

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 July 2018**

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

PMI AND EMPLOYMENT ABOVE 50 FOR 19 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 61.1, an increase from last month's 58.8. The index has remained above the baseline 50% mark for the last 19 months, indicating sustained growth for both the manufacturing sector and the overall local economy."

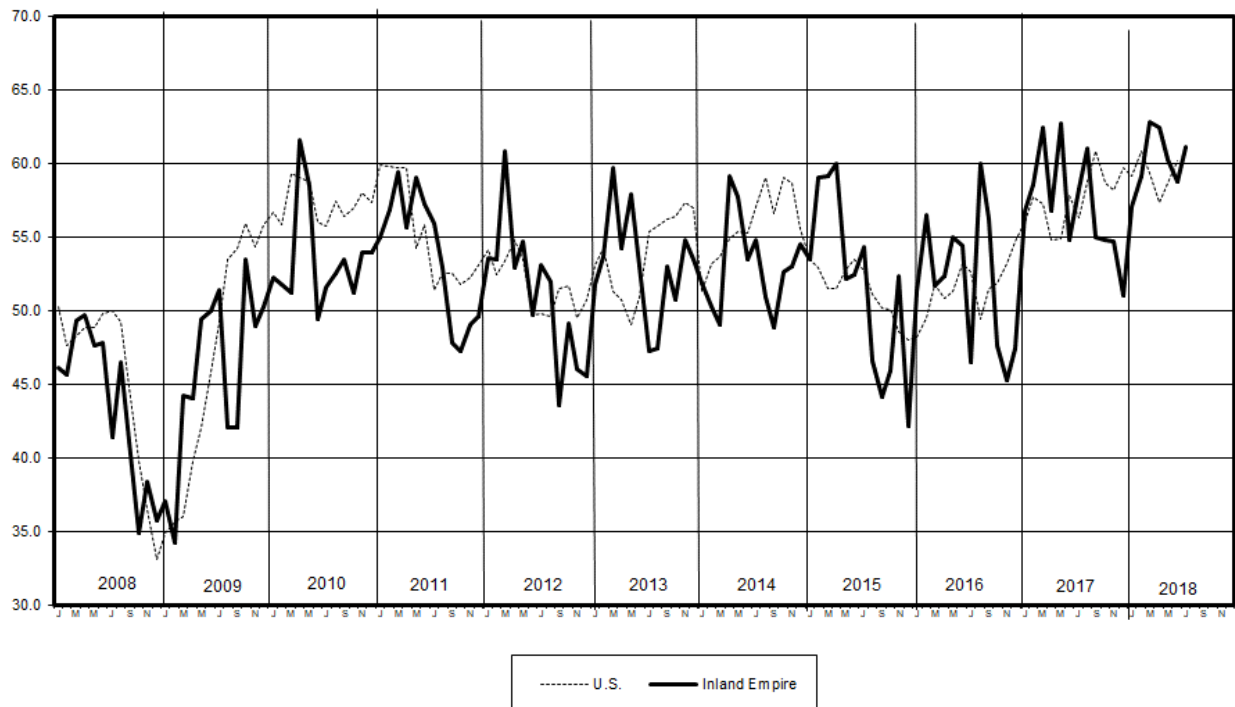
"The Production Index increased from 57.7 to 66.1 this month. The New Orders Index also showed growth, increasing from 55.8 to 62.5 this month. The important thing is that these two key components of the PMI have remained solidly above the 50% mark for the past seven months, indicating a trend of growth and the anticipation that there will be increasing levels of consumer purchases in the near future. Inventories increased from 57.7 last month to 64.3 this month. The Commodity Price Index increased from 71.2 to 73.2 this month indicating that prices are continuing to rise. The all-important Employment Index has remained above 50 for the 19th month in a row – it registered at 55.4, which is a decrease from last month's 59.6 (meaning that employment is increasing, but at a slightly slower pace than last month). The speed of supplier deliveries decreased from 63.5 to 57.1 this month. A figure above 50 means that deliveries are slowing which is a good sign...it means that suppliers are very busy.

Forty-two (42%) of Purchasing Managers predicted that the local economy will become stronger in the upcoming months (up from last month's 36%), and 50% (down from 56% last month) believe the local economy will remain unchanged (a positive figure considering that this rating of "unchanged" is relative to a long span of economic growth). Only 8% of Purchasing Managers believe that the local economy will become weaker in the coming quarter (a figure unchanged from last month)."

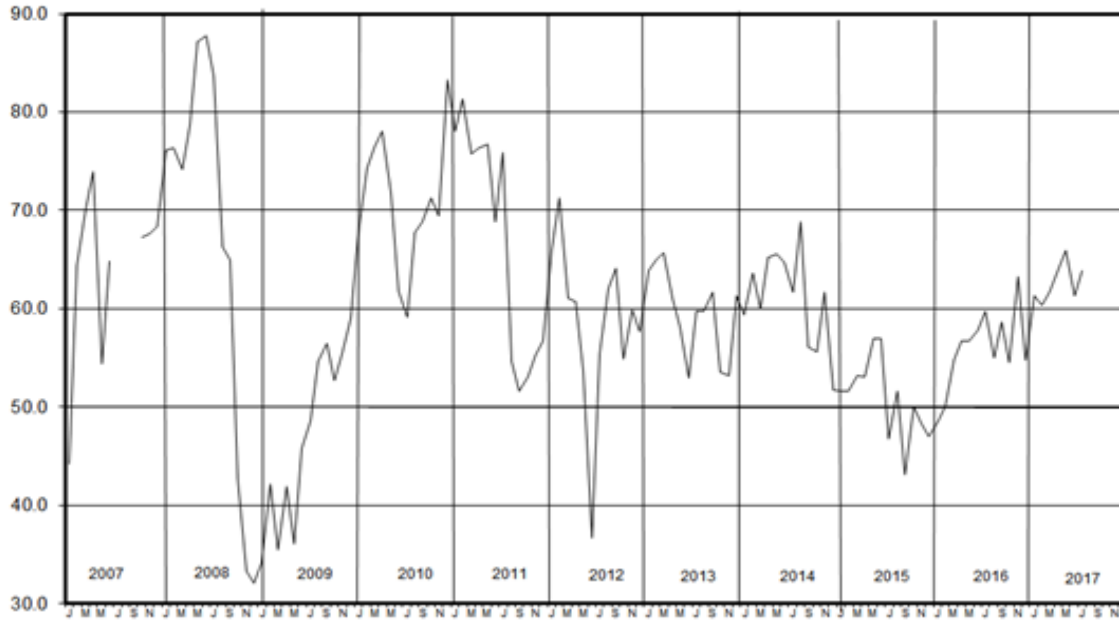
July 2018 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	58.8	61.1	Growing	Faster	19
Commodity Prices	71.2	73.2	Increasing	Faster	30
Production	57.7	66.1	Growing	Faster	7
New Orders	55.8	62.5	Growing	Faster	7
Inventory	57.7	64.3	Increasing	Faster	7
Employment	59.6	55.4	Growing	Slower	19
Supplier Deliveries	63.5	57.1	Slowing	Slower	19
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	36%	42%			
% Same	56%	50%			
% Weaker	8%	8%			

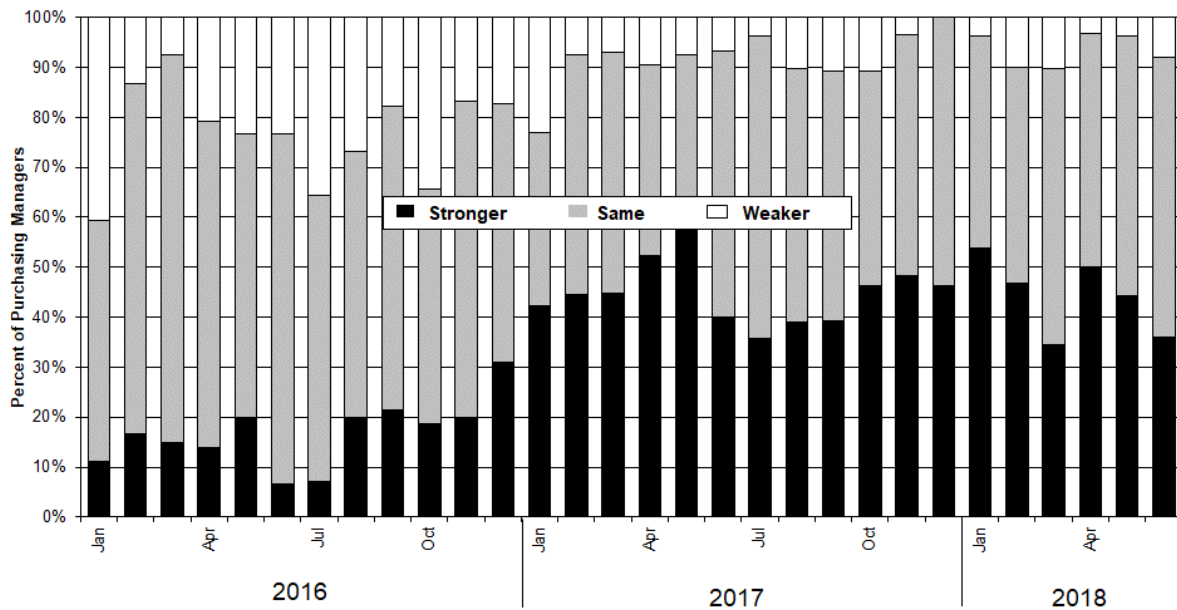
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 7/2017 THROUGH 7/2018

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Weaker	4	10	11	11	3	0	4	10	10	3	4	8	8
Same	60	52	50	43	49	54	42	43	55	47	52	56	50
Stronger	36	38	39	46	48	46	54	47	35	50	44	36	42

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

- "Busy as can be, late on almost everything."
- "Orders have picked up considerably. Increase on brass coupling orders for the US Navy (government contracts). We have started working overtime."
- "Strong demand – continued price increases across the board for raw materials."
- "We think the slow orders in June were customers turning quarter-end inventories. July came back strong from the first day of the month."

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:

- "Business still slow."
- "Our busy season is slowing down. Heat! Managing inventory."
- "Still a great deal of flux and insecurity in the economy particularly related to suppliers who are dependent on either exports or imports. We don't depend on imports or exports that are impacted by the seemingly endless changes in our policies, but since it impacts our suppliers we are concerned about the degree to which it could have consequences for us as they modify their business practices."
- "Tariffs are affecting import material price and use."
- "Working with suppliers to improve the performance of the materials."

In summary, although all indices point to slow and sustained growth, our respondents expressed concern regarding possible ripple effects on the economy from newly imposed steel and aluminum tariffs. Inland Empire companies that are dependent on components sourced overseas could see potential disruption in the global supply chain. At the national level, geopolitical instability has economists questioning whether another recession could be on the horizon.

That said, we are cautiously optimistic about the state of the Inland Empire economy for the coming quarter. Unemployment is down, the construction and logistics sectors are strong, and national stats indicate that tax cuts are increasing consumer confidence and spurring consumer spending. 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>.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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