INLAND SOUTHERN CALIFORNIA
GROSS METROPOLITAN PRODUCT REPORT

November 2016
INLAND EMPIRE Gross Metropolitan Product Report

Inland Empire economy gained steam in the third quarter of 2016, doubling gross metropolitan product growth even as employment gains slowed. As population expansion continued to place pressure on government, healthcare, and education services, related sectors have been primary drivers of productivity growth in the region.

After a slow start to 2016, U.S. Gross Domestic Product (GDP) accelerated in the third quarter, rising by 2.9% (Seasonally Adjusted Annualized Rate) from the prior quarter. The third quarter growth rate was more than double what it was in the second quarter and this trend held true in the Inland Empire even though the region lagged the state. The UCR School of Business Center for Economic Forecasting and Development estimates that gross metropolitan product (GMP) in the Inland Empire grew at 2.2% (SAAR) in the third quarter. The region’s real GMP approached $127 billion last quarter, boosted by gains that ranged from tepid to red-hot in all but two sectors.

The public sector made the most significant contributions to the Inland Empire’s overall GMP growth, while also accounting for half of the metro job gains in the region in the third quarter of 2016. This was due in large part to especially strong hiring in the Local Government Education sub sector, which made up three of five jobs added to the Government sector in September 2016. While these gains may be overstated since education is highly cyclical by nature, private sector employment in the Educational Services sector also achieved steep growth of 7.1%.

Nonfarm Employment and Unemployment
September 2006 - September 2016
INLAND EMPIRE AND CALIFORNIA

The public sector made the most significant contributions to the Inland Empire’s overall GMP growth, while also accounting for half of the metro job gains in the region in the third quarter of 2016. This was due in large part to especially strong hiring in the Local Government Education sub sector, which made up three of five jobs added to the Government sector in September 2016. While these gains may be overstated since education is highly cyclical by nature, private sector employment in the Educational Services sector also achieved steep growth of 7.1%.
INLAND EMPIRE Gross Metropolitan Product Report

Contributions to Annualized Growth
Third Quarter 2016
INLAND EMPIRE AND CALIFORNIA

<table>
<thead>
<tr>
<th>Industry</th>
<th>Real GMP</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industry GSP / Nonfarm Employment</td>
<td>2.17</td>
<td>1.63</td>
</tr>
<tr>
<td>Natural Resources and Mining</td>
<td>0.05</td>
<td>0.1</td>
</tr>
<tr>
<td>Construction</td>
<td>-0.24</td>
<td>-0.16</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.33</td>
<td>0.21</td>
</tr>
<tr>
<td>Trade, Transport, and Util.</td>
<td>0.87</td>
<td>0.44</td>
</tr>
<tr>
<td>Information</td>
<td>0.08</td>
<td>0.02</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>0.03</td>
<td>-0.04</td>
</tr>
<tr>
<td>Professional and Business</td>
<td>-0.34</td>
<td>-0.3</td>
</tr>
<tr>
<td>Education and Healthcare</td>
<td>0.39</td>
<td>0.45</td>
</tr>
<tr>
<td>Leisure and Hospitality</td>
<td>0</td>
<td>0.16</td>
</tr>
<tr>
<td>Other Services</td>
<td>0.03</td>
<td>0.02</td>
</tr>
<tr>
<td>Government</td>
<td>1.12</td>
<td>0.82</td>
</tr>
</tbody>
</table>

Source: Center for Economic Forecasting and Development, Bureau of Labor Statistics

These gains have been boosted by ongoing demographic shifts as young families increasingly choose to settle in the Inland Empire. As the region’s comparatively affordable housing and growing employment opportunities continue to draw inbound migration, the Inland Empire’s schools are expected to continue expanding. Population growth has also had the effect of increasing demand for Healthcare services, which remain in short supply despite strong employment growth. Together, the Education and Healthcare sector accounted for 17.9% of GMP growth in the third quarter of 2016.

The only local sectors to contract this quarter were the Construction and Professional and Business Services sectors. Losses in these two sectors may be related as commercial permitting delivered the greatest contribution to slowdowns in overall permitting activity for the third quarter of 2016. However, in year-to-date terms, both residential and non-residential permitting fell, by 2.9% and 4.4%, respectively. The fact that residential development has fallen, despite respectable growth in home sales (+2.7% year-to-date) and strong increases in prices (+7.3% year-over-year), signals developer uncertainty about the trajectory of the economy in general and the housing market in particular.
The local Logistics sector remained a primary driver in the region, even as higher shipping costs, following Hanjin’s bankruptcy, caused slowdowns further up the distribution chain. The Trade, Transportation, and Utilities sector continued to grow both in terms of productivity and employment, comprising 40% of GMP growth in the third quarter. The Center for Economic Forecasting has maintained a generally optimistic view of the Inland Empire’s goods movement based industries, where growth has been largely import driven, fueled by growing strength in consumer purchasing power across Southern California and the rise of e-commerce.

However, given the sector’s inherent dependency on international trade relations, it remains to be seen what the impact might be of a Donald Trump presidency. Large tariffs on imports, as the president elect has proposed, may indefinitely depress the appetite for imports on the part of American consumers and businesses. On the other hand, trucking companies hope to benefit from increased spending on roads infrastructure and the possibility that the incoming president will reverse costly safety regulations that are scheduled to go into effect next year.¹

While it is too soon to gauge the impact of a Trump presidency on local goods movement industries, it is possible that some producers in the Inland Empire’s Manufacturing sector could stand to benefit from reduced overseas competition and regulation. Still, the local industry is highly diversified, and the extent to which imported goods have been considered substitutes for locally produced ones depends on the product. Some of the largest subsectors by employment are Fabricated Metal Product Manufacturing and Food, Beverage, and Tobacco Product Manufacturing. The former industry, as a whole, would likely benefit from higher import tariffs, as imports of fabricated metal products remains substantially higher than levels seen in 2005,² suggesting that demand for domestic production could increase. On the other hand, higher import tariffs raise the possibility that domestic as well as import prices may increase for those who buy these products, making the products more expensive.

At the present time, it is difficult to gauge what the future holds. Still, election anxiety has placed a damper on consumer holiday spending so far, and economic uncertainty may cause businesses to continue to hold back on investment and new hiring for the time being. Whether the Inland Empire’s GMP stays on its present path or veers in a new direction remains to be seen.

¹https://www.wsj.com/articles/trucking-group-starts-meeting-with-donald-trumps-transition-team-1478710047
²https://fred.stlouisfed.org/series/IZ332

Source: Center for Economic Forecasting and Development, Bureau of Labor Statistics

**Indexed Economic Output**
First Quarter 2005 - Third Quarter 2016
INLAND EMPIRE AND CALIFORNIA

---

```
Q3-06 Q3-08 Q3-10 Q3-12 Q3-14 Q3-16
95 100 105 110 115 120
```

Output (Indexed, Q1-05 = 100)

- Inland Empire
- California

```