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# What is the outlook for the economy in the U.S. and the Inland Empire?



By **CONTRIBUTING WRITER** |

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There were two significant data releases recently, relevant to Inland Empire decision makers. On Dec. 7, the Department of Commerce presented the 2022 County and Metropolitan Statistical Areas, or MSAs, numbers for Gross Domestic Product. The following day, the Department of Labor published the November unemployment rate numbers for the nation. Inland Empire residents and leaders in business and government should care about these statistics since they inform our understanding of the strength of the economy. Are we facing another economic decline as we have done 12 times over the last 75 years and most



Given the drop in the U.S. unemployment rate from 3.9% to 3.7% in November, and other signals we get from the labor market (both the labor force and employment expanding according to the household survey), we appear to be safe for now. While the national data augurs still a strong labor market, the data for the Inland Empire tells a different story. In general, if the U.S. sneezes, the Inland Empire may come down with a serious cold. A reduction in national consumer expenditures results in fewer imports and other shipment of goods, which brings in fewer containers into the ports of Los Angeles and Long Beach, and significantly reduces the demand for workers in the Logistics industry (Transportation, Warehousing, Wholesale Trade).

Since that industry has become the second-largest employer in the Inland Empire, the pain would be felt across the area. The latest labor market data from the California Employment Development Department for the Inland Empire is for October 2023. After seasonally adjusting the raw data, the unemployment rate in the Inland Empire stands at 5.2%, 1.5 percentage points above the U.S. level and 0.4% above the California level. Seasonally adjusted data also shows that both the labor force and employment are shrinking (household survey). The unemployment rates for the Inland Empire in November will not be released until mid-December. Don't hold your breath awaiting improvements. These are not the sort of numbers you want to brag about to your friends (perhaps stick to the weather for now).

Next, let's look at the just-released 2022 estimate of GDP for the Inland Empire. GDP is the most general measure of economic activity, but somewhat abstract to understand. You may ask yourself why you should care about output as well as employment. Consider two male workers who, in 2007 (say), got laid off in construction and manufacturing. If they move on to becoming valet parking attendants, the unemployment rate would not change, but GDP would fall. Given that GDP is close to aggregate income, we obviously care about that.

Here is the problem: the national agencies only release regional estimates of GDP with a delay of almost a year. Hence we get the annual data for 2022 in December 2023. Shame. It is like a super tanker (the Inland Empire economy) moving into a fog bank without radar. After you hit the iceberg, you get to see it in the rear view mirror (as you are going down).

So, looking into the rearview mirror, what did we learn? The Inland Empire relied

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As the regional economy has shifted, recent job losses in Logistics have been offset by gains in other industries such as Health Care, Leisure and Hospitality, and Financial Activities. These changes are occurring elsewhere as well. Job losses in Logistics do not imply an impending recession, but perhaps a shift to a slower, more sustainable growth trajectory over the near term. The Inland Empire saw a smaller decline in overall output during the coronavirus recession year 2020 when compared to the state and the nation, and a faster paced recovery in 2021. But 2022 was a mediocre year at best with GDP increasing by only 1.1%, almost half the national pace. Expect below par growth for 2023 and 2024 with activity levels lagging the state and the nation with the Logistics industry still adjusting to overstaffing as a result of overly optimistic projections made earlier.

Bottom line: Are we facing another economic decline? It looks increasingly like Jerome Powell and his officers will be able to pull off that miracle this time. Don't expect the spectacular national growth of 5.3% seen during the third quarter of 2023 in GDP to repeat itself anytime soon – you can look forward to small but more sustainable growth rates below 2% in the near future.

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*The Inland Empire Economic Partnership's mission is to help create a regional voice for business and quality of life in Riverside and San Bernardino counties. Its membership includes organizations in the private and public sector.*



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