

Economic Conditions and Outlook Part 2: The Inland Empire

by

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The Inland Empire Economic Partnership (IEEP) released its economic analysis and forecast for 2026 at its State of the Region event in mid-February. We presented the national and state outlook previously. This article will focus on the current economic situation in the Inland Empire and the short-term and long-term outlook for the region. A subsequent piece will look at the housing market.

2025 was not an easy year for the Inland Empire economy. The Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), commonly known as the Inland Empire (Riverside County and San Bernardino County), made it through the year primarily on the strength of a few industries. Looking at the region's economic activity, we think of it as a house with a good view that is supported by three stilts. These are logistics, health industries, and local government expenditures, primarily public education. Take away one of these supporting pillars, and the house will tumble. Over the last year, two of these three industries prevented the area from experiencing a significant number of job losses.

Overall, in 2025 there were only 3,200 job gains for the two counties, a 0.2 percent growth in employment. 24,400 new jobs were created by the two largest employment sectors, health and local government, meaning that all other sectors combined lost 21,100 jobs. The logistics sector, the third largest employer in the Inland Empire, and largest in San Bernardino County, lost 6,100 positions, continuing the "freight recession," which started in mid-2022. Other sectors losing jobs were manufacturing (-3,500), construction (-8,200), professional and business services (-200), financial services (-1,200), and information (-500).

The unemployment rate increased slightly from 4.9 percent to 5.1 percent during the year. However, this was due to the labor force growth outpacing the employment growth, which is a relatively healthy picture. The unemployment rate ended up at the same level as the state unemployment rate, which currently is the highest among the 50 U.S. states. Both the Inland Empire and the California unemployment rates are a percentage point higher than the national rate.

Looking through the balance of 2026, job growth will be weak and will be adversely affected by national policies. Tariffs will have a lingering effect on logistics and cutbacks in Medicaid (MediCal) will temper growth in the health sector. Meanwhile, public education will face

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challenges in terms of funding cuts and demographics, with the number of school-age children continuing to decline. Most likely we will see a flat or shrinking labor force in the area. In short, the Inland Empire economy may find itself treading water for most of the year. In addition, there are threats to the logistics industry due to the recent price increases at the pump. However, we assume here that the Middle East conflict will not result in oil prices last reached in 2022, when they were over \$130 per barrel.

The long-term outlook for the Inland Empire must be viewed through the lens of today's economy. With 4.7 million residents, the region is already the state's second largest metro area and the 12th largest nationally. The region will grow in the coming years, faster than the coastal counties but at a slower pace than in the past. The foundation of the economy will continue to be logistics, health care, and population-serving industries. Because the region's housing is more affordable than in the coastal counties, and because the coastal counties offer a wider array of job opportunities, large numbers of workers will choose to live in the region and commute to better paying jobs in the coastal areas. At recent count, approximately 350,000 commuters endure long commutes, clog the freeways, and contribute to pollution. This includes younger members of the workforce, who grew up in the region and attended local colleges, but found more and better employment opportunities outside the region because there are too few well-being job opportunities within the region.

The trajectory of the region can be altered by attracting and growing firms in industries that feature better paying jobs, including those for better-educated workers. These industries can lure workers back from coastal jobs, improve commuting patterns, and add to the region's current economic base.

The challenge is to envision the future the Inland Empire wants and to undertake a strategic plan to realize that vision. The region can identify and attract growth-oriented industries that have the potential to move to the region, grow and employ a better educated workforce that can meet the needs of the 21st Century economy alongside the industries that currently support the regional economy. The region's colleges and universities turn out thousands of graduates each year, but these numbers are not well reflected in the region's educational attainment statistics: Only 25 percent of residents aged 25 to 45 hold at least a bachelor's degree compared to 37 percent for the state and the nation. As a result, higher paying firms are reluctant to move into the area. Moreover, although the cost of living in the region is better than in coastal Southern California, firms that may consider relocating from elsewhere in the country will hesitate to do so because housing costs in the region far exceed those in other parts of the country with whom we must compete. The region must take steps to rein in housing costs if it wants to attract firms from outside the state. This means increasing the supply of housing beyond recent levels of new construction, and meeting the housing needs of all households, including market rate housing, affordable housing, and rental housing.