

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

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Jack H. Brown College of Business and Public
Administration
Report for April 2018**

*Sponsor: San Bernardino County Economic Development Agency
Riverside County Economic Development Agency*

PMI AND EMPLOYMENT ABOVE 50 FOR 16 MONTHS COMMODITY PRICES AT NEARLY RECORD HIGH

According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's Inland Empire Purchasing Managers' Index (PMI) registered 62.4, virtually unchanged from last month's 62.8. The index has remained above the baseline 50% mark for the 16th consecutive month, indicating sustained growth for both the manufacturing sector and the overall local economy."

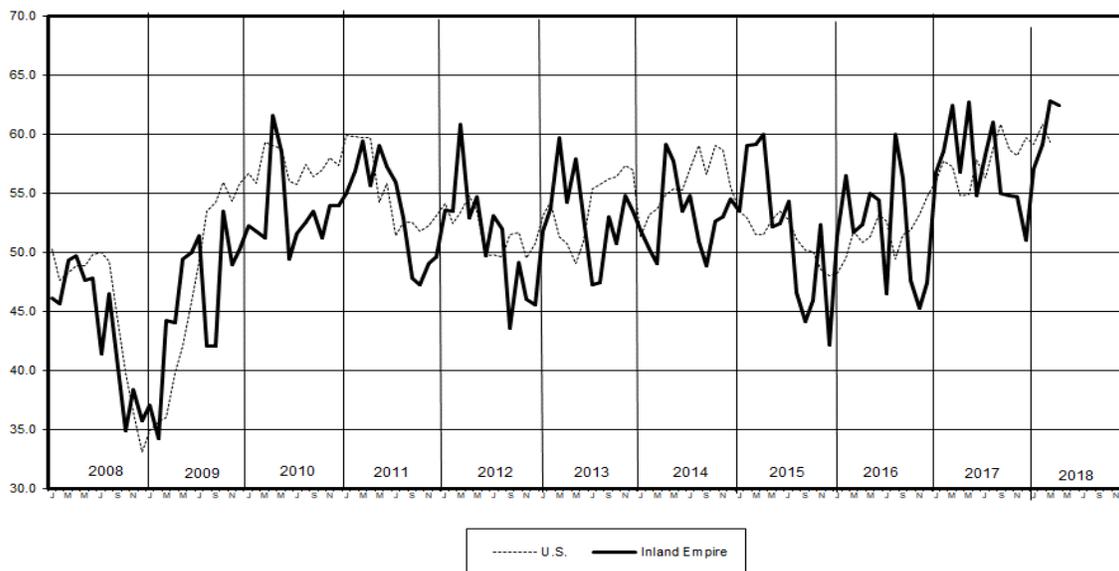
"The Production Index registered an increase from last month's figure 64.1 to 69.7 this month, and New Orders Index decreased from last month's 67.2 to 60.6 this month. The fact that these two key components of the PMI remain solidly above the 50% mark indicate that manufacturing companies anticipate increasing levels of consumer purchases in the near future. Inventories increased from 56.3 to 59.0 this month, and the Commodity Price Index soared to 81.8 (up from last month's 70.3). This is a very rare event -- there have been only six months since the inception of the report in 1993 that we have seen Commodity Price figures above 81.8 (once in late 1994, once in mid-2006, three times in mid-2008, and once in late 2010). The Employment Index has remained above 50 for the 16th month (showing growth), however the rate of growth slowed somewhat (the index decreased to 57.6 this month from last month's 65.6). The speed of supplier deliveries is slowing, with the index changing from 61.0 to 65.2 this month. That is a good sign -- one that indicates that suppliers are too busy to deliver as quickly as they used to."

"Fifty percent (50%) of purchasing managers predicted that the local economy will become stronger in the upcoming months (up from last month's 35%). Forty-seven percent of purchasing managers believe the local economy will remain unchanged (up from last month's 55%), and the remaining 3% believe the local economy will become weaker over the next quarter (down from last month's 10%). Putting this into historical

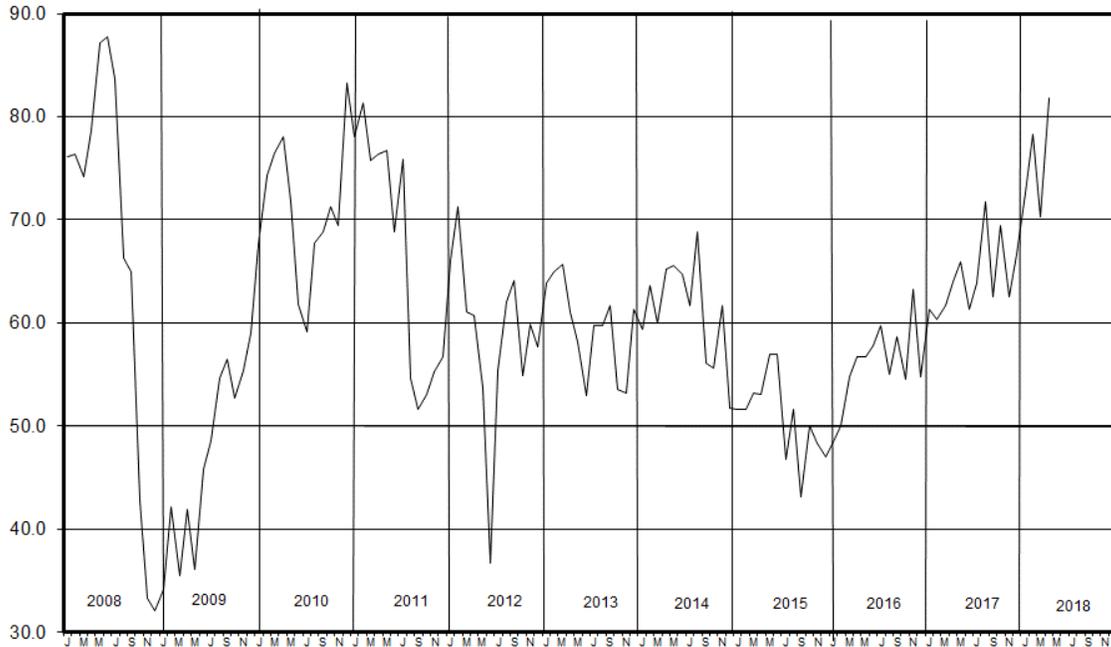
perspective, there have only been eight times since 1993 that 50% or more of the respondents have predicted that the economy would become stronger in the coming months.”

April 2018 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	62.8	62.4	Growing	Slower	16
Commodity Prices	70.3	81.8	Increasing	Faster	27
Production	64.1	69.7	Growing	Faster	4
New Orders	67.2	60.6	Growing	Slower	4
Inventory	56.3	59.0	Increasing	Faster	4
Employment	65.6	57.6	Growing	Slower	16
Supplier Deliveries	61.0	65.2	Slowing	Faster	16
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	35%	50%			
% Same	55%	47%			
% Weaker	10%	3%			

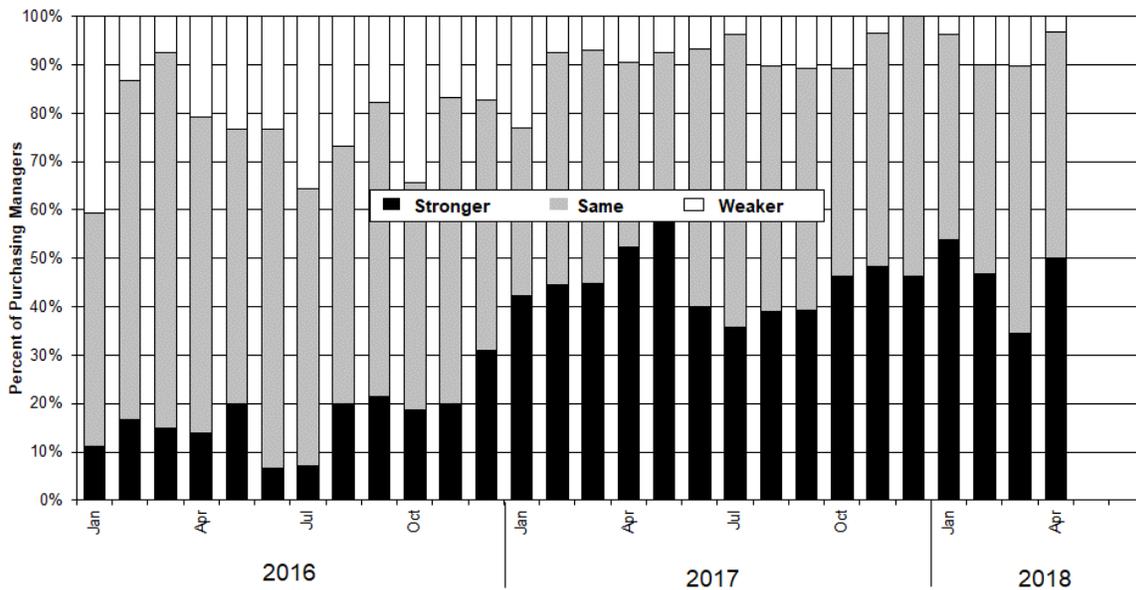
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 4/2017 THROUGH 4/2018

	Apr	Ma y	Jun	Jul	Au g	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Weaker	10	8	7	4	10	11	11	3	0	4	10	10	3
Same	38	35	53	60	52	50	43	49	54	42	43	55	47
Stronger	52	57	40	36	38	39	46	48	46	54	47	35	50

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included:

- "Business is up."
- "Business remains strong across the numerous industries we serve, both domestic and foreign (Europe, Asia and Mexico). We have also seen a nice increase in the oil & gas industry (the only real industry that has been slow). Oil & gas sales have higher than average margins, so a pick-up in that industry is very helpful."
- "Our busy season is picking up finally; let's hope we make our year in the next few months."
- "Sales are brisk! Pick up in government related orders and construction producers."
- "Still good."
- "Still very busy."
- "The month is running at high gear for production, but orders missed targets slightly. For shipping, this is our best month of the year."
- "We are getting lots of new orders. It remains to be seen if this new business will be as profitable as the aircraft business that we've lost in the last couple years. But no layoffs in spite of a serious cash crunch."
- "We have seen business increase drastically since the new tax cuts went through. Also, the budget being passed has allowed military orders to go through which has also increased our business."
- "With the increase in the aerospace program and the additional familiarity of what we do, we are increasing our sales aggressively this year."

Even though the PMI index showed solid growth, as did many of the indices which comprise the PMI, some Purchasing Managers made cautionary or "mixed" comments:

- "Section 232 Tariffs on aluminum, and steel still have metal pricing and availability unsettled."
- "Business has continued to be very slow."
- "Difficult recruitment conditions."

In summary, the data reported here reflect a strong Inland Empire economy and a growing manufacturing sector. Production and New Orders are up, and the all-important Employment Index has been showing growth for over a year. But the commodity price index is near historic highs. There could be several reasons for this high figure, the first being the relationship between commodity prices and

supply/demand issues. Simply put, the global economy has been improving, and as the economy improves, the demand for products increases, thus depleting stockpiles of raw materials and increasing commodity prices. Indeed, the World Bank has forecasted that the prices of energy commodities will continue to increase in 2018 as a result of steadily growing demand. In addition, in March the Fed lifted the federal funds rate (and plans further rate increases in 2018 and 2019). As interest rates increase, so will the prices of commodities.

But the bottom line of this report is that for the foreseeable future, the overall Inland Empire economy is healthy and continuing its steady growth.

Special note:

We would like to spread the word about CASCADE, a new initiative funded by the U.S. Department of Defense to bolster California's defense supply chain resilience, innovation capacity, and diversification strategies. CASCADE (California Advanced Supply Chain Analysis & Diversification Effort), consists of business assistance & workforce development, education and outreach regarding cyber physical security and supply chain resilience, and supply chain mapping to better acquaint manufacturers doing business with the Department of Defense with suppliers that can meet their needs. For more information, go to: <http://www.business.ca.gov/Programs/Innovation-and-Entrepreneurship/Cybersecurity/CASCADE>.

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