

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 2018**

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

PMI REGISTERS ABOVE 50 FOR THE 15th MONTH PURCHASING MANAGERS COMMENT ON TARIFFS

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 62.8, a slight increase from last month's 59.1. The index has remained above the baseline 50% mark for the 15th consecutive month, indicating growth for both the manufacturing sector and the overall local economy."

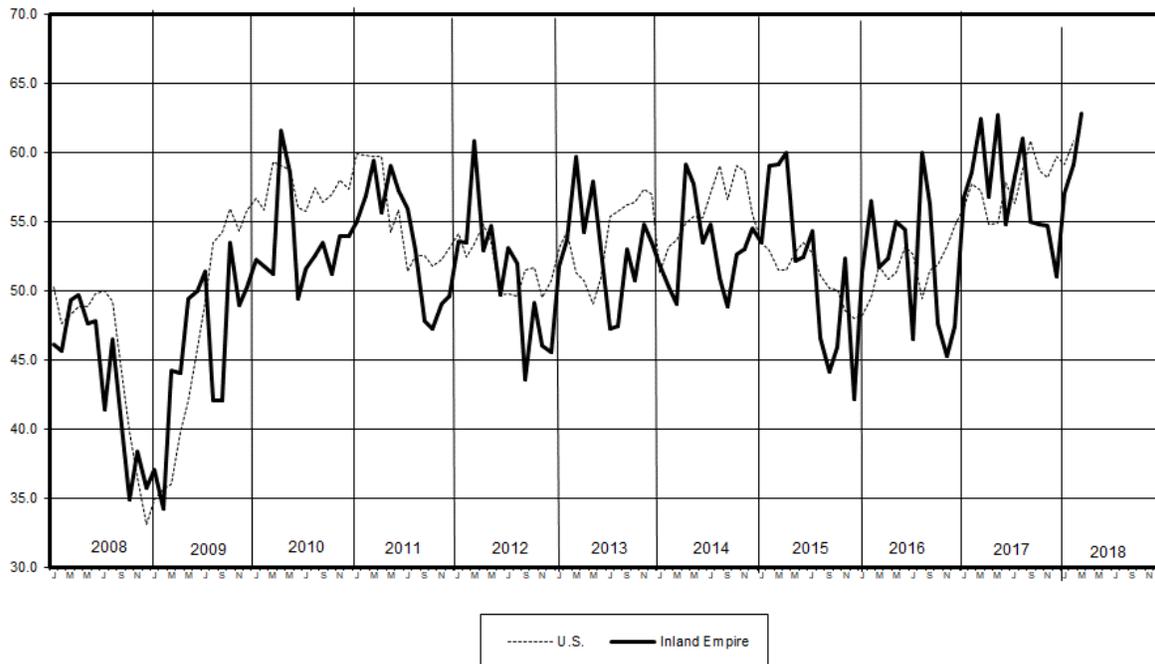
"The Production Index registered only a slight decrease from last month's figure 65.6 to 64.1 this month, indicating that production is still growing, however the rate of growth is not quite as rapid as last month. The New Orders Index increased from last month's 64.1 to 67.2 this month. The fact that these two key components of the PMI remain solidly above the 50% indicate that manufacturing companies anticipate increasing purchases from consumers. Inventories increased from 53.1 to 56.3 this month, and Commodity Prices dropped from 78.3 to 70.3 this month. The Employment Index showed continued strength, jumping from 54.7 last month to 65.6 this month. The speed of supplier deliveries continues to slow, with the index changing from 57.8 to 61.0 this month. That is a good sign – one that indicates that suppliers are too busy to deliver as quickly as they used to."

"Thirty-five percent (35%) of purchasing managers predicted that the local economy will become stronger in the upcoming months (down from last month's 47%), whereas only 10% feel that the economy is weakening (unchanged from last month). Over half (55%) of purchasing managers believe the local economy will remain unchanged (up from last month's 43%). Considering that the past 15 months have shown growth, this 55% "unchanged" figure indicates that the respondents predict the current economic growth spurt to continue."

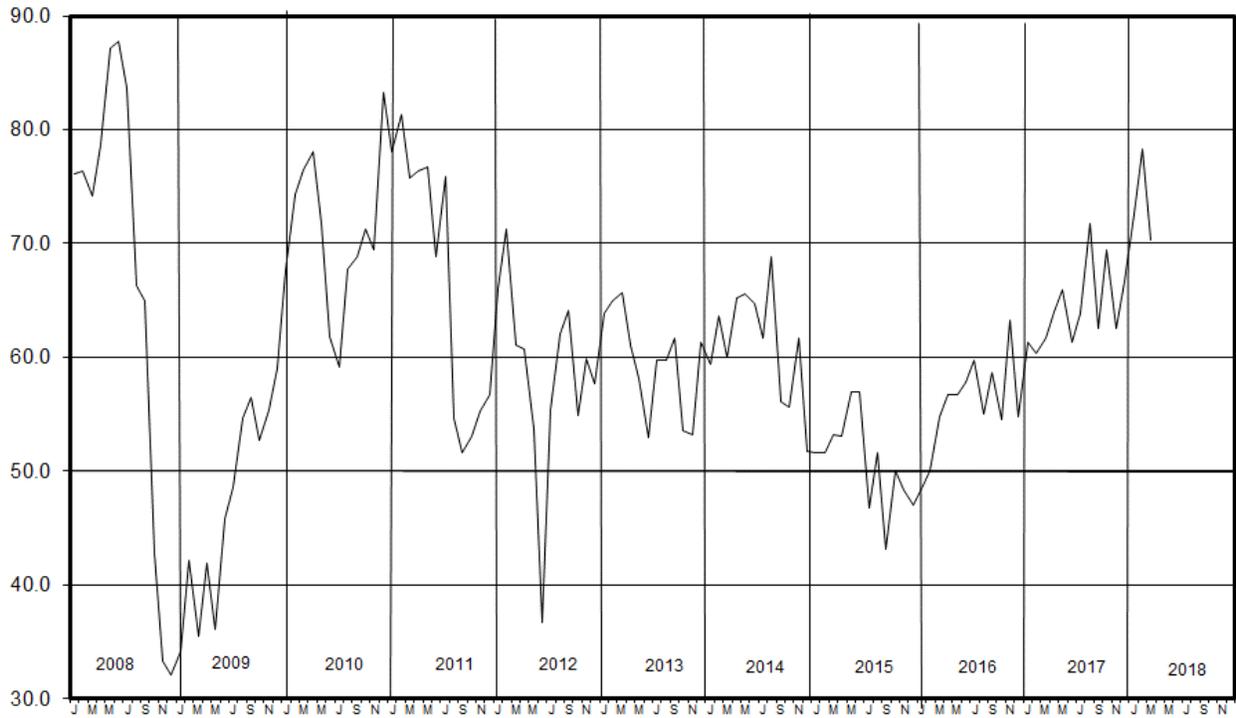
March 2018 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	59.1	62.8	Growing	Faster	15
Commodity Prices	78.3	70.3	Increasing	Slower	26
Production	65.6	64.1	Growing	Slower	3
New Orders	64.1	67.2	Growing	Faster	3
Inventory	53.1	56.3	Increasing	Faster	3
Employment	54.7	65.6	Growing	Faster	15
Supplier Deliveries	57.8	61.0	Slowing	Faster	15
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	47%	35%			
% Same	43%	55%			
% Weaker	10%	10%			

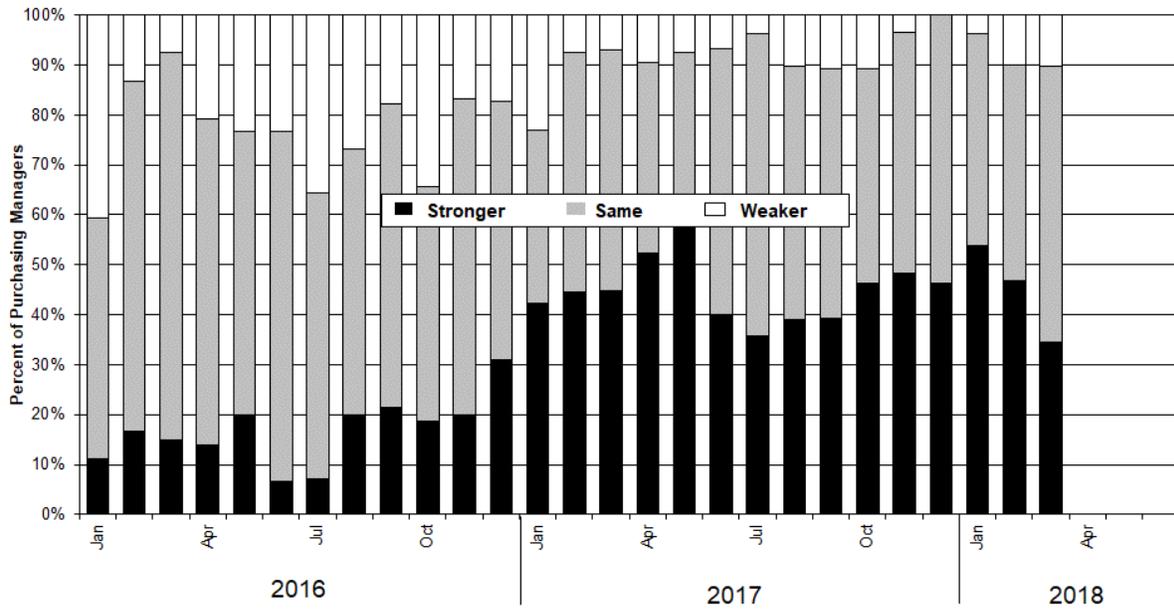
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 3/2017 THROUGH 3/2018

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Weaker	7	10	8	7	4	10	11	11	3	0	4	10	10
Same	48	38	35	53	60	52	50	43	49	54	42	43	55
Stronger	45	52	57	40	36	38	39	46	48	46	54	47	35

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

- "As of this date, the economy is still moving forward, and we are still moving in the forward direction."
- "The worldwide demand of Silicone continues. Demand exceeds capacity, so there are longer lead times and higher prices across all segments of Silicon usages."
- "Best month of the year for orders and shipping."
- "Manufacturing remains busy. Heard at a recent association meeting that all competitors are very busy. My 'same' answers below reflect continued BUSY."
- "Not much change in March as it relates to my customers and their outlook. Obviously, there was much going on in the political stage but manufacturing in the US seems to be chugging right along."
- "Overall positive. Backlog for the next four weeks is up from a month ago."
- "Still a lot of uncertainty in the market, but there is a lot of built up pressure to meet needs that were on hold. Also, our customer base has been expanding as we have developed relations with additional customers."
- "Prices are still up, but orders are good."
- "Things are picking up a bit. The layoff anticipated last fall have not occurred although cash flow still suggests we should try to cut costs."
- "Increased international demand."

Even though the PMI index showed growth, as did many of the indices which comprise the PMI, some Purchasing Managers made cautionary or "mixed" comments:

- "Business has remained very slow."
- "Still slow, hoping business picks up heading to our busy season. We are stocked up with supplies."
- "The past three weeks have been very slow, most customers blame it on the weather, but I am not so sure. I think people are running out of patience with Washington and their lack of action."

SPECIAL QUESTION FOR MARCH 2018:

One of the major issues hitting the business news this month has been the imposition of tariffs on steel and aluminum. Proponents of tariffs say that they restore some trading

reciprocity, improve national-security, and benefit the U.S. economy overall. But detractors indicate that the tariffs only help small sectors of the U.S. economy and hurt others. They point out the tariffs will hurt trade, raise costs for consumers, and cost more American workers their jobs than the tariffs will protect.

To determine opinions of Inland Empire business leaders, we added a special question on this month's survey: "What effect (if any) will the new tariffs on steel and aluminum have on **your company**?" The Inland Empire respondents we surveyed expressed opinions as mixed as the national news reports. Following are some of the comments made regarding the issue:

People not overwhelmingly concerned about the tariffs:

- "Not now at this time: do not use steel, and only small amount of aluminum."
- "Should not have any effect on our industry as we use wood to fabricate our cabinets."
- "Since we only buy domestic melted and rolled material, and capacity remains plentiful in the United States, we will not see any measurable effect from these newly announced tariffs. Domestic mills really can't raise their prices since there is still so much available capacity. For us, it is a real non-event or maybe a small help as our customers are happy that their prices are not going up due to these tariffs."
- "The impact should be small. We do buy some aluminum foil but we buy stainless steel, Inconel, brass, Beryllium copper, copper wire, and many non-metallic materials for our production."
- "We may see some small increased pricing...however I believe the quality of the product will increase."
- "We supply safety equipment to the Aluminum and Steel industries across the country. We expect an increase in orders over time."

People concerned about the tariffs:

- "All tariffs are bad for us. We have experienced that just the speculation of tariffs has raised wood prices for our pallets and stretch film."
- "Most of our products include steel pipe and tubing, and both are up 25%. All a negative!"
- "Not sure yet but looks like an uptick in costs. We only use small amounts of steel and aluminum."
- "Steel and aluminum are the primary material in our products. We will have to raise our prices as the price of these materials rises. We have already seen price increases in quotes. We even had the price increase in quotes we received from the same supplier in the same day. If we start to see shortages, we will have to start stocking more raw materials."
- "This can have a negative impact on us as prices rise on our purchases, but we purchase very little that includes either of these metals."

- "We use a lot of Aluminum in our products and have been told by our primary supplier to expect a 25 to 30% increase in cost for our aluminum purchases. They are blaming the increase on China."

In summary, all the major indices of the Purchasing Managers Index are strong, with production, new orders, and employment all showing continued growth for the 15th month in a row. That indicates that the Inland Empire manufacturing sector and the overall economy are continuing their slow and steady growth. When placed in the context of the national PMI showing expansion of the overall economy and recent state indices such as the Conference Board's Consumer Confidence Index showing strength, it looks like the Inland Empire economic outlook is positive for at least the next three months. On the other hand, if the stock market continues its extreme volatility and international trade tensions continue, that forecast could change.

SPECIAL NOTE:

The Institute of Applied Research is pleased 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:

[Business of California Cyber Security Link](#)

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Barbara Sirotnik
Director, Institute of Applied Research
909.537.5729

Mary Jane Olhasso
Assistant Executive Officer, County of San Bernardino
909.387.4599

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