

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 2013

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

A SPECIAL NOTE FROM DR. BARBARA SIROTNIK: On Monday, 7/29/31, IAR staff distributed the sad announcement that Dr. Shel Bockman, IAR Co-Director, had passed away over the weekend. Dr. Bockman's hard work and dedication over the past 28 years has helped build a legacy of high quality work at the Institute, a legacy which our team will strive to continue in the years to come. We will miss him terribly.

PMI drops below 50% for the first time since December 2012

According to Barbara Sirotnik and Shel Bockman (in spirit) (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (47.2) registered below the 50% benchmark for the first time in seven months. Hopefully, this decline is nothing more than a one-month aberration rather than the beginning of a new trend of decline in the local manufacturing sector (which requires three months below 50 to establish).

"The weakness in the PMI is reflected in all major indices; especially Production which decreased from 51.4 last month to 45.3 this month, and New Orders which dropped from 54.3 last month to 43.8 this month. Further, Employment declined to 50 from 52.9 last month. Inventories dropped from 50.0 to 45.2, and Commodity Prices registered an increase from 52.9 to 59.7 this month.

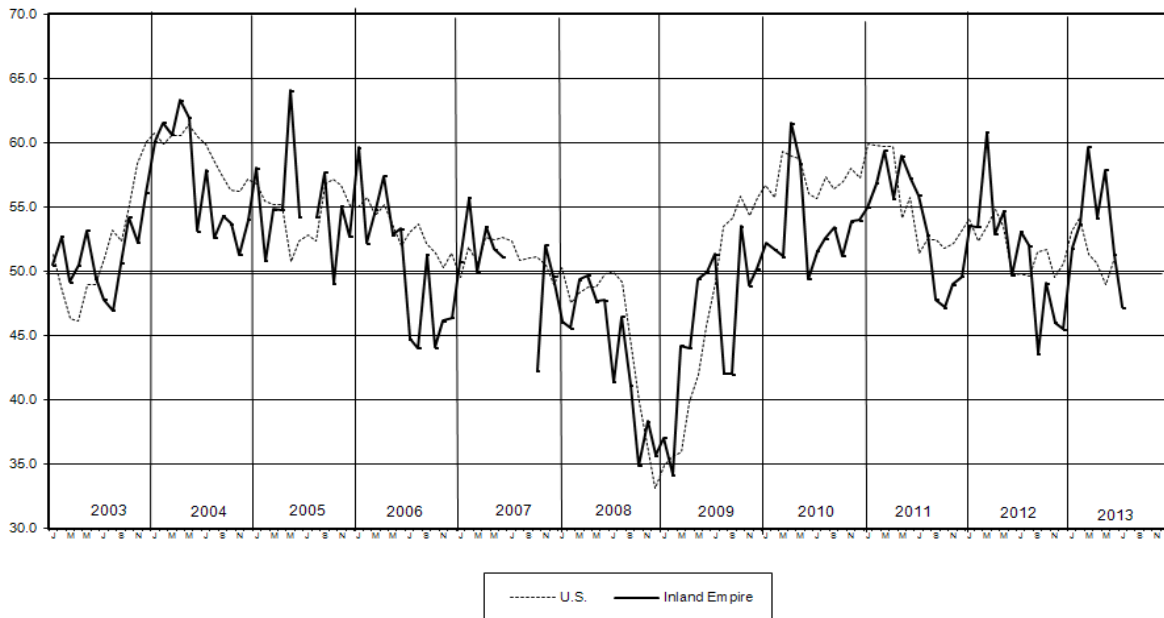
"Purchasing Managers' optimism about the state of the local economy for the coming quarter also deteriorated. Only 16% believe the economy will be stronger (down from last month's 25%), whereas 38% believe the economy will be weaker (up from 28% last month). The other 47% think it will remain about the same as it is now."

"The Imports Index increased from 47.4 to 58.3 and the Export Index decreased from 36.4 to 31.8. No reasons were given for the changes."

Following are some highlights from this month's report:

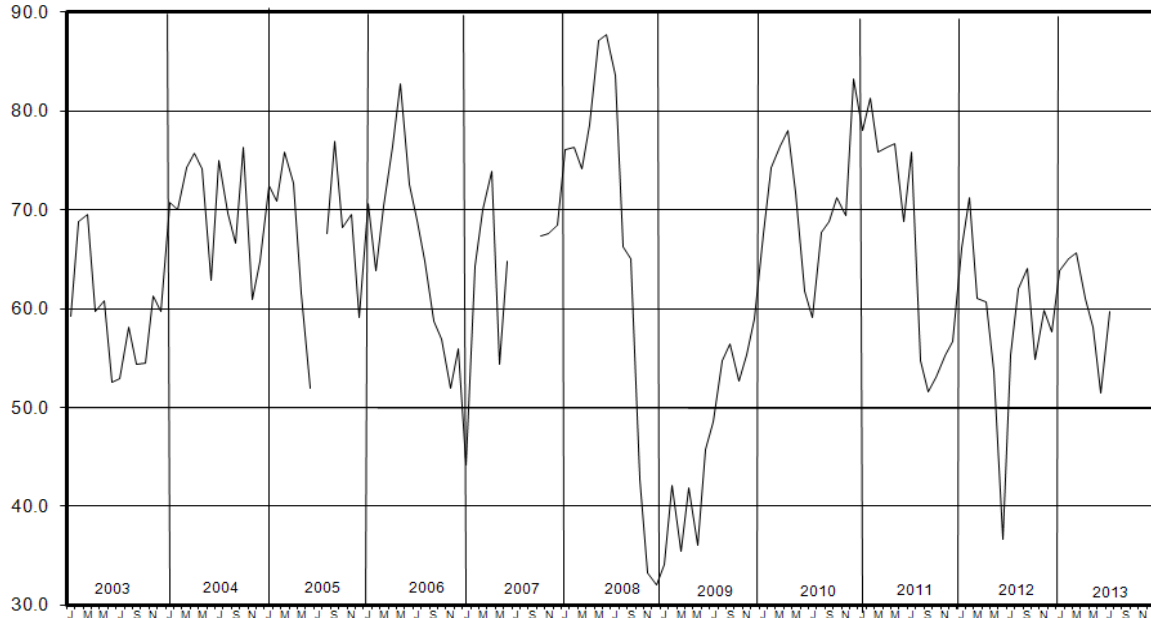
July 2013 Business Survey at a Glance				
	Series Index		Direction from 50	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	53.0	47.2	Contracting	From Increasing
Commodity Prices	52.9	59.7	Increasing	Faster
Production	51.4	45.3	Contracting	From Increasing
New Orders	54.3	43.8	Contracting	From Increasing
Inventory	50.0	45.2	Decreasing	From Unchanged
Employment	52.9	48.4	Decreasing	From Increasing
Supplier Deliveries	56.3	53.2	Slowing	Slower
Imports	47.5	58.3	Growing	From Contracting
Exports	46.2	31.8	Contracting	Faster
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	25%	16%		
% Same	47%	47%		
% Weaker	28%	38%		

Purchasing Managers' Index



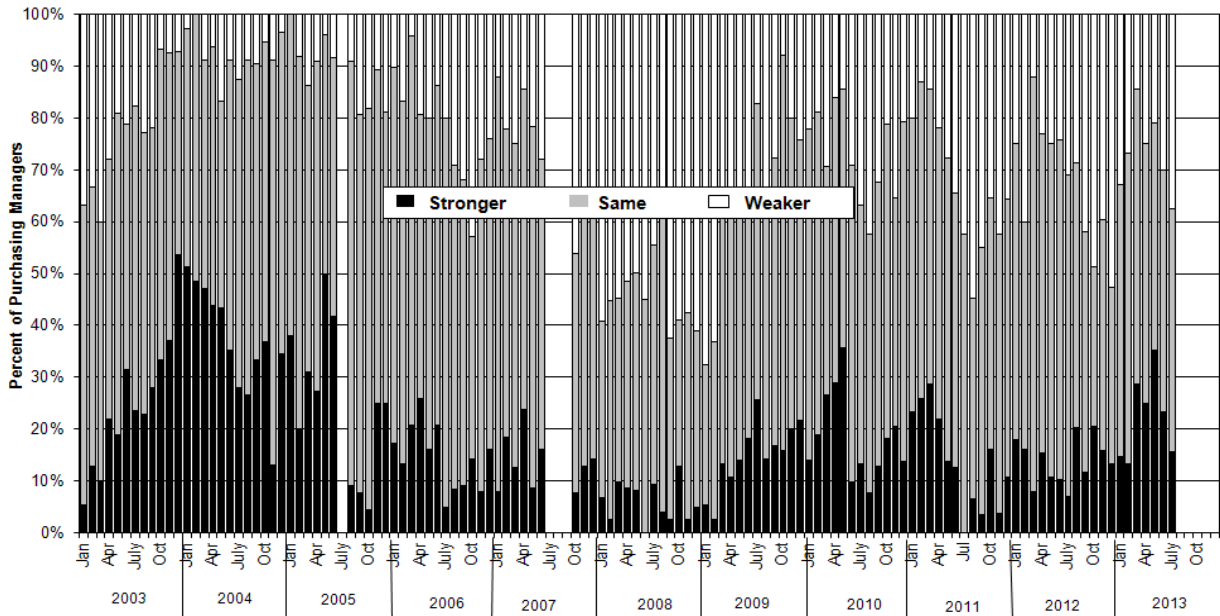
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 7/2012 THROUGH 7/2013

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Weaker	24	31	29	42	49	39	53	32	27	14	25	21	28	38
Same	66	62	51	47	31	45	34	53	60	57	50	44	47	47
Stronger	10	7	20	12	21	16	13	15	13	29	25	35	25	16

Positive remarks made by the Purchasing Managers included: "Business Remains VERY strong," "Sales are up over 100% from last year," and "Maybe a little better."

Negative remarks from Purchasing Managers included: "Concerned about business activity in Q3 and 4," "Weakness in retail sector has become more pronounced," "Fewer orders are coming in, so there may be lay-offs," "Increased volatility and uncertainty," and "Our busy season is not as expected...below last year."

In summary, all major components of the PMI declined below the 50% benchmark. A one-month drop of this type is not, by itself, meaningful. On the other hand, when combined with other troublesome indicators such as a drop in a national consumer confidence index (report released by *The Conference Board* on 7/30/13), the figure bears watching. The Inland Empire is not necessarily in lock-step with the nation; however it is possible that the Inland Empire manufacturing sector *is* reflecting a slight weakening in consumers' economic expectations. Next month's report will provide further data to allow us to determine whether the manufacturing sector is, indeed, softening.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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