

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 January 2016

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

PMI BACK ABOVE 50

According to Dr. Barbara Sirotnik (Director, Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (51.3) registered an impressive gain from last month's PMI (42.1). This might be a seasonal increase, as January figures are often significantly higher than December's. Or the increase may just be a reflection of the fact that December's figure was at the lowest level since 2009 – a figure so low that it was almost certain to rebound in January. If the figure remains above 50 for two more consecutive months we will be able to conclude that the local manufacturing sector is back in growth mode."

"It is especially noteworthy that New Orders increased from 39.4 to 58.1 this month and the Production Index increased from 37.9 to 56.7 this month. The fact that these two key components of the PMI are well above 50 indicates that manufacturing companies anticipate increasing purchases from consumers in the coming months. The Employment Index also rose from 41.0 to 48.4 this month. Commodity prices increased from 47.0 to 48.4 this month, and Supplier Deliveries are getting faster (dropping from 48.5 last month to 43.5 this month)."

"The above figures look encouraging in that *if they continue*, they will indicate strength in the local economy and the local manufacturing sector for the next few months. A sobering balance to those figures is that only 11% of survey respondents believe that the local economy will become stronger in the coming quarter (down from 13% last month). In contrast, 41% predicted that the local economy will become weaker (a significant increase from last month's 28%). The remaining 48% believe the local economy will remain unchanged (which is NOT an optimistic evaluation considering that the economy has not been overwhelmingly strong of late)."

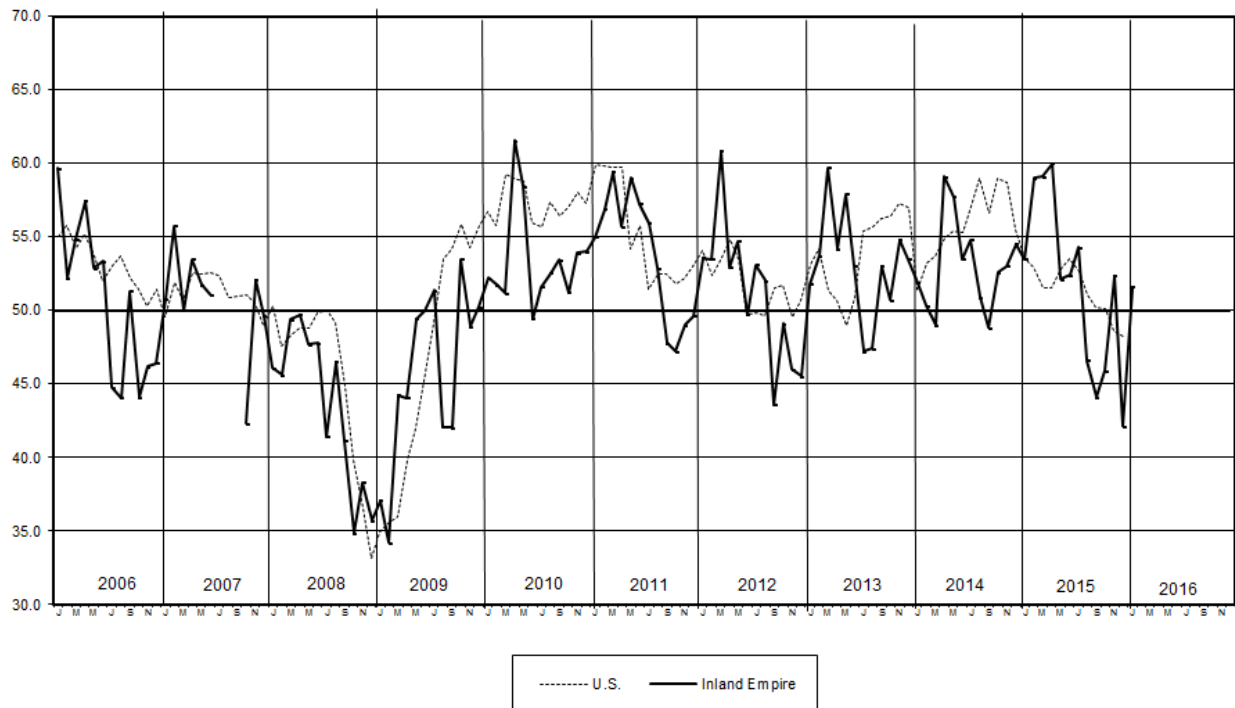
Following is a summary of highlights from this month's report:

January 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 | 42.1 | 51.3 | Growing | From Contracting | 1 |
| Commodity Prices | 47.0 | 48.4 | Decreasing | Slower | 2 |
| Production | 37.9 | 56.7 | Growing | From Contracting | 1 |
| New Orders | 39.4 | 58.1 | Growing | From Contracting | 1 |
| Inventory | 43.9 | 50.0 | Unchanged | From Decreasing | 1 |
| Employment | 40.9 | 48.4 | Contracting | Slower | 4 |
| Supplier Deliveries | 48.5 | 43.5 | Getting Faster | Faster | 2 |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | | |
| % Stronger | 13% | 11% | | | |
| % Same | 59% | 48% | | | |
| % Weaker | 28% | 41% | | | |

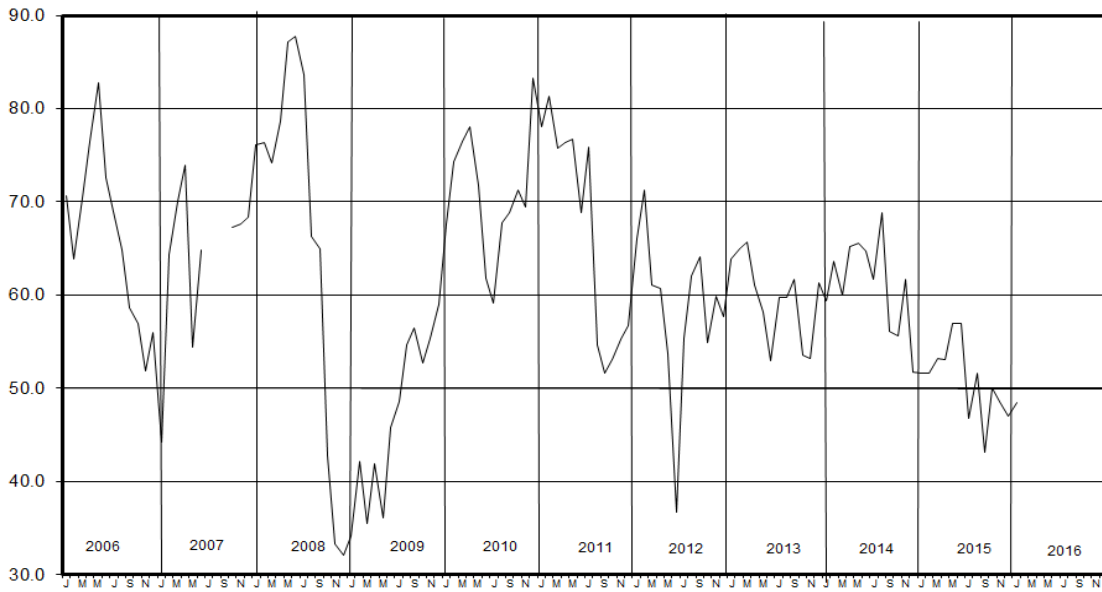
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



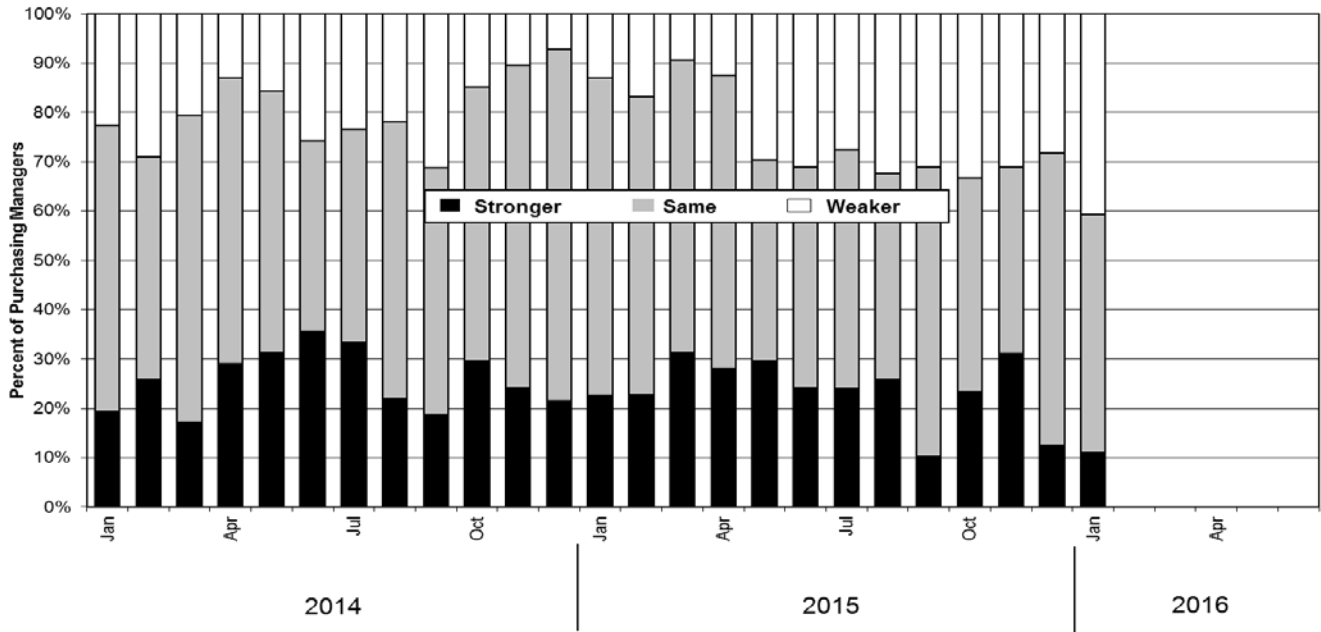
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 1/2015 THROUGH 1/2016

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan |
|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Weaker | 13 | 17 | 9 | 13 | 30 | 31 | 28 | 32 | 31 | 33 | 31 | 28 | 41 |
| Same | 64 | 60 | 60 | 59 | 40 | 45 | 48 | 42 | 59 | 43 | 38 | 58 | 48 |
| Stronger | 23 | 23 | 31 | 28 | 30 | 24 | 24 | 26 | 10 | 23 | 31 | 14 | 11 |

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

- “December was a bad month with huge losses. Low bookings in November plus holiday pay for a long holiday break. I anticipated January lay-offs but things have picked up a bit. We may be able to keep everyone busy after all even if we are not making much profit.”
- “Slight increase in orders.”
- “Year is starting well both domestic and international orders are improving.”
- “January sales are at plan level. We remain optimistic on growth in the new year.”
- “Our products are catching on in markets that we did not relate to previously.”

Some cautionary notes included:

- “Business remains slow.”
- “So far this month business very slow.”
- “Not as much business as last January.”
- “A seasonal effect and an effort to hold off until New Year before re-ordering had an impact on order/inventory levels.”
- “Slightly slower than a year ago. Feels much more competitive for existing business.”
- “China is not taking imports from the big U.S. producers in our business.”
- “We have become acutely aware of the reality that we are in a globalized economy and need to learn from that fact as it relates to our own businesses. In our case, most of what we are doing does not relate to the financial markets, but we may see some of our larger companies try to reduce risk in their purchasing plans, so we need to be prepared.”

In summary, media reports are filled with news about the turbulent economy at the local, state, national, and international levels. Yes, the good news is that Inland Empire unemployment rate is down and home values are improving. But the Inland Empire is not immune to the downturn in China’s economy, concerns about the national economy growing more slowly than expected, a volatile stock market, domestic terrorism, and uncertainty due to the upcoming election. At this point it appears that last month’s sharp downturn in the PMI may have been just a one-month dip; however the Inland Empire manufacturing sector and overall economy are not out of the woods yet. As they say, stay tuned!

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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