

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

**Housed in CSUSB's
Jack H. Brown College of Business and Public Administration**

Report for February 2018

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

PMI AND EMPLOYMENT INCREASED AGAIN

According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's Inland Empire Purchasing Managers' Index (PMI) registered 59.1, an increase from last month's 57.1. The index has remained above the baseline 50% mark for the 14th consecutive month, indicating growth for both the manufacturing sector and the overall local economy."

"On a positive note, the Employment Index (an especially critical measure) jumped from 50.0 to 54.7, with most of the new hiring being in permanent (as opposed to temporary) positions. Production was virtually unchanged (decreasing only slightly from 66.1 to 65.6). New Orders registered 64.1, a slight increase from last month's 61.3. The fact that both of these key indices continues to be above the 50% baseline reflects increasing consumer confidence and the expectation that consumer purchases will increase in the near future. The Commodity Price Index registered 78.3 this month (up from last month's 72.6), indicating that inflationary pressures continue in the Inland Empire. Indeed, one respondent indicated that their company was being "hit by large cost increases for material due to tariffs," and one expressed concern about prices continuing to increase by saying that they are trying to stock up on purchased materials before prices get even higher. Speed of supplier deliveries is getting slower, with the index changing from 56.5 to 57.8 this month. That is a good sign – one that indicates that suppliers are too busy to deliver as quickly as they used to."

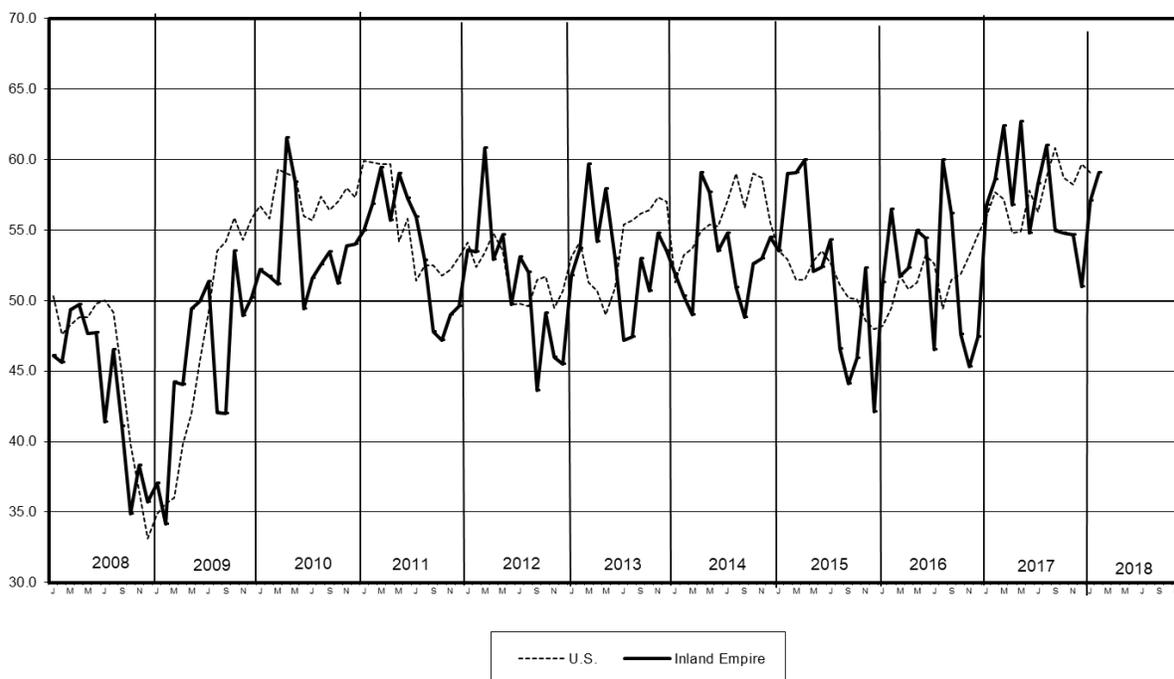
"Forty-seven percent (47%) of purchasing managers predicted that the local economy will become stronger in the upcoming months (down from last month's 54%). Forty-three percent of purchasing managers believe the local economy will remain unchanged (up slightly from last month's 43%), and the remaining 10% believe the local economy will become weaker over the next quarter (up from 4% last month)."

February 2018 Business Survey at a Glance

	Series Index		Direction from 50	Rate of Change from Last Index	Trend (Months)
	Last Month	This Month			
Local PMI	57.1	59.1	Growing	Faster	14
Commodity Prices	72.6	78.3	Increasing	Faster	25
Production	66.1	65.6	Growing	Slower	2
New Orders	61.3	64.1	Growing	Faster	2
Inventory	51.6	53.1	Increasing	Faster	2
Employment	50.0	54.7	Growing	From Unchanged	14
Supplier Deliveries	56.5	57.8	Slowing	Faster	14
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	54%	47%			
% Same	42%	43%			
% Weaker	4%	10%			

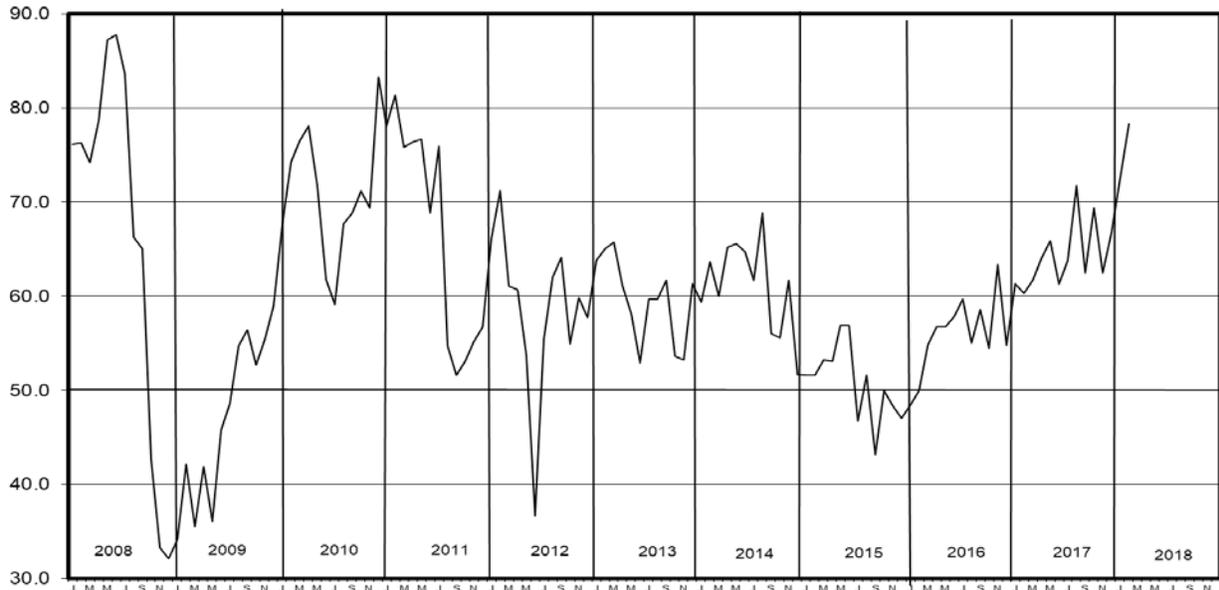
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



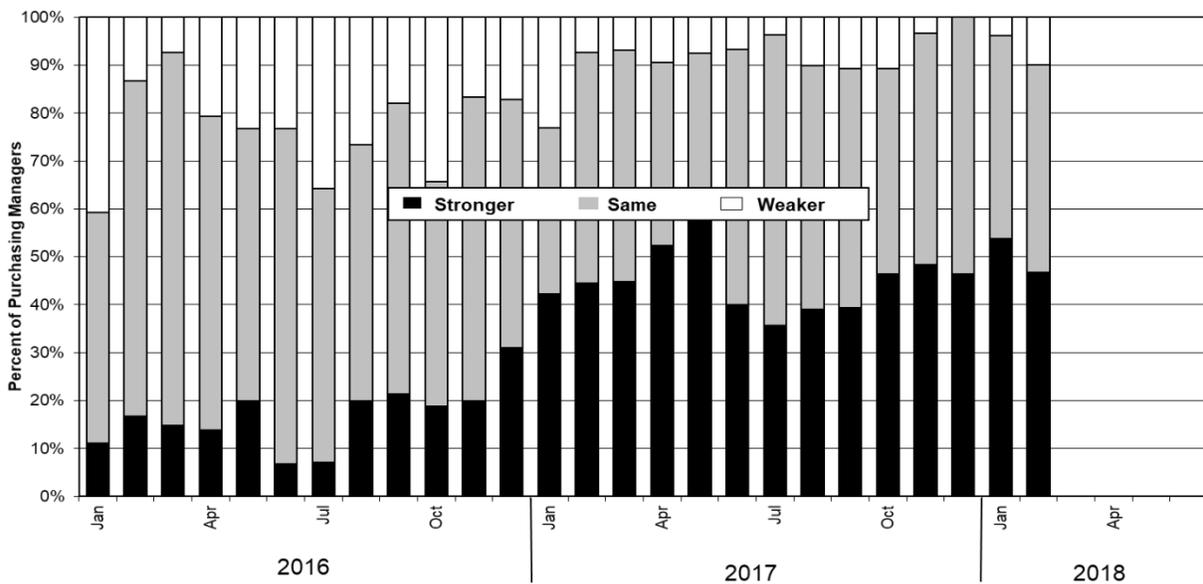
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 2/2017 THROUGH 2/2018

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Weaker	8	7	10	8	7	4	10	11	11	3	0	4	10
Same	44	48	38	35	53	60	52	50	43	49	54	42	43
Stronger	48	45	52	57	40	36	38	39	46	48	46	54	47

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included:

- "Extremely busy."
- "Orders are strong and increasing."
- "Local and national business conditions continue to power ahead with no signs of slowing even with the head winds of a tight labor market and increased wages. The weaker dollar continues to help our exports and gain more market with our international customers."
- "Orders are improving compared to last month, last quarter, and to a year ago at this time."
- "Things have been looking better since we got back from our holiday break. We should ship more in Feb. than in January and we actually worked a bit of overtime to catch up on some orders needing urgent delivery. The thought of layoffs that was so prominent last fall is for now out of mind."
- "We have been very busy, and it seems to be a reflection of our industry as a whole."
- "With the country thinking about infrastructure, hopefully California will as well and that would be a great benefit to the economy."
- "Weaker dollar is helping us sell more to our international customers."

Even though the PMI index showed growth, as did many of the indices which comprise the PMI, some Purchasing Managers made cautionary or "mixed" comments:

- "Business continues to be slow."
- "Still waiting for our busy season, the economy growth has not reached us."
- "Nothing special, business about the same as in Feb. 2017."
- "Same."
- "Sales are strong, but we are being hit with large cost increases for material due to tariffs."

In summary, most of the data collected this month points to continual growth of the Inland Empire manufacturing sector and the economy as a whole. These data appear to mirror the positive outlook for economic growth on the national scene, possibly due to January's tax cut. The one negative factor in the data is the continuing increase in commodity prices. It will be interesting to see what happens to the economy with the Fed's much anticipated plan to increase interest rates. Hopefully the rate increase will be gradual enough to deal with inflation while allowing the economy to grow at a reasonable rate.

Two special notes:

IAR would like to congratulate the Manufacturing Council of the Inland Empire for its successful Manufacturer's Summit on February 15th at the Ontario Convention Center. This annual event is always a wonderful showcase for innovations and resources for manufacturers, and it was gratifying to see the number of students from Riverside and San Bernardino Counties (more than 400) who came and learned that manufacturing is a worthwhile and lucrative career.

Also, we would like to spread the word about CASCADE, a new initiative funded by the U.S. Department of Defense to bolster California's defense supply chain resilience, innovation capacity, and diversification strategies. CASCADE (California Advanced Supply Chain Analysis & Diversification Effort), consists of business assistance & workforce development, education and outreach regarding cyber physical security and supply chain resilience, and supply chain mapping to better acquaint manufacturers doing business with the Department of Defense with suppliers that can meet their needs. For more information, go to: <http://www.business.ca.gov/Programs/Innovation-and-Entrepreneurship/Cybersecurity/CASCADE>.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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