

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 March 2014

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

PMI DROPS TO 49.0 AFTER 6 MONTHS OF GROWTH

According to Barbara Sirotnik (Director, Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (49.0) is a decrease from last month's 50.3. This is the first time since August, 2013, that the figure has dropped below 50. But 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, the overall Inland Empire economy would generally be in decline, as it was in 2008. We don't see that happening at this point."

"Production decreased from 51.6 last month to 48.3 this month, and New Orders increased from 48.5 to 50.0 (not a vast improvement since the index of 50 indicates that new orders are unchanged from February, a month which saw a decrease in orders). The Employment Index which had remained at 50 for three months showed a decline to 46.7. Supplier deliveries are continuing to slow (51.7). Slowing deliveries can be a hopeful sign since it often takes longer to deliver supplies when demand is high. But since production and new orders are down, slowing deliveries might just mean that suppliers of raw materials have reduced their work force and thus can't deliver in a timely fashion. The next two months of data will be especially important for determining the meaning of this index."

"Purchasing Managers continue to be less than enthusiastic about the state of the economy, with 21% of purchasing managers predicting that the local economy will become weaker, down though from last month's 29%. Sixty-two percent of purchasing managers believe the local economy will remain unchanged, and the remaining 17% believe the local economy will become stronger by next quarter."

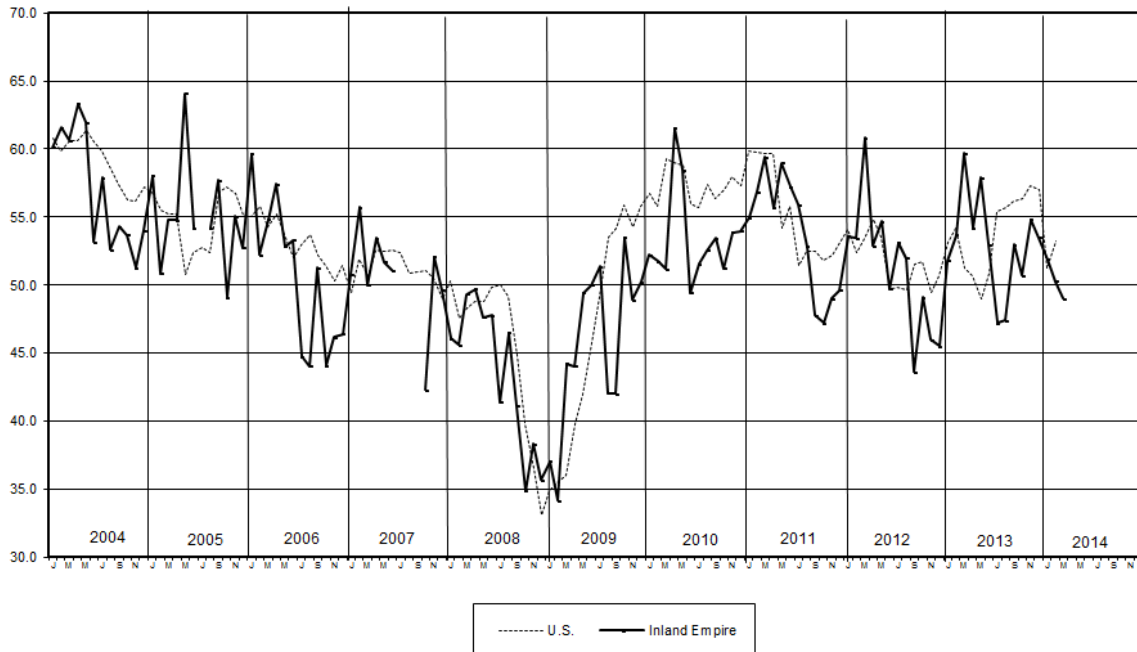
Following are some highlights from this month's report:

March 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	50.3	49.0	Contracting	From Growing	1
Commodity Prices	63.6	60.0	Increasing	Slower	21
Production	51.6	48.3	Contracting	From Growing	1
New Orders	48.5	50.0	Unchanged	From Contracting	1
Inventory	48.5	48.3	Decreasing	Faster	3
Employment	50.0	46.7	Contracting	From Unchanged	1
Supplier Deliveries	53.0	51.7	Slowing	Slower	3
Imports	56.7	46.7	Contracting	From Growing	1
Exports	50.0	35.0	Contracting	From Unchanged	1
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	26%	17%			
% Same	45%	62%			
% Weaker	29%	21%			

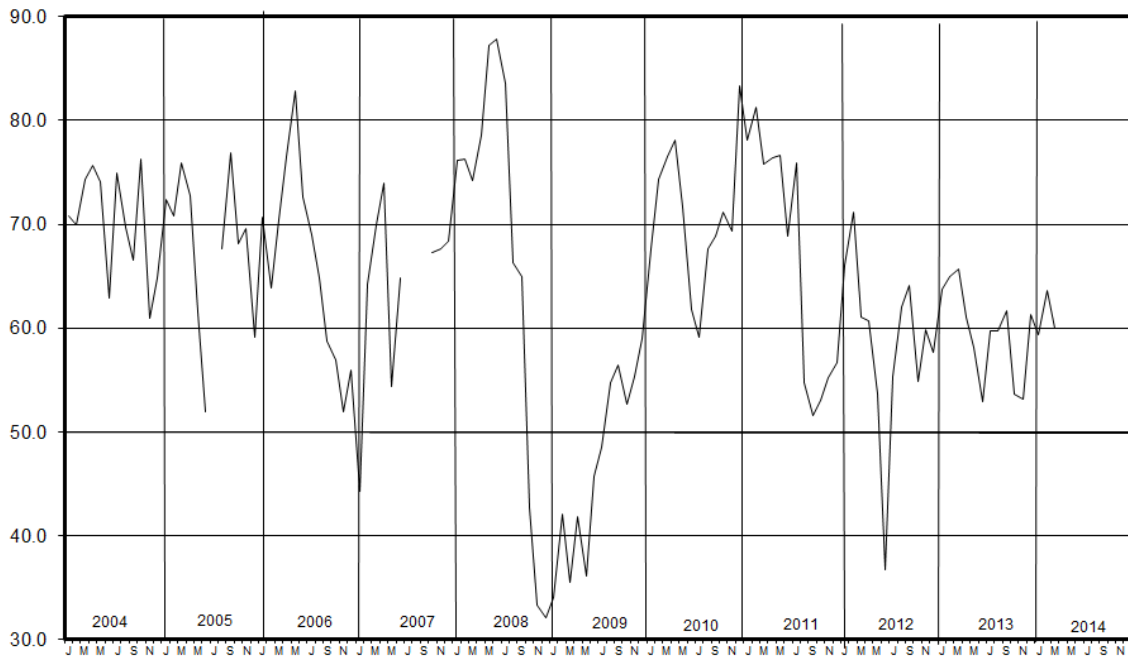
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



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Commodity Prices



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STATE OF THE ECONOMY: DATA FROM 3/2013 THROUGH 3/2014

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Weaker	14	25	21	28	37	40	31	22	23	16	23	29	21
Same	57	50	44	47	47	37	45	52	55	52	58	45	62
Stronger	29	25	35	25	16	23	24	26	23	32	19	26	17

Positive remarks from Purchasing Managers included: “Increased orders,” and “The cold winter resulted in an increase in orders for our heaters. We had a record dollar value production schedule for February and March.”

Some Purchasing Managers made cautionary comments: “Business picking up in the 2nd half of March, but YTD we are down 5% from 2013,” “Business continues to be very slow,” “Cooled off little from February 2014,” and “Things overall have slowed down.”

In summary, the PMI has shown a great deal of volatility over the past year and a half. The Inland Empire manufacturing sector declined significantly during the recession and is taking a while to recover. Factors contributing to this less than stellar economic forecast for the region probably include the stubbornly high unemployment rate (although that rate is down from 2013 and job creation is beginning to pick up) which leads to people hesitating to make

purchases of the commodities produced by manufacturers. As Janet Yellen said in a speech on March 31, 2014, "The recovery still feels like a recession to many Americans." Further, the drought obviously affects the agriculture industry in the state, but it also affects Inland Empire residents as prices for food, energy, and other products increase. And of course escalating tensions between Russia and the US and Europe over Ukraine and Crimea could possibly trigger a global recession – a concern for the Inland Empire which is still struggling to rebound from the last recession.

As noted above, one month's figures below 50 do not establish a new trend. This month's PMI could simply be a minor adjustment in the anemic growth we've seen for the past three years. Only time will tell.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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