

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 September 2015

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

PMI DECLINES FOR THE SECOND MONTH, BUT NO...THE SKY IS NOT FALLING

According to Barbara Sirotnik (Director, Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "For the second month in a row, the PMI registered below the 50% benchmark indicating that the Inland Empire manufacturing sector is contracting (although the overall Inland Empire economy is still growing). The September PMI fell to 44.1 from last month's 46.6. It is important to remember, however, that it takes three months of figures below 50 before a new trend (in this case a trend of contraction rather than growth) is established. In other words, we are yet ready to say that "the sky is falling."

"When we review the five key indicators which underpin the report, we note that all are showing weakness. Both Production and New Orders dropped, with Production decreasing from 48.4 to 39.7 and New Orders showing a decline from 43.8 to 39.7. The Production Index has only registered that low only 7 times since the study began in 1993, and the New Orders Index was only below 39.7 a total of 13 times since the inception of the study. Inventory registered a decline from last month's 46.7 to 44.8 and Supplier Deliveries decreased slightly from 46.9 to 46.6. Employment Index did show an increase from 48.4 last month to 50.0 this month; however that is not necessarily an extremely positive sign. A figure of 50 indicates that there has been no change since last month – and last month's figure was weak."

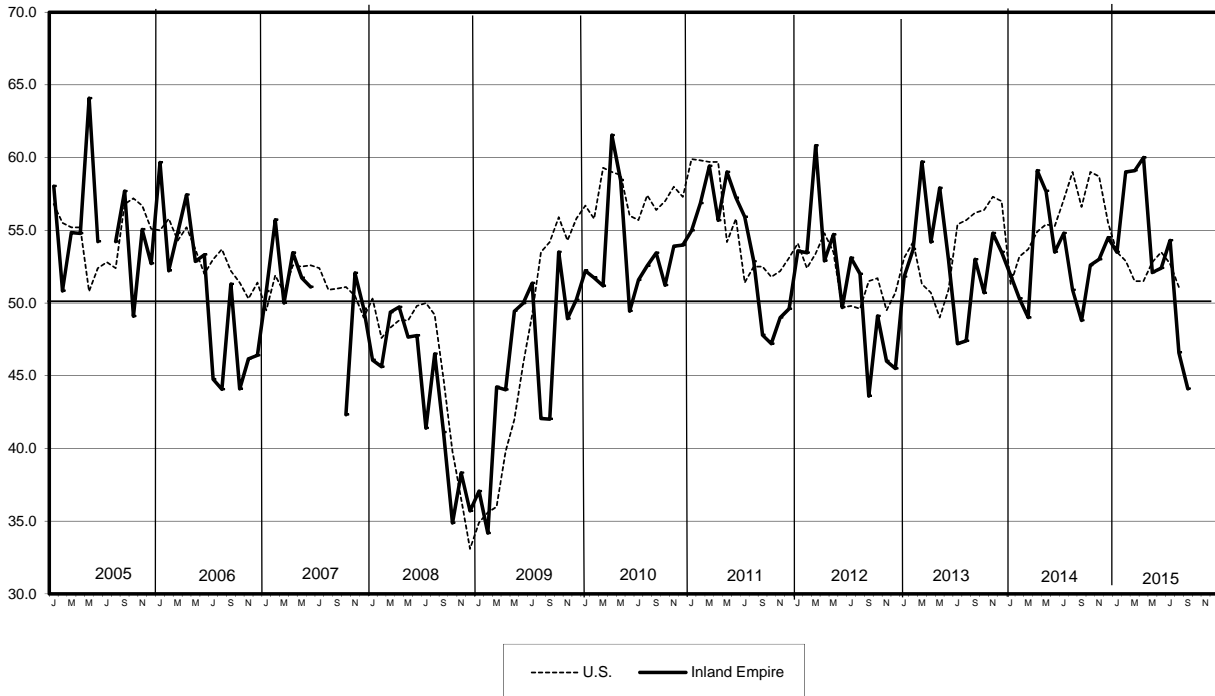
"Purchasing Managers' optimism about the state of the local economy for the coming quarter is consistent with the figures above. The percent of Purchasing Managers expecting the economy to get stronger dropped from 26% to 10%. Almost a third (31%) said it would get weaker – this figure was virtually unchanged from last month's 32%. The rest (59%) felt that the economy would stay the same.

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

September 2015 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	46.6	44.1	Contracting	Faster	2
Commodity Prices	51.6	43.1	Decreasing	From Increasing	1
Production	48.4	39.7	Contracting	Faster	2
New Orders	43.8	39.7	Contracting	Faster	2
Inventory	46.7	39.7	Decreasing	Faster	2
Employment	48.4	50.0	Unchanged	From Contracting	1
Supplier Deliveries	46.9	46.6	Getting Faster	Faster	2
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	26%	10%			
% Same	42%	59%			
% Weaker	32%	31%			

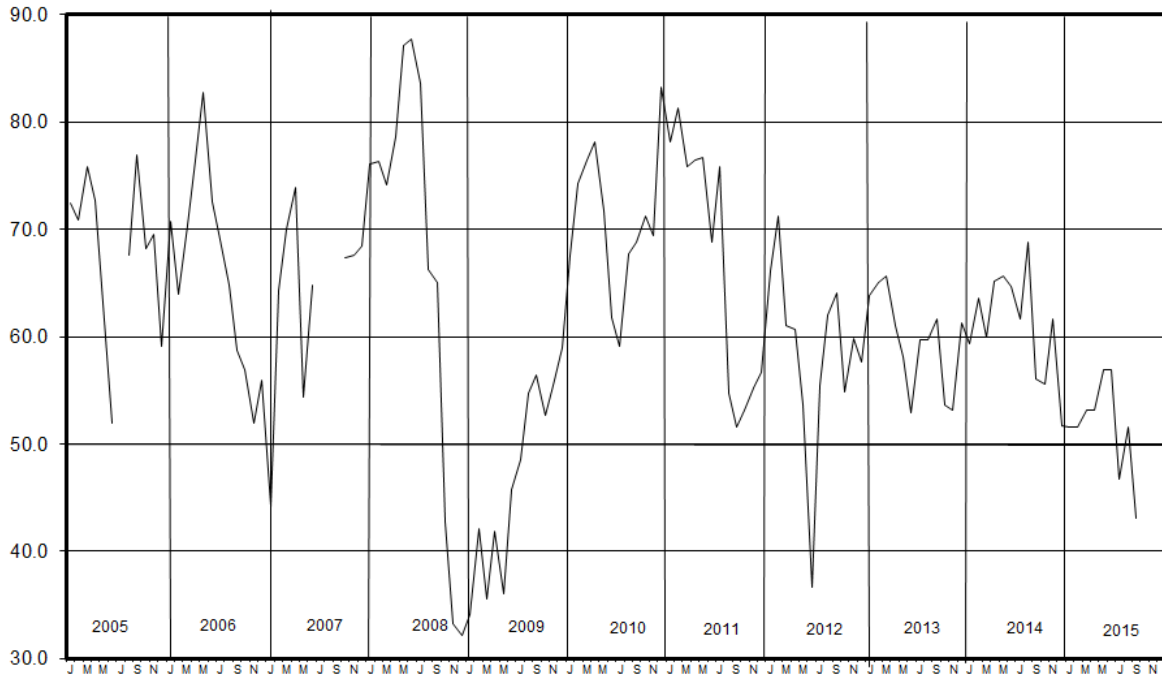
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



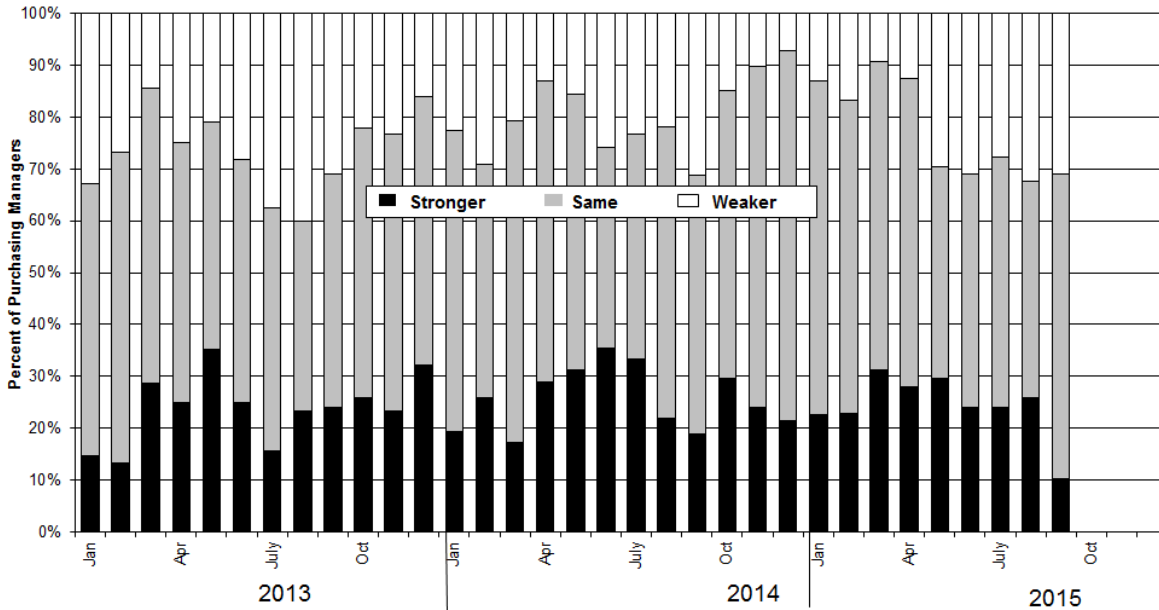
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 9/2014 THROUGH 9/2015

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Weaker	31	15	10	7	13	17	9	13	30	31	28	32	31
Same	50	55	66	72	64	60	60	59	40	45	48	42	59
Stronger	19	30	24	21	23	23	31	28	30	24	24	26	10

WHAT RESPONDENTS ARE SAYING:

When Purchasing Managers were asked to comment on the general business conditions that affected their company, there were very few positive or “neutral” remarks:

- “Business remains steady, about 11% up over 2014.”
- “The conditions are unchanged, same as last year.”
- “Our product has attracted international interest.”

Most of the comments were cautionary:

- “Not much change from previous months. There was an overstock of imported paper in our warehouses and we are offering reduced prices to move inventory.”
- “Business continues to be slow.”
- “Economy slowing further.”
- “Lots of insecurity, and therefore risk, due to the issues of political instability at the federal level.”
- “Slow on orders, very low backlog, have started layoffs.”

In summary: Given the uncertainty of the upcoming elections, a roller coaster stock market, and international crises, it is perhaps not a surprise that the PMI (a reflection of business conditions in the Inland Empire) is showing weakness. But as we said in the introduction to this report, we are not ready to conclude that “the sky is falling.” Several companies commented that this is their “typical seasonal slower period,” and that their “market thrives in segments throughout the year.” Indeed, as we looked back at the reports from previous years in August and September, a pattern of seasonality emerges. There has often been a decline in the PMI at this time of year. So stay tuned: If the PMI remains below 50 for one more month we will have to conclude that the Inland Empire manufacturing sector is experiencing a downturn. At this point the PMI is still above 43.1 which indicates expansion of the overall Inland Empire economy. We will see what next month will bring.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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