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## INLAND EMPIRE

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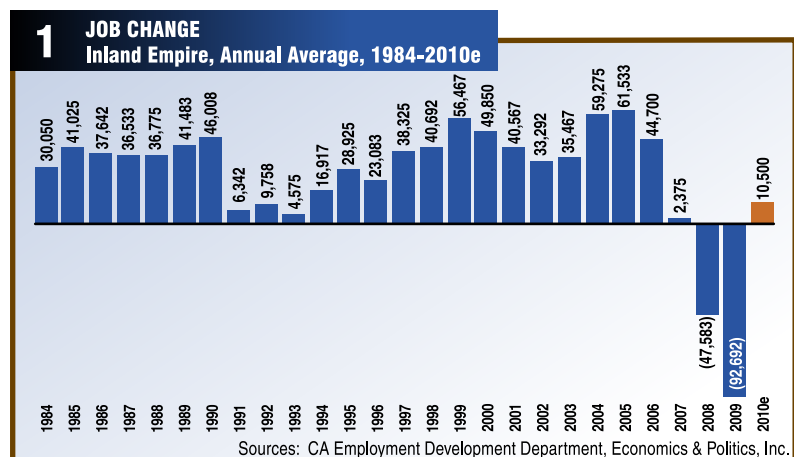
## INLAND EMPIRE 2010 FORECAST ... SLOW RECOVERY BEGINS!

By John Husing, Ph.D

During 2010, the Inland Empire's recession will begin a slow recovery adding 10,500 jobs. This follows steep declines of -92,692 in 2009 and -47,583 in 2008 (*Exhibit 1*). Average 2010 employment is forecasted at 1,157,550, up 0.9%, after drops of -7.5% in 2009 and -3.7% in 2008 (*Exhibit 2*). The area's 2009 employment (1,147,100) was back to mid-2004 levels.

### U.S. GROWTH

The U.S. economy supplies the ocean of forces affecting its regions. In 2008-2009, the country lost -8,363,000 jobs (-6.1%). However from January-March 2010, it added 162,000 jobs (*Exhibit 3*). This occurred as GDP rose a powerful 5.6% in 4<sup>th</sup> quarter 2009 powered by inventory replenishment. A 3% gain is forecasted for 2010. Unemployment, which hit 10.1% in October 2009, has now fallen to 9.7% during January-March 2010. The use of production capacity remains low at 72.6%, though up from June 2009's record low of 68.3%.



With a large share of workers and productive capacity unused, the Federal Reserve and the U.S. government have been free to take extraordinary actions to boost the economy without fear of inflation. The Fed has held the overnight federal funds rate at nearly zero since October 2008 (0.17%). The 10-year bond hit a low of 2.42% in December 2008, and is still just 3.73%. This has allowed 30-year mortgages

Continued on page 2

If you want further information on the economic analysis in the QER, visit Dr. John Husing's website at [www.johnhusing.com](http://www.johnhusing.com)

to enter April 2010 at just 5.08%. The federal government is borrowing and injecting \$787 billion into the economy, an approach last seriously used in World War II when deep deficits brought unemployment from 14.2% (1940) to 1.9% (1943). These actions have helped restart U.S. job growth.

Two of the three sectors that must power an Inland Empire recovery have been helped by this environment. With national inventories at an historic low (1.25 months supply), the purchasing managers index hit 59.9 (normal = 50.0) in March 2010, the highest level since early 2005. National and local manufacturers are thus receiving orders. National retailers are ordering more Asian goods with import volume rising 13.3% in January-February 2010 at Southern California's ports (Exhibit 12). That shift will add jobs at inland warehouses and trucking firms.

Unfortunately, the Inland Empire's third key driver remains in the doldrums. Building permits have fallen from \$12.5 billion (2005) to \$2.2 billion (2009), meaning \$10.3 billion is no longer entering the area's economy via its contractors. This takes income from their workers, suppliers and sub-contractors plus office workers in escrow, title, finance and engineering. This group's spending will be subdued until help reaches the huge share of inland homeowners underwater on their mortgages.

In 2010, the Inland Empire's population-serving sectors like retailing will begin recovering as money is re-spent locally by people affiliated with manufacturing and logistics firms. However, growth will be muted by the lack of new funds reaching people associated with construction. Here, the inland area is like an Old Western town with gold and

silver mines. If both closed, local jobs at the general store and saloon would close. With a new silver strike, some miners would again spend in town. But, a full recovery still requires a new gold strike.

## CALIFORNIA'S JOB LOSSES

In 2009, California lost -915,675 jobs (-6.0%) (Exhibit 5). From February 2009-2010, it was off -546,400. The largest declines were in construction (-113,900), manufacturing (-95,500) and logistics (-67,100). Those sectors ranked first (-13,000), second (-8,500) and fourth (-6,000) for Inland Empire job losses (Exhibit 7). The major state gain was in health care (+12,800) as it was in the inland area (+1,600).

## QER 2010 FORECAST

The 2010 Inland Empire forecast is for a gain of 10,500 jobs (0.9%), to 1,157,700. The area's February 2010 unemployment rate of 14.7% (second to Detroit) will fall to 11.7% (Exhibit 4). These estimates were created sector by sector based upon local trends, with allowance for the area's strengths and weaknesses plus its relationship to California's difficulties and anticipated U.S. actions (Exhibit 2).

**1. Clean Work, Good Paying (\$50,000 & up).** The Inland Empire's better paying sectors are expected to lose another -2,600 jobs in 2010 or -1.3%. This will continue the 2009 losses, when they fell by -5,300 positions (2.6%). Private sector groups will add jobs with managers, professionals and supply chain managers up 1,000 (1.9%). Mining and utilities will add 200. However, the public sector will shrink.

The federal government's growth, in part due to the 2010 census, should offset losses at the state level. But, lack of state and/or endowment funding will cause higher education to fall (-300; -1.8%). Low tax revenues will hit local governments very hard with losses at -3,500 positions (-4.3%).

**2. Clean Work, Moderate Paying (\$30,000-\$40,000).** Traditional white collar sectors will expand a little in 2010, up 1,600 jobs or 0.5%. Health care will grow by 1,500 jobs (1.5%) due to continued population growth and the early impact of the new health care bill. Financial activities will add 1,000 positions (2.3%) as existing home sales are spurred by record high affordability (see Exhibit 11). Administrative support and information sectors will gain 300 jobs as the general economy slowly expands (0.5%).

2 EMPLOYMENT FORECAST BY SECTOR & GROUP Inland Empire, 2010e							
Sector	2008	2008-2009 Change	2009	Percent	2009-2010 Forecast	2010e	Percent
Mgmt, Professions & Supply Chain	55,500	(4,100)	51,400	-7.4%	1,000	52,400	1.9%
Other (Mining, Utilities)	6,900	200	7,100	2.9%	200	7,300	2.8%
Federal & State Government	38,800	600	39,400	1.5%	0	39,400	0.0%
Higher Education	16,300	100	16,400	0.6%	(300)	16,100	-1.8%
Local Government	83,500	(2,100)	81,400	-2.5%	(3,500)	77,900	-4.3%
<b>Clean Work, Good Pay</b>	<b>201,000</b>	<b>(5,300)</b>	<b>195,700</b>	<b>-2.6%</b>	<b>(2,600)</b>	<b>193,100</b>	<b>-1.3%</b>
Health Care	101,400	600	102,000	0.6%	1,500	103,500	1.5%
Financial Activities	46,700	(3,100)	43,600	-6.6%	1,000	44,600	2.3%
Administrative Support & Info	56,700	(1,100)	55,600	-1.9%	300	55,900	0.5%
Local Public/Private Education	107,200	(800)	106,400	-0.7%	(1,200)	105,200	-1.1%
<b>Clean Work, Moderate Pay</b>	<b>312,000</b>	<b>(4,400)</b>	<b>307,600</b>	<b>-1.4%</b>	<b>1,600</b>	<b>309,200</b>	<b>0.5%</b>
Distribution & Transportation	113,300	(8,700)	104,600	-7.7%	2,400	107,000	2.3%
Manufacturing	106,800	(18,300)	88,500	-17.1%	2,200	90,700	2.5%
Construction	90,700	(23,300)	67,400	-25.7%	(1,200)	66,200	-1.8%
<b>Blue Collar, Moderate Pay</b>	<b>310,800</b>	<b>(50,300)</b>	<b>260,500</b>	<b>-16.2%</b>	<b>3,400</b>	<b>263,900</b>	<b>1.3%</b>
Employment Agcy	45,400	(6,000)	39,400	-13.2%	3,500	42,900	8.9%
Retail Trade	168,600	(13,700)	154,900	-8.1%	2,500	157,400	1.6%
Hotel, Amuse, Eat	131,000	(8,000)	123,000	-6.1%	1,500	124,500	1.2%
Other Services	40,800	(4,100)	36,700	-10.0%	500	37,200	1.4%
Agriculture	15,900	(700)	15,200	-4.4%	300	15,500	2.0%
Social Assistance	14,400	(200)	14,200	-1.4%	(200)	14,000	-1.4%
<b>Low Paying Work</b>	<b>416,100</b>	<b>(32,700)</b>	<b>383,400</b>	<b>-7.9%</b>	<b>8,100</b>	<b>391,500</b>	<b>2.1%</b>
<b>Total, All Industries</b>	<b>1,239,900</b>	<b>(92,700)</b>	<b>1,147,200</b>	<b>-7.5%</b>	<b>10,500</b>	<b>1,157,700</b>	<b>0.9%</b>

Columns may not add due to EDD rounding  
Source: CA Employment Development Department, Economics & Politics, Inc.

However, local K-12 schools will layoff 1,200 workers due to lack of state funding. The net gain of 1,600 jobs by this group will be 15.2% of the overall 10,500 job forecast.

### **3. Blue Collar, Moderate Paying (\$35,000-\$42,000).**

The Inland Empire's modestly educated labor force and competitive advantage for homes and large facilities have historically caused moderate paying blue collar firms to be its fastest growing sectors. In 2010, some of this strength will return with the combined group adding 3,400 jobs (1.3%). They will account for 32.4% of the 10,500 job forecast. Logistics will gain 2,400 positions (2.3%) thanks to the inventory cycle and the increase in imports through the ports of Los Angeles and Long Beach (*Exhibit 12*). Manufacturing will be helped by the gradual U.S. upturn and add 2,200 jobs (2.5%). While prices have slowly increased in the resale home market (*Exhibit 10*), they are still too low to allow a major increase in residential construction. Meanwhile, high vacancies rates in the industrial (12.5%) and office (23.6%) markets mean non-residential construction will stop when existing projects are finished. Construction will thus shrink by another -1,200 jobs (-1.8%).

**4. Lower Paying (\$15,000-\$25,000).** Like most U.S. areas, the Inland Empire's largest sectors are those paying low average incomes. In 2009, they lost -32,700 jobs (-7.9%). In 2010, they are expected to add 8,100 jobs or 2.1%. That will represent 77.1% of the Inland Empire's forecasted gain of 10,500 jobs. This will occur as net job gains in manufacturing, logistics and health care will mean more income flowing to the workers in them. That, in turn, will mean somewhat higher spending on local goods and services causing sectors like retailing (2,500; +1.6%) as well as hotel, amusement and dining (1,500; 1.2%) and other services like hair salons and automotive repair (500; 1.4%) to grow as well.

Meanwhile, employment agency jobs always grow at the beginning of a recovery as firms are hesitant to hire full-time workers until a recovery is confirmed (3,500 jobs; 8.9%) Agriculture should add jobs, given the very wet winter (300; 2.0%). Social assistance will lose 200 jobs, despite the increased need, as organizations have trouble raising contributions.

## **SUMMARY**

In 2010, the Inland Empire economy should gain 10,500 jobs (0.9%), after dropping -92,692 in 2009 (-7.5%) and -47,583 in 2008 (-3.7%), a decline that wiped out the jobs gained during the 2004-2007 boom. The modest turnaround will occur because the area's traditional competitive advantage (*undeveloped land, modestly priced labor*) will allow its logistics and manufacturing sectors to respond to a slow national turnaround. The recovery will be modest

because home development awaits a solution to the mortgage crisis, and non-residential development needs high office and industrial vacancy rates to be reduced.

## **COMMENTARY**

The Inland Empire's forecast of adding 10,500 jobs could be too low. This could happen if international trade recovers faster than expected and port import volume takes off, stimulating additional job growth at inland warehouses. Also, inland manufacturing could respond more strongly than anticipated to a U.S. recovery, though that is unlikely given the local importance of construction products. Worse, California has the nation's worst legal environment for goods production.

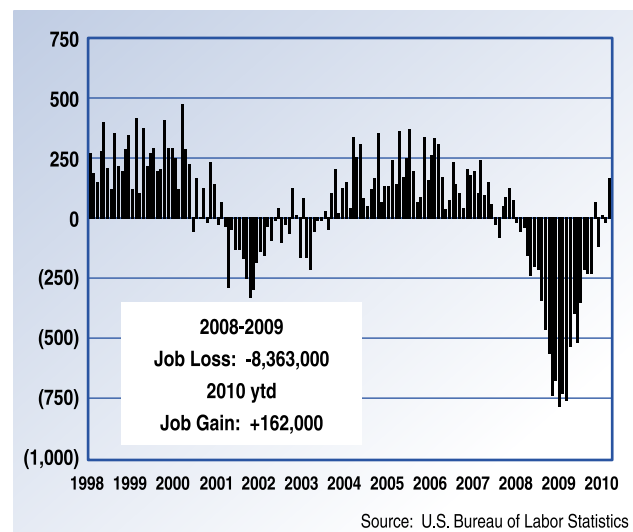
Home construction could be stronger than expected as builders have downsized home sizes and can benefit from fee cuts by numerous local jurisdictions. Here, the key would be a foreclosure solution that leads to more rapidly rising existing home prices, making new homes more competitive. Another positive possibility would be if the already high levels of existing home sales lead to more than expected job growth in finance, escrow, title and home insurance. This is possible since 65% of inland families can afford the bottom 50% of area homes, a record. However, despite record high sales (73,026) in 2009, significant numbers of those jobs were not created.

The Inland Empire's forecast of adding 10,500 jobs could be too high. This could happen if the U.S. economy has a double dip in late 2010, as predicted by a few economists. They see this due to a rise in interest rates by the Fed plus the end of the federal stimulus and the completion of inventory replenishment. Another possibility would be for international trade to recover more slowly than expected as a rise in the value of the dollar makes U.S. imports more expensive. That could blunt port import growth and an inland logistics expansion.

In 2010, the forecast assumes that the home building environment will improve a little, as a slow rise in existing home prices continues. If that does not happen, construction job losses would be more than anticipated. Another difficulty could be that Inland Empire manufacturers fail to respond to a U.S. recovery. To date, that has been the case. Finally, most recoveries are helped when entrepreneurs start new firms to implement their fresh ideas by borrowing at the prevailing low interest rates. However in 2010, the forecast was already suppressed by the limited availability of small business loans. If that situation worsens, it would further lower the forecast.

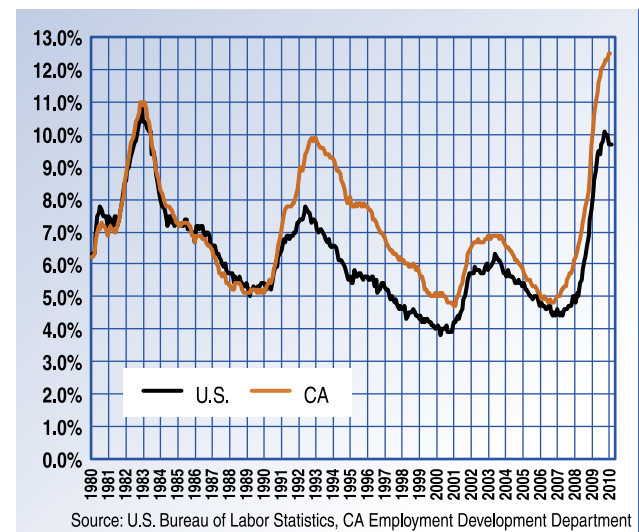
Despite these up and downside possibilities, a slow recovery of 10,500 jobs seems the most likely probability for 2010. ■

### 3 JOB CREATION OR DESTRUCTION U.S., 1998-2009, Seasonally Adjusted (000)



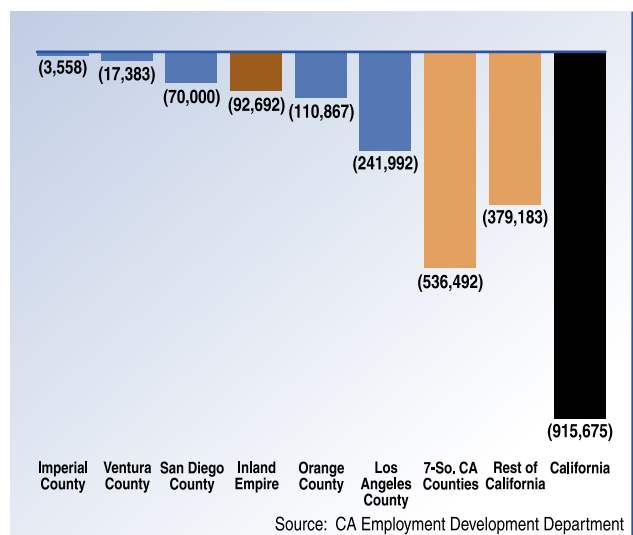
**U.S. Job Losses.** The deep 2008-2009 U.S. recession destroyed a record -8.4 million jobs (-6.1%). However, in the past four months, the numbers varied up and down with 162,000 jobs created from January to March 2010. The change signals that job growth has finally started to occur. So far, California has added a net of 5,000 jobs in January and February of 2010. This is important news since the national and state economies provide the ocean of forces that ultimately impact the health of the Inland Empire's economy.

### 4 U.S. & CALIFORNIA UNEMPLOYMENT HISTORY 1980-2010



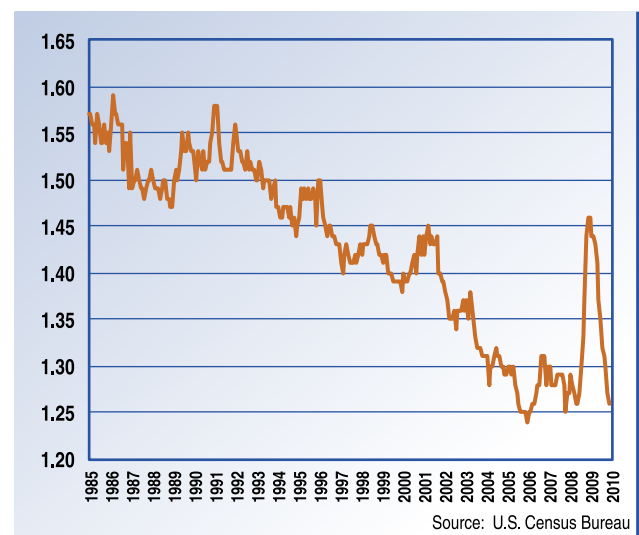
**Unemployment Rates.** The U.S. unemployment rate peaked at 10.1% in October 2009. It has subsequently fallen to 9.7% from January to March 2010. Meanwhile, California's rate has continued rising, reaching 12.2% in October 2009 and moving up to 12.5% in January and February 2010. The 2.8% by which California's rate exceeds that of the U.S. is the largest difference since at least 1976. It ties the December 1993 gap (CA: 9.3% v. U.S. 6.5%) due to the impact of post-Cold War defense cuts on the state. The Inland Empire's 14.7% unemployment rate ranks second in the U.S. to Detroit.

### 5 UNEMPLOYMENT CHANGE, CALIFORNIA MARKETS Annual Average, 2009



**Job Losses in 2009.** Revised data found that the Inland Empire's average annual employment loss was -92,692 jobs (-7.5%) in 2009. That exceeded the -47,583 job decline in 2008 (-3.7%). The area's difficulties were exceeded by losses of -110,867 jobs in Orange County (-7.5%) and -241,992 in Los Angeles County (-5.9%). The average annual 2009 job losses in Southern California's other counties were: San Diego (-70,000), Ventura (-17,383) and Imperial (-3,558). California's loss was -917,675 (-6.0%) with -536,492 of that in its southern counties.

### 6 U.S. INVENTORY TO SALES RATIO, 1985 TO 2010 Months Of Inventory On Hand At Existing Sales Levels



**Inventory Cycle.** One reason recessions end is because retailers, having allowed their inventories to reach low levels, must restock. From June-December 2008, the inventory held by U.S. firms soared from a 1.26 to a 1.46 months supply. Firms thus stopped buying new goods. By January 2010, inventories were down to a 1.25 months supply. With sales rising, companies have been forced to order more goods, causing both imports and U.S. manufacturing to increase. Further, since the recession caused firms to delay replacing aging equipment and now must do so, those orders are also helping the recovery.

# INLAND EMPIRE VS. CALIFORNIA JOB PROFILE

From February 2009-2010, California lost a net -546,400 jobs. Of this, a net loss of -56,000 occurred in the Inland Empire or 10.2% of the state's total, down from 16.9% last year (*Exhibit 7*). In looking at the expected behavior of the inland economy for all of 2010, it is useful to contrast the behavior of the area's job market with that of the state.

## CLEAN WORK, HIGH PAY

From February 2009-2010, the Inland Empire saw -5,800 of its -56,000 job losses among higher paying sectors, a 10.4% share. California's share was 15.4% of its -546,400. Management and the professions led job losses in the inland area (6.3% share) and the state (10.3% share). Local governments were next with the inland area's share of losses at 3.0% and the state's at 3.9%. Two contrasts occurred with higher education shrinking in the Inland Empire (-400) but rising statewide (+4,000). The high paying group's Inland Empire growth rate was -3.0%. It was -2.8% statewide.

## CLEAN WORK, MODERATE PAY

Modest paying white collar sectors caused a much smaller share of job losses in the Inland Empire (5.2%) than for California (13.5%). Financial activities had the largest share of both inland (4.1%) and state (5.8%) job losses due to the mortgage crisis. Administrative support jobs ranked second: inland (3.6%), state (5.6%). Education accounted for a much smaller share of Inland Empire job losses (0.2%) than for California (1.6%). Both the inland area (1,600) and the state added health care jobs (12,800). The clean work, moderate pay group's growth rates were -0.9% in the Inland Empire and -1.8% statewide.

## BLUE COLLAR WORK, MODERATE PAY

Blue collar sectors were hit hard from February 2009-2010, causing 49.1% of the Inland Empire job losses and 50.6% for California. Construction hurt both, accounting for 23.2% of inland job losses and 20.8% for California. Manufacturing represented

## 7 JOB CHANGE & SHARE OF LOSSES Inland Empire & California, February 2009-2010

Sector	Inland Empire	% Change	Share of Loss	California	% Change	Share of Loss
Mgmt & Professions	(3,500)	-7.1%	6.3%	(56,400)	-4.5%	10.3%
Local Government	(1,700)	-2.1%	3.0%	(21,200)	-2.6%	3.9%
Higher Education	(400)	-2.3%	0.7%	4,000	1.1%	-0.7%
Federal & State	(200)	-0.5%	0.4%	(8,100)	-1.6%	1.5%
Mining	(100)	-8.3%	0.2%	(2,800)	-10.6%	0.5%
Utilities	100	1.7%	-0.2%	600	1.0%	-0.1%
<b>Clean Work, Good Pay</b>	<b>(5,800)</b>	<b>-3.0%</b>	<b>10.4%</b>	<b>(83,900)</b>	<b>-2.8%</b>	<b>15.4%</b>
Financial Activities	(2,300)	-5.1%	4.1%	(31,700)	-3.9%	5.8%
Admin. Support	(2,000)	-4.8%	3.6%	(30,700)	-5.8%	5.6%
Education	(100)	-0.1%	0.2%	(9,000)	-0.8%	1.6%
Publish, telecomm, Other	(100)	-0.7%	0.2%	(15,300)	-3.4%	2.8%
Health Care	1,600	1.6%	-2.9%	12,800	1.1%	-2.3%
<b>Clean Work, Moderate Pay</b>	<b>(2,900)</b>	<b>-0.9%</b>	<b>5.2%</b>	<b>(73,900)</b>	<b>-1.8%</b>	<b>13.5%</b>
Construction	(13,000)	-18.6%	23.2%	(113,900)	-17.7%	20.8%
Manufacturing	(8,500)	-9.1%	15.2%	(95,500)	-7.2%	17.5%
Logistics	(6,000)	-5.3%	10.7%	(67,100)	-6.2%	12.3%
<b>Blue Collar Work, Moderate Pay</b>	<b>(27,500)</b>	<b>-10.0%</b>	<b>49.1%</b>	<b>(276,500)</b>	<b>-9.1%</b>	<b>50.6%</b>
Retail Trade	(7,600)	-4.8%	13.6%	(52,600)	-3.4%	9.6%
Eating & Drinking	(5,600)	-5.9%	10.0%	(27,500)	-2.6%	5.0%
Accommodation	(2,200)	-13.7%	3.9%	(8,800)	-4.4%	1.6%
Amusement	(2,100)	-11.9%	3.8%	(12,400)	-5.2%	2.3%
Other Services	(1,400)	-3.8%	2.5%	(23,000)	-4.7%	4.2%
Agriculture	(400)	-3.1%	0.7%	7,900	2.7%	-1.4%
Employment Agcy	(300)	-0.8%	0.5%	8,100	2.6%	-1.5%
Social Assistance	(200)	-1.4%	0.4%	(3,800)	-1.7%	0.7%
<b>Low Paying Work</b>	<b>(19,800)</b>	<b>-5.1%</b>	<b>35.4%</b>	<b>(112,100)</b>	<b>-2.6%</b>	<b>20.5%</b>
<b>All Losing Sectors Only</b>	<b>(56,000)</b>	<b>-4.8%</b>	<b>100.0%</b>	<b>(546,400)</b>	<b>-3.7%</b>	<b>100.0%</b>

Note: Columns may not add due to rounding Source: CA Employment Development Department

represented 15.2% of the Inland Empire's job decline and 17.5% for the state. Logistics (*distribution & transportation*) losses were a smaller share of inland job losses (10.7%) than for California (12.3%). The blue collar group shrank by -10.0% in the inland region and -9.1% statewide.

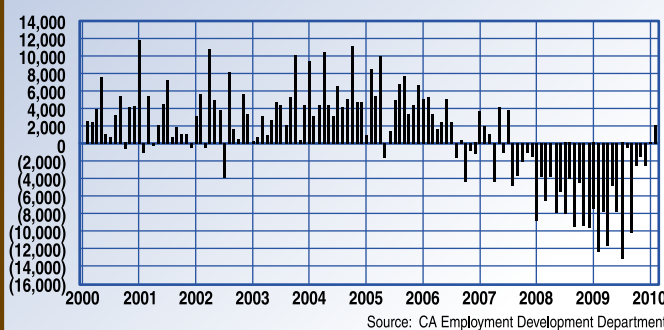
## LOWER PAYING WORK

Low paying sectors ranked second and caused a much higher share of Inland Empire job losses (35.4%) than for California (20.5%). Retailing was the hardest hit, at 13.6% of inland losses versus 9.6% for the state. Eating and drinking were next at the inland (10.0% of losses) and state levels (5.0% of losses). In the Inland Empire, accommodation (3.9%) and amusement (3.8%) ranked next. Respectively, they represented 1.6% and 2.3% of California's job losses. Significantly, employment agencies, a precursor to later job growth shrank in the inland area (-300) but rose in the state (8,100). The low paying groups overall growth rate was -5.1% in the Inland Empire and -2.6% for California.

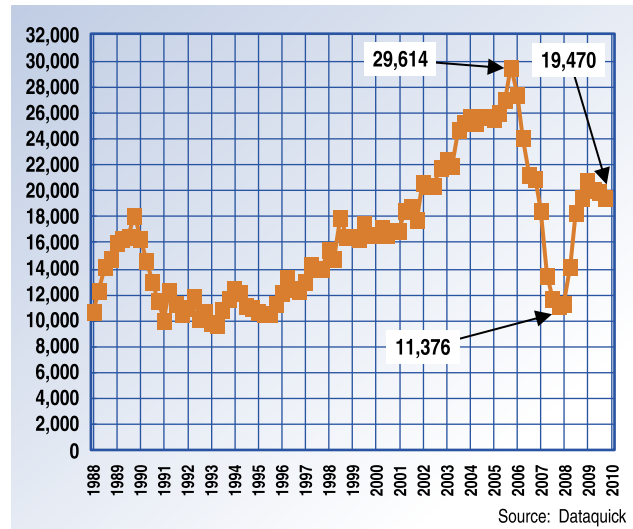
## SUMMARY

There is much similarity in the sectors causing Inland Empire and California job losses. Primarily, blue collar and low paying sectors have been hurt the most, with the low paying group hitting the inland area much harder. Surprisingly, given its available land, construction hurt the Inland Empire only somewhat more than the state. The reverse was true in manufacturing. The inland area's relatively small office sector meant that the moderate paying group hurt the area less than for the state. Looking ahead, note the turnaround in Inland Empire seasonally adjusted job growth which went to zero in January and up 2,400 jobs in February 2010 (*Exhibit 8*). ■

## 8 MONTHLY JOB CREATION/DESTRUCTION Inland Empire, Seasonally Adjusted, 2000-2009

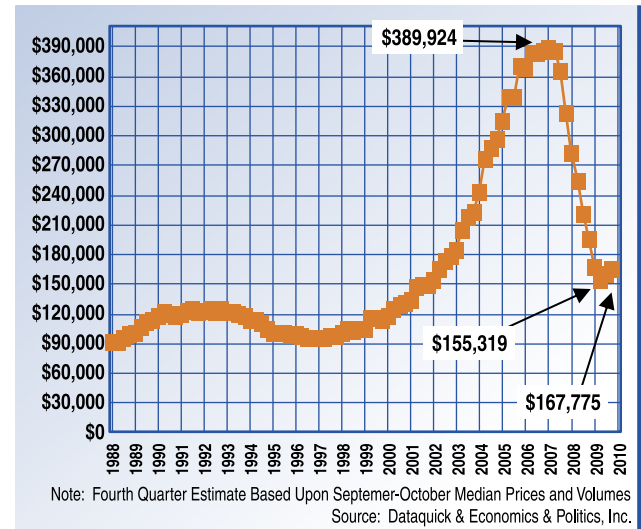


## 9 ALL HOMES SALES, INLAND EMPIRE Seasonally Adjusted, By Quarter, 1988-2010



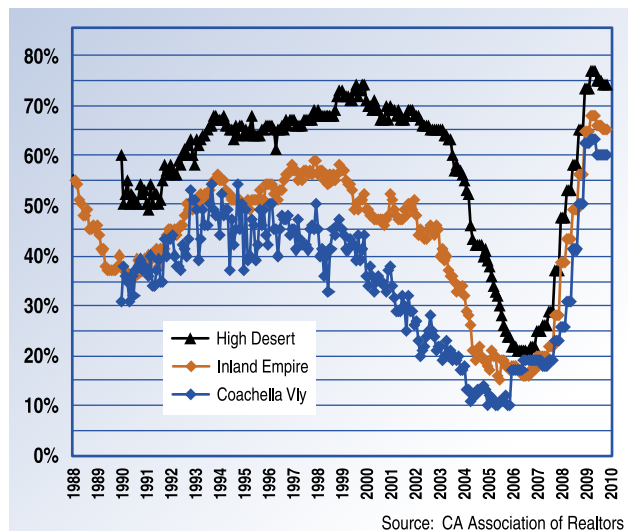
**Home Volume Plateau.** Seasonally adjusted Inland Empire home volume plunged from a record 29,670 in 4<sup>th</sup> quarter 2005 to a low of 11,376 sales in 4<sup>th</sup> quarter 2007. With foreclosures driving prices down, demand and volume surged over 70% to a plateau from 19,500 to 20,000 homes throughout 2009. That puts activity back at mid-2002 levels which, at that time, was regarded as a strong period. Note that in 2008, all of the sales growth came from existing homes which remained largely flat in 2009. New home sales trended up during 2009 but remain near historic lows.

## 10 PRICE TRENDS, EXISTING HOMES Inland Empire, 1988-2009, Quarterly



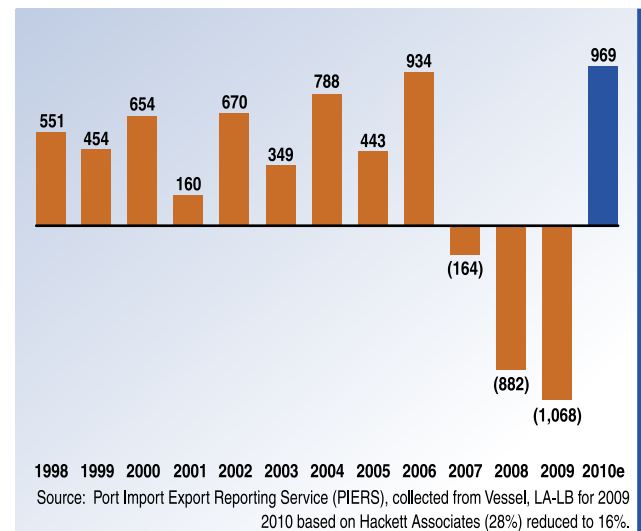
**Existing Home Price Trend.** Inland Empire existing home prices surged to \$389,924 in 1<sup>st</sup> quarter 2007 with speculators and creative mortgages driving them up. When the bubble burst, prices descended to \$155,319 by 2<sup>nd</sup> quarter 2009, off -60.2%. In 4<sup>th</sup> quarter 2009, existing homes were back to \$167,775, up 8.0% from the low. The rise has occurred because the demand for homes, coming from an affordability level of 66%, has been higher than the supply of homes largely coming from short sales and foreclosure sales. The gradual upward trend should continue unless lenders precipitously increase the level of their foreclosure activity.

## 11 HOUSING AFFORDABILITY, INLAND EMPIRE Share Of Families Afford Median Priced Home, 1988-2009



**Housing Affordability.** According to the CA Association of Realtors, 65% of inland families could afford the region's median priced home (50% of homes above and below) in 4<sup>th</sup> quarter 2009. This was down from a record 68% in the 2<sup>nd</sup> quarter. Meanwhile, 74% of High Desert families and 60% of Coachella Valley families could afford their median priced homes. These were down from records of 77% and 63% but still higher than any period in the last 20 years. It is a reason why demand has surged for homes in the inland area, causing prices to rise slowly and then roughly stabilize.

## 12 CHANGE IN IMPORTED CONTAINERS Ports Of Los Angeles-Long Beach, 1998-2010e (000 of teus)



**Port Revival?** Logistics is a key Inland Empire employment driver (2000-2007: +40,400 jobs), powered by warehouses largely handling imports from Southern California's ports. However in 2007-2009, imports fell -25.9% or -2.1 million twenty-foot equivalent container units (teus) as demand dropped with the steep recession. Local logistics firms laid off -7,900 workers. A National Retail Federation study now predicts that inventory replenishment will drive imports up 28% in January-June 2010 vs. 2009. Using 16% for all 2010, port growth would be a record 969,000 teus with volume returning to its 2008 total of 7.0 million teus. In January-February 2010, growth has been 13.3%.

### 13 SINGLE FAMILY HOME PRICES 4th Quarter, 2008-2009

County	4th Qtr-08	4th Qtr-09	% Chg.
<b>NEW HOMES</b>			
Riverside	\$420,500	\$399,000	-5.1%
San Bernardino	315,250	282,054	-10.5%
Los Angeles	420,500	399,000	-5.1%
Orange	495,000	555,000	12.1%
San Diego	480,000	393,750	-18.0%
Ventura	437,750	370,000	-15.5%
<b>So. California</b>	<b>\$426,300</b>	<b>\$395,900</b>	<b>-7.1%</b>
<b>EXISTING HOMES</b>			
Riverside	\$209,000	\$185,000	-11.5%
San Bernardino	180,000	146,000	-18.9%
Los Angeles	341,000	335,000	-1.8%
Orange	450,000	500,000	11.1%
San Diego	340,000	364,000	7.1%
Ventura	377,000	405,000	7.4%
<b>So. California</b>	<b>\$296,300</b>	<b>\$297,500</b>	<b>0.4%</b>

Source: Dataquick

### 14 HOME DEED RECORDINGS Inland Empire, 4th Quarter, 2008-2009

NEW HOMES				EXISTING HOMES			
Area	4th-08	4th-09	% Chg.	Area	4th-08	4th-09	% Chg.
Fontana, Rialto, Colton, GT	122	199	63.1%	SB Mountains	424	663	56.4%
Chino, CHill, Mtcl, Ont, RC, Upl	237	300	26.6%	SB Desert	359	504	40.4%
San Bernardino, Highland	49	59	20.4%	Victor Valley	1,567	1,784	13.8%
SB Desert	19	22	15.8%	San Bernardino, Highland	938	1,050	11.9%
Victor Valley	178	144	-19.1%	Redlands, Loma Linda, Yucaipa	351	380	8.3%
SB Mountains	12	8	-33.3%	Chino, CHill, Mtcl, Ont, RC, Upl	2,267	1,306	-3.1%
Redlands, Loma Linda, Yucaipa	63	40	-36.5%	Fontana, Rialto, Colton, GT	1,680	1,504	-10.5%
<b>SAN BERNARDINO COUNTY</b>	<b>680</b>	<b>772</b>	<b>13.5%</b>	<b>SAN BDNO COUNTY</b>	<b>6,586</b>	<b>7,191</b>	<b>9.2%</b>
Corona, Norco	329	315	-4.3%	Coachella Valley	1,114	1,390	24.8%
Perris, Hemet, S. Jacinto	382	364	-4.7%	Riverside Rural	636	692	8.8%
Murrieta, Temecula, L. Elsinore	348	307	-11.8%	Beaumont, Banning, Calimesa	374	392	4.8%
Coachella Valley	134	118	-11.9%	Perris, Hemet, S. Jacinto	2,391	2,316	-3.1%
Beaumont, Banning, Calimesa	183	161	-12.0%	Riverside	1,346	1,284	-4.6%
Riverside Rural	161	123	-23.6%	Murrieta, Temecula, L. Elsinore	2,126	1,980	-6.9%
Moreno Valley	64	45	-29.7%	Corona, Norco	1,328	1,106	-16.7%
Riverside	123	78	-36.6%	Moreno Valley	1,460	999	-31.6%
<b>RIVERSIDE COUNTY</b>	<b>1,724</b>	<b>1,511</b>	<b>-12.4%</b>	<b>RIVERSIDE COUNTY</b>	<b>10,775</b>	<b>10,159</b>	<b>-5.7%</b>
<b>INLAND EMPIRE</b>	<b>2,404</b>	<b>2,283</b>	<b>-5.0%</b>	<b>INLAND EMPIRE</b>	<b>17,361</b>	<b>17,350</b>	<b>-0.1%</b>

Source: Dataquick

## INLAND EMPIRE HOME MARKETS IN REPAIR MODE

In 2009, the Inland Empire recorded an all-time high of 73,260 existing home sales, up 36.5% from 53,679 in 2008 and more than double the recession low of 34,494 in 2007. By contrast, only 7,406 new homes were sold in 2009, off -30.8% from 10,700 in 2008 and down 62.8% from 19,918 in 2007 (*Exhibit 15*). From 4th quarter 2008-2009, the region's existing home sales were flat, going from 17,361 to 17,350, off -0.1% (*Exhibit 14*). The quarter's new home sales fell -5.0% from 2,404 to 2,283.

Year-over-year home prices were down as foreclosure sales dominated inland markets. From 4th quarter 2008-2009, Riverside County's existing homes (\$185,000) were off -11.5% (*Exhibit 13*). San Bernardino County's (\$146,000) were down -18.9%. However, this hides the fact that prices rose from their 2nd quarter lows: Riverside County up 7.6% from \$172,000; San Bernardino County up 9.0% from \$134,000. Fourth quarter 2008-2009 new home prices

were off -5.1% in Riverside County (\$399,000) and -10.5% in San Bernardino County (\$282,054). However, both were above 3rd quarter lows: Riverside (+2.9%), San Bernardino (+7.5%).

**SALES.** During 4th quarter 2009, Riverside County had 10,159 existing home sales, off -5.7% from 10,775 in 2008 with 53% from foreclosures. The Coachella Valley had the largest gain (24.8%) to 1,390 units. Perris, Hemet, San Jacinto was the volume leader (2,316, -3.1%). The county had 1,511 new home sales, off -12.4% from 4th quarter 2008. The smallest growth rate decline was in Corona-Norco, off -4.3% to 315 units. The volume leader was Perris, Hemet, San Jacinto (364, -4.7%).

San Bernardino County's 4th quarter 2008-2009 existing home sales were up 9.2% to 7,191 with 56% from foreclosures. Mountain areas were the growth leader, up 56.4% to 663. The Victor Valley led in volume at 1,784 (13.8%). The county's new home sales rose 13.5% to 772. The Fontana, Rialto, Colton area was the growth leader, up 63.1% to 199. The volume leader was the area west of the I-15 freeway (300, 26.6%).

**PRICES.** Year-over-year data do not show the turnaround in Inland Empire existing home prices since its trough in the 2nd quarter 2009 (*Exhibit 13*). Since that quarter (*not shown*), the combined median price was \$155,319. In the 4th quarter, it was \$167,775, up \$12,455 or 8.0%. Southern California prices rose 11.8% between these periods. The combined inland new home median price reached a bottom of \$270,642 in 3rd quarter 2009. It was \$277,387, in the 4th quarter, up \$6,745 or 2.5%. Southern California new home prices were up 1.5%.

**SUMMARY.** Healing has begun in the Inland Empire's home markets. As long as banks do not suddenly begin exercising their foreclosure rights and begin taking and dumping troubled homes on the market, prices and volumes will be driven by affordable buyers entering the market. Volume and prices should rise slowly through 2010. ■

### 15 HOME DEED RECORDINGS Inland Empire, Annual, 2008-2009

NEW HOMES				EXISTING HOMES			
Area	2008	2009	% Chg.	Area	2008	2009	% Chg.
Fontana, Rialto, Colton, GT	509	542	6.3%	Victor Valley	4,608	7,961	72.8%
Chino, CHill, Mtcl, Ont, RC, Upl	1,074	893	-16.9%	San Bernardino, Highland	2,698	4,536	68.1%
SB Desert	99	72	-26.6%	Fontana, Rialto, Colton, GT	4,581	7,079	54.5%
San Bernardino, Highland	251	150	-40.2%	SB Desert	1,346	1,839	36.6%
SB Mountains	42	24	-41.8%	Chino, CHill, Mtcl, Ont, RC, Upl	4,002	5,197	29.9%
Redlands, Loma Linda, Yucaipa	288	157	-45.6%	SB Mountains	1,687	2,158	27.9%
Victor Valley	1,091	498	-54.3%	Redlands, Loma Linda, Yucaipa	1,221	1,454	19.1%
<b>SAN BERNARDINO CO.</b>	<b>3,355</b>	<b>2,337</b>	<b>-30.3%</b>	<b>SAN BERNARDINO CO.</b>	<b>20,143</b>	<b>30,224</b>	<b>50.0%</b>
Murrieta, Temecula, L. Elsinore	1,393	1,146	-17.7%	Riverside Rural	2,020	2,934	45.2%
Beaumont, Banning, Calimesa	784	566	-27.9%	Perris, Hemet, S. Jacinto	7,221	10,341	43.2%
Corona, Norco	1,139	817	-28.3%	Riverside	4,018	5,528	37.6%
Perris, Hemet, S. Jacinto	1,650	1,145	-30.6%	Beaumont, Banning, Calimesa	1,168	1,601	37.1%
Riverside	505	334	-33.9%	Coachella Valley	4,148	5,297	27.7%
Coachella Valley	697	419	-39.8%	Moreno Valley	3,739	4,622	23.6%
Riverside Rural	825	455	-44.8%	Murrieta, Temecula, L. Elsinore	6,930	8,070	16.5%
Moreno Valley	353	186	-47.2%	Corona, Norco	4,292	4,643	8.2%
<b>RIVERSIDE COUNTY</b>	<b>7,345</b>	<b>5,069</b>	<b>-31.0%</b>	<b>RIVERSIDE COUNTY</b>	<b>33,536</b>	<b>43,036</b>	<b>28.3%</b>
<b>INLAND EMPIRE</b>	<b>10,700</b>	<b>7,406</b>	<b>-30.8%</b>	<b>INLAND EMPIRE</b>	<b>53,679</b>	<b>73,260</b>	<b>36.5%</b>

Source: Dataquick