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 July 2015

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

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PRODUCTION AND EMPLOYMENT ARE UP, AND COMMODITY PRICES ARE DOWN

According to Barbara Sirotnik (Director, Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (54.3) registered an increase from last month's PMI (52.4). This is the tenth month the PMI has registered above 50% figure which, based on the methodology underpinning the PMI, indicates a steady growth mode for the Inland Empire Region."

"When we break down the PMI in terms of its five key components, it is clear that there are many positive signs of slow steady growth. Production and New Orders (two of the key indicators in the PMI) decreased slightly but are still above 50% baseline, indicating that they are growing albeit at a slower *rate* of growth. Specifically, Production decreased slightly from 58.6 last month to 56.7 this month, and New Orders decreased from 55.2 to 51.7. Further, the Employment Index registered 63.3 -- a significant increase from last month's 55.2. There is some seasonality in this index, however the fact that this is the third month the index has remained above 50 reflects that Inland Empire manufacturing companies are apparently back to hiring mode."

"Commodity Prices dropped sharply to 46.7 from 56.9. This is the lowest figure since June of 2012. It may be that the one month drop is a statistical anomaly, or it could be a reflection of the drop in oil prices. Next month's data will provide more information on this issue. The Inventory and Supplier Delivery indices registered 50 this month -- up slightly from last month's 46.6."

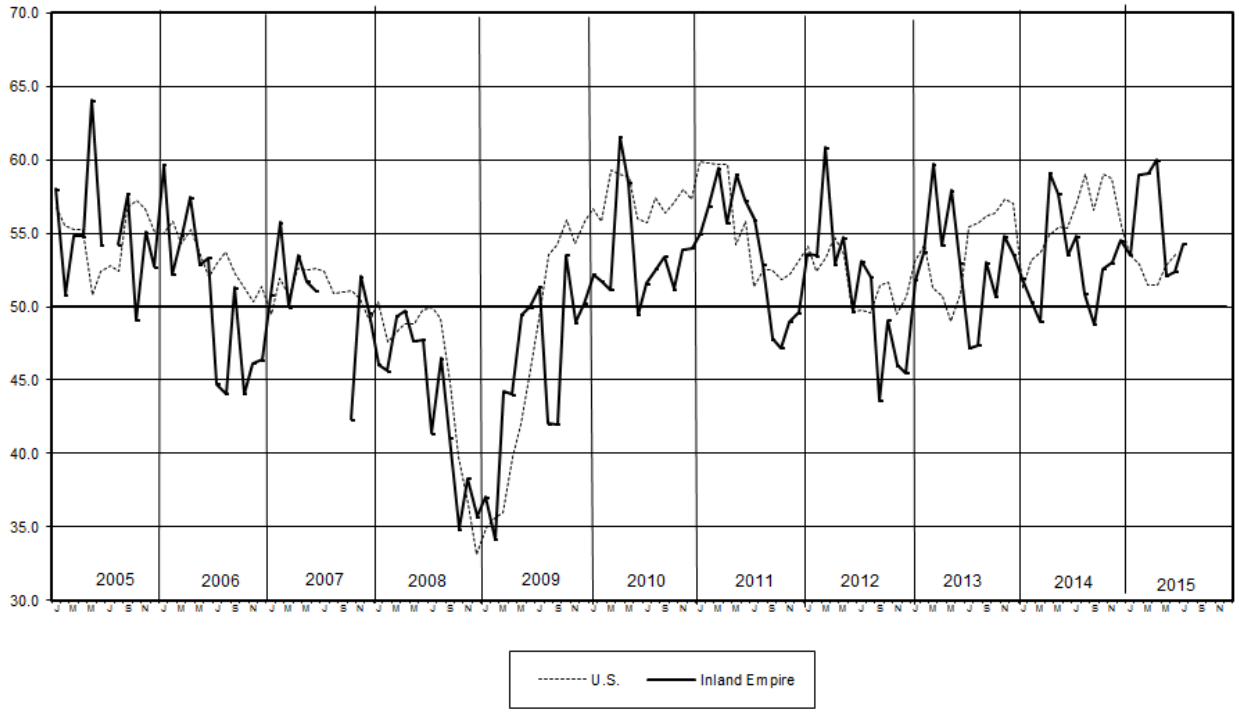
"Purchasing Managers' confidence in the economy for the coming quarter didn't change much from last month. Nearly a quarter (24%) still believe that the economy will improve whereas 28% believe that the economy will be weaker in the coming quarter (down from 31% last month).

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

July 2015 Business Survey at a Glance					
	Series Index				
	Last Month	This Month	Direction from 50	Rate of Change from Last Index	Trend (Months)
Local PMI	52.4	54.3	Growing	Faster	10
Commodity Prices	56.9	46.7	Decreasing	From Increasing	1
Production	58.6	56.7	Growing	Slower	16
New Orders	55.2	51.7	Growing	Slower	2
Inventory	46.6	50.0	Unchanged	From Decreasing	1
Employment	55.2	63.3	Growing	Faster	3
Supplier Deliveries	46.6	50.0	Unchanged	From Faster	1
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	24%	24%			
% Same	45%	48%			
% Weaker	31%	28%			

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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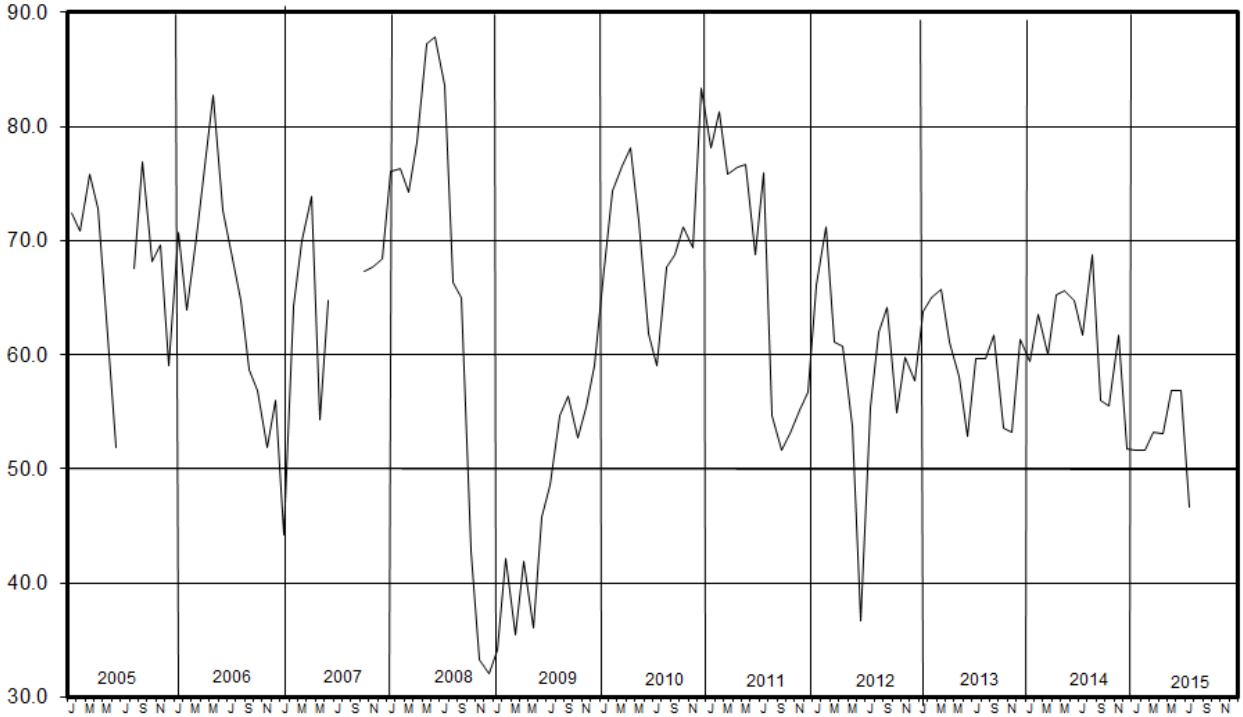
Commodity Prices



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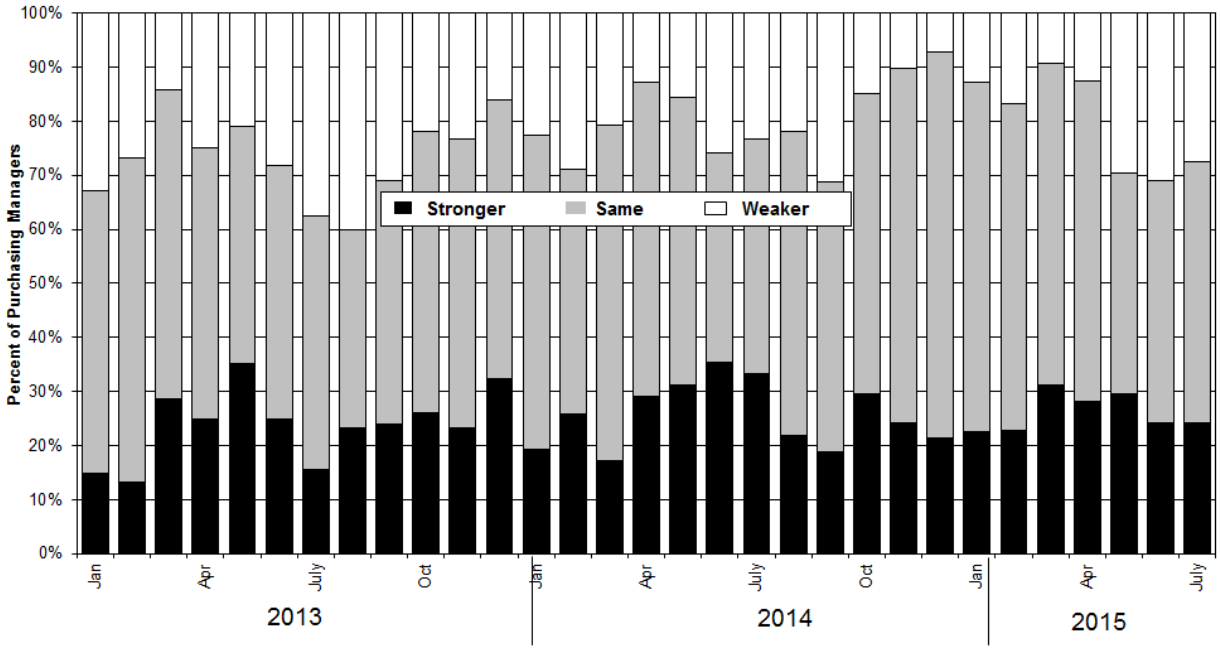
State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 7/2014 THROUGH 7/2015

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Weaker	23	22	31	15	10	7	13	17	9	13	30	31	28
Same	43	56	50	55	66	72	64	60	60	59	40	45	48
Stronger	33	22	19	30	24	21	23	23	31	28	30	24	24

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

- "Business conditions are still very good -- unchanged from previous reports"
- "Despite the dysfunction at the national political level, business opportunities continue to grow and sales are reaching goals"
- "Our production is lower, but this has nothing to do with orders or customers, only internal issues. We are flooded with orders and are attempting to satisfy customers with multiple short runs. This reduces our efficiency. The pressure on production is very high. We are working 6 days 24 hours to try and catch up. August will continue this crazy pace"

Some cautionary notes included:

- "Summer is slower in the heater business. We have not laid-off but we did close the week following the 4th, essentially forcing everyone to take a vacation week. And today I released some orders with October deliveries, which I would normally do next month just to be sure there is enough work on the floor"
- "Sales volume slightly lower than previous period but this is a normal seasonal trend"
- "Very slow"
- "Slow, slow, slow – looking at lay-offs"
- "The drought is taking its toll, but government isn't addressing the problem"

In summary, the Inland Empire economy is continuing the slow and steady growth seen nationwide. Production and New Orders are both strong, and Employment is up. Nationwide, consumer confidence has dipped slightly but still remains strong. Prices of some goods are increasing which is a good sign for the economy – apparently businesses have realized that after years of recession, consumers are willing and able to pay higher prices.

At this point things seem quite positive for the Inland Empire economy, but the picture could change with continuing instability overseas (especially relative to Greece and the Chinese economy) and a Federal Reserve which might raise short-term interest rates later this year.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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