Manufacturing remains in “no-growth” mode for the third month in a row, but business conditions are still better than they were a year ago

According to Dr. Barbara Sirotnik (Director, Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), “For the third month in a row the PMI remained below 50, increasing only slightly from 44.1 last month to 45.9 this month. Figures below 50 for three consecutive months indicate that a new trend has been established and that the manufacturing sector is no longer growing. On the bright side, a PMI over 43.1 percent generally indicates an expansion of the overall economy, thus the Inland Empire economy appears to be continuing its slow growth even as the manufacturing sector is experiencing weakness.”

“Respondents indicated that the level of Production and New Orders was lower in October than in September, resulting in an index below the 50% baseline. The Production Index is now 40.0 (virtually unchanged from 39.7 last month) and the New Order Index only increased to 41.9 from last month’s 39.7. Further, the Employment Index dropped to 41.9 this month from 50.0 last month. The Commodity Price Index rose to 50.0 from last month’s 43.1, which means that the prices of raw materials haven’t significantly changed from last month. One of the few positive notes to the data is that Supplier Deliveries increased from 46.6 last month to 56.5 this month, reflecting slower delivery times (usually a sign that suppliers are busy).”

“Respondents are somewhat more optimistic than last month, however they are still very cautious in their projections about the state of the local economy for the coming quarter. This month, 23% forecasted that the economy will be stronger (up sharply from 10% last month). In contrast, 33% predicted that the economy will be weaker, virtually unchanged from last month, and the remaining 43% (down from 59%) predicted that the economy will remain the same.

Following is a summary of highlights from this month’s report:
October 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>44.1</td>
<td>45.9</td>
<td>Contracting</td>
<td>Slower</td>
<td>3</td>
</tr>
<tr>
<td>Commodity Prices</td>
<td>43.1</td>
<td>50.0</td>
<td>Unchanged</td>
<td>From Decreasing</td>
<td>1</td>
</tr>
<tr>
<td>Production</td>
<td>39.7</td>
<td>40.0</td>
<td>Contracting</td>
<td>Slower</td>
<td>3</td>
</tr>
<tr>
<td>New Orders</td>
<td>39.7</td>
<td>41.9</td>
<td>Contracting</td>
<td>Slower</td>
<td>3</td>
</tr>
<tr>
<td>Inventory</td>
<td>44.8</td>
<td>41.7</td>
<td>Decreasing</td>
<td>Faster</td>
<td>3</td>
</tr>
<tr>
<td>Employment</td>
<td>50.0</td>
<td>41.9</td>
<td>Contracting</td>
<td>From Unchanged</td>
<td>1</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>46.6</td>
<td>56.5</td>
<td>Slowing</td>
<td>From Faster</td>
<td>1</td>
</tr>
</tbody>
</table>

Purchasing Managers' Confidence in the State of the Local Economy

| % Stronger | 10% | 23% |
| % Same     | 59% | 43% |
| % Weaker   | 31% | 33% |

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

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

Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.
STATE OF THE ECONOMY: DATA FROM 10/2014 THROUGH 10/2015

<table>
<thead>
<tr>
<th></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>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaker</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>
<td>32</td>
<td>31</td>
<td>33</td>
</tr>
<tr>
<td>Same</td>
<td>55</td>
<td>66</td>
<td>72</td>
<td>64</td>
<td>60</td>
<td>60</td>
<td>59</td>
<td>40</td>
<td>45</td>
<td>48</td>
<td>42</td>
<td>59</td>
<td>43</td>
</tr>
<tr>
<td>Stronger</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>
<td>26</td>
<td>10</td>
<td>23</td>
</tr>
</tbody>
</table>

WHAT RESPONDENTS ARE SAYING ABOUT GENERAL BUSINESS CONDITIONS:

When Purchasing Managers were asked to comment on the general business conditions that affected their company, there were only a few positive remarks, including:

- “Business has picked up for us.”
- “We have been opening up new markets with a new product and it is catching hold.”
- “We see an increase in orders from Europe.”

Most of the comments were cautionary:

- “Business is soft, new orders are flat compared to last year at this time.”
- “Commercial OEM sales are terrible.”
- “October is, for unknown reasons, the worst month in memory. The opening production schedule was about half of a normal October. Some orders are coming in but the month looks to be very low in dollars shipped. Some can be the result of a mild winter last year and some customers with last year's inventory on hand and less need for new heaters. We have called for some employees to take vacations now rather than show up for work.”
- “Orders have slowed and this is a seasonal situation for our business.”
- “Production has surpassed sales this last month and we will see a negative dip in overall customer shipments.”
- “The uncertainty at the Federal Government continues to cause insecurity in the business practices of our major aerospace customers: sequestration, the potential of a government shutdown, the lack of funding of the EXIM Bank, among the many other polarized actions have created an attitude of risk aversion that prevents progress in the economy.”
- “Very slow, losing 1 more position. Some are on a workshare program.”

SPECIAL QUESTIONS FOR THE MONTH:

Occasionally IAR adds a question or two to our survey of Inland Empire manufacturing firms to place our results in context. This month we asked respondents to compare current business conditions with those of October 2014. The response given most often (by 48% of respondents) is that business conditions are better than a year ago at this time. Comments were made about “adding new capabilities,” “better sales and more efficient operations,” “increased production volume,” “we have a price increase for 2015,” and “we have worked very very hard to both cut costs and diversify sales into new markets to be able to control our own destiny despite the road blocks created by Federal regulations.”
Unfortunately 31% said business conditions are worse than in 2014, citing “fewer orders,” “impacted by the oil industry – suppliers and customers both reducing staff,” “imports have claimed a larger market share in our industry,” and “overall demand is very soft.”

Finally, considering the volatility in the Employment Index, IAR asked respondents a series of questions about the number of hourly and managerial positions that their organization is having difficulty filling. Approximately 29% of the organizations indicated having trouble filling hourly positions. Two organizations even indicated that they have up to 15 unfilled hourly positions. And five organizations indicated they have between 1 and 3 managerial positions open that they are having trouble filling.

When asked for the major contributing factor for not being able to fill the positions quickly, answers included:

- “Finding the proper skill sets in the hourly positions/applicants”
- “It is just hard to get people to apply, then when you do, they just don't seem motivated”
- “Lack of qualified applicants and marketplace competition”
- “Remote location of job site”
- “Skills are lacking and no one available to provide training”
- “We are offering a starting salary at $9.00. We understand that there are warehouse jobs available in the area starting at $12.00 with no experience. Not only can we not hire new people -- we are losing existing people also.”

IAR notes that these comments are not unique to the manufacturing industry. Based on the many employer surveys we conduct as well as the training programs we offer, it appears that these issues are an ever-present frustration for the many organizations in the Inland Empire that offer minimum wage or relatively low-paying jobs.

**In summary:**
The PMI reflects weakness in the Inland Empire manufacturing sector, however the good news is that the overall Inland Empire economy still continues its tepid growth. As we noted in last month’s report, there is some seasonality to the low PMI numbers which reflects lower production and new orders now that preparation for the upcoming holiday season has been completed. The data show that business conditions are better than they were a year ago, so hopefully that trend will continue.

**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