

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 February 2019

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

PMI 26 MONTHS ABOVE 50, BUT NEW ORDERS DROP

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 53.9, a slight decrease from last month's 55.3. The index has remained above the baseline 50% mark for the last 26 months, indicating sustained growth for both the manufacturing sector and the overall economy."

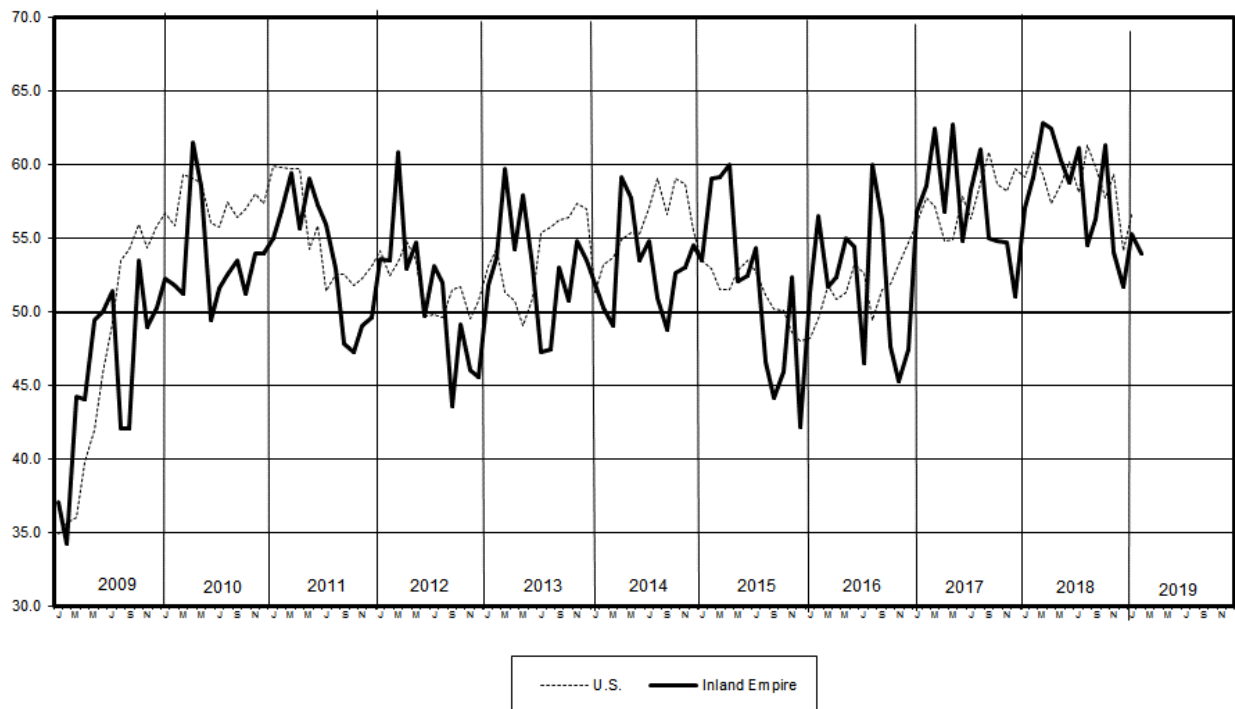
"This month saw a sharp decline in the New Order Index after 13 months of growth. The index dropped to 46.4 this month from last month's 58.3. That is not necessarily a cause for alarm since it takes three months of data to establish a new trend (in this case, a trend of declining new orders). The Production Index also dropped this month (from 58.3 to 55.4), meaning that production is still growing (although at a slower pace than last month). The Commodity Price Index increased to 67.9 from last month's 60.0, indicating that prices of raw materials are continuing to rise. The Supplier Deliveries Index decreased this month to 57.1 from 63.3 last month reflecting continued slowing of deliveries (although not as much as last month). But the big news is that the Employment Index increased sharply to 53.6 from last month's 46.7 (which had been the first month below 50 in two years). It appears that last month's figure may have been an anomaly."

"Thirty-one percent (31%) of purchasing managers predicted that the local economy will become stronger in the upcoming months (up from last month's 17%, and the highest figure since October 2018). Nineteen percent (19%) believe the local economy will become weaker over the next quarter (up slightly from 17% last month). The remaining 50% of purchasing managers believe the local economy will remain unchanged."

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

February 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	55.3	53.9	Growing	Slower	26
Commodity Prices	60.0	67.9	Increasing	Faster	28
Production	58.3	55.4	Growing	Slower	14
New Orders	58.3	46.4	Contracting	From Growing	1
Inventory	50.0	57.1	Increasing	From unchanged	2
Employment	46.7	53.6	Growing	From Contracting	1
Supplier Deliveries	63.3	57.1	Slowing	Slower	26
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	17%	31%			
% Same	66%	50%			
% Weaker	17%	19%			

Purchasing Managers' Index



3 Report on Business, Released 03/01/2019



3 Report on Business, Released 03/01/2019



STATE OF THE ECONOMY: DATA FROM 2/2018 THROUGH 2/2019

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Weaker	10	10	3	4	8	8	11	7	7	21	22	17	19
Same	43	55	47	52	56	50	58	50	60	52	64	66	50
Stronger	47	35	50	44	36	42	31	43	33	28	14	17	31

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

- "Orders are up by 30% year over year."
- "Business is very good. Orders are on the increase in comparison to last year. New business is developing, and existing customers are ordering larger volumes."
- "Still busy and late on many orders."
- "Tariffs on imported paperboard from China have caused us to buy less from China. This has impacted our Sales over the last quarter. Fortunately, 70% of our raw materials are purchased from domestic paper mills, so the impact from the tariffs is not significant. Business in general is very good. We are always slower in the Winter months and it picks up in the Spring and Summer months. We typically build up our inventory in the slower Winter months in preparation for the upcoming busier months."
- "The market has slowed this past month; however, it is usually like this every year. We do however see it picking back up quickly."
- "Things seem to be picking up after the holidays."

Cautionary comments include:

- "Uncertainty and higher tariffs have impacted our suppliers."
- "Business is slowing down."
- "The rainfall has had an impact on our business this month."
- "Federal took over the milk pricing market, we are being charged more now. So, we decided to make less cheese, from 6 to 7 days a week down to 4 days a week. Orders are not the same as well. we have too much cheese in inventory."
- "Slow."
- "Slowdown in the Automotive sector - especially with TESLA."
- "While our company does not depend extensively on exports or imports, the uncertainty of the international markets impacts our customers and vendors, and therefore us. The new tariffs have had an impact on material costs."
- "We are not seeing orders for export at this time."
- "Tariffs on paper coming from China impacted the volume of imported paper."

In summary, the PMI continues to reflect a forecast of continuous slow growth in the Inland Empire manufacturing sector and overall economy. Employment is back in

growth mode, and Production continues to grow. But amidst that rosy news, winter weather and issues on the national and international stage (e.g. tariffs and political instability) continue to affect some Inland Empire businesses negatively.

Recent surveys by the National Association for Business Economics indicate that nearly half of their member economists project a US recession by the end of 2020. The PMI is a short-term leading indicator projecting only three months into the future, thus our quantitative indices are unable to shed light on whether that prediction will become reality in the Inland Empire. IAR plans to ask respondents to comment on a possible recession in upcoming monthly surveys.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Barbara Sirotnik
Director, Institute of Applied Research
909.537.5729

Soua Vang
Manager – Business Attraction, Retention & International Trade
Economic Development Agency, County of San Bernardino
909.387.4385

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