"And the Winner in Southern California is…"

by

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One of the most highly regarded measures of an economy's overall health is real Gross Domestic Product (GDP) growth. We want to compare how the Inland Empire fared in that respect relative to the other regions within the Southern California Association of Government (SCAG) area (Los Angeles County, Orange County, Ventura County, Imperial County). Which region grew the fastest recently?

While we assume that most readers of this article have some interest in the economic well-being of our region and indeed, are in jobs that are related to the economy, most of you primarily look at headline generating unemployment rates or employment growth rates when judging economic winners and losers among geographical areas. California currently has the second highest unemployment rate among U.S. states (thank you, Nevada), but you would be stretched to name the top 3 U.S. states when it comes to GDP growth. Part of the reason is that real GDP is quite abstract and not easy to understand. This should not be the case, since GDP is simply the heap of all goods and services produced in an area with price tags attached to it (how would you measure it otherwise?). The word "real" is a bit confusing here: it simply means current price tags are adjusted for inflation so we can measure growth in the heap of goods and services from one year to the next.

So, we got the definition out of the way. But why is GDP important? Consider the following situation: there are two workers, one in construction and the other in manufacturing. Both lose their jobs and are immediately hired as a valet parking attendant and in the retail industry selling T-shirts. Employment would not change in this case (neither would the unemployment rate), but GDP would fall since the value produced by these two workers is not as high in their new jobs compared to their old positions. In that sense, GDP is a more reliable measure of an area's success than employment. It is also approximately equal to the income earned in an area (complications arise when there are many workers with jobs outside the area such as Inland Empire commuters).

So how does the Inland Empire compare to other regions in terms of GDP growth? Well, the winner for 2023 was… (come on, try), Imperial County with a stunning 16.4% growth. Lithium

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Valley is about to make a mark on the map in Southern California. Riverside County came in a distant second at 1.4% growth, followed by Los Angeles County (1.0%) barely beating San Bernardino County (0.9%). Ventura County (0.7%) and Orange County (0.5%) completed the field. Overall, Southern California did not do that well in 2023: the state as a whole grew at 2% and the nation at 2.9%. Who outpaced us significantly within the state? Northern California (San Francisco County, + 3.4%, Silicon Valley, +3.4%), and Sacramento (+2.2%).

Next we need to find the reason for the Inland Empire counties to grow at such a low pace, and also explain why Riverside County grew faster than San Bernardino County. In the absence of large demographic or policy differences, the leading candidate for such an explanation is a different industrial composition. 2023 was not a good year for the Logistics Industry (Transportation and Warehousing plus Wholesale Trade). The Logistics industry saw a large increase in employment and output following the Coronavirus recession of 2021, as more and more households ordered goods online. The growth of the industry was phenomenal in the Inland Empire, adding 65,200 jobs from February 2021 to December 2021. But as the pandemic restrictions were removed, households shifted their expenditures from goods to services (restaurants, hotels, amusement parks), prompting the local logistics industry to contract. In the end (March 2024), the bloodletting stopped after eliminating 24,200 positions, almost half the jobs gained.

Logistics employment is still above the February 2021 levels by a significant 51,300 jobs, but the interim adjustment was more painful for San Bernardino County where Logistics now has the largest employment share and accounts for a full 20% of all jobs. Logistics is also important in Riverside County, but Private Education and Health Care, the Government, and Leisure and Hospitality have a larger share of employment. This solves the puzzle: The top four industries in Riverside County added 18,500 jobs, despite a loss of 3,200 workers in Logistics.

By comparison, the Logistics industry in San Bernardino County lost almost 7,000 jobs in 2023, with Professional and Business Services also eliminating 6,700 positions, while job gains in other industries tended to be smaller in San Bernardino County than in Riverside County. Overall, the county only added 1,300 jobs in 2023, compared to the 18,100 more workers employed in Riverside County, mainly because of the weak employment numbers in San Bernardino county's Logistics industry.

Of course we would like to do a detailed analysis for 2024, but the U.S. Department of Commerce will not make county GDP data available until December 2025. Think of the size of the Inland Empire economy as the equivalent of an oil tanker (the Inland Empire is the 12th most populous Metropolitan Statistical Area (MSA) in the U.S., larger than the San Francisco MSA) that you have to navigate through (sometimes) rough seas. Imagine you enter a fog bank that potentially contains ice bergs. Clearly you need some sensors to look ahead, such as a radar. At present, monthly employment data on the region's (Inland Empire) industries offers the best near-term picture, even if it is flawed as described earlier. At the Inland Empire Economic Partnership and the Lowe Institute at Claremont McKenna College, we are currently working on providing quarterly GDP estimates and hope to present preliminary results at our February State of the Region conference.

Final word: There are a couple of caveats regarding Imperial County's impressive growth rate. First, its economy is much smaller than those of other Southern California counties. As such, the incremental growth implied by a 16.4% increase is $1.5 billion, compared to $2.3 billion in the Inland Empire. Second, it frequently has the highest unemployment rate of any MSA in the U.S. Finally, Imperial County is also quite different in its industrial composition, heavily relying on agriculture, which makes it harder to compare to the other counties in Southern California.