

## **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 June 2019***

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

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### **LOCAL PMI DROPPED BELOW 50 TO 46.3**

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 46.3, a significant drop from last month's 54.5. This marks the first time in 29 months the index has dropped below the baseline 50% mark. If the index remains below 50% for another two months, a new trend will have been established indicating a contraction in the Inland Empire **manufacturing sector**. And if the index drops even further (to 42.9), there will be indications of a weakening in the Inland Empire **economy** as well."

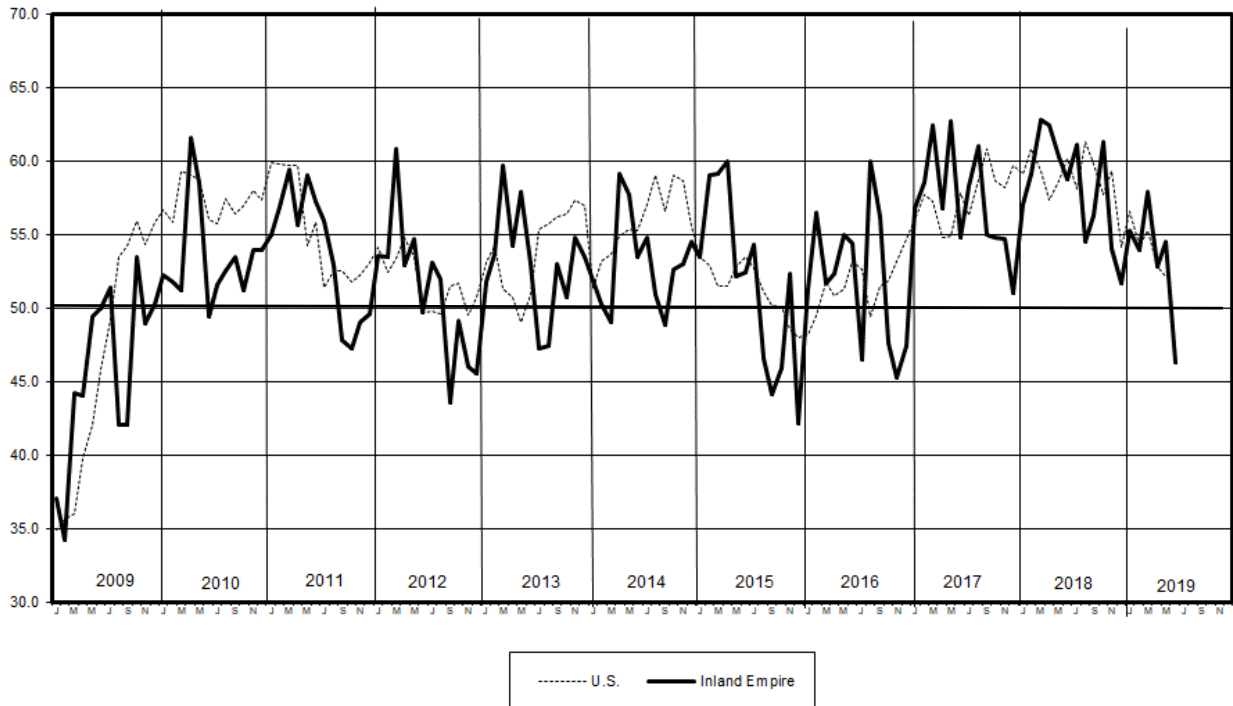
"All major indices of the PMI dropped this month. The New Orders Index decreased from 55.2 last month to 43.3 and the Production Index dropped from 60.3 last month to 45.0 this month. The Commodity Price Index registered 48.3 this month, indicating that cost of raw materials decreased somewhat from last month. The Employment Index also dropped below 50% for this month, decreasing to 41.7 from last month's 53.4. The Supplier Deliveries Index increased this month to 53.4 from last month's 58.3, indicating that the speed of deliveries was slower than last month, although the slowing was not as extreme as previous months."

"Most of the survey respondents (64%) believe that the local economy will remain unchanged in the next few months. Only eighteen percent (18%) predicted that the local economy will become stronger in the upcoming months, and an equal amount (18%) believe the local economy will become *weaker* over the next quarter."

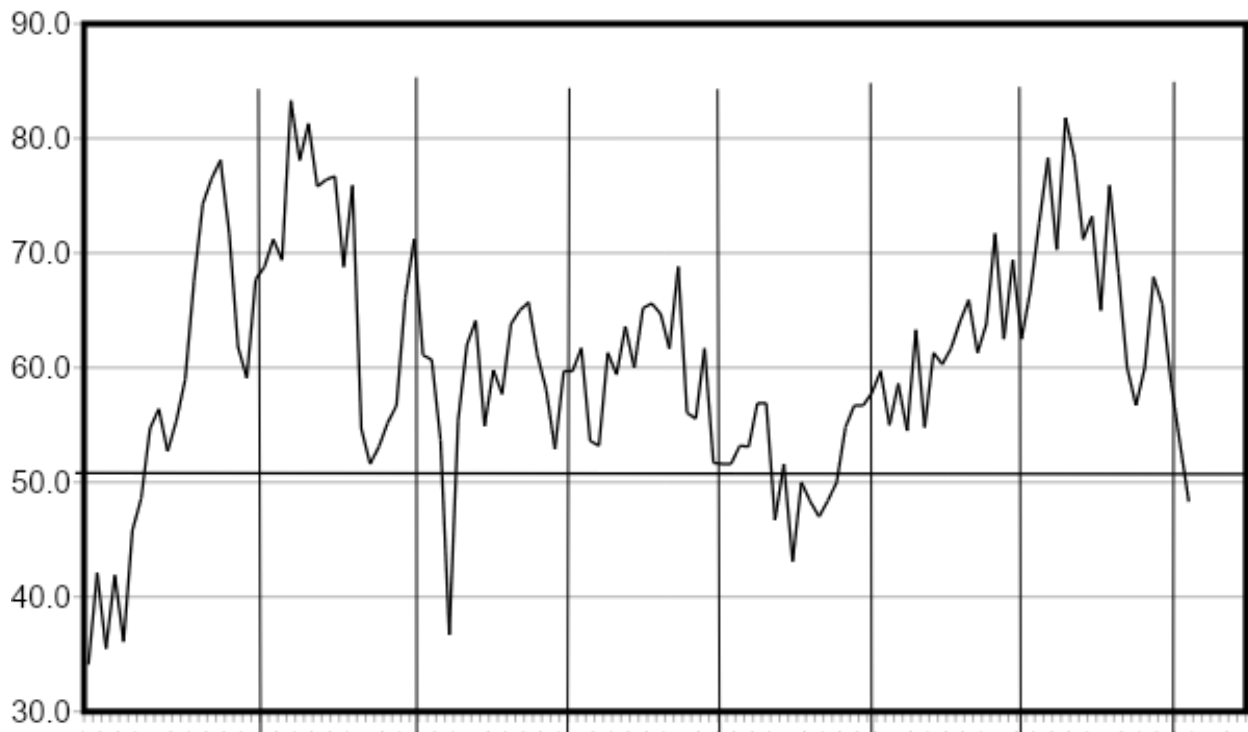
Following is a summary of highlights from this month's report:

June 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	54.5	46.3	Contracting	From Growing	1
Commodity Prices	53.4	48.3	Decreasing	From Increasing	1
Production	60.3	45.0	Contracting	From Growing	1
New Orders	55.2	43.3	Contracting	From Growing	1
Inventory	50.0	43.3	Decreasing	From unchanged	1
Employment	53.4	41.7	Contracting	From Growing	1
Supplier Deliveries	53.4	58.3	Slowing	Slower	30
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	19%	18%			
% Same	62%	64%			
% Weaker	19%	18%			

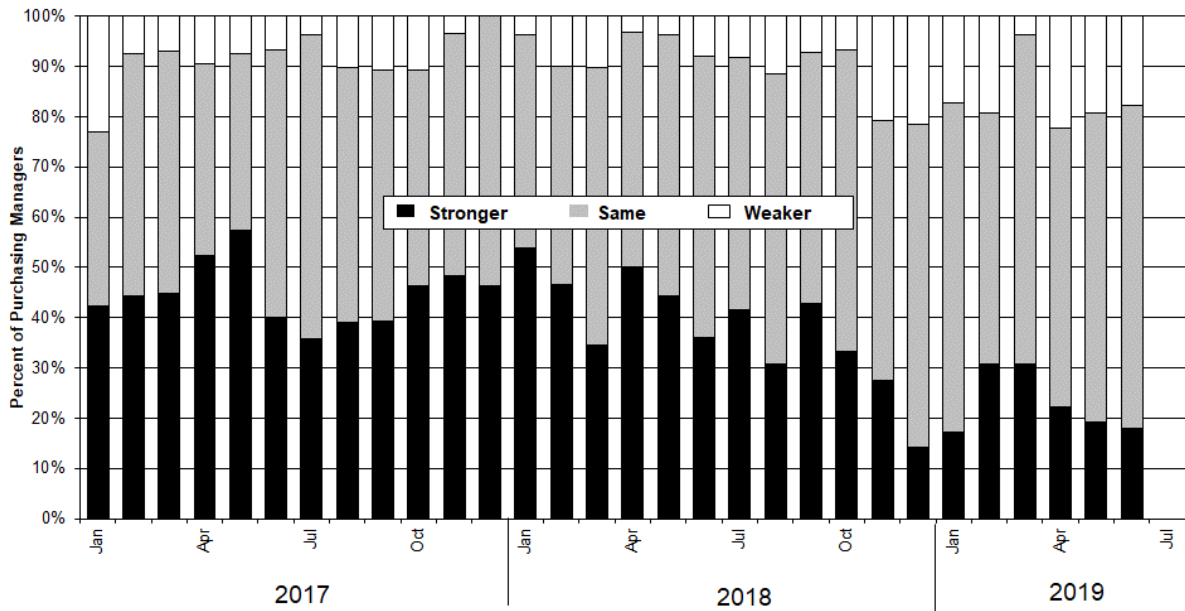
### Purchasing Managers' Index



## Commodity Prices



## State of the Local Economy



## STATE OF THE ECONOMY: DATA FROM 6/2018 THROUGH 6/2019

	Ju	Ju	Au	Se	Oc	No	De	Jan	Fe	Ma	Ap	Ma	Jun
<b>Weaker</b>	8	8	11	7	7	21	22	17	19	4	22	19	18
<b>Same</b>	56	50	58	50	60	52	64	66	50	65	56	62	64
<b>Stronger</b>	36	42	31	43	33	28	14	17	31	31	22	19	18

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

- “The weather is helping the price of natural gas (our biggest purchase).”
- “Business has been good, but a lot of purchase orders have come in which has made the cash flow situation challenging.”
- “Great sales month, second record month in a row. Mostly construction and military.”
- “Incoming orders continue to be firm with increase over same period last year.”
- “Still busy, lead times are out to 8 weeks (used to be 3-4 a couple years ago). May was a big booking month, June a bit lower, less overtime in June, so lower shipping dollars.”
- “Better economy in customer countries, I believe due to great US economy.”

Mixed or cautionary comments include:

- “We have had a slowing of orders, we feel it is only seasonal. No reduction in people yet.”
- “Business in June was similar to May, which both are down about 10% from last year. We are seeing a slowdown from nearly all industries and regions of the country. Orders from Europe and Asia have also slowed.”
- “General summer slowdown in production.”
- “Slower than last month.”
- “This is getting worse, this month we did not get any orders.”
- “We are experiencing a significant slowdown in the booking of new government and aerospace orders...the requirements are still on our customers' books, but the release of orders has slowed down dramatically, and we are concerned that some of the insecurity on national policy is filtering down to the operations level of our customers.”
- “Slow down due to tariff from Asia and threats in Mexico.”
- “Tariffs.”

In summary, it takes three months to establish a new trend in the PMI, so we are not ready to say that the “sky is falling”...yet. (1) This month’s low figures could be a summer slowdown in orders (which has occurred in June over 9 of the last 10 years). (2) We could be seeing an aberration/statistical anomaly which will correct itself next

month. (3) It is possible that IAR is seeing the first indication of a slowdown in the manufacturing sector (and perhaps the economy). It will take two more months to indicate definitively which of these explanations of the downturn is correct. For now, let's just say that this report is one more piece of bad economic news at the national, state, and local levels. For example:

- The US Consumer Sentiment index (prepared by the University of Michigan) has declined and is weaker than expected, partially due to tariffs and “slowing gains in employment.” (<https://tradingeconomics.com/articles/06142019140435.htm>)
- The California consumer confidence index is at its lowest level since July 2016, partially due to tariff tensions (<https://www.cnbc.com/2019/06/25/us-consumer-confidence-june-2019.html>)
- The recent UCLA Anderson Forecast has increased the chance of a national recession from “near zero to 15% for the next year.” (<http://newsroom.ucla.edu/releases/ucla-anderson-forecast-june-2019-us-california>)
- The national PMI for June showed continued growth, however the rate of growth has slowed (decreasing from last month's 52.1 to this month's figure of 51.7). That report said “Comments from the panel reflect continued expanding business strength, but at soft levels; June was the third straight month with slowing PMI® expansion.”  
<https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm#manIndexSumm>

Stay tuned!

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