# INLAND EMPIRE OUTLOOK

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INSIDE



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## Rebuilding After the Recession

The Great Recession has lasted longer and done more damage in the Inland Empire than in most other parts of the country. Economists who measure business cycles agree that the nation officially emerged from this historic downturn over a year ago, but emphasize that the recovery has been weak and uneven. The Inland Empire, which was at the center of the nation's housing meltdown, has been especially slow to recover. Unemployment in the region remains persistently high, more than 50 percent above the national average. Clearly, the region will have to struggle for some time to rebuild its economy.

We at the Inland Empire Center believe it is important for the region's leaders to gain an accurate understanding of the region's unique economic problems in order to build a more solid foundation for the future. To this end, this third edition of *Inland Empire Outlook* closely analyzes the Inland Empire's employment and unemployment trends over the past four years (p. 2). We then look to some ways the region can begin to rebuild. We see promise in expanding the region's exports (p. 10) and its health care system, in part through development of the new U.C. Riverside School of Medicine (p. 14). Finally, we examine how the recent political unrest is fueling one local race for the state legislature.

In addition to presenting the *Outlook*, the Inland Empire Center is designed to give local leaders access to leading economic and political analysts through periodic conferences. On October 6, 2010, the Inland Empire Center will hold its inaugural conference—the CMC-UCLA Inland Empire Forecast Conference—at the Citizens Business Bank Arena in Ontario. At this important event, Jerry Nickelsburg of the UCLA Anderson Forecast will present a state and national economic forecast, and CMC Inland Empire Center economists Marc Weidenmier and Manfred Keil will present an economic forecast for the Inland Empire. The conference will also feature a real estate panel and a government finance panel featuring leading practioners in these respective fields. For more information about the conference and the Inland Empire Center, visit our website at www.inlandempirecenter.org.

—*The Editors*

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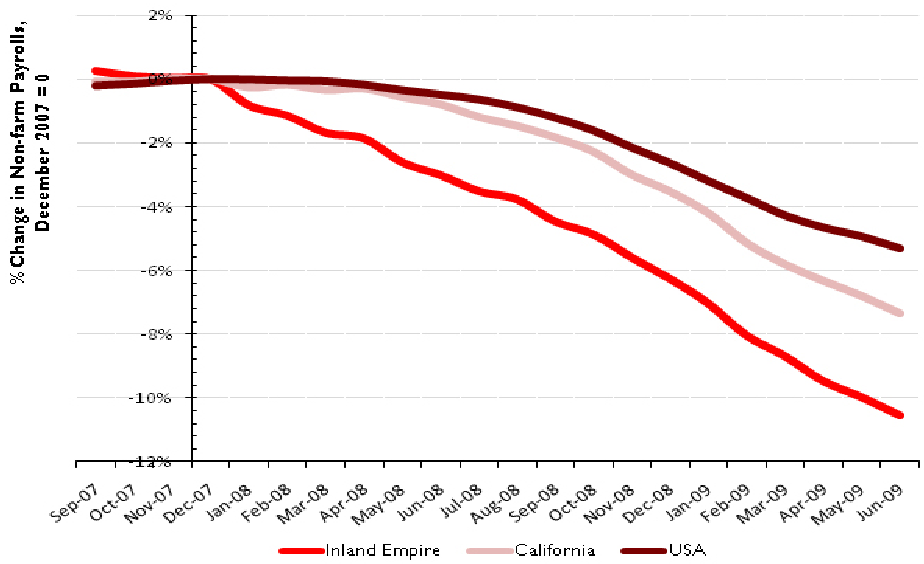
# The Great Recession's Toll on Inland Empire Jobs


The Inland Empire labor market remains anemic when compared with the rest of California and the nation as a whole. This bleak situation contrasts with the robust period between January 1990 and the onset of the Great Recession in December 2007, when San Bernardino and Riverside Counties generated approximately 584,000 new jobs. During that impressive era of growth, the region's employment increased by 84 percent, while employment in the United States as a whole increased by only 26 percent, and in California by only 21 percent. By contrast, in the 32 months since December 2007, the Great Recession has taken a higher toll on Inland Empire than elsewhere. Since the beginning of the downturn, the region has shed almost 195,000 jobs, a decline of roughly 15 percent from the peak of the economic cycle. Furthermore, while parts of California and the United States have seen employment gains in 2010, the Inland Empire has endured further jobs losses this year. If California's job losses resemble an earthquake, the Inland Empire is one of two epicenters, with the other located in the Central Valley east of the San Francisco Bay Area.

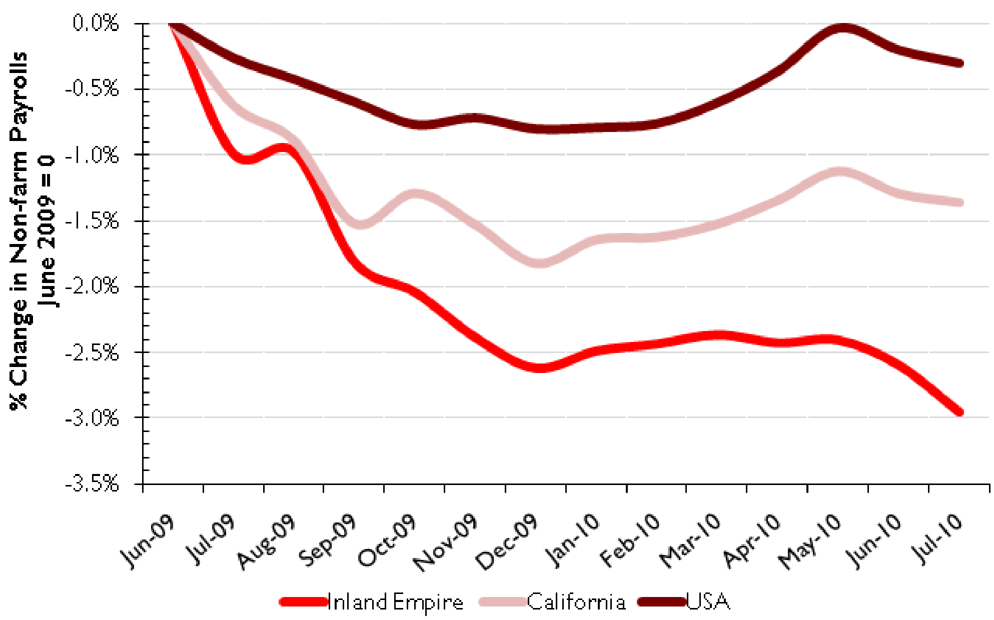
Figure 1 shows employment trends for the United States, California, and the Inland Empire. In the Inland Empire, employment peaked at nearly 1,280,000 in July 2007, which was almost half a year before the official start of the national recession in December 2007. The official arbiter of United States business cycles, the Dating Committee of the National Bureau of Economic Research in Cambridge, MA, recently declared that the Great Recession ended in the United States in June 2009. If so, the national recession lasted 19 months. During that period, the number of jobs in the Inland Empire declined by 10 percent—a greater hit than in the rest of California or in the United States as a whole.

**FIGURE 1: CHANGE IN INLAND EMPIRE, CALIFORNIA, AND USA EMPLOYMENT SEPTEMBER 2007-JUNE 2009**




Even worse, whereas the weak recovery in the national economy has generated some employment gains since June 2009, the Inland Empire continues to shed jobs as shown in Figure 2. In San Bernardino and Riverside Counties, jobs have decreased another 3 percent since the end of the national recession. Job losses at the national and state level seem to bottom out during the last quarter of 2009, but not in the Inland Empire.

**FIGURE 2: CHANGE IN INLAND EMPIRE, CALIFORNIA, AND USA EMPLOYMENT SEPTEMBER 2009-JULY 2010**



### *Unemployment*

The unemployment picture is similarly bleak, if not worse. In the Inland Empire, unemployment rates reached a record high seasonally unadjusted level of 15.1 percent in July 2010. This number is even slightly higher than the January and March levels of 15 percent. By comparison, the United States unemployment rate seems stuck for the moment at around 9.5 percent. National unemployment rose slightly in August 2010 to 9.6 percent, but has declined from its peak of 10.1 percent in October 2009. Even California's unemployment rate, the third highest in the United States after Michigan and Nevada, has seen a minimal decrease since reaching a peak of 12.5 percent in January 2009.

Tables 1-3 display month-by-month levels of unemployment, as well as changes in unemployment rates, during the three phases of the recent business cycle for the United States, California, the Inland Empire, and San Bernardino and Riverside Counties. The first table shows the low unemployment that prevailed before the recession. In March 2007, the nation's unemployment rate was only 4.4 percent, and the rate was only slightly higher in California (4.9 percent in January 2007) and in the Inland Empire (5.2 percent in March 2007). The tables also show the gap between the unemployment rate in a given month and the rate in December 2007—the beginning of the national recession. These figures show that, unlike the rest of the country, unemployment was rising in the Inland Empire throughout 2007, before the beginning of the national recession. Finally, the shading in the tables indicates increases in unemployment rates—a darker shade indicates a sharper increase in unemployment. The shading reveals that, in the regions studied, the increase in unemployment was heaviest in Riverside County, followed by San Bernardino County, California, and finally the United States.

**TABLE 1: SEASONALLY ADJUSTED UNEMPLOYMENT RATES IN THE UNITED STATES AND CALIFORNIA, AND SEASONALLY UNADJUSTED UNEMPLOYMENT RATES IN THE INLAND EMPIRE, JANUARY 2007 – NOVEMBER 2007**

| | | 2007 Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **United States** | UR | **4.6** | **4.5** | **4.4** | **4.5** | **4.4** | **4.6** | **4.6** | **4.6** | **4.7** | **4.7** | **4.7** |
| | ΔUR since Dec 2007 | -0.4 | -0.5 | -0.6 | -0.5 | -0.6 | -0.4 | -0.4 | -0.4 | -0.3 | -0.3 | -0.3 |
| **California** | UR | **4.9** | **5.0** | **5.0** | **5.1** | **5.2** | **5.3** | **5.4** | **5.5** | **5.5** | **5.6** | **5.7** |
| | ΔUR since Dec 2007 | -0.9 | -0.8 | -0.8 | -0.7 | -0.6 | -0.5 | -0.4 | -0.3 | -0.3 | -0.2 | -0.1 |
| **Inland Empire** | UR | **5.4** | **5.3** | **5.2** | **5.2** | **5.2** | **5.8** | **6.4** | **6.3** | **6.2** | **6.2** | **6.1** |
| | ΔUR since Dec 2007 | -0.9 | -1 | -1.1 | -1.1 | -1.1 | -0.5 | 0.1 | 0 | -0.1 | -0.1 | -0.2 |
| **San Bernardino County** | UR | **5.3** | **5.1** | **5.1** | **5.1** | **5.1** | **5.7** | **6.1** | **6** | **5.8** | **5.9** | **5.9** |
| | ΔUR since Dec 2007 | -0.7 | -0.9 | -0.9 | -0.9 | -0.9 | -0.3 | 0.1 | 0 | -0.2 | -0.1 | -0.1 |
| **Riverside County** | UR | **5.5** | **5.5** | **5.3** | **5.3** | **5.2** | **5.9** | **6.7** | **6.7** | **6.5** | **6.5** | **6.4** |
| | ΔUR since Dec 2007 | -1.1 | -1.1 | -1.3 | -1.3 | -1.4 | -0.7 | 0.1 | 0.1 | -0.1 | -0.1 | -0.2 |

*Data Source: California Employment Development Department, September 2010*

Δ UR = change in unemployment

Table 2 shows the changes in unemployment rates from the beginning of the national recession in December 2007 to its official end in June 2009. The red shading at the top of the table indicates the duration of the United States recession. Until the investment bank Lehman Brothers collapsed in mid-September 2008, the progression in the unemployment rate for the United States suggested a mild recession, similar to those experienced in the early 1990s and early 2000s. In California, however, unemployment rate increases were approximately twice as high as the national level, and the Inland Empire saw increases of close to 3 percent over the same period. Starting in October 2008, the national recession earned the title The Great Recession. As the table reveals, matters deteriorated rapidly from that point until the end of the recession.

Table 3 shows the unemployment rates in the months since the end of the national recession. The shading does not get much lighter following the end of the recession because unemployment rates have improved only slightly in the United States and in California during the past 15 months. In the Inland Empire, the unemployment situation has worsened since June 2009. While the August 2010 numbers look promising for the Inland Empire, and in particular for San Bernardino County, in fact the drop in the unemployment rate was not generated by an increase in employment. Instead, many workers simply gave up looking for a

> “UNLIKE THE REST OF THE COUNTRY, **UNEMPLOYMENT WAS RISING IN THE INLAND EMPIRE THROUGHOUT 2007**, BEFORE THE BEGINNING OF THE NATIONAL RECESSION. THIS INCREASE IN UNEMPLOYMENT WAS HEAVIEST IN RIVERSIDE COUNTY, FOLLOWED BY SAN BERNARDINO COUNTY.

**TABLE 2: SEASONALLY ADJUSTED UNEMPLOYMENT RATES IN THE UNITED STATES AND CALIFORNIA, AND SEASONALLY UNADJUSTED UNEMPLOYMENT RATES IN THE INLAND EMPIRE, DECEMBER 2007 – JUNE 2009**

| | 2007 | 2008 | | | | | | | | | | | | 2009 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun |
| United States | 5 | 5 | 4.8 | 5.1 | 5 | 5.4 | 5.5 | 5.8 | 6.1 | 6.2 | 6.6 | 6.9 | 7.4 | 7.7 | 8.2 | 8.6 | 8.9 | 9.4 | 9.5 |
| | 0 | 0 | -0.2 | 0.1 | 0 | 0.4 | 0.5 | 0.8 | 1.1 | 1.2 | 1.6 | 1.9 | 2.4 | 2.7 | 3.2 | 3.6 | 3.9 | 4.4 | 4.5 |
| California | 5.8 | 5.9 | 6.0 | 6.1 | 6.4 | 6.6 | 7.0 | 7.3 | 7.5 | 7.8 | 8.2 | 8.7 | 9.2 | 9.7 | 10.2 | 10.6 | 11.0 | 11.3 | 11.6 |
| | 0 | 0.1 | 0.2 | 0.3 | 0.6 | 0.8 | 1.2 | 1.5 | 1.7 | 2 | 2.4 | 2.9 | 3.4 | 3.9 | 4.4 | 4.8 | 5.2 | 5.5 | 5.8 |
| Inland Empire | 6.3 | 6.7 | 6.7 | 7 | 6.7 | 7.4 | 8 | 8.9 | 9.2 | 9.1 | 9.4 | 9.5 | 10.1 | 11.5 | 12 | 12.3 | 12.1 | 12.7 | 13.6 |
| | 0 | 0.4 | 0.4 | 0.7 | 0.4 | 1.1 | 1.7 | 2.6 | 2.9 | 2.8 | 3.1 | 3.2 | 3.8 | 5.2 | 5.7 | 6 | 5.8 | 6.4 | 7.3 |
| San Bernardino County | 6 | 6.4 | 6.4 | 6.8 | 6.5 | 7.2 | 7.9 | 8.6 | 8.8 | 8.7 | 9.1 | 9.2 | 9.9 | 11.2 | 11.7 | 12 | 11.9 | 12.6 | 13.5 |
| | 0 | 0.4 | 0.4 | 0.8 | 0.5 | 1.2 | 1.9 | 2.6 | 2.8 | 2.7 | 3.1 | 3.2 | 3.9 | 5.2 | 5.7 | 6 | 5.9 | 6.6 | 7.5 |
| Riverside County | 6.6 | 6.9 | 7 | 7.2 | 6.9 | 7.5 | 8.2 | 9.2 | 9.6 | 9.5 | 9.8 | 9.8 | 10.3 | 11.7 | 12.3 | 12.5 | 12.2 | 12.8 | 13.7 |
| | 0 | 0.3 | 0.4 | 0.6 | 0.3 | 0.9 | 1.6 | 2.6 | 3 | 2.9 | 3.2 | 3.2 | 3.7 | 5.1 | 5.7 | 5.9 | 5.6 | 6.2 | 7.1 |

*Data Source: California Employment Development Department, September 2010*

**TABLE 3: UNEMPLOYMENT RATES IN THE UNITED STATES, CALIFORNIA, AND THE INLAND EMPIRE, JULY 2009 – JULY 2010**

| | | 2009 | | | | | | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug |
| United States | UR | 9.4 | 9.7 | 9.8 | 10.1 | 10 | 10 | 9.7 | 9.7 | 9.7 | 9.9 | 9.7 | 9.5 | 9.5 | 9.6 |
| | ΔUR since Jul 2009 | 0 | 0.3 | 0.4 | 0.7 | 0.6 | 0.6 | 0.3 | 0.3 | 0.3 | 0.5 | 0.3 | 0.1 | 0.1 | 0.2 |
| California | UR | 11.8 | 12.0 | 12.1 | 12.2 | 12.3 | 12.3 | 12.5 | 12.5 | 12.6 | 12.5 | 12.4 | 12.3 | 12.3 | 12.4 |
| | ΔUR since Jul 2009 | 0.0 | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | 0.7 | 0.7 | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 | 0.6 |
| Inland Empire | UR | 14.3 | 14.2 | 14.2 | 14.4 | 14.3 | 14.1 | 15 | 14.8 | 15 | 14.2 | 13.9 | 14.4 | 15.1 | 14.8 |
| | ΔUR since Jul 2009 | 0.0 | -0.1 | -0.1 | 0.1 | 0.0 | -0.2 | 0.7 | 0.5 | 0.7 | -0.1 | -0.4 | 0.1 | 0.8 | 0.5 |
| San Bernardino County | UR | 14 | 13.8 | 13.7 | 14 | 14.1 | 13.9 | 14.9 | 14.5 | 14.9 | 14.1 | 13.8 | 14.3 | 14.8 | 14.2 |
| | ΔUR since Jul 2009 | 0.0 | -0.2 | -0.3 | 0.0 | 0.1 | -0.1 | 0.9 | 0.5 | 0.9 | 0.1 | -0.2 | 0.3 | 0.8 | 0.2 |
| Riverside County | UR | 14.6 | 14.6 | 14.6 | 14.8 | 14.6 | 14.3 | 15.2 | 15 | 15.2 | 14.3 | 14 | 14.5 | 15.3 | 15.3 |
| | ΔUR since Jul 2009 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | -0.3 | 0.6 | 0.4 | 0.6 | -0.3 | -0.6 | -0.1 | 0.7 | 0.7 |

*Data Source: California Employment Development Department, September 2010*

job in the region. It is too early to tell whether these are so-called discouraged workers or workers who have merely left the Inland Empire.

Meanwhile, individual cities in the Inland Empire have large variations in unemployment: for example, Rancho Cucamonga has an unemployment rate of 9.4 percent, which is actually lower than the national average. Redlands is also relatively low at 10.5 percent, while Ontario is at 15.1 percent. The City of San Bernardino suffers from an extremely high rate of 18.9 percent.

***Prospects for the Inland Empire Job Market***

Will the Inland Empire's unemployment rates return to pre-recession levels? The short answer is that we project a significant drop in the region's jobless rates before the end of the year, but expect that it will take quite some time for the Inland Empire to return to single digit unemployment figures. The region's unemployment rates will not reach their low pre-recession levels for the foreseeable future, and certainly not for the next five years.

Our forecasts are based on a relationship between unemployment rates and output growth. At an intuitive level, high output growth will result in more employment and a reduction in unemployment. The crucial questions are:

· *How much output growth is needed to keep the unemployment rate from growing?*

· *How much output growth is needed to reduce the unemployment rate by one percentage point?*

A situation of no growth is insufficient to keep the unemployment rate from rising. While the economy is technically not in a recession if Real Gross Domestic Product (GDP) does not grow, the population typically increases and so does the labor force. If these new workers cannot find a job, the unemployment rate will rise. In addition, the average worker becomes more productive over time, which is to say that workers will produce more output per hour worked. If output does not grow, productivity increases imply that fewer workers are needed to produce the same amount of GDP, and the unemployment rate will increase. For the United States as a whole, simple calculations reveal that GDP growth of approximately 3 percent is needed to keep the unemployment rate from rising, and that the United States economy has to grow by approximately 5.5 percent to reduce the national unemployment rate by 1 percent.

A look at United States GDP growth since July 2009 explains why the national unemployment rate has not fallen significantly from its peak of 10.1 percent. Quarterly growth rates since the end of the Great Recession have been 1.6 percent (2009 Q3), 4.9 percent (2009 Q4), 3.7 percent (2010 Q1), and 1.6 percent (2010 Q2). Compared to a year ago, these numbers translate to a 3 percent growth in GDP. Hence these numbers suggest that unemployment rates over this period should not have fallen. Indeed the unemployment rate in July 2009 stood at 9.4 percent and was 9.5 percent in July 2010. The lesson is that we need higher growth than we currently see for unemployment rate levels to decrease.

“BECAUSE IT IS HOME TO A **LARGE COMMUTER POPULATION**, THE INLAND EMPIRE'S UNEMPLOYMENT RATES RESPOND MUCH MORE CLOSELY TO ECONOMIC CONDITIONS IN **GREATER LOS ANGELES.**

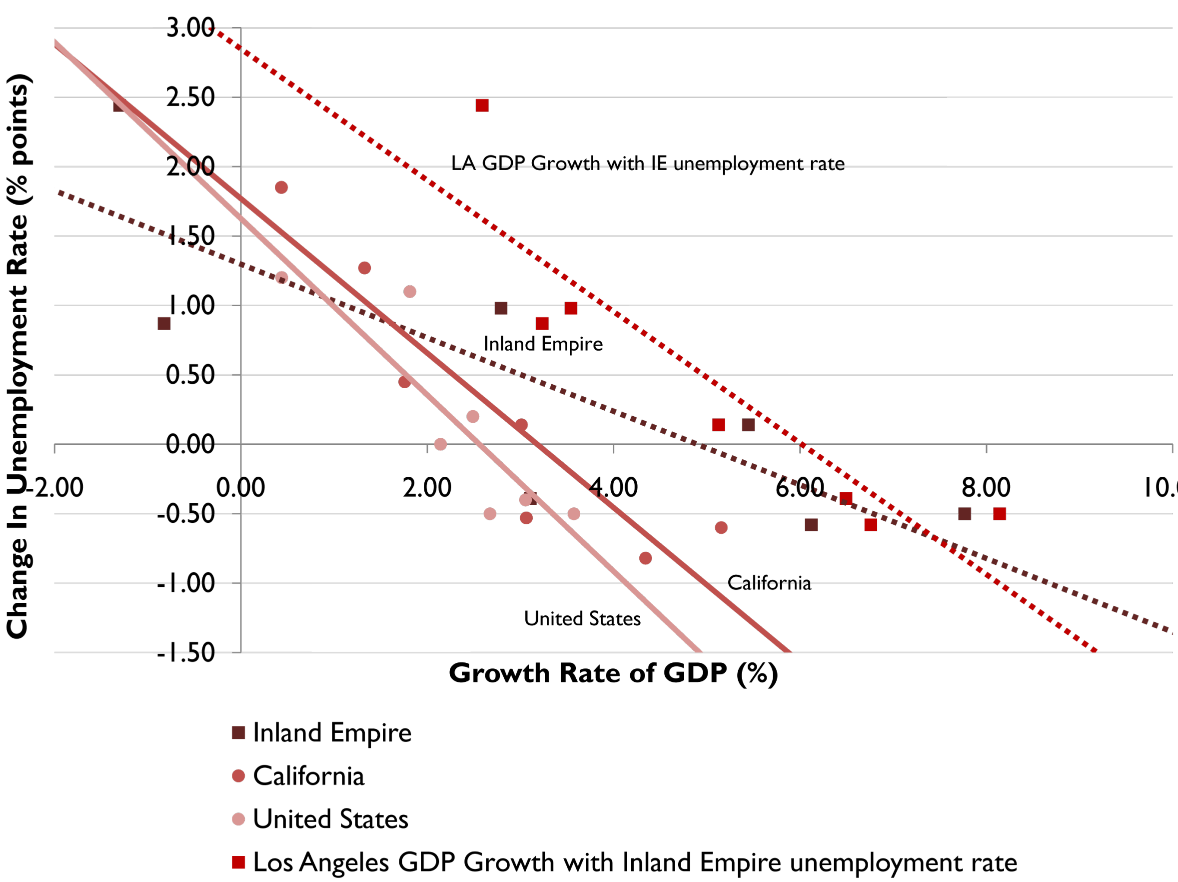
The United States Department of Commerce periodically reports GDP for the state and county levels. The latest available information for the Inland Empire shows that in 2008 the region's output fell by 1.3 percent, while the United States and California saw no change and a small positive growth of 0.4 percent respectively. Data for 2009 is yet to be published, but we can be sure that during that year output in the Inland Empire dropped more sharply than the national decline of 2.6 percent.

Figure 3 displays the relationship between the change in the unemployment rate for the years 2002-2008 for the Inland Empire, California, and the United States. While the growth rate needed to keep the unemployment rate from rising is similar for the United States and California (approximately 2.5 percent to 3 percent), the situation is different in the Inland Empire, where unemployment rates are less closely related to the region's economic growth. This difference can be explained by the fact that ↦

the Inland Empire is home to a large commuter population. Consider a worker who lives in the Inland Empire and works in Greater Los Angeles, defined as Los Angeles and Orange Counties. This person's job depends more on economic conditions in Los Angeles and Orange Counties than on economic conditions in the Inland Empire. However, the Current Population Survey, a report by the United States Census Bureau and Bureau of Labor Statistics which measures unemployment, is based on residency, not where jobs are actually lost. We therefore expect unemployment rates in the Inland Empire to respond much more closely to economic conditions in Greater Los Angeles than in the Inland Empire, and indeed they do as the dotted line indicates in Figure 3.

This high sensitivity between the unemployment rate in the Inland Empire and the economic conditions in the Greater Los Angeles area generates hope during the current times. There are many indicators which point to a more advanced state of recovery in the western parts of Southern California. While it stretches one's imagination to see high growth rates in the Inland Empire in the near term, it is plausible to expect such growth in the Greater Los Angeles area. In particular, we expect to see job growth in the logistics sector. The outlook for the construction sector remains bleak especially now that the period of "delay and pray" or "extend and pretend" seems to have come to an end with no further policy proposals in the making to support the residential housing market.

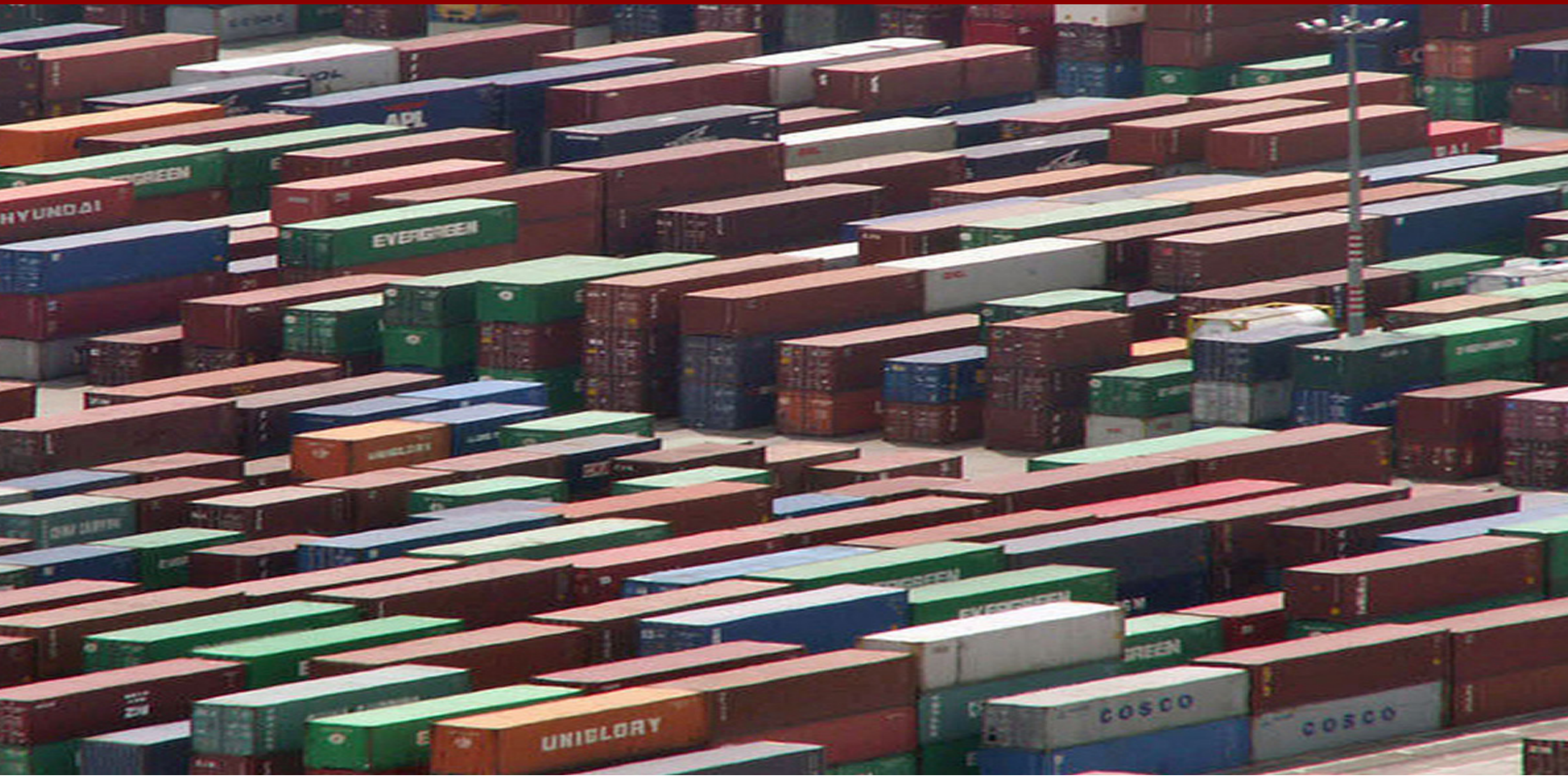
**FIGURE 3: CHANGES IN UNEMPLOYMENT AND GDP GROWTH RATES, INLAND EMPIRE, CALIFORNIA, AND THE UNITED STATES, 2002-2008**



A final word of caution is necessary. The International Monetary Fund (IMF) recently published a study that suggests the unemployment rate in the United States in general, and in California specifically, will be higher when we factor out the cyclical component—that is, when we reach the next peak of economic activity down the road. Instead of returning to pre-Great Recession levels of 4.5 percent, the national unemployment rate is expected to remain above 6 percent, perhaps even a bit higher. This prospect of chronic high unemployment can be attributed to the large number of jobs lost in manufacturing and construction, and the fact that these displaced workers will have to learn new skills before they can be employed in expanding sectors. In addition, job mobility is limited if people cannot move because their housing values are less than their mortgages. In other words, even if households wanted to leave Southern California to move to, say, North Dakota, where the current unemployment rate is 3.8 percent, the continuing housing crisis may prevent them from doing so.

The IMF forecasts that the unemployment rate for California as a whole will not fall below 8 percent. While the IMF does not present similar figures for the Inland Empire, it can be safely assumed that unemployment rates will continue to be higher for this region. As a result, we expect the Inland Empire will not return to single-digit unemployment rates until at least 2015, and even at that time it is unlikely that the unemployment rate will fall significantly below 9 percent. The jobs outlook for the Inland Empire is indeed bleak, but it is necessary for the region's public officials and business leaders to understand and adapt to this difficult reality.

# How Exports Can Help Revive the Inland Empire Economy




One way the Inland Empire can work to emerge from the severe regional recession is to develop a stronger export economy. Exports, along with consumption, investment, and government expenditures, are the four basic components of real Gross Domestic Product (GDP), a key measure of economic vitality in a nation, state, or region. If the Inland Empire's GDP is going to grow, exports are essential because the other components of GDP—consumption, investment, and government spending—are unlikely to produce a strong recovery in the Inland Empire in the near term.

For many years, consumption has driven the Inland Empire economy. However, the local housing market crash and high unemployment rates have prevented consumer spending from rebounding. Although housing values have begun to recover from their low in April 2009, the Case-Shiller Index of housing prices for the Los Angeles metro area has only reached 2002 levels. Meanwhile, the Inland Empire's seasonally unadjusted unemployment rate reached new high in July 2010. Without income growth or loan-financed increases in consumer spending, it is unlikely that consumption can generate recovery in the region for quite some time.

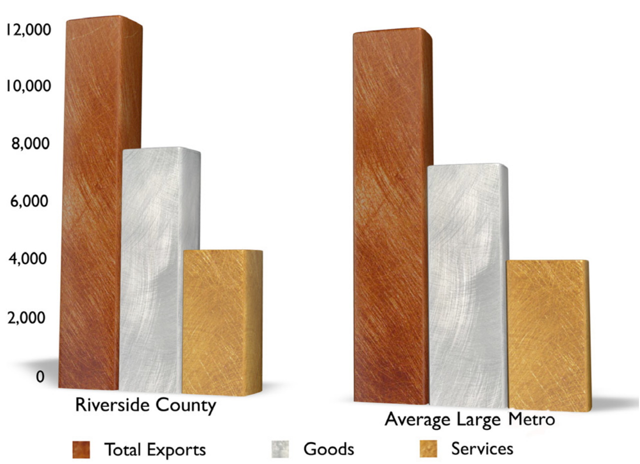
Investment is also unlikely to fuel growth in the near term. The three major categories of investment (residential, plant and equipment, and inventory) are all stagnant. Clearly, the collapse of the housing market will severely limit residential investment in the region. At the national level, inventory investment has made up the majority of GDP growth since the end of the Great Recession in June 2009, but this growth cannot be sustained unless firms are able to deliver significant increases in sales. That leaves investment in plant and equipment as a potential driving force. However, in the wake of the credit crunch following the financial meltdown of September 2008, banks have only reluctantly loaned to firms, especially small businesses. This is a serious problem because small business growth has led the recovery of the American economy after previous downturns. In addition, lack of consumer demand limits investment growth. Historically, increases in demand following a downturn have inspired businesses to expand their capacity; however a resurgence in consumer demand seems unlikely due to low consumer income and continued high unemployment. With no expectation of higher future demand or easier availability of credit, businesses will continue to limit their investments. For these reasons, investment will not drive GDP growth in the region, unless there is a national expansion, or at least substantial output and income growth in the Greater Los Angeles area.

PHOTO: MARION ASHELY, RIVERSIDE COUNTY BOARD OF SUPERVISORS CHAIRMAN

Finally, government spending has obvious limits as an engine of new growth. Mounting concerns over debt have constrained the ability of both state and federal governments to use spending to stimulate the economy. While there is some talk about a second federal stimulus package involving infrastructure spending and expanded business tax cuts, passage of such a program is highly uncertain. Indeed, few in the nation's capital dare to use the "S-Word." The Inland Empire economy cannot expect much help from new government spending.

Exports, then, will have to help the Inland Empire emerge from the recession. Fortunately, boosting exports is a high priority for San Bernardino and Riverside County governments. Riverside County Board of Supervisor Chairman Marion Ashley believes that matching President Obama's National Export Initiative goal of doubling exports in the next five years is ambitious, yet doable. His optimism derives from his belief that the area is "lean and mean" and ready to work.

**FIGURE 1: RIVERSIDE COUNTY'S EXPORT SALES**




In recent years, the Inland Empire has improved its export performance. According to a study by the Brookings Institution, the region now ranks 24th in the nation in export-supported jobs, and its export-related jobs are expanding at 11.5 percent per year, a much higher rate than the 8.7 percent average for the 100 largest metro areas.

In addition, the continuing weakness of the United States dollar gives the Inland Empire's primary trading partners incentives to look to the area for some of their manufacturing needs. According to the International ↦

Trade Association, the Inland Empire's top five export categories are all manufactured commodities. Transportation equipment, which includes all components made for transportation save motor vehicle parts, looks especially promising, given that the sector doubled in size between 2006 and 2008. The Inland Empire can also assume sustained Chinese demand for airplane parts will further support export growth.

Figure 2 depicts the top five trading partners for the area, which receive a little over half of all Inland Empire exports. As seen in Figure 2, the region's chief trading partners are in North America and East Asia, both of which appear to be recovering from the Great Recession more rapidly than other parts of the world. 45 percent of the Inland Empire's exports go to those two parts of the world, and their improving economic health provides opportunities for Inland Empire firms.

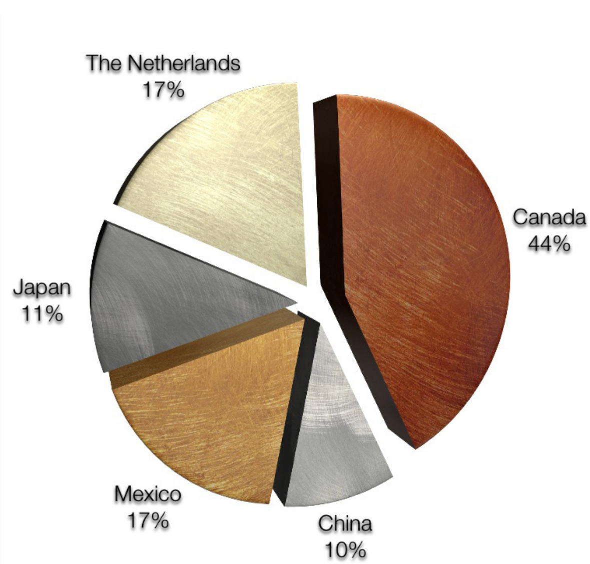
> IF THE INLAND EMPIRE'S GDP IS GOING TO GROW, **EXPORTS ARE ESSENTIAL** BECAUSE THE OTHER COMPONENTS OF GDP—CONSUMPTION, INVESTMENT, AND GOVERNMENT SPENDING—ARE UNLIKELY TO PRODUCE A STRONG RECOVERY IN THE INLAND EMPIRE IN THE NEAR TERM.

***Foreign Investment***

The future of the Inland Empire's economy also depends on foreign direct investment. Foreign investment generates new economic activity, including in the manufacturing and export sectors. Several foreign firms are increasing their presence in the region, including the British supermarket giant Tesco, which owns the Fresh and Easy chain, and the Canadian-owned American Medical Response ambulance service.

In one innovative move, the County of Riverside is collaborating with Japan to commission a study on the effects of foreign direct investment in the county. The Riverside Press-Enterprise, the Riverside Chamber of Commerce, the Coachella Valley Economic Partnership, and U.C. Riverside are also contributing to this partnership. According to Tom Freeman, Commissioner of the Riverside County Economic Development Agency's Office of Foreign Trade, the county's Board of Supervisors, and the Economic Development Agency believe that the study will generate more contact between the Inland Empire, especially the manufacturing and agriculture sectors, and foreign firms. Already on the table is an agreement with Jiangsu, the second-most prosperous province in China, to export table grapes and navel oranges. Another agreement, signed with Croatia, seeks to foster bilateral trade and tourism between the two parties.

**FIGURE 2: INLAND EMPIRE'S SHARE OF EXPORTS BY BY COUNTRY IN 2008**




East Asian firms are boosting their presence in the region, as well. Jusung Corporation, based in South Korea, is an example of such a firm. Jusung manufactures television parts for LG and is interested in establishing a solar energy presence in Riverside County. Other Asian businesses are also seeking to become players in the region's solar energy market. Chinese, South Korean, and Japanese firms are vying for control of the Diamond Valley Reservoir solar energy project. Wind energy is also on the rise in Riverside County, which should see benefits from rising demand for renewable energy sources. According to a joint study by U.C. Berkeley and the United States Economic Development Administration, San Bernardino and Riverside Counties represent a disproportionately high number of California's green start-ups and small businesses, or 'gazelles,' due to their plentiful solar, wind, and geothermal resources.

These expanding relationships with foreign firms are beneficial in themselves, and should also help the region develop its export economy.

In the end, foreign trade cannot be the sole driver of the Inland Empire's economic recovery, because it represents only a small part of the region's overall economy. But if the region is to flourish in the future, its export economy will have to continue to grow. IEO

# New Medical School Will Improve Health Care and Economy


PHOTO: CONSTRUCTION OF THE UCR HEALTH SCIENCES RESEARCH BUILDING

In 2008, the University of California Regents announced plans to establish a new medical school in the Inland Empire on the U.C. Riverside campus. With capital costs expected to exceed $500 million, the new medical school is an expensive venture for a cash-strapped state. But, despite severe funding challenges, the school has hired key personnel, begun construction, and moved forward with plans to welcome its first class in fall 2012. When it opens, the new institution will be the first public medical school in California in over four decades, joining U.C. San Francisco, U.C. Davis, U.C. Los Angeles, U.C. Irvine, and U.C. San Diego. The UCR medical school and related facilities promise to address one of the Inland Empire's most pressing needs—access to quality health care—while also providing a range of economic benefits to the region.

At present, Riverside and San Bernardino Counties lag behind the rest of California in several important indicators of health care services. Most notably, the region suffers from a shortage of physicians. According to several studies, the Inland Empire has the lowest per capita number of primary care physicians and specialist physicians of of any region in California. This physician shortage forces many Inland Empire residents to travel to neighboring regions, especially Los Angeles County, to access health care. Other residents are treated by non-physicians, such as nurse practitioners. Riverside County Supervisor Bob Buster, an advocate of the new medical school, is concerned by the physician shortage and notes that the Inland region especially needs "generalists to provide community-wide preventative care."

Without the new medical school, the region's physician shortage would likely become even more acute. According to a 2007 RAND study, the Inland Empire will need about 9,000 new physicians by 2030 to meet rising demand. Moreover, the recent passage of federal health care reform has increased the anticipated demand for physicians by expanding the number of people with health care coverage.

While one might expect the region's shortage of physicians to correct itself through normal market forces, the solution is not that simple, in part because physicians face significant barriers to entry in any given geographic area. Doctors must build connections with their communities, establish reputations, and develop sources of referrals over long periods of time, and thus have difficulty relocating to a new region. It is noteworthy that, according to RAND, 40 percent of graduating doctors remain in the immediate region surrounding their medical school. At present, Loma Linda University School of Medicine in San Bernardino County is the region's only medical school, and it does not produce enough physicians to meet the region's demand.

PHOTO: BOB BUSTER, RIVERSIDE COUNTY SUPERVISOR

The new U.C. Riverside School of Medicine promises to help alleviate this shortage by bringing a steady infusion of new physicians into the Inland Empire. The school will open with approximately 50 students in its inaugural class, eventually increasing to classes of 100 students or more, for a total student body of 400 students. In time, the school also expects to host 160 post-graduate residents. A large number of these new physcians are expected to establish medical practices in the region.

***Economic Benefits***

Medical schools provide direct economic impact through institutional spending, employee spending, and spending by out-of-area visitors to the facility, among other factors. In addition, through multiplier effects, medical schools bring indirect economic benefits to the community. Crucially for the Inland Empire, medical schools generate jobs. Projections for a medical school in Eastern Washington State indicate that it would create more than 13,000 jobs over the course of 20 years in various sectors, including construction, services, health care, and the research sector. The U.C. Riverside Medical School promises to bring similar benefits to the Inland Empire.

Maximizing the economic benefits of the new medical school will require a strong local hospital infrastructure, research support from U.C. Riverside and other local institutions, and investment in health care-related start-ups. Riverside Supervisor Buster observed that "this is going to take a lot of cooperation between the county, the physicians' association, the other hospitals, and the leaders in the community, so we can make this a self-reinforcing system."

Ideally, the UCR School of Medicine will foster the formation of a high-tech research cluster in the Inland Empire. Other regions have found that training of researchers and high-end specialists promotes the establishment of research clusters. Clusters of this type have already formed around medical schools in Los Angeles and the Bay Area. In light of this competition, Riverside may need to make broad medical research a secondary priority, and focus on a few specialized areas where the university already has strong complementary research, or where Riverside is positioned to be a leader, such as air quality research. ↦

More broadly, the U.C. Riverside School of Medicine will create a variety of opportunities for the local workforce, ranging from construction work to the large numbers of administrative and nursing staff needed to support the medical facilities. The growth of a research cluster will also bring an influx of highly educated, high earning researchers, further boosting the local economy.

To open its doors, the medical school must secure start-up resources during difficult economic times. U.C. Riverside has been forced to pursue a mix of federal, state, and local government funds, as well as private gifts for the new venture. Last year, the school received $4 million in federal money through an appropriation sponsored by Inland Empire representatives Ken Calvert, Joe Baca, Jerry Lewis, and Mary Bono Mack, and United States Senator Dianne Feinstein. More recently, Senator Barbara Boxer has requested an appropriation of at least $1 million in federal funding to help purchase new state-of-the-art medical equipment. This year, the school also requested a minimum appropriation of $10 million in state funding, but that appropriation has been tied up in the state's long budget impasse. Meanwhile, Riverside County has planned to help fund construction. County Supervisor Buster has advocated local government support for the start-up, calling the new medical school "the most potentially transformational institution that we have seen in Riverside County in a long time. We need to do all we can to support this."

In addition to government funding, U.C. Riverside is soliciting donations from private donors, but those sources sometimes present their own challenges. For example, Kaiser Permanente has pledged $10 million, but only if matching funds can be secured.

If UCR can overcome these funding difficulties, the new medical school promises many benefits for the Inland Empire. It will help the region's health care system catch up with the demands of the growing population and bring advanced medical care to an area that lags behind the rest of the state. Equally important, this new institution will help bring new investment dollars, jobs, and economic vitality to a region that urgently needs them.

PHOTO: CONGRESSMAN KEN CALVERT, UCR CHANCELLOR TIMOTHY P. WHITE, CONGRESSMAN JERRY LEWIS AND MEDICAL SCHOOL FOUNDING DEAN G. RICHARD OLDS

# Is I.E. District Poised To Elect Tea Party Candidate?


The "tea party" movement has gained momentum throughout the 2010 election season, fueled by economic unrest and the belief that government has become too big, expensive, elitist, and unaccountable. Candidates who embrace tea party principles have won stunning victories in Republican primaries in several states, and tea party energy has contributed to the "wave" that is expected to unseat many more incumbents in November.

In California, however, the tea party has had only limited influence. In the June statewide primary, for example, tea party candidate Chuck DeVore was soundly defeated in contest for the Republican nomination for United States Senate, and tea party candidates had little impact on state legislative races. But in the Inland Empire, the movement scored a notable victory when tea party candidate Tim Donnelly shocked most observers by winning the 59th Assembly District's Republican nomination.

In an area with a long history of ousting incumbents, it should not have been a surprise that San Bernardino County's high desert region generated California's only tea party victory in the 2010 Republican primaries. As the region's weekly tea party meetings slowly grew from a handful of activists to mass meetings of 200 or more, Donnelly quietly worked to build his support in the race for the 59th Assembly seat. Yet his candidacy was largely ignored by the Republican Party, which focused its attention in the campaign on the three more traditional, establishment candidates: Chris Lancaster (son of former Assemblyman Bill Lancaster), businessman Anthony Riley, and Claremont Councilmember Corey Calaycay.

The perceived three-way race created the opportunity for a tea party surprise. When primary ballots were cast, the establishment candidates Lancaster, Riley, and Calaycay split 60 percent of the vote. But Donnelly's 12,449 votes were enough to win—with the support of only 30.3 percent of the district's Republican primary electorate. ↦

PHOTO: TIM DONNELLY

After the primary, Donnelly secured the support of his former Republican opponents. At a fundraiser hosted by Lancaster, Donnelly and Lancaster expressed similar conservative values. However, Donnelly claimed that he won the primary election because he knows how to step outside the establishment boundaries and defend the people. "I speak my mind," Donnelly told the *San Gabriel Valley Tribune*. "I really don't care who I offend, in terms of fighting for what is right—getting insane regulations out of the way of business, returning to a path of growth, scaling back our spending drastically."

Donnelly, 44, is a native of Georgia who later moved to California where he graduated from U.C. Irvine. He is a small businessman who became an activist through his work with the controversial Minuteman movement. The Minutemen were formed in 2005 to monitor and combat illegal immigration at the United States-Mexico border, and to advocate for stricter border enforcement. That year, Donnelly formed a Minuteman chapter in California and lived for a month along the United States-Mexico border to protest what he believed to be negligent border security. His experience with the Minutemen earned him recognition and a leadership role within the tea party group.

An intriguing question is whether Donnelly is too far to the right for the 59th Assembly District. As also happened in Delaware, Arizona, and Kentucky, the victory of a relatively extreme tea party Republican launched speculation that the Democratic candidate might have a chance at victory even in the heavily-Republican 59th Assembly District. The district, which connects the foothill communities of eastern Los Angeles and San Bernardino Counties then stretches into the high desert, has long been safe Republican territory. Currently, 43 percent of the district's voters are registered Republican, compared to 35 percent Democratic, and 22 percent decline to state. But while the district is solidly conservative and Republican, it is not monolithically so. San Bernardino County Democrats are still celebrating their recent surge in voter registrations (which gave Democrats a 39.3 percent to 38.3 percent edge countywide), and President Obama defeated John McCain in the County by a margin of 52.1 percent to 45.8 percent in 2008. In the 59th District, McCain defeated Obama by less than five points—51.4 percent to 46.6 percent.

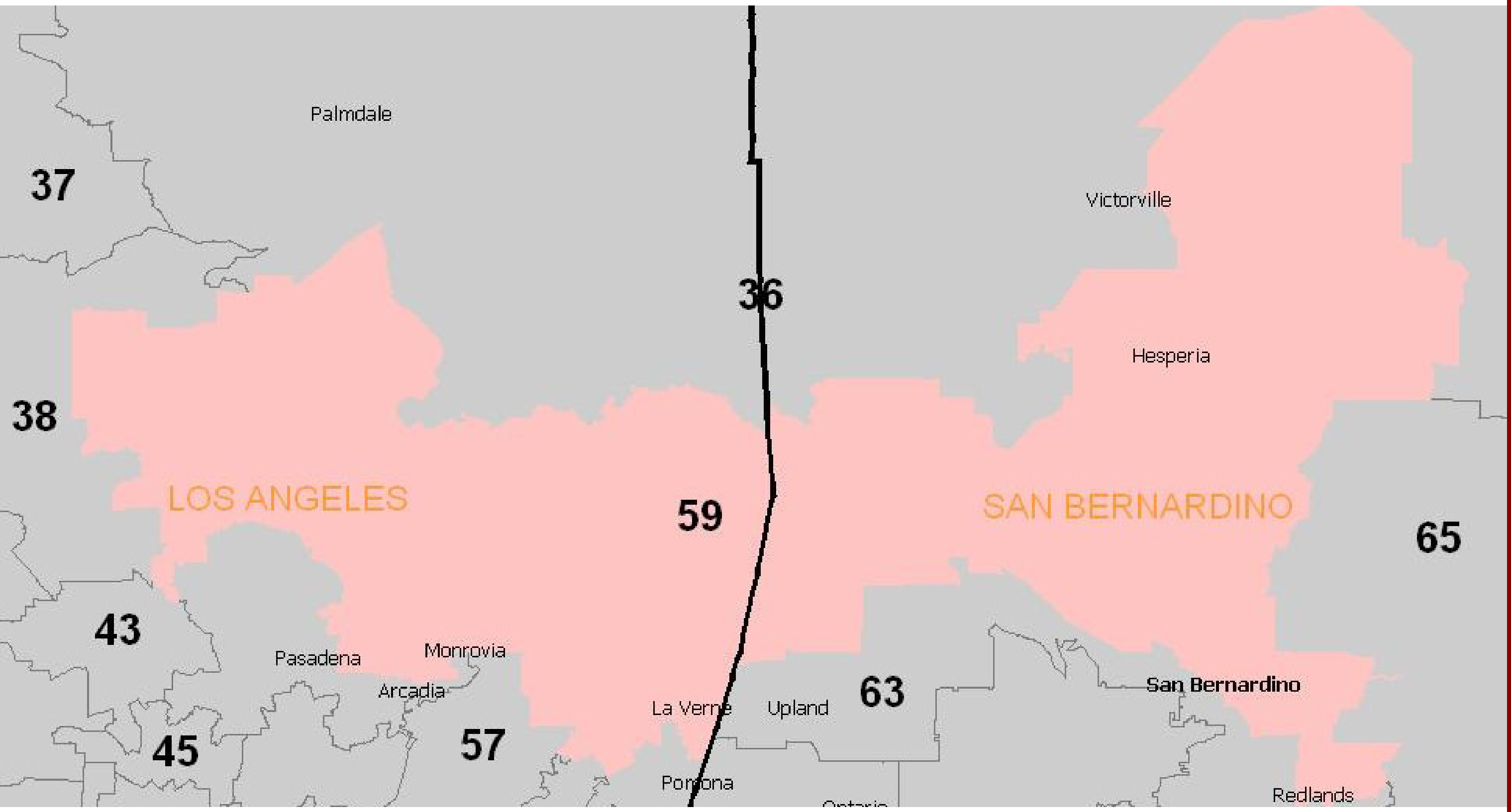
The fate of the district's incumbent, Anthony Adams (R-Hesperia), highlights the district's conservative orientation. Adams, a conventional conservative and political insider, won by a comfortable 51 percent to 41 percent margin over his Democratic opponent in 2008, but became vulnerable to attacks from the right when he supported a state budget compromise that included tax hikes. Adams had previously pledged not to support tax increases and he paid a price for breaking this pledge. Talk radio hosts and other activists derided Adams for departing from conservative orthodoxy and formed a drive to recall him from office. Although Adams barely avoided a recall election in 2009, he decided not to seek reelection in 2010—thus opening the door for Donnelly's insurgent campaign.

In the November General Election, Donnelly will face Democrat Darcel Woods. A Pomona native, Woods is a community college professor and former Los Angeles County Sheriff's Deputy. Woods has attacked Donnelly's fitness for the office. She has seized on a media report that that Donnelly has voted in only 13 of the last 30 elections. "He's touting himself as a patriot, as...someone who is concerned about his country and his state," she told the *Inland Valley Daily Bulletin*. "If that's the case, why wouldn't he have been taking an active part and been actively participating in voting? Patriots are active in the process of making decisions."

> **I SPEAK MY MIND.** I REALLY DON'T CARE WHO I OFFEND, IN TERMS OF FIGHTING FOR WHAT IS RIGHT."
>
> - TIM DONNELLY

It is unlikely that Donnelly's uneven voting history will harm his candidacy in a year when populist outsiders are thriving. The more salient question is whether a candidate with Donnelly's activist background and political views will win election in a district that is solidly, but not overwhelmingly, conservative. As noted above, the San Bernardino County portion of the district has a long history of electing outsiders and rebels. Those factors, combined with the heavily Republican tilt of independent voters and the much higher motivation levels among Republicans in 2010, make it a safe bet that Donnelly will prevail. If so, the Inland Empire will have contributed to a national phenomenon by sending a tea party representative to the California Legislature. IEO

## State Assembly District 59



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## The Inland Empire Center

The Inland Empire Center for Economics and Public Policy is based at Claremont McKenna College. It was founded as a joint venture between the Rose Institute of State and Local Government and the Lowe Institute of Political Economy to provide business and government leaders with timely and sophisticated analysis of political and economic developments in the Inland Empire.

The IEC brings together experts from both founding institutes. Marc Weidenmier, Ph.D., director of the Lowe Institute, is a Research Associate of the National Bureau of Economic Research and a member of the Editorial Board of the Journal of Economic History. Ralph Rossum, Ph.D., director of the Rose Institute, is a nationally recognized constitutional law scholar who has expertise in Native American legal issues. Manfred Keil, Ph.D., an expert in comparative economics, has extensive knowledge on economic conditions in the Inland Empire. Kenneth P. Miller, J.D., Ph.D., is an expert in California politics and policy who studies political developments in the Inland Empire. David Huntoon, MBA, specializes in economic development, survey research, and tribal governments issues.

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