

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 2015

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

PMI drops below 50 after 10 straight months of growth figures

According to Barbara Sirotnik (Director, Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "Given the recent negative economic reports, it is not too surprising that the Inland Empire PMI also declined. After 10 months of a PMI which showed slow and steady growth, the index decreased sharply from 54.3 last month to 46.6 this month."

"Production and New Orders, arguably two of the most important indicators comprising the PMI, both declined. Production dropped from 56.7 to 48.4 (the first month it has registered below the 50% baseline since March of 2014). New Orders plunged from 51.7 to 43.8 – the lowest value since July 2013. Since the data on new orders is forward-looking (predicting future production and therefore GDP), this decrease could be of concern if it continues for two more months. Perhaps more disappointing, the Employment Index declined to 48.4 after registering above 50 for 6 of the 8 months in 2015. Inventories also dropped to 46.7 indicating that companies are reducing their stores of purchased materials (including raw materials, MRO – Maintenance, Repair, and Operating – and intermediates). Such a decrease either means that consumers are demanding a product and the firm can't meet demand, or else the demand is low and the firm is "dumping" its stock. No comments were made by Purchasing Managers to help explain this decrease. Finally, Supplier Deliveries decreased to 46.9, indicating that suppliers are delivering goods at a faster pace than last month (probably indicating that the order backlog is falling – not necessarily a good sign). Commodity Prices registered at 51.6 after a one month brief dip below 50.

"Purchasing Managers' confidence in the economy for the coming quarter dipped somewhat. The good news is that 26% of Purchasing Managers (up from 24%) believe the economy will improve in the coming quarter. The not-so-good news is that the percent of Purchasing Managers saying the economy would become weaker increased from 28% last month to 32% this month."

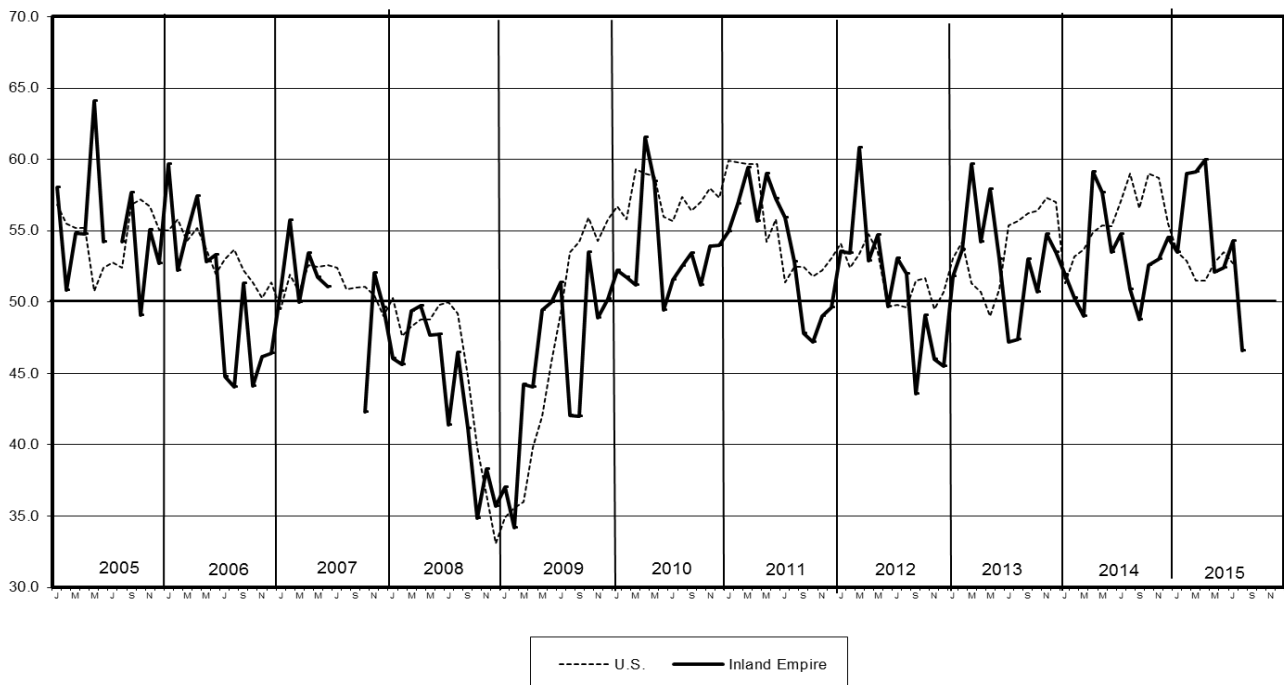
Following is a summary of highlights from this month's report:

August 2015 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	54.3	46.6	Contracting	From Growing	1
Commodity Prices	46.7	51.6	Increasing	From Decreasing	1
Production	56.7	48.4	Contracting	From Growing	1
New Orders	51.7	43.8	Contracting	From Growing	1
Inventory	50.0	46.7	Decreasing	From unchanged	1
Employment	63.3	48.4	Contracting	From Growing	1
Supplier Deliveries	50.0	46.9	Getting Faster	From unchanged	1
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	24%	26%			
% Same	48%	42%			
% Weaker	28%	32%			

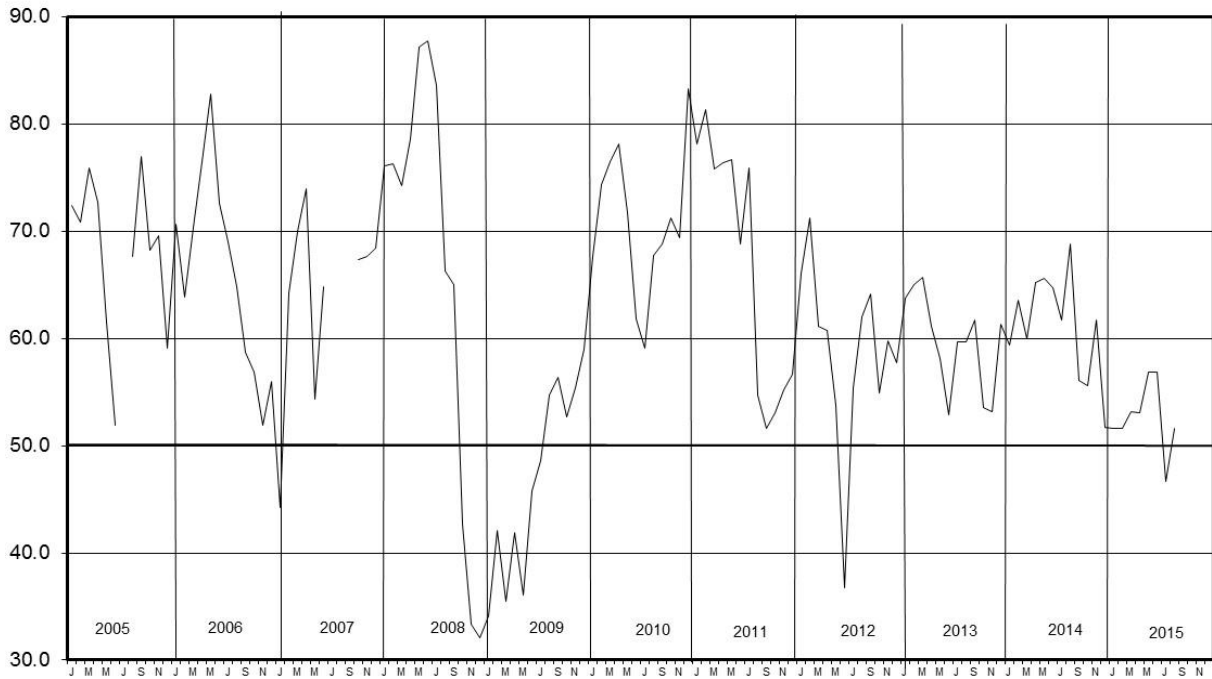
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



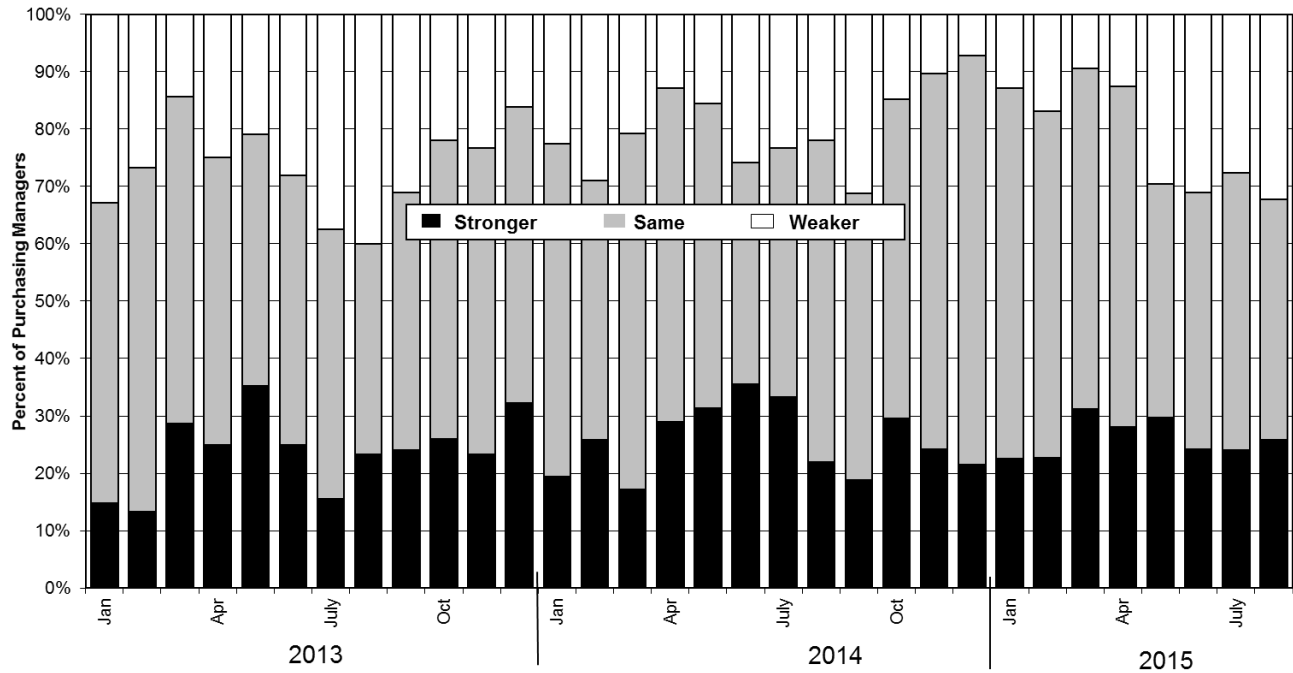
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Commodity Prices



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

State of the Local Economy



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

STATE OF THE ECONOMY: DATA FROM 8/2014 THROUGH 8/2015

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	22	31	15	10	7	13	17	9	13	30	31	28	26
Same	56	50	55	66	72	64	60	60	59	40	45	48	42
Stronger	22	19	30	24	21	23	23	31	28	30	24	24	32

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

- “August is better than July but not great. As noted before this is a kind of seasonal business. The August schedule is above "break even" numbers and we are hoping for continued improvement as we head into fall and winter.”
- “Current domestic orders are excellent.”
- “Slight dip in sales first two weeks of August, but have seen good rebound.”
- “We still continue to be concerned over the national political scene. Aside from that, business seems to be growing steadily, but not robustly.”

Some cautionary notes included:

- “Business conditions a little slower than previous months, seems to be picking up towards end of month.”
- “China's slowdown is having a downward impact on prices of raw material and oil. This is leading to a negative impact on business.’
- ‘Slow on orders, 1 layoff.”
- ‘We are experiencing notable increases in vendor prices. The average increase is about 12%, with some as high as 20%.”

In summary, most of the recent economic news at the local, state, and national, and international levels has been bleak. For example, unemployment in the Inland Empire jumped to 7.1% in July. The US stock market has been on a roller coaster ride, initiated by China’s devaluation of its currency (although it must be noted once again that the stock market **does not** equal the economy as a whole). The economic situation in Greece continues to be problematic. All of these factors have an effect on consumer confidence and spending, and the Inland Empire economy is not insulated from their negative effects.

On the other hand, it takes 3 months of below-50 index numbers before a new trend can definitively be established. It remains to be seen whether this month’s gloomy figures are simply a one-month drop or the beginning of another downturn.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Barbara Sirotnik
Director, Institute of Applied Research
(909) 537-5729

Mary Jane Olhasso
Assistant Executive Officer, County of San Bernardino
(909)-387-4599

Rob Moran
Economic Development Manager, Riverside County Economic Development Agency
(951) 955-6673

Dr. Lawrence Rose
Dean, College of Business and Public Administration, CSUSB
(909) 537-3703