

**Governments**  
**SANBAG**  
**Working Together**

**FIRST QUARTER ACTIVITY AT SANBAG**



by  
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 Governments (SANBAG)

First Quarter 2011 saw a variety of activity at San Bernardino Associated Governments (SANBAG), from launching a new bus transit service in the High Desert to starting several major projects along the I-10 Freeway.

As the transportation planning authority for San Bernardino County, SANBAG works in partnership with other transportation agencies in the region, the County, and its member 24 cities to deliver transportation improvement projects. As the Council of Governments (COG) for San Bernardino County, SANBAG is responsible for cooperative regional planning, exchanging ideas, and initiating improvement measures. The COG provides a forum for all areas to speak with a unified collective voice on important issues that transcend local boundaries and are better solved by mutual cooperation.

SANBAG currently has numerous active projects and others starting soon that will boost our local economy with jobs and increase the purchase of goods and services.

**“B-V Link “– Barstow to Victor Valley Transit Link**

Early in 2011, SANBAG dedicated a new transit service that links residents in Barstow and the Victor Valley with services in the High Desert. The Barstow to Victorville Link, or B-V Link, was originally created to provide Barstow residents a means of transportation to access oncology and other specialized medical services in the Victor Valley. The service evolved into a broader transit service to serve a variety of purposes. The new intercity bus service is operated by Victor Valley Transit Authority (VVTA) and runs three days a week, making continuous loops throughout the day.

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**INLAND EMPIRE 2011 FORECAST ... WEAK GROWTH!**

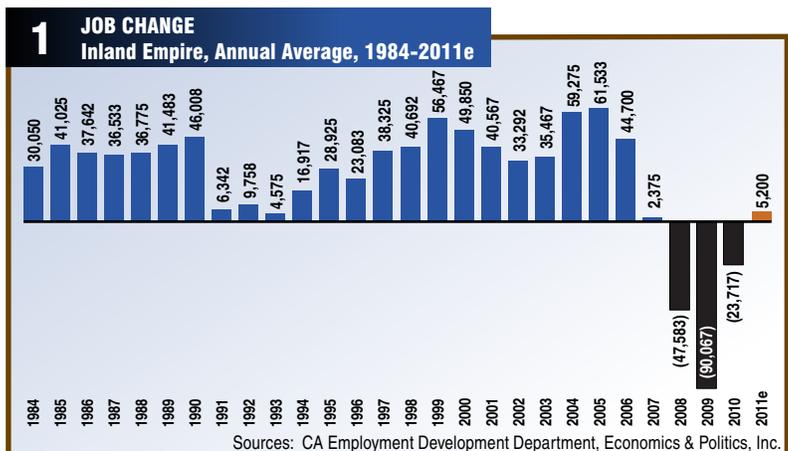
*John E. Husing, Ph.D.*

In 2011, the national recovery should finally reach the Inland Empire. However, the data indicates the recovery will start very slowly adding an estimated 5,200 jobs. This follows declines of -47,583 in 2008, -90,067 in 2009 and -23,717 in 2010 (*Exhibit 1*). Average annual 2010 employment is forecasted at 1,131,000, up 0.5%. This follows 2008-2010 declines of -3.7%, -7.3% and -2.0% (*Exhibit 2*). The area's 2010 employment (1,126,000) was stuck at 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%). It gained back 1,418,000 jobs or 17.0% of those lost from January 2010 to March 2011 (*Exhibit 3*). In 2010, GDP rose 2.9%, missing the 3.0% forecast. Unemployment peaked at 10.1% in October 2009. It reached 8.8% in March 2011. The use of production capacity remains low at 77.4% in March 2011, up from June 2009's record low of 68.3% but below the 82.5% considered full capacity.

With a large share of workers and productive capacity unused, the Federal Reserve has been able to keep interest rates low without fear of inflation. It has kept the overnight federal funds rate at nearly



zero (*March 2011: 0.17%*). The 10-year bond hit a low of 2.42% in December 2008 and is still just 3.42%. This has allowed 30-year mortgages to average 4.86% in April 2011. Meanwhile, serious concern about the deficit is prodding Congress to slow federal spending. While helpful to the debt, it can be expected to dampen job growth.

*Continued on page 2*

Two of three sectors (*see Exhibit 8*) that normally power the Inland Empire should be helped by this environment. One is the logistics sector. It will expand since national retailers are buying more Asian goods. Thus, imports through Southern California's ports were up 18.6% in 2010 and are averaging a gain of 7.7% so far in 2011 (*Exhibit 12*). In response, inland warehousing and trucking firms will add more workers. The other is manufacturing. It will expand because national inventories are at an historic low (*1.23 months supply*). As a result, firms have begun hiring more workers and buying more supplies sending the Purchasing Managers Index (PMI) to 61.2 in March 2011 (*normal = 50.0*), second highest since 1983. Locally, Cal State San Bernardino's PMI hit 61.1 (*Exhibit 11*). These facts, plus rising export sales due to the dollar's very low value, mean manufacturers will be expanding.

Unfortunately, the Inland Empire's third key driver, construction, remains depressed. Building permits have fallen from \$12.5 billion (2005) to \$2.1 billion (2010), 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 48.9% of inland homeowners still underwater on their mortgages (*Exhibit 10*).

In 2011, the Inland Empire's population-serving sectors like retailing will begin recovering as money is re-spent locally by people involved in sectors like manufacturing, logistics and medical care bringing money to the inland area. However, growth will be muted because little money is entering via construction. Here, the inland area is like an Old Western town with gold and silver mines. If both mines closed, local jobs at the general store and saloon would be

lost. With a new silver strike, some miners again spend in town. But, a full recovery requires a new gold strike.

## CALIFORNIA'S JOBS

In 2010, California lost -178,500 jobs (-1.2%) bringing the total 2008-2010 loss to -1,279,200 and driving the state's employment back below its 1999 level. Fortunately, from January-March 2010-2011, the state added an average of 193,000 jobs, indicating a turnaround (*Exhibit 7*). Of sectors crucial to the Inland Empire, the state has recently seen job gains in logistics (26,000), health care (25,167) and manufacturing (9,733), plus the employment agencies that provide many positions to blue collar workers (38,933). Unfortunately, to date this year, the same Inland Empire sectors have either grown slower than the state, or contracted where it expanded (*discussion page 5*). In the key construction area, the state (-1,267) and inland area (-3,567) are both still losing jobs.

## QER 2011 FORECAST

The 2011 Inland Empire forecast is a gain of 5,200 jobs (0.5%), to 1,131,000. The area's March 2010 unemployment rate of 13.9% (*nation's worst*) should drop to 12.9% partially through jobs taken by commuters to coastal counties. 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 and U.S. trends (*Exhibit 2*). Among the four broad areas of economic activity, three are estimated to add 9,600 jobs, the other will shrink by 4,400.

**1. Clean Work, Good Paying (\$50,000 & up).** The Inland Empire's better paying sectors are expected to lose -4,400 jobs in 2011 or -2.3%. This will continue losses in 2010 of -3,500 positions (-1.8%). As often happens in recessions, higher education will add 700 jobs (4.2%) many in private colleges. Mining and utilities will grow by 300 jobs (4.4%). However, managers and professionals will decline mostly due to construction professionals (-1200; -2.5%). Hard hit by budget difficulties will be the federal and state governments (-1,300; -3.1%) and local governments (-2,900, -3.6%).

**2. Clean Work, Moderate Paying (\$30,000-\$40,000).** In 2011, traditional white collar sectors will add 4,200 jobs or 1.4%. Health care will grow by 3,400 jobs (3.3%) as it continues playing catch-up with previous population growth. Administrative support and information sectors will again expand, up 1,800 jobs, as the general economy grows (3.1%). Financial activities will add 1,000 positions (2.4%) with some large institutions growing. However, local K-12 schools will drop -2,000 workers due to budget difficulties. This group's net gain of 4,200 jobs will be 43.8% of the 9,600 added in expanding sectors.

2 EMPLOYMENT FORECAST BY SECTOR & GROUP Inland Empire, 2011e							
Sector	2009	2009-2010 Change	2010	Percent	2010-2011 Forecast	2011e	Percent
Higher Education	16,500	200	16,700	1.2%	700	17,400	4.2%
Other (Utilities & Mining)	6,900	(100)	6,800	-1.4%	300	7,100	4.4%
Mgmt, Professions	51,100	(3,000)	48,100	-5.9%	(1,200)	46,900	-2.5%
Federal & State Government	39,900	1,600	41,500	4.0%	(1,300)	40,200	-3.1%
Local Government	81,900	(2,200)	79,700	-2.7%	(2,900)	76,800	-3.6%
<b>Clean Work, Good Pay</b>	<b>196,300</b>	<b>(3,500)</b>	<b>192,800</b>	<b>-1.8%</b>	<b>(4,400)</b>	<b>188,400</b>	<b>-2.3%</b>
Health Care	103,400	900	104,300	0.9%	3,400	107,700	3.3%
Administrative Support & Info	57,200	1,400	58,600	2.4%	1,800	60,400	3.1%
Financial Activities	42,500	(1,400)	41,100	-3.3%	1,000	41,700	2.4%
Local Public/Private Education	106,400	(4,000)	102,400	-3.8%	(2,000)	100,400	-2.0%
<b>Clean Work, Moderate Pay</b>	<b>309,500</b>	<b>(3,100)</b>	<b>306,400</b>	<b>-1.0%</b>	<b>4,200</b>	<b>310,200</b>	<b>1.4%</b>
Distribution & Transportation	105,500	(200)	105,300	-0.2%	4,600	109,900	4.4%
Manufacturing	88,700	(4,100)	84,600	-4.6%	(1,200)	83,400	-1.4%
Construction	67,900	(8,400)	59,500	-12.4%	(1,900)	57,600	-3.2%
<b>Dirty Work, Moderate Pay</b>	<b>262,100</b>	<b>(12,700)</b>	<b>249,400</b>	<b>-4.8%</b>	<b>1,500</b>	<b>250,900</b>	<b>0.6%</b>
Employment Agcy	35,600	(600)	35,000	-1.7%	4,000	39,000	11.4%
Agriculture	14,900	(100)	14,800	-0.7%	600	15,400	4.1%
Retail Trade	156,200	(1,600)	154,600	-1.0%	500	155,100	0.3%
Social Assistance	14,000	(400)	13,600	-2.9%	200	13,800	1.5%
Hotel, Amuse, Eat	123,800	(1,700)	122,100	-1.4%	(500)	121,600	-0.4%
Other Services	37,300	200	37,500	0.5%	(900)	36,600	-2.4%
<b>Low Paying Work</b>	<b>381,800</b>	<b>(4,200)</b>	<b>377,600</b>	<b>-1.1%</b>	<b>3,900</b>	<b>381,500</b>	<b>1.0%</b>
<b>Total, All Industries</b>	<b>1,149,700</b>	<b>(23,500)</b>	<b>1,126,200</b>	<b>-2.0%</b>	<b>5,200</b>	<b>1,131,000</b>	<b>0.5%</b>

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

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

The Inland Empire's modestly educated labor force and lower costs for homes and industrial facilities have historically caused moderate paying blue collar firms to be its fastest growing sectors. In 2011, some of this strength will return with the combined group adding 1,500 jobs (0.6%). They will account for 15.6% of the 9,600 jobs in growing sectors. Logistics will cause the gain, adding 4,600 jobs (4.4%) due to the increase in imports through Southern California's ports (*Exhibit 12*). Despite signs of recovery, manufacturing will lose another -1,200 jobs (-1.4%) due to California's uncompetitive environment and because many of its new workers are shown in temp agencies. While resale home prices have slowly increased (*Exhibit 13*), they are still too low to permit much new home construction. Similarly, a 24.2% office vacancy rate means no high rise construction. Some industrial work can start with absorption rising (*Exhibit 9*) and vacancies falling (9.0%). Still, construction will lose another -1,900 jobs (-3.2%).

**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 2010, they lost -4,200 jobs (-1.1%). In 2011, they are expected to add 3,900 jobs or 1.0%. That will represent 40.6% of 9,600 jobs gained among growing inland sectors. Employment agencies will add 4,000 (11.4%) since during a turnaround, firms often use temp workers as they wait to see if the upturn is real. With the dollar plunging in value and good water supplies, agriculture will add 600 workers (4.1%). Retailing will finally see some improvement (500 jobs; 0.3%). With the long recession, social assistance will grow (200; 1.5%). Problems still exist in the hotel, tourism, and dining sectors due to the recession as well as the continued unwillingness of corporations to sponsor major trips and conferences (-500; -0.4%). Other services will also decline as people avoid unnecessary expenditures (-900; -2.4%).

## SUMMARY

In 2011, the Inland Empire economy should gain 5,200 jobs (0.5%), after dropping -161,300 during 2008-2010 and wiping out the jobs gained in the 2004-2007 boom. The turnaround will be very modest because the area's traditional competitive advantages (*undeveloped land, modestly priced labor*) that have powered its blue collar sectors, have been overcome by the deep mortgage crisis affecting construction and California's lack of manufacturing competitiveness. Of the blue collar group, only logistics is showing signs of a major recovery. Other sectors that bring money to the region, such as health care and agriculture, are doing better but their growth is not sufficient to make up for the sluggishness in the huge blue collar arena.

## COMMENTARY

The Inland Empire's forecast of adding 5,200 jobs could be too low in 2011. This could happen if port import volumes grow above the 7.2% assumed and logistics job growth is more than expected. The Japanese disaster argues

against that possibility. Also, inland manufacturing could respond more positively than anticipated to both a U.S. recovery and the impact of a falling value of the dollar on export sales. That is unlikely, given the local importance of producing construction materials and California's dismal legal environment for goods production.

Home construction and civil engineering employment could be stronger than expected if serious action is taken to bring down the balances that underwater homeowners owe on their mortgages, allowing construction to return. However, that appears unlikely. Another 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 since 62% of inland families can afford the bottom 50% of area homes. However that has not occurred, despite record high sales in 2009-2010 (73,026, 61,955).

The Inland Empire's forecast of adding 5,200 jobs could be too high in 2011. This could happen if budget cuts slow U.S. economic growth. That is exactly what has recently happened in England. Also, consumer spending could be blunted by the impact of rising gasoline prices. That is of particular concern for areas like the inland region with large numbers of modest income families. Another potential negative could be a rise in interest rates if the Fed sees the need to raise rates due to the price increases now occurring because of increased oil and food costs. If the U.S. economy performs more poorly than expected, a general slowing of inland growth would occur. This would dampen job growth in sectors serving its broad economy such as in employment agencies, consumer services and retailing.

Within the Inland Empire, the forecast could be overestimated if the slowdown in the local, education, state and federal government sectors are hit more than anticipated by budgetary woes. In California, this is certainly the great unknown. Also, the forecast could also be too high if the logistics sector's anticipated growth is substantially weakened by the Japanese situation. Meanwhile, the continuing fight over medical costs could slow expected strong growth in the local health care sector. Finally, most recoveries are spurred by entrepreneurs starting new firms or implementing their fresh ideas by borrowing at the prevailing low interest rates. However, the 2011 forecast has already been suppressed by the limited availability of small business loans. If that worsens, it would lower the forecast.

Despite these up and downside possibilities, a slow recovery of 5,200 jobs seems the most likely probability for 2011. ■

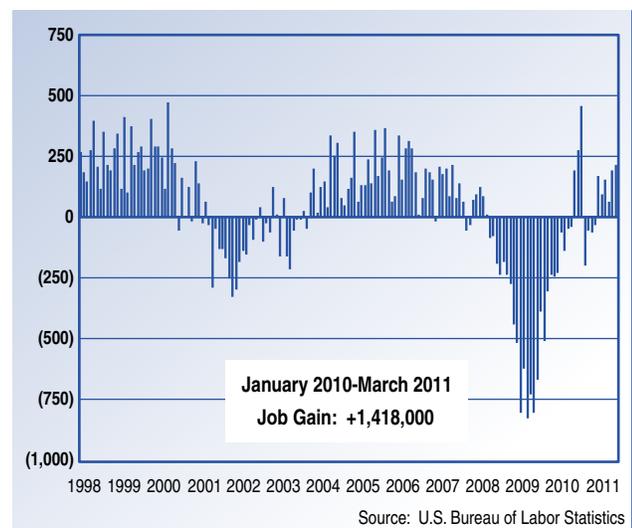
For further information on the economic analysis in the QER, visit Dr. John Husing's website at:

[www.johnhusing.com](http://www.johnhusing.com)

You'll also find pages on Dr. Husing's background, speaking engagements, downloadable presentations, adventures, and other items of interest.

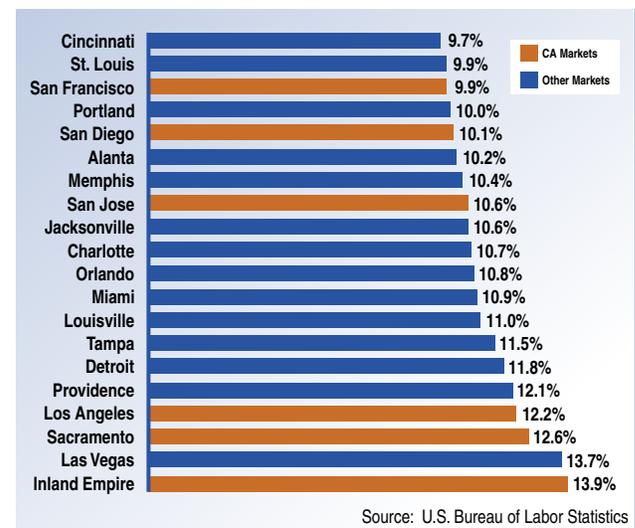


### 3 JOB CREATION OR DESTRUCTION U.S., 1998-2011, Seasonally Adjusted (000)



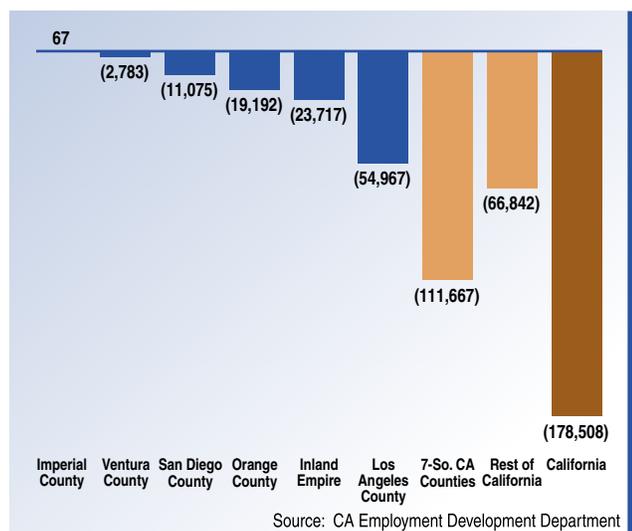
**U.S. Job Creation.** The deep 2008-2009 U.S. recession eliminated a record -8.4 million jobs (-6.1%). However, from January 2010 to March 2011, the economy created a net of 1.4 million. While this is positive news, it represents only 17.0% of the jobs lost. It underscores the fact that the ocean of national forces affecting local economies like the Inland Empire while positive, are only providing a weak boost to employment. Note: the gyration from rapid job growth to losses in early-middle 2010 was caused by census workers being hired and let go.

### 4 UNEMPLOYMENT RATES, TOP 20, FEBRUARY 2011 Worst U.S. Metropolitan Areas, Over 1 Million Population



**Unemployment Rates.** The U.S. unemployment rate was 8.8% in March 2011. For February 2011, data was available for metropolitan areas with more than 1 million people. It showed the Inland Empire's rate of 13.9% to be the highest among these 49 areas. Next were Las Vegas (13.7%), Sacramento (12.6%) and Los Angeles (12.2%). California's difficulties were underlined by also having San Jose (10.6%), San Diego (10.1%) and San Francisco (9.9%) among the top 20 major areas with the worst unemployment. Only Orange County (8.9%) avoided the list.

### 5 UNEMPLOYMENT CHANGE, CALIFORNIA MARKETS Annual Average, 2010



**Job Losses in 2010.** The Inland Empire's average annual 2010 job loss was -23,717 (-2.1%), well under the -90,067 decline in 2009 (-7.3%). The area's employment losses exceeded declines of -19,192 in Orange County (-1.4%), -11,075 in San Diego County (-0.9%) and -2,783 in Ventura County. Los Angeles County lost more jobs, -54,967, but a smaller percent (-1.4%). Imperial County was flat, up 67 jobs. California's loss was -178,508 (-1.2%) with -111,667 of that in Southern California. Fortunately by March 2011, the state was up 216,000 jobs with 67,000 in the Southland. The Inland Empire was still off -1,600.

### 6 WEST TEXAS INTERMEDIATE CRUDE OIL PRICES Monthly Average, 1985-2011



**Oil Prices.** Oil prices have become a major headwind to an U.S. economic recovery. West Texas Intermediate reached a record \$133.93 per barrel in June 2008 as demand soared with the economies of advanced nations and developing ones like China. With the worldwide recession, price plunged to \$39.16 in February 2009. However, a slow but steady worldwide recovery, plus the Japanese nuclear disaster and Middle East unrest have sent prices back to \$108.81 in April 2011. The resultant increase in gasoline prices is hurting modest income families in places like the Inland Empire and will dampen its recovery.

# COMPARISON INLAND EMPIRE VS. CALIFORNIA JOB CHANGES

From 1<sup>st</sup> Quarter 2010-2011, the Inland Empire lost -2,567 jobs or -0.2% while California added a net 193,000 jobs, up 1.4% (*Exhibit 7*). The growth rate of region was thus -1.6% slower than that of the state. This raises the question of where the inland area's growth fell short, matched or exceeded that of California to start 2011.

## IE & CA BOTH LOST JOBS

From 1<sup>st</sup> Quarter 2010-2011, there were six sectors in which the Inland Empire and CA lost jobs. In three, the inland area's sectors shrank much more than the state. By far, the worst was construction (-6.0% v. -0.2%) emphasizing that sector's difficulties in the area. The others were: other services like auto repair (-2.3% v. -0.5%) and federal & state (-2.4% v. -0.8%). In three sectors, CA and the Inland Empire shrank similarly: K-12 education (-1.5% v. -1.4%), local government (-3.3% v. -3.3%) and financial activities (-0.3% v. -0.4%).

## IE LOST & CA GREW JOBS

In six sectors, the Inland Empire lost jobs but CA added them. The worst case was accommodation (-7.1% v. +1.0%), reflecting hotel difficulties in the Coachella Valley. Next was management & professions (-3.8% v. +2.9%) which showed high-end sectors growing elsewhere but not in the inland area. Amusement sector difficulties (-3.1% v. +1.9%) showed road closures hurting ski resorts plus the Coachella Valley's difficulties. Mining (0.0% v. +4.3%) was hurt by the inland area's construction problems. Manufacturing (-1.9% v. +0.5%) showed that the nation's manufacturing recovery has not reached the inland area. Retail trade (-0.2% v. +0.8%) situation resulted from the inland economy underperforming the state.

## CA & IE BOTH ADDED JOBS

In nine sectors, the Inland Empire and CA added jobs. The worst cases were: higher education (3.1% v. 6.7%)

## 7 JOB CHANGE & SHARE OF LOSSES Inland Empire & California, First Quarter, 2010-2011

Sector	IE: Job Change	% Change	CA: Job Change	% Change	% Change: IE (less) CA
Construction	(3,567)	-6.0%	(1,267)	-0.2%	-5.8%
Other Services	(867)	-2.3%	(2,233)	-0.5%	-1.8%
Federal & State	(967)	-2.4%	(4,200)	-0.8%	-1.6%
K-12 Education	(1,600)	-1.5%	(15,900)	-1.4%	-0.1%
Local Government	(2,667)	-3.3%	(25,633)	-3.3%	-0.0%
Financial Activities	(133)	-0.3%	(2,733)	-0.4%	0.0%
Accommodation	(1,033)	-7.1%	1,833	1.0%	-8.0%
Professions, Technical & Mgmt	(1,700)	-3.8%	34,933	2.9%	-6.8%
Amusement	(533)	-3.1%	4,267	1.9%	-4.9%
Mining	0	0.0%	1,067	4.3%	-4.3%
Manufacturing	(1,600)	-1.9%	9,733	0.8%	-2.7%
Retail Trade	(233)	-0.2%	7,133	0.5%	-0.7%
Higher Education	533	3.1%	23,333	6.7%	-3.6%
Information, Publish, Telecomm	333	2.1%	18,467	4.3%	-2.2%
Employment Agcy	3,400	10.6%	38,933	12.7%	-2.1%
Eating & Drinking	1,233	1.4%	27,367	2.7%	-1.3%
Admin. Support	900	2.1%	16,067	3.1%	-1.0%
Social Assistance	233	1.7%	5,533	2.5%	-0.8%
Logistics	2,600	2.4%	26,000	2.5%	-0.1%
Health Care	2,300	2.2%	25,167	2.0%	0.2%
Agriculture	700	5.1%	6,133	2.1%	3.0%
Utilities	100	1.8%	(1,000)	-1.7%	3.5%
<b>Total, All Industries</b>	<b>(2,567)</b>	<b>-0.2%</b>	<b>193,000</b>	<b>1.4%</b>	<b>-1.6%</b>
<b>Clean Work, Good Pay</b>	<b>(4,700)</b>	<b>-2.5%</b>	<b>28,500</b>	<b>1.0%</b>	<b>-3.5%</b>
<b>Dirty Work, Moderate Pay</b>	<b>(2,567)</b>	<b>-1.0%</b>	<b>34,467</b>	<b>1.2%</b>	<b>-2.2%</b>
<b>Clean Work, Moderate Pay</b>	<b>1,800</b>	<b>0.6%</b>	<b>41,067</b>	<b>1.0%</b>	<b>-0.4%</b>
<b>Lower Paying Jobs</b>	<b>2,900</b>	<b>0.8%</b>	<b>88,967</b>	<b>2.1%</b>	<b>-1.3%</b>
<b>Private Sector</b>	<b>1,067</b>	<b>0.1%</b>	<b>222,833</b>	<b>1.7%</b>	<b>-1.6%</b>

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

possibly due to lower local inland incomes; information (2.1% v. 4.3%) as Silicon Valley finally grew again; and employment agencies (10.6% v. 12.7%) due to the inland area's generally slower growth. In six cases, the region and CA grew similarly: eating & drinking (1.4% v. 2.7%), administrative support (2.1% v. 3.1%), social assistance (1.7% v. 2.5%), logistics (2.4% v. 2.5%) and health care (2.2% v. 2.0%). Agriculture was an inland bright spot (5.1% v. 2.1%).

## IE GREW & CA LOST JOBS

Only in the utility sector (+1.8% v. -1.7%) did the inland area add jobs while CA lost them.

## SECTOR GROUPS

Two Inland Empire sector groups nearly matched CA's growth: those offering "clean work at moderate pay" like medical care (0.6% v. 1.0%), and those with "lower paying jobs" (0.8% v. 2.1%). However, two key sector groups shrank in the area but grew in CA: "dirty work, moderate pay" (-1.0% v. +1.2%) and "clean work good pay" (-2.5% v. +1.0%).

## SUMMARY

The Inland Empire's poor performance in early 2011 shows it underperforming CA in four of the six major sectors (*Exhibit 8*) bringing money to it from the outside world: construction, manufacturing and employment agencies, professions & technical services. It essentially matched the state in two: logistics and health care. These are the sectors that must aggressively expand for the inland region to regain its prosperity. ■

## 8 MAJOR ECONOMIC DRIVERS, INLAND EMPIRE 2000-2010 Sector Responsible For Over 8% Of Positive Or Negative Changes In Base

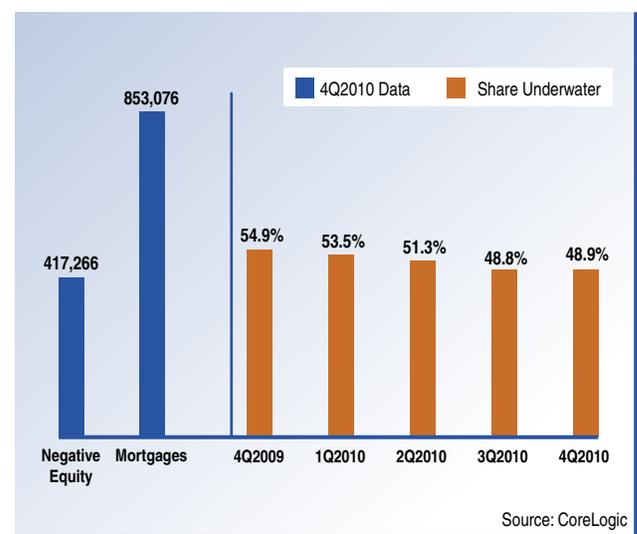


## 9 INDUSTRIAL SPACE GROSS ABSORPTION Inland Empire, 1991-Present (moving 4-quarter total)



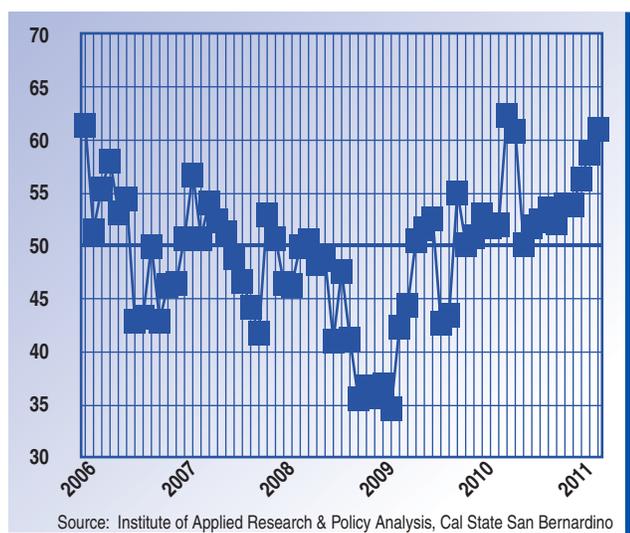
**Industrial Absorption.** For the 4-quarters ended in March 2010, Grubb & Ellis tracked 16.1 million square feet of gross industrial space taken by Inland Empire users. That was the highest level since first quarter 2008, though it is still below the 21 million sq. ft. average annual level from 2005-2008. According to Lee & Associates, the increase in volume has brought the vacancy rate among facilities of 500,000 sq. ft. and up, down to zero. This is resulting in new buildings being proposed and started. The vacancy rate of 9.0% was the lowest since third quarter 2008.

## 10 SHARE OF MORTGAGES UNDERWATER Inland Empire, 4th Qtr 2009-4th Qtr 2010



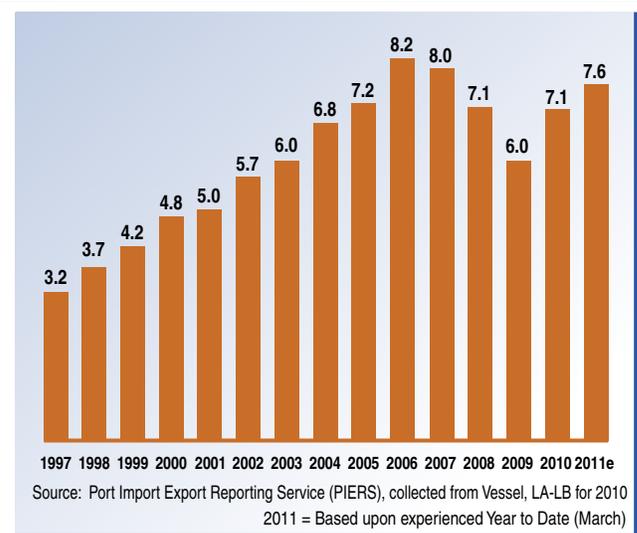
**Homes Underwater.** There are 853,076 inland homes with mortgages with 417,266 underwater (48.9%). That means they are worth less than what homeowners owe. Many families will continue making payments hoping prices will rise enough to break even. However many will give up, sending a continuing flow of foreclosures or short sales onto the market. This will cause home prices to remain too low for new homes to compete. Since construction caused 21.6% of the growth in the Inland Empire's job base's during the 2000-2007 upturn, the area's recession will likely continue for some time unless federal or state actions solve this issue.

## 11 PURCHASING MANAGER'S INDEX Inland Empire, 2006-2011



**Purchasing Manager's Index.** Each month, Cal State San Bernardino surveys purchasing managers working for Inland Empire producers to find out whether they are being asked to buy supplies to support the expansion or contraction of their firms. The PMI measures this. Any figure above 50% puts the general attitude of producers in expansion mode. For the past 18 months, this survey shows local producers in expansion mode. This parallels the national PMI survey which has been positive for 20 months. The most recent reading, 61.2, was very strong.

## 12 FLOW OF IMPORTED CONTAINERS Los Angeles-Long Beach Ports, 1997-2010 & 2011e (million teus)



**Port Revival?** Logistics is a key Inland Empire employment driver. It led the area, causing 27.0% of job growth in the region's economic base during the 2000-2007 expansion. Locally, the sector's growth depends heavily on jobs handling imported port containers arriving through Southern California's ports. Their volume peaked at 8.2 million 20-foot equivalent units (teus) in 2006, but to 6.0 million (-26.7%) by 2009. In 2010, volume soared back to 7.1 million teus, up 18.6%. To date in 2011, it is up another 7.2% despite the Japanese crisis. If that continues, volume will reach 7.6 million, third highest ever.

### 13 SINGLE FAMILY HOME PRICES 1st Quarter, 2010-2011

County	1st Qtr-10	1st Qtr-11	% Chg.
<b>NEW HOMES</b>			
Riverside	\$281,500	\$284,750	1.2%
San Bernardino	298,750	230,000	-23.0%
Los Angeles	403,000	418,500	3.8%
Orange	526,000	521,750	-0.8%
San Diego	435,500	472,500	8.5%
Ventura	373,500	345,000	-7.6%
So. California	\$374,800	\$393,600	5.0%
<b>EXISTING HOMES</b>			
Riverside	\$190,000	\$192,500	1.3%
San Bernardino	145,000	150,000	3.4%
Los Angeles	325,000	320,000	-1.5%
Orange	500,000	481,250	-3.8%
San Diego	360,000	355,000	-1.4%
Ventura	406,500	393,000	-3.3%
So. California	\$290,100	\$289,800	-0.1%

Source: Dataquick

### 14 HOME DEED RECORDINGS Inland Empire, 1st Quarter, 2010-2011

NEW HOMES				EXISTING HOMES			
Area	1st-10	1st-11	% Chg.	Area	1st-10	1st-11	% Chg.
Redlands, Loma Linda, Yucaipa	10	15	50.0%	Redlands, Loma Linda, Yucaipa	331	358	8.2%
SB Mountains	5	5	0.0%	SB Mountains	486	505	3.9%
Victor Valley	98	73	-25.5%	Victor Valley	1,481	1,403	-5.3%
Fontana, Rialto, Colton, GT	72	50	-30.6%	SB Desert	418	393	-6.0%
San Bernardino, Highland	29	20	-31.0%	Chino, CHill, Mtcl, Ont, RC, Upl	1,133	1,048	-7.5%
SB Desert	22	11	-50.0%	Fontana, Rialto, Colton, GT	1,355	1,204	-11.1%
Chino, CHill, Mtcl, Ont, RC, Upl	217	62	-71.4%	San Bernardino, Highland	883	711	-19.5%
<b>SAN BDNO COUNTY</b>	<b>453</b>	<b>236</b>	<b>-47.9%</b>	<b>SAN BDNO COUNTY</b>	<b>6,087</b>	<b>5,622</b>	<b>-7.6%</b>
Southwest County	178	182	2.2%	Riverside Rural	666	682	2.4%
Corona, Norco	137	136	-0.7%	Coachella Valley	1,296	1,310	1.1%
Riverside	45	43	-4.4%	Beaumont, Banning, Calimesa	350	347	-0.9%
Beaumont, Banning, Calimesa	57	40	-29.8%	Southwest County	1,640	1,511	-7.9%
Riverside Rural	83	51	-38.6%	Corona, Norco	961	861	-10.4%
Perris, Hemet, S. Jacinto	253	145	-42.7%	Riverside	1,098	934	-14.9%
Coachella Valley	90	50	-44.4%	Perris, Hemet, S. Jacinto	2,037	1,707	-16.2%
Moreno Valley	46	23	-50.0%	Moreno Valley	826	656	-20.6%
<b>RIVERSIDE COUNTY</b>	<b>889</b>	<b>670</b>	<b>-24.6%</b>	<b>RIVERSIDE COUNTY</b>	<b>8,874</b>	<b>8,008</b>	<b>-9.8%</b>
<b>INLAND EMPIRE</b>	<b>1,342</b>	<b>906</b>	<b>-32.5%</b>	<b>INLAND EMPIRE</b>	<b>14,961</b>	<b>13,630</b>	<b>-8.9%</b>

Source: Dataquick

## INLAND EMPIRE HOME MARKETS IN REPAIR MODE

In 2010, the Inland Empire recorded 62,103 existing home sales, down -15.2% from the 73,260 record in 2009. By contrast, only 6,073 new homes were sold, off -18.0% from 2009, the lowest since before 1988 (*Exhibit 15*). In 1<sup>st</sup> quarter 2011, there were 13,630 existing home sales, down -8.9% from 14,961 in 1<sup>st</sup> quarter 2010 (*Exhibit 14*). First quarter's new home sales went from 1,342 in 2010 to 906 in 2011, -32.5%, the weakest quarter since before 1988.

Year-over-year home prices generally rose in inland markets. From 1<sup>st</sup> quarter 2010-2011, Riverside County's existing homes (\$192,500) were up 1.3% (*Exhibit 13*). San Bernardino County's (\$150,000) were up 3.4%. In very thin new home markets, 1<sup>st</sup> quarter 2011 prices were up 1.2% in Riverside County (\$284,750) but down -23.0% in San Bernardino County (\$230,00).

**SALES.** During 1<sup>st</sup> quarter 2011, Riverside County had 8,008 existing home sales, off -9.8% from 8,874 in 2010. In

February, 45.7% of sales were foreclosures vs. 53.1% a year ago. Rural Riverside County performed best, up 2.4% to 682 units. Perris, Hemet, San Jacinto was the volume leader at 1,707, off -16.2%. The county had just 670 new home sales, off -24.6% from 1<sup>st</sup> quarter 2010. The best growth rate and total volume was in Southwest County, up 2.2% to 182 units.

San Bernardino County's 1<sup>st</sup> quarter 2010-2011 existing home sales were off -7.6% to 5,622 units. In February, 49.6% were foreclosures vs. 57.0% last year. Redlands, Loma Linda, Yucaipa was the growth leader, up 8.2% to 358. Victor Valley led in volume at 1,403 sales (-5.3%). The county's new home sales fell -47.9% to just 236. Redlands, Loma Linda, Yucaipa was the growth leader, up 50.0% to 15 units. The volume leader was Victor Valley (73, -25.5%).

**PRICES.** There has been a turnaround in Inland Empire existing home prices since the trough in the 2<sup>nd</sup> quarter 2009 (*not shown*) with Riverside County's prices

moving from \$172,000 then to \$192,500 in 1<sup>st</sup> quarter 2011, up 11.9%. In San Bernardino County, the increase was from a low of \$134,000 to \$150,000 in 1<sup>st</sup> quarter 2011, up 11.9%. In San Bernardino county new home prices reached a post-recession low of \$230,000 in 1<sup>st</sup> quarter 2011. Riverside County's new homes were at \$284,750, up 5.5% from the third quarter 2010 low of \$270,000.

**SUMMARY.** Inland Empire home markets have improved a little, however with 48.9% of inland homes still worth less than what the owners owe (*Exhibit 10*), the market has a very long way to go before it is healed. This is the major economic difficulty facing the region. Until foreclosure sales and short sales fall dramatically, lack of residential construction will inhibit a recovery. ■

### 15 HOME DEED RECORDINGS Inland Empire, Annual, 2009-2010

NEW HOMES				EXISTING HOMES			
Area	2009	2010	% Chg.	Area	2009	2010	% Chg.
SB Desert	72	78	8.1%	Redlands, Loma Linda, Yucaipa	1,454	1,536	5.6%
San Bernardino, Highland	150	134	-10.6%	SB Mountains	2,158	2,277	5.5%
Victor Valley	498	401	-19.6%	SB Desert	1,839	1,790	-2.7%
Chino, CHill, Mtcl, Ont, RC, Upl	893	683	-23.5%	Chino, CHill, Mtcl, Ont, RC, Upl	5,197	4,786	-7.9%
Fontana, Rialto, Colton, GT	542	374	-30.9%	Fontana, Rialto, Colton, GT	7,079	5,555	-21.5%
SB Mountains	24	17	-32.5%	Victor Valley	7,961	6,172	-22.5%
Redlands, Loma Linda, Yucaipa	157	43	-72.6%	San Bernardino, Highland	4,536	3,469	-23.5%
<b>SAN BERNARDINO CO.</b>	<b>2,337</b>	<b>1,730</b>	<b>-26.0%</b>	<b>SAN BERNARDINO CO.</b>	<b>30,224</b>	<b>25,585</b>	<b>-15.3%</b>
Corona, Norco	817	932	14.0%	Coachella Valley	5,297	5,278	-0.4%
Perris, Hemet, S. Jacinto	1,145	1,111	-3.0%	Beaumont, Banning, Calimesa	1,601	1,478	-7.7%
Murrieta, Temecula, L. Elsinore	1,146	974	-15.1%	Riverside Rural	2,934	2,644	-9.9%
Beaumont, Banning, Calimesa	566	420	-25.8%	Murrieta, Temecula, L. Elsinore	8,070	6,986	-13.4%
Moreno Valley	186	135	-27.7%	Riverside	5,528	4,702	-14.9%
Riverside Rural	455	307	-32.5%	Corona, Norco	4,643	3,928	-15.4%
Coachella Valley	419	267	-36.2%	Perris, Hemet, S. Jacinto	10,341	8,223	-20.5%
Riverside	334	198	-40.7%	Moreno Valley	4,622	3,279	-29.1%
<b>RIVERSIDE COUNTY</b>	<b>5,069</b>	<b>4,343</b>	<b>-14.3%</b>	<b>RIVERSIDE COUNTY</b>	<b>43,036</b>	<b>36,518</b>	<b>-15.1%</b>
<b>INLAND EMPIRE</b>	<b>7,406</b>	<b>6,073</b>	<b>-18.0%</b>	<b>INLAND EMPIRE</b>	<b>73,260</b>	<b>62,103</b>	<b>-15.2%</b>

Source: Dataquick

# SAN BERNARDINO ASSOCIATED GOVERNMENTS

*Continued from front page*

## **I-10 Freeway Westbound Lane from Yucaipa to Redlands**

In March, SANBAG started construction on the Interstate 10 Westbound Lane Addition Project that will add one lane between Live Oak Canyon Road in Yucaipa to Ford Street in Redlands. This four-mile project is the last of four phases designed to improve mobility through the region. By increasing vehicle capacity, adding new retaining walls, and improving median barriers, SANBAG will address congestion created by heavy commuter and truck traffic coming from the east. Construction is currently underway on this \$26.2 million project with completion expected in late 2012.

## **North Milliken Grade Separation Underway in Ontario**

Located south of Interstate 10 on Milliken Avenue in Ontario is one of the busiest railroad crossings in San Bernardino County. Heavy truck traffic headed to/from warehouses and truck stops in the area, combined with heavy vehicle traffic, and 4 trains per hour made it a priority to build this railroad crossing, or grade separation. In late January, SANBAG, the City of Ontario, and Union Pacific Railroad officials kicked off construction of the \$49.4 million railroad bridge. The 1.5 mile long bridge will rise above Milliken at the existing crossing. Traffic running north and south on Milliken will remain at grade level. Construction completion is anticipated for Spring 2013.

## **I-10/Riverside Interchange, Rialto, in Construction**

Beginning around the first of May, motorists traveling on Interstate 10 through Rialto will notice the Riverside bridge over the freeway has been removed. A new wider and broader bridge is being constructed in its place. The on and off ramps will remain open during construction, which should be completed by November 2011. The \$30 million overall cost will provide a unique bridge design that replicates the famous Rialto Bridge in Venice, Italy.

## **I-10/Citrus and I-10/Cherry Interchanges coming to Fontana**

In the works since 1998, reconstruction of the Citrus and Cherry Interchanges will start later this year. These two interchanges in Fontana will improve traffic flow on Interstate 10 to/from logistics

centers and truck stops in the area and reduce congestion on the freeway. The I-10/Cherry Interchange will cost \$61.5 million and the I-10/Citrus Interchange will cost \$47.2 million.

## **sbX Bus Rapid Transit Project Planned**

SANBAG and Omnitrans are moving forward with the sbX E Street Corridor Bus Rapid Transit Project that will link north San Bernardino and Loma Linda on a 15.7-mile corridor, a portion of which will have dedicated center running lanes. At key points along the corridor, 16 stations will provide convenient access for riders. The line will run along E Street to the new bus/train terminal planned at Rialto Avenue and E Street in San Bernardino. It will then continue south on E Street to Hospital-ity Lane, travel east to Tippecanoe and Anderson, then south to Loma Linda University Medical Center. The project will provide a new transit option for north-south access and will link with the future east-west Metrolink connection at the terminal, which will eventually extend nine miles east to Redlands. This intercity transit option will advance the concept of alternative transportation within the Inland Empire. This represents a key step toward building a regional multi-modal transit system that supports economic development and addresses development of a sustainable community strategy per SB 375.

## **New Parking Structure Opens at San Bernardino Metrolink Station**

In an effort to make it easier for people to use the Metrolink train to travel from San Bernardino west to Union Station in Los Angeles or southwest to the beach cities, SANBAG, Metrolink and the City of San Bernardino constructed a new 352 stall parking structure at the San Bernardino Metrolink Station. The no fee parking structure opened in March.

For more information about transportation projects and programs, please go to our website at: [www.sanbag.ca.gov](http://www.sanbag.ca.gov)

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