Need for Diversification in the Inland Empire, Part 1: San Bernardino County

by

Manfred Keil and Mark Schniepp[1]

The Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA) has just become the 11th most populous MSA in the U.S., passing the Boston-Cambridge MSA. While the region continues to experience population growth, employment generation in the Inland Empire has been weak over the last year and concentrated in a few sectors. What makes the current situation worse is that the industrial sectors that dominate employment levels here are not sectors that generate a lot of value added in terms of output and income.

Favoring certain industries can be quite beneficial if these sectors are doing well (think of investing in successful stocks) but can result in potential problems when these sectors contract, due to the lack of diversification ("putting all your eggs in the same basket"). If these sectors are pro-cyclical, then there will be unnecessarily high increases in regional unemployment during a national recession - or even in the case of an expanding economy with structural shifts. The Inland Empire has a history of betting on sectors that were highly successful in employment generation for a while but then turn into problem cases: military expenditures and aeronautics in the later years of the previous millennium, residential construction in the run-up to the Great Recession of 2008-2009, and more recently, the Logistics Industry (Transportation, Warehousing, and Wholesale).

In this piece, we want to take an inventory of the degree of diversification - or the lack of it - for the two counties, which make up the Inland Empire. We start today with San Bernardino County and will follow up with Riverside County next.

The Employment Development Department (EDD) provides annual data for the 58 counties in California. Since we want to analyze long-term trends in our region, we decided to use annual data for two periods. First, we compare employment from 2024 with that from a year ago. Second, we repeat the analysis for the years 2016 and 2024. The Great Recession of 2008-2009 did not only stand out for the post World War II record setting length of the recession and loss of jobs, but also for the "Not So Great Recovery" because U.S. job levels did not return to pre-recession levels until 2014. We did not want to distort our analysis by combining "normal"

[1] Keil: Chief Economist, Inland Empire Economic Partnership, Associate Director, Lowe Institute of Political Economy, Robert Day School of Economics and Finance, Claremont McKenna College. Schniepp: Director, California Economic Forecast

economic periods with those that are dominated by employment recovery from recession declines, hence the comparison with data from eight years ago.

In 2016, just over 47 percent of San Bernardino's labor force worked in three sectors: Government (primarily Local Government) - 17 percent, Private Education and Health (primarily Health) - 16 percent, and Logistics (primarily Transportation and Warehousing) - 14 percent. Even then there were influential voices, such as Congresswoman Norma Torres (who represents the 35th Congressional District that includes large parts of San Bernardino County and some of Riverside County), calling for programs that would favor diversification in order to build a more resilient local economy. Fast forward to 2025, and there has been little progress towards diversification made. Moreover, the top three sectors have now *increased* their employment share to 52 percent. In addition, Logistics has become the new leader with 20 percent of total wage and salary employment, meaning every fifth job in San Bernardino County is in the sector. This is followed by Healthcare with 17 percent and Government at 15 percent. By comparison, in Manufacturing, its share of total employment has declined from 7.8 percent in 2016 (or 9.6 percent in 2007) to 5.9 percent today. There are 14,000 fewer workers in manufacturing now compared to the last year before the Great Recession in 2007.

The rise in Logistics employment certainly contributed to the faster recovery from the Coronavirus downturn during the second half of 2020 and in 2021. However, firms in this sector were overly optimistic assuming that expansion would occur for the near future. They could not have predicted the impending moratoriums on warehouse facilities in a number of Inland Empire cities, nor that U.S. consumption would gradually revert to services (such as restaurants, hotels, etc.) from increased durable goods consumption. Consequently, logistics employment levels have declined since 2022.

The three sectors also have masked so far how fragile the San Bernardino economy currently is. While there were only 1,100 new non-farm jobs created from 2023 to 2024, the Health sector and (Local) Government created 12,600 new jobs, meaning that all other sectors combined lost 11,500! Furthermore, all other sectors (Construction, Manufacturing, Leisure and Hospitality, etc.) lost jobs. The Logistics sector shut down 3,200 positions over that period.

This leaves us with a bleak outlook for the rest of 2025 for San Bernardino County. While we may be able to postpone employment losses in Local Government due to budgeted expenditures on education in place for FY25-26, the Health sector could be negatively affected by provisions adopted in President Trump's Big Beautiful Bill that could potentially reduce hospital revenues and healthcare coverage through Medi-Cal, which four in ten Inland Empire residents rely on. The new law requires adults ages 19 to 64 to report at least 80 hours a month of "community engagement," which could be employment, school or volunteer work. Those who do not, will lose access to Medi-Cal. The Big Beautiful Bill also did not extend the Affordable Care Act

(Obamacare or Covered California) premium tax credit, meaning that at the end of this year, hundreds of thousands of Inland Empire residents who rely on Covered California will either lose coverage or face higher healthcare premiums.

The Logistics industry is potentially impacted by President Trump's tariff policies. If import tariffs result in higher import prices and/or consumers shift away from buying the more expensive goods, then shipments into the Ports of Los Angeles and Long Beach will be negatively affected. Furthermore, higher inflation rates may cause the Federal Reserve to raise interest rates, thereby adversely affecting residential construction.

Whether higher tariffs raise goods prices depends on (i) exporters cutting prices to protect market share, (ii) importers absorbing costs instead of passing them on, and (iii) consumers shifting to substitutes. To date, container imports into the ports of Long Beach and Los Angeles are up 3.7 in the first six months of the year versus 2024. The evidence suggests that both exporters and importers have reduced their profit margins instead of raising product prices. There is also very little impact observed on inflation so far. Goldman Sachs estimates that through June 2025, U.S. importers absorbed about 64 percent of the costs associated with tariffs. The president's tactic of changing tariff rates repeatedly suggested a "wait and see" strategy for firms. This may well change with new tariffs going into effect at the end of August in India and in November for China.

What is already happening is that automation and robotics are affecting warehousing jobs. Artificial Intelligence (AI) will be affecting transportation workers over the next few years. Consequently, we cannot expect much help from the Logistics sector as we did over the years. Unless there is a stark change in trade policy, or a surge in hiring to support the widespread adoption of AI systems in all industries, we expect an overall decline in 2025 and 2026 employment for San Bernardino County, due to its lack of diversification and the sectors with over half of the jobs destined to contract.

This is deja vu from the '90s and the run up to the housing market crash. It is now time for decision makers to get serious about their continued talk regarding diversification. Much of the county's problems, including congested freeways not only during rush hour, could be alleviated through diversification: we need to attract more establishments in higher paying industries to relocate to the Inland Empire. Having a labor force where 25 percent have at least a Bachelor's Degree will not help us in this endeavor, and more investment in human capital will be crucial to achieve that. Lagging significantly behind national and state levels having a better educated workforce (nationally 38 percent of residents 25 years or older, statewide the number is 37 percent) will keep employers reluctant to move their operations into the county. A continued lack of qualified workers will simply result in further capital-labor substitution.

If we want to improve from a standard of living, then we have to act now and decisively. Decision makers have to produce a credible plan to encourage higher paying jobs to San Bernardino County and the Inland Empire and find ways for individuals with a higher education degree to stay in the area. Prioritizing improved road and public transportation options surely must take a lower priority compared to eliminating the need for commuting periods by attracting enterprises that will make it no longer necessary to endure lengthy and stressful daily commutes.