Live by the Sword, Die by the Sword: The (Uncertain) Economic Picture for the Inland Empire in 2025

by

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All is (fairly) well for the U.S. economy judging by the statistics published recently. While output shrank during the first quarter, the decline was minimal (-0.2 percent) and may disappear in the final estimate. Inflation is close to the Federal Reserve's target, and the labor market continues to boom. The Federal Reserve, in its last meeting, decided to hold the Federal Funds Rate at its current level. We do not expect a change in the near future given the strong forecast of economic growth for the second quarter (the Federal Reserve in Atlanta predicts a more than solid (4.5 percent currently). We believe that the national economy, despite all the turmoil surrounding the tariff policies of the President, will escape a recession in 2025 or, at most, will experience only a short and mild economic downturn.

This article is about the difference in fortunes for our state and regional economies when compared to the national picture. While recessions are a national phenomenon, this does not mean that all areas within the country are doing equally well. Think of a person being seriously ill, e.g. suffering from severe pneumonia. Even though that person is in intensive care in a hospital, her arms and legs are functioning normally. The reverse could also be true: the person has a broken arm/leg but otherwise is healthy, and the body does not require hospitalization. We will show that both California and the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA), but especially San Bernardino County, are potentially on course to experience a serious economic decline this year while the nation as a whole is doing relatively well.

The reason behind this scenario is that California and the Inland Empire have put all their eggs in one basket, namely bet on the Logistics Industry (Transportation, Warehousing, Wholesale Trade), Healthcare, and Public Education to drive employment gains. While this has gotten us to where we are currently, meaning it has paid off for us so far (unless you listen to those who are concerned about the environmental impact of the logistics sector), reliance on only these sectors going forward will haunt us. The absence of labor market diversification could result in a negative economic spiral over the next year for our area, and we need to prepare for it now. Hence, we are sounding the alarm bell.

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There have been similar situations during the last 30 years when only some regional economies suffered, such as Southern California in the ‘90s paying the consequences of the peace dividend, while the national economy was booming. Prior to that, Texas, Louisiana, and Oklahoma did not do well in the mid ‘80s when oil prices collapsed while Michigan, Delaware, and New Jersey benefited most. California, Nevada, and Florida were at the epicenter of the housing bubble bust in 2008/2009, while Vermont, South Dakota, and Iowa saw house prices hardly decline, if at all. Variation in growth within the country is not a new phenomenon.

Specifically, let us analyze the economic situation for the state and the Inland Empire economies (and indeed, Southern California). Start with the state: California is not doing well economically, despite the fact that state output showed promising growth until 2024Q4 when it only increased by 1.4 percent. As of the end of 2024, we have not regained the population level we had at the COVID-19 event. We have the third highest unemployment rate among the 50 U.S. states (thank you, Nevada and Michigan). In addition, housing prices have made living in most parts of the state unattainable, pollution and long commutes lower our quality of life, and neither San Francisco nor Los Angeles appear in the Top 50 of most livable cities of the world in *The Economist* Magazine, etc.

None of this speaks to the business cycle and the fear of a downturn. For that, we tend to focus on employment and this is where we immediately start to worry. Signs of softening are clearly present. Over the last year, state nonfarm employment has increased 0.3 percent or some 46,500 workers. This is not spectacular, but a decent number. Here comes the problem: three sectors, Logistics, Health, and Public Education grew by almost 220,000 persons, or 472 percent of the overall increase (this is not a typo). It means that all other sectors collectively lost employment. Moreover, indeed, they did by a massive 173,000 jobs! The only other sector that showed positive employment growth was Other Services, which added 200 workers.

Unfortunately, for California, these are also the three sectors that are most likely negatively impacted by President Trump’s policies. Increased tariffs on Asian countries would result in shrinking shipments from China and Asia, reducing the need for Logistics workers. The threatened increase of European Union tariffs has now been postponed until early July, but this is less relevant for our state since imports from the EU do not enter through the Ports of LA or Long Beach. To muddle the potential threat of tariffs further, the Court of International Trade voided the tariffs imposed by President Trump under the International Emergency Economic Powers Act of 1977, only for the Federal Appeals Court to allow duties to remain in place at least until early/mid-June, when the next ruling will take place. However, baked into the cake already is the sharply reduced volume of goods from China that arrive at the Ports of LA and Long Beach in May and June, due simply to much fewer cargo ships that launched from China in April and May. Fewer arriving containers with goods translates into fewer truck drivers and fewer workers needed at distribution, warehouse and fulfillment facilities throughout Southern and Central California that receive those goods.

As for the other two pillars, there are projected cuts in health expenditures affecting Medi-Cal both from the national and state level. Furthermore, demographics show a declining number of students in K to 12th grade now and over the near term future. A projected state budget deficit does not help either.

By comparison, the national economy is much more diversified. Construction, Retail Trade, Finance, Leisure and Hospitality, and Other Services all show positive employment growth from a year ago. While the numbers for Logistics, Health, and Public Education are also large, they only make up 75 percent of the overall growth in employment of almost 1.9 million. It means while there were jobs lost in some sectors (Manufacturing, Information, Professional and Business Services, Mining) these did not bring down the jobs gained elsewhere significantly.

Now to the Inland Empire: Logistics is already the largest employer in San Bernardino County, where every fifth person works in that industry. Riverside County shows Logistics as the third largest employer with Leisure and Hospitality coming in a close fourth. If you thought that the California numbers were worrisome, look at San Bernardino County and Riverside County. Over the last year, the region added 3,700 non-farm jobs. The three sectors Logistics, Health, and Public Education showed an increase of 26,700 or a 722 percent share of the total (again, no typo). The other sectors lost 23,000 positions with only 'Other Services' adding a meagre 100 workers.

A continuation of this trend has bleak consequences for the labor markets of the state, and the Inland Empire. There is virtually no job creation occurring this year. Fortunately, however, job-seeking residents are becoming employed as gig workers, contractors, and in the case of the Inland Empire, in adjacent counties. Consequently, to date, the haunting prospect of rising unemployment is not affecting the labor markets nor the demand for federal or state assistance payments. However, with the labor force growing more rapidly again, local job creation will be necessary to circumvent the trauma of an expanding pool of unemployed workers.