

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for August 2008

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

Supporter: College of Business and Public Administration, CSUSB

Economy returns to growth mode, and commodity prices dip

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 (47.7 – a sharp increase from last month's 41.2) is an encouraging sign. It suggests that last month's figure was a "one-time event," and that the economy is continuing to grow since the PMI is above the 44.5% benchmark.

The methodology underpinning this report requires three consecutive months either above or below 50 to register a change in trend. Since this is the fourth consecutive month with the PMI below the 50% mark, a trend of a contracting **local manufacturing sector** has been established (although the contraction is at a slower pace than last month).

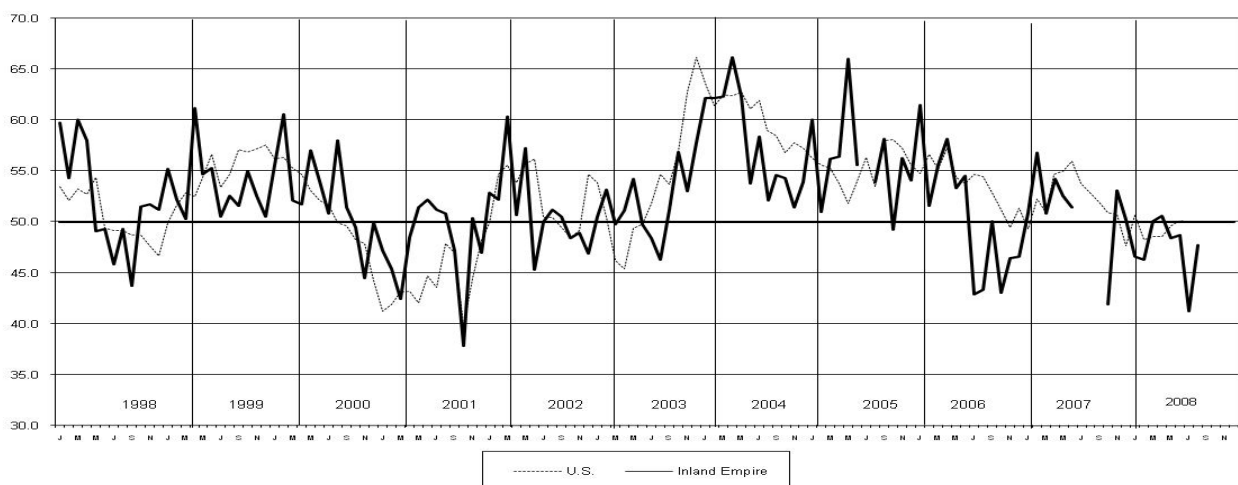
On the other hand, two of the key components of the PMI (Production and New Orders) are up substantially which may signal an improving manufacturing sector in the months to come. The Production Index (56.1) showed growth from last month's 38.2, and the New Order Index (50.0) increased from last month's 42.7. Although the Employment Index has decreased to 38.8, this index may very well increase in the next several months as the work for the new orders commences.

Following are some highlights from this month's report:

August 2008 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	41.2	47.7	Contracting	Slower
Commodity Prices	83.6	66.3	Increasing	Slower
Production	38.2	56.1	Growing	From Contracting
New Orders	42.7	50.0	Unchanged	From Contracting
Inventory	43.4	43.8	Decreasing	Slower
Employment	42.7	38.8	Decreasing	Faster
Supplier Deliveries	40.0	43.8	Slowing	Slower
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger		9%	4%	
% Same		46%	59%	
% Weaker		44%	37%	

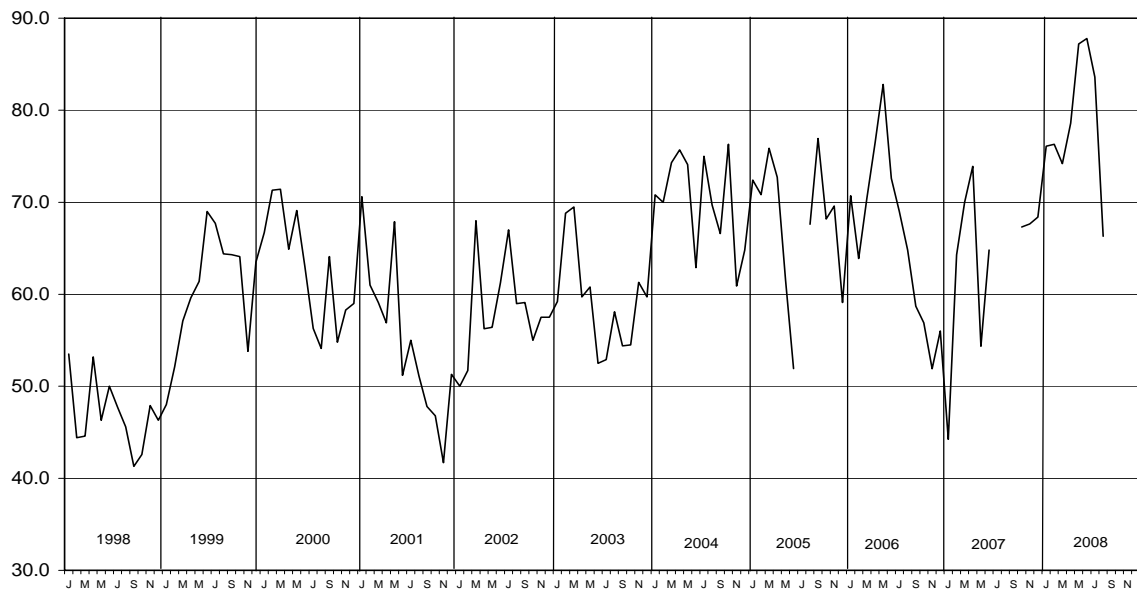
- NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

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



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August's Commodity Price Index (66.3) has decreased significantly from last month's figure (83.6), probably reflecting the easing of gas prices. The last time the figure was that low was in October of 2007 (67.3). Inflationary pressure due to fluctuation in cost of oil, metals, and plastic continues to be a concern for many of the manufacturing companies.

Since June 2007 the Employment Index has remained below 50%. This month the index dropped again to 38.8 from last month's 42.7. This continues to reflect some weakness in the Inland Empire's manufacturing sector. There have been two past Employment index in the thirties since this report's inception in 1993 (36.2 in October 2001 and 38.9 in July 2003).

Four percent of the Purchasing Managers forecast that the state of the local economy will be stronger in the coming quarter. Thirty-seven percent of purchasing managers believe the local economy will continue to be weak, and fifty-nine percent commented that they feel it will remain the same (up 13% from last month).

When Purchasing managers were asked to make comments on the general business conditions that affected their company, some remarked positively: "Small improvement over July," "Raw material availability has improved but prices have not, we are running leaner," "Business is well, due to market share increase," "A bit slow, but improving." "Oil has stabilized slightly and came down to lower levels which are promising news for

our industry,” “Business remains steady,” “The first signs of a leveling of steel prices has come through,” “We are starting to see some relief in pricing in the food commodity arenas. The prices are still very high in historical terms but have dropped by 33% for their highs this year,” “Everything has been good, no delays”...

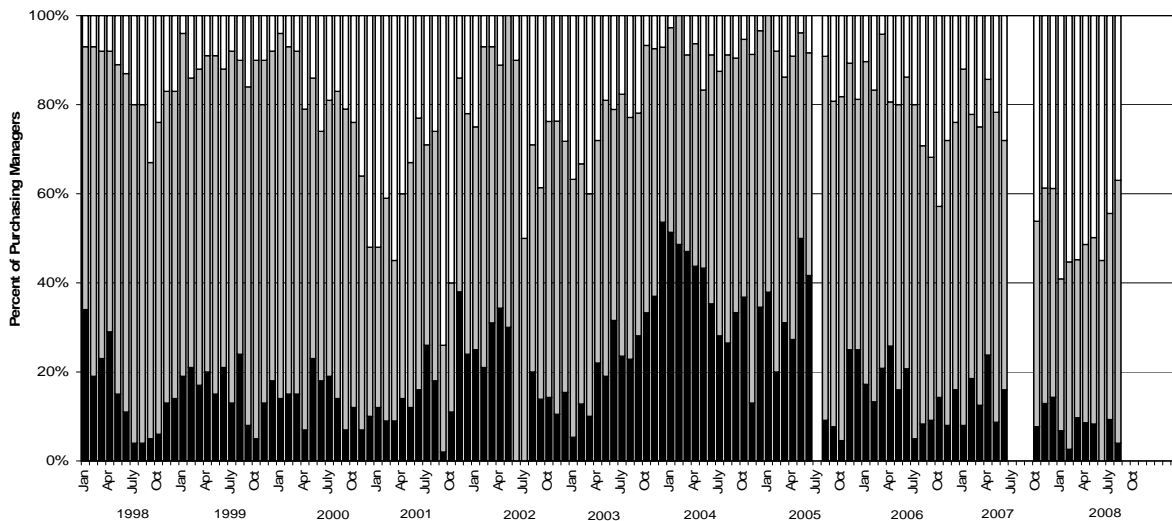
Other managers had negative comments about general business conditions: "Very Slow," "Economy continues to struggle with impacts of housing slowdown and credit crunch," "Fuel surcharges continue to rise, increasing our cost for bringing in raw material," "Orders have slowed down," "Price of oil. Chinese competitors," "Plastic resins (HDPE & LLDPE) are in great supply with announced price increases for August and possibly early September. Being shelved (approximately 5 to 7 cents/lb.) Steel aluminum and stainless remain soft. With the Olympics over, it will be interesting to see what demands the Chinese place on foreign markets. I believe the availability for a vast amount of commodities have been created by the supposed mass reduction of production in China," "Traditionally fall and winter are our weak season for construction this year the effects of this year will be felt with greater significance," "We are experiencing an unusual slowing in sales," "Everyone is nervous."

STATE OF THE ECONOMY: DATA FROM 7/2007 THROUGH 7/2008

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	-	-	46	39	38	59	55	55	51	50	55	44	37
Same	-	-	46	48	46	34	42	35	40	42	46	46	59
Stronger	-	-	8	13	16	7	3	10	9	8	0	9	4

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State of the Local Economy



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FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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