

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 September 2018***

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

PMI AND EMPLOYMENT ABOVE 50 FOR 21 MONTHS

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 56.3, an increase from last month's 54.5. The index has remained above the baseline 50% mark for the last 21 months, indicating sustained growth for both the manufacturing sector and the overall local economy."

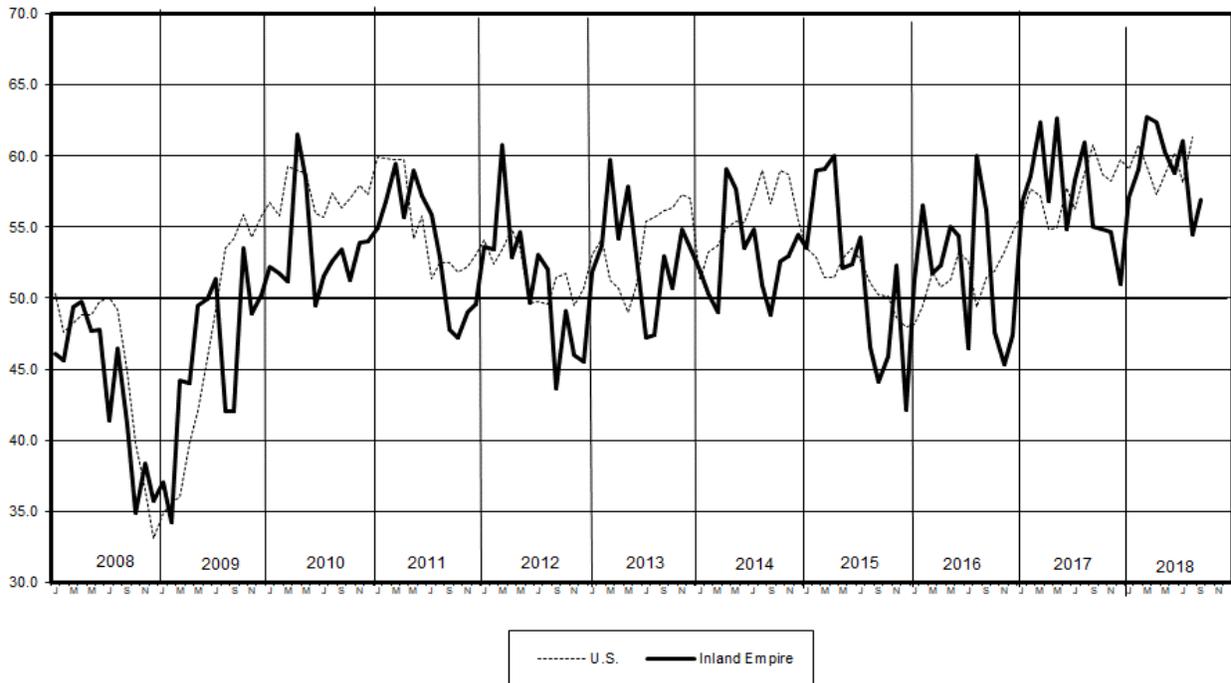
"The Production Index dropped slightly from last month's 56.7 to 55.0 this month, and the New Orders Index increased from 50.0 to 55.0. It is important to note that these two key components of the PMI have remained at or above the 50% mark for the past nine months, indicating a trend of growth and the anticipation that there will be increasing levels of consumer purchases in the near future. Inflationary pressures continue to be a concern in the Inland Empire, with the Commodity Prices Index increasing from 65.0 to 75.9 this month. A few panel members offered possible reasons for this increase: "Natural gas pipelines under repairs have raised the price on our largest expense", and "price pressure and insecurity over trade policy can/could be an issue." The Inventory Index increased from 51.7 to 63.3 this month (probably in anticipation of increased production) and the Supplier Deliveries Index changed from 63.8 last month to 58.3 this month, indicating that deliveries have slowed (usually due to suppliers being busy) but not quite as much as in the previous month. The Employment Index registered at 50.0 for the second month, indicating that employment is holding steady (not increasing or decreasing)."

"Only 7% of Purchasing Managers believe that the local economy will become weaker in the coming quarter (down from 11% last month). Half (50%, down from 58% last month) believe the local economy will remain unchanged (which is a good sign in a relatively strong local economy)." The remainder (43% of Purchasing Managers) predicted that the local economy will become stronger in the upcoming months (up from last month's 31%)."

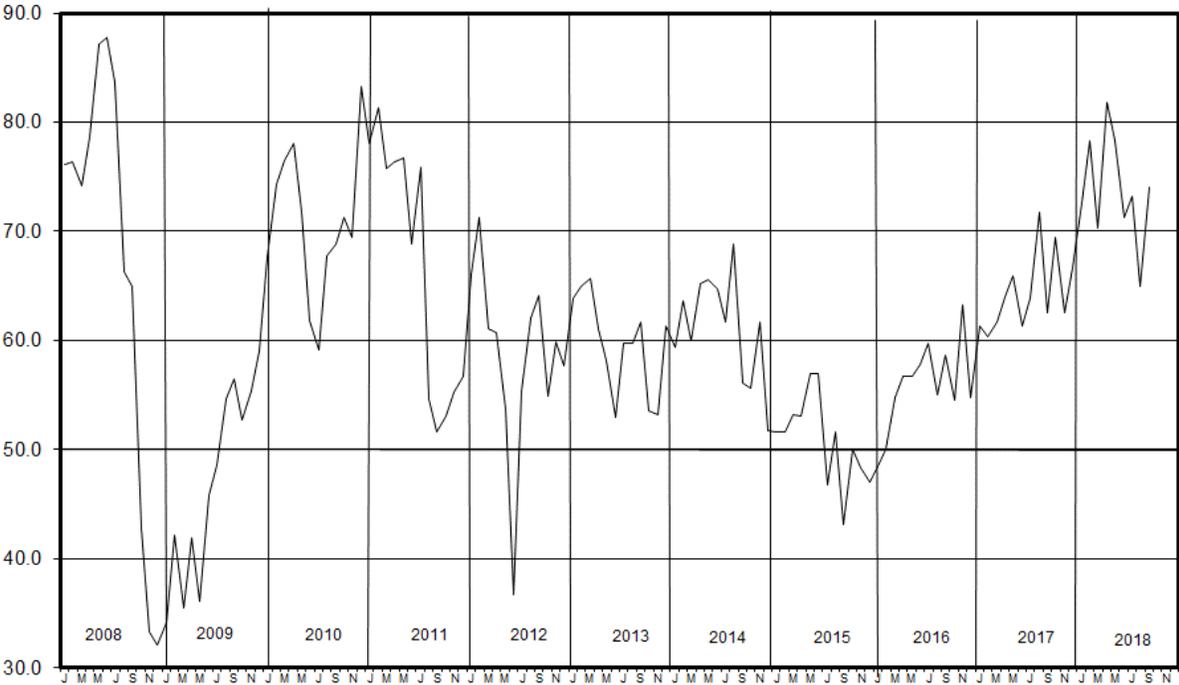
September 2018 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	54.5	56.3	Growing	Faster	21
Commodity Prices	65.0	75.9	Increasing	Faster	32
Production	56.7	55.0	Growing	Slower	9
New Orders	50.0	55.0	Growing	From Unchanged	9
Inventory	51.7	63.3	Increasing	Faster	9
Employment	50.0	50.0	Unchanged	From Unchanged	21
Supplier Deliveries	63.8	58.3	Slowing	Slower	21
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	31%	43%			
% Same	58%	50%			
% Weaker	11%	7%			

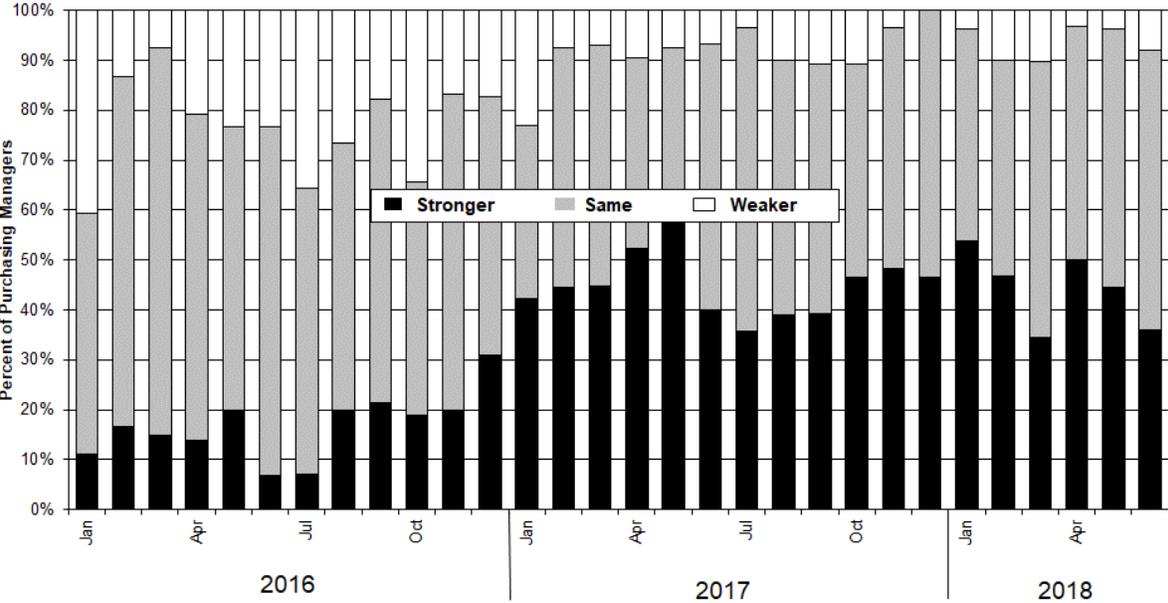
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 9/2017 THROUGH 9/2018

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Weaker	11	11	3	0	4	10	10	3	4	8	8	11	7
Same	50	43	49	54	42	43	55	47	52	56	50	58	50
Stronger	39	46	48	46	54	47	35	50	44	36	42	31	43

Despite the rosy metrics for the PMI, Production Index, and New Orders Index, there were more cautionary/negative comments than positive regarding the business conditions (local, national, or international) that affect the outlook for the respondent's company or industry. Positive remarks included:

- "Business is very firm. Customers are expediting orders, and increasing volume ordered."
- "Continue to be busy."
- "Orders are above last year at this time by a large percentage."
- "Silicon demand is still growing worldwide."

Cautionary/negative comments included:

- "Business still slow."
- "Domestic aluminum prices have increased approximately \$2.00 per pound in recent months. and deliveries from domestic mills are approximately 15 - 19 weeks instead of 12-15."
- "Natural gas pipelines under repair has raised the price on our largest expense."
- "There has been a slight recovery over a very disappointing last few months in both orders and shipments; price pressure and insecurity over trade policy can/could be an issue."
- "We are starting to see a little slowdown."
- "We are behind in delivery to international customers."
- "Beginning to see supplier announced price increases due to the trade situation with U.S. and China."
- "August was typically slow, but September started off "untypically" slow. Usually one of our busiest months, September was anything but that for the first 2 weeks. However, we have seen a dramatic pick up in business for the last 2 weeks, more in line with how September normally is. Hopefully, this continues into the 4th quarter. All the signs are still there for continued strong business, but September was rather disappointing."

In summary, the economic indicators at the national, state, and local levels are all relatively positive, showing improving consumer confidence and a bright economic outlook. This month's Inland Empire PMI statistics are in line with those optimistic reports. Although manufacturing firms in the two-county area are concerned about protectionist trade policies and their impacts on prices, that concern does not seem to

be stopping consumers from ordering and purchasing the goods they want. We project continued slow and steady growth for at least the next three months, both for the Inland Empire manufacturing sector and the economy as a whole.

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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