

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 October 2013

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

PMI REMAINS ABOVE 50, BUT THE EMPLOYMENT INDEX DECLINES

According to Barbara Sirotnik (Director, Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (50.7, down from 53.0 last month) registered above the 50% benchmark for the second month in a row. Given the typical variability in the index, it will take another month above 50.0 before we can confidently forecast that the manufacturing sector is back in growth mode. It must be noted, however, that the overall economy is still growing since the figures have remained above 42.2 (the benchmark for the economy) since October of 2009."

"Production and New Orders (two of PMI's key indicators) jumped above the 50% mark for second month in a row, with both registering at 58.9 (up from last month's 53.6 and 51.7, respectively). The fact that these two key components of the PMI increased indicates that some of the manufacturing companies anticipate increasing purchases from consumers. Supplier deliveries shifted from 53.3 last month to 51.8 this month, indicating that deliveries are still slowing (a sign of brisk business), although the rate of slowing has diminished somewhat."

"In the midst of this good news, however, is the fact that this month's Employment Index dipped from last month's 46.7 to 39.3 this month. This is an anticipated decrease typically seen each year at this time since the holiday production cycle has ended. In addition, Purchasing Manufacturers cited the recent government shut-down and continued uncertainty about the debt ceiling as major reasons for being cautious about hiring or maintaining the current workforce level."

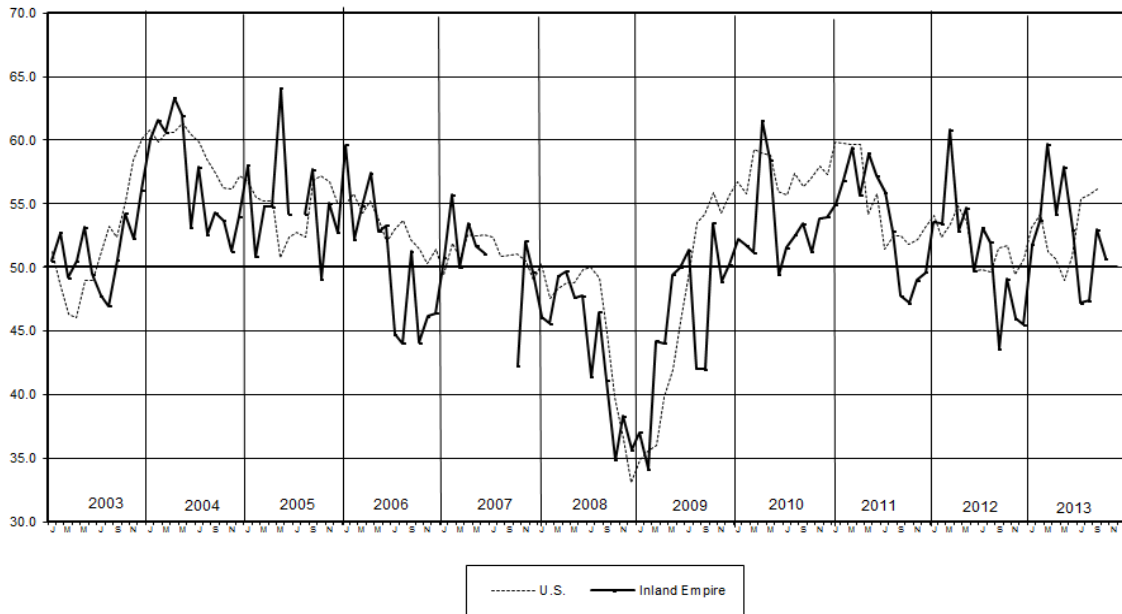
"The Commodity Price Index registered 53.6 (down sharply from 61.7). Imports dropped from 53.3 to 50.0 and Exports from 65.0 to 50.0, again reflecting economic uncertainty not only here at home but also around the world."

“Purchasing Managers continue to be less than enthusiastic about the state of the local economy, with 26% of purchasing managers predicting that the local economy will become stronger in the upcoming months (up only slightly from last month’s 24%). Fifty-two percent of purchasing managers believe the local economy will remain unchanged, and the remaining 22% believe the local economy will become weaker by next quarter.

Following are some highlights from this month’s report:

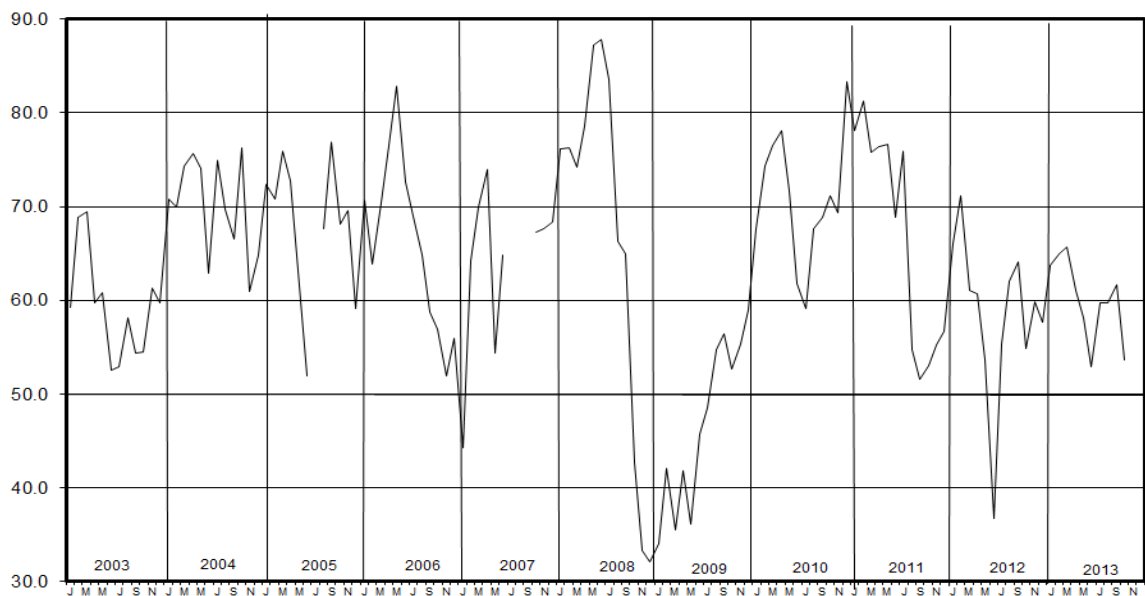
| October 2013 Business Survey at a Glance | | | | | |
|--|---------------------|-------------------|--------------------------|---------------------------------------|-----------------------|
| | Series Index | | Direction from 50 | Rate of Change from Last Index | Trend (Months) |
| | Last Month | This Month | | | |
| Local PMI | 53.0 | 50.7 | Growing | Slower | 2 |
| Commodity Prices | 61.7 | 53.6 | Increasing | Slower | 16 |
| Production | 53.6 | 58.9 | Growing | Faster | 2 |
| New Orders | 51.7 | 58.9 | Growing | Faster | 2 |
| Inventory | 60.0 | 44.6 | Decreasing | From Increasing | 1 |
| Employment | 46.7 | 39.3 | Decreasing | Faster | 4 |
| Supplier Deliveries | 53.3 | 51.8 | Slowing | Slower | 2 |
| Imports | 53.3 | 50.0 | Unchanged | From Increasing | 2 |
| Exports | 65.0 | 50.0 | Unchanged | From Increasing | 2 |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | | |
| % Stronger | 24% | 26% | | | |
| % Same | 45% | 52% | | | |
| % Weaker | 31% | 22% | | | |

Purchasing Managers' Index



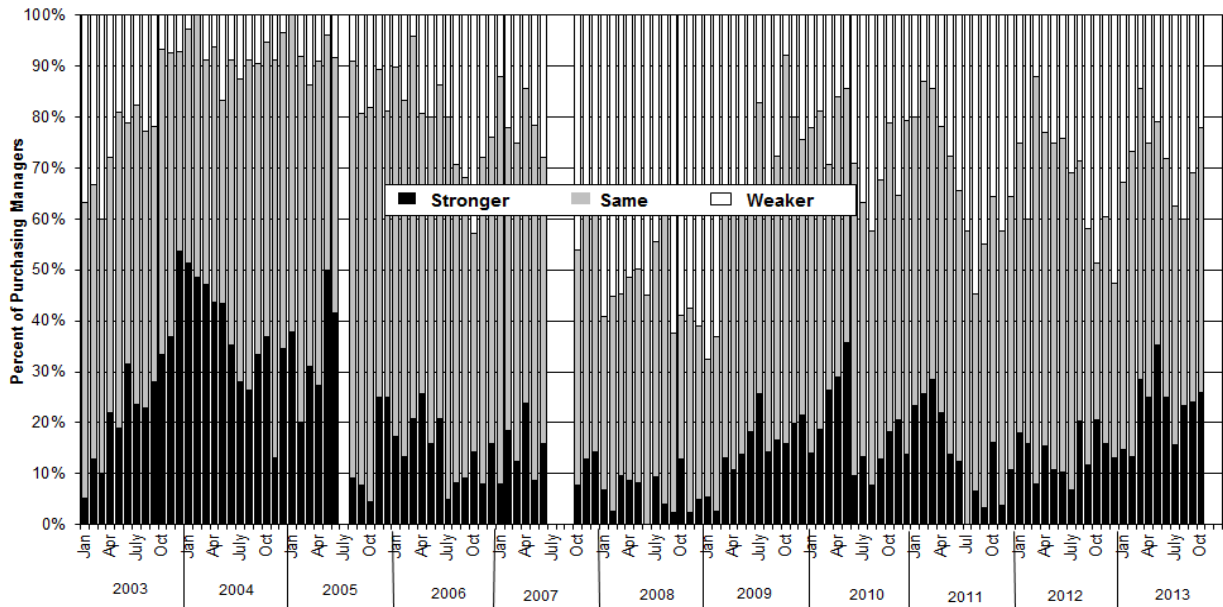
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 10/2012 THROUGH 10/2013

| | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct |
|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Weaker | 49 | 39 | 53 | 32 | 27 | 14 | 25 | 21 | 28 | 37 | 40 | 31 | 22 |
| Same | 31 | 45 | 34 | 53 | 60 | 57 | 50 | 44 | 47 | 47 | 37 | 45 | 52 |
| Stronger | 21 | 16 | 13 | 15 | 13 | 29 | 25 | 35 | 25 | 16 | 23 | 24 | 26 |

Positive remarks from Purchasing Managers included: “As our business is somewhat seasonal we expected business to pick up as cooler weather nears. The October schedule is slightly larger in dollars than was the September schedule,” “Business still on upswing, over 30% YTD,” “Increased sales activity,” “Modest improvement in retail sales,” and “Still uneven as the vacuum of Congressional leadership creates uncertainty in the marketplace. The very important immigration reform bill seems to be in limbo at the time when skilled labor is needed. Still, we are in control and continue to be in control of our own destiny and manage with that point of view in mind”.

Some Purchasing Managers had negative comments: “Still slow,” and “Business conditions for our domestic production of embroidered emblems have deteriorated. Our sales are down about 30% for the 3rd quarter. Some of this is attributed to the Government shut down.”

In summary, if the PMI remains above 50 for one more month, a new trend of growth in the manufacturing sector will have been established. At the moment we are cautiously optimistic

about the Inland Empire economy given the strengthening of the housing market, anticipated holiday spending, and a reduction in the overall unemployment rate in the region.

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