

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 October 2014

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

MANUFACTURING SECTOR BACK ON THE UPSWING

In last month's report, Barbara Sirotnik (Director of the Institute of Applied Research) and Lori Aldana (Project Coordinator, Institute of Applied Research) noted that the PMI had dropped below the baseline 50% mark after 5 months of consecutive positive figures. At that time we chalked it up to the volatility experienced over the past few years, and said there was no current indication of a decline in the overall Inland Empire economy. This month's PMI (52.6) registered an increase over last month's figure (48.8), thus it appears that last month was indeed just an anomaly – a hiccup – and that the manufacturing sector continues its slow growth.”

“Production jumped to 64.8 this month from 51.5 last month, reflecting substantial growth. New Orders also increased sharply from 47.0 last month to 55.6 this month. The Employment Index increased only marginally from 42.4 to 44.4, indicating that manufacturing employment continues to decrease as it tends to do every year in October. The Commodity Price Index decreased slightly from 56.1 to 55.6, possibly due to the decrease in gas prices. Supplier deliveries changed from 54.5 to 51.9, an indication that deliveries are slower than last month (although the rate of slowing has eased somewhat).”

“Purchasing Managers were more optimistic than a month ago about the state of the local economy for the coming quarter. Whereas last month 31% thought the economy would weaken in the coming quarter, this month only 15% felt that way. Nearly a third (30%) believe that the local economy will strengthen in the coming quarter (up from 19% last month). This is the most positive figure since July 2014.

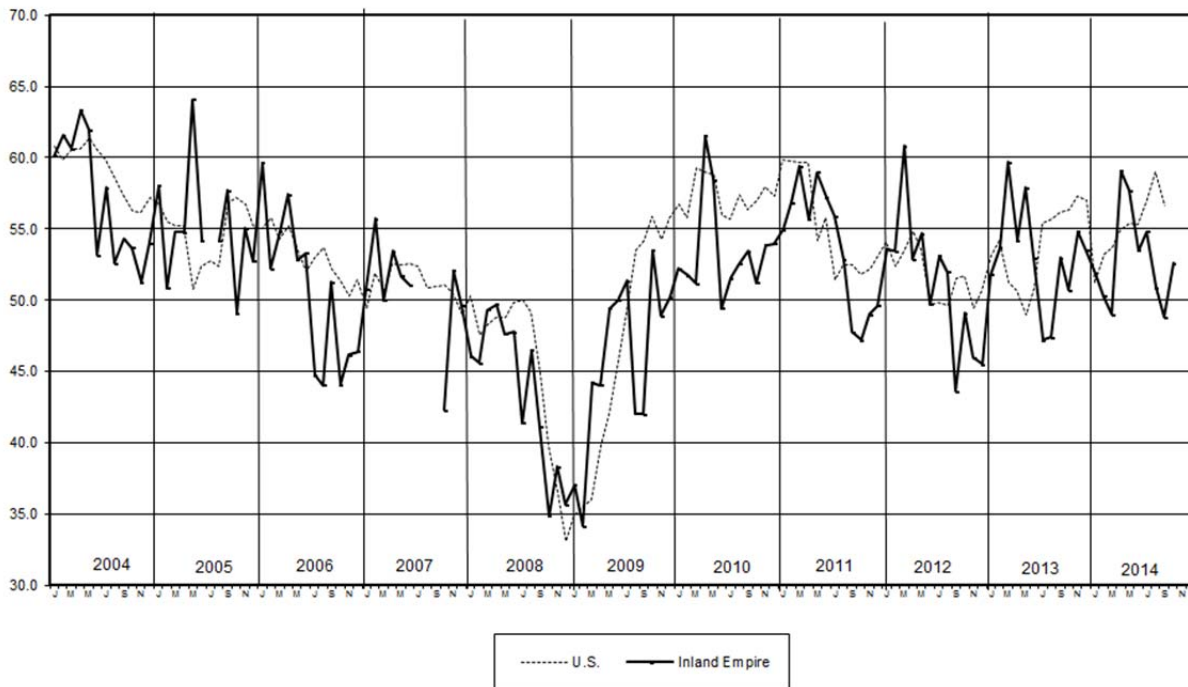
Following are some highlights from this month's report:

October 2014 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	48.8	52.6	Growing	From Contracting	1
Commodity Prices	56.1	55.6	Increasing	Slower	28
Production	51.5	64.8	Growing	Faster	7
New Orders	47.0	55.6	Growing	From Contracting	1
Inventory	48.5	46.3	Decreasing	Faster	3
Employment	42.4	44.4	Contracting	Slower	3
Supplier Deliveries	54.5	51.9	Slowing	Slower	5
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	19%	30%			
% Same	50%	55%			
% Weaker	31%	15%			

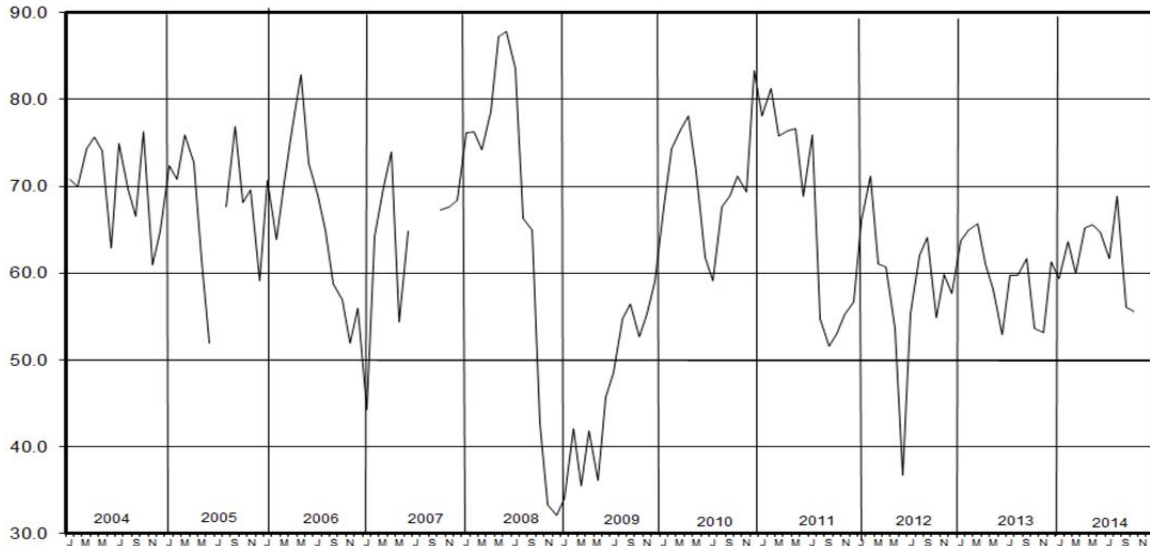
Note: Inland Empire data were not collected for the months of October and November 1996, July 2005, and July through September 2007.

Purchasing Managers' Index



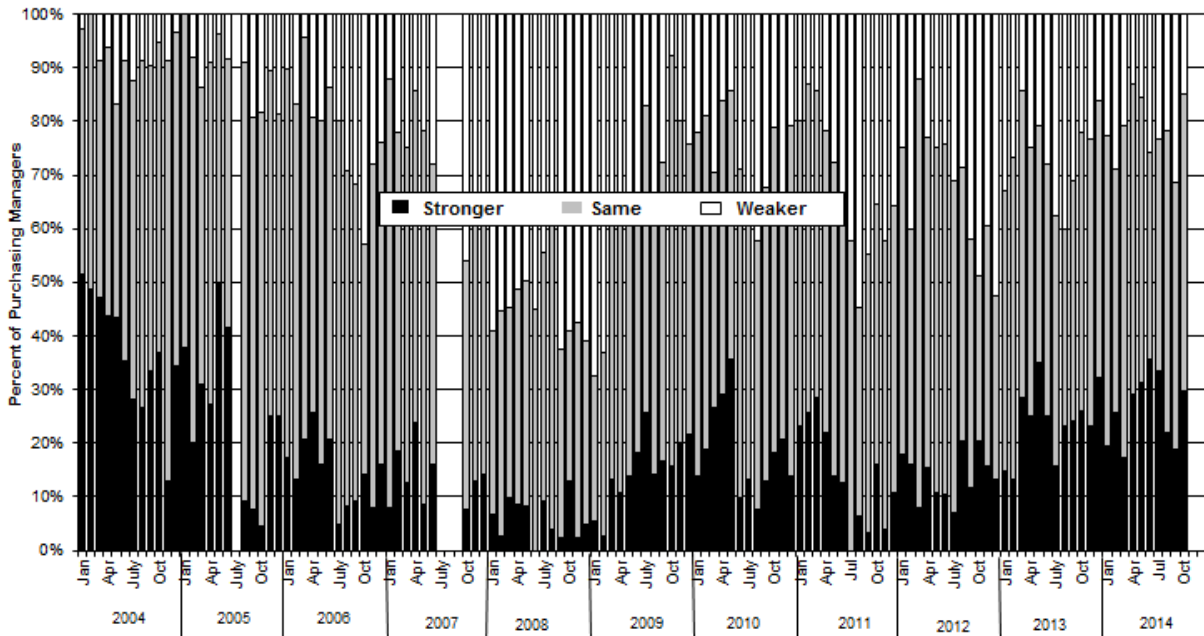
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 10/2013 THROUGH 10/2014

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Weaker	22	23	16	23	29	21	13	16	26	23	22	31	15
Same	52	55	52	58	45	62	58	53	39	43	56	50	55
Stronger	26	23	32	19	26	17	29	31	35	33	22	19	30

Positive remarks from Purchasing Managers included: "Business is steady, at plan for this period," "Orders remain strong, we normally have a slowdown in the fall but not this year," "Sales slowing slightly, but still way above average," and "Showing great short term growth, and once the political insanity is over, perhaps there will be a level of confidence that can sustain that growth."

Negative remarks from Purchasing Managers included: "We had a record breaking September so October is a little slower. The two big jobs this summer may not repeat, at least not immediately, so we expect a slight slowdown," "Still slow," "Business has been flat for previous 4 months," and "Business continues to be slow."

In summary, there have been three local economic forecast conferences over the past 2 weeks, and all have indicated that the Inland Empire economy is growing (albeit in fits and starts). This report supports those evaluations. The PMI shows that the local manufacturing sector (and the local economy) remains in growth mode. The production index is the highest October figure since the inception of the report (partially a rebound from last month's low figure). The only cautionary note in the report is that the employment index remains stubbornly low, but that is somewhat expected as we enter the holiday season.

The Inland Empire has advantages that will continue to play a part in the local economic recovery: availability of inexpensive land for development, proximity to major transportation corridors, a higher education system willing and able to provide workers the training they need, relatively affordable housing, and development of warehouses and distribution/ fulfillment centers. All indications are that the local economy will continue its slow but overall steady improvement.

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