

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 August 2017

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

PMI STILL FIRMLY IN GROWTH MODE, BUT COMMODITY PRICES ON THE RISE

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 61.0, an increase from last month's 58.3. The good news is that this is the 8th month that the index has remained above the 50% benchmark, indicating that the Inland Empire manufacturing sector and the overall local economy remain comfortably in growth mode. The only slight concern is that Commodity Prices are climbing, with this month's index (71.1) increasing sharply from last month's 63.8."

"As noted in previous reports, the Production Index and New Orders Index are the two key components of the PMI. This month the Production Index decreased slightly to 61.7 from last month's 63.8, whereas the New Orders Index increased from 56.9 to 63.3. Both of these indices have remained above 50 throughout 2017, showing continued growth. The Employment Index is 60.0 – a slight improvement when compared with last month's figure 56.9. It is especially encouraging that six of the eight companies that added positions indicated that those positions were permanent (as opposed to temporary) positions. The Inventory Index decreased slightly from 63.8 to 60.0. The Supplier Deliveries Index increased from 53.4 to 60.0 this month, indicating that the speed of supplier deliveries has slowed (a sign that suppliers are busy). As stated earlier the Commodity Prices Index continued its upward trend, reflecting stronger inflationary pressures."

"Purchasing Managers continue to be optimistic about the state of the local economy, with 38% of purchasing managers predicting that the local economy will become stronger in the coming months. Fifty-two percent of Purchasing Managers believe the local economy will remain unchanged, and the remaining 10% believe the local economy will come weaker by next quarter (up from 4%)."

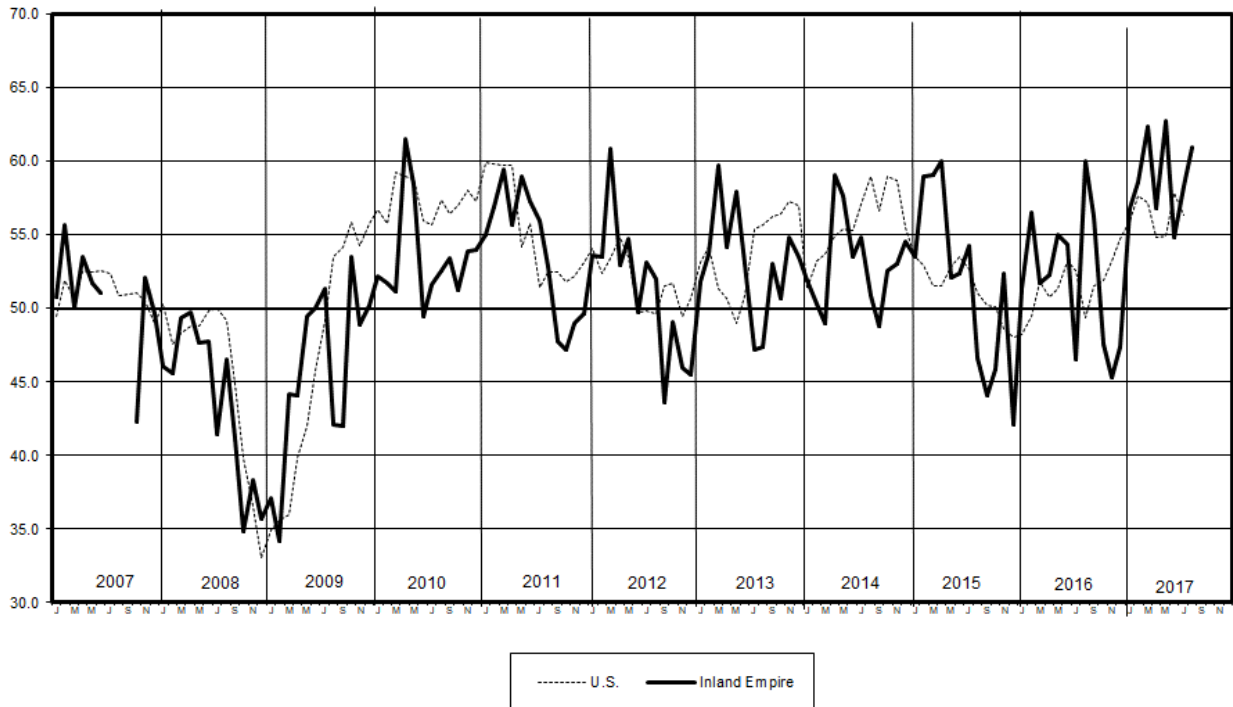
Following is a summary of highlights of the monthly indices:

August 2017 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	58.3	61.0	Growing	Faster	8
Commodity Prices	63.8	71.7	Increasing	Faster	19
Production	63.8	61.7	Growing	Slower	9
New Orders	56.9	63.3	Growing	Faster	8
Inventory	63.8	60.0	Increasing	Slower	7
Employment	53.4	60.0	Growing	Faster	8
Supplier Deliveries	53.4	60.0	Slowing	Faster	8
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	36%	38%			
% Same	60%	52%			
% Weaker	4%	10%			

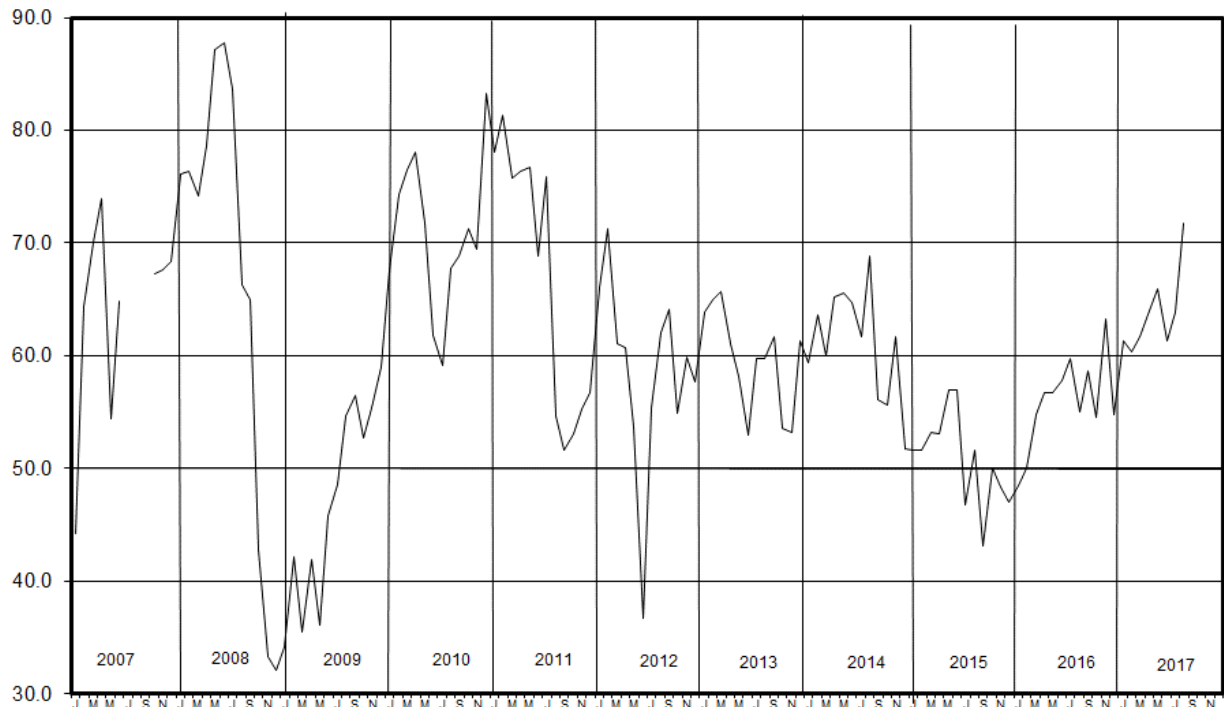
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



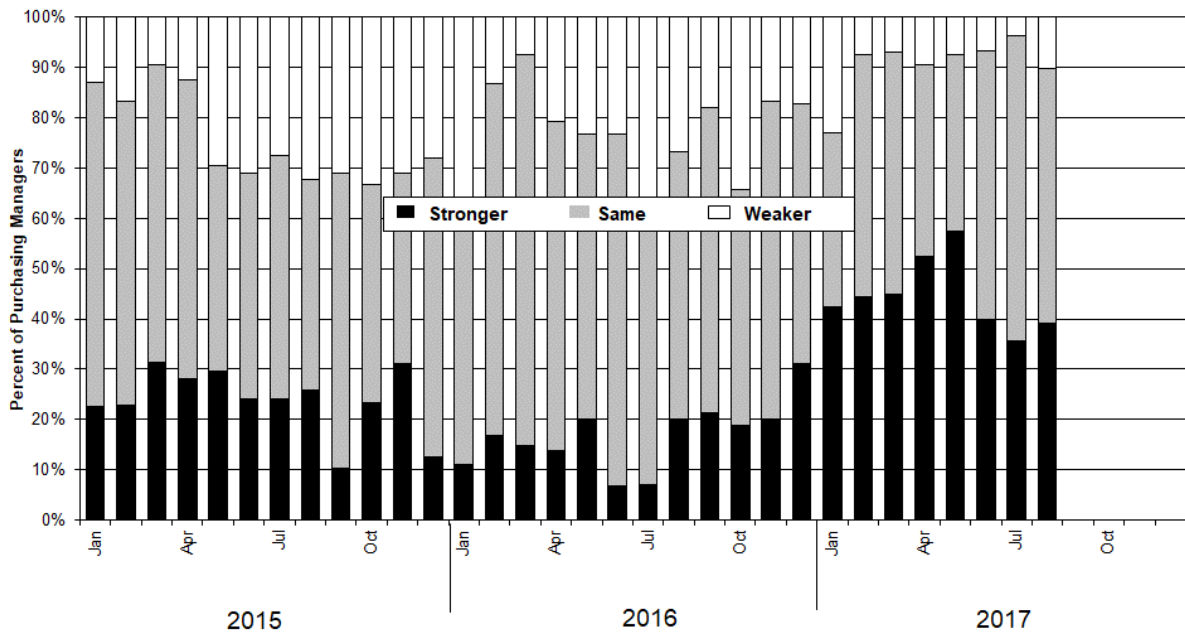
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 8/2016 THROUGH 8/2017

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	27	18	34	17	17	23	8	7	10	8	7	4	10
Same	53	61	47	63	52	35	44	48	38	35	53	60	52
Stronger	20	21	19	20	31	42	48	45	52	57	40	36	38

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included:

- "Brisk sales, but biggest customer moved out of California."
- "After a very slow July, new orders are up."
- "August business was outstanding, almost 15% above our previous record sales month."
- "Business remains strong. Most industries that we serve are not showing any signs of a slowdown. Weaker dollar is helping make us more competitive with exports."
- "As total demand goes up so does overseas demand. There is a positive correlation."
- "Demand of raw materials sourced outside the US has risen. American suppliers are in allocation mode."
- "The explosion of worldwide demand of silicone elastomers continues."

Even though the PMI index showed growth, some Purchasing Managers made cautionary comments:

- "For businesses of our size there is still a great deal of concern over the risks in the market. Because of that, there is limited commitment to pursue opportunities that may be impacted by the risks. Where there are obvious less risky opportunities we and others continue to pursue them."
- "Still slow, it is summer after all and we make heaters. We are concerned that even the aircraft business is slow. No lay-offs yet but who knows."
- "Business has been and continues to be very slow."

In summary, last quarter's GDP reflected brisk growth on the national scene, and stocks keep making strong gains. That good news on the national front is seemingly trickling down to the Inland Empire, which, based on our data, is showing continued growth in the manufacturing sector and the overall economy. Production and new orders are up, as is the all-important employment index.

The main concern, as stated earlier, is that commodity prices continue to rise. And we anticipate seeing a further increase in those prices due to the closure of oil refineries as Hurricane Harvey ravaged the Texas Gulf Coast.

In addition, one respondent made a comment about a big customer moving out of California. It is uncertain whether that company is leaving because of California's high tax rate, or the high cost of housing, or the regulatory environment, or some other reason. Right now California is only listed as #28 in the ranking of "top states for business" (<https://www.cnbc.com/2017/07/11/americas-top-states-for-business-2017-overall-ranking.html>). Unless California begins to be seen as a more "business-friendly" state, more firms are sure to follow.

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