

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 2019

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

ANOTHER MIXED ECONOMIC REPORT FOR THE INLAND EMPIRE

According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Coordinator, Institute of Applied Research), "The August Inland Empire Purchasing Managers' Index (PMI) registered 50.0, a significant decrease from last month's 55.0. Readers will recall that the June PMI dipped below 50, ending 29 straight months of figures reflecting growth in the manufacturing sector. July's figure rebounded to 55.0, but this month the figure receded to 50.0, indicating that the manufacturing sector is not growing, but it is not contracting either."

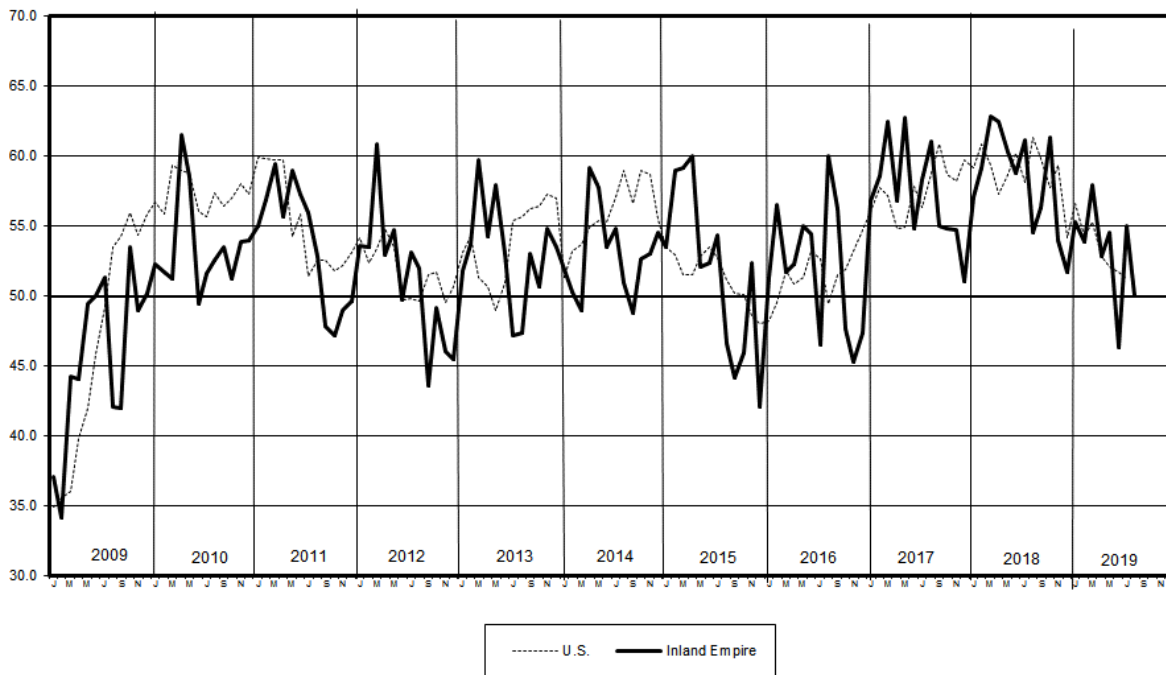
"The main components of the PMI were a "mixed bag" of economic news. The New Orders Index decreased from 61.7 last month to 51.7 this month, reflecting growth in new orders (although the rate of growth has slowed significantly) – a good sign for the economy. In contrast, the Production Index dipped back below 50, decreasing from 53.3 to 48.3, indicating that production was down last month – not a good sign. The Commodity Price Index registered 66.7 (a significant increase from last month's 56.7), signifying that cost of raw materials is increasing (and at a faster pace than before). Further, the Employment Index dropped precipitously to 46.7 from last month's 60.0. The Supplier Deliveries Index registered 55.0, suggesting that the speed of deliveries is slowing (usually a sign that suppliers are busy and doing well)."

"Most of the survey respondents (63%) continue to believe that the local economy will remain unchanged ("flat") over the next few months. Only fifteen percent (15%) predicted that the local economy will become stronger in the upcoming months, and (22%) believe the local economy will become *weaker* over the next quarter."

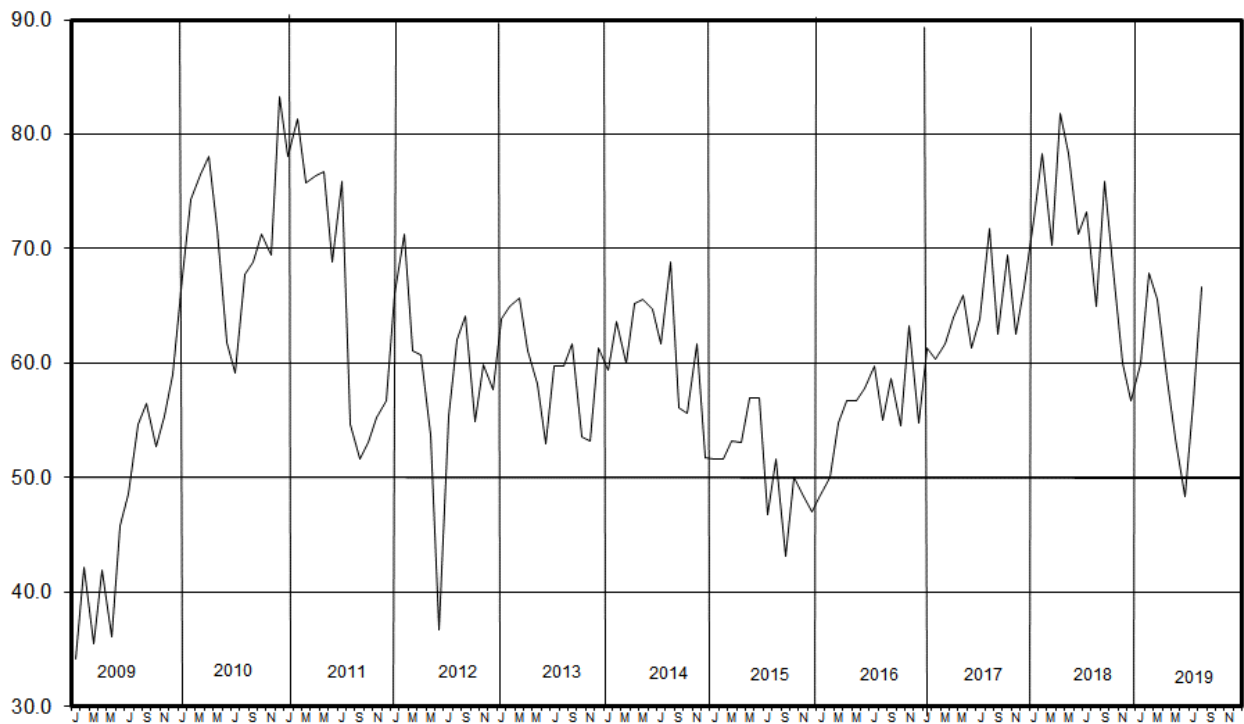
Following is a summary of highlights from this month's report:

August 2019 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	55.0	50.0	Unchanged	From Growing	2
Commodity Prices	56.7	66.7	Increasing	Faster	2
Production	53.3	48.3	Contracting	From Growing	1
New Orders	61.7	51.7	Growing	Slower	2
Inventory	51.7	48.3	Decreasing	From Increasing	1
Employment	60.0	46.7	Contracting	From Growing	1
Supplier Deliveries	48.3	55.0	Slowing	From Faster	1
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	14%	15%			
% Same	64%	63%			
% Weaker	22%	22%			

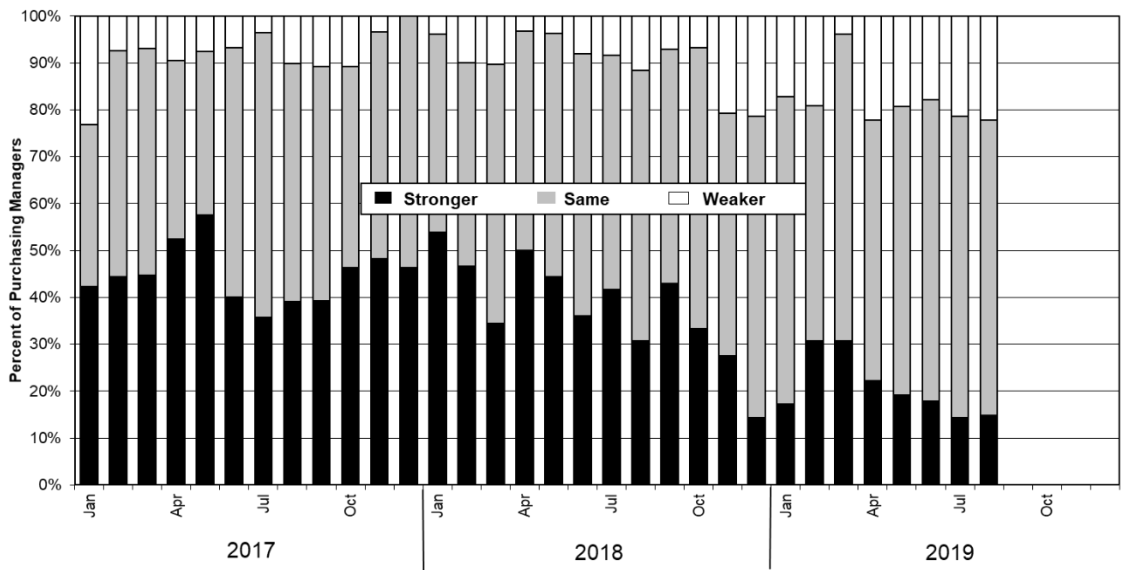
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 8/2018 THROUGH 8/2019

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	11	7	7	21	22	17	19	4	22	19	18	22	22
Same	58	50	60	52	64	66	50	65	56	62	64	64	63
Stronger	31	43	33	28	14	17	31	31	22	19	18	14	15

Following are positive comments from Purchasing Managers regarding general business conditions and/or reasons for import and export changes:

- "Overall business continues to be firm. New orders are up from year ago. Trend looks to be very positive."
- "Business has been good with new Government projects and corporate projects booking. They do seem to be taking a little longer to move forward though."

Mixed or cautionary comments include:

- "While we have booked and have backlog for the specialized products we are providing, our general market is in an absolute holding pattern due to the uncertainty in the marketplace caused by the political intervention in the economy."
- "Business is still soft. Although at the beginning of the month, August looked like it may be the best month in a while, it turned out to be pretty much flat with June and July. We do have good orders on the books for the next few months. So, maybe things will start to turn around in September. Prices are going higher, so that is a positive for us."
- "Business slow for this time of year, sales below last year."
- "Orders slowing at a time that they should be holding steady. Was going to add two new positions but holding off for now."
- "Slow."
- "We don't buy from overseas suppliers, but we do buy power cords from a Wisconsin company and they buy the bulk cable from China and then cut to length, add terminals, and mold the plastic for the plug end. The tariffs on this wire have been passed on to us as a 25% increase. And this has cut deeply into the profit on parts using the power cords."
- "Some areas are slowing - defense and aerospace contracts currently being renewed. Automotive in general has remained steady."
- "Slowed on imports due to tariffs."

Finally, in mid-August a survey by the National Association for Business Economists indicated that 38% of economists predict a recession by the end of 2020, and an additional 34% predict a recession by the end of 2021. In order to determine the opinions of *Inland Empire* manufacturing leaders, a new question was asked: "Based on

what you are seeing in your business (and looking into your “crystal ball”), what do you think is the chance of a recession by the end of 2020?” Responses ranged from one end of the spectrum (optimists who believe that there is no chance of recession) to the other (people who definitely see a recession coming). Over half of respondents (51.9%) said that there is a 50/50 or higher chance of a recession within the next 16 months.

Comments from those *not* predicting a recession included:

- "So long as Trump is in office we won't go into a full recession. We may slow down, but I don't think we will go into a full recession."
- "For US manufacturers I believe there will be new opportunities. Chinese costs are being pushed up as its local economy grows and demand around the world grows. Economic growth worldwide means more opportunity for US companies that can meet the needs."
- "I don't think that all of the indicators are pointing towards a recession. But the media is screaming recession, and that scares people into a "self-fulfilling" situation."
- "Pricing is holding and the only reason to speak of this is the media looking for another means to damage the administration and the work they are getting done to improve manufacturing in the USA & and government."
- "Low unemployment and interest rates will keep consumer demand strong."
- "None of our customers are indicating any concerns."
- "Our business has been solid, unable to predict any recession in our industry."

Comments from those predicting *at least a mild recession* included:

- "The cycle is due. Sales and housing markets are slowing down, tariffs are having an effect, Washington instability is causing a problem."
- "There are just too many industries that have suffered a downturn this year. That will have to equate to some sort of recession in the coming 12 months (or sooner). However, this recession is likely to be much milder and shorter compared to those in previous times. At this point, the economy does not feel like a bubble, just getting tired. I think that translates to a mild recession."
- "If we have a recession, I expect it to be mild, more like a correction. Brexit could cause financial and business issues in Europe, and those problems in Europe could spread to the USA."
- "We are slower than previous months, but year over year we are even or only slightly lower. Lots of news about trade war is making business concerned. I think it will pass most likely. There is always a chance of recession after long expansion."
- "The Fed cut rates by 0.25% on Wednesday, July 31, 2019. But an inverted yield curve between the 10-year Treasury bond and the three-month T-bill suggests a recession is coming unless the Fed can steepen the yield curve."

In summary, the PMI Index as well as the individual indices making up the PMI are a mixed bag of positive and negative economic news. New orders are up slightly, but

production is down slightly. Employment has dropped and the price of raw materials is increasing. There is a great deal of variability in all indices, rather than the slow and steady growth we saw in the Inland Empire manufacturing sector for over two years.

Will this variability change to economic downturn? Neither nationally known economists nor our respondents can agree on an answer to that question. But suffice it to say that there are widespread concerns about issues on the national scene including tariffs on \$110 billion in Chinese imports, layoffs of factory workers in the Midwest, and an inverted yield curve that may be stoking fears in the marketplace that there is an increasing chance of a recession. Obviously, the Inland Empire is not immune to the effects of these national issues.

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