

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 August 2012

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

This report is based on surveys conducted with Inland Empire manufacturing firms. As a way of thanking our Purchasing Managers for their monthly participation in the survey, IAR has arranged to donate to the United Way "School Tools Supply Drive" in the name of the participating firms.

PMI Remains Above 50%, With Production and New Orders Leading the Way

According to Shel Bockman and Barbara Sirotnik (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (52.0) is a slight decrease from last month's (53.1). The figure continues its variation slightly above and below the baseline 50 mark, indicating that the manufacturing sector is in a 'holding pattern.' On the other hand, the PMI is well above the 42% necessary to indicate growth in the general Inland Empire economy."

"Last month we expressed some concern about the fact that the New Order Index had registered less than 50% for two straight months (June: 40.0, and July: 48.3). This month's New Order Index has increase to 52.0, and Production has decreased only slightly from 58.6 down to 55.0. This is especially encouraging since these two indices tend to be the most important components of the PMI. On the flip side, this month's Employment Index registered a precipitous fall from last month's 62.1 to 52.0 this month, indicating a slower rate of growth. But it is important to note that this index has remained in growth mode (above 50) since December 2011."

"The Commodity Price Index rose from 55.4 to 62.0, an increase which is not surprising given the rise in gas prices due to refinery fires, and the spike in oil prices typically expected during the summer. As one Purchasing Manager noted: 'Fuel prices have a domino effect on our ability to control costs of receiving products and shipping to our customer completed products.'"

Over the past few months we have included on the monthly survey questions about the changing level of imports and exports. This month the Imports Index declined from 47.1 to 41.9, indicating that the demand for imports of raw materials and intermediate goods has declined faster than the previous month. A few comments included: “Dissatisfaction of the units received. Quality inferior to previously received goods,” “Slow delivery, inconsistent quality,” and “Less importing because our sales were less.”

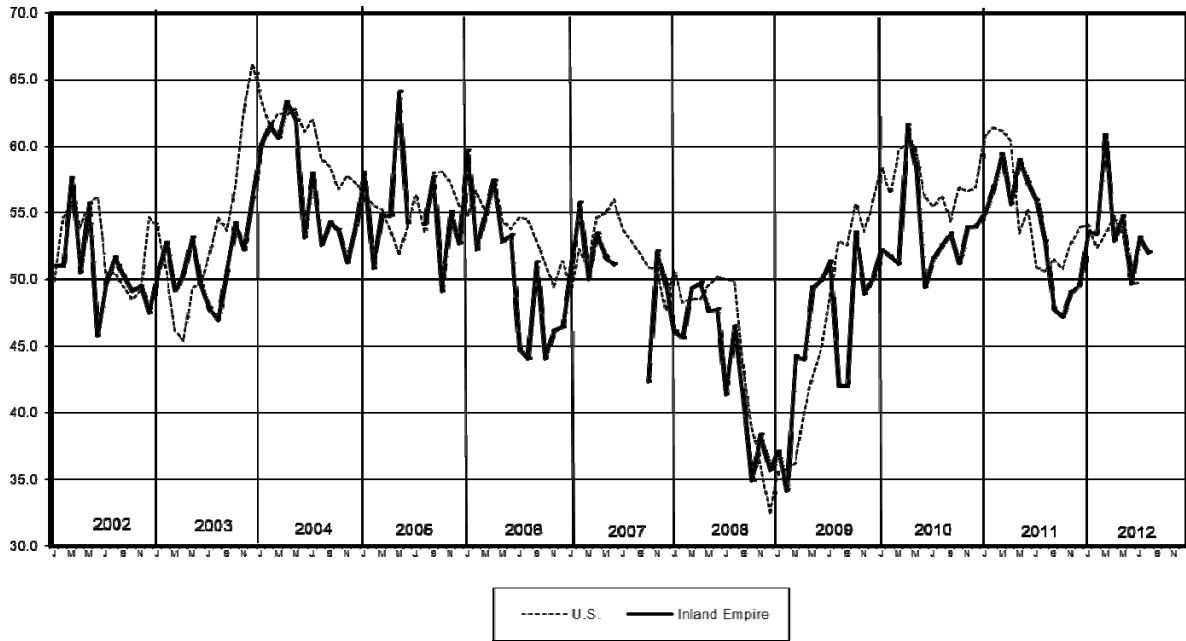
An encouraging sign in this month’s report, however, is that the New Export Orders Index increased from 50.0 to 52.1, indicating that firms doing business overseas did well last month. Comments included: “Not sure why we have just recently received an increase of sales from outside the U.S.,” and “Our business is seasonal and volume typically picks up in the late summer/early fall.”

Purchasing Managers’ optimism about the state of the local economy for the coming quarter increased: 20% of the Purchasing Managers commented that they expect the economy to be stronger in the next quarter (up from 7% last month). Fifty-one percent feel the economy will be unchanged (down from 62%). The remaining 29% project that the economy will be weaker (also down from 31% last month).

Following are some highlights from this month’s report:

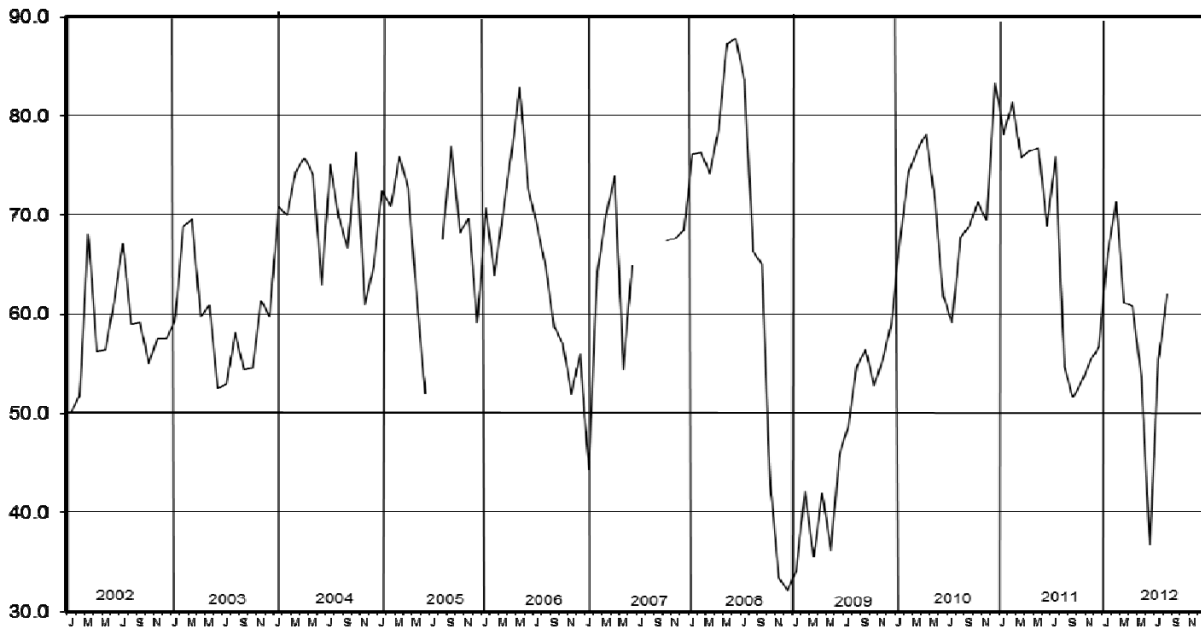
August 2012 Business Survey at a Glance				
	Series Index		Direction from 50	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	53.1	52.0	Growing	Slower
Commodity Prices	55.4	62.0	Increasing	Faster
Production	58.6	55.0	Growing	Slower
New Orders	48.3	52.0	Growing	From Contracting
Inventory	46.3	45.0	Decreasing	Faster
Employment	62.1	52.0	Increasing	Slower
Supplier Deliveries	50.0	56.0	Slowing	From unchanged
Imports	47.1	41.9	Contracting	Faster
Exports	50.0	52.1	Growing	From Unchanged
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	7%	20%		
% Same	62%	51%		
% Weaker	31%	29%		

Purchasing Managers' Index



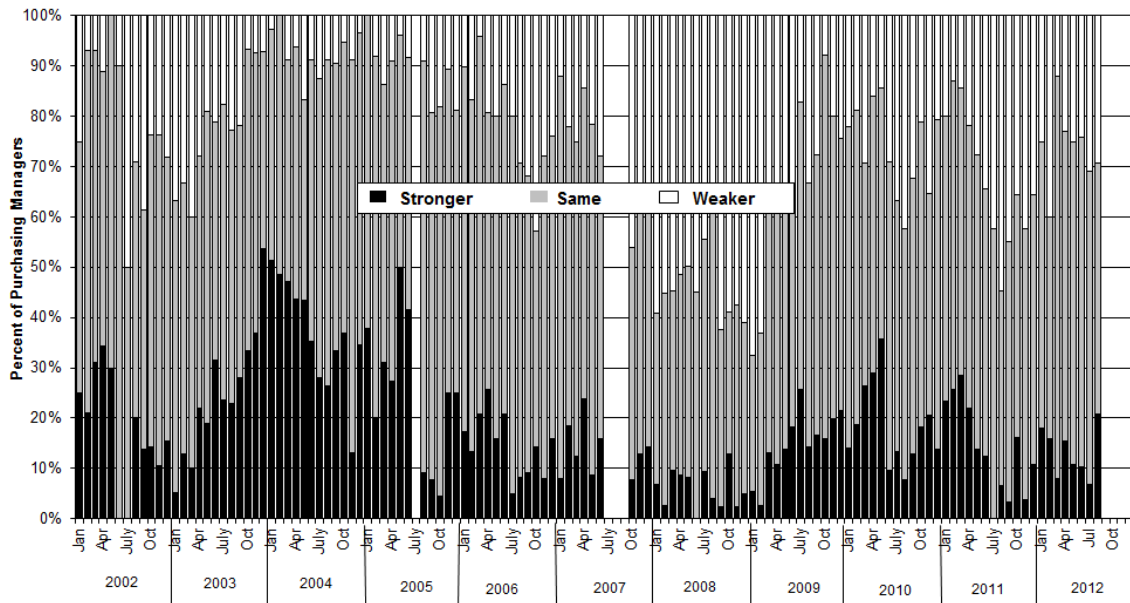
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 8/2011 THROUGH 8/2012

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	55	45	36	42	36	25	40	12	23	25	24	31	29
Same	39	52	48	54	53	57	44	80	62	64	66	62	51
Stronger	6	3	16	4	11	18	16	8	15	11	10	7	20

Positive remarks from Purchasing Managers included: “Revenues increased slightly over July,” “A general uptick, although July was slower than expected,” “We are seeing a slight increase in sales orders. As our product is generally used in the construction of new homes nationwide, this seems to indicate that new home construction is increasing or is anticipated to increase by my customers,” and “Business is very good, but I am concerned about Asian import paper being sold at a lower price than domestic paper.”

Meanwhile, negative comments included: “Orders slowing, which is unusual for this time of year,” “Slow,” “Business is extremely flat...all customers buying just what they need,” “Business stinks,” “Business slowed in first quarter and has dropped since,” and “Our purchasing is driven by the orders we receive from our major customers, mostly in the aerospace industry, so the political paralysis that has been created by the partisan polemics in Congress has affected those customers' ability to plan, and thus their ability to make purchasing commitments for the long term.”

In summary, this report is somewhat positive in that the PMI is above 50, exports have increased, production and new orders are up, and more people were hired this month at

manufacturing firms than was the case last month. Further, Purchasing Managers are more optimistic about the coming quarter's economy than they were last month. As we get closer to the upcoming state and national elections, it will be interesting to track how this year's political uncertainty plays out in the business sector.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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