

IAR INLAND EMPIRE REPORT ON BUSINESS

Report for February 2008

For Immediate Release on March 3, 2008

Prepared by:



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Sponsors:

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

Supporter:

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LOCAL MANUFACTURING SECTOR REGISTERS ANOTHER MONTH OF SLOWDOWN, BUT ECONOMY GROWS AT A SLUGGISH PACE

According to Shel Bockman, Barbara Sirotnik, and Christen Ruiz (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI (46.3) was virtually unchanged from last month's PMI (46.6), and was the second consecutive month of a reading below the 50% mark. The methodology underpinning the PMI requires that a decisive statement about the direction/trend of the manufacturing sector and the local economy depends upon three consecutive months of consistent findings regarding direction of the PMI. Since this month's figure is now the second month below the 50 benchmark, it reinforces last month's report which indicated that the manufacturing sector was showing weakness. But we need one more month of a PMI below 50 before we can conclusively state that the manufacturing sector is contracting. On the other hand, this month's PMI is still above the 44.5% mark by a slight margin, suggesting that the *local economy* is still growing (albeit at an anemic pace)."

"When the key components of the PMI are reviewed, the weakness found in the PMI is clearly displayed. Production has dropped from 50.0 last month to 48.7 this month, and New Orders showed only a slight increase from 46.7 to 48.7 (but still remained below 50). As mentioned in prior reports, Production and New Orders are main aspects of the PMI, and thus these declines have direct implications for the economy in the immediate future."

"The Employment index (39.7) decreased this month, remaining below 50 for the 5th consecutive month (October = 40.4, November = 45.5, and December = 47.0, January = 42.4). This is of particular concern, particularly in light of nationwide unemployment data."

"Finally, as has been the case for the last several months, Purchasing Managers are extremely pessimistic about the state of the local economy for the coming quarter. Only 3% of purchasing

managers feel that the economy will be stronger in the coming quarter, while 55% think it will be weaker (and the remaining 42% feel it will remain the same).”

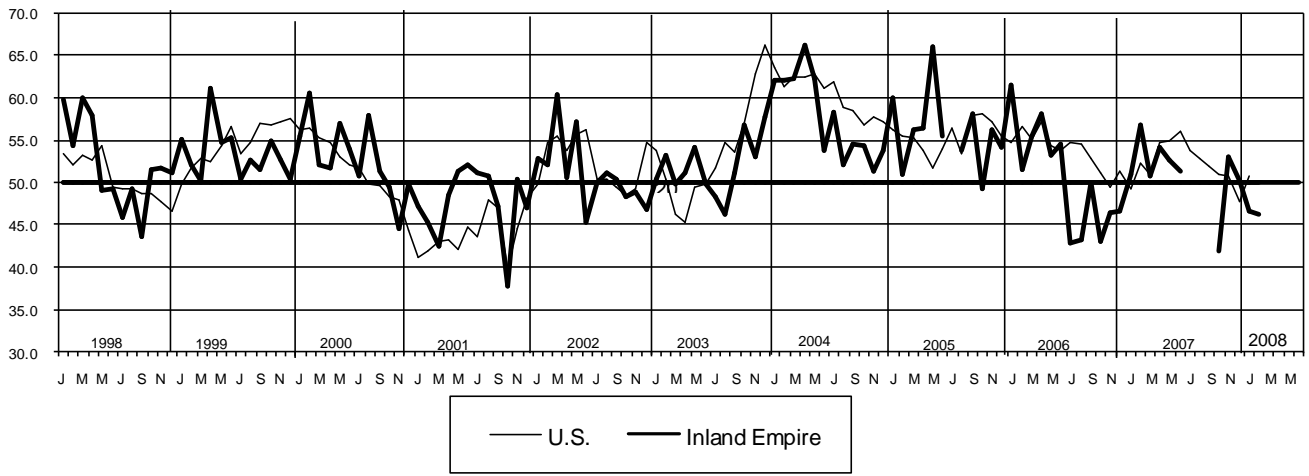
“In summary, then, this month’s data are of concern since all major indices show weakness. With two consecutive months of a PMI below 50, however, next month’s report will be critical since if it remains below 50%, this would suggest that the local manufacturing sector is no longer growing. But it should also be noted that the PMI continues to remain above 44.5%, thus we are not yet ready to proclaim that the Inland Empire is in “stagflation” or recession as some economists have done relative to the national economy.”

Following are some highlights from this month’s report:

| February 2008 Business Survey at a Glance | | | | |
|--|---------------------|-------------------|---------------------------|---------------------------------------|
| | Series Index | | Direction from 50* | Rate of Change from last index |
| | Last Month | This Month | | |
| Local PMI | 46.6 | 46.3 | Contracting | Faster |
| Commodity Prices | 76.1 | 76.3 | Increasing | Faster |
| Production | 50.0 | 48.7 | Contracting | From Unchanged |
| New Orders | 46.7 | 48.7 | Contracting | Slower |
| Inventory | 41.3 | 42.3 | Contracting | Slower |
| Employment | 42.4 | 39.7 | Decreasing | Faster |
| Supplier Deliveries | 50.0 | 48.7 | Faster | From Unchanged |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | |
| % Stronger | 7% | 3% | | |
| % Same | 34% | 42% | | |
| % Weaker | 59% | 55% | | |

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

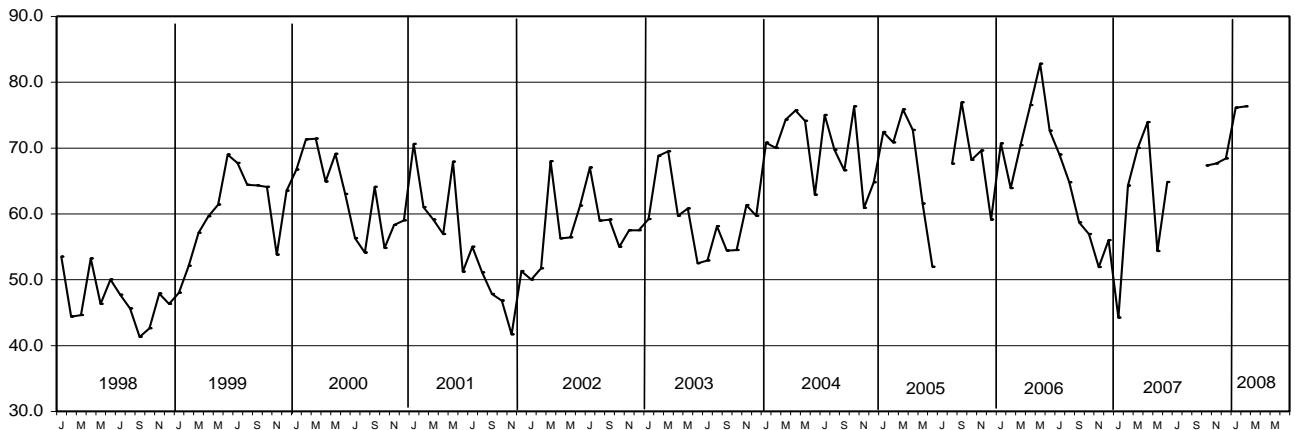
Purchasing Managers' Index



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

February's Commodity Price Index (76.3) is virtually unchanged from last month's near-record-high figure (76.1) showing that inflationary pressures continue to exist in the Inland Empire. Last month we noted that the figure was the highest since mid-2006 – this month is even a bit higher.

Commodity Prices



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

Purchasing Managers continue to be “less than optimistic” about the state of the local economy for the coming quarter. Only 3% of purchasing managers predict that the local economy will become stronger in the upcoming months, whereas 55% of purchasing managers believe the local economy will become weaker by next quarter. The remaining 42% feel that the economy is

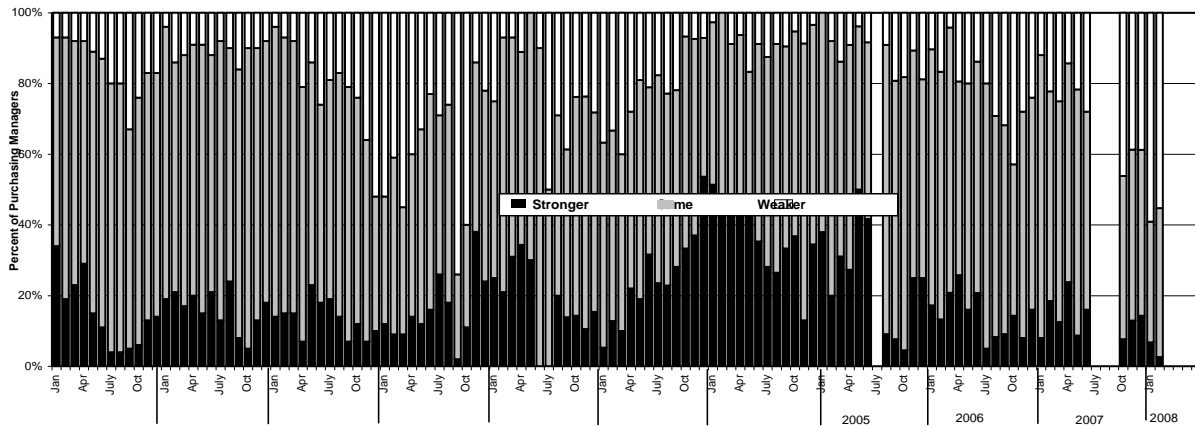
in a “holding pattern” and expect the local economy to remain unchanged for the next three months. It should be noted that the last time we saw a figure as low as 3% of Purchasing Managers predicting a stronger economy was in September, 2001.

STATE OF THE ECONOMY: DATA FROM 2/2007 THROUGH 2/2008

| | Feb | Mar | Apr | May | June | Jul | Aug | Sept | Oct | Nov | Dec | Jan | Feb |
|----------|-----|-----|-----|-----|------|-----|-----|------|-----|-----|-----|-----|-----|
| Weaker | 22 | 25 | 14 | 22 | 28 | - | - | - | 46 | 39 | 38 | 59 | 55 |
| Same | 59 | 63 | 62 | 69 | 56 | - | - | - | 46 | 48 | 46 | 34 | 42 |
| Stronger | 19 | 12 | 24 | 9 | 16 | - | - | - | 8 | 13 | 16 | 7 | 3 |

*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 Local Economy



When Purchasing managers were asked to make comments on the general business conditions that affected their company, some remarked positively: "Business has picked up," "Backlog has improved since second quarter 2007," "Business is off approximately 20%, but rebounding with increased marketing and sales," "Season of construction increase," "We are holding our own, it's a very tough market"...

Other managers had negative comments about general business conditions: "Economy very bad," "The price of nails has increased," "Very confusing time," "Reduced steel imports is impacting availability."

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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