

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 October 2018**

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

PMI AND EMPLOYMENT ABOVE 50 FOR 22 MONTHS EMPLOYMENT STRONG

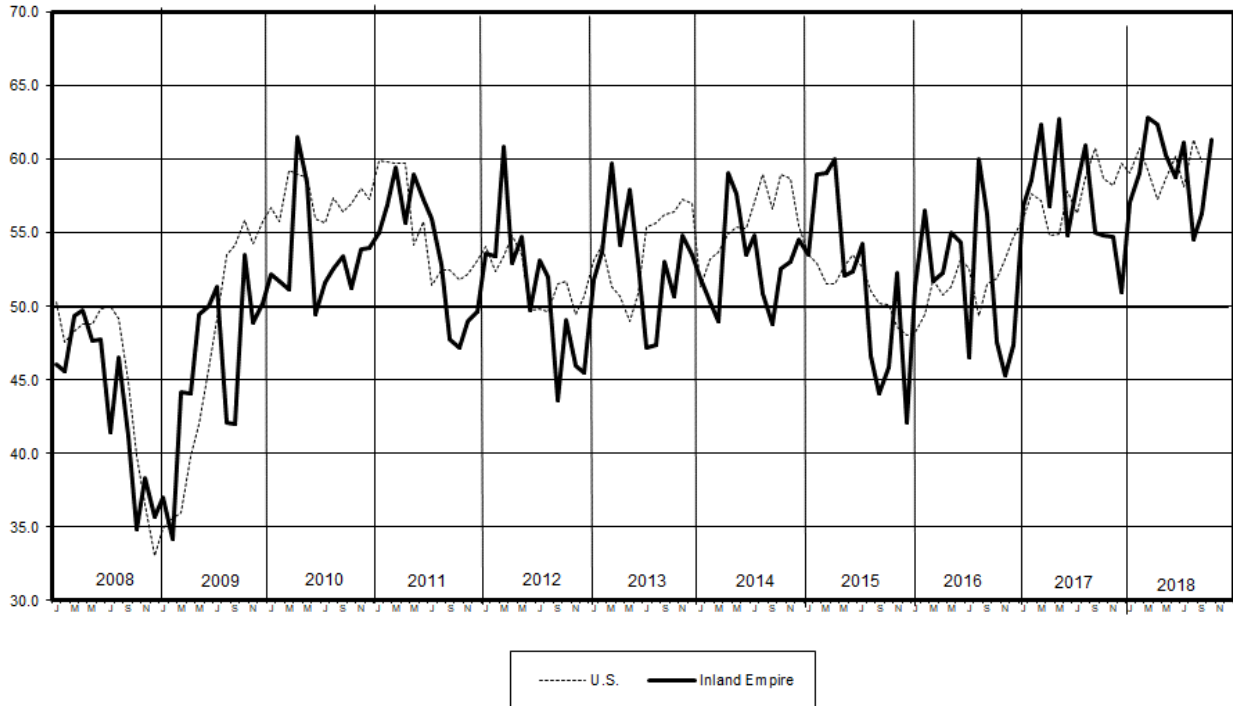
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's Inland Empire Purchasing Managers' Index (PMI) registered 61.3, an increase from last month's 56.3. The index has remained above the baseline 50% mark for the last 22 months, indicating sustained growth for both the manufacturing sector and the overall local economy."

The Production and New Orders indices have increased sharply this month, indicating a trend of growth and the anticipation that there will be increasing levels of consumer purchases in the near future. Specifically, this month's Production Index increased to 65.0 from last month's 55.0 and the New Orders Index increased from 55.0 to 65.0. It is important to note that these two key components of the PMI have remained at or above the 50% mark for the past ten months. The Commodity Prices Index decreased from 75.9 to 68.3 this month, indicating that although prices are still rising, they are increasing at a slower pace than last month. The Inventory Index decreased from 63.3 to 56.7 this month. The Supplier Deliveries Index changed from 58.3 last month to 55.0 this month – a good sign, since figures above 50 mean that suppliers are busy. The all-important Employment Index has remained above 50 for 22 months in a row, jumping sharply to 65.0 from last month's 50.0. We note that this encouraging finding is not what we typically see heading into the holiday season when most firms have already completed their production."

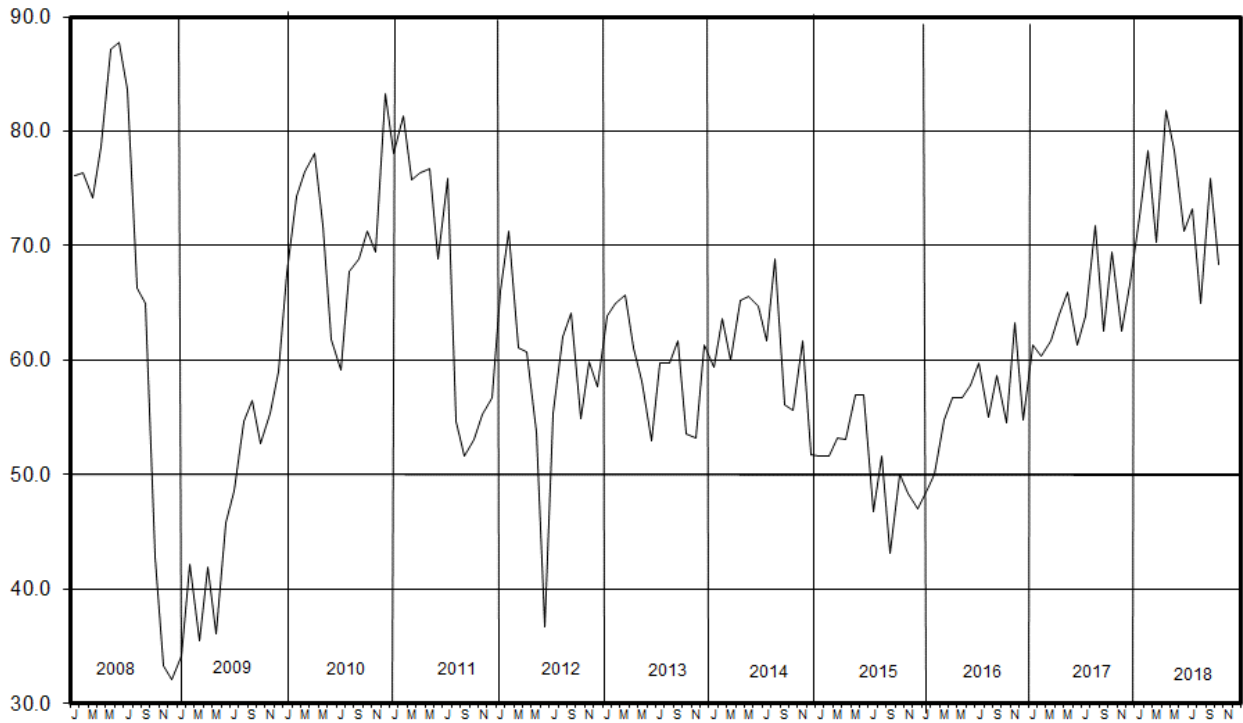
"Only 7% of Purchasing Managers believe that the local economy will become weaker in the coming quarter (no change from last month), and 33% believe that it will become stronger (down from last month's 43%). The remainder (60%, up from 50% last month) believe the local economy will remain unchanged (which is a good sign in a relatively strong local economy)."

October 2018 Business Survey at a Glance					
	Series Index	Direction from 50 This Month	Rate of Change from Last Index	Trend Months	
	Last Month				
Local PMI	56.3	61.3	Growing		
Commodity Prices	75.9	68.3	Increasing		
Production	55.0	65.0	Growing	Faster	10
New Orders	55.0	65.0	Growing	Faster	10
Inventory	63.3	56.7	Increasing	Slower	10
Employment	50.0	65.0	Growing	From Unchanged	22
Supplier Deliveries	58.3	55.0	Slowing	Slower	22
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	43%	33%			
% Same	50%	60%			
% Weaker	7%	7%			

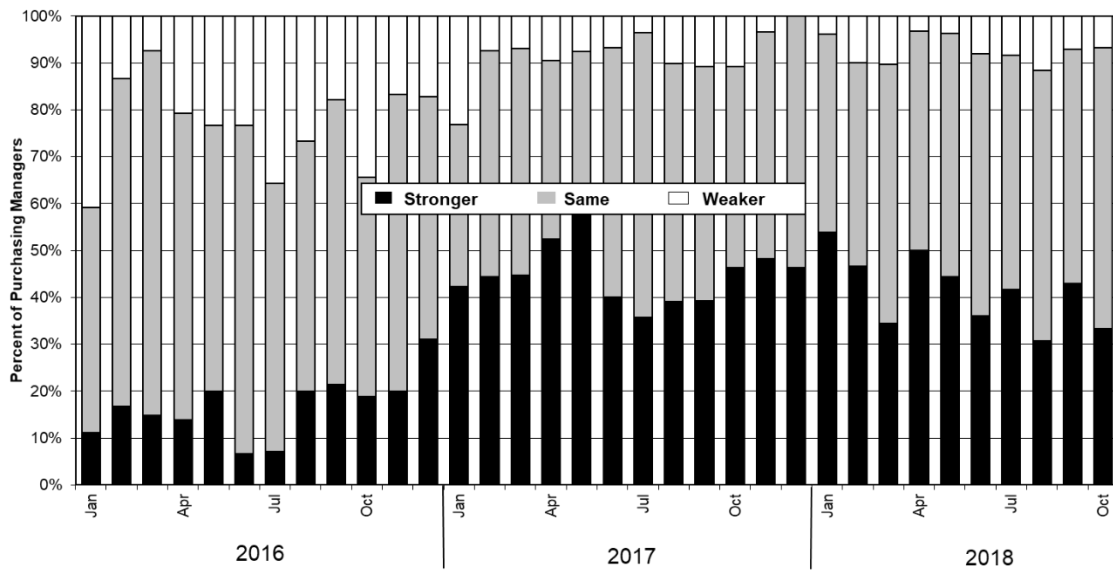
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 10/2017 THROUGH 10/2018

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Weaker	11	3	0	4	10	10	3	4	8	8	11	7	7
Same	43	49	54	42	43	55	47	52	56	50	58	50	60
Stronger	46	48	46	54	47	35	50	44	36	42	31	43	33

Following are positive comments from Purchasing Managers when asked to comment on the general business conditions and/or reasons for import and export changes:

- "Business has never been better."
- "I just returned from our annual meeting for our industry in Dallas and found that for most people business has been very good. The same is reflected in our local growth here at our company as well."
- "Sales are brisk – need more equipment."
- "The answer of 'same' actually indicates 'very good'."
- "Very good orders and production for the time of year."

Cautionary comments include:

- "China has placed orders in front of tariffs but there is no material to produce."
- "Increased freighting costs are limiting our purchasing of small amounts of product. We are now waiting until we have full truckloads prior to ordering whenever possible."
- "Importing has slowed down."
- "Increased tariffs on Chinese chemicals have raised prices throughout the supply chain."
- "Less inquiries for international orders in the past month."
- "Seeing tariff price increases."
- "We are a steel metal former. We have MANY issues affecting our industry currently, including steel tariffs from China (currently 10% and 1/1/19- 25%), human resources (hiring people and lack of skilled labor), team members not able to problem solve, overall over-head costs rising in California, margins declining due to customers not accepting cost increases, rising workers comp costs and health care costs, and environmental regulations!"
- "Workman's compensation insurance is becoming too expensive."

In summary, this report reflects continued slow and steady growth in the Inland Empire manufacturing sector and economy. The PMI has remained above 50 for 22 months and has registered above 60 for 5 out of the 10 months of 2018. The Inland Empire employment index has also shown growth for nearly two years, and new orders are rolling in. The U.S. economy is strong, and U.S. consumer confidence is at an 18-year high.

Yet all is not rosy. On the national scene, there has been a great deal of volatility in the stock market. The housing market is seeing rising mortgage rates, increasing median prices, and a lack of affordable listings (although the Inland Empire is in better shape on that score than Orange County or LA County). Further, this month (as in past months) people have expressed concerns about tariffs. Comments also reflect concerns about the lack of employees' "soft skills" (e.g. ability to work in teams, ability to problem solve) which could affect the bottom line for Inland Empire companies.

The short-term forecast is strong for the Inland Empire manufacturing sector and overall economy. Next month's report (coming after the midterm elections) might be especially interesting.

Special note:

The Institute of Applied Research is one of the partners of CASCADE, an 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: <http://www.business.ca.gov/CASCADE>.

If you represent a firm that is part of California's defense supply chain, **please participate in a 5-minute supply chain resilience survey** which will allow CASCADE to map California's defense supply chain – a necessary first step towards helping companies like yours mitigate potential negative impacts of changes in the level of defense spending. Just go to <https://www.cagobizsupplychainsurvey.com/>.

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