

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: The Institute of Applied Research

***Housed in CSUSB's College of Business and Public Administration
Report for November 2016***

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

PMI dips below 50 for the second month in a row

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) dropped to 45.3 from last month's 47.5, and is the second month it has registered below 50. Typically, it takes three months to establish a trend, so if the PMI remains below 50 for one more month, that may indicate that the manufacturing sector is beginning to decline. But as long as the figure remains above 43.2, we project that the economy will remain in growth mode for at least the next three months."

"It must be noted that this month, two of the key indicators in the PMI (the Production and New Orders Indices) have dropped significantly below the 50% mark. The Production Index is now 38.3 (down from 45.6 last month) and the New Orders Index dropped to 35.0 (a decrease from 42.6 last month). The Employment Index held steady at 50.0 for the second month in a row, indicating that employment hasn't improved but hasn't gotten worse either. The Supplier Deliveries Index increased from 51.5 to 53.3, indicating slightly slower deliveries."

"In addition to manufacturing-specific questions (e.g. production, new orders, employment etc.), the monthly survey asks Purchasing Managers to forecast changes in the state of the local economy in the coming quarter. Purchasing Managers showed a bit more confidence in the local economy this month when compared with last month (perhaps because some of the uncertainty surrounding the national election has been removed). This month 20% of Purchasing Managers forecasted that the local economy will improve in the coming quarter (virtually unchanged from last month's 19%). But only 17% thought it will be weaker (down significantly from 34%) and the rest (63%) projected that the economy will remain unchanged."

This month we added a special open-ended question to the survey: "The national election is finally over. What changes do you foresee in your company and the Inland Empire economy after inauguration day?" A few people had no idea, and made comments such as: "I hope everyone stops talking about the election and gets back to work...it is nothing that we can forecast," or "uncertainty will persist." Two people said they don't expect any change at all (with one of them commenting "California must change its anti-

business stance”).

Most of the respondents, however, had very positive views about the future of the Inland Empire economy. Comments included:

- “Hopefully the economy will start to pick up for the private sector.”
- “I think there will be a jump in military spending and also rebuilding of outdated infrastructure all over the country. Hopefully that will spike jobs in the industry.”
- “Greater focus on infrastructure.”
- “More jobs.”
- “We are defense related and always seem to do better when a Republican is in the White House. We are anticipating additional spending for the military in the next 6 months.”
- “Hopefully fewer government regulations/requirements for doing business. Believe it will reduce imports and allow our domestic paper industry to improve our financial position.”
- “I am expecting the economy to pick up now that at least some of the uncertainty is done.”
- “We expect a more supportive role by government to ensure imports are not dumped into the U.S.”
- "It's all good!"
- "If corporate taxes will be cut that will be a boon to manufacturing."
- "When Trump initiates his planned infrastructure plans for the country, we will all benefit. I believe that we will have growth for the next 4 years in our area. It will not happen overnight and if they make it go too fast, we will get inflation. I am very excited to see these plans unfold."

Some respondents were cautious about the future state of the economy:

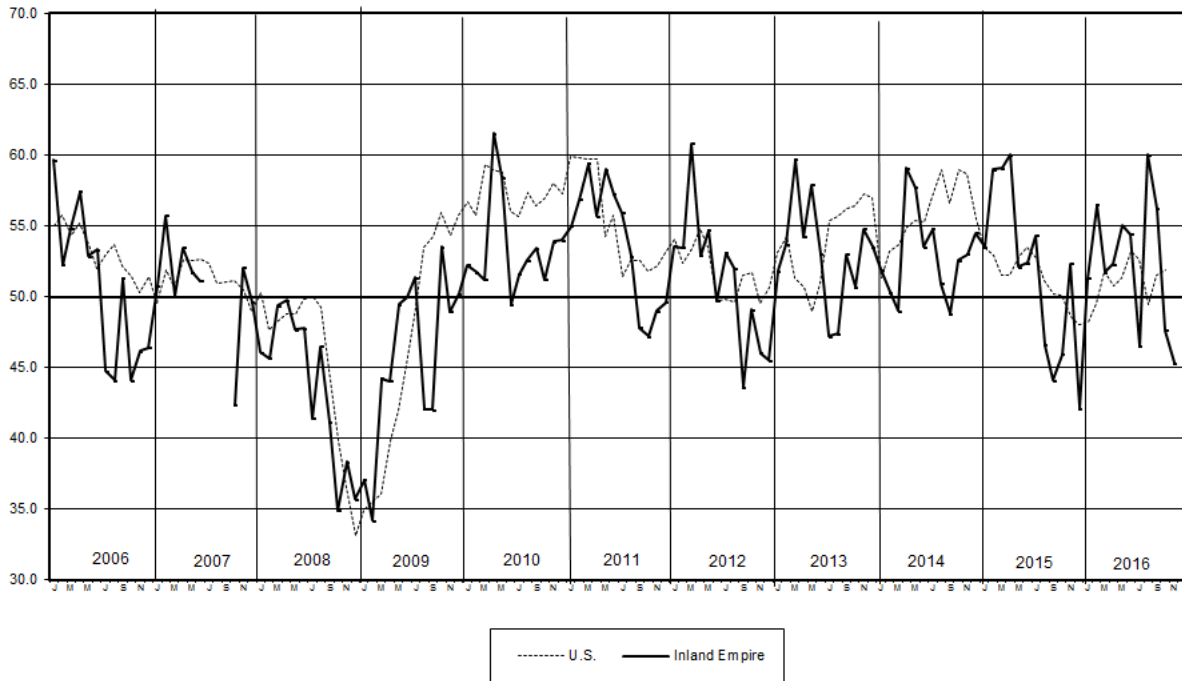
- “Cautiously hopeful. I expect business to be steady with slight uptick in sales.”
- "Possibly more business; however it may take some time."
- “We might eventually get some piece of the upcoming infrastructure spending. And maybe even some from a military buildup. Then again, who knows what promises will be kept and which will be ignored.”
- “We believe the next year will be a cautious one for us and our business. That means a hold on new business investment...things like machinery and new people. We will focus on existing customers and collections.”
- “For our company, I see a better future. For the Inland Empire, there will probably be continued unrest.”

Following is a summary of highlights of the monthly indices:

November 2016 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	47.6	45.3	Contracting	Faster	2
Commodity Prices	54.5	63.3	Increasing	Faster	9
Production	45.6	38.3	Contracting	Faster	2
New Orders	42.6	35.0	Contracting	Faster	2
Inventory	48.5	50.0	Unchanged	From Decreasing	1
Employment	50.0	50.0	Unchanged	From Unchanged	9
Supplier Deliveries	51.5	53.3	Slowing	Faster	7
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	19%	20%			
% Same	47%	63%			
% Weaker	34%	17%			

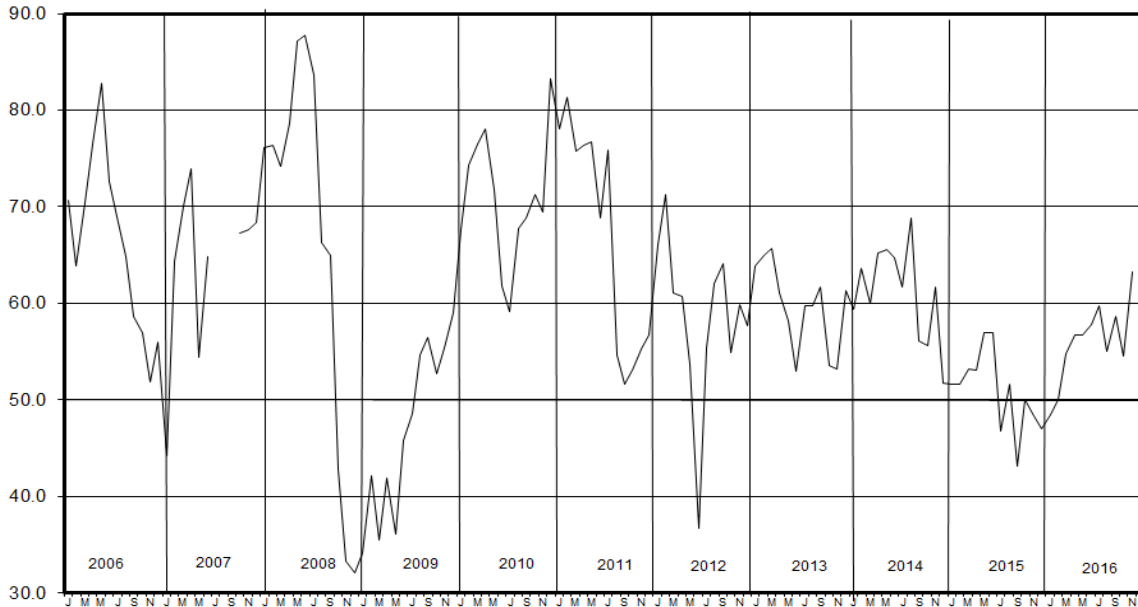
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



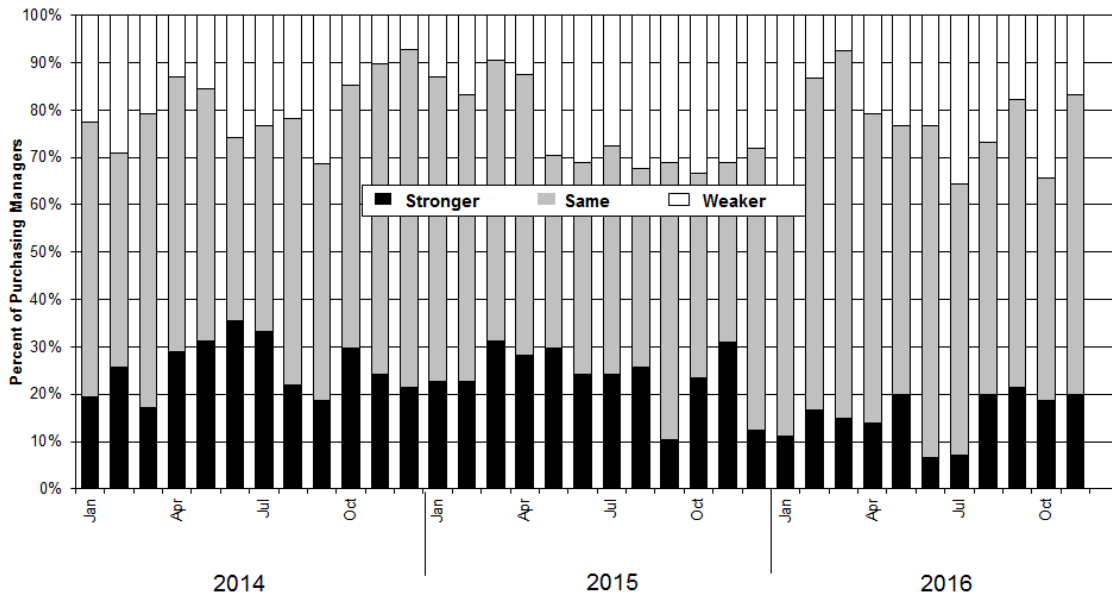
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 11/2015 THROUGH 11/2016

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Weaker	31	28	41	13	7	21	23	23	36	27	18	34	17
Same	38	58	48	70	78	65	57	70	57	53	61	47	63
Stronger	31	14	11	17	15	14	20	7	7	20	21	19	20

Most of the comments on the general business conditions that affected Purchasing Managers' companies were negative, however a few were positive:

- "Business is strong for this time of year."
- "Getting positive feedback from customers about future business prospects."
- "Business has improved somewhat in the past two months."

Some cautionary notes included:

- "Business is still bad!! We went to three-day weeks (still ten-hour days) to cut payroll 25% without actual layoffs."
- "Port issues (Hanjin bankruptcy) appear to be resolved and there is no longer a slowdown in import paper, but pricing appears to be increasing."
- "Seeing a seasonal slowdown, but holding our own!"
- "Slowing down."
- "The economy is still in severe flux and there are many unknowns at this time."
- "Suspense – the new President is unpredictable."

In summary, the PMI is down for the second month in a row, but that is not unexpected. As noted by one of our respondents, there are seasonal factors in play. Specifically, the PMI tends to drop toward the end of the calendar year when production has concluded for the holiday season and hasn't yet ramped up for the following year. Indeed, in 7 out of the last 10 years, the last quarter's PMI figures have been weak but then rebounded back up into the 50's in January. Further, consumer confidence is up nationwide and the stock market didn't take a drastic turn for the worse when the election results were announced (as some were predicting). Bottom line: we look forward to a return to growth mode in the new year.

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, College of Business and Public Administration, CSUSB
(909) 537-3703