

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for August 2010

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

More mixed messages for the Inland Empire economy

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 (52.6) represents an increase over last month's figure (51.9) and is now in the eleventh consecutive month above the 50% benchmark indicating growth in the manufacturing sector. Another positive sign for the economy is that the Employment Index jumped to (54.8) this month from (47.0) last month, initially suggesting that perhaps businesses are returning to hiring mode as we reported a few months ago when the index remained above 50 for 3 months in a row. On the other hand, there is some indication from Purchasing Managers' comments that they are predominantly hiring temporary employees to expedite high priority current projects rather than filling permanent positions.

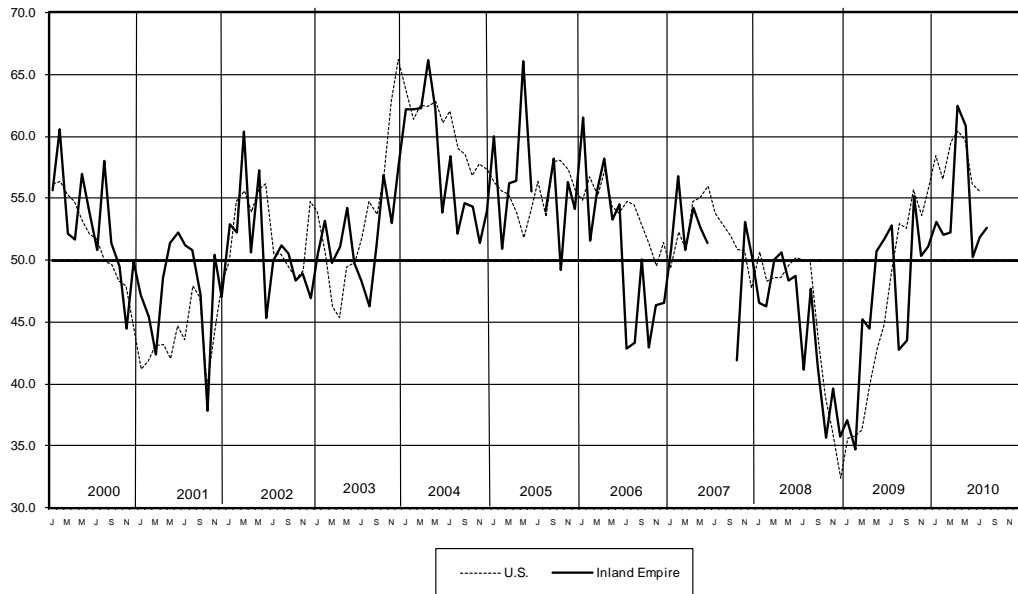
All components of the PMI registered at or above 50 this month, with New Orders showing a slight increase from 50.0 to 51.6 and Production declining this month from 57.6 to 51.6. Inventory also increased from 47.0 last month to 50.0 this month. Commodity Prices continued to reflect inflationary pressures, jumping substantially from 59.1 last month to 67.7 this month. Supplier deliveries showed a slight slow-down this month, dropping to 54.8 from last month's 56.3.

Following are some highlights from this month's report:

August 2010 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	51.9	52.6	Growing	Faster
Commodity Prices	59.1	67.7	Increasing	Faster
Production	57.6	51.6	Growing	Slower
New Orders	50.0	51.6	Growing	From Unchanged
Inventory	47.0	50.0	Unchanged	From Decreasing
Employment	47.0	54.8	Increasing	From Decreasing
Supplier Deliveries	56.3	54.8	Slowing	Slower
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	13%	8%		
% Same	50%	50%		
% Weaker	37%	42%		

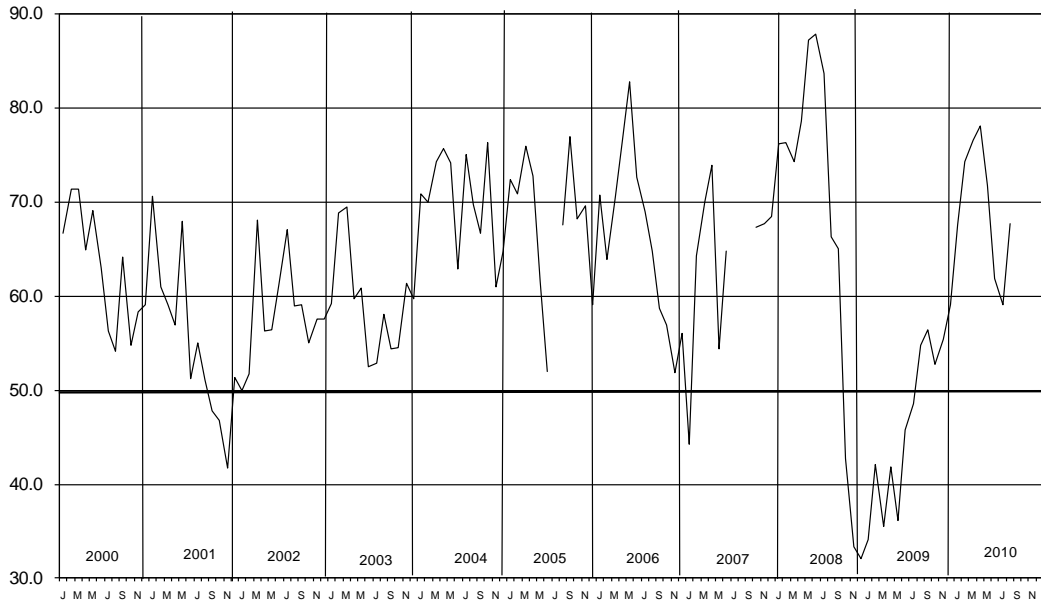
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



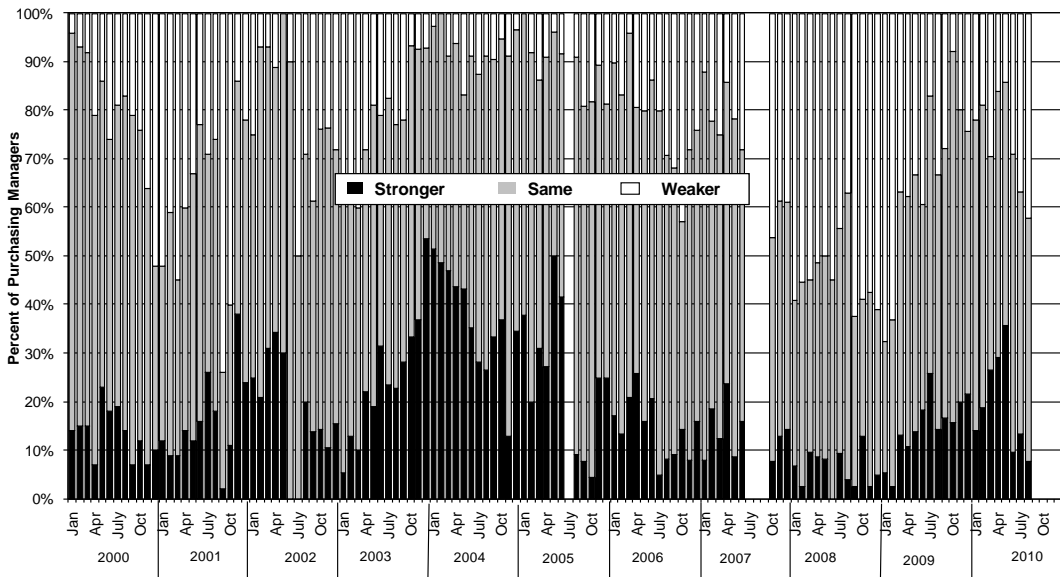
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Commodity Prices



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State of the Local Economy



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Purchasing Managers continue to be extremely cautious about the state of the local economy. Only eight percent of the purchasing managers predict that the local economy will become stronger in the next upcoming months (a decrease from last month's thirteen percent). Fifty percent of the purchasing managers believe that the local economy will remain unchanged (where "unchanged" refers to a weak economy). Meanwhile, the remaining forty-two percent believe the local economy will become weaker by next quarter – a figure which hasn't been that high since February 2009. Also it is interesting that this month we had five Purchasing Managers who stated that they have "no idea what to expect of the economy in the next quarter."

STATE OF THE ECONOMY: DATA FROM 8/2009 THROUGH 8/2010

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	33	28	8	20	24	22	19	27	16	14	29	37	42
Same	52	55	76	60	54	64	63	44	55	50	61	50	50
Stronger	14	17	16	20	22	14	19	29	29	36	10	13	8

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included: "Volume of orders same, but dollar value of each order increased," "Business remains stable with temporary high profile project requiring additional temporary staff. Overall production on an upward trend."

Some Purchasing Managers had negative comments: "Not optimistic," "Business sales have slowed over the last 5 weeks, and are now stabilizing. So far as a double dip recession, the first really never ended. Deflation on retail and inflation on raw materials has had a negative impact on our margins which is a major concern moving forward - more companies will not be able to function," "Very slow," "Arnold still has not signed budget, we need to get paid," "We will wind down our production next month due to our busy season being over," "Our busy season is slowing down fast," "Dollar weakness, commodity issues worldwide - Russian drought."

In summary this month's report, on the surface, seems to be relatively positive, with production, new orders, and especially employment showing gains. Yet when one takes a step back and analyzes the data more in detail, the economy in the Inland Empire may indeed be weaker than the numbers would suggest. Specifically, companies seemed to report hiring temporary workers rather than permanent positions. Production is not as strong as last month and new orders are not overwhelming. Further, the vast majority of Purchasing Managers predict that next quarter's economy will be the same (with "the same" referring to an economy that is extremely weak) or weaker than it is now. When the Inland Empire report is placed in context of national economic woes, the bottom line is: The Inland Empire's economy remains in a fragile state.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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