

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 December 2016

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

PMI remains below 50 for the third month in a row

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) increased to 47.4 from last month's 45.3. Although the PMI is moving "in the right direction," it is the third month in a row the index has registered below the baseline of 50. This indicates that the Inland Empire **manufacturing sector** is no longer in growth mode. On the other hand, the figure has remained above 43.2 (the baseline for the overall economy), so at this point we project that the local **economy** will remain in growth mode for at least the next three months."

"When we examine the two most critical components of the index (Production and New Orders), we see some slightly positive signs. The Production Index jumped to 53.2 from 38.3, indicating that December was a much busier month of production than November. And New Orders Index increased to 48.4 from last month's 35.0, so although new orders continued to decline in December, the *rate of decline* slowed significantly from November. On the other hand, the Employment Index dropped to 46.8 from 50.0, and is the first time it has fallen below 50 since January 2016. The Inventory Index decreased from 50.0 last month to 40.3 this month. The Commodity Prices Index registered 54.8 this month (down from 63.3). And Supplier Deliveries are getting faster, with the index declining from 53.3 last month to 48.4 this month."

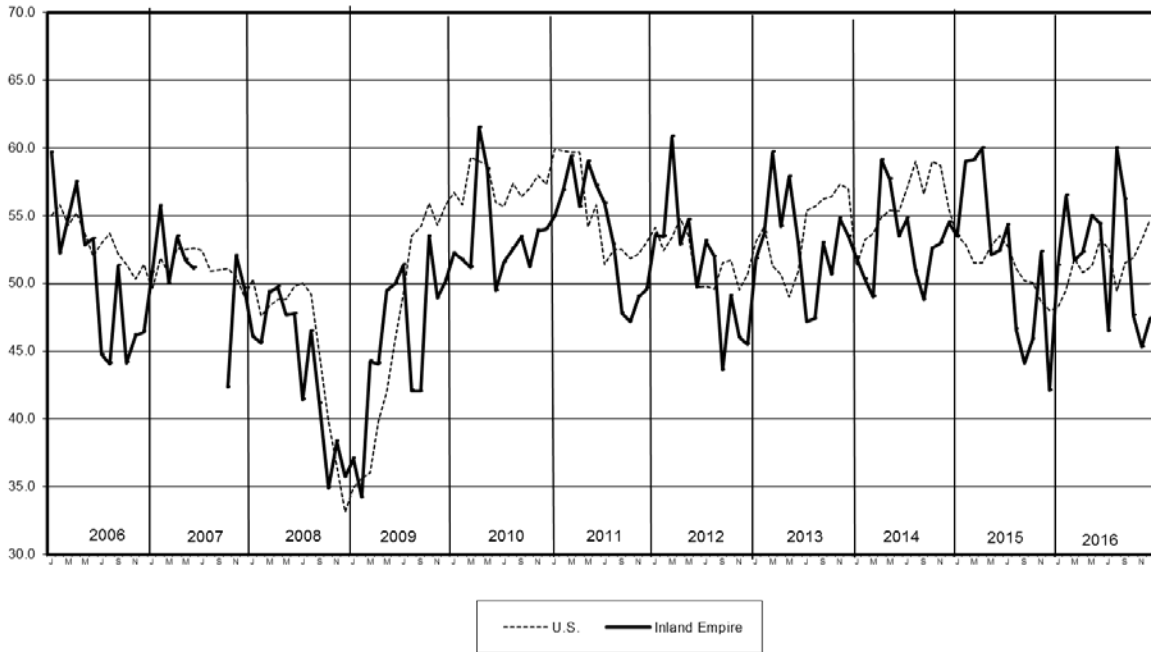
"Amidst some of this not-so-good news, Purchasing Managers' optimism about the state of the local economy for the coming quarter increased: 31% of the Purchasing Managers commented that they expect the local economy to be stronger in the next quarter (up from 20% last month). Another 17% believe that the economy will be weaker (unchanged from last month). The remaining 52% feel the economy will be unchanged (down from 63%).

Following is a summary of highlights of the monthly indices:

December 2016 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	45.3	47.4	Contracting	Slower	3
Commodity Prices	63.3	54.8	Increasing	Slower	11
Production	38.3	53.2	Growing	From Contracting	1
New Orders	35.0	48.4	Contracting	Slower	3
Inventory	50.0	40.3	Decreasing	From unchanged	1
Employment	50.0	46.8	Contracting	From Unchanged	1
Supplier Deliveries	53.3	48.4	Getting Faster	From Decreasing	1
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	20%	31%			
% Same	63%	52%			
% Weaker	17%	17%			

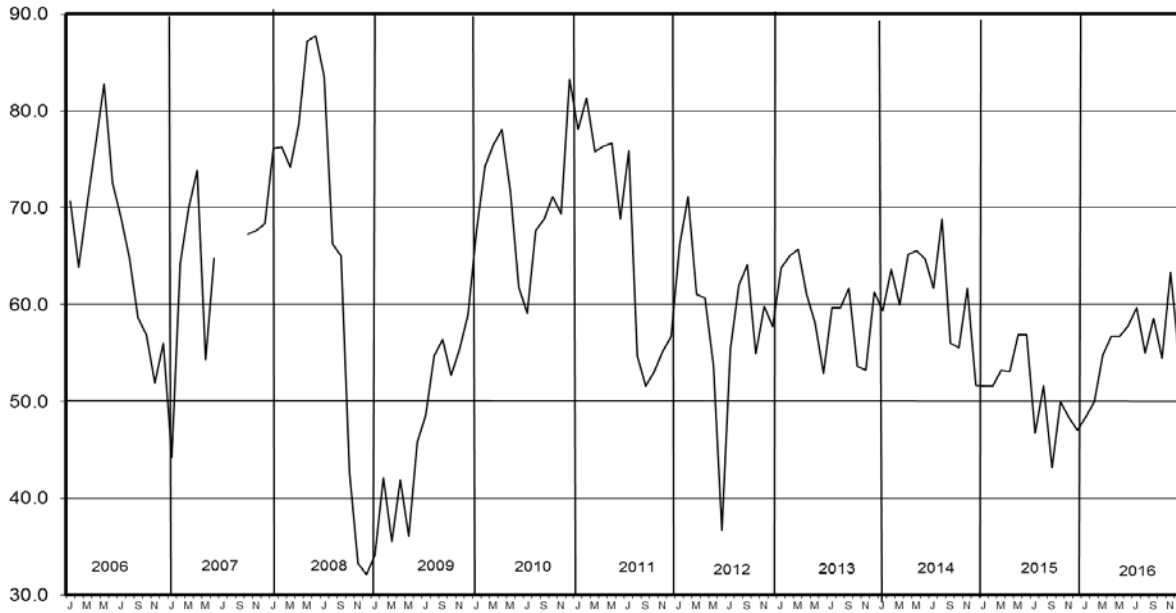
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



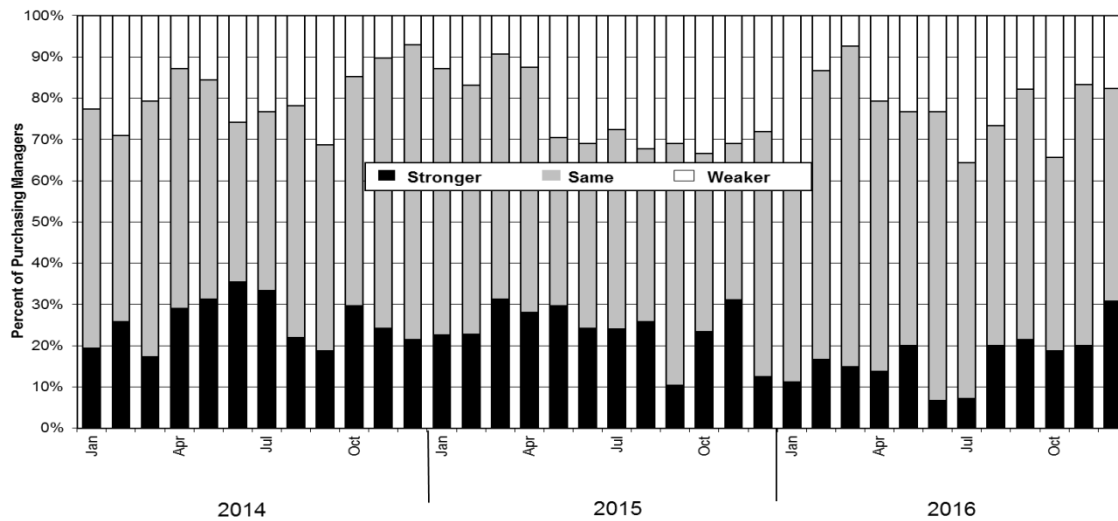
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 12/2015 THROUGH 12/2016

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Weaker	28	41	13	7	21	23	23	36	27	18	34	17	17
Same	58	48	70	78	65	57	70	57	53	61	47	63	52
Stronger	14	11	17	15	14	20	7	7	20	21	19	20	31

Most of the comments on the general business conditions that affected Purchasing Managers' companies were negative:

- "Still pretty grim. We have cut hours by 25% due to poor bookings. We will close from 12/23 until 1/09 for the holidays. No bonus this year...lost a fortune instead. Layoffs in January may be unavoidable."
- "This time of year (holiday time thru February 15) is very slow in our business. There are not many roofing companies working in the winter weather."
- "Business (new orders) and shipments improved during month of November, however month-to-date for December it is considerably lower than previous months."
- "There is still a great deal of uncertainty and risk aversion in the marketplace, both locally and with our international contacts."
- "Business is off approximately 10% from this time last year."
- "Sales are way down it seems to be across the board. I'm not sure what is going on yet."
- "December is always a slow month in our industry."

As always, comments from at least a few people showed optimism:

- "Overall very optimistic about the upcoming year."
- "Seasonal slowdown, but will should exceed December 2015 sales."
- "Our company as a group performed extremely well considering the market situation especially in the solar market. This year the chemicals divisions and especially the global Silicones division are outperforming the semiconductors and polysilicon when it comes to growth."
- "We are experiencing a strong December and January is looking good."
- "Customers are placing orders for delivery in 2017."

In summary, this is a somewhat disappointing report showing a change in trend for the manufacturing sector. Does this reflect seasonality? Perhaps. There were end-of-year slowdowns such as the one we are reporting on here in 2011, 2012, and 2015. So hopefully these data reflect seasonality rather than a new and ongoing trend of contraction in the manufacturing sector.

Further, we must reiterate that although the figures show that the local manufacturing sector appears to have left growth mode, the overall economy is still expanding. And the proportion of respondents forecasting a stronger economy in the coming quarter is at its highest level in

a year. Hopefully by next month our figures will look more like the national PMI figures which have remained above 50 for the last four months.

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