

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for August 2009

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

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PMI Declines after Last Month's Signs of Recovery

According to Shel Bockman and Barbara Sirotnik (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's PMI dropped significantly to 42.8 from last month's 52.8 which suggests that last month's "call" that the manufacturing sector returned to growth mode may have been premature. If the figure remains below the 50% benchmark for two more consecutive months, a contraction in the manufacturing sector would be indicated."

"On the other hand, this month's figure still is the sixth consecutive month that the PMI has remained above 41.1% figure, indicating that the local economy remains in growth mode (although at a much slower pace than the last several months)."

"Especially worrisome is that the two key indicators in the PMI (the Production and New Orders indices) have dropped below the 50% mark this month. The Production Index is now only 45.3 (down from 59.5 last month). Even more significant, the New Order Index dropped to 43.0, a considerable decrease from 56.8 last month. Further, the Employment Index remained low this month (40.7, down from 44.6 last month) indicating that the stimulus plan has not yet succeeded in creating a significant number of new jobs in the Inland Empire's manufacturing sector."

"The Commodity Price Index rose this month to 54.7 from last month's 48.6, which, according to our Purchasing Managers, reflect higher prices of raw materials such as plastic, polypropylene, oil, all metals, strapping, bearings, gears, liners, etc."

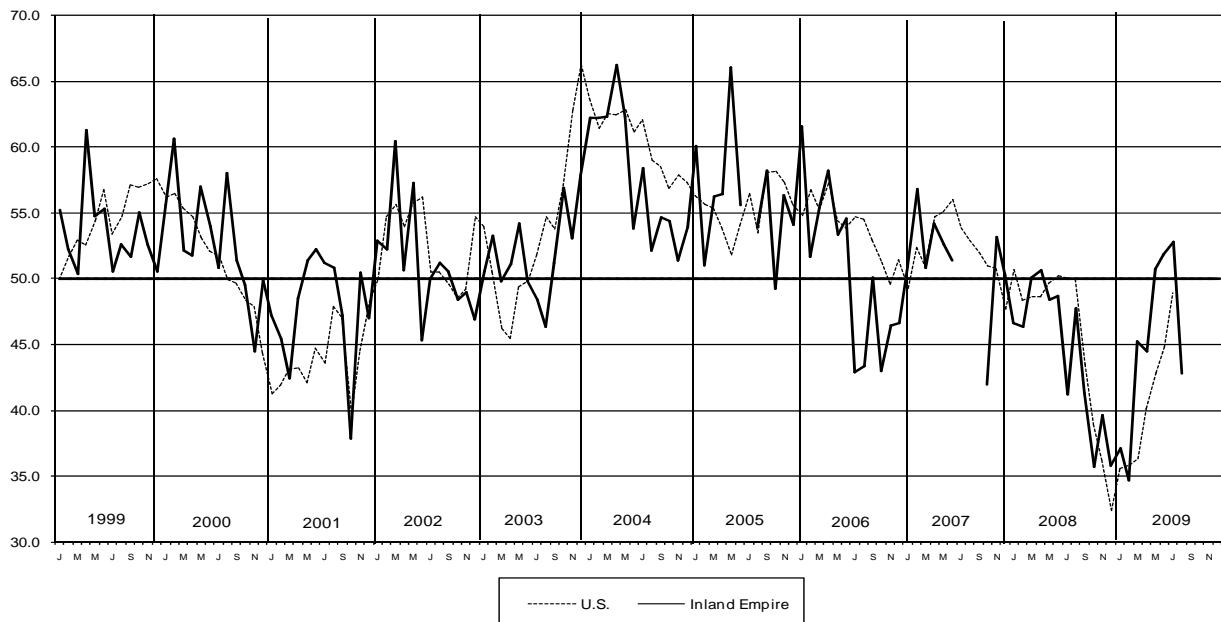
"Finally, Purchasing Managers were less optimistic this month with 33% indicating the local economy will be weaker in the next quarter."

Following are some highlights from this month's report:

August 2009 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	52.8	42.8	Contracting	From Increasing
Commodity Prices	48.6	54.7	Increasing	From Decreasing
Production	59.5	45.3	Contracting	From Increasing
New Orders	56.8	43.0	Contracting	From Increasing
Inventory	48.6	36.0	Decreasing	Faster
Employment	44.6	40.7	Decreasing	Faster
Supplier Deliveries	47.3	45.3	Slowing	Faster
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	26%	14%		
% Same	57%	52%		
% Weaker	17%	33%		

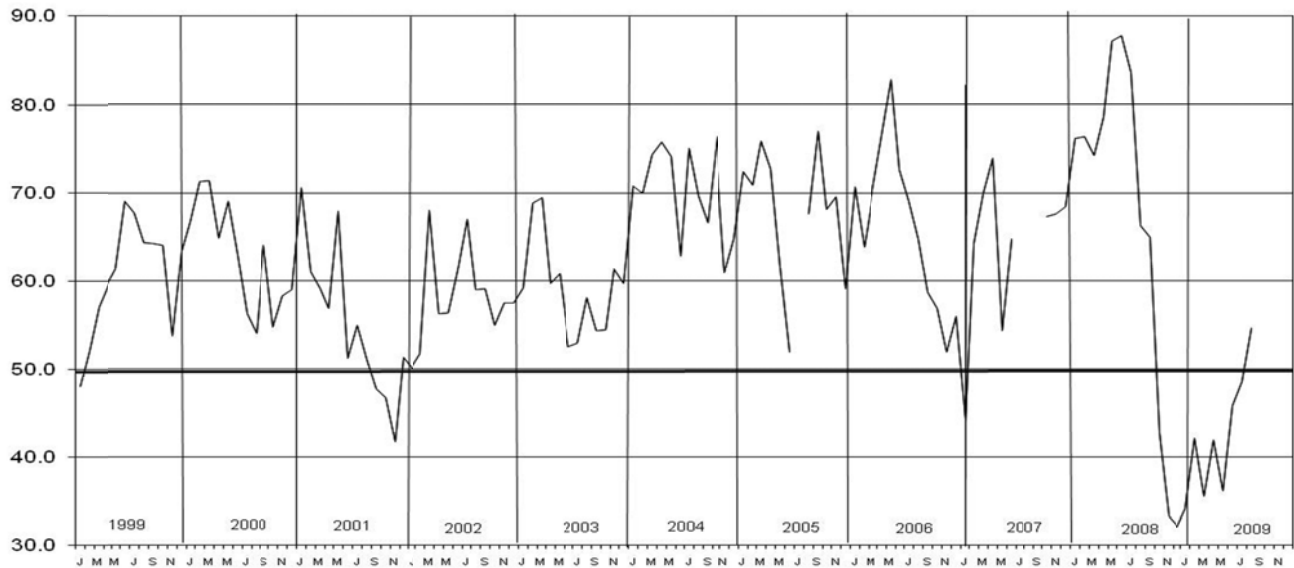
NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

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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Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Only fourteen percent of purchasing managers predict that the local economy will be stronger in the upcoming months. Fifty-two percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining thirty-three percent believe the local economy will become weaker by next quarter.

STATE OF THE ECONOMY: DATA FROM 8/2008 THROUGH 8/2009

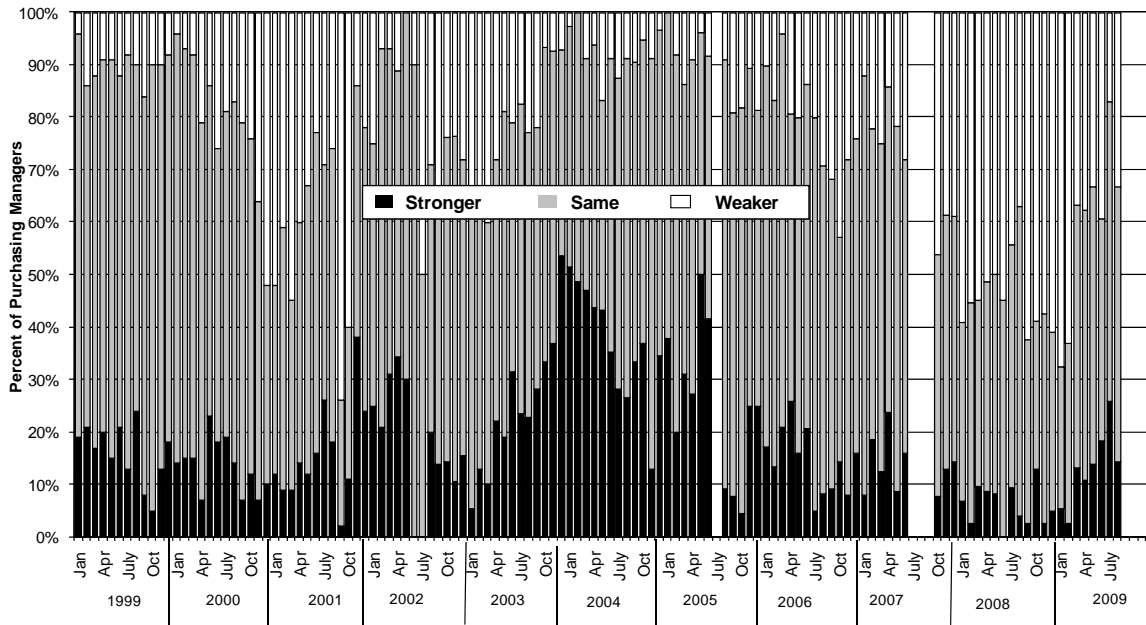
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	37	62	59	58	61	68	63	37	38	33	39	17	33
Same	59	35	28	40	34	27	34	50	51	53	43	57	52
Stronger	4	3	13	3	5	5	3	13	11	14	18	26	14

When Purchasing Managers were asked if they had any overall remarks to offer, positive comments included: "Sales up 47% in July. August looks better, than July--now working 4 days instead of 3," "Business remains strong," "Overall economy improving. Our business fell slightly but we are doing a higher than normal amount of quoting," "Business is on the rise."

But other Purchasing Managers expressed concerns about their business: "We have seen more activity but are not comfortable that it can be sustained," "Our business is slower than it has been in months," "Business has slowed down," "Leveling off, still slow," "We are seeing a lot of competition from out of the state fabricators," "Lack of

stimulus money for infrastructure is dramatically hurting our business," "Business is slowing again," "Manufacturing dependent on residential & commercial construction remains very depressed."

State of the Local Economy



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In conclusion, this report shows how fragile our local manufacturing sector and economy really are. The Unemployment picture is troublesome, as is the fact that Production and New Orders declined this month. Clearly, the Inland Empire economy is not yet out of the woods.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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