The Inland Southern California economy grew at an impressive pace in the fourth quarter of 2015, bucking trends at the state and national level by a significant margin. The region’s affordability advantage over the coastal areas of Southern California, and its Logistics sector, which benefits from close proximity to one of the largest consumer markets in the nation, continue to be major drivers of economic growth in Inland Southern California.

The UC Riverside Center for Economic Forecasting and Development at the School of Business Administration estimates that in the fourth quarter of 2015, real gross metropolitan product (GMP) for Inland Southern California grew at a 3.7% annualized rate over the third quarter. By comparison, the Center estimates that California’s real gross state product grew by just 1.9% in the fourth quarter of last year, and the U.S. Bureau of Economic Analysis puts national gross domestic product growth at 1.4%.

The overall economy in Inland Southern California is measured in terms of real economic output, which is adjusted for price changes. This metric represents the total value of goods and services provided in the region in a given time period. The U.S. Bureau of Economic Analysis makes estimates of Inland Southern California economic output available on an annual basis, but the data is relatively dated compared to the latest quarterly estimates of the U.S. and California economies. This report represents a unique estimate of the Inland Southern California economy on a quarterly basis and is released in a timelier manner than government estimates.

After lagging statewide growth for the second half of 2014 and the first half of 2015, the Inland Southern California
California’s economic output can be attributed to its bread and butter industries, primarily the Logistics sector. The Trade, Transportation, and Utilities industry made the largest contribution to overall output growth in the region, making up 1.2 percentage points, or roughly one-third, of the headline growth figure in the fourth quarter of 2015. This is considerably stronger than the industry’s contribution to statewide growth in the fourth quarter, which the Center estimates to be responsible for about one-fifth of gross state product growth.

The Logistics sector has always been strong in the region, and it is expected to be a steady source of growth over this next year. Amazon recently announced it will be opening its fifth fulfillment center in Inland Southern California, taking advantage of the region’s more affordable land prices and close proximity to ports and major markets. Employment growth and economic output are expected to continue at this pace.

Inland Southern California’s strong growth trends are also reflected in the local labor market. In the fourth quarter of 2015, total nonfarm employment in the region increased by 3.9% over the fourth quarter of 2014, the 3rd fastest rate of growth among all major regions in the state. Meanwhile, statewide nonfarm employment grew by 3.0%.

Strong growth in Inland Southern economy kicked into high gear during the second half of last year and surpassed growth in the state overall. California is by far the largest state economy in the nation, and a number of regions within California have economies that are as large as or larger than many states. The GMP of Inland Southern California was an annualized $129.4 billion in the fourth quarter of 2015, the 5th largest output in the state and roughly equal to the economy of Kansas.
The Construction industry was also a strong contributor in the fourth quarter of 2015, adding 0.8 percentage points to overall growth in Inland Southern California. For all of 2015, the region added 9,381 residential permits, with about 75% of those for single-family homes. On the nonresidential side, valuations fell by 6.8% last year compared to 2014, but 2015 still represented the second strongest year for nonresidential permitting since the recession ended. Recent trends in construction bode well for the region and signal an economy growth in this sector has also been exceptionally strong. In the fourth quarter of 2015, Transportation and Warehousing employment surged 11.2% in Inland Southern California over the fourth quarter of 2014. In contrast, statewide Transportation and Warehousing employment grew by 5.6% over the same time period, and national growth was just 2.6%.

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in healthy expansion mode. Local Construction employment in the fourth quarter of 2015 surged by 11.6% over the fourth quarter of the prior year. While not as strong as in Inland Southern California, the Construction industry has also been doing well at the state level, with employment increasing 8.0% in California over the same time.

There could be some moderation in Construction industry growth in 2016. Both residential and nonresidential permitting activity was down from the fourth quarter of 2014 to the fourth quarter of 2015, but this is not surprising following exceptionally strong permitting in the latter half of 2014 and first quarter of 2015.

The Professional and Business Services industry was the largest drag on the region’s quarterly output growth in the fourth quarter of 2015, shaving off 0.3 percentage points. This is in line with job losses seen in this industry in the latest employment data. Payroll employment in the industry was down 2.5% year-over-year in the fourth quarter of last year. However, most of these losses were from the Administrative Support Services subsector, which tends to include significant numbers of temporary employees. Given the robust growth in Inland Southern California’s total economic output and employment, the losses here could be reflective of temporary workers moving to permanent positions in other industries.

Inland Southern California has come a long way since the Great Recession when it struggled with large job losses, high foreclosure rates, and fiscal problems. Even with those challenges, the region has grown in recent years and is now the 5th largest metropolitan area in the state in terms of economic output. Moreover, the region will be among the fastest growing areas of the state in coming years, as its economy grows and as coastal home prices climb, driving increasing numbers of Southern California residents inland in search of more affordable housing.