

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 September 2014

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

MANUFACTURING SECTOR TOOK A DIP BELOW 50%

According to Barbara Sirotnik (Director of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (48.8) registered a decrease over last month's figure (50.9), dropping below the baseline 50% mark after 5 months of positive figures. This is the first month since March of 2014 that the index fell below the 50% benchmark. But it is important to note that one month's figures do not establish a new trend. If the PMI remains below 50 for two more months, a new trend of decline in the manufacturing sector will have been established. And if the figure were to drop precipitously to 43.2 and remain at that level for three months, that would be an indication that the overall Inland Empire economy is in decline, as it was in 2008. We don't see that happening at this point."

"Production decreased from 57.6 last month to 51.5 this month, still showing growth (albeit at a slower pace than last month). There were fewer new orders than the previous month, however, illustrated by the fact that the index dropped from 51.5 to 47.0. Another bit of negative news was that the Employment Index dropped to 42.4 from 45.5 last month. The Commodity Price Index decreased sharply from 68.8 to 56.1 this month, and supplier deliveries continued to slow (with the index changing from 51.5 to 54.5)."

"Purchasing Managers were more pessimistic than a month ago about the state of the local economy for the coming quarter. Whereas last month 22% thought the economy would weaken in the coming quarter, this month nearly a third (31%) felt that way. This is the highest figure reported in 2014. Further, only 18% stated that the economy would strengthen -- a decrease from 22% last month.

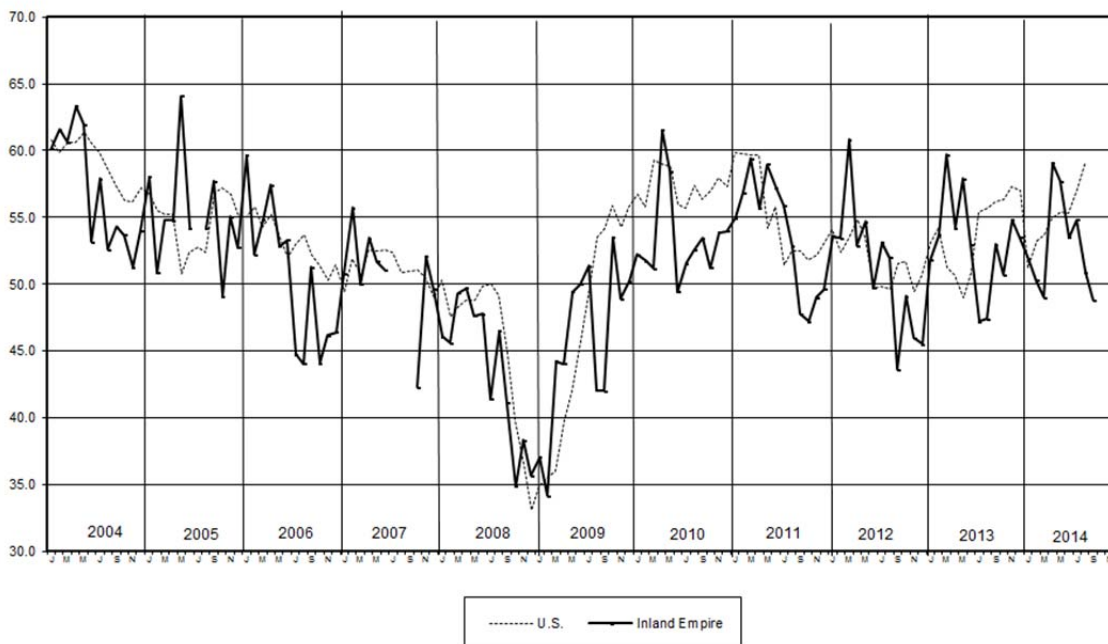
Following are some highlights from this month's report:

September 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	50.9	48.8	Contracting	From Growing	1
Commodity Prices	68.8	56.1	Increasing	Slower	27
Production	57.6	51.5	Growing	Slower	6
New Orders	51.5	47.0	Contracting	From Growing	1
Inventory	48.5	48.5	Decreasing	Faster	2
Employment	45.5	42.4	Contracting	Faster	2
Supplier Deliveries	51.5	54.5	Slowing	Faster	4
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	22%	18%			
% Same	56%	50%			
% Weaker	22%	31%			

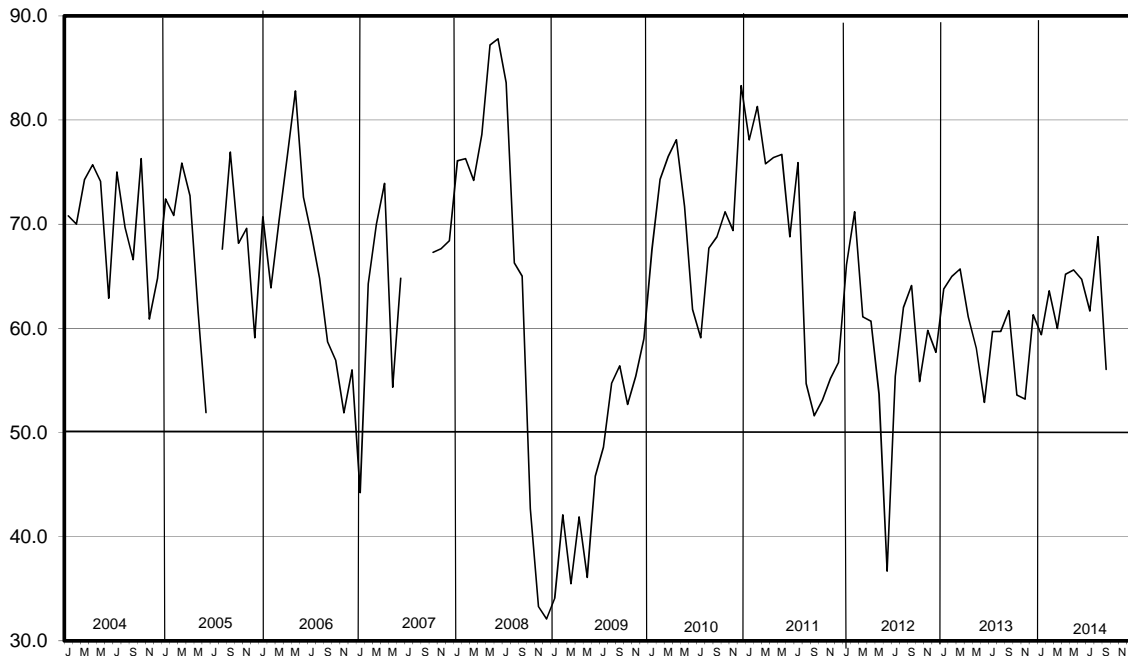
Note: Inland Empire data were not collected for the months of October and November 1996, July 2005, and July through September 2007.

Purchasing Managers' Index



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Commodity Prices



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STATE OF THE ECONOMY: DATA FROM 9/2013 THROUGH 9/2014

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Weaker	31	22	23	16	23	29	21	13	16	26	23	22	31
Same	45	52	55	52	58	45	62	58	53	39	43	56	50
Stronger	24	26	23	32	19	26	17	29	31	35	33	22	18

Positive remarks from Purchasing Managers included: “Business is strong, prices for paper continue to increase,” “Business still brisk but slowing,” “Increases to production,” and “Sales plan and materials at target for period. Results for year are positive and above plan,” and “We see good pick up, but we have a lot of lost ground to make up.”

Negative remarks from Purchasing Managers included: “Slowing down this time of year,” and “We had a huge volume in July and August and had four new hires this summer. September is a little slower and we may discover that jobs/projects for the new hires will be scaled back greatly. This may mean layoff in October or November if I can’t find some new jobs.”

In summary, the PMI has been exceptionally volatile over the past few years, thus this month’s decline should not be cause for concern. If the figure continues to hover below 50% for the next two months, that will be an indication that the growth trend has changed and the manufacturing sector is slowing (especially if the employment index remains low). However

we must reinforce that there is no current indication of a decline in overall Inland Empire economy.

On the other hand, the Inland Empire economy is clearly affected by the national and global economy (although they do not move in lock-step). The local economic situation could change quickly if geopolitical concerns continue to be felt in the U.S. and abroad.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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

Kelly Reenders
Administrator, San Bernardino County Economic Development Agency
(909) 387-9801

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