

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: The Institute of Applied Research

**Housed in CSUSB's
Jack H. Brown College of Business and Public Administration**

Report for August 2018

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

PMI AND EMPLOYMENT ABOVE 50 FOR 20 MONTHS

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 54.5, a decrease from last month's 61.1. The decrease should not be seen as a cause for concern. Indeed, the index has remained above the baseline 50% mark for the last 20 months, indicating sustained growth for both the manufacturing sector and the overall local economy."

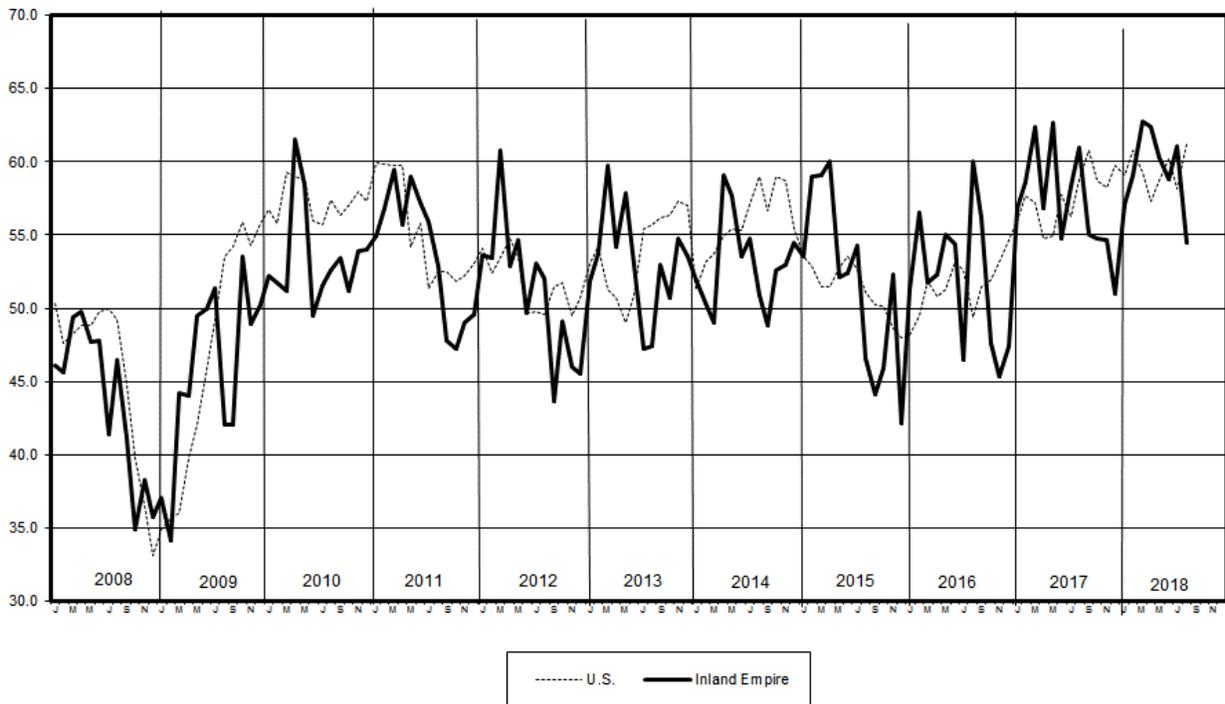
"The Production Index fell sharply from 66.1 to 56.7 this month, and the New Orders Index also decreased, dropping from last month's 62.5 to 50.0 this month. But the important thing is that these two key components of the PMI have remained at or above the 50% mark for the past eight months, indicating a trend of growth and the anticipation that there will be increasing levels of consumer purchases in the near future. Inventories of purchased materials (raw, MRO – Maintenance, Repair, Operating, intermediates, etc.) decreased from 64.3 last month to 51.7 this month. The Commodity Price Index has remained above 50 (reflecting price increases) for the last 30 months, although the *rate of increase* has slowed somewhat (the index fell from 73.2 last month to 65.0 this month). The all-important Employment Index decreased to 50.0 from last month's 55.4, meaning that employment was at about the same level in August as it was in July. That index has remained at or above 50 for 20 months in a row. The supplier deliveries index increased from 57.1 to 63.8 this month, meaning that deliveries are slowing (again, for the 20th month in a row). This is a good sign...it means that suppliers are very busy."

"Only 11% of Purchasing Managers believe that the local economy will become weaker in the coming quarter (up only slightly from 8% last month.) Nearly a third (31%) of Purchasing Managers predicted that the local economy will become stronger in the upcoming months (down from last month's 42%), and the remaining 58% (up from 50% last month) believe the local economy will remain unchanged."

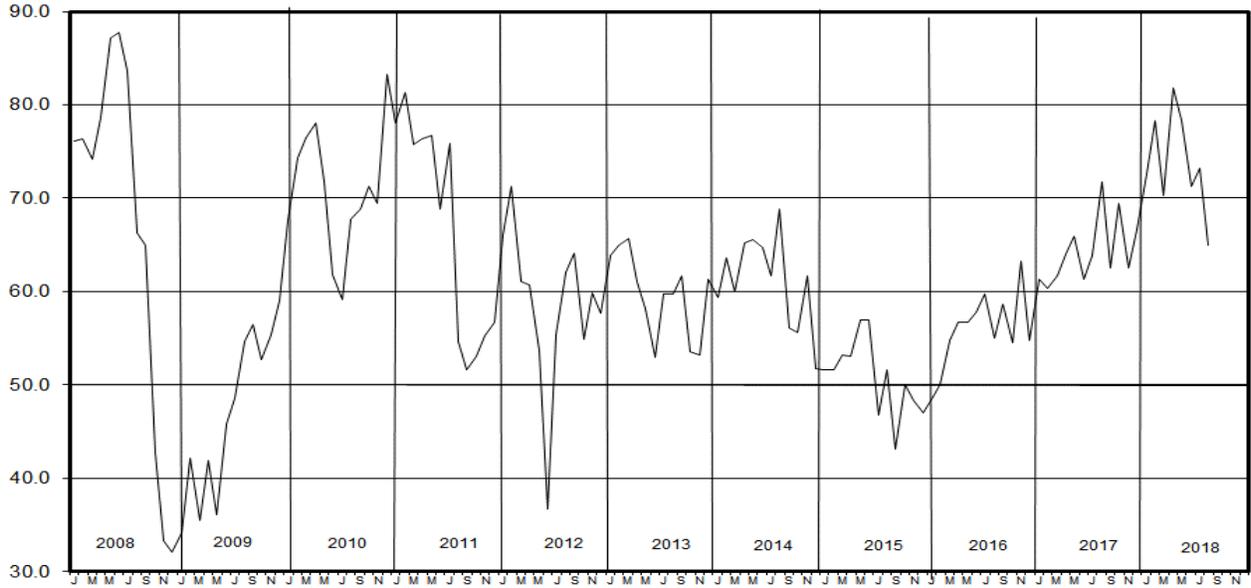
August 2018 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	61.1	54.5	Growing	Slower	20
Commodity Prices	73.2	65.0	Increasing	Slower	31
Production	66.1	56.7	Growing	Slower	8
New Orders	62.5	50.0	Unchanged	From Growing	8
Inventory	64.3	51.7	Increasing	Slower	8
Employment	55.4	50.0	Unchanged	From Growing	20
Supplier Deliveries	57.1	63.8	Slowing	Faster	20
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	42%	31%			
% Same	50%	58%			
% Weaker	8%	11%			

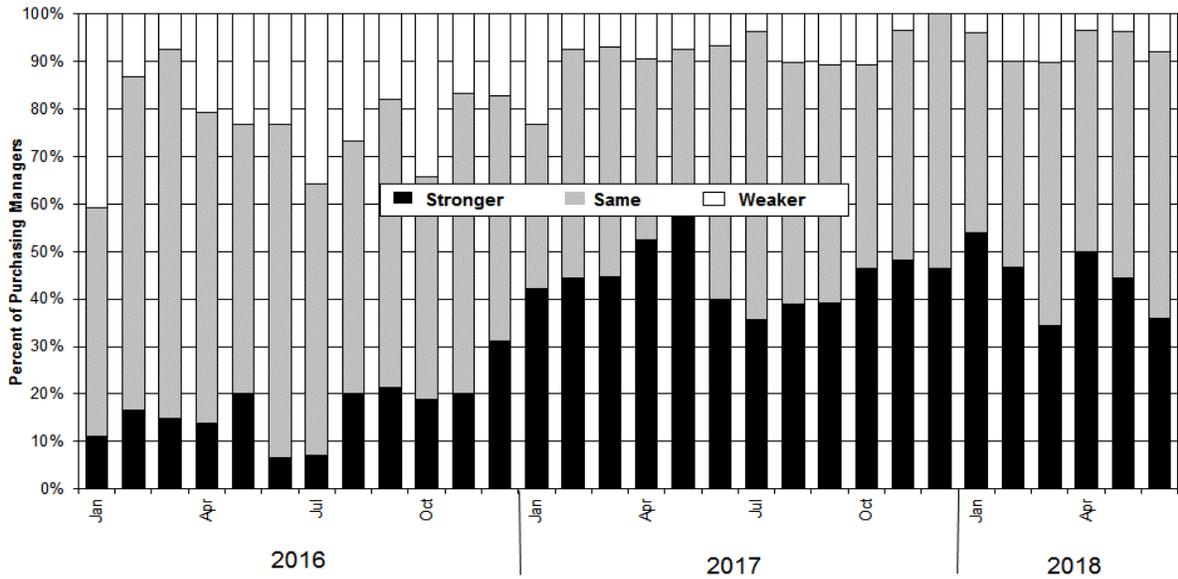
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 8/2017 THROUGH 8/2018

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
	10	11	11	3	0	4	10	10	3	4	8	8	11

Weaker													
Same	52	50	43	49	54	42	43	55	47	52	56	50	58
Stronger	38	39	46	48	46	54	47	35	50	44	36	42	31

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

- "The demand for Silicone products continues to grow, automotive, aerospace, aviation and medical are all adding to the growth."
- "Last year, we started a slow period in the fall, this year no slowdown is projected."
- "Remaining very busy."

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:

- "August is typically our slowest month of the year and this August was again our slowest sales per day average for the year. So, it is hard to get a real read on how the economy is going."
- "Slow."
- "Sales up 10% over last month, but steel prices also up."
- "Still very busy although we still have lots of vendor invoices to be paid. Just heard there may be a shortage in Teflon insulated wire which we use frequently. Thank you trade war."
- "The outlook is not promising; we are going to do less than last year."
- "The recent tariffs have caused a stark jump in several of the raw materials that we use to manufacture our products. We've also seen an overall slowdown of interest in the past couple of months. Requests for quotes have slowed down since the first quarter."
- "The tariffs have had an impact on asphalt related materials and metal prices as well. Freight costs have increased recently which has had to be absorbed in the costing of materials. Semi-annual pricing increases from vendors have created increased costs for us, which need to be passed along to keep profitability in line with previous months."
- "We are seeing a significant decline and delay of business in our core aerospace markets."
- "Do not know, trade policies may be playing a role."

In summary, this month's data shows that the Inland Empire manufacturing sector has been in growth mode for more than a year and a half. That said, some of our respondents see possible clouds on the horizon due to recently imposed steel and aluminum tariffs. Some manufacturers indicate that their suppliers are mentioning the possibility of upcoming price increases because of uncertainty surrounding tariffs and inflation, and of course that is of concern to manufacturers.

That said, it appears that the Inland Empire economy is humming along, with low unemployment, strong job creation, and strength in the construction and logistics sectors. The Inland Empire should fare well for the foreseeable future.

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/CASCADE>.

And if you represent a firm that is part of California's defense supply chain, **please participate in a 5-minute supply chain resilience survey** which will allow CASCADE to map California's defense supply chain – a necessary first step towards helping companies like yours mitigate potential negative impacts of changes in the level of defense spending. Just go to <https://www.cagobizsupplychainsurvey.com/>.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Barbara Sirotnik
Director, Institute of Applied Research
(909) 537-5729

Mary Jane Olhasso
Assistant Executive Officer, County of San Bernardino
(909) 387-4599

Rob Moran
Economic Development Manager, Riverside County Economic Development Agency
(951) 955-6673

Dr. Lawrence Rose
Dean, Jack H. Brown College of Business and Public Administration, CSUSB
(909) 537-3703