

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: The Institute of Applied Research

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Jack H. Brown College of Business and Public Administration

Report for December 2018

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

PMI AND EMPLOYMENT ABOVE 50 FOR 24 MONTHS

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 51.7, a drop from last month's 54.0. The index has remained above the baseline 50% mark for the last 24 months, indicating sustained growth for both the manufacturing sector and the overall economy. The dip this month just means that the growth is slowing somewhat, as has been the case for the last two months."

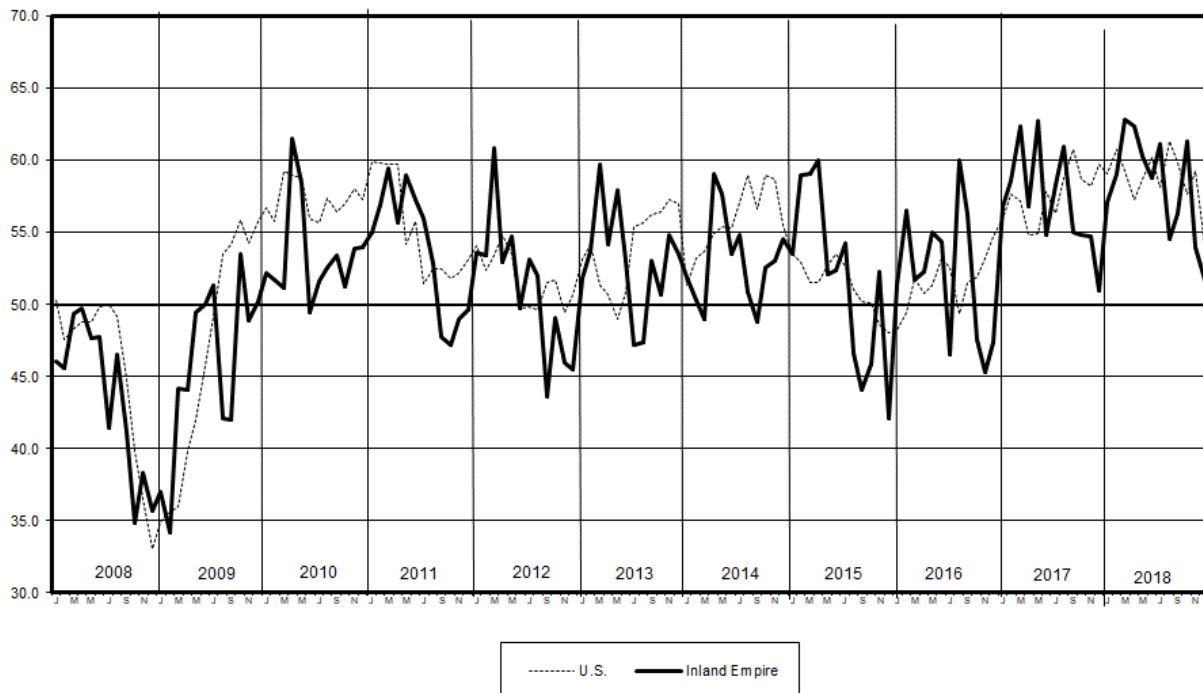
"The Production Index registered 53.3 (unchanged from last month), indicating that production continues to grow at the same rate as last month. New Orders decreased sharply to 48.3 from 55.0 last month. There is no cause for concern, this decrease is typical in the month of December, reflecting seasonal changes in orders after the holidays. The Commodity Price Index decreased slightly to 56.7 from last month's 60.0, indicating that prices of raw materials are continuing to rise, although at a slightly slower pace than last month. The Employment Index decreased sharply to 51.7 from last month's 63.3 (a typical decrease in December). The Supplier Deliveries Index increased this month to 56.7 from 50.0 last month, showing that deliveries are slower than last month (perhaps because suppliers are busier supplying companies that are beginning to ramp up their post-holiday production)."

"Nearly a quarter of Purchasing Managers (22%) forecasted that the local economy would become ***weaker*** in the coming quarter (virtually unchanged from 21% last month). Further, only 14% (down from 28% last month) forecasted a ***strengthening*** of the local economy. The remainder (64%) believe the local economy will remain unchanged."

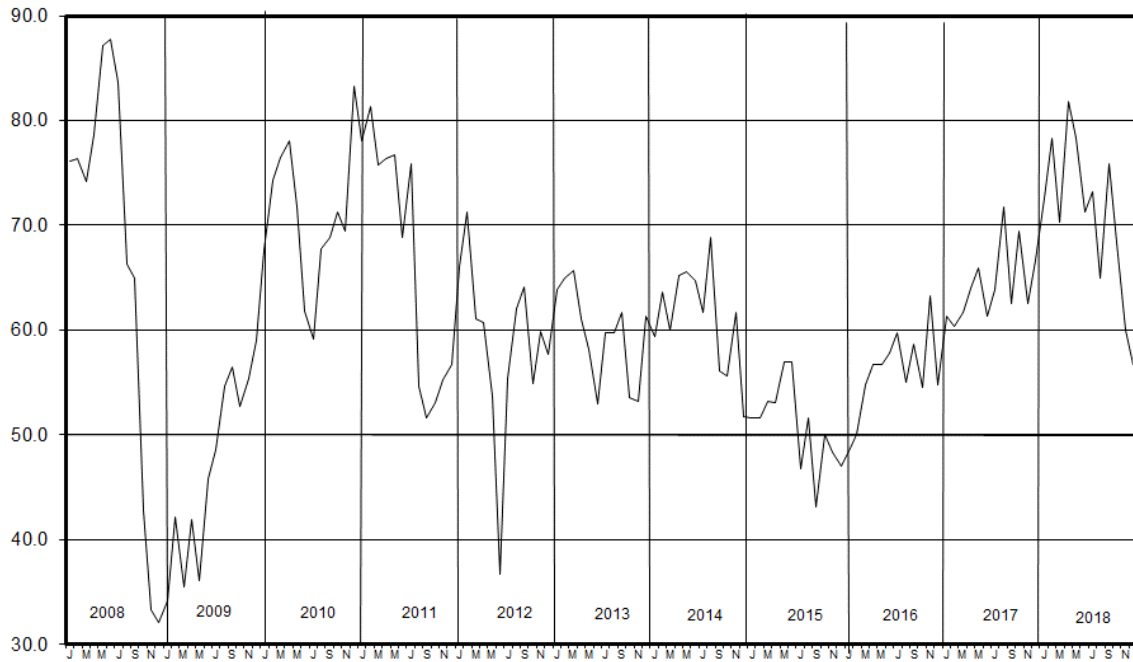
Following is a summary of highlights from this month's report:

December 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	54.0	51.7	Growing	Slower	24
Commodity Prices	60.0	56.7	Increasing	Slower	35
Production	53.3	53.3	Growing	Unchanged	12
New Orders	55.0	48.3	Contracting	From Growing	1
Inventory	48.3	48.3	Decreasing	Unchanged	2
Employment	63.3	51.7	Growing	Slower	24
Supplier Deliveries	50.0	56.7	Slowing	From unchanged	24
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	28%	14%			
% Same	52%	64%			
% Weaker	21%	22%			

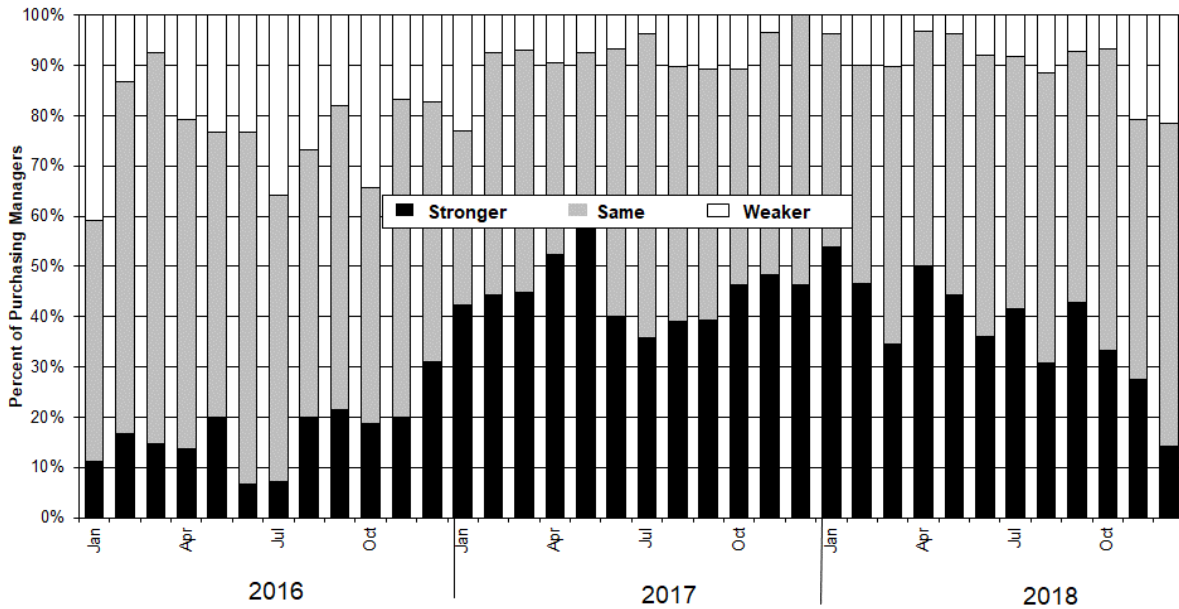
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 12/2017 THROUGH 12/2018

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Weaker	0	4	10	10	3	4	8	8	11	7	7	21	22
Same	54	42	43	55	47	52	56	50	58	50	60	52	64
Stronger	46	54	47	35	50	44	36	42	31	43	33	28	14

Following are positive comments from Purchasing Managers regarding general business conditions and/or reasons for import and export changes:

- "Lumber prices stabilizing due to tariffs. Business as usual this time of the year."
- "Very strong 4th quarter."
- "We have had an increase in business this month. This may be due to the prevailing weather in our area this month."
- "Our business has seen good growth in the last year with additional purchases to our vehicle fleet and manufacturing capabilities. We are hoping to continue the growth next year and get out to do more outbound sales to keep up with our increased output."
- "Slight downturn in orders for the end of the year. Backlog still very good and will be so through the first quarter of the new year."
- "This will be our best December in our history. From what we can see, business is strong locally and across the country. Once the elections were over, business turned very positive and has continued right through December."
- "We are plenty busy now compared to last winter when we were trying to avoid lay-offs. December is always a little slower than November but overall still pretty good."
- "Orders higher because of a particular product we sell that our customers in Canada are using extensively."
- "Orders are slightly higher. Maybe the lack of tariffs has caused foreign companies to continue to purchase our goods. I know the dollar certainly isn't helping."
- "Increased orders demand more materials."

Cautionary comments include:

- "Slow."
- "The business has been slow since March 2018."
- "Holiday production schedule hampers output."
- "The stock market is not the economy, but it does influence the level of confidence in both the business community and the general populace, so with the dramatic shifts, it seems both our consumer and business clients are waiting a bit more to make commitments."

- “Things are a little slower this month however that is normal for December of any year.”

In closing, it is hard to find anything positive to say about the national and global economies at the moment. Yes, the U.S. unemployment rate is down, and the economy continues to grow. But the U.S. consumer confidence dropped in December, and the Conference Board indicated that consumer expectations for the future are at the lowest level since November 2016. The trade war with China is worrying businesses and consumers alike. And it is an understatement to say that there has been a great deal of volatility in the stock market. Indeed, some have even mentioned the possibility of the “R word” – recession.

That said, the Inland Empire manufacturing sector is continuing the slow and steady growth it has enjoyed for two years, and the local economy is also growing. Yet it is a bit worrisome that only 14% of respondents forecast that the local economy will strengthen over the next quarter (the lowest level of optimism since mid-2016). And the percentage forecasting weakness was higher only once in the last two years (in January 2017).

For now, the PMI (a short-term leading indicator) reflects a positive picture for the Inland Empire. Let’s hope it stays that way in 2019.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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