# 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 June 2014

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

\*

### THE INLAND EMPIRE MANUFACTURING SECTOR IS BACK IN GROWTH MODE

According to Barbara Sirotnik (Director of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (53.5) remained above the baseline 50% mark for the third month in a row. Based on the methodology underpinning the PMI which requires three consecutive months either above or below 50% in order to determine that a change in direction has occurred in the local manufacturing sector, it appears that the Inland Empire manufacturing sector has returned to growth mode (although the drop from last month's 57.7 indicates that the rate of growth has slowed)."

"Production increased from 62.5 last month to 63.2 this month. New Orders registered a large drop from 64.1 to 51.5, but that figure still remains above the 50% mark, reflecting growth. The Supplier Deliveries Index increased from 48.4 to 52.9 this month indicating that delivery times are getting slower (which typically happens when business is booming and suppliers have a backlog of demand). Inventories decreased from 59.4 to 52.9. The "hardest hit" index was the volatile Employment Index which decreased from 51.6 last month to 47.1 this month. This may be partially due to employers preparing for the new minimum wage rate increase that will go into effect July 1, 2014. As one Purchasing Manager commented: "New hires were the result of the new minimum pay requirement of \$9/hour. We added 7 full time positions and eliminated 14 temporary employees." Exports showed a drop from last month's 50.0 to 42.3 and Imports decreased from 50.0 to 46.7."

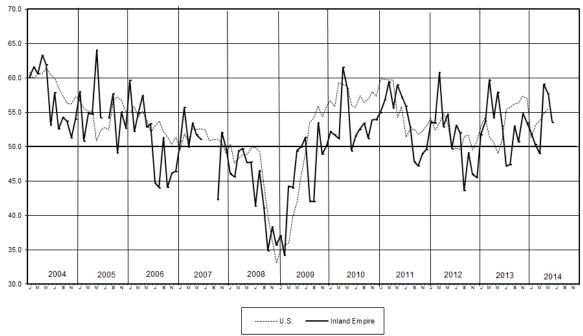
"Purchasing Manager's evaluation of the state of the local economy for the coming quarter has weakened somewhat (as it tends to do each summer). About a quarter (26%) of Purchasing Managers feel that the economy will become weaker – a large increase from last month's 16%. On the bright side, 37% feel the economy will become stronger, up slightly from last month's 31%."

Following are some highlights from this month's report:

June 2014 Business Survey at a Glance									
		Index	Direction from	Rate of Change	Trend				
	Last Month	This Month	50	from Last Index	(Months)				
Local PMI	57.7	53.5	Growing	Slower	3				
Commodity Prices	65.6	64.7	Increasing	Slower	24				
Production	62.5	63.2	Growing	Faster	3				
New Orders	64.1	51.5	Growing	Slower	4				
Inventory	59.4	52.9	Increasing	Slower	3				
Employment	51.6	47.1	Contracting	From Growing	1				
Supplier Deliveries	48.4	52.9	Slowing	From Faster	1				
Imports	50.0	46.7	Contracting	From Unchanged	1				
Exports	50.0	42.3	Contracting	From Unchanged	1				
Purchasing Managers' Confidence in the State of the Local Economy									
% Stronger	31%	35%							
% Same	53%	39%							
% Weaker	16%	26%							

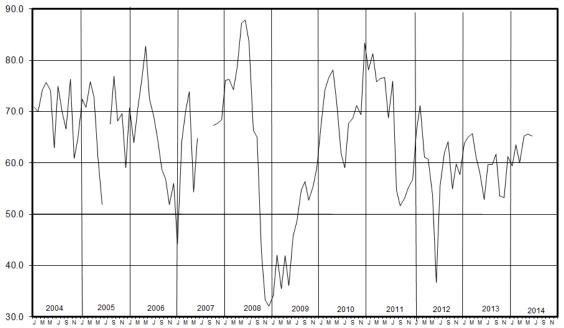
Note: Inland Empire data were not collected for the months of October and November 1996, July 2005, and July through September 2007.

# **Purchasing Managers' Index**



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

# **Commodity Prices**



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

STATE OF THE ECONOMY: DATA FROM 6/2013 THROUGH 6/2014

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Weaker	28	37	40	31	22	23	16	23	29	21	13	16	26
Same	47	47	37	45	52	55	52	58	45	62	58	53	39
Stronger	25	16	23	24	26	23	32	19	26	17	29	31	35

Positive remarks from Purchasing Managers included: "Unusually busy summer. June schedule is about 150% of normal month and maybe double a typical June," "Modest local economic improvements," "Sales brisk, maintaining large backlog," "Orders are up, domestic and international. Customers are encouraged," "June sales ended up considerably higher than anticipated," "We have won several large international contracts," and "There seems to be a trend upward."

There were also several negative/cautionary responses, including: "It feels that the current business condition is very tenuous...we are watching expenses very closely and this is reflected by others in our industry based on a recent meeting I attended with industry members from all market sectors in our industry and all areas of the country. We are still optimistic based on the value we feel we can bring to our customers and potential customers, but we are analyzing the pluses and minuses much more than we used to prior to pursuing new efforts," "Business continues to be slower than previous months," and "Looks the same as last month…very deceiving recovery."

In summary, recent data from California's Employment Development Department shows that the unemployment rate for Riverside and San Bernardino Counties is dropping to 2008 levels. Job growth has been seen in construction, health care, logistics, and professional and business services sectors. Consumer spending is up nationwide (which is good news for manufacturing firms such as the ones we survey to prepare this report). And this month's survey of Riverside and San Bernardino County Purchasing Managers shows that Production and New Orders (perhaps the two most important indices in this report) are both up, as is the overall PMI.

Seemingly, the picture is quite rosy. There are, however, two cautionary notes. First, instability in Iraq could cause an increase in oil (and therefore gas) prices. This cost increase would presumably be passed on to consumers, which could cause further economic instability in the Inland Empire. The second is the July 1 minimum wage increase. As we said in last month's report, the increase is relatively small at this point, but companies are aware that overtime rates, vacation payments, and missed meal and rest period premium payments will all go up when the minimum wage increases. Of course, the price of goods could go up accordingly. And companies might replace low-wage temporary workers with fewer full-time staff.

For now, we are cautiously optimistic about the Inland Empire manufacturing sector and the overall economy.

## FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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

Kelly Reenders Administrator, San Bernardino County Economic Development Agency (909) 387-9801

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