The 2026 Report of the Region

by

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ECONOMIC UPDATE AND OUTLOOK
THE U.S. ECONOMY

General Economic Conditions Today

Based on headline developments of indicators of economic well-being, such as GDP growth, inflation, and the unemployment rate, 2025 appears to have been a good year for the U.S. economy. It is when looking beyond these headline numbers that alarm bells are starting to ring. Still, we **do not forecast an economic downturn for 2026**. On the contrary, both fiscal policy and monetary policy – the One Big Beautiful Bill Act, reduced interest rates, respectively – suggest a **continuation of relatively high growth rates of real GDP**, driven primarily through Artificial Intelligence (AI) related investment expenditures and sustained levels of household expenditures (consumption).

2025 was a year of uncertainty, created by a number of disruptive changes in policy at the federal level, including President Trump's Liberation Day announcements regarding tariffs on April 2. This initially resulted in a list of incredibly high tariff rates on some countries that you would have predicted were in the President's crosshairs (China, South Korea, Japan, Mexico, European Union). Given the "formula" to determine tariff rates, it also hit Saint Pierre and Miquelon, a small group of French islands with about 6,000 French residents just south of Newfoundland with a 50 percent tariff, and levied a 10 percent tariff on the uninhabited Heard and McDonald Islands near Australia. Liberation day was then followed by the "on-again-off-again" tariffs on goods from Mexico, Canada, and other countries, which were ultimately set at lower levels compared to the initial announcement. Overall, it resulted in an average tariff rate of nearly 17

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percent, the highest since the 1930s but significantly lower than the initially announced rates. Importantly, higher tariffs in 2025 had only a modest effect on consumer prices.

More uncertainty was caused by the Administration's efforts to restructure the federal government, cuts to research and development, an increase in immigration actions, and in the fall, the 43-day Government shutdown. More recently, President Trump has threatened eight European countries with 10 percent additional tariff rates related to their oppositional view on Greenland, only to, once again, take that increase off the table.

Many observers of the economy anticipated significantly higher prices (inflation rates) and a slowdown of the economy in 2025. We disagreed with that view in last year's State of the Region Report, and instead predicted that GDP growth for the year would be 2.0 percent, coupled with an inflation rate of 2.6 percent, and an unemployment rate of 4.3 percent.

Table 1 compares our forecast with the actual outcome.

Table 1: Nation Economic Forecasts 2025, State of the Region 2025, and Outcomes

United States	2025 forecast	2025 outcome
Real GDP Growth	**2.0**	**2.6**
Inflation	**2.6**	**2.6**
Unemployment Rate	**4.3**	**4.3**
Employment Growth (CES)	**1.0**	**0.5**

Note: to calculate the 2025 actual numbers we assumed a 3.0 percent growth rate of real GDP for 2025Q4; for the inflation rate, we used the consumer price index without less food and energy and assumed and assumed the same year-to-year increase in December as observed in November; for the unemployment rate, we assumed an increase to 4.5 percent for December; for non-farm employment growth, we used the same growth rate as for November 2025.

Real GDP growth exceeded our forecast by roughly half a percentage point because we overestimated the extent to which tariffs would be passed on to consumers. There are various reasons for this not to happen: (i) exporters may decide to lower prices in fear of losing customers, (ii) importers may lower profit margins by not passing on the tariffs to consumers, and (iii) consumers may substitute domestic goods for imported goods. The combined effect of these adjustments in pricing and behavior was that price increases were less than those implied by the tariff rates themselves.

For both inflation and the unemployment rate we were spot on. We overestimated the growth rate of non-farm employment, mainly because there was no way of knowing the extent of changes to immigration policies and their impact on industries that rely heavily on immigrant workers.

Although it has been some time since the Federal government shutdown ended, there continue to be delays in releasing economic data. The forecasts and insights contained in the 2026 State of the Region are based on the data that was available as of the end of January 2026.

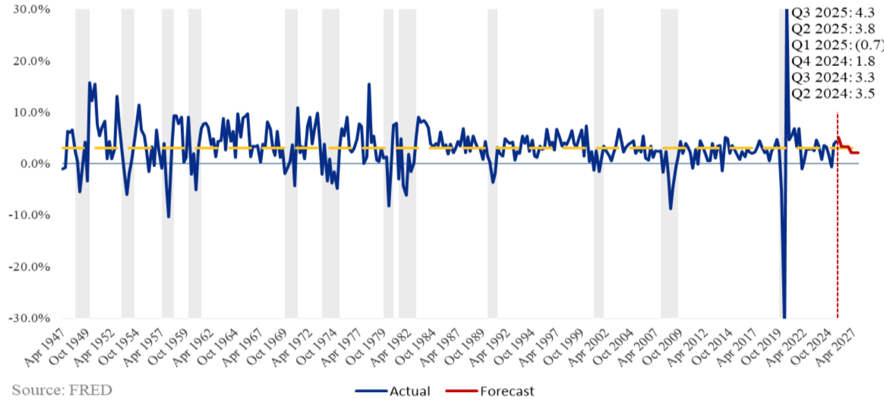
Economic Growth

Real GDP, the most general measure of economic wellbeing, showed an erratic pattern initially, but then settled to display relatively **high growth rates during the second half of 2025**. Numbers for the first half of the year were primarily driven by reactions to President Trump's tariff policies. During the second half of the year, the economy achieved strong quarterly growth rates exceeding four percent that were not anticipated by many forecasters. Stronger than expected consumer spending and heavy investment spending in artificial intelligence (AI) contributed to the impressive gains during the second half of the year.[2]

During 2025, the Federal Reserve lowered the Federal Funds Rate (FFR) by 75 basis points, putting it into a range of 3.50 percent to 3.75 percent in December 2025, and kept it unchanged in its January 2026 meeting. Chairman Powell has signaled that there will most likely be only one more cut during the first half of 2026. The Fed kept interest rates constant at their January meeting. Financial markets currently have put less than a 10 percent probability on a 25-basis point cut by March 2026.

[2] While the GDP growth rate for the fourth quarter of 2025 was not available at the time of publication, we have incorporated the "GDPNow" forecast for that quarter from the Atlanta Fed.

Figure 1: Quarterly Growth in Real GDP, 1947 Q1 - 2025 Q3 (Actual), Forecast 2025Q4-2027



- 2025 Quarter 4 growth rate of 4.2 percent is taken from the GDP Now forecast model of the Federal Reserve Bank of Atlanta model.
- The third quarter GDP growth rate at 4.3 percent was a two-year high, and with the exception of one quarter in 2023 had not been seen since the recovery rates in 2021.
- The negative quarter of GDP growth in 2025 was due to import hoarding in anticipation of President Trump's tariff policies and resulted in less impressive 2.5 percent annual growth.

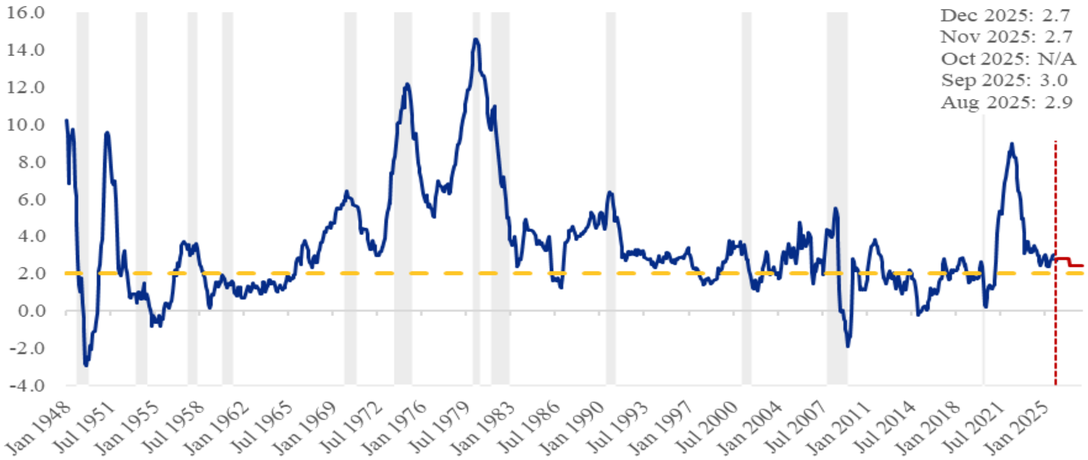
Newly appointed Chairman Kevin Warsh will take over in May, and the direction of interest rates through the balance of the year will become uncertain at this time. Interest rates are already at their lowest level in three years. Lower interest rates are supposed to stimulate interest rate sensitive expenditures by households and firms, e.g. housing starts, automobile purchases, and credit cards.

Inflation

Inflation (measured as the growth in prices from a year ago) has missed the target inflation rate of 2 percent for over five years by now. The Consumer Price Index excluding food and energy stood at 2.5 percent in the last release (for January 2025), while the Fed's preferred measure, the personal consumption expenditures price index excluding food and energy, rose at 2.8 percent (November 2025, the latest data point available). In fact, **the inflation rate is now over half a percentage point lower than it was a year ago,** meaning that inflation is moving towards the Fed's 2 percent target. This has occurred at a time when the labor market has slowed significantly. The U.S. central bank has a dual mandate to manage the rate of inflation and undertake policies to reach and maintain full employment.

It is not clear what the Fed will do in the current situation, hence the "wait and see" attitude. We are forecasting cuts in the FFR this year by at least 50 basis points, if nothing else, due to political pressure. This may spur job growth but will not help to bring down inflation. We do not expect the inflation rate to come down from current levels due to the effects of the fiscal stimulus in the "Big, Beautiful" tax bill and certainly it will not approach 2 percent in 2026, although we forecast it to reach that level late in 2027.

Figure 2: Inflation (CPI), U.S., January 1948 - January 2026, Forecast 2026-2027, Percentage Change from a Year ago, SA



- Inflation, on average, has stayed stubbornly above its 2% target (yellow line); the inflation target of 2 percent has been missed for five years.
- We predict inflation rate to reach its target late in 2027
- The Federal Reserve's favorite inflation measure "personal consumption expenditures index" rose by 2.9 percent in the third quarter, the last observation available to us. CPI inflation was 2.4 percent in January, 2.5 percent when excluding food and gasoline ("core inflation").

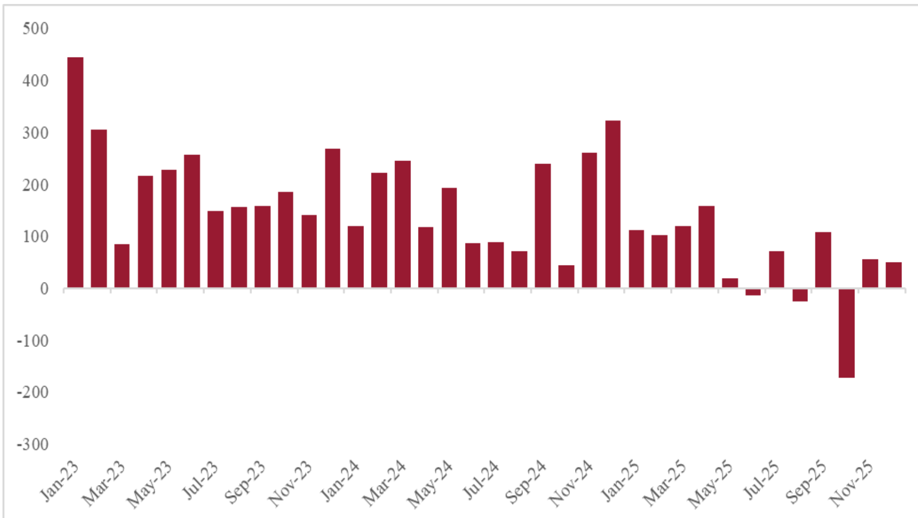
Labor Markets

The unemployment rate increased by 0.3 percentage points to 4.4 percent in 2025, but remains low by historical standards. However, monthly hiring fell sharply over the second half of the year. The latest data (January 2026) shows an unemployment rate of 4.3 percent.

Several developments may be contributing to the decline in job growth. First, the growth rate of the U.S. labor force has been declining for some time, but recent immigration policies accelerated the trend. Second, firms in the tech and logistics industries ramped up hiring during the pandemic to retain their workforce at a time of great uncertainty, but have since cut jobs in order to reduce their bloated workforce. Third, industries such as manufacturing and financial activities have contributed little to job creation as their headcounts have followed a long run decline while other industries such as motion picture and recording have faced structural changes in recent years that have caused job cuts rather than hiring.

Given these developments, it is possible that job growth in 2026 will continue to be weak by historic standards. Over the last 25 years, monthly jobs in the U.S. have increased by an average of 92,000 positions. Over the next year, it is likely that job growth will average half that rate even as **real GDP shows higher than average growth rates ("jobless boom")**: much fewer jobs are currently needed per month if the U.S. population is actually shrinking as a result of outmigration of people**.** Several economic forecasters (e.g. J.P. Morgan, Goldman Sachs, Brookings Institute) have suggested that observing as few as 40,000 or even less new jobs created could be consistent with full employment. January 2026 data showed an unexpectedly positive 130,000 increase.

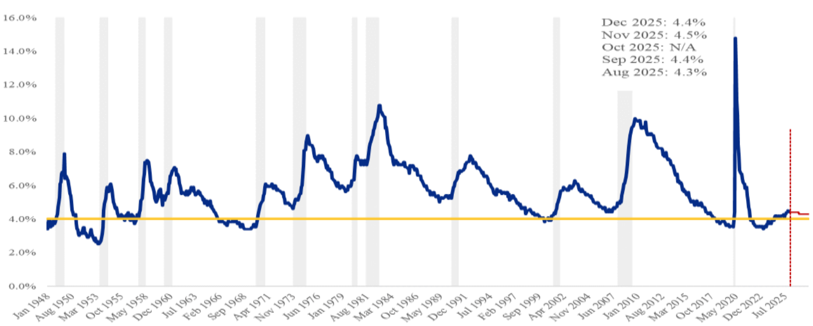
Figure 3: Change in Nonfarm employment, Monthly, CES, January 2023- December 2025



- Significant weakness in labor market signaled through low month to month changes in non-farm employment. In January 2026, job growth was unexpectedly better at 130,000 (not shown in graph).
- existing data will be adjusted downward in 2026
- 2015-2019 average was 200,000

Over the last year, nominal wages increased by approximately 3.5 percent, thereby barely outpacing the inflation rate. The real wage rate, which measures purchasing power of earnings, only rose by 0.8 percentage points, which is low by historical comparison. In a tight labor market, if there is fear of increased inflation, workers will demand higher nominal wages in order to see more significant real wage increases. If that happens and firms pass on the price increase, then inflation will increase.

Figure 4: Unemployment Rate, SA, U.S., August 1949 - January 2026, Forecast 2026-2027



- The national unemployment rate has fallen slightly to 4.3% in January, after being basically constant for some time prior to that
- The 4.3% unemployment rate is still low by historical standards
- The yellow line indicates the current unemployment rate at full employment ("natural rate").

It is important to stress that even though the headline unemployment rate and GDP growth suggest that the economy is doing well, this may not be the case for all sectors of the economy. In particular, there has been talk about a "**Freight Recession**" over the last two years, meaning that the logistics sector is contracting. To clarify, this does not mean that there is a recession caused by the Logistics (Transportation, Warehousing, Wholesale) industry. Rather, the Transportation sector is in a downturn that has been marked by decreased employment and failures of companies within the sector.

Given that we live in the Inland Empire and have been classified as "The Warehouse Capital of the World" by *The Economist* news magazine, this development is relevant. Here is a summary of the ups and downs of employment in national truck transportation employment: (i) initial decline of 82,000 jobs during the last recession in 2020, (ii) steep increase of 157,000 jobs until mid-end 2022, (iii) 71,000 decline subsequently. We believe that basically the cyclical upswing in the industry is completed and the sector is back to earth where it was before. **Talk of a national Freight Recession is really misplaced.** It is more like a return to normalcy.

Exchange Rate and Trade

The U.S. **dollar has depreciated significantly over the last year** against many major currencies of trading partners. For example, it is 14 percent less expensive now for Europeans to come here for vacation. Against the Canadian Dollar, the U.S. Dollar has depreciated 5 percent from a year ago, and roughly the same against the Chinese Yuan. As a result, we would expect exports from European countries to be hit harder than those from Asia - and it is the latter that ships containers through the Ports of Los Angeles and Long Beach. Still, this makes it less expensive for the snowbirds to travel south, although we believe that other factors play a more important role in keeping them from coming in 2026. Another currency that has gained ground against the U.S. dollar is the Mexican Peso (by roughly 18 percent) although our currency has also remained roughly constant against some foreign exchange (Korean Won, Japanese Yen). A depreciating U.S. dollar has the same effect as a tariff: it makes foreign goods more expensive (it also makes U.S. goods cheaper abroad).

As for goods movements, the depreciating dollar coupled with increased tariffs has resulted in a smaller trade deficit compared to a year ago. However, the Ports of Los Angeles and Long Beach had a record-breaking year for container activity in 2025 and anticipate continued strength in shipping activity in 2026. Lower imports from China have coincided with higher imports from other Asian countries.

Exchange rates play a role in the Inland Empire for two reasons: (i) they affect the relative price of domestic and foreign goods and hence trade movements, which, in turn, play a major role for the logistics industry; and (ii) the Canadian dollar, in particular, determines how expensive a vacation will be for Canadian tourists ("snow birds") to spend time here during the colder months north of the border. This impacts the Leisure and Hospitality industry. In addition, there are Canadian property owners especially in the Coachella Valley (Riverside County).

Figure 5: Canadian Dollar to U.S. Dollar Spot Exchange Rate, March 1971 - January 2026

- C$/US$ has depreciated roughly by 4 percent from a year ago.
- Canadian dollar appreciated by roughly 40% from late 2007 to early 2016
- Regarding most other major currencies (Euro, Yen, Yuan, Won, etc.), the U.S. Dollar has depreciated over the last year, making imports slightly more expensive and exports abroad cheaper. Coupled with increased tariffs, the trade balance has become less negative.

What you can expect

In the year ahead, GDP will continue to increase at an above average rate, but job growth will be challenging, and the unemployment rate will show minimal movement; hence the term "**jobless boom**." GDP growth in 2026 will be driven by several developments: First, tax policies coming into effect early in 2026 will have a positive effect on both consumption and equipment purchases. We expect non-residential construction in the form of manufacturing plants and data centers to increase. We also anticipate more shipbuilding and increased production of Boeing aircraft. Second, residential construction will benefit somewhat from the lower interest rate policies of the Federal Reserve, although uncertainty about market fundamentals – specifically the strength of demand and the availability and cost of labor and material on the supply side – will cause the sector hesitation. President Trump has appointed a new Chairman of the Federal Reserve in 2026, and Kevin Marsh will certainly push for even lower interest rates. Regardless, inflation will hold below three percent, showing some improvement and possibly approach the Fed's two percent target late in 2027.

Our forecasts also assume that there will be no major changes in geo-political events in Ukraine and Europe, the Middle East, China, or Latin America.

Table 2: U.S. Economy, Present and Forecast, 2024 - 2027

United States	2024	2025	2026	2027
Real GDP Growth	**2.8**	**2.6**	**3.3**	**2.1**
Inflation	**3.4**	**2.6**	**2.9**	**2.4**
Unemployment Rate	**4.0**	**4.3**	**4.5**	**4.3**
Employment Growth (CES)	**1.3**	**0.5**	**0.1**	**0.6**

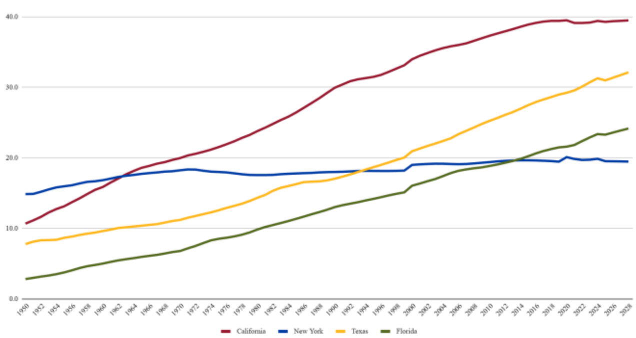
ECONOMIC UPDATE AND OUTLOOK
THE CALIFORNIA ECONOMY

To begin with, and on the positive side, California would have the fourth largest GDP in the world if it was a country. Ranked right behind Japan, it has a higher GDP than India and the U.K.

Neither the size of GDP nor of the population, however, is an indicator of how well a country is doing. The "Wealth of a Nation" is generally measured by per capita income or **per capita GDP**. And using that measure, **California ranks fourth in the U.S. behind New York, Massachusetts, and Washington**. It is far ahead of both **Texas (ranked 17th) and Florida (ranked 36th)**.

California has overcome its temporary population decline following COVID-19, which was unique in its 174 year history. This was followed by a period of slow growth, but growth stalled in 2024 and there was essentially no growth from July 2024 to July 2025 (an increase of less than 20,000 people). The state's total population is now slightly above 39.5 million people.

Figure 6: Population in Millions, California, New York, Texas, and Florida, 1950 - 2028 (projection)



- California is the most populous state in the U.S., followed by Texas, Florida, and New York.
- Rankings can change over time: New York used to be the biggest state until the early 1960s, but was passed by California, Texas, and Florida.
- Population growth in California has recovered from the COVID-19 episode.

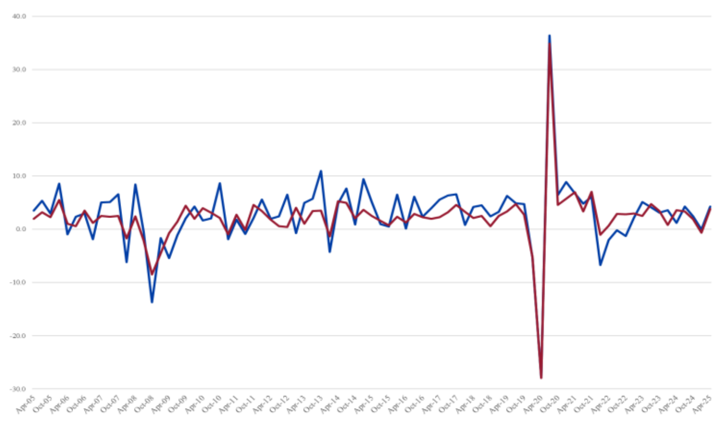
California currently finds itself in a situation that is similar to that of the nation. The state's GDP grew at a rapid pace last year, while job growth has been anemic at best. Different from the nation, the state unemployment rate is relatively high.

Real GDP grew at a strong rate of 4.3 percent in the third quarter of 2025. The U.S., during the same quarter, only grew at 3.8 percent. However, more than half of this growth came from just **two sectors**, which generated 2.5 percent of the 4.3 overall growth rate. They were (i) the **Information** sector (contribution to overall growth: +1.7 of the overall 4.3 percent growth of the state economy), and (ii) **Manufacturing** (+0.8/4.3 percent). Other sectors worth mentioning were Health and Private Education (primarily Health, 0.5/4.3 percent), and Professional and Business Services (also 0.5/4.3 percent). The biggest losers were the Government sector (-0.3/4.3 percent) and Retail Trade (-0.5/4.3 percent). Had these two sectors just stayed at their previous level, then the California economy would have grown at a rate of close to 5 percent.

To reiterate, we are talking about **growth in output of goods and services, not employment.** It was a positive surprise to see the Information and Manufacturing sectors rebounding, despite job losses over the past year. Information jobs fell by two percent and Manufacturing jobs declined by nearly three percent over the past year. On the other hand, Healthcare and Social Assistance jobs grew by more than five percent, yet the contribution to GDP growth was much less at 0.5 percent.

Historically, state real GDP growth rates are higher than national growth rates, sometimes substantially so, and the 4.3 percent growth is also an improvement over the more recent performance. For example, our state **experienced four quarters of negative growth in 2022**, implying that we avoided the national recession in that year, but not a regional decline.

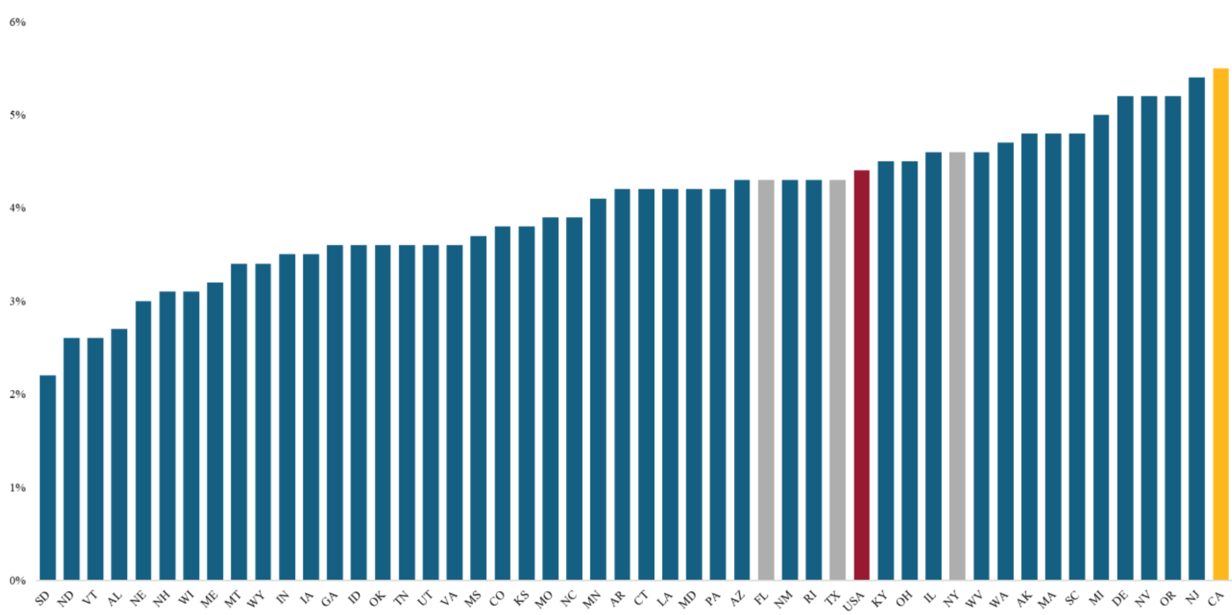
Figure 7: Real GDP Growth, California and U.S., Quarterly Growth Rates Annualized, SAAR, Billions of Chained 2017 Dollars, 2005Q1-2025Q2



- California shows a 4.3 percent growth in 2025Q2, which is higher than the national level.
- **There were four quarters of negative growth in 2022**.
- Compared to national growth rates, California typically displays higher growth rates.

As noted earlier, the performance of the California economy is not unlike the nation except that the negatives from the labor market are more amplified. **California currently (November 2025) has the highest unemployment rate among U.S. states**. To make matters worse, it continues to go up and by now has reached 5.6 percent, a full percentage point above the national level. While California typically has a higher state unemployment rate than the national rate due to the industry mix of the California economy, the gap is bigger than typically experienced (UCLA's Anderson Forecast estimates the gap to be 0.3 percentage points during "normal" times). The current high reading is due to weakness in tech, entertainment, tourism, and manufacturing sectors, all of which are important to the state economy, but have experienced sustained job losses over the last few years. Note that some of this discrepancy between output and employment generation can be attributed to AI. On the positive side, the state unemployment rate only increased by 0.3 percentage points from a year ago.

Figure 8: U.S. State Unemployment Rates, SA, December 2025



- California has the highest state unemployment rate at 5.5 percent.
- California unemployment rate levels are significantly higher than the national average (4.3 percent).
- Higher state unemployment rate is not a recent phenomenon, but can typically be observed over time.

According to the establishment survey (CES), employment in 2025 was 51,400, the smallest annual job gain in the past five years (Table 3). To make matters worse, job gains were limited to five of 17 industries, with Health Care and Social Assistance contributing the largest increase by far at 149,700 jobs, followed by Local Government (public education) at 43,500, and Private Education Services at 8,000, Transportation and Warehousing, and Other Services had much smaller gains. The remaining 12 industries lost jobs, including large declines in Manufacturing, Professional Scientific and Technical Services, Construction, and Information, the latter including both tech and Hollywood.

Table 3: Labor Market, California, 2024-2025

TITLE	Feb 2020	2024	2025	YTY	YTY %	Now vs. Feb 20
Health & Social Asst	2,482,400	2,867,700	3,017,400	149,700	5.2%	122%
Total Nonfarm	17,663,900	17,952,300	18,003,700	51,400	0.3%	102%
Government	2,618,800	2,662,600	2,706,100	43,500	1.6%	103%
Educ Services	392,300	418,300	426,300	8,000	1.9%	109%
Trans Warehousing	735,200	838,000	839,300	1,300	0.2%	114%
Other Services	594,100	594,700	595,500	800	0.1%	100%
Mining & Logging	22,600	19,000	18,700	-300	-1.6%	83%
Mgmt of Companies	296,000	287,200	285,700	-1,500	-0.5%	97%
Retail Trade	1,629,400	1,587,400	1,583,900	-3,500	-0.2%	97%
Leisure & Hospitality	2,059,200	2,015,100	2,011,100	-4,000	-0.2%	98%
Wholesale Trade	687,400	658,900	650,800	-8,100	-1.2%	95%
RE & Other Rental/Leasing	307,800	306,600	298,300	-8,300	-2.7%	97%
Finance & Insurance	541,200	496,100	485,800	-10,300	-2.1%	90%
Information	588,900	538,400	527,600	-10,800	-2.0%	90%
Construction	909,800	911,500	893,700	-17,800	-2.0%	98%
Admin Support	1,147,300	1,094,600	1,076,100	-18,500	-1.7%	94%
Manufacturing	1,290,700	1,248,800	1,214,400	-34,400	-2.8%	94%
Prof Sci & Tech Services	1,360,800	1,407,400	1,373,000	-34,400	-2.4%	101%

Source: EDD, KE

- Significant private sector job growth is concentrated in Health Care & Social Assistance, with much smaller gains in Private Education Services and Transportation and Warehousing
- In the public sector, Government added 43,500 positions, mostly in local government.
- Twelve of 17 major sectors experienced a decline in employment

The issue dominating the state's labor market today is the pervasive adoption of AI systems in the workplace, principally in the industries of software development, web and computer design, professional services including legal, accounting, and architecture, and scientific and technical consulting. Financial services has also substituted AI processes for human positions as has both the durable and non-durable manufacturing sectors.

The 2026 Outlook

Looking ahead, the state faces several economic challenges in 2026. First, labor force growth will be constrained over the foreseeable future, both because of long-term demographics and because of ongoing anti-immigration actions by the Administration. Second, the state's leading industries such as tech, professional scientific and technical services, manufacturing, motion picture and sound recording, and tourism all continue to display weakness in job growth if not economic activity. While Health Care and Government were the only sources of significant job growth last year, even their ability to add jobs is uncertain, given recent budget cuts and reallocation of resources at the federal level. The Health sector is largely saved from significant cuts by the fact that Governor Newsom's spending plan allocates a significant amount of money for Medi-Cal, California's version of the federal Medicaid program. Hence even federal cuts to Medicaid will not have a full impact on the Health industry. Still, there are some cuts that will affect the Health industry and prevent it from expanding to the extent that it has done in previous years.

The Information sector will be held back by the lack of H1B visas. We expect growth to slow down for the rest of 2025 and actually be barely above 1 percent for 2026 before rebounding for 2027 and 2028. Similar to the U.S. economy, **no recession is in the forecast for the California economy**. Positive growth due to higher worker productivity, ongoing new development of structures and infrastructure, and a busy international trade sector in terms of cargo volumes sent and received from the Ports of LA, Long Beach, and Oakland.

AI use is also making limited headway in manufacturing, transportation and warehousing, technology, healthcare diagnostics, professional research, digital entertainment, customer service, and human resources. Less than 50 percent of firms in the most AI adaptive sectors currently have these systems implemented. Consequently, the use of AI is still relatively new and unpredictable regarding its ultimate impact on the workforce.

Until there is proof that the implementation of AI will actually create more jobs than it is currently replacing, it is difficult to proclaim a rapid turnaround in the labor market next year. The unemployment rate peaks during the current cycle in 2026 before moving downward in 2027.

Overall, job growth will be limited this year, but as growth accelerates in 2027, more job opportunities will be created in services that directly interact with people, including personal services, amusement, recreation, the arts, alternative healthcare, and household and non-residential structure maintenance.

Table 4: Major Economic Indicators, California, Current and Forecasts

California	2024	2025	2026	2027
Real GDP Growth	2.8	3.2	0.9	2.5
Inflation	3.1	3.3	3.3	2.6
Unemployment Rate	5.3	5.5	5.5	4.6
Employment Growth (CES)	0.7	-0.0	0.1	1.9
Population	39.4	39.5	39.6	39.7

INLAND EMPIRE:
POLITICAL TRENDS AND ECONOMIC OUTLOOK

INLAND EMPIRE POLITICAL TRENDS AND OUTLOOK

The Inland Empire, along with the rest of the nation, has entered a high-stakes election year. What can we expect from these elections? California's successful 2025 redistricting gambit, the longstanding pattern of presidential losses in midterm elections, and a turn in public opinion against the Trump administration all suggest the president and his party will face an electoral reckoning this fall. At the same time, California's most unsettled governor's race in more than a half century will determine who will lead the nation's most populous state.

The Turn Against Trump

After shifting to the right in the 2024 General Election, voters in the Inland Empire and across California decisively aligned with Democrats in 2025. In last year's Special Election, voters endorsed Proposition 50, a measure designed to redraw California's congressional map mid-decade and flip five districts from Republican to Democratic control. Governor Newsom and other Democrats argued that Proposition 50 was needed to counter Texas' redrawing of congressional districts mid-decade to benefit Republicans. More pointedly, Prop 50's backers said the measure was a way for California to "stand up" to President Trump. Democratic leaders argued that Trump presents an existential threat to the nation, and a "Yes" vote on Proposition 50 was necessary to resist him. And, indeed, many came to view the measure as a referendum on the president one year into his second term. Voters in the region and across the state responded by issuing a sharp rebuke to Trump and the MAGA-aligned GOP. Statewide, voters approved Proposition 50 by nearly 30 points - 64.4 percent to 35.6 percent. In the Inland Empire, the margin was narrower, but still wide. Proposition 50 won by 12.6 points in Riverside County and 14.6 points in San Bernardino County.

The outcome of the Special Election marked a distinct departure from 2024. That year, Democrat Kamala Harris defeated Donald Trump in California, but much more narrowly than Hillary Clinton had in 2016 or Joseph Biden had in 2020. Trump increased his vote share in 45 of California's 58 counties, and flipped nine, including three (San Bernardino County, Riverside County, and Imperial County) in Southern California. Notably, by defeating Harris in the Inland Empire, Trump became the first Republican presidential nominee to win the region since 2004. Inland Empire voters also supported Republican Steve Garvey in the U.S. Senate race against

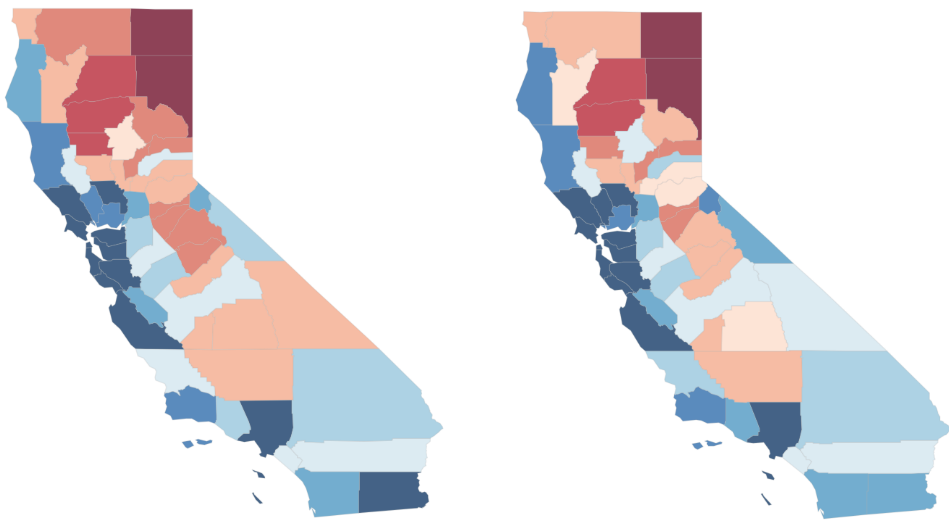
Democrat Adam Schiff. Immediately after the 2024 election, Republicans hoped that growing support among racial and ethnic minorities, especially Hispanics, could make the party competitive in areas such as urban centers with large non-white populations, diversifying suburbs, and traditional non-white farming and rural communities. For their part, Democrats feared various voting blocks and regions were trending toward the Republicans. By all accounts, the GOP's prospects seemed bright.

But just twelve months later, in the 2025 Special Election, voters in the region and most of the state turned against Trump and his party. Figure 9 presents by county the statewide vote in the presidential elections of 2016, 2020, and 2024, as well as the 2025 vote on Proposition 50.

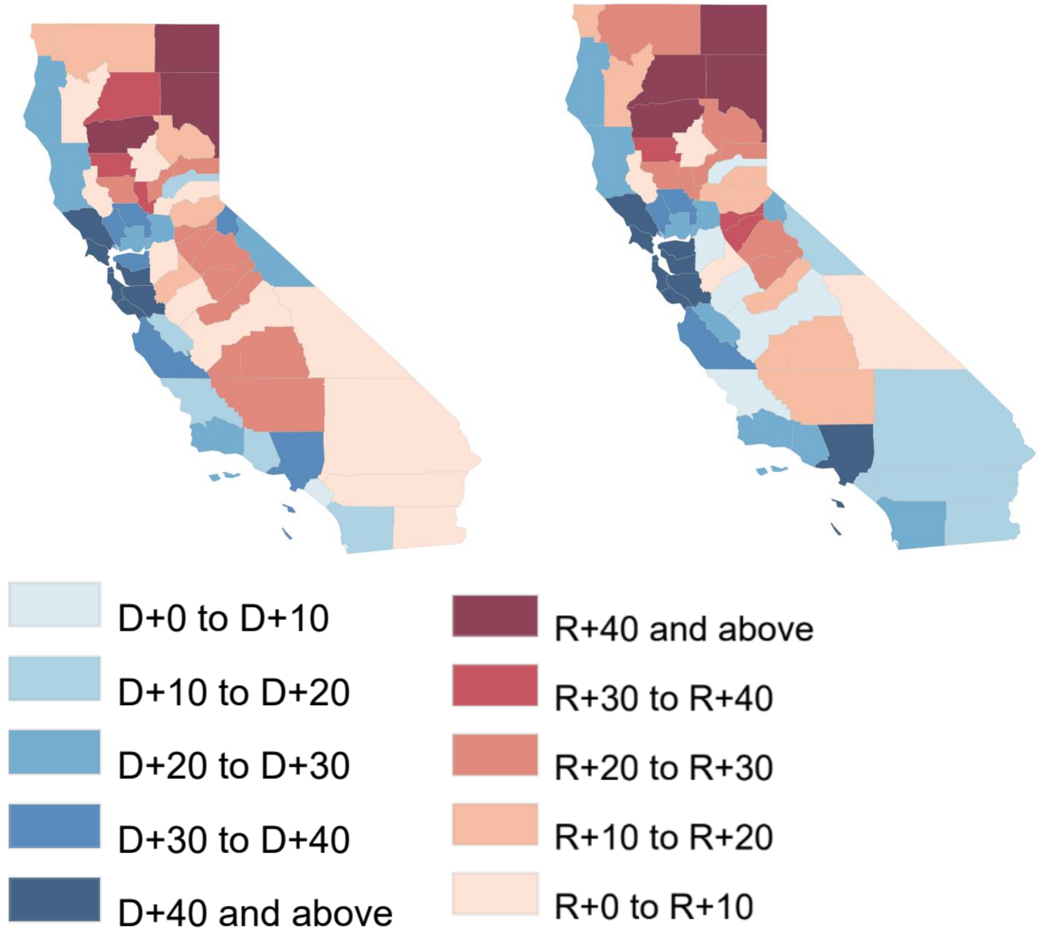
Figure 9: California Election Outcomes by County, 2016, 2020, 2024, 2025

2016 Presidential

2020 Presidential



2024 Presidential 2025 Proposition 50



As these maps indicate, the Inland Empire is now a "swing" region embedded within a deep-blue state. Unlike California's densely populated coastal counties which consistently align with the Democrats, and the state's less populated interior regions (especially the northeastern counties and rural portions of the Central Valley) which more regularly vote Republican, the Inland Empire is closely divided and shifts back and forth between the two parties. In this sense, the Inland Empire is much like the nation as a whole, and can be seen as a national bellwether. For example, Trump and the GOP performed unusually well in the region in 2024, a year in which they won control of the White House and both houses of Congress. But in 2025, the outlook quickly changed.

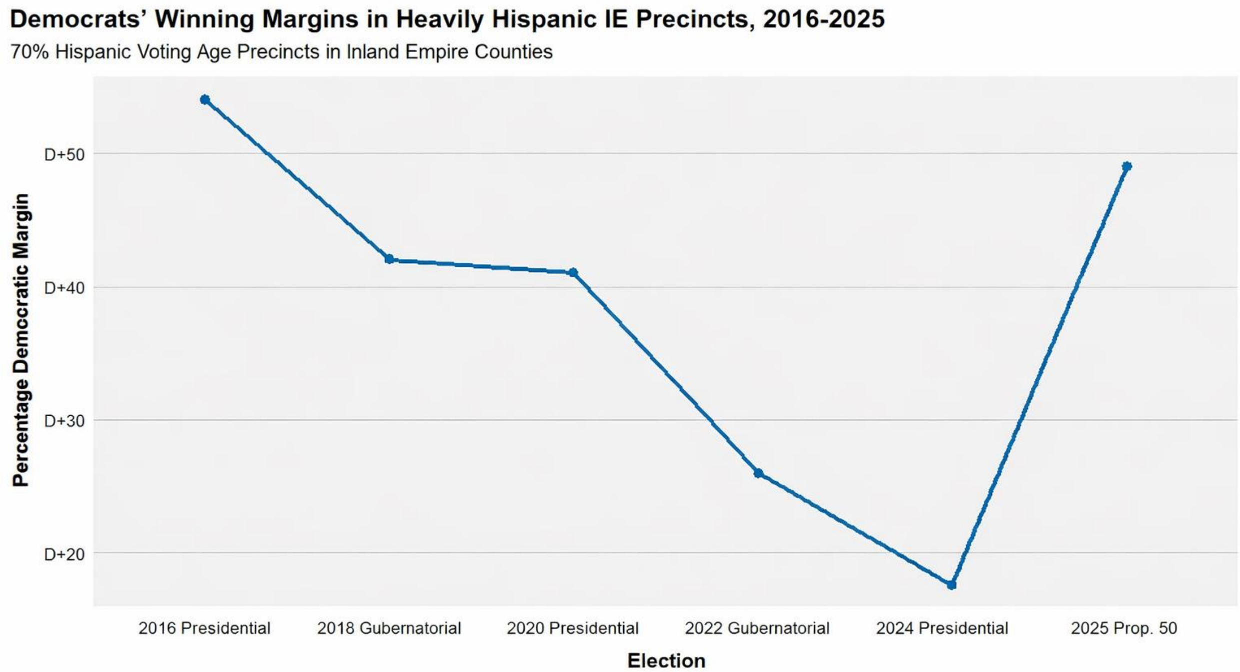
The Latino Vote

What explains the Inland Empire's recent electoral shifts? One important factor has been the increasing fluidity of Latino vote. In most parts of the country, Latinos have historically backed Democrats by large margins. However, in recent years their allegiance to the Democratic Party has weakened, and in 2024 Latino support for Trump spiked, especially among males. Exit polls indicate that across the nation in 2024, Trump won the support of nearly half (46 percent) of Latino voters, and a majority (54 percent) of Latino men. This level of support was a dramatic increase over 2020, when Trump won only 32 percent of the national Latino vote, and 36 percent among Latino men. Trump won a larger share of the Latino vote in 2024 than any Republican presidential nominee in decades.

The surge in Latino support for Trump in 2024 was crucial in the Inland Empire, where according to the U.S. Census Bureau Hispanics constitute a majority of the population (52.5 percent of Riverside County and 69.6 percent of San Bernardino County), and a smaller but growing share of the electorate. Trump's gains were evident in Inland Empire communities with high percentages of Hispanic voters. We can see this rightward shift through precinct-level analysis of voting data in recent elections by focusing on precincts where the voting age population (VAP) is 70 percent or more Hispanic. About twenty percent of the Inland Empire's 2,667 precincts have 70 percent-plus Hispanic VAP. These precincts are concentrated in cities such as San Bernardino, Rialto, Fontana, Perris, and Jurupa Valley.

As Figure 10 indicates, in the 2016 presidential election, Hillary Clinton outpolled Trump in these heavily Latino Inland Empire precincts by a whopping 54 points in the two-party vote (77 percent to 23 percent). In subsequent elections, however, the Democratic Party's dominance in these communities began to erode. The party increasingly struggled to hold younger, less politically engaged Latino voters and more socially conservative Latinos, whose policy preferences often align with the GOP. Moreover, in 2024, polls showed that many Latinos, like other Americans, were angry about inflation and other threats to their economic well-being and tended to blame the Biden administration. That year's Democratic presidential nominee, Kamala Harris, managed to defeat Trump in these highly Hispanic Inland Empire precincts by 18 points - still a substantial win, but only one-third of Hillary Clinton's margin in 2016. Trump's gains among Latinos, replicated across the country, helped him recapture the White House. Yet, within 12 months of the 2024 election, Latino voters across the nation turned decisively against Trump. In the Inland Empire, precincts with the highest Latino concentrations "stood up to Trump" by backing Proposition 50 by a wide 49 percent margin (74.5 percent to 25.5 percent), far exceeding their support for Harris over Trump in 2024.

Figure 10: Democrats' Winning Margins in Heavily Hispanic Precincts, Inland Empire, 2016-2025



Sources: Josh Metcalf of votehub.com, davesredistricing.org. Note: This graph shows the Democratic Party's winning margin in selected elections between 2016 and 2025 in Inland Empire precincts where Hispanics constitute more than 70% of the voting age population. The margin is based on the Democratic Party's percentage of the two-party vote. Proposition 50 of 2025 is coded as a Democratic measure.

Why have many Latino voters so quickly soured on Donald Trump? In 2024, Trump had the advantage of challenging an unpopular Democratic administration and could credibly argue that Latinos were better off under his leadership than under Biden's. By contrast, a year later, Latinos were able to judge Trump's recent record in office - and most found it wanting.

In November 2025, the Pew Research Center released a national poll of nearly 5,000 Latino Americans that surveyed their views of the second Trump administration. Among other results, the poll found that 70 percent of respondents disapproved of Trump's job performance; 65 percent disapproved of Trump's approach to immigration; and 61 percent concluded that Trump's policies had made economic conditions worse. More than two-thirds (68 percent) said the situation of U.S. Hispanics was now worse than a year ago, while about 80 percent said Trump's policies had been harmful to Hispanics.

After the 2024 election, the president and his party could have worked to broaden this critical voting group's alignment with the GOP fold and to make the shift more permanent. Instead, over the ensuing year, they squandered their opportunity. The Latino backlash against Trump in the Inland Empire and elsewhere helps explain why the state's anti-Trump Proposition 50 ballot measure exceeded expectations in 2025, and why Republicans may well face a larger electoral reckoning later this year.

More Challenges for the GOP

Other factors also portend Republican losses at the polls this year. First, as is well known, the party that controls the White House nearly always loses seats in the midterm congressional elections. Over the past 80 years, the nation has held 20 midterm elections and the party that controlled the White House has lost congressional seats in 18 of them. Moreover, the president's party has lost seats every time that the president's approval rating is below 50%. With Trump's approval ratings stuck around 40%, the historical pattern clearly suggests that Republicans will lose House seats this year. This expectation, coupled with the GOP's razor-thin House majority (currently 218-214 with three vacancies), motivated Trump's decision to spur Texas and other red states to create new Republican-leaning districts through mid-decade partisan gerrymanders. California, however, effectively countered Trump's move by adopting Proposition 50. Even as other states (both blue and red) tinker with congressional district lines, it is unlikely the net effect will overcome the longstanding pattern of the president's party losing House seats at midterm, especially considering the added drag of Trump's unpopularity.

Recent events further underscore Republican vulnerability in 2026. In January, Texas held a special election for a vacant state senate seat in the Dallas-Fort Worth area. The district was long considered reliably Republican. In 2024, it backed Trump by 17 points and the Republican incumbent state senator by 20 points. Moreover, in this year's special election to fill the seat, the Republican candidate's $2.5 million war chest dwarfed her Democratic opponent's $380,000 campaign fund. The election should have been an easy Republican win. But, in a shocker, the Democrat won by 14 points, thus shining a big, bright, flashing warning light at the GOP as it approaches November's elections.

Proposition 50's District-Level Effects

While the redistricting tit-for-tat between Texas and California was part of a national partisan fight for control of Congress, it has also directly affected the Inland Empire. Most notably, the Proposition 50 map obliterated Riverside County's Republican-leaning 41st Congressional District, represented by 17-term Republican Congressman Ken Calvert, and divided it up among surrounding Democratic-leaning districts and, to the west, the 40th Congressional District represented by Republican Rep. Young Kim. After voters approved the new map, Calvert decided to challenge Kim in a head-to-head contest for the new 40th Congressional District. Meanwhile, Proposition 50 also redrew 12-term Republican Congressman Darrell Issa's Republican-leaning 48th Congressional District, which includes parts of Riverside and San Diego Counties, to make it lean Democratic. Facing a difficult reelection in the new 48th District, Issa briefly considered moving to Texas to run for Congress in the Lone Star State, before rejecting that option.

Statewide, the Proposition 50 map is designed to switch five seats from Republican to Democratic, increasing the Democrats' margin in the state's congressional delegation from 43-9 to 48-4. This outcome would give Democrats control of 92 percent of the state's congressional seats in a state where they typically win about 60 percent of the vote in statewide elections. Democrats are able to achieve this outsized advantage in part because the party's voters have spread out efficiently across the state's geographic areas. More specifically, Democrats have established working (if narrow) majorities in many parts of the state that used to vote Republican, and no longer are as heavily concentrated in core areas of historic Democratic strength. While losing some of their massive advantage in longtime strongholds such as downtown Los Angeles, Democrats have made gains in suburban areas across the state. Consider Proposition 50's new 48th Congressional District, designed to elect a Democrat in 2026. Ten years ago, that district, located in Riverside County and San Diego County, would likely have elected a Republican candidate to Congress. As evidence, in 2016, Donald Trump narrowly defeated Hillary Clinton within these lines, 47.3 percent to 46.9percent, even as Clinton was winning the largest landslide victory of any presidential candidate in the state since 1936. But over the past decade Democrats have increased their strength in this region to the point where the 48th District is a likely (narrow) Democratic pick-up. The same story of increased Democratic electoral efficiency is evident in many parts of California.

In combination, these factors suggest that Democrats will increase their electoral dominance at the congressional level in the Inland Empire and throughout California in 2026, thus contributing to a likely Democratic takeover of the U.S. House of Representatives in the midterm elections.

A Wide-Open Election for Governor

In addition to its much-anticipated congressional elections, this year will mark a critical transition in California as voters select a replacement to two-term governor Gavin Newsom. Newsom is barred from reelection by term limits and the contest to succeed him is more unsettled than any governor's race in decades. Key dates are March 6, the deadline for filing to run, and June 2, the date of California's Primary Election.

This governor's election has been defined by the absence of a clear front-runner, as two of the state's leading political figures, former Vice President Kamala Harris and U.S. Senator Alex

Padilla, have opted out of the race. Their decisions have opened the contest to a crowded field of serious but less compelling contenders, all of whom have failed to distinguish themselves from the pack.

On the Democratic side, the current candidates include:

- Eric Swalwell, a Member of Congress from the East Bay
- Katie Porter, a former Member of Congress from Orange County and former candidate for U.S. Senate
- Tom Steyer, a billionaire financier and progressive activist
- Xavier Becerra, a former Attorney General of California and Secretary of the U.S. Department of Health and Human Services
- Antonio Villaraigosa, a former Speaker of the California Assembly and Mayor of Los Angeles and a former candidate for governor
- Matt Mahan, the current Mayor of San Jose
- Betty Yee: a former Controller of California
- Tony Thurmond, the current State Superintendent of Public Instruction
- Ian Calderon, a former Member of the California Assembly

The leading Republican candidates are:

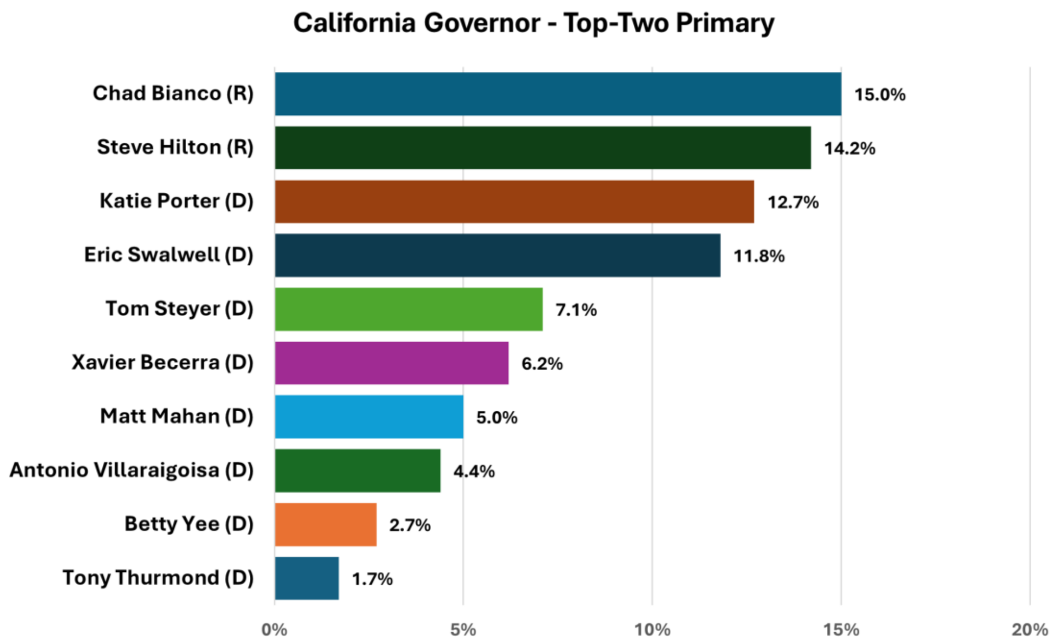
- Steve Hilton, a former Fox News host, tech entrepreneur, and political analyst
- Chad Bianco, the current Sheriff of Riverside County

To date, this contest has largely failed to capture the public's attention. Early polls indicate that several candidates are tightly bunched between 5 and 15 percent in the polls, with many respondents remaining undecided.

The governor's race is further complicated by California's decision in 2010 to adopt a non-partisan "Top Two" primary. Under this system, all candidates compete on the same primary ballot and the top two finishers, regardless of party, advance to the General Election. Accordingly, all candidates for governor--Democrat, Republican, and third party--are now competing in the same primary contest to finish in the top two.

In statewide races, the Top Two system usually yields a General Election match-up between a Democrat and a Republican, which the Democrat then easily wins. Occasionally, two Democrats outpoll all Republicans in the primary and go head-to-head in November. Finally, the system can, in theory, send two candidates from the minority party to the General Election. This possibility is real but remote--it has never happened in a California statewide election. For it to occur in this case, only two Republican candidates, presumably Hilton and Bianco, would need to win a near-equal share of the vote (presumably totaling about 35 percent of the overall vote--or about 17.5 percent each), and four or more Democratic candidates would need to divide the remaining 65 percent of the vote so closely so that none reaches that 17.5 percent level. It is plausible that the (so far) close contest between Hilton and Bianco and the large, tightly packed Democratic field could in fact freeze Democrats out of the November election for the state's highest elected office. As Figure 11 indicates, a recent PPP poll commissioned by Katie Porter demonstrates this possibility, showing that Republicans Bianco and Hilton are currently in the top two positions, with the Democratic field bunched up below them.

Figure 11: California Governor's Race PPP Poll, January 2026



Source: Public Policy Polling, January 20-21, 2026. 1,001 registered voters. Sponsor: Katie Porter.
www.nytimes.com/interactive/polls/california-governor-election-polls-2026.html

A more likely scenario, however, is that at least one Democratic candidate will gain enough support between now and June to advance to the General Election. At present, it is unclear which Democrat that will be.

Inland Empire Focus

Riverside County Sheriff Chad Bianco is seeking to become the first resident of the Inland Empire to be elected governor of California. Most of the state's governors have come from California's coastal areas, typically from the San Francisco Bay Area or Metropolitan Los Angeles. The Inland Empire's only resident to serve in the office, Robert Waterman, was elected lieutenant governor in 1886 and became governor in 1887 upon his predecessor's death.

Waterman served only one partial term as governor, from 1887-1891. (He is memorialized in San Bernardino County place names including Waterman Avenue and Waterman Canyon.) The Inland Empire's longstanding failure to produce leaders at the state's highest level helps explain why the state's political class too often neglects the region and other parts of the state's interior. Bianco's presence in the race provides a voice for a region (and a segment of the electorate) that is often marginalized in California. That said, the odds against his success in the race are long, since no Republican has won statewide office since 2006, and 2026 is shaping up as a strong Democratic year. But even if Bianco's campaign does not succeed, the Inland Empire's large population, partisan balance, and electoral clout will likely cause other candidates to give the region their attention during this consequential political year.

The Inland Empire in 2025: Economic Conditions

2025 was a decent year for the Riverside-San Bernardino-Ontario MSA. The overall (seasonally adjusted) **unemployment rate** increased by only 0.2 percentage points from a year ago, and stands now at **5.5 percent**. This is the same as the state unemployment rate, but 1.1 percentage points higher than the national rate. Digging deeper, we did see the **same positive growth in the labor force as in employment**, with labor force growth at 1.4 percent marginally outpacing employment growth (1.2 percent). Hence the unemployment rate went up by a small amount because more workers were looking for a job than employment increased. The bottom line, in 2025 we observed a healthy combination of both the labor force and employment growing. The same cannot be said for other counties in Southern California.

These observations are from the household survey and therefore contain numbers including commuters (mostly) into the coastal areas. When looking at the establishment survey, which reports on wage and salary workers who are employed within the Inland Empire, then employment also grew, but the increase was considerably less (by some 3,200 workers or 0.2 percent.

Below, we will give a more detailed analysis, and in particular, we will point out how **uneven** these **aggregate changes** are across **sectors** of the economy. That analysis will stress that whatever positive performance (**employment growth**) there was within the Inland Empire, it was **limited to a few sectors** (Health, Public Education). Given President Trump's national policies, these sectors are not expected to perform as well in the near future as they did in the past. Moreover, the **Logistics sector**, which is by now the third largest employer in the Inland Empire (largest in San Bernardino County, fourth largest in Riverside County) **continues to contract** but more so in San Bernardino County than in Riverside County.

Current Conditions

General: Population, Commuting, Housing, Education Levels

We first focus on the four most important attributes of the Inland Empire before going into a more detailed analysis. Further below, we also present differences in economic performance for the two counties of the Inland Empire.

To gain a big picture of the area, you have to start by realizing the importance and interaction of

- **Population**: the Inland Empire is big (by area, but more importantly, by population)
- **Employment**: there are a lot of commuters into the more coastal regions,
- **Housing** market: housing prices look more affordable in the Inland Empire when compared to coastal areas
- **Human Capital** of Workers: average education levels of residents are relatively low.

It is the mix of these four factors that produces clogged freeways with rush hour parking lots on the I-10, I-15, CA-91, and I-210, and commuting times of over 2 hours for the 37 miles drive from Upland to downtown LA (for example) during some peak commuting times. More affordable housing within the Inland Empire will not cure the situation unless they are coupled with higher paying jobs in the area - which, in turn, requires a better educated labor force. It also explains the relatively low level of output per person (per capita GDP), which puts the Metropolitan Statistical Area (MSA) on a shockingly low level. Economic policy in the area must keep this in mind if it wants to contribute to a better living environment for the year 2045 (20 years from now).

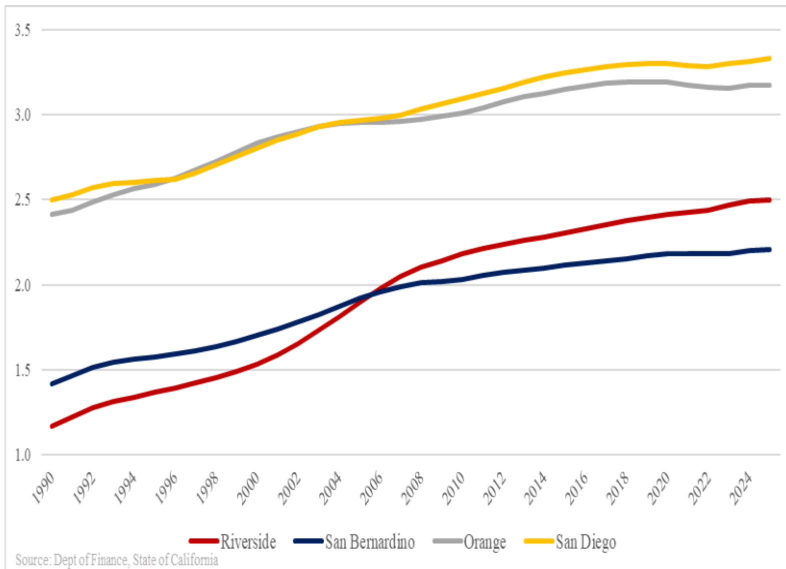
In what follows, we will look at these four factors in more detail.

Population: Regardless of whether we compare the Riverside-San Bernardino-Ontario MSA to other MSAs in Southern California, the state, or the nation, the fact is that the Inland Empire is quite large when measured by residents. Riverside County has slightly more residents (2.5 million) compared to San Bernardino County (2.2 million). The combined total of 4.7 million makes the two-county population 2nd largest in the state and the 12th largest in the nation. Separately Riverside County is the fourth largest county in the state and San Bernardino County is the fifth largest in the state. Neither county gained much population during the post-COVID19 period, but growth is at least marginally positive now (Riverside County’s population actually declined by a small amount during the pandemic).

As for the national comparison, the Inland Empire has risen to the 12th most populous MSA after passing the San Francisco MSA. The Boston-Cambridge MSA is one position ahead with

250,000 more residents, and in 10th place you find Phoenix-Mesa. There are roughly 380 MSAs in the U.S., with the New York-Jersey City-Newark MSA in 1st place, followed by the Los Angeles-Long Beach Anaheim MSA. For certain purposes in terms of regional economic planning, it is sometimes beneficial to combine adjacent MSAs. These areas are called "Combined Statistical Areas" (CSA) and the Inland Empire forms such a unit with the Greater Los Angeles MSA, which consists of Los Angeles County and Orange County.

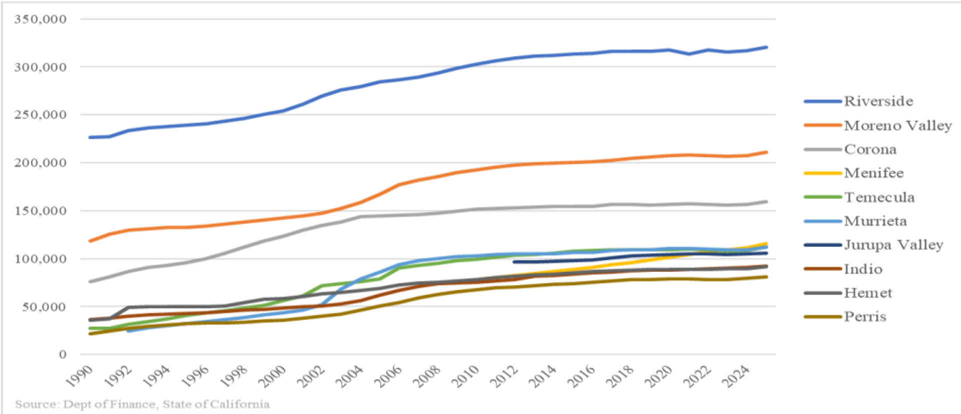
Figure 12: Population, Riverside County, San Bernardino County, Orange County, San Diego County, Annual, Millions of People, 1990 - 2025 (Actual), 2026-2027 Forecast



- The two Inland Empire counties have seen significant population growth over the last 35 years. Riverside County has more than doubled its population.
- Both counties are growing but not at the steep rates seen at the beginning of the century.
- Riverside County has more residents now and continues to grow at a faster pace.

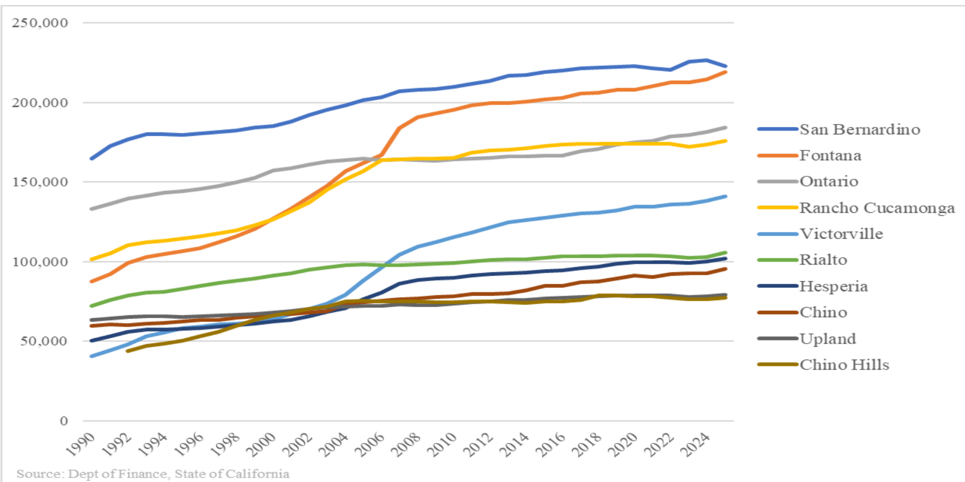
The City of Riverside is clearly the largest city in the county followed by Moreno Valley and Corona. However, if you add the population of Menifee, Murrieta and Temecula, which are separated by less than a 10-minute drive on the I-15, then these three cities together would be in second place, with Menifee coming in third place (by itself). The City of San Bernardino is about to be taken over by Fontana in terms of residents. Ontario's growth continues to outperform Rancho Cucamonga's.

Figure 13a: Ten Largest Cities in Riverside County, 1990 - 2025



- The three largest cities continue to grow but at a slower pace than at the beginning of the century
- Corona's growth has been quite flat since the beginning of the Great Recession
- Menifee comes in at a surprising fourth largest

Figure 13b: Ten Largest Cities in San Bernardino County, 1990 - 2025



- The City of San Bernardino is losing residents and is about to be taken over by Fontana in terms of number of residents
- Ontario continues to grow at a faster pace among the top four, while Rancho Cucamonga is stagnating.
- Victorville, in the High Desert, continues to show high population growth rates

Commuters: The **second most important socio-economic characteristic** that helps in understanding the Inland Empire relates to the **number of commuters** who travel daily into the coastal area and back. Here Riverside County is at par with San Bernardino County, although significantly more commuters from Riverside County travel into Orange County, while San Bernardino commuters end up more frequently in Los Angeles County.

The numbers are large relative to the overall labor force, and explain why the I-10/CA-60/I-210 and the CA-91 experience such slow moving traffic during rush hour. While Riverside County has more commuters leaving the county than San Bernardino County, the number of commuters into the coastal areas is almost identical: Riverside County has 176,000, while San Bernardino County has 173,000. To put this into perspective, the number of commuters is the equivalent of roughly the population of the Coachella Valley being on the road (and on trains). Note that a larger number of commuters travel from Riverside County into San Bernardino County than the reverse.[3]

Table 5: Commuters, Riverside County and San Bernardino County, Origin and Destination, 2022

	INTO San Bernardino	FROM San Bernardino	INTO Riverside	FROM Riverside
San Bernardino	---	---	78,500	114,000
Riverside	114,000	78,500	---	---
LA County	61,000	133,000	17,000	53,000
Orange	13,000	37,000	16,000	76,000
San Diego	1,000	3,000	7,000	47,000
Total	**189,000**	**251,500**	**118,500**	**290,000**
Share of Total Empl	**23%**	**30%**	**14%**	**34%**

Housing: The third most important characteristic to help you understand the dynamics of the Inland Empire is related to its **housing market**. In the recent past, the Inland Empire housing market has experienced some challenges, and these will continue in 2026.

The **housing market** faced yet another **challenging year in 2025** nationally and locally. With a national economy that grew faster than expected during the second half of the year and inflation at higher than desirable levels, the Federal Reserve Board was reluctant to cut policy rates more significantly, even as job creation slowed. As a result, mortgage rates remained relatively high compared to recent years when rates were ultra-low. When combined with a limited supply of homes for sale and weak construction activity, housing affordability remained low. The year ahead promises more of the same, unless the FFR is lowered more significantly than forecasted.

For the third year in a row, housing activity in the Inland Empire has been held back by a combination of low inventory levels of homes for sale and elevated mortgage rates. Inventory

[3] The distance from Moreno Valley to Anaheim is 47 miles. Driving at 60 mph, the round trip would take roughly 1 hour and 40 minutes. Leaving Moreno Valley on a Thursday at 7am and returning from Anaheim at 4pm., the trip will take 3 hours and 20 minutes.

levels have been below the 20-year average of 5.0 months for most of the last three years. Inventory levels finished the year unchanged from the prior year at 3.9 months in December 2025.

Table 6: Supply of Homes Low and Unchanged from a Year Ago

Unsold Inventory Index (Months)			
Region	Dec. 24	Nov. 25	Dec. 25
Imperial	2.9	3.8	3.5
Los Angeles	2.7	3.8	2.8
Orange	2.1	2.9	2.1
Riverside	3.6	4.6	3.6
San Bernardino	3.9	4.9	3.9
San Diego	2.3	3.2	2.5
Ventura	2.3	3.5	2.7

Source: California Association of Realtors, KE

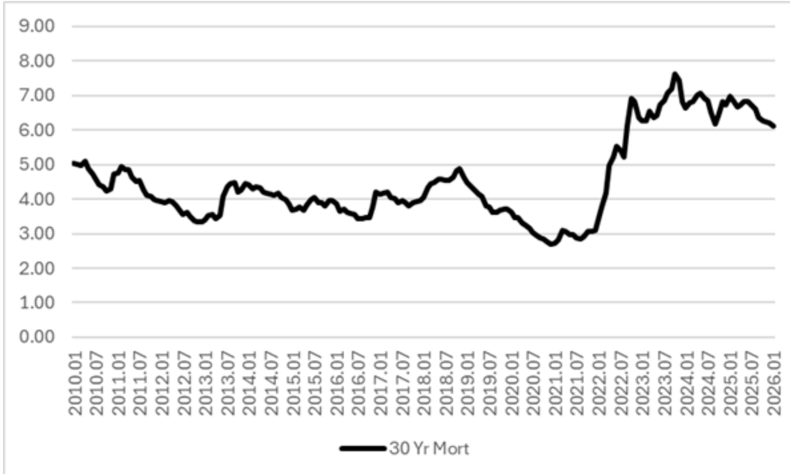
- Supply of homes for sale is below long run average, maintaining upward pressure on prices
- Unsold inventory index unchanged in Riverside County compared to a year ago at 3.6 months
- Unsold inventory index unchanged in San Bernardino County compared to a year ago at 3.9 months

At the same time, mortgage rates remained high despite a downward trend in the last two and a half years. The rate on a 30-year mortgage was just over six percent in December, down from 6.72 percent a year earlier, but was nearly double what they were from late 2020 through the end of 2022, and the highest in more than 15 years.

The rate differential has a couple of implications. First, the purchasing power of would-be buyers eroded significantly. Second, homeowners who purchased or refinanced when rates were near three percent, an unprecedented low, have no incentive to move as long as rates stay near their current levels.

Given these conditions, it is not surprising that the housing market showed little forward momentum last year. Home sales for the IE barely budged, increasing from 42,500 in 2024 to 42,700 last year, making it the third slowest sales pace in the last 10 years, behind 2024 and 2023 (41,600). Meanwhile, the IE median home price in the region increased by just 1.8 percent, well below the 5.1 percent gain of 2024.

Figure 14: 30-Year Mortgage Elevated Rate, 2010-2026



- The thirty-year mortgage rate finished the year just above six percent.
- While the rate was lower than a year earlier, it was double that of the period from late 2020 through 2022.
- Rate cuts in 2026 depend on performance of overall economy

In Riverside County, the median price finished the year at $635,000, up 1.6 percent from a year earlier, while sales increased just 0.2 percent. The median price in San Bernardino County ended the year at $500,970, gaining 2.0 percent over the prior year, while sales increased by 6.1 percent. For the state as a whole, the median price increased 1.2 percent over the year, and sales increased by 2.0 percent.

Table 7: Median Price Changes in Southern California

Region	Dec. 24	Nov. 25	Dec. 25	Price MTM% Chg	Price YTY% Chg	Sales YTY% Chg
Imperial	$381,000	$432,500	$462,950	7.0%	21.5%	9.5%
Los Angeles	$912,370	$942,610	$890,910	-5.5%	-2.4%	0.9%
Orange	$1,362,000	$1,400,000	$1,390,000	-0.7%	2.1%	2.4%
Riverside	$624,790	$629,950	$635,000	0.8%	1.6%	0.2%
San Bernardino	$490,950	$497,160	$500,970	0.8%	2.0%	6.1%
San Diego	$975,000	$990,000	$1,000,000	1.0%	2.6%	-0.6%
Ventura	$895,000	$955,000	$913,000	-4.4%	2.0%	1.4%
California	$861,020	$853,780	$850,680	-0.4%	-1.2%	2.0%

Source: California Association of Realtors, KE

- The median price in Riverside County finished the year at $635,000, up 1.6 percent from a year ago
- The median price in San Bernardino County finished the year at $500,970, up 2.0 percent from a year ago.
- Sales increased marginally in Riverside County but rose 6.1 percent in San Bernardino County.

With limited supplies of homes for sale and rates at or above six percent, housing affordability in 2024 was virtually unchanged from a year earlier. In the third quarter of 2025, the housing affordability index in Riverside County stood at 23, meaning that 23 percent of households had incomes that were sufficiently high (at least $164,400) to afford the monthly payment on the county's median priced home. While affordability in Riverside County was slightly higher than a year earlier, it was unchanged at 29 percent in San Bernardino County where the median price in the third quarter was approximately $125,000 lower. By comparison, affordability statewide was just 17 percent, less than half that of the U.S. at 36 percent.

Table 8: Share of Households that can Afford Median Priced Home by County

Region	2024-Q3	2025-Q2	2025-Q3	Median Home Price	Monthly Payment Including Taxes & Insurance	Minimum Qualifying Income
Los Angeles	11	13	12	$954,130	$6,010	$226,000
Orange	12	12	13	$1,400,000	$8,820	$367,600
Riverside	21	21	23	$625,000	$3,940	$164,400
San Bernardino	29	29	29	$497,800	$3,130	$126,000
San Diego	12	13	13	$1,009,500	$6,360	$263,200
Ventura	13	14	16	$926,000	$5,830	$248,000
CA SFH (SAAR)	16	15	17	$887,380	$5,590	$223,600
US	35	35	36	$426,800	$2,690	$107,600

Source: C.A.R., KE

The rental market was also competitive in 2025. The average rent was $2,470 in December, up 1.9 percent from a year earlier, while the vacancy rate fell from 3.6 percent in the third quarter of 2024 to 2.8 percent a year later.

New home construction has provided scant relief. In year-to-date terms through October of last year, there were permits for 13,560 units in the Inland Empire. While this was an 8.5 percent increase over the previous year, permit activity was 20.0 percent lower than 2023, when there were nearly 17,000 permits across the region year-to-date through October and 20,300 units annually. Most of the permitted units in the region were for single-family houses. By comparison, permits rose nearly five percent statewide over the same period.

Table 9: Permitted Housing Units by Selected MSA (Year-to-Date, October)

MSA	2024	2025	Change	% Change
Houston	55,935	55,613	-322	-0.6%
Inland Empire	12,499	13,560	1,061	8.5%
LA-OC	20,187	21,833	1,646	8.2%
Phoenix	38,818	31,156	-7,662	-19.7%
San Diego	9,616	9,762	146	1.5%

Source: Census Bureau, KE

- Residential building permits increased 8.5 percent year-to-date in October 2025 compared to the same period a year earlier.
- Permits in 2025 were lower than in 2023 by 20 percent
- In general, California's regions have seen lower levels of home construction compared to other parts of the country.

Looking ahead to 2026, market conditions will show little improvement. Mortgage rates are an important element to market relief but are unlikely to fall by much in 2026. The supply of existing homes (unsold inventory) is expected to be tight, remaining below long run levels. Meanwhile the supply of new homes (permitted units) faces a number of hurdles, not the least of which are increased costs and potential shortages of labor and materials.

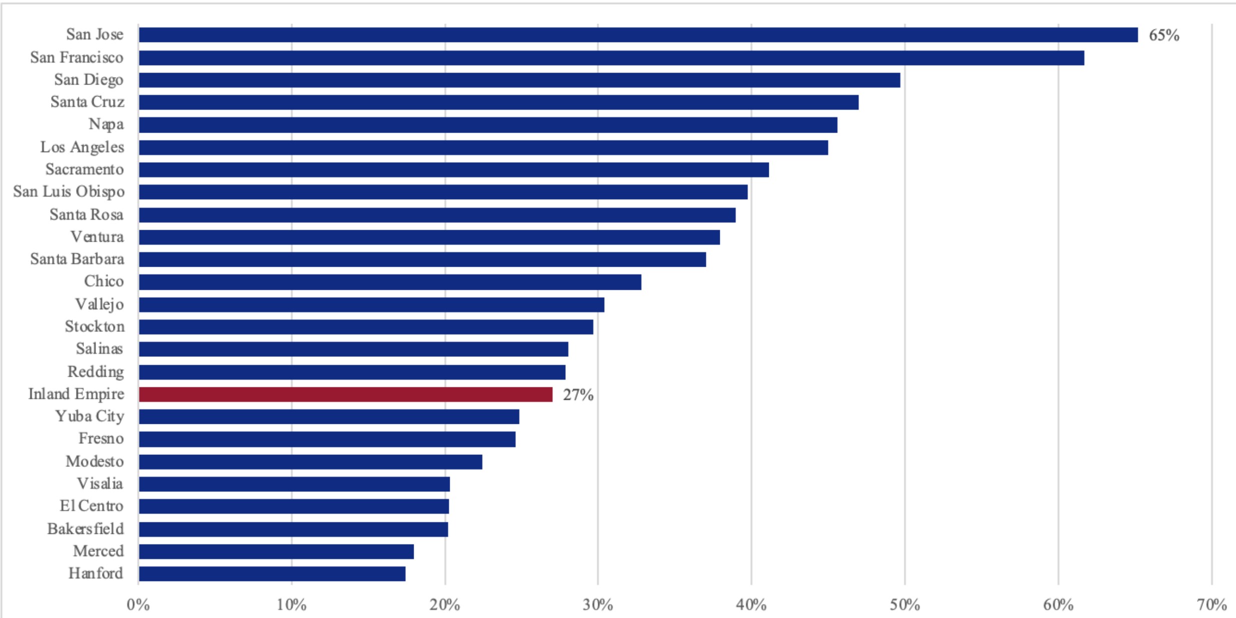
Finally, while much of the current dialogue on "affordability" and the cost of living has focused on health care costs, it must be noted that housing and housing-related expenditures account for a much larger share of household expenditures at just over one-third, while health care expenses account for just under eight percent nationally. Clearly, housing solutions must be a part of addressing the cost of living in the region, the state, and the nation.

Human Capital: So far, we have explained why rush hour traffic is such a problem for the Inland Empire, but we have not looked for potential solutions. We know that a lot of Inland Empire residents commute to the coastal areas because they can find better paying jobs there, and they do not reside closer to their work because they cannot afford housing prices there. However, they clearly would prefer to live and work in the Inland Empire if they had the opportunity to do so (since it is safe to assume that people do not get pleasure, or "utility," out of commuting). The question is why, on average, they cannot find better paying jobs in the area. The clear answer must be: because firms that could offer the better paying jobs have opted not to locate in the Inland Empire.

There are a variety of reasons for firms to choose a location. One of the main determinants is whether or not they can find workers who qualify to work for the firm. To give a dramatic example: there are many coal miners in West Virginia who are getting laid off. Given the large amount of labor supply, why do high tech firms not move from their current location (Silicon Valley, Austin, North Carolina, etc.) to West Virginia? Obviously because coal miners cannot (easily) be trained to become coders. A less dramatic, but still relevant, analogy applies to the Inland Empire: many firms with higher paying jobs do not move here because they are concerned about the average level of human capital that they find here.

Figure 16 shows the percent of 25- to 45-year-old residents in the 10 largest MSAs that have at least a Bachelor's Degree. The shocking news is that in the Inland Empire, that number is approximately 27 percent. While the area cannot aim to achieve the 65 percent of Silicon Valley, we would hope to eventually reach 38 percent, which is the California average, and also the level of human capital that the Phoenix-Mesa MSA has (ranked slightly ahead of us in terms of population size). Our area is approximately at the same level as the Fresno MSA, and slightly ahead of the Inland Empire North (Stockton-Lodi MSA). While our MSA is improving over time, the process is quite slow (the number was below 20 percent in 2014; similarly workers with less than a high-school diploma has declined to just about 15 percent, down from 20 percent in 2014).

Figure 15: Percent of 25–45-year-old Workers with at least a Bachelor's Degree California MSAs, 2024



The insights regarding education levels/human capital also help explain why the popular press has labeled the cyclical behavior of the Inland Empire economy "**First In, Last Out.**" The reason is that Inland Empire commuters who work in the coastal areas must have, on average, lower human capital levels than employees who work in the coastal areas and can afford to live there. As a result, and following a negative economic shock to the Greater Los Angeles area, there will be layoffs affecting commuters first, since firms will want to hold on to employees with higher human capital. Unemployment is measured by residency, and we therefore expect unemployment rates in the Inland Empire to go up first before they increase in the coastal areas. We expect the reverse in an economic recovery. It resembles a lake freezing from the periphery first, and thawing last.

Given the number of junior colleges in the area in addition to the University of California at Riverside, California State University San Bernardino, University of Redlands, etc. who graduate a large number of students every year, the question is why the number of workers with a bachelor's degree (or more) does not improve more dramatically. The answer must be because 20–29-year-olds do not find it sufficiently attractive to remain in the area. Automatic Data Processing (ADP) investigated this question recently among 55 MSAs with more than 1,000,000 residents, and came to some striking conclusions regarding the Inland Empire.[4]

[4] The ADP report was published here https://www.adpresearch.com/youve-graduated-now-what-2/

ADP looked at attractiveness for 20–29-year-olds to work in an area based on three dimensions: (i) wages, (ii) job availability, and (iii) affordability. Raleigh, NC, in North Carolina's Research Triangle, scores the highest in this list. Some of the MSAs that you would have guessed were ranked at the very top, such as Austin or San Jose (Silicon Valley), show a mixed picture, because hiring and affordability drags them down while they have high wages (still, Austin ranks at number 4).

The Inland Empire comes in third from the bottom or at 53 out of 55 MSAs. As we pointed out before, affordability does not work in favor of the region because it is more expensive to live in the area than the average cost is in the largest MSAs in the United States. Affordability adjusted wages result in a drop of $42,640 to $39,507; the second lowest among the 55 MSAs (we beat Virginia Beach). Having a relatively high "hiring rate" could not make up for that. The MSA we try to catch up to, Phoenix-Mesa, by comparison, is ranked number 8, with an even higher hiring rate and an affordability adjusted wage rate of $46,674. On the other hand, both the Greater Los Angeles area and San Diego are only marginally ahead of us, since affordability there is quite low even though they have higher wages.

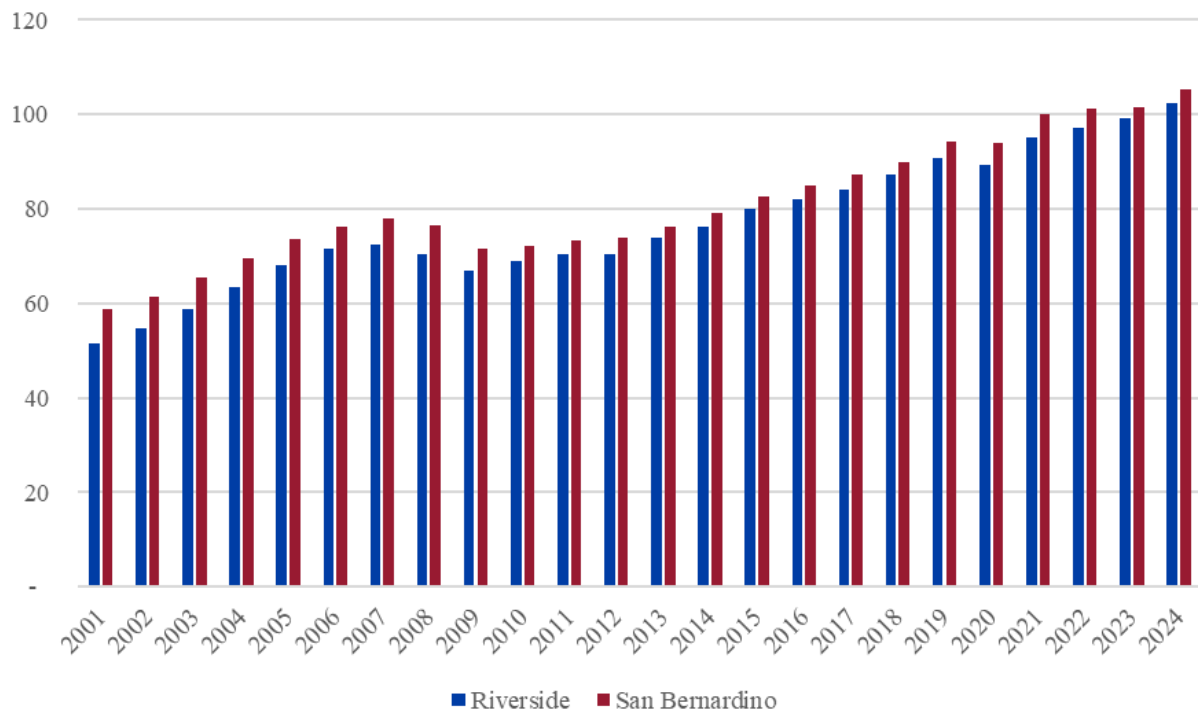
For the rest of the report we want to focus on a more detailed analysis of output and employment in the Inland Empire, including differences between the two counties.

Economic Conditions: Gross Regional Product

In 2023, Riverside County saw growth of a remarkable 3.3 percent, and San Bernardino growth of 3.5 percent. This translated into 3.4 percent growth for the MSA.

Figure 17 shows real GDP levels for the two counties. Note that GDP only measures goods and services produced within the area, and hence does not take into account the amount produced by commuters. It therefore does not come as a surprise that real GDP is higher for San Bernardino County, despite the fact that by now it has a smaller population.

Figure 16: Gross County Product, $ billions of 2017 dollars, Riverside County, San Bernardino County, 2001 - 2024



- Despite having a larger population, Riverside County has a smaller GDP, which must be the result of more of its resident commuting into the coastal area
- Both counties recovered from the COVID-19 setback within a year
- Both counties saw relatively high growth rates from 2023 to 2024 of the order of 3.4 percent

The COVID-19 downturn was more severe for Riverside County than for San Bernardino County. Regardless, both counties recovered GDP within a year. This is different from the Great Recession, where it took roughly until 2014 to get back to pre-recession levels. This should not be surprising, since the Inland Empire was one of the epicenters of the burst of the housing bubble. Riverside County was more significantly affected than San Bernardino County. It is worth mentioning that the GDP recovery for the Inland Empire took much longer than for the nation (2010) and the state (2011).

Compared to other U.S. MSAs, the **Inland Empire ranks 20th** by size of GDP. Note that this is a decline from being the 12th largest MSA by population. It means that there are **quite a few MSAs that are less populous but produce higher valued goods and services**. Still, given the sheer size of the population/employment, the drop in ranking is not very dramatic. Within California, Greater Los Angeles, San Francisco, and San Diego now rank ahead of the Inland Empire.

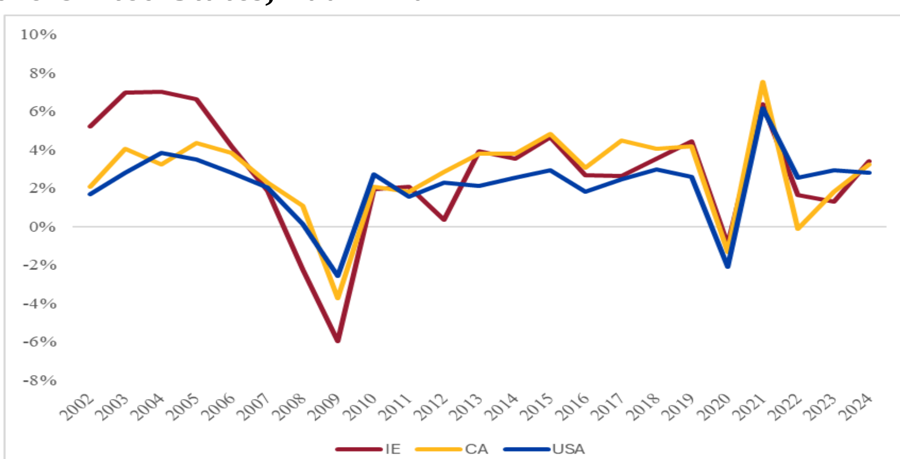
It is when you control for population size (**per capita GDP**) that an **eye-opening picture emerges**: the **Inland Empire now ranks 302** (this is not a typo!) among the U.S. MSAs in 2021, even behind Stockton (rank 293) and next to Joplin, MO or Waco, TX. Per capita GDP is a standard measure of wealth among countries.[5] It is this measure that rings alarm bells in terms of longer-term development (say 2045). County planners should think about ways to attract more value-added production. This insight leads us back to the discussion of why better paying jobs are not generated to a desirable level in the Inland Empire.

Keeping the short run (business cycle) picture in mind, we need to look at the growth rates of real GDP and compare them to the state and national numbers.[6]

In the early part of the century, real GDP growth rates in the Inland Empire were eye-catching: for a short while they reached close to 7 percent in Riverside County and 4.5 percent in San Bernardino County (long term averages for nation real GDP growth are 3 percent, and slightly below that recently). If an economy grows at 7 percent per year, then it would double its GDP within 10 years. This seems hard to maintain over longer periods.

The Great Recession was the turning point: it started earlier in the Inland Empire (2006) and was more severe (see 2008). From 2013 until the COVID-19 downturn, growth in California and the Inland Empire was higher than in the nation. Since the pandemic, the growth rates are very similar.

Figure 17: Real GDP Growth Rates, Inland Empire, California, and the United States, 2001 - 2024

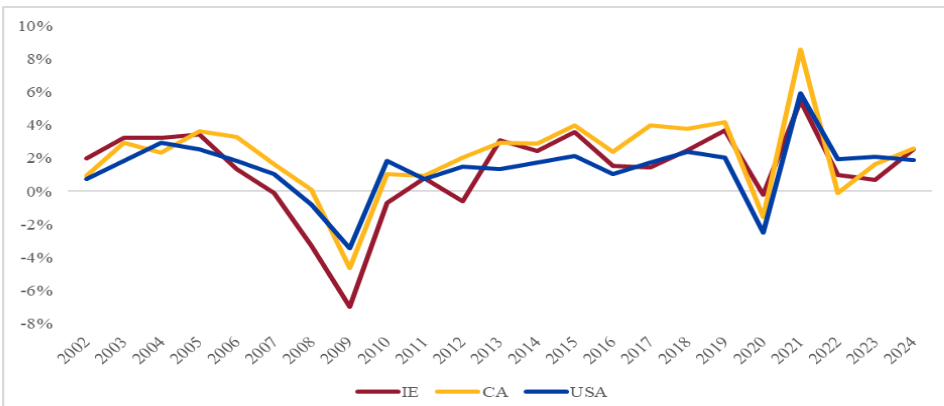


[5] Note that the U.S. has the highest GDP in the world and China has the second highest. This means that when China passes the U.S. in GDP, which there is little doubt that it will soon, then China's standard measure of wealth, per capita GDP, places it at 25 percent of the standard of living in the U.S.
[6] GDP by MSA is not available prior to 2000.

- Growth rates in real GDP were abnormally high prior to the Great Recession
- GDP recovery from the Great Recession was slow in the Inland Empire
- Last year's growth rate was encouragingly high

The picture changes once you control for population growth by analyzing per capita growth rate numbers. The Inland Empire numbers look very similar to state and national growth at the beginning of the century, only to show the early onset of the recession and the severity in 2008 again. The additional length of time for the recovery from the Great Recession still stands out, and the similarity of growth rates since 2013 remains - if nothing else, the Inland Empire's performance recently is less impressive.

Figure 18: Real GDP Per Capita Growth Rates, Inland Empire, California, and the United States, 2001 - 2024



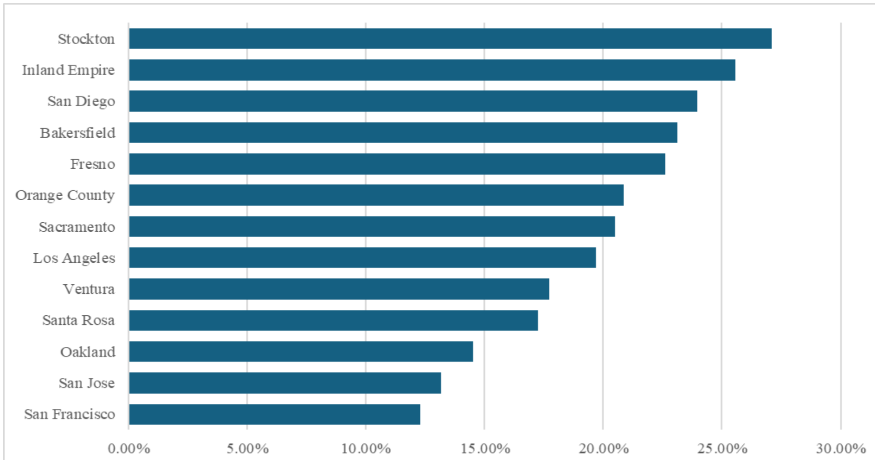
- Per Capita GDP growth in the Inland Empire was less impressive, suggesting that high GDP growth was driven by immigration of people
- per capita GDP growth reflects the fact that the Inland Empire was one of the epicenters of the housing bust
- The post COVID-19 performance is below the state performance

Inland Empire Labor Market

Labor market data at the county level is available until December 2024 - or even until December 2025 if we look at the MSA level.

One way to assess the relative performance of the Inland Empire labor market is to compare the amount of hiring that has taken place within the region since the end of the COVID-19 downturn. Figure 19 displays the result for the ten largest MSAs in California. Both inland areas (Inland Empire, Stockton) have outperformed the other MSAs and have increased employment by roughly 25 percent. The San Diego MSA has performed almost as well. Silicon Valley and the Bay Area have seen the smallest increases.

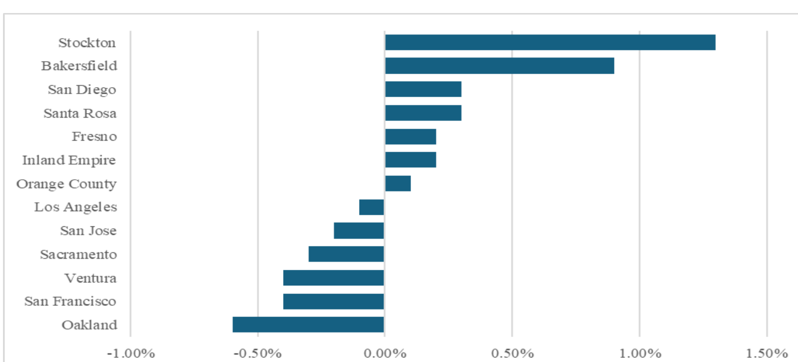
Figure 19: Post Covid Job Gains, CES, 10 largest MSAs in CA, May 2020 to December 2025



- The Inland Empire has seen large employment increases since the end of the COVID-19 downturn
- The Bay area, including Silicon Valley, are lagging behind in employment gains
- The Inland Empire North (Stockton-Lodi) has even outperformed the Riverside-San Bernardino-Ontario

Conducting the same type of analysis from a year ago (Figure 20), we find the inland area up north (Stockton) again adding the most jobs. The Inland Empire has not fared that well, coming in in the middle of the pack at a job growth of 0.2 percent, and experiencing the same growth as Los Angeles County and Orange County. Again, the San Diego MSA is close to the top. Still, it has avoided the job losses displayed by five of the other MSAs, and especially the losses seen in Silicon Valley and the Bay Area.

Figure 20: Change of Employment from a year ago, CES, 10 largest MSAs in CA, Seasonally Adjusted, Dec 2024 to Dec 2025

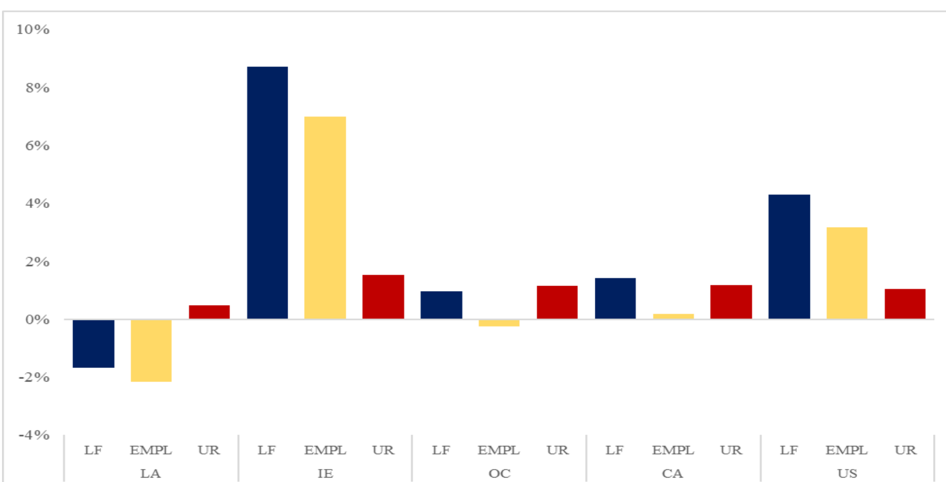


- The Bay Area MSAs continue to see a decline in employment from a year ago
- The Inland Empire employment growth from a year ago ranks in the middle of the larger MSAs in California
- The Greater Los Angeles area has seen employment growth of the same magnitude from a year ago

Figure 21 looks at the labor market development from a different angle. In general, the change in the unemployment rate is approximately equal to the difference in the growth rate of the labor force and employment. Hence the unemployment rate does not have to fall if employment grows (in case if the labor force grows at the same rate) or it can even increase (if the labor force grows by more than employment).

Compared to the last month prior to the COVID-19 downturn, the unemployment rate in the Inland Empire has increased more than the national, state, and Greater Los Angeles unemployment rate. At face value, that is not good news. However, looking at this in more detail, we see that the Inland Empire has also experienced, by far, the highest employment growth. At the same time, the labor force has almost grown at 9 percent. Hence the increase in the unemployment rate - however, this is a relatively “healthy” scenario. It would be worse, for example, if the unemployment rate increased while employment fell, as it did for the Greater Los Angeles Area. Had Los Angeles County and Orange County seen a similar increase in the labor force as the Inland Empire did, then the unemployment rate in that coastal area would have gone up by 10 percentage points!

Figure 21: Change in Unemployment Rate (red), Growth Rates of Employment (yellow) and Labor Force (blue), SA, CPS, Feb 2020 and Nov 2025



- Unemployment rates are higher now compared to pre COVID-19 numbers.
- Reasons for the increase vary, but with LA County exception, they were caused by labor force growth outpacing employment growth
- Employment growth was negative in the Greater Los Angeles area.

Table 10 below lists both labor market data for the calculation of the unemployment rate (household survey data) and sectoral employment (establishment survey data) using non-seasonally adjusted data for the Inland Empire. We use the establishment survey to identify sectors that have performed well or poorly.

For **year-to-year growth** (relative to December 2024), only 4 of the 12 major sectors showed positive employment growth. Worse yet, neither the growth in Leisure and Hospitality nor in Other Services was big enough to generate the aggregate increase in employment. Note also that both changes in Federal and State employment were negative, and it is only Local Government (basically Public Education) that resulted in the relatively large employment increase in Government. Bottom line, it is **Health and Public Education that keeps the Inland Empire afloat at this point**. The sectors with the most visible decline were Construction (-8,200), Logistics (-6,100), and Manufacturing (-3,500).

Table 10: Labor Market Data, NSA, CPS and CES, Inland Empire, December 2025

January 23, 2026
Employment Development Department
Labor Market Information Division
Contact: LMID RESEARCHERS

Riverside San Bernardino Ontario MSA
(Riverside and San Bernardino Counties)
Industry Employment & Labor Force
March 2024 Benchmark

Data Not Seasonally Adjusted

	Dec 24	Oct 25	Nov 25 Revised	Dec 25 Prelim	Percent Change Month	Percent Change Year
Civilian Labor Force (1)	2,235,400		2,280,300	2,265,900	-0.6%	1.4%
Civilian Employment	2,125,000		2,155,900	2,149,800	-0.3%	1.2%
Civilian Unemployment	110,400		124,400	116,100	-6.7%	5.2%
Civilian Unemployment Rate	4.9%		5.5%	5.1%		
(CA Unemployment Rate)	5.2%		5.4%	5.1%		
(U.S. Unemployment Rate)	3.8%		4.3%	4.1%		
Total Nonfarm	1,741,300	1,723,500	1,743,500	1,744,500		0.2%
Mining and Logging	1,500	1,600	1,500	1,500		0.0%
Construction	113,800	109,200	106,800	105,600		-7.2%
Manufacturing	94,000	91,400	90,500	90,500		-3.7%
Wholesale Trade	69,500	67,800	68,100	68,400		-1.6%
Transportation & Warehousing	218,800	202,000	212,100	213,800		-2.3%
Logistics	288,300	269,800	280,200	282,200		-2.1%
Information	13,100	12,600	12,500	12,600		-3.8%
Financial Activities	44,000	42,800	42,900	42,800		-2.7%
Professional and Business Services	163,800	162,300	163,400	163,600		-0.1%
Private Education and Health Services	315,700	329,200	330,900	331,100		4.9%
Leisure and Hospitality	182,200	182,300	184,000	183,500		0.7%
Other Services	50,400	51,800	52,100	51,100		1.4%
Government	278,100	282,800	284,800	284,700		2.4%
Federal Government	21,400	19,900	19,800	19,900		-7.0%
State Government	27,700	26,900	27,200	26,800		-3.2%
Local Government	229,000	236,000	237,800	238,000		3.9%

Note that there is also weakness in high value-added sectors, such as **Professional and Business Services, Financial Services, and Information, that are shrinking in employment**. Such industries are the major reason for Inland Empire residents to commute to the coastal areas.

Instead of gaining jobs in these sectors, the area is losing them. In addition, two **sectors with the highest job gains seem vulnerable to President Trump's cutbacks in national expenditures on health and education.** In addition, public education is facing declining student numbers simply due to demographics. While Public Education may temporarily be safe due to Proposition 98 and budget reallocations drawing from reserves, it seems to us that given the current budget deficit and the demographics (smaller number of young people, larger number of older people), at some point that policy will have to be revisited.[7]

We alluded to the "**all eggs in one basket**" story at our last State of the Region conference in February 2025. The description remains relevant. **What made the Inland Empire successful in the past, or what got us here, may be our downfall in the future.** We saw this happening in the '90s when the region relied on military expenditures and the aerospace industry, and in the early years of the millennium, when the housing boom was centered here. Recognizing the potential problem is the first step towards finding a solution. All that we can do here is to alert decision makers to the problem.

Table 11: Logistics Employment, 2020-2025

Logistics Employment By Year						
Month	Yr20	Yr21	Yr22	Yr23	Yr24	Yr25
January	223,300	257,100	276,200	276,900	272,700	273,400
February	221,600	257,400	285,200	269,800	264,800	266,700
March	220,200	255,400	282,000	266,300	261,500	262,500
April	209,000	249,700	276,500	265,800	260,100	261,500
May	217,900	250,800	274,200	266,100	259,600	262,200
June	226,800	251,600	274,000	264,600	260,500	261,600
July	224,200	254,100	276,900	264,800	263,700	264,700
August	233,400	257,100	274,900	263,000	264,300	264,300
September	239,000	260,500	275,100	263,200	265,200	263,900
October	252,500	272,000	275,900	267,400	270,000	269,800
November	264,000	280,900	285,500	282,000	286,900	280,200
December	264,900	286,800	286,100	281,400	288,300	282,200
Average	**233,100**	**261,100**	**278,500**	**269,300**	**268,100**	**267,800**

[7] Proposition 98 funding is complex. Jerry Nickelsburg of UCLA's Anderson Forecast points out to us: "There is a formula which can be adjusted or suspended by the legislature. The funding has, as a component, student enrollment and student attendance numbers. So, the starting point is 40% but not the ending point. Also, the Prop 98 funding can be allocated between K-12, the 127 community colleges, the state department of education, and education capital expenditures. In terms of employment, since large urban school districts have shrunk much more than smaller suburban ones, expect Pasadena, San Marino, Calabasas etc. to get a larger share of whatever is allocated and LAUSD, Oakland and the like less. The former will use the money for capital expenditures and the latter will end up with reductions in staffing -- hence the sector should not be growing in employment over the next few years."

Riverside County vs. San Bernardino County Analysis

The final section will look at **differences in employment patterns between Riverside County and San Bernardino County**. We will also look in more detail at the **monthly movements in certain industries** to see if we can extract changes in underlying trends. County sectoral data is now available until December 2024, that is one year less than for the Inland Empire.

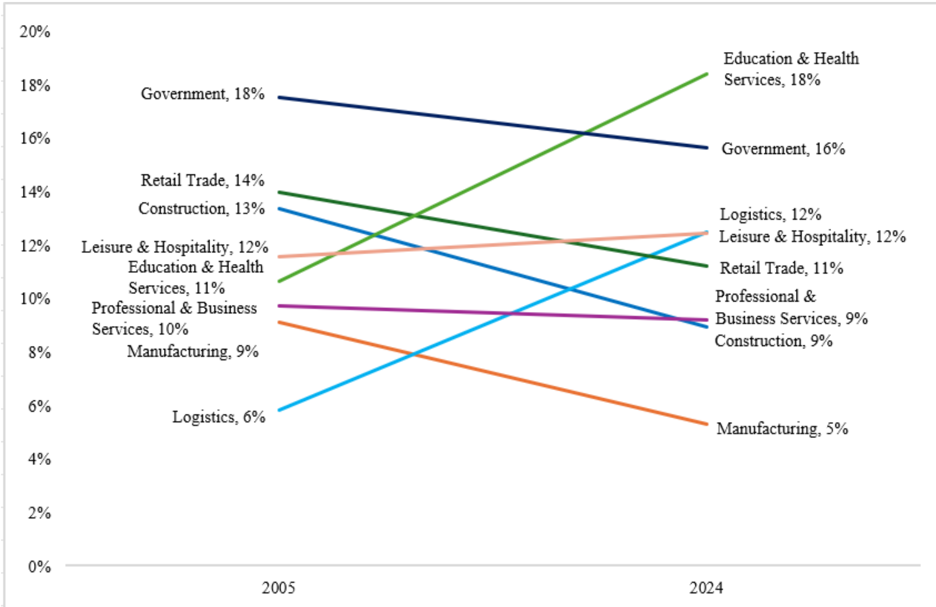
Starting with **Riverside County**, we see that it took the county 22 months after the COVID-19 downturn to recover the jobs lost during the pandemic. Since October 21, roughly 68,000 (nonfarm) jobs have been added. In December 2024, according to the establishment survey, there were over 855,500 workers employed within the county (excluding commuters).[8] At the end of December 2023, there were 838,500 workers who held jobs inside Riverside County (CES). The three largest sectors together employ almost half of all workers in the county (48 percent). The largest employer is Private Education and Health (19 percent), Government (16 percent), and Logistics (13 percent). The degree of concentration has increased slightly from a year ago, and there is clearly a lack of diversification.

Compare the current situation to that 20 years ago (in 2005), and these three sectors only employed 35 percent of the total: Riverside County is more and more putting all eggs in a basket. Sectoral employment comparisons are given in Figure 22a. Note the severe decline in manufacturing and construction.

Recovery from the COVID-19 downturn was faster for **San Bernardino County**. It was completed by July 2021. Since then, the county has added almost 75,000 more jobs according to the establishment survey. This is more than in Riverside County, but we must remember that there are more commuters from Riverside County. For the last observation available to us, there were roughly 886,000 workers employed in San Bernardino County, roughly 30,500 more than within Riverside County. Over half of all jobs (54 percent) come from the top three employment sectors: Logistics (20 percent), Education and Health Services (18 percent), and Government (16 percent) (see Figure 22b). Just as in Riverside County, the degree of concentration is worrisome: the region has been successful since it concentrated on winners, but all the eggs are in one basket. The lack of diversification continued in 2024 and actually went up slightly. Manufacturing and Construction has suffered similar losses since 2005.

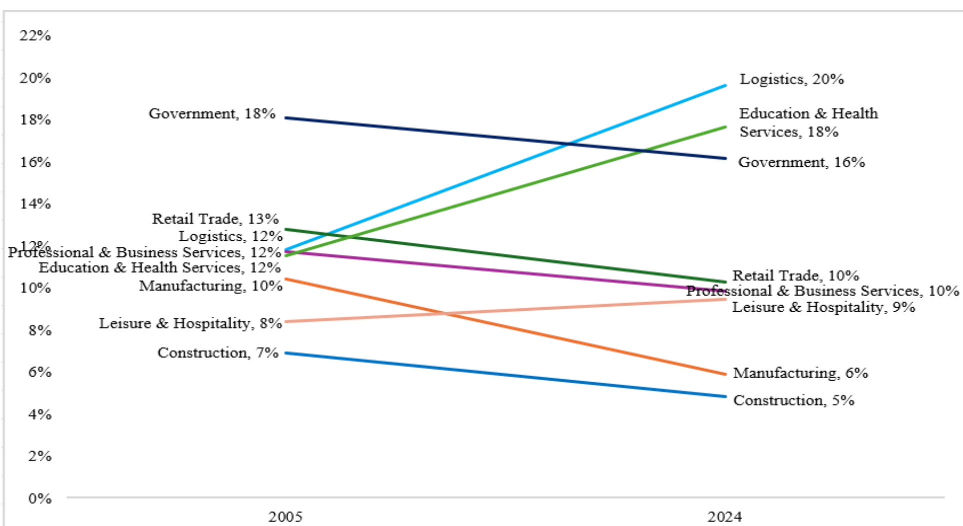
[8] The household survey puts that number at 1.130,200, and hence about 280.000 more. It is tempting to attribute that number to commuters, but there are other factors that contribute to the difference between the two surveys, such as the number of self-employed, new businesses, etc.

Figure 22a: Change in Industrial Share of Employment, Riverside County, 2005 and 2024



- Health Services and Logistics have seen the largest employment share increases over time.
- Manufacturing and Construction are the biggest losers, followed by Retail Trade.
- The three largest employment sectors are now Health Services, Government, and Logistics.

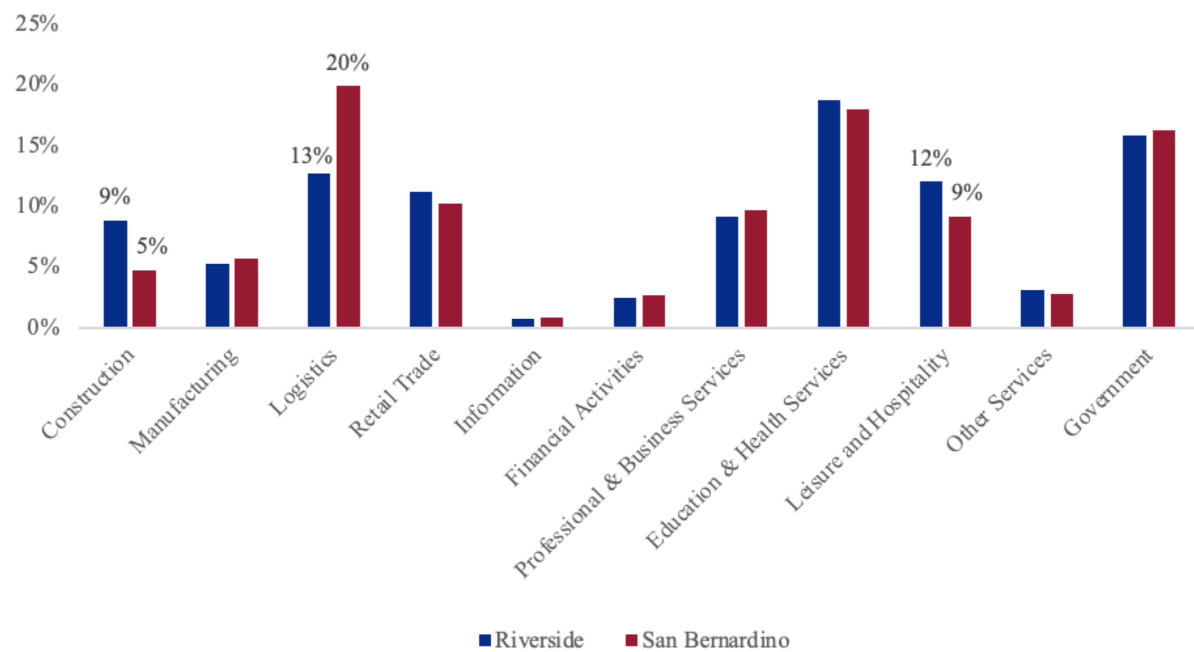
Figure 22b: Change in Industrial Share of Employment, San Bernardino County, 2005 and 2024



- The Logistics sector experienced the most significant increases in employment share from 2005 to 2024.
- Manufacturing and Construction see the largest decreases in employment share, followed closely by Retail Trade.
- The top three employment sectors are now Logistics, Private Education & Health Services, and Government.

A bar chart of the sectoral composition for the two counties makes it easier to identify the bigger differences in employment shares. San Bernardino County has a significantly higher share in Logistics, while Riverside County has a visibly larger share in Leisure and Hospitality employment and in Construction. The other sectors look remarkably similar.

Figure 23: Share of Employment by Industry, Riverside County and San Bernardino County, 2024



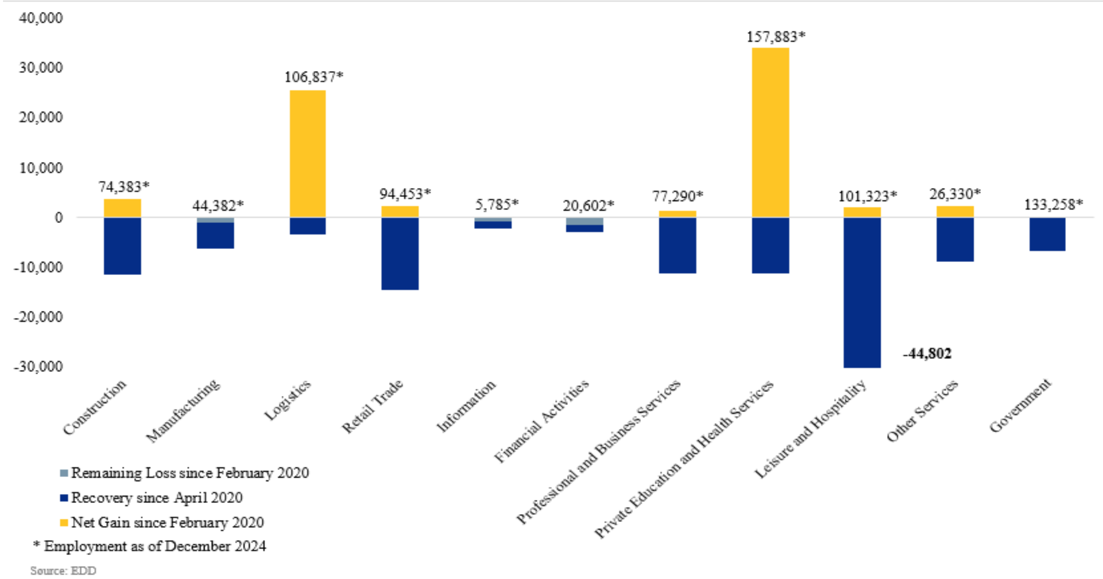
Source: Employment Development Department

- Riverside County has a relatively higher share of employment in Construction and Leisure and Hospitality.
- San Bernardino County has a relatively higher share in Logistics.
- The employment share differences in the other sectors are negligible.

Next, we will check the performance of the different sectors in the two counties (Figures 23a and 23b) since February 2020, the last month before the beginning of the Coronavirus downturn.

Starting with **Riverside County**, the biggest initial decline in jobs lost came in Leisure and Hospitality (no surprise there), Private Education and Health (surprising to some), and Retail Trade. Health Services saw steep declines because all services that were not COVID-19 related declined - remember how you did not even want to go to the dentist. The decline in Retail Trade is also not surprising given that you were not able to go shopping in many stores in the initial phase of the pandemic. Other Services (health clubs, hair dressers, etc.) also suffered massive layoffs, but the sector is relatively small and hence does not show a large decline (if we changed the graph to indicate percent declines, it would be more obvious).

Figure 24a: Change in Employment by Sector, Riverside County, Seasonally Adjusted, February 2020 and December 2024



- The five most affected sectors (in percentage change in employment) were Leisure and Hospitality, Education and Health, Retail Trade, Other Services (smaller number of employees), and (Local) Government
- Leisure and Hospitality now has more employees than before the COVID-19 downturn
- There are several sectors that to this day have not reached pre-pandemic employment levels

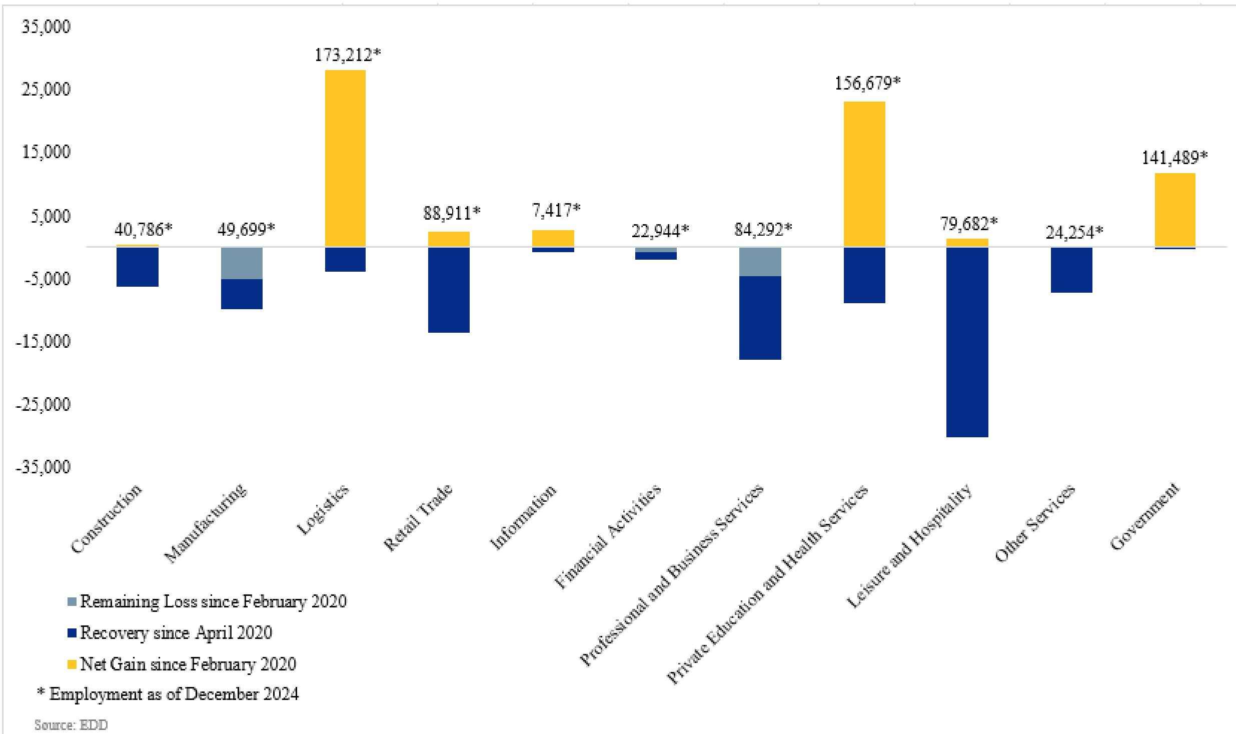
The decline in Government is more complicated. Federal Government employment hardly changed initially (in December 2022, employment in this sector was the same as in February 2020). It was the layoffs in State Government that generated the biggest decline: even in December 2024, there are over 3,000 fewer state government jobs than before the COVID-19 event. By April 2020, Local Government had lost over 16,000 jobs (not a typo). Clearly this is where the initial job losses in Government were centered. As of today, there are 1,700 more jobs in Local Government (primarily Education) that have been generated. Clearly this sector has seen some of the biggest fluctuations and as of today, despite the relatively large gains in Local Government employment, has not reached February 2020 employment levels. Note that Manufacturing, Information, and Financial Activities also have never recovered to pre-Coronavirus levels in terms of employment.

The picture looks similar for **San Bernardino County** but there are also some significant differences. Perhaps most importantly, Government (Local Government/Education) never saw a significant decline in employment and has since added jobs. Logistics and Health also produced the largest increases in employment, but the order is reversed here. Note also that in San

Bernardino County there is still a substantial deficit in both Manufacturing and Professional and Business Services.

If we classify Manufacturing, Financial Activities, Professional and Business Services, and Information as "**high wage sectors**," then only one of the four industries (Information) is where employment levels were in pre-COVID-19. Instead, employment gains have come in "**low wage sectors"** (Construction, Government, Logistics, Private Education and Health Services, Leisure and Hospitality, Other Services).

Figure 24b: Change in Employment by Sector, San Bernardino County, Seasonally Adjusted, February 2020 and December 2024

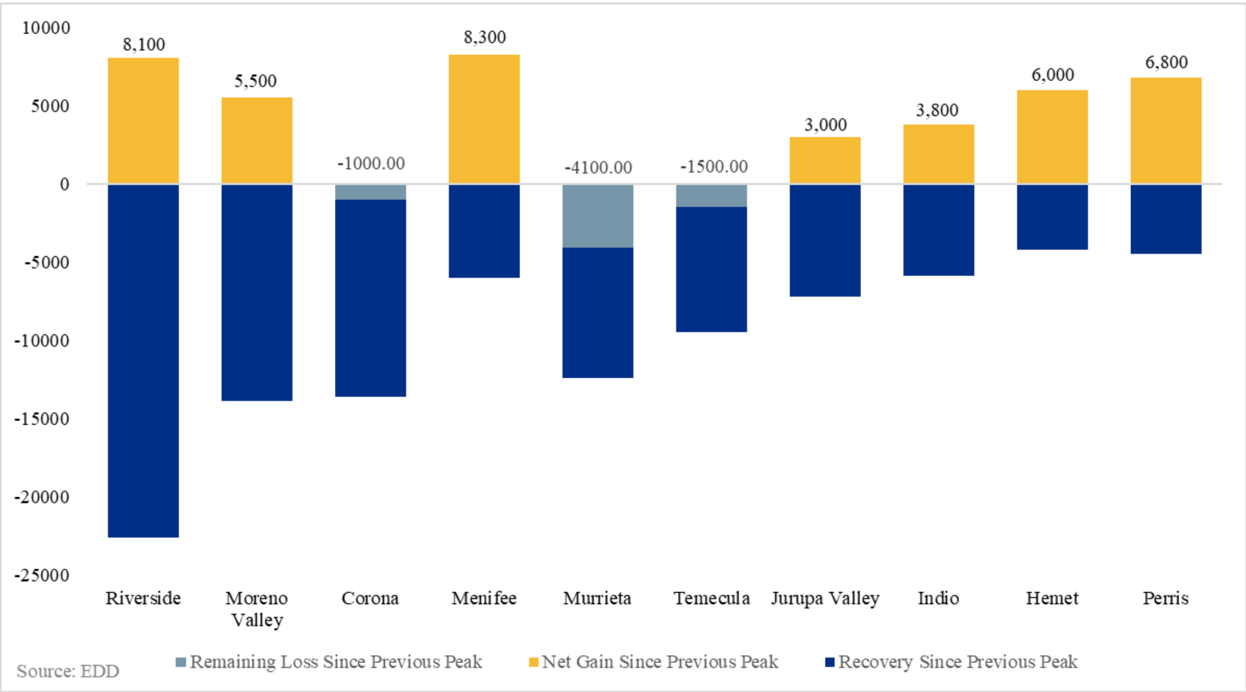


- Most negatively impacted industries: Leisure & Hospitality, Retail Trade, Professional &Business Services.
- Logistics initially lost jobs, then largest gains: most important employer in San Bernardino County
- Both Professional & Business Services, and Manufacturing still have fewer jobs than pre-pandemic.

The previous graphs established that different sectors were affected in a non-uniform way by the Coronavirus downturn and the subsequent recovery. Since cities in the Inland Empire have different sectoral compositions and population sizes, we would expect that to be reflected in employment changes as well.

In **Riverside County**, the City of Riverside experienced the largest employment losses, but also saw all jobs return and then added some.[9] However, and to put matters into perspective, Menifee, which is much smaller in size, has grown faster. What is even more remarkable there is that the neighboring cities of Temecula and Murrieta have not. Corona is the only other major city that has not fully recovered by the end of the sample period.[10]

Figure 25a: Change in Employment, Top 10 Cities in Riverside County, Non-Seasonally Adjusted, February 2020 & November 2025

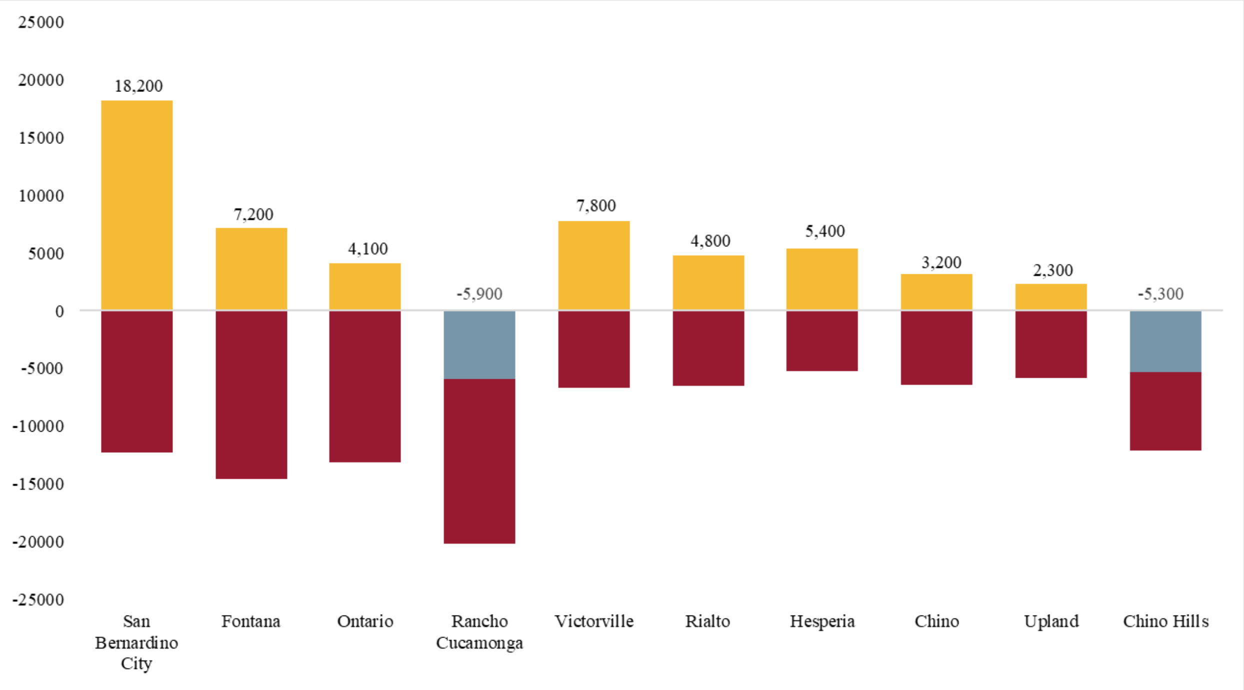


- The largest city in Riverside County, the City of Riverside, lost the most jobs and comes in a close second in gaining jobs beyond the pre-pandemic level
- Menifee, which is considerably smaller (although it is the fourth largest city in the county) gained the most jobs since the pre-COVID-19 level
- Corona, Murrieta, and Temecula, to this day, have not fully recovered the jobs lost.

In **San Bernardino County**, the largest city saw significant job losses initially, although percentage wise they were not as damaging as they appear in the graph. Remarkably neither Rancho Cucamonga nor Chino Hills have recovered fully. The Victor Valley cities (Victorville and Hesperia) have seen good sized recoveries, especially if you consider them as adjacent towns.

[9] Strictly speaking, we should have used seasonally adjusted data now, or compare February 2020 with February 2025. However, the resulting changes in the figures will be of second order.
[10] It is relatively easy to calculate percentage changes given that we provide the total employment in the graph.

Figure 25b: Change in Employment, Top 10 Cities in San Bernardino County, Non-Seasonally Adjusted, February 2020 & November 2025



Source: EDD

- The four largest cities in the county lost the most jobs.
- The two cities in the Victor Valley, Victorville and Hesperia, did remarkably well in job gains.
- Rancho Cucamonga and Chino Hills have not yet recovered the jobs lost

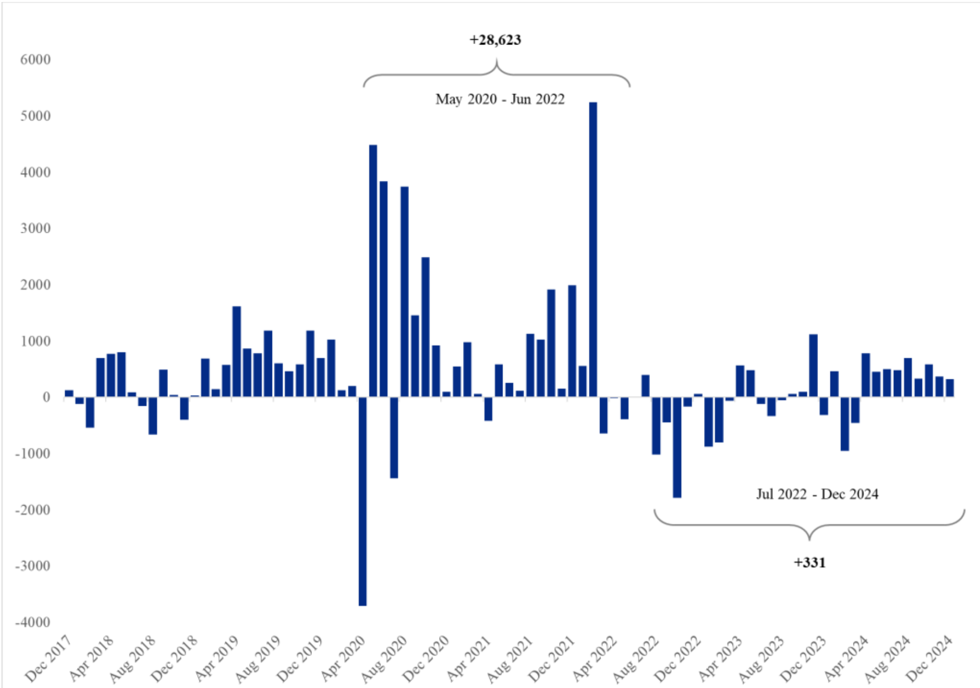
Turning now towards **industries in the Inland Empire**.

Given its size in terms of employment and share of generating real GDP in the Inland Empire, the **Logistics Industry** deserves a closer look (Figures 26a and 26b). Data for 2024 are not yet available at the county level. However, employment data for the Inland Empire show that the adjustment process is not over yet and that the Logistics industry has seen continued job losses in 2025. The correct image is a large expansion, followed by a smaller downward correction.

Note that almost 282,000 employees work in the Logistics Industry in the Inland Empire. With hindsight, it seems that the Logistics industry had an overly optimistic outlook, perhaps extrapolating the employment gains since the pandemic into the future, and being worried about finding sufficient workers for the increased demand. Employers did not correctly predict the shift back of consumption from durable goods to services (restaurants, hotels, etc.). This has resulted in major layoffs in the Logistics industry and a coinciding decline in value added.

While the **Logistics industry clearly has expanded in Riverside County compared to February 2020** (the last month of the previous expansion), it has **roughly remained constant since reaching its peak in mid-2022.**

Figure 26a: Change in Employment, Logistics, Seasonally Adjusted, Riverside County, Sep 2017 - Dec 2024

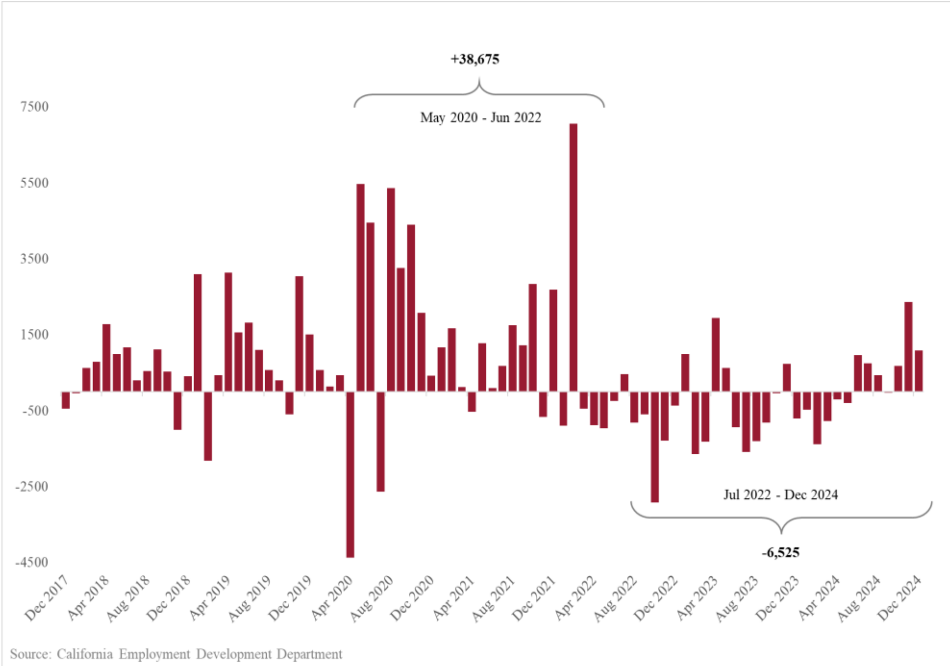


Source: California Employment Development Department

- The Logistics industry saw a massive expansion starting in 2018 prior to the COVID-19 event and is at roughly 100,000 employees currently.
- The hiring boom intensified with the Coronavirus downturn and the initial recovery.
- Since mid-2022, the Logistics industry has contracted.

The employment picture for **San Bernardino County** looks very similar. However, movements in Logistics employment are amplified here, perhaps not too surprising given how much more dominant the Logistics industry is here. A large post Corona-virus downturn expansion has been followed by a smaller contraction for the sector. This contraction does not change the fact that the Logistics Industry has become the top employer in San Bernardino County.

Figure 26b: Change in Employment, Logistics, Seasonally Adjusted, San Bernardino County, Sep 2017 - Dec 2024



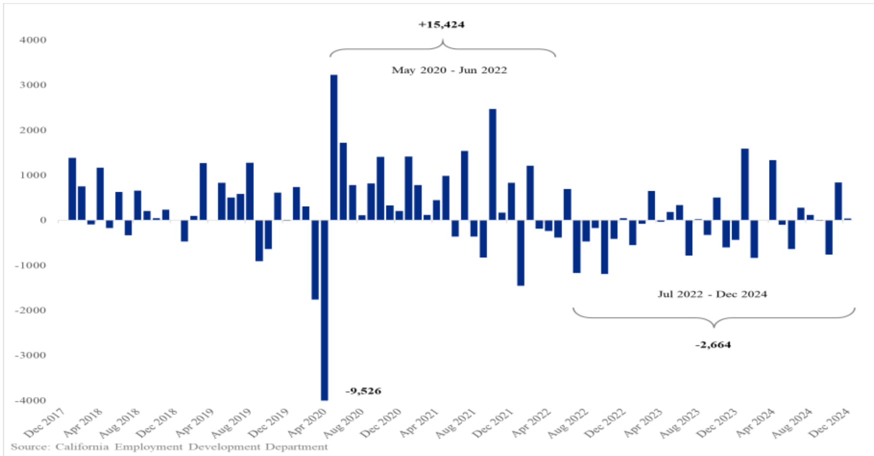
- The logistics industry in San Bernardino had a hiring boom during the initial recovery from Covid.
- However, since mid-2022, growth has slowed down and the industry has contracted.
- The post 2022 contraction is more severe in San Bernardino County than in Riverside County.

While, in principle, we could display graphs for the major industrial sectors here (two-digit industries, North American Industrial Classification System - NAICS), we just want to focus on two more sectors that we consider important for the Inland Empire, its past history, and its future. They are the two high-wage sectors of Professional and Business Services, and Manufacturing.

Professional and Business Services has marginally lost importance over time in the Inland Empire (see Figures 27a and 27b above). Yet it is this sector that attracts the better educated commuters from the Inland Empire to make the daily trip to the coastal regions. The aggravating commute during rush hour could be avoided if the Inland Empire was able to attract more firms in this sector to settle here.

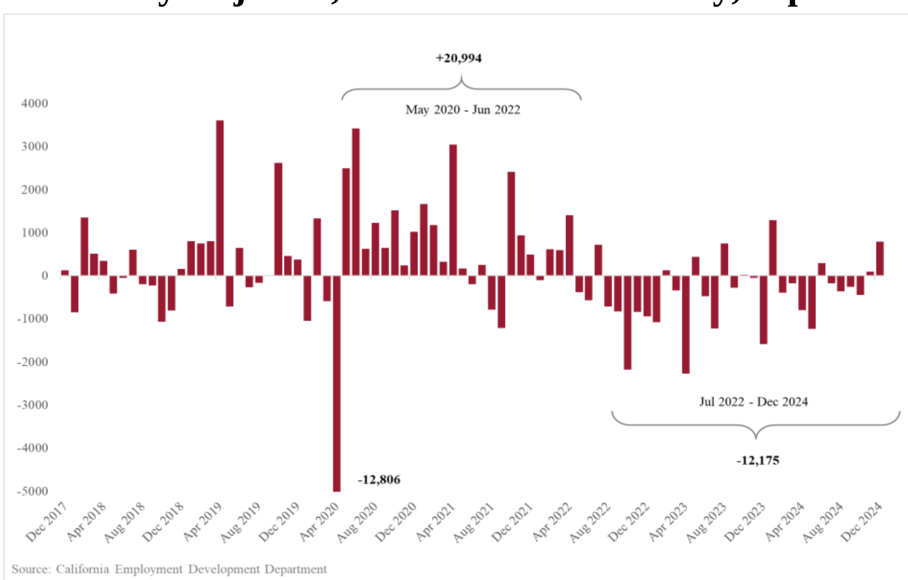
The data for **Riverside County** show that there was some expansion initially over the last five years, although it was not close in magnitude to the expansion in Logistics jobs. A quarter of the jobs gained have subsequently been lost. The picture for San Bernardino County is similar, although magnified in terms of job gains and losses.

Figure 27a: Change in Employment, Professional and Business Services, Seasonally Adjusted, in thousands of jobs, Riverside County, Sep 2017 - Dec 2024



- Professional and Business Services have seen the second most year-to-year job losses recently.
- While the sector is not among the top three top employment sectors, there are roughly 80,000 positions here.
- Given the profile of commuters, you would hope to see continuous employment expansion in this sector.

Figure 27b: Change in Employment, Professional and Business Services, Seasonally Adjusted, San Bernardino County, Sep 2017 - Dec 2024

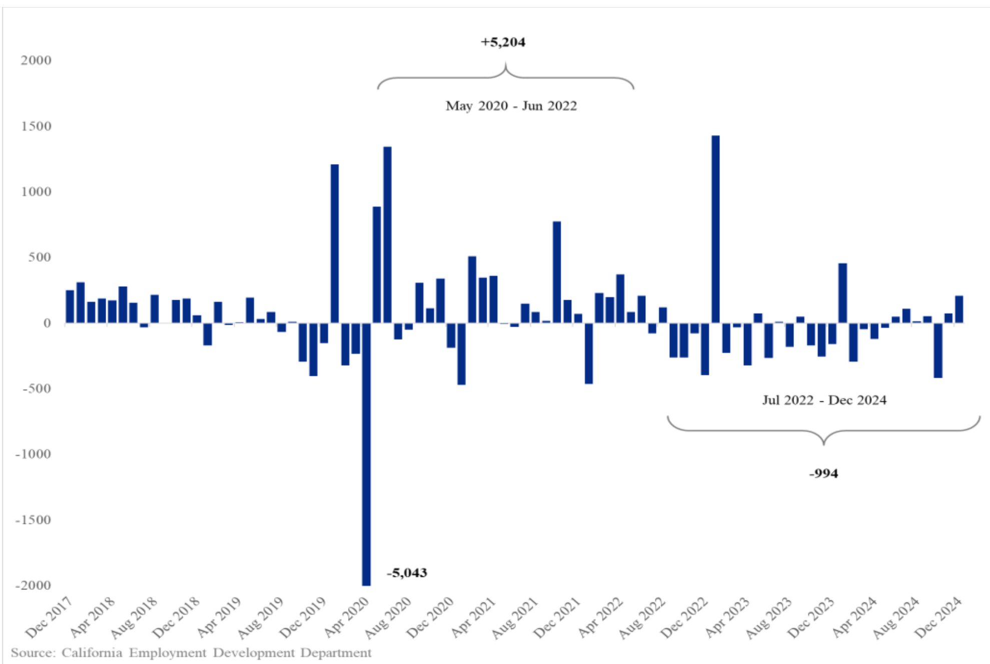


- The professional and business services sector was hit especially hard in the beginning of the pandemic, dropping to -12,766 change in March of 2020.
- Like in the logistics industry, the professional and business services sector saw a mild hiring boom during the initial post-Covid recovery.

Another high-wage sector is Manufacturing. Together with Construction, employment in this sector has declined since the Great Recession (see Figures 22a and 22b). Neither sector is even close to the employment share it had prior to 2007. Figures 28a and 28b show that the decline did not reverse itself in the more recent past. **Perhaps Riverside County has fared marginally better here than San Bernardino County.** A good description would be that the sector continues to show weakness without contracting significantly.

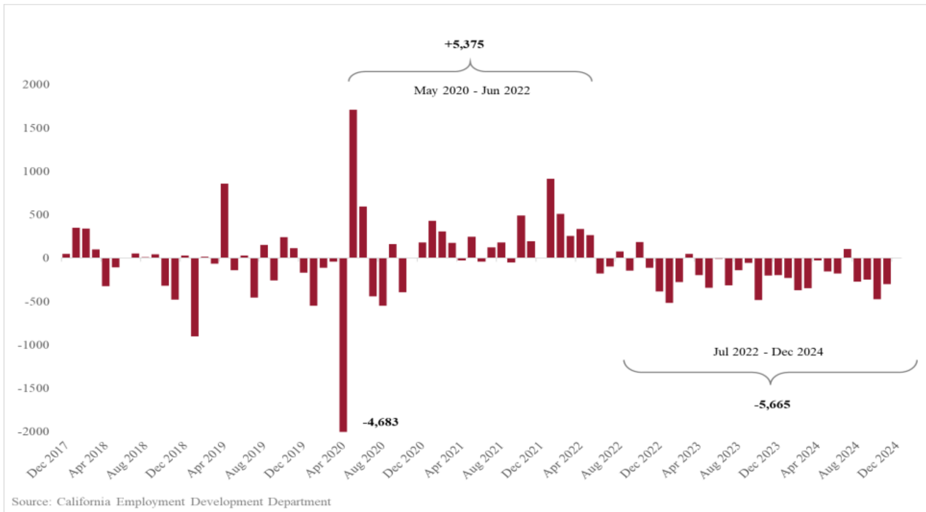
Manufacturing and Real Estate were weak, but not contracting. Note that while manufacturing is a relatively high value-added sector, only 1 out of 20 workers in **Riverside County** are employed here. The sector has lost importance over time, similar to the Construction sector: only slightly more than one out of 20 workers in the Inland Empire is employed in Manufacturing.

Figure 28a: Change in Employment, Manufacturing, Seasonally Adjusted, in thousands of jobs, Riverside County, Sep 2017 - Dec 2024



- Manufacturing recently is consistently shedding a small number of jobs, with the exception of one relatively large hiring spike.
- The relative decline in this sector is a reflection of manufacturing shrinking both at the national and state level.
- Only 6% of all jobs in Riverside County are in Manufacturing.

Figure 28b: Change in Employment, Manufacturing, Seasonally Adjusted, in thousands of jobs, San Bernardino County, Sep 2017 - Dec 2024

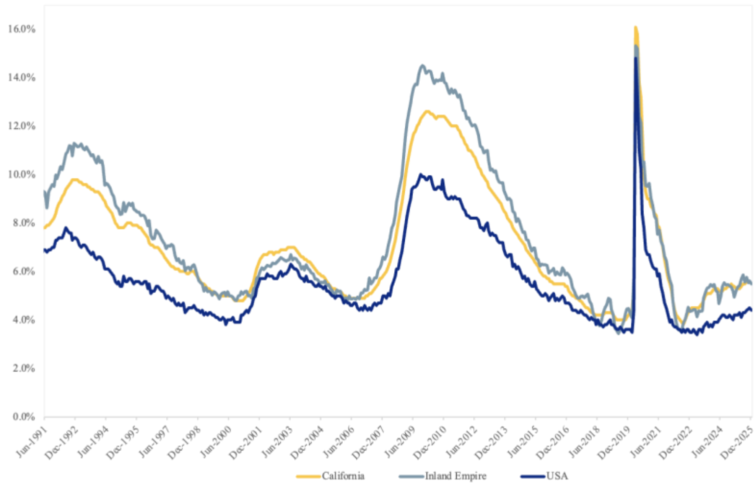


- Similar to Riverside County, manufacturing comprises 6% of total employment in San Bernardino County.
- The manufacturing sector in both counties demonstrated strong growth, with steady monthly job gains throughout 2021, while this upward momentum reversed in 2022.
- Since April 2022, this sector has experienced minor job losses on a monthly basis, with occasional periods of hiring.

Unemployment

Shifting from employment to unemployment, we note that the unemployment rate in the Inland Empire increased from 3.9% to 5.1% from mid-2022 until now (December 2025), which is a significant jump. The unemployment rate is still low by historical standards (see Figure 29), but not particularly low if we look at business cycle peaks (unemployment rates just to the left of the gray shaded areas).

Figure 29: Unemployment Rate, Inland Empire, January 1990 - December 2025



Source: Federal Reserve Bank of St. Louis, Employment Development Department

- Unemployment rates in the Inland Empire tend to be higher than for the state the nation.
- Exception is the dot.com recession at turn of the millennium when contraction was centered in Bay area.
- Following Coronavirus downturn, unemployment rates in the Inland Empire mirrored those for state

The 2026 Outlook

Economic growth for the Riverside-San Bernardino-Ontario MSA is expected to remain high in 2026. Last year, in our outlook, we were concerned about two major headwinds related to the uncertainty surrounding policy decisions of the new administration following the 2025 presidential election. This caused problems for both consumer and business spending decisions and future plans. These uncertainties are not as severe as they were a year ago, but the region will have to deal with the consequences of the decisions made by President Trump regarding (i) tariffs, (ii) deportation, (iii) fiscal policy (especially taxes), and (iv) regulation. Even the Federal Reserve is unwilling to make forecasts into the near future exceeding a few months ahead without more clarity on these issues. This makes forecasting beyond 2025 extremely difficult. For example, the Federal Reserve is likely to hold off with further cuts in interest rates until the summer of 2026, although President Trump has “demanded” the Federal Reserve to cut interest rates further.

Regardless, the beginning of an expansive consumer credit policy has begun with the previous interest cuts in 2025, and it is expected to continue. This will generate positive impulses for the Inland Empire economy. Still, we expect the MSA economy to outperform the state economy but not the national economy.

Our outlook for 2026 is based on the assumption that President Trump's proposed policies on tariffs and deportation will not have an immediate effect on trade and construction. Part of this is the larger role that the Logistics industry plays in the MSA. Transportation, Warehousing, and Whole Sale have moved into third place in terms of overall employment share; they are actually the largest employer in San Bernardino County (third largest in Riverside County). The opening of new facilities in 2026 will require new workers, and the continuation of imported goods consumption by U.S. consumers will drive goods transportation and distribution upwards this year, unless President Trump decides in March to follow through with his initial tariffs on Mexico and Canada.

There are some clouds on the horizon for the Logistics sector in addition to the potential tariffs: Governor Newsome signed AB 98 which focuses on siting and design standards in this industry. Starting in 2026, new and expanding distribution centers can only be built if certain new standards are being met. These include restrictions on the distance from so-called sensitive sites, and requires that new developments are limited to roads that serve commercial uses. Much of the currently allocated space is already in the entitlement process and therefore will be exempt. However, these regulations will play a role regarding future investment plans for this industry.

The two sectors with the highest employment share in the Inland Empire, (Private Education and) Health, and Government (Local Government; Public Education), will not contribute much to employment growth in 2026. A large share of expenditures on health comes from public sources. Given the budget problems that the state faces, expect public expenditures to be curtailed for the next year.

Construction and the housing sector will benefit from the lowering of interest rates started by the Federal Reserve in September. The Federal Funds Rate will fall by an additional 25 to 50 basis points between now and December 2025. This will stimulate housing sales and housing starts. In addition, there is pent-up demand from two sources: (i) many workers will continue to work from home (despite some companies, such as Amazon, demanding for their employees to now work five days at the office), and (ii) households who were holding on to their low-interest mortgage rates rather than moving into higher valued houses, will finally be enticed to trade-up from their old properties. In addition, there is a large chunk of households with members in their early 30s who are looking for their first home to buy. Both effects will stimulate the housing sector and the construction industry. More home sales and at current or higher selling values will drive property transfer tax receipts, augment assessed valuations, and result in higher property tax collections.

Given the ADP report regarding attractiveness of the Inland Empire to 20–29-year-olds, we must find ways to attract firms with better paying jobs. Being more affordable in housing relative to other Southern California areas does not help much if average housing prices are higher than in the rest of the U.S. MSAs - the current situation simply lowers already relatively low wages to even less attractive affordability adjusted wages. Building more affordable houses may help a little, but attracting more hire value adding firms must be the number one priority.

Table 12: Major Economic Indicators, Inland Empire, Current and Forecasts

Riverside County	2024	2025	2026	2027
Inflation	3.0	2.4	3.0	3.1
Unemployment Rate	5.7	5.1	4.9	4.7
Employment Growth	1.5	1.8	0.8	0.7
Population (millions)	4.7	4.7	4.7	4.7

To end on a positive note, we attach a **2025 Year in Review** piece that was published by the Southern California News Group on the weekend before the end of the year. Enjoy!

25 Good Things That Happened in 2025 Around Here

by

J. Chen and M. Keil

1. According to Census numbers, the Riverside-San Bernardino-Ontario Metropolitan area (MSA) became the 12th most populous MSA out of 390 in the U.S. with 4.7 million residents after passing the San Francisco MSA. There are some sources, which claim that we have passed the next in line already, Boston-Cambridge. We will keep the champagne on ice until Census confirms. And then? Phoenix-Mesa.
2. Strong hiring in Health Care and Public Education (Local Government) prevented the Inland Empire and Southern California from falling into an employment recession. An example of the expanding local health sector is America's first all-electric acute care hospital, which opened on the UC Irvine medical campus on December 10. The hiring in these two sectors offset the particularly poor showing of the Logistics sector ("Freight Recession") toward the end of the year.
3. The Los Angeles Dodgers won the National League pennant and the World Series in November, beating Toronto in a seven-game series. Attendance during 2025 pushed past the 4 million mark for the 82 home games at Dodger Stadium, an all-time record high. A Japanese pitcher was named the World Series MVP, and his name is not Ohtani. The Los Angeles Rams, now with an 11-5 record, are in the NFL playoffs again and could advance to the Super Bowl in February 2026; and the Chargers beat the two teams from last year's Super Bowl in back-to-back games.
4. Increases in American tourism to SoCal offset the decline in Canadian visitors to the region, which is estimated to have fallen by a third. Palm Springs International Airport (PSP) saw a 4.3 percent increase in passenger traffic during the first six months of the year, resulting in more than 2 million visitors. We can only hope that the Canadian snowbirds are reconsidering cancelled travel plans to SoCal after couples like Trevor McKinsey and his French-Canadian wife, Nadine Fortin, see daily highs of 20 degrees in Calgary (with a wind-chill factor of -100). Daughter Arielle-Marie refuses to go to the ice rink for curling on Saturday nights. We would love to have you here and hope that some arctic vortex ice storm does not keep Calgary International Airport (YYC) closed.

5. The government shutdown ended after a historical record setting 43 days. We will never get the October unemployment rate numbers, which is good news because they most likely would have shown an increase in the unemployment rate.
6. In the Year of the Snake, not only did snakes find their home in *Zootopia 2*, but the Inland Empire leaders could also benefit from considering ancient Chinese characteristics associated with the snake: careful planning, strategic patience, and embrace change. Keep these in mind when developing a strategic plan for the Inland Empire 2045.
7. Despite initial fears generated by news on Liberation Day, the Ports of Los Angeles and Long Beach have seen a record number of container imports for the year. The various versions of tariff policies have not yet shown the dreaded impact on the economy of Southern California. Decreased imports from China, and Asia in general, would significantly hurt Southern California's logistics industry.
8. There were some refreshing dramas to watch on various entertainment services. *The White Lotus* third season showed us that Black Pink member Lisa can also act, *Severance* gives us new ideas on how to separate our private life from work experience, and the success of Slow *Horses* indicates that we are still willing to get into clever English non-traditional plots.
9. Given the rise in popularity of weight loss drugs, some Inland Empire residents will see their life expectancy go up, and the labor force will be healthier.
10. Only one more year to go to the Football (soccer) World Cup. The U.S. national men's team will open in SoFi Stadium against Paraguay. We don't have to worry about Canadian tourists not coming to SoCal since Canada will most likely not make it to the Round of 32 knockout match on June 28, which is their only scheduled game in SoCal. Still, we would love to have you here to watch some higher quality teams play, especially if you are willing to pay those SoFi Stadium ticket prices. For those of you who don't understand soccer, here is what famous Tottenham and England forward Gary Lineker once said in an interview: "Football is a simple game: 22 men chase a ball for 90 minutes and at the end, the Germans always win."
11. Green Day got back together and performed at Coachella in front of 124,999 people last April. We can now feel again like "American Idiot" and "Basket Case".
12. Ontario International Airport celebrated a theme "Reclaimed. Revived. Ready." to commemorate the decade-long independence from Los Angeles World Airports. Also good news is that we still only have to find Terminals 2 and 4 when we go there and not have to search for Terminals 1, 3, and 5. Hawaiian Airlines has a daily flight from ONT to Honolulu if January/February temperatures get too chilly for you here, with Southwest announcing the same for next year.
13. The high-speed rail, Brightline West, is making progress (outside of the Inland Empire). Still working on the projection that we can go from Rancho Cucamonga to Vegas when the Olympics start in 2028. The trip is supposed to take two hours with top speeds of 200

mph (although we doubt that it reaches that speed between the Hesperia and Apple Valley stops - coming to think about it, why would there be two stops? Is it to check on the breaks before you go down the hill next to the I-15? Can't you just turn off the train engine and have all passengers hold their arms in the air?).

14. Artificial Intelligence (AI) has boosted productivity growth in California and the Inland Empire this year, generating quarterly estimates of up to 4.0 percent increases in output amid virtually no job creation. It has also maintained California as the epicenter of AI innovation and adoption.
15. There were some ups and downs in the stock market, but generally speaking, stocks had a great year, which is good for our retirement accounts and California's budget. The Dow Jones and the S&P 500 have posted annual gains of over 16 percent, which is an extraordinarily high return even if you take into account the 3 percent inflation rate. Gold prices even had a better performance.
16. Being about "Good Things," we don't have to report about the fires and immigration raids nor their impacts on our regional economy. Perhaps we can mention the continued possibility of decent tax and mortgage relief programs being provided to those who lost their homes in the Altadena and Palisades fires.
17. Only 500 more years that we "may find" something in the year 2525, "if man is still alive, if woman can survive" according to Zager and Evans.
18. The Long Beach Tattoo Arts Festival, SoCal's largest, was held July 18-20 at the Long Beach Convention Center. The seriously good news for the city of Long Beach is that the city had 5.5 million tourists this year, who contributed almost $2 billion to the local economy. A slowing economy, we might add, since the city reduced the speed limit by 5 mph across all roads, and, remarkably, without a cost-benefit analysis.
19. No more need to ask the driver in your taxi/Uber/Lyft ride "how are you today" or "how is business going" or "how many hours have you been working" since Waymo has arrived in SoCal. No worries about the number of "stars" the driver gives you.
20. Jesus Christ Superstar played to three sold out performances at the Hollywood Bowl. Brought back childhood memories for one of the two authors (the other was not born yet…). Jesus transcends gender (Cynthia Erivo), and prior perceptions of Judas (Adam Lambert) can change.
21. Despite annoying prices at the gas pump, hotel rates, parking tickets, and traffic nightmares, California welcomed 271.6 million visitors in 2025, up roughly 0.8 percent from last year, and is expected to see another 1.7 percent increase in 2026. Also, we are no longer the nation's 8th most congested city, just the 10th most congested.
22. After a ceremonial groundbreaking in 2017 and official start of construction in July 2020, the *LA Metro A* Line finally opened its 9-mile extension to Pomona, officially making it the world's longest light-rail line. We hope the repeatedly delayed opening of the LAX People Mover project will follow in step and begin its passenger service in 2026, getting

us closer to higher quality public transportation connections seen in other world class city airports such as London, Hong Kong, Shanghai, Seoul, Frankfurt, etc.

23. After years of playing the Dutch national anthem on loop, Lando Norris finally beat Max Verstappen in the 2025 season, reminding fans that Formula 1 is in fact a competition instead of a traveling tribute tour. And soon we can take the Brightline West to watch the Vegas F1 formula race live by going there and coming back the same day while relaxing in a comfortable place on the way.
24. Disneyland celebrated its 70th anniversary. Turns out Mickey and Pluto have survived 12 economic recessions, the COVID-19 shutdown, and many changes in culture/taste since the opening. Today, the Disneyland Resort supports 36,000 jobs and attracts around 17 million visitors annually, anchoring Anaheim's economy and reminding So Cal that nostalgia can be a growth industry. Sadly, the company sold the Anaheim Mighty Ducks in 2006 but the team remained in So Cal. At least the new owners did not change the name to "Los Angeles Ducks of Anaheim" as they did with their next-door neighbor, the Angels.
25. To stop productions from exiting to Georgia or Canada, California more than doubled its Film and TV Tax Credit Program from $330 million to $750 million, projected to generate $1.2 billion in statewide economic activity, employ more than 5,000 cast and crew, and pay $487 million in qualified wages. The current estimate of the total impact from the first two rounds of the expanded program has exceeded $2.5 billion.

California has taken the sole lead when it comes to highest unemployment rates among U.S. states. Wait, coming to think of it, delete, this is not good news.

Look forward to 26 good news items next year, perhaps starting with "we experienced a return to low inflation and high growth, while keeping the unemployment rate from rising." In the words of the Everly Brothers, "Dream, Dream, Dream."