or higher selling values will drive property transfer tax receipts, augment assessed valuations, and result in higher property tax collections.

Table 9: Major Economic Indicators, Inland Empire, Current and Forecasts

Riverside County	2023	2024	2025	2026
Inflation	**3.5**	**3.0**	**2.4**	**0.9**
Unemployment Rate	**4.8**	**5.7**	**5.1**	**4.5**
Employment Growth	**2.3**	**1.5**	**1.8**	**1.7**
Population (millions)	**2.431**	**2.445**	**2.45**	**2.46**
New Housing Units	**13,115**	**8,330**	**10,150**	**11,450**