

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 October 2016

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

PMI dips below 50 again: a “hiccup,” or seasonality, or election uncertainty?

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 47.6 from last month’s 56.2. This should not be cause for worry since September and October tend to be weak months after preparations for the holiday season have been completed. For example, one year ago the PMI was 45.9 in October, and in 2014 September’s figure was 48.8, followed by a slight rebound in October 2014 to 52.6.”

“It must be noted that the two key indicators in the PMI (the Production and New Orders indices) have dropped significantly below the 50% mark this month. The Production Index is now 45.6 (down from 60.3 last month). Further, the New Order Index dropped to 42.6, a considerable decrease from 56.9 last month. Again, similar drops were seen at this season in 2015. The Employment Index held steady at 50.0, indicating that employment hasn’t improved but hasn’t gotten worse either. The Supplier Deliveries Index registered at 51.5 (virtually unchanged from last month’s 51.7), indicating that the speed of supplier deliveries is slightly slowing.”

“Although there is clearly seasonality in the data which explains some of the decrease in the indices, the data also show that Purchasing Managers’ optimism about the Inland Empire economy for the coming quarter is waning. Whereas last month 18% of respondents felt that the economy would be weaker in the coming quarter, the number shot up to 34% this month. Nineteen percent (19%) of purchasing managers predicted that the local economy will become stronger in the upcoming months (down from last month’s 21%). The remaining 47% believe the local economy will remain unchanged, where “unchanged” reflects a great deal of volatility in the economy.”

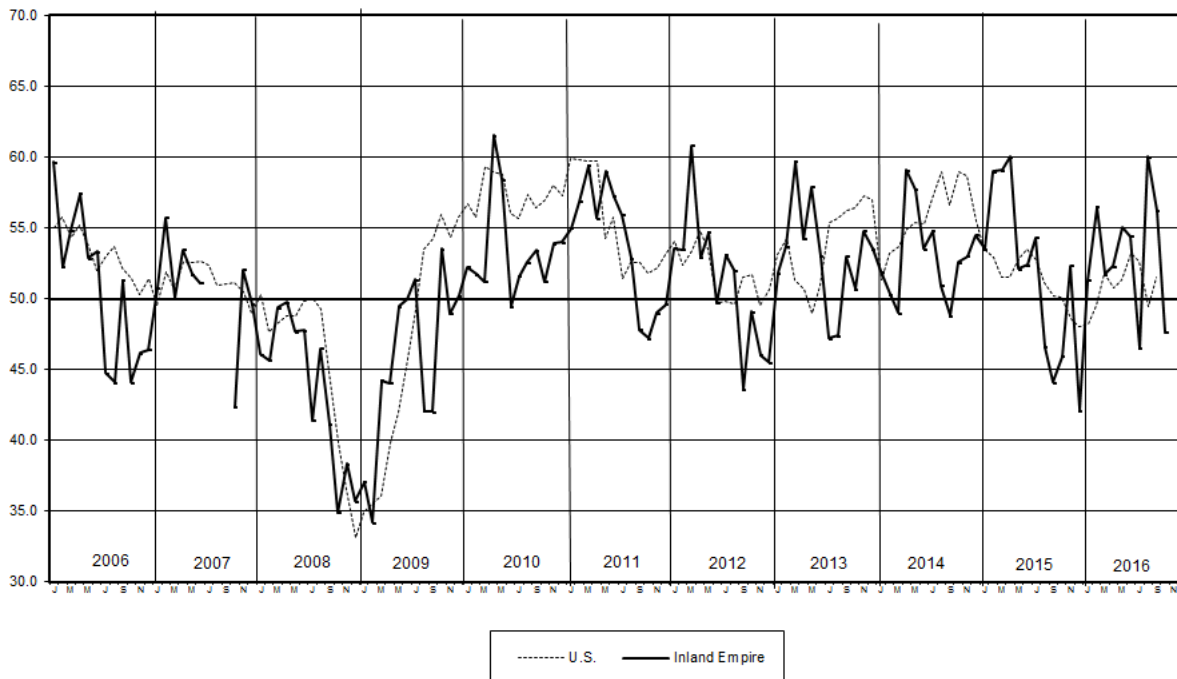
Following is a summary of highlights from this month’s report:

October 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	56.2	47.6	Contracting	From Growing	1
Commodity Prices	58.6	54.5	Increasing	Slower	8
Production	60.3	45.6	Contracting	From Growing	1
New Orders	56.9	42.6	Contracting	From Growing	1
Inventory	56.9	48.5	Decreasing	From Increasing	1
Employment	55.2	50.0	Unchanged	From Growing	8
Supplier Deliveries	51.7	51.5	Slowing	Slower	6
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	21%	19%			
% Same	61%	47%			
% Weaker	18%	34%			

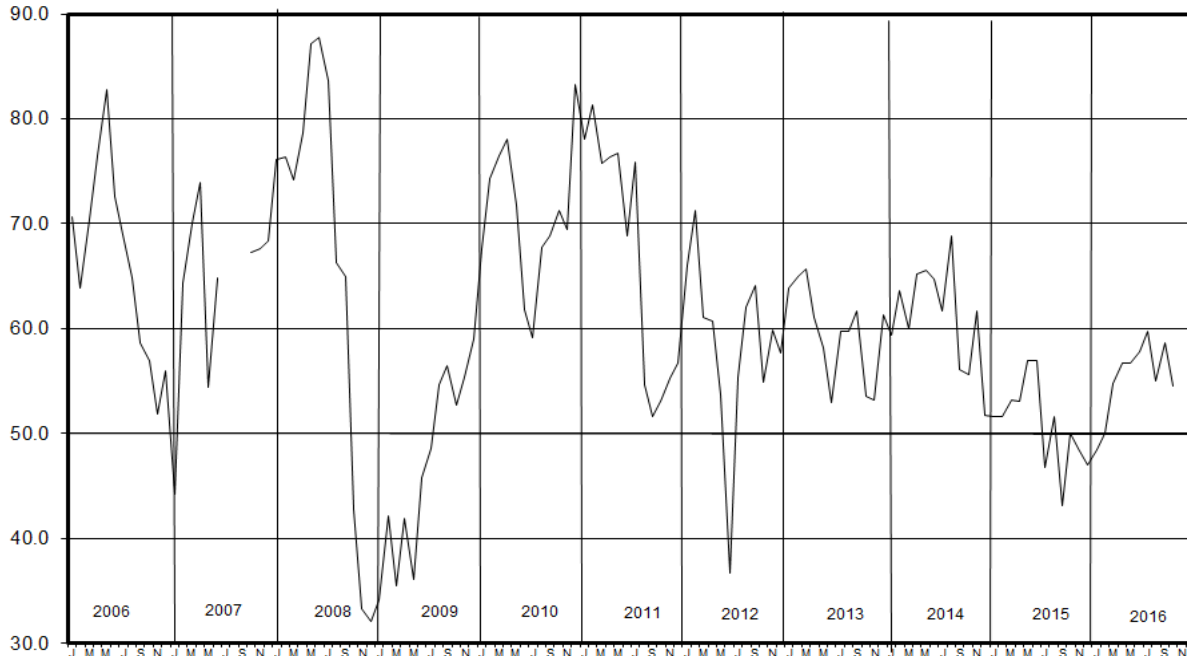
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



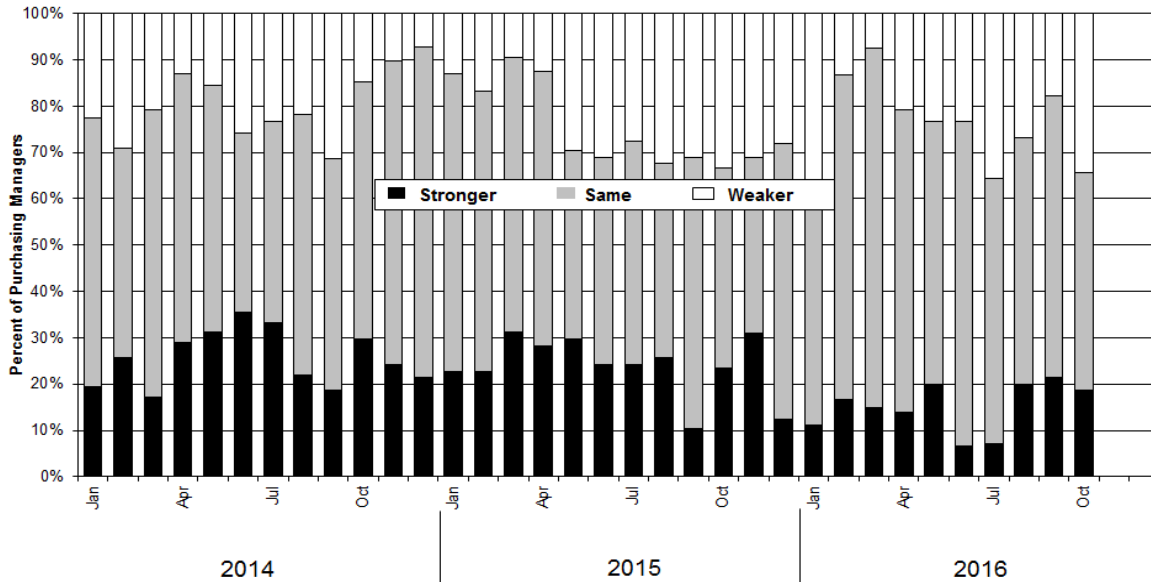
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 10/2015 THROUGH 10/2016

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Weaker	33	31	28	41	13	7	21	23	23	36	27	18	34
Same	43	38	58	48	70	78	65	57	70	57	53	61	47
Stronger	23	31	14	11	17	15	14	20	7	7	20	21	19

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

- "Orders are up, projects are up."
- "Business seems to on the uptick slightly."
- "New Business in China."

Some cautionary notes included:

- "Business picked up a bit this month, but overall continues to be slow."
- "Lower demand due to seasonal drop off."
- "Release of backlogged items... lumpy deliveries."
- "Still slow."
- "September was the end of the fiscal year. Totals not in but looks pretty grim. Overall down maybe 25% from last year. Layoffs likely."
- "Business has slowed, Christmas packaging "season" coming to an end."
- "Business is about flat with last month and about 15% down from last year at this time."
- "Recent BASF explosion in Germany is disrupting the supply chain of chemicals in our industry."
- "Slower than last year at this time."
- "We are getting nothing but discouraging commentary from our small business customers. Their customers are slow to order and even slower to pay their bills. I have not felt or heard from so many discouraged business people since 2008."

In summary, this month's indices show a great deal of weakness in the Inland Empire manufacturing sector, but the numbers still reflect a local economy which is growing (albeit slowly). It is possible that the uncertainty based on global issues such as a trade slowdown, the Brexit vote creating uncertainty about trading relationships, and anxiety about the upcoming U.S. election are putting businesses on edge.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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