

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 March 2019

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

PMI REGISTERS ITS 27th MONTH ABOVE 50

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 57.9, an increase from last month's 53.9. The index has remained above the baseline 50% mark for the last 27 months, indicating sustained growth for both the manufacturing sector and the overall economy."

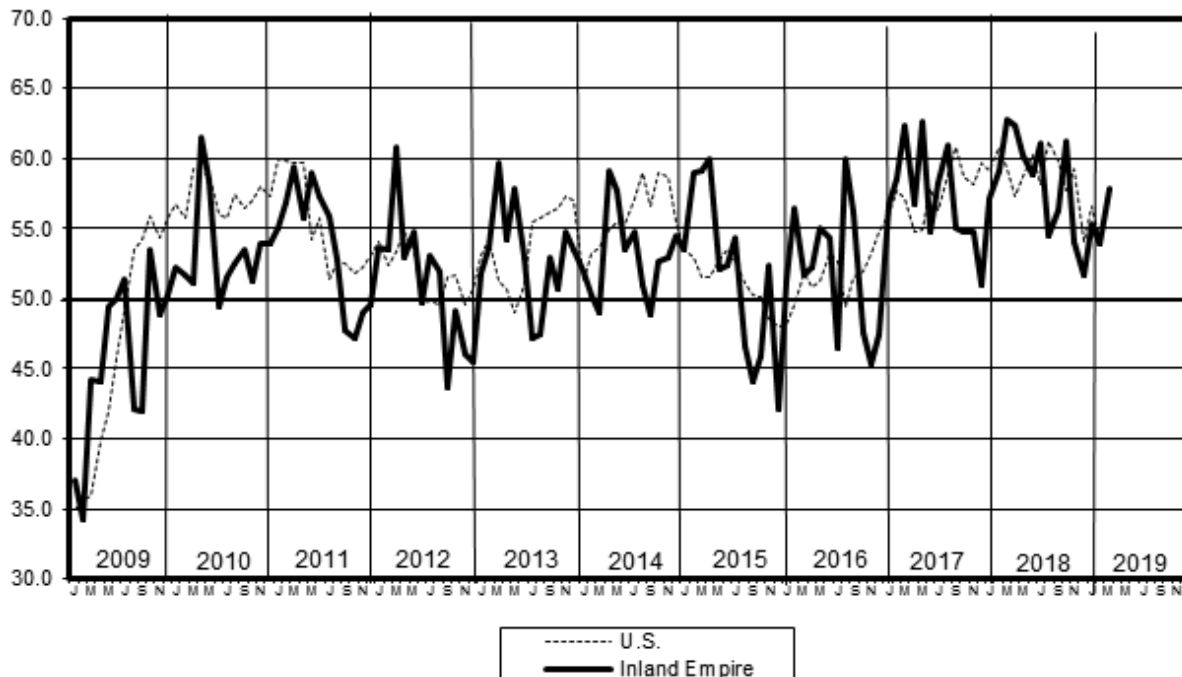
"This month New Orders Index registered 58.6, returning to growth mode after a one-month dip below 50. The Production Index also increased this month from 55.4 to 60.3. The Commodity Price Index dropped slightly from last month's 67.9 to 65.5 this month, indicating that although prices of raw materials are continuing to rise, they are rising at a slightly slower pace than last month. The Supplier Deliveries Index decreased this month to 53.4 from last month's 57.1, reflecting continued slowing of deliveries (although at a slower pace than last month). The Employment Index remained above 50% for the second month in a row, increasing from 53.6 last month to 56.9 this month."

"Thirty-one percent (31%) of purchasing managers predicted that the local economy will become stronger in the upcoming months (same as last month). Only four percent (4%) believe the local economy will become weaker over the next quarter (down significantly from 17% last month). The remaining 65% of purchasing managers believe the local economy will remain unchanged."

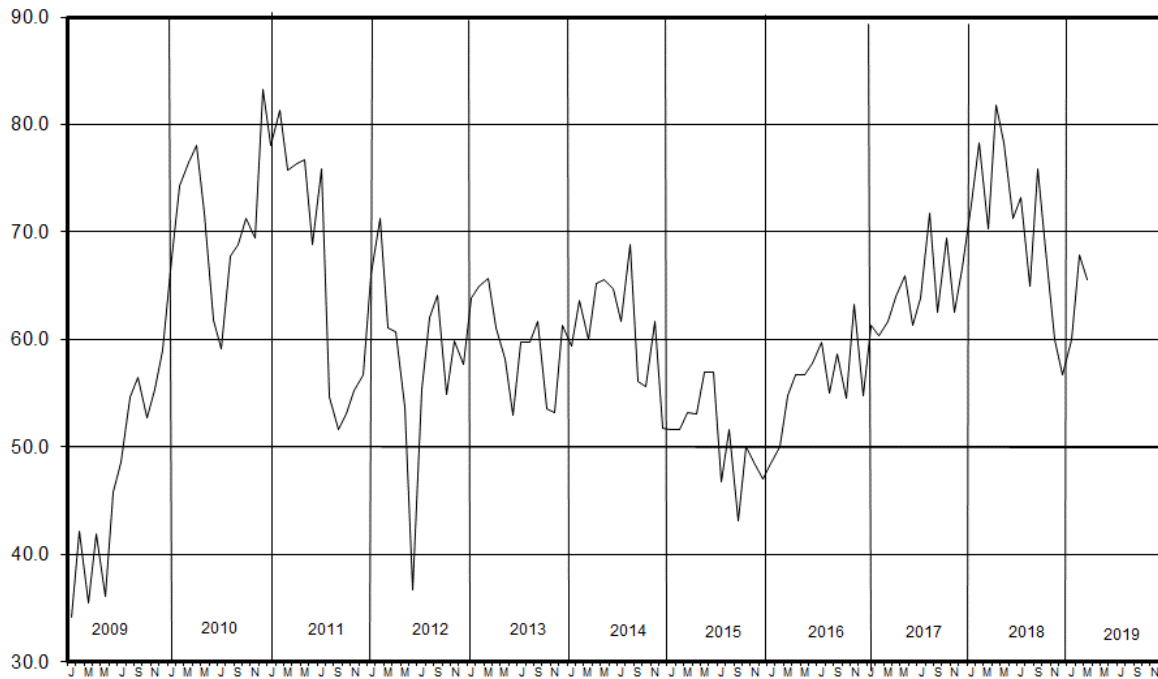
Following is a summary of highlights from this month's report:

March 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	53.9	57.9	Growing	Faster	27
Commodity Prices	67.9	65.5	Increasing	Slower	29
Production	55.4	60.3	Growing	Faster	15
New Orders	46.4	58.6	Growing	From Contracting	1
Inventory	57.1	60.3	Increasing	Faster	3
Employment	53.6	56.9	Growing	Faster	2
Supplier Deliveries	57.1	53.4	Slowing	Slower	27
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	31%	31%			
% Same	50%	65%			
% Weaker	19%	4%			

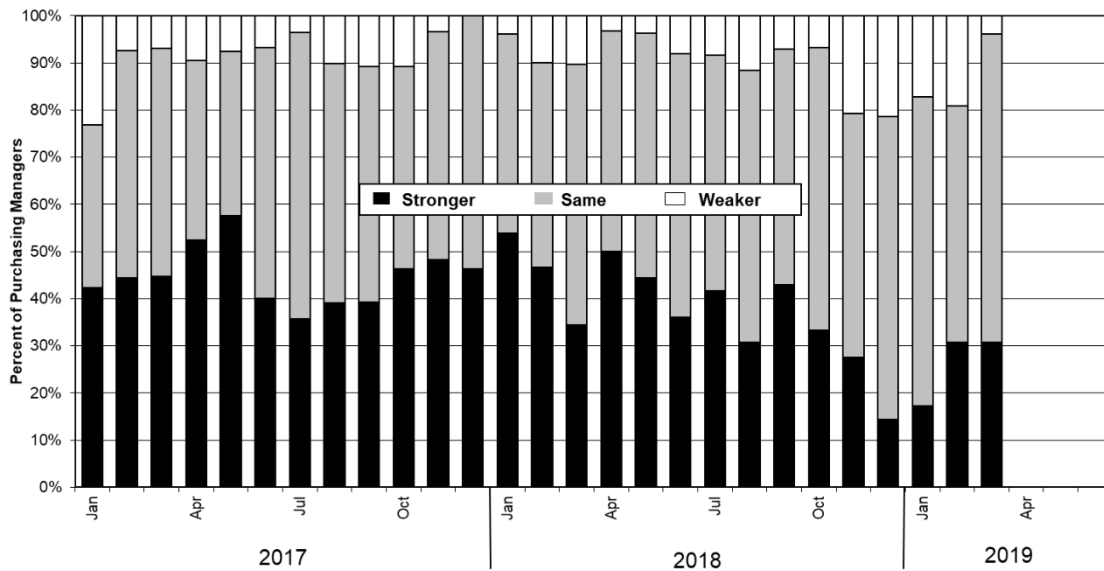
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 3/2018 THROUGH 3/2019

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Weaker	10	3	4	8	8	11	7	7	21	22	17	19	4
Same	55	47	52	56	50	58	50	60	52	64	66	50	65
Stronger	35	50	44	36	42	31	43	33	28	14	17	31	31

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

- "Shipping is excellent, but new orders have dropped."
- "Business is solid. Customers increasing quantities above standard orders compared to a year ago."
- "Business seems to be picking back up from the holiday hangover."
- "We have seen a slight increase in business during March. Customers both local and national seem upbeat regarding current and future business. Many of our customers claim that they are running at or near capacity."

Mixed or cautionary comments include:

- "The rain has hindered the amount of work that the roofers have been doing, so we have been not selling as many large orders this month."
- "Business has slowed with TESLA due to overseas activity - overall automotive is flattening due to a high car sales market."
- "Rain is a challenge to pour concrete and therefore slows the demand for cement."
- "Still busy but still pressed for cash. Some lead times are increasing, a serious shortage of Teflon wire is at hand. The usual vendors are raising prices."
- "We have been booking well and at the same time reducing costs...because of the uncertainty of the economy down the road, we are managing very conservatively."
- "We have been experiencing that business is a little slower than it has been in the past year. Although we are also seeing that we are starting to bid a lot more work in the past month."
- "Price increases on import currently."

Finally, IAR included a special question on its survey this month which asked: "*Some economists predict a US recession by the end of 2020. Based on what you are seeing in your business (and looking into your "crystal ball"), do you believe that we will be in a recession by the end of 2020? Please explain briefly.*" Only three respondents out of twenty-nine that responded believe there will be an upcoming recession. Following are some representative comments:

- “Yes, but not a deep recession. Just general breather for hot economy. We have been growing strong for a while.”
- “Yes, the housing market getting out of control again, people have short memories.”
- “Yes. Looking at industry pricing and the volatile spikes and drops seen last year, coupled with the abnormally slow orders so far in 2019, it could be indicative of resulting behaviors of end users who are tiring of the dramatic nationwide economic approach.”

Most respondents do not see a recession coming any time soon:

- “No, there is too much money in bonds out there to say that there is going to be a recession. There is plenty of building going on that will keep the industry going for a while.”
- “No, I see economic growth has been on the rise for the past couple of years. I would expect it to continue to grow and we have more of the population employed. Employment generates spending, which in turn provides economic growth.”
- “From what we are seeing, I would say “no” to a recession by the end of 2020. However, we really only have about a 9 month ‘window’ into the future. So, given that the end of 2020 is 20 months away, I suppose it is not out of the question. But, let’s be honest, whoever correctly predicted the timing to a start of a recession? I would say that when we do dip into recession, the country is in good shape to bounce back quickly.”
- “I think there will be a leveling out - not necessarily a recession. The election in 2020 will also be an impact on a recession depending on who is elected.”
- “No. The continued reduction in regulations and strong labor market will keep consumer spending up enough to support overall economy.”
- “Not by the end of 2020, but the presidential election in November 2020 will certainly create market instability by 2021 if Trump is not re-elected.”

Others simply had no idea:

- “I am not sure and hope not. Our company has seen good growth and hoping to grow again this year.”
- “As the new State Administration forms policy our concern is that the State's economy may take a hit as well as the wildfire mitigation will likely cause consumer price for electricity to be heavily impacted.”
- “Not sure, but our job is to take advantage of our own company’s core competencies to be able to address the markets to which those abilities can serve.”

IAR will ask this question periodically to track the trend in perceptions of our business panel.

In summary, all components of the Purchasing Managers’ Index reflect continued

growth for the Inland Empire manufacturing sector and the overall economy for at least the next three months. But as we have noted in recent reports, issues on the national stage (e.g. tariffs, attacks on the Affordable Care Act, and political instability at home and abroad) might change that rosy forecast.

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