IAR INLAND EMPIRE REPORT ON BUSINESS

Report for November 2008
For Immediate Release on December 1, 2008

Prepared by:

Institute of Applied Research and Policy Analysis
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

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

Supporter: **College of Business and Public Administration, CSUSB**

****

PMI INDICATES LOCAL ECONOMY IS IN "NO-GROWTH" MODE

According to Shel Bockman and Barbara Sirotnik (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "Although this month's PMI shows slight improvement from last month's figure, it is still significantly below the level demarcating a growing manufacturing sector and economy. With the talk of more multi-billion dollar bailouts, car manufacturer's considering Chapter 11, and a rising unemployment rate, that is not a surprising finding."

Therefore, this month's PMI (39.6) which is up from last months (35.7). A PMI below 41.1% over a period of three consecutive months generally indicates that the economy is in decline. The last three figures are 41.3% (September), 35.7% (October), and now 39.6%, thus indicating that both the manufacturing sector and economy in no-growth mode."

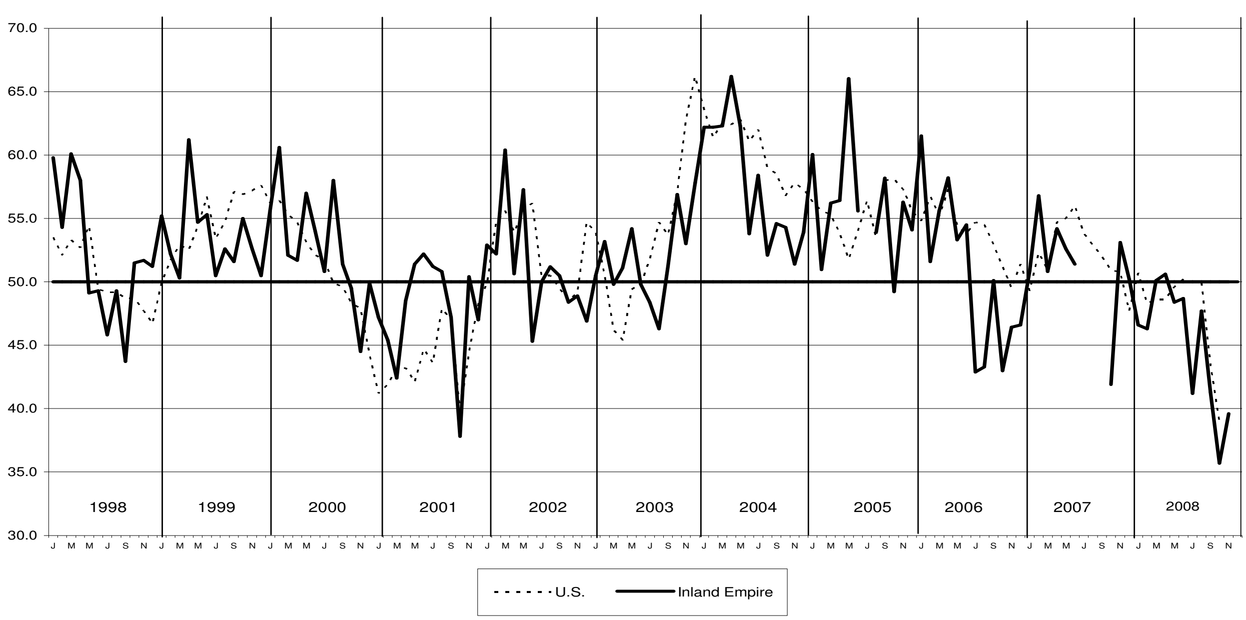
"The Employment Index continues to be the most worrisome of the indices contributing to the PMI. The index decreased from 30.0 in October to 27.4 in November (the lowest point since the inception of the report in 1993). On a more positive note, the Commodity Price Index plunged to 33.3 from 42.7, predominantly due to easing gas prices. Production has increased from 41.3 to 44.0, Inventories increased from 27.5 to 31.0 and New Orders increased from 35.4 to 44.0. Supplier Deliveries increased from 40.2 to 45.2.

Following are some highlights from this month's report:

November 2008 Business Survey at a Glance				
	Series Index		**Direction from 50***	**Rate of Change from Last Index**
	Last Month	**This Month**		
Local PMI	35.7	**39.6**	Contracting	Slower
Commodity Prices	42.7	**33.3**	Decreasing	Faster
Production	41.3	**44.0**	Contracting	Slower
New Orders	35.4	**44.0**	Contracting	Slower
Inventory	27.5	**31.0**	Decreasing	Slower
Employment	30.0	**27.4**	Decreasing	Faster
Supplier Deliveries	40.2	**45.2**	Slowing	Slower
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	13%	3%		
% Same	28%	40%		
% Weaker	59%	58%		

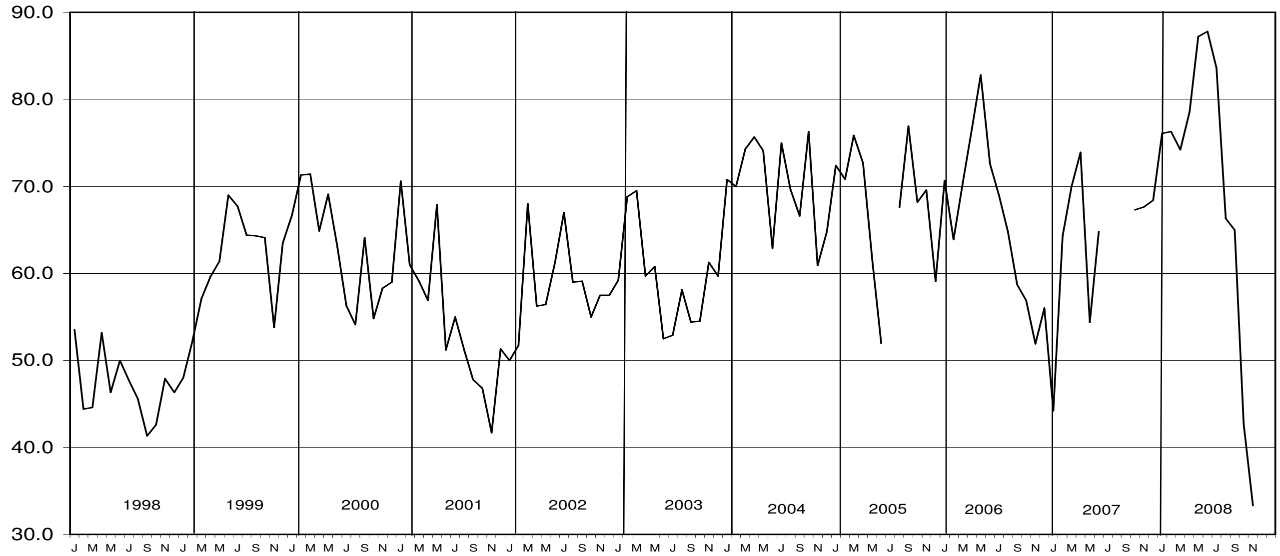
- NOTE: In all cases except Supplier Deliveries, the “Direction” refers to whether the index is above 50% (growing) or below 50% decreasing.

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



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

Although November's Commodity Price Index (33.3) declined dramatically since September's figure (65.0), comments from Purchasing Managers indicate that they are still concerned about high prices (even though some indicated that pricing "leveled out" since last month). The price of copper is dropping, but the price of phosphate is still high causing the production of food prices to remain high. The reduction in gas prices contributed in large part to the decrease in the Commodity Price Index, however it is interesting that some companies stated that they are still being charged a gas surcharge.

The percentage of Purchasing Managers predicting that the state of the economy will be weaker during the next quarter was virtually unchanged, from 59 percent in October to 58 percent in November. But only 3% of Purchasing Managers forecast that the state of the local economy will be stronger in the coming quarter (and 40% believe the local economy will continue to be about the same).

STATE OF THE ECONOMY: DATA FROM 11/2007 THROUGH 11/2008

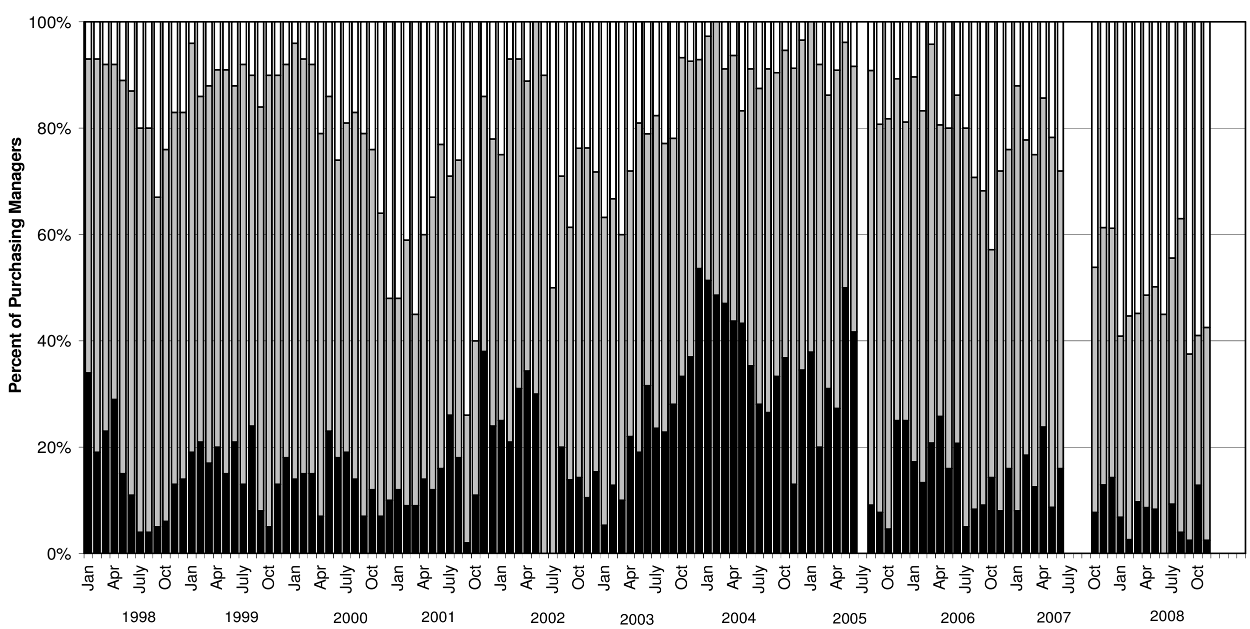
	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov
Weaker	39	38	59	55	55	51	50	55	44	37	62	59	58
Same	48	46	34	42	35	40	42	46	46	59	35	28	40
Stronger	13	16	7	3	10	9	8	0	9	4	3	13	3

When Purchasing managers were asked to make comments on the general business conditions that affected their company, a few remarked positively: "Holding our own, luckier than most!"

“Not much change from last month,” “Sales good, raw material prices in free fall (steel),” “Drop in fuel prices has reduced the talk of proposed price hikes for our major raw material, which is paperboard, at least thru the first quarter of 2009,” “Business is booming,” “We are seeing slightly lower prices for plastics and raw honey,” “Overall business is better than last month. Some customers are entering orders before end of the year for tax purposes,” “Seasonal improvement,” “Falling Prices,” and “Business picking up in the commercial building out of state.”

But many Purchasing Managers offered negative comments about general business conditions. Employee layoffs and slow sales continue to be the biggest concerns stated in this month’s data collection. More specifically: "Everything is slightly worse, not much worse, but worse," “Pricing free fall,” “Same as last month. Very Slow,” “Order backlog is down,” “Economic indicators in our sector are fairly inaccurate and forecasting for appropriate capacity has been very unpredictable,” “Our suppliers are telling us it is harder to get the raw materials needed to process the yarn and material that we order…the mills are not running at capacity and we delaying shipments…we are having to increase our lead time,” “World Economy-Major impact on costs and supply,” “Bank lending is what is needed,” “Plant shut downs and employee furloughs in my supply chain are becoming quite commonplace. This is proving to be quite the challenge to maintaining to lean and on time MRP,” “Situation Critical,” “Still being charged a surcharge for high gas prices, even though gas is down. In the food industry phosphates increased back in January and still are not coming down,” and “Worst outlook for new work I have seen in 40 years in business.”

State of the Local Economy



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

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Shel Bockman, Co-Director, Institute of Applied Research
(909) 537-5733

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

Simone McFarland
Economic Development Director, San Bernardino County EDA
(909) 387-9839

Sarah Mundy
Deputy Director of Economic Development and Marketing, Riverside County EDA
(951) 955-8916