**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

<table>
<thead>
<tr>
<th>Series Index</th>
<th>Last Month</th>
<th>This Month</th>
<th>Direction from 50</th>
<th>Rate of Change from Last Index</th>
<th>Trend (Months)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local PMI</td>
<td>52.4</td>
<td>54.3</td>
<td>Growing</td>
<td>Faster</td>
<td>10</td>
</tr>
<tr>
<td>Commodity Prices</td>
<td>56.9</td>
<td>46.7</td>
<td>Decreasing</td>
<td>From Increasing</td>
<td>1</td>
</tr>
<tr>
<td>Production</td>
<td>58.6</td>
<td>56.7</td>
<td>Growing</td>
<td>Slower</td>
<td>16</td>
</tr>
<tr>
<td>New Orders</td>
<td>55.2</td>
<td>51.7</td>
<td>Growing</td>
<td>Slower</td>
<td>2</td>
</tr>
<tr>
<td>Inventory</td>
<td>46.6</td>
<td>50.0</td>
<td>Unchanged</td>
<td>From Decreasing</td>
<td>1</td>
</tr>
<tr>
<td>Employment</td>
<td>55.2</td>
<td>63.3</td>
<td>Growing</td>
<td>Faster</td>
<td>3</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>46.6</td>
<td>50.0</td>
<td>Unchanged</td>
<td>From Faster</td>
<td>1</td>
</tr>
</tbody>
</table>

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

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

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:

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

Mary Jane Olhasso
Assistant Executive Officer, County of San Bernardino
(909)-387-4599

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