

Inland Empire's Recovery in 2021 and Outlook for 2022

by

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Anyone who has paid attention to economic conditions since the Coronavirus downturn in early 2020 knows that the economy has sent mostly positive but also some mixed signals during the current recovery. To be clear, this is a common occurrence during economic recoveries. For example, at the national level, economic activity as measured by inflation adjusted Gross Domestic Product (GDP) typically experiences a full rebound months or even years before the labor market is back to full health. Here in Southern California, the geographical unevenness of the recovery is typically reflected in different trajectories across the region.

But make no mistake, the economy is in a sustained recovery mode, it has nearly made up the ground lost during the pandemic shutdown of 2020, and it will continue to improve in 2022. Let's look at where things stand for the Inland Empire right now, with one eye on 2021 and the other towards the rest 2022.

One of the most widely cited indicators of well-being is the unemployment rate. During past cycles, the Inland Empire was often the first to see its economy turn south and the last to recover ("First In, Last Out"), but this time it's different. Similar to elsewhere, the Inland Empire had unemployment skyrocketing in the span of a couple of months during the onset of the pandemic, exceeding 15% at one point. But by the end of 2021, due in part to its booming logistics sector, unemployment fell to 5.1% (seasonally unadjusted; it is 6.5% when we seasonally adjust it), more than a percentage point below Los Angeles County's 6.2%.

Note that the December 2021 national numbers showed an unemployment rate of 3.9%, which is identical to the rate in February 2020, the last month of the previous expansion. How can that be? Doing the math, the change of the unemployment rate equals the difference in the growth rate of the labor force and employment. While this difference is zero, it turns out that for the U.S. both the labor force and employment are still below the February 2020 level; both simply shrunk by the same percentage amount. This clearly changes the overall picture to a less rosy view for the nation.

Here in Southern California, the labor force is also below pre-pandemic levels in both Orange County (short by 25,000 or 1.6%) and Los Angeles County (a gap of 200,000 workers or 3.8%).

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In the Inland Empire on the other hand, the labor force did not shrink but rather it grew during 2021, surpassing its pre-pandemic peak by nearly 20,000 workers as of December.

As for job growth, the story is a bit mixed. Looking at year end numbers, nonfarm jobs stood at 1.58 million in December, an increase of 4.4% from a year earlier. While this rate of growth was well above average, it fell short of Orange County and Los Angeles County, where jobs grew by 6.9% over the same period. Yet, employment in the Inland Empire is virtually even with its pre-pandemic high, ahead of both Los Angeles County and Orange County, which are 5% and 3% below their pre-pandemic peaks respectively. Keep in mind job counts in the Inland Empire were buoyed in part by the strength of its logistics sector throughout most of the last two years. Los Angeles and Orange County, on the other hand, struggled with significant losses in their leisure and hospitality sector over the same period, turning the corner more recently. The bottom line is that the Inland Empire has recovered job losses more quickly than its neighbors, and it is poised for more gains this year.

Sectoral performance has also been uneven. Logistics, Health Care, Retail Trade, and Administrative Services all achieved new employment peaks as 2021 closed. At the other extreme, employment in Leisure and Hospitality, the hardest hit sector in the region, remains 14% below the pre-pandemic peak even after leading the region's industries in job gains over much of the year. Many of the region's other industries will fully regain lost positions over the next several months, an encouraging sign for the overall economy.

Employment tells just one side of the story for the local economy. GDP would likely tell a different story for the region's industries. Metro GDP data for 2020 are available, but because of the pandemic, they may not fully reflect the contribution of individual sectors to the overall economy. Looking instead at data from 2019, the Leisure and Hospitality sector, which accounted for over 11% of the region's jobs that year, contributed 4% to GDP. On the other hand, Financial Activities accounted for just 3% of total jobs but 18% of GDP. 2021 data for Inland Empire GDP is not available, but assuming it tracked closely with the U.S. as a whole, metro GDP probably recovered fully last year on the strength of sectors like financial activities that contribute more to economic activity than to jobs. Moreover, IE GDP will likely expand at a substantial pace this year.

So, recovery is fully on track, which is good, but is there any bad news or cause for concern? The answer is that the current expansion has been accompanied by elevated levels of inflation. In fact, at nearly 7.9% in November, inflation in the Inland Empire was noticeably higher than in the Los Angeles-Orange County MSA (6.6%) and the U.S. as a whole (6.8%). It also exceeded wage gains for the region, which likely averaged between 5% and 6% for the year, resulting in somewhat lower purchasing power for workers. Given that the Consumer Price Index overestimates the rate of inflation, the loss of purchasing power would be somewhat lower.

Looking ahead to the rest of this year, the region should expect continued employment gains and increases in metro GDP. The labor market will tighten further, partly because of pandemic-related near-term concerns, but also due to long-term demographic trends with the large numbers of Boomers leaving the workforce through retirements and a somewhat smaller age cohort, Gen Z entering the workforce, that is, if they can find housing in the equally tight real estate market. These labor force dynamics will undoubtedly have implications for both workforce training and preparation and the adoption of automation in the years to come.