Economic forecasting is difficult during normal times. In 2020, we are faced with the largest variety of unknowns in modern history. Covid-19 shut down much of the economy in March-April 2020. U.S. streets are filled with demonstrations. There is really no historic economic data relevant to this period of time. Right now, economists are somewhat flying blind. To establish a definite perspective, this QER is late as it was necessary to wait for the state’s May 22nd Inland Empire data release to get the full picture of how deep the April job decline had been.

For the Inland Empire, one economist has ventured that we will see a “V” shaped recovery during the year. That means, the economy dove with the shutdown but will bounce back in a hurry. Another looks forward to a “Nike swoosh,” meaning a rapid decline followed by a long slow recovery. This economist sees economic growth as a “check mark,” down fast with a moderately rapid recovery though certainly not by the end of 2020.

There is no doubt that economists are all making educated guesses about the future. In this QER, the attempt has been made to build a forecast for 2020 by looking at the anticipated behavior of each sector of the Inland Empire’s economy. It then discusses how annual average 2020 data is likely to compare to 2019.

This process relies on the pool of knowledge we have about how the various Inland Empire sectors will act. We know logistics is heavily dependent on e-commerce which is soaring and port imports which are somewhat restrained. Hospitals have been vitally...
To forecast 2020, past CA Employment Development Department (EDD) data were used to estimate monthly seasonality factors for each inland sector. These were applied to EDD’s January-April 2020 estimates. Next, estimates were made of how each sector would grow or decline from its seasonally adjusted April 2020 level to December 2020. These estimates were made based on recent discussions with over 30 local companies, work of other economists and this analyst’s instincts about how the sectors have historically acted. The compounded monthly growth rates by sector were calculated between April data and December estimates. They were used to estimate employment by sector for the intervening months. Those figures were adjusted to include seasonality by using the historic share that each months’ jobs have traditionally made of its annual total. Together with EDD’s January to April job levels, the result was the estimated monthly growth by sector for 2020 (Exhibit 8). This allowed calculation of the annual average job growth by sector (Exhibit 3) and over all for 2020 (1,486,300) that was comparable to EDD’s published average annual 2019 level (1,556,900).

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Source: Economics & Politics, Inc.

**Eating & Drinking** has been the hardest hit sector. From March to April 2020, the group lost -52,500 jobs below April 2019. The state is now allowing outlets to open but with seating restrictions. Also, surveys reveal some hesitancy by the public to congregate. Combined, these factors make it unlikely the sector will return to normal this year. It is anticipated to go from 86,800 jobs to 107,600 in December 2020, up 2.72% per month.
as restaurants and bars reopen. Employment was 136,300 in December 2019. The result is an annual average of 106,000 jobs for 2020, down -31,000 from 137,000 in 2019 (Exhibit 3).

Retail Trade & Consumer Services were also shutdown hard due to the pandemic. They lost -26,400 jobs from March to April 2020 leaving them -28,900 positions below April 2019. Many of these small businesses may not survive the slowdown. At the same time, some customers may be reluctant to return to normal shopping, others may simply continue their on-line shopping. Retail stores are assumed to grow from 162,400 workers in April to 177,200 at Christmas time, up 1.10% per month. The December level would be below the 191,000 in December 2019. This would give retailers an annual average of 170,200 jobs for 2020, down -11,100 jobs from 181,300 in 2019. Consumer services firms (e.g., hair stylists, gyms, auto repair) are anticipated to go from 33,500 jobs in April to 37,700 by December, up 1.49% per month. That would give them a 2020 annual average of 37,900 jobs down -7,900 from 45,800 in 2019. Together, they will be off -19,000 jobs (Exhibit 4).

Accommodation & Entertainment are the other sectors most affected by the pandemic. These relatively small sectors lost -8,500 jobs from March to April 2020 leaving them -11,000 positions below April 2019. With people reluctant to travel on planes, trains, buses and taxis, much less sit together in confined entertainment spaces, these sectors will have trouble returning to normal in 2020. Hotels and other accommodations are assumed to grow from 13,100 jobs in April to 13,800 in December 2020, up 0.65% per month. They employed 18,000 in December 2019. This would mean an annual average of 14,400 jobs for 2020, down -3,800 jobs from 18,200 in 2019. Entertainment venues are anticipated to go from 16,100 jobs in April to 16,900 by December, up 0.61% per month. It reached 20,300 in December 2019. That would give entertainment outlets an annual average of 16,500 jobs for 2020, off -3,600 from 20,100 in 2019. Together, they will be down -7,400 jobs (Exhibit 5).

Management & Professions employment will likely be adversely affected as many workers who have begun working on-line from home will stay there. This will tend to reduce the need for support personnel. From March to April 2020, the sector lost -5,100 jobs putting it -6,600 positions below April 2019. It will grow 1.23% per month from April to December bringing it to 50,500 jobs, just below the 51,100 in December 2019. Annual average 2020 employment will be 48,500, down -3,100 from 51,600 in 2019.

Local Governments are beginning to see reductions in revenue as sales taxes fall with lower on-site sales and transient occupancy taxes decline with less travel. However, property taxes are still holding up as existing home prices grew 5.2% in Riverside County and 7.6% in San Bernardino County in first quarter 2020 (Exhibit 14). Also, property assessments began being made in late 2019 and early 2020. By December 2020, local government should have 78,100 jobs compared to 83,100 in December 2019, off -5,000 jobs. The annual average 2020 employment would be 79,800, down -2,400 from 82,200 in 2019.

K-12 Education will be affected as California cuts its budget due to declining income and sales taxes. How much local schools will be hurt is unsettled given the on-going debate between the Governor and Legislature. The schools dropped -6,500 jobs as schools shutdown from March to April 2020, leaving the sector -9,800 jobs below April 2019. It is assumed that most schools will reopen by year’s end. From April to December, the sector is anticipated to grow at 0.49% per month reaching 139,800 positions. That would give it an annual average of 134,800 jobs, down -4,800 from 139,600 in 2019.

Other Sectors will see impacts from the slowdown. Social assistance will add 3,000 jobs as high unemployment adds to their importance. Federal and state government will add 700 due to the Census. Finance, insurance and real estate will drop -1,300 jobs due to stagnate real estate sales. Administration will lose -1,000 positions as offices need less help with staff working on-line from home. Agriculture will lose -1,000 due to the virus hitting workers particularly hard. Employment agencies will lose an annual average of -4,400 jobs as higher unemployment reduces the need for companies to depend on them. All other sectors will see annual average employment changes under 1,000 jobs.

**SUMMARY**

The forecast that employment will drop an annual average of -70,600 jobs from 1,556,900 in 2019 to 1,486,300 in 2020 depends heavily on the considerations outline here as to how each sector is likely to change from April to December 2020. To the extent they approach reality, the forecast will be relatively accurate. They are enumerated here for review.

For further information on the economic analysis in the QER, visit Dr. John Husing’s website at: www.johnhusing.com

You’ll also find pages on Dr. Husing’s background, speaking engagements, downloadable presentations, adventures, and other items of interest.
Retail & Consumer Services. By the end of 2020, it is forecasted that annual average retail trade will end up -11,100 jobs or -6.1% below 2019. Meanwhile, annual average consumer services will be down by -7,900 jobs or -17.2% from 2019. Together, these two population serving sectors will have lost an average of -19,000 jobs or -8.4% in 2020 compared to 2019 (Exhibit 4). To reach these levels, both will recover somewhat from their April 2020 lows. Retail trade will go from 162,400 jobs that month to 177,200 in December, adding back 14,800 positions (9.1%). Consumer services will go from 33,500 in April to 37,700 in December, up 4,200 jobs (12.4%) (see Exhibit 8).

Accommodation & Entertainment. By the end of 2020, it is predicted that annual average accommodation outlets will be down by -3,800 jobs or -20.9% compared to 2019. Meanwhile, workers employed in entertainment venues will decline by annual average of -3,600 jobs or -17.9% from 2019. Together, these two population serving sectors will end up -7,400 jobs or –19.3% in 2020 compared to 2019 (Exhibit 5). To reach these levels, both will grow somewhat from their April 2020 lows. Accommodation will expand from 13,100 jobs that month to 13,800 in December, adding 700 positions (5.3%). Entertainment locations will rise from 16,100 in April to 16,900 in December, up 800 jobs (4.8%) (Exhibit 8).

Logistics. Logistics (wholesale trade, warehousing, transportation) is forecasted to end 2020 up 7,800 jobs or 3.8% on an annual average basis compared to 2019 (Exhibit 6). To reach this level the group will have to increase from its low of 201,300 jobs in April 2020 to 227,600 by December, adding 26,300 positions (13.1%) (Exhibit 8). This will depend upon two phenomena. First is the continuing increase in e-commerce jobs given that consumers are depending on the internet for much more of their retail spending. It will also require international trade through the ports of Los Angeles and Long Beach to return to volumes closer to normal.

Health Care. Compared to 2019, the combination of hospitals, ambulatory care facilities (e.g., outpatient medical groups, dentists) and residential care is forecasted to end 2020 with 1,500 more positions, up 1.0% on an annual average basis (Exhibit 7). This means these providers will have to go from a low of 138,700 jobs in April 2020 to 159,700 by December, a gain of 21,000 jobs (15.1%) (Exhibit 8). This will require the reopening of ambulatory clinics, dentists’ offices and psychologists practices as well as gaining control over the public health difficulties that have savage residential care facilities. Importantly, it will also mean that the funding of medical care will have to be boosted from its depressed level.
INLAND EMPIRE EMPLOYMENT

By the time 2020 ends, it is forecasted that the Inland Empire will have an annual average of 1,486,300 jobs. That would be down -70,600 or -4.5% from 1,556,900 in 2019 (Exhibit 8). The economy had been down -150,700 (-9.7%) in April 2020 (Exhibit 9).

High Paying Sectors. Higher paying sectors will decline an annual average of -3,200 jobs in 2020 (-0.9%). Health care would average 149,400 (1.0%), just below its January 2020 high of 151,600 assuming funding will be found for the sector. It will be up 1,500 jobs from its 2019 level (1.0%). Management and professions would average 134,800 positions, about the April level as schools stay open to avoid social contact and international trade somewhat recovers. Construction will average 102,300, about its January 2020 level, as weather improves, industrial construction and some residential building returns. It will be down -3,600 jobs from 2019 (-3.6%). Finance, insurance and real estate will average 42,900 jobs, a little over its April level and -1,300 jobs below 2019 (-3.4%). Given the economy remains somewhat flat. K-12 schools will average 134,800 positions, about the April level as schools have difficulty opening due to Covid-19. They will be -4,800 jobs below 2019 (-3.4%). Manufacturing will average 96,300, roughly its January 2020 level, and down -4,900 from 2019 (-4.9%).

Low Paying Sectors. The low paying sectors have been particularly damaged by Covid-19 and will lose an average of -60,700 jobs in 2020 (-10.1%). Given the economic hardship, only social assistance will grow, reaching an average of 85,400 jobs, up 3,000 from 2019 (3.6%). Administrative support will be up slightly from April, averaging 59,900, but down -800 from 2019 (-1.3%). Agriculture will be a little below its January level at 14,100, down -1,000 jobs from 2019 (-6.6%). With accommodation

Continued on page 6
(14,400) and entertainment (16,500) hit by Covid-19, both will remain close to their April levels. Respectively, they will be down -3,800 (-20.9%) and -3,600 (-17.8%) from 2019 levels. With unemployment high, temporary agencies will average between their January high and April low at 38,800 jobs, down -4,400 from 2019 (-10.2%).

Population services will remain hurt by Covid-19 with each recovering only somewhat from their April lows. Consumer services will average 37,900 jobs, up 4,200 from April (12.4%), but down -7,900 from 2019 (-17.3%). Retailing will average 170,200, up 14,800 (9.1%) from April but down -11,100 (-6.1%). Eating and drinking will average 106,000, up 20,800 from April (24.0%) but down -31,000 from 2019 (-22.6%).

Unemployment. Had April 2019-2020 data referred to whole years, the loss of jobs in that period would have taken unemployment from 74,000 to 295,500, up 221,500, and a 14.4% rate. Of the 221,500 jobs lost, 150,700 were by workers who lost local jobs. If the forecast discussed above occurred, only 70,600 workers would have lost their local jobs, and there would be 80,100 fewer unemployed (150,700 minus 70,600). Unemployment would be 215,400, not 295,500 and an unemployment rate from a labor force of 2,047,500 of 10.5%, not 14.4%. This omits the fact that only about 80% of local workers have local jobs; the other 20% are commuters. If all of Southern California acted like the Inland Empire and unemployment was 80,100 lower locally, there would also be 16,020 fewer unemployed commuters (20%) meaning a total of 96,120 fewer unemployed inland workers. Total unemployment would be 199,380 not 295,500 with an unemployment rate of 9.7% not 14.4%. Based upon the forecast, the rough conclusion is a 2020 unemployment rate forecast between 9.7% to 10.5%.
U.S. Consumer Spending. As the U.S. economy entered the first quarter of 2020, consumer spending fell by -6.8%. That was the first such decline since 2009 and the largest such decline since -8.7% in second quarter 1980 (not shown). This did not include the severe lockdown that occurred in April 2020 indicating that in the second quarter of 2020 the consumer spending change will likely be much worse. This has particularly affected spending in the retail, consumer services, restaurant, hotel and entertainment sectors of the Inland Empire economy.

E-commerce. The share of U.S. retail sales through e-commerce companies has continued to soar. In first quarter 2019-2020, it grew another 14.8%. It has grown each year at a compound annual rate of 12.6% since 2011. As a result, the share of U.S. retail sales through operations like Amazon now represents 11.8% of all consumer buying. With the shutdown in April 2020, the growth and the share will no doubt set records. Locally, this is propelling employment by logistics companies in the Inland Empire.

Port Volumes. A key driver of the Inland Empire’s economy is the volume of cargo flowing through the ports of Los Angeles and Long Beach. In 2018, the two ports saw imported containers reach 9.0 million twenty-foot equivalent containers (teus), a record. From there, volume has declined. It fell to 8.5 million in 2019 due to the President’s tariff policies. In 2020, it has begun the year falling back to 7.5 million as both tariffs and the Covid-19 decline in international trade has hurt volumes. That brings it down to just over the 2013 level. As a good deal of this cargo ends up in Inland Empire warehouses, this has slowed logistics sector growth in the area.

Residential Prices. During first quarter 2020, the Inland Empire’s residential prices continued rising. Existing median home prices rose from $353,381 in first quarter 2019 to $375,446 in 2020, up $22,064 or 6.2%. Since the 2009 low of $155,319, prices have far more than doubled (141.7%) but remain -3.7% under the $389,924 high in 2006. Since many of the homes sold at the 2005-2007 peak were overpriced and purchased with questionable mortgages, prices need not reach the record highs for the market to be normal since large numbers were lost to foreclosures and short sales. New homes were $454,600 in early 2020, down -0.2% from $455,329 in first quarter 2019. That was still $17,400 or 4.0% above the 2006 record of $437,200.
Single family home sales in the Inland Empire’s residential market remain stuck in neutral. Since 2010, they have fluctuated from 14,500 to 16,000 seasonally adjusted sales, picking up a little to 16,711 in first quarter 2020 (Exhibit 16). Meanwhile, prices have flattened in the inland new home markets but were up strongly in existing home markets.

**PRICES**

In the inland area, new home prices flattened but existing home prices were strong. In first quarter 2020, the median priced San Bernardino County new home sold for $486,750, down -1.4% from first quarter 2019. In Riverside County, new homes sold for a median of $434,000, down -0.2%. Existing homes in Riverside County sold for a median of $405,000, up 5.2%. In San Bernardino County, they sold for $339,000, up 7.6% (Exhibit 14). The traditional savings for households to migrate inland from the coastal counties were seen in the substantial savings compared to coastal county home prices. There, new homes ranged from $612,250 to $911,000 and existing homes ranged from $635,000 to $820,000.

**VOLUME**

Looking at raw volume data, Riverside County had 6,969 existing home sales in first quarter 2020, up 11.7% from 6,237 in 2019 (Exhibit 15). San Bernardino County had 5,250 existing home sales, up 10.7% from 4,741 in first quarter 2019. By sub-market, southwest County had Riverside County’s largest percentage gain in volume and total volume (2,100; 22.1%). In San Bernardino County, the areas west of the I-15 led in percentage gain and total volume (1,117; 18.6%).

Riverside County’s first quarter 2020 new home volume was 1,315, up 21.5% from 1,082 in 2019 with the largest percentage gain in the Riverside city (138; 62.4%). The volume leader was the southwest county (391; 21.1%). San Bernardino County’s volume was 841 units, up 43.8% from first quarter 2019’s volume of 585. The mountain areas had the largest percentage gain (11; 450.0%), while the largest volume was west of the I-15 (423, 19.5%).

**SUMMARY**

Looking ahead, Inland Empire homes should continue to hold a substantial advantage for families compared to the coastal markets. This will be the case despite Covid-19’s impact as it will likely affect supply and demand in all Southern California markets. Sales volumes in all markets will slow in the second quarter as potential buyers stay home and sellers decide to stay in place. Some sales recovery will likely occur in quarter three as lock-down requirements ease. Prices will likely continue rising as 2020 unfolds with the lack of supply meeting slowly increasing demand.
important but we know clinics, dentists and others closed but should recover quickly as many procedures cannot be delayed for long. Restaurants closed fast and we know their recovery will be slow given public fears and requirements to cut capacity. Services like hair salons and gyms shut down but we know they should recover relatively fast as pent-up demand is released. Hotels and entertainment venues slowed rapidly and we know their recovery will be delayed by people’s fears of close-knit travel and auditoriums.

We all have opinions about how the economy will recover in the future. The analysis here is based upon what appears to be true about the various sectors and how that would seem to have a good chance of playing out for the economy for the rest of 2020.

Note: The next QER will be the October 2020 issue which will look at the most recent data on the 52 cities and both counties of the Inland Empire.

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