

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for December 2010

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

Local economy continues to grow, but commodity prices soar to near record levels

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 (54.0) registered virtually no change over last month's figure (54.1) and remained above the baseline 50% mark for the fifteenth consecutive month."

"Production (57.6) and New Orders (51.5) - two of the key components of the PMI – decreased this month but remained above the 50% baseline, thus indicating growth. The Employment Index (51.5) jumped above the 50% benchmark, a significant increase over last month's 45.8. Two thirds (66%) of the Purchasing Managers think that the economy will remain the same over the next quarter, with only 14% forecasting a strengthening in the Inland Empire economy."

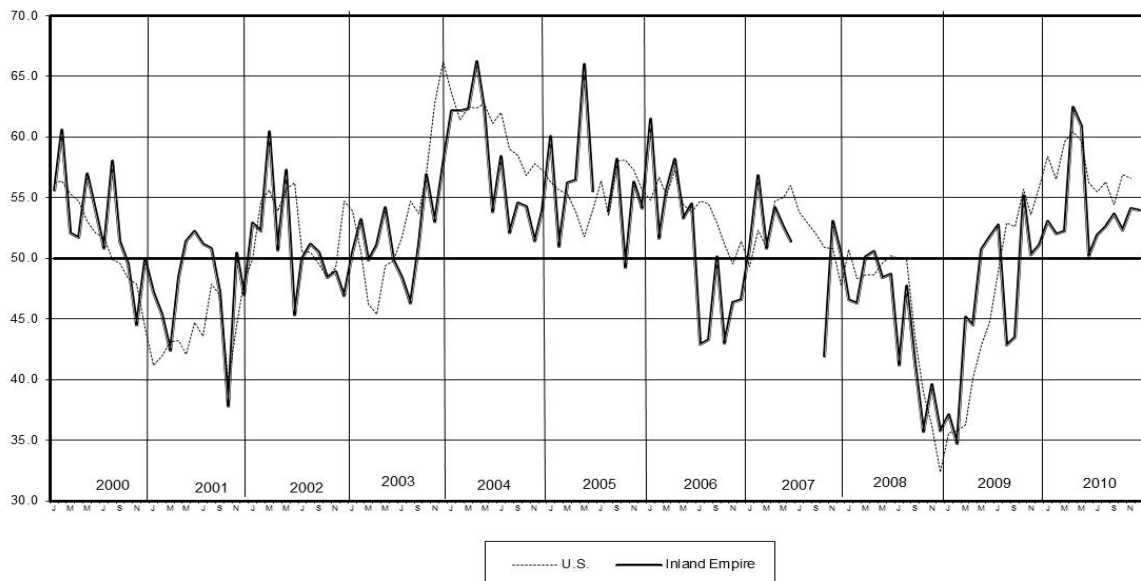
A somewhat worrisome factor in this report is that inflationary pressures within the Inland Empire are on the rise, with the Commodity Prices Index increasing sharply to 83.3 from last month's 69.4. This month's figure is the highest since mid-2008."

Following are some highlights from this month's report:

December 2010 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	54.1	54.0	Growing	Slower
Commodity Prices	69.4	83.3	Increasing	Faster
Production	58.3	57.6	Growing	Slower
New Orders	55.6	51.5	Growing	Slower
Inventory	55.6	51.5	Increasing	Slower
Employment	45.8	51.5	Increasing	From Decreasing
Supplier Deliveries	54.2	57.8	Slowing	Faster
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	21%	14%		
% Same	44%	66%		
% Weaker	35%	21%		

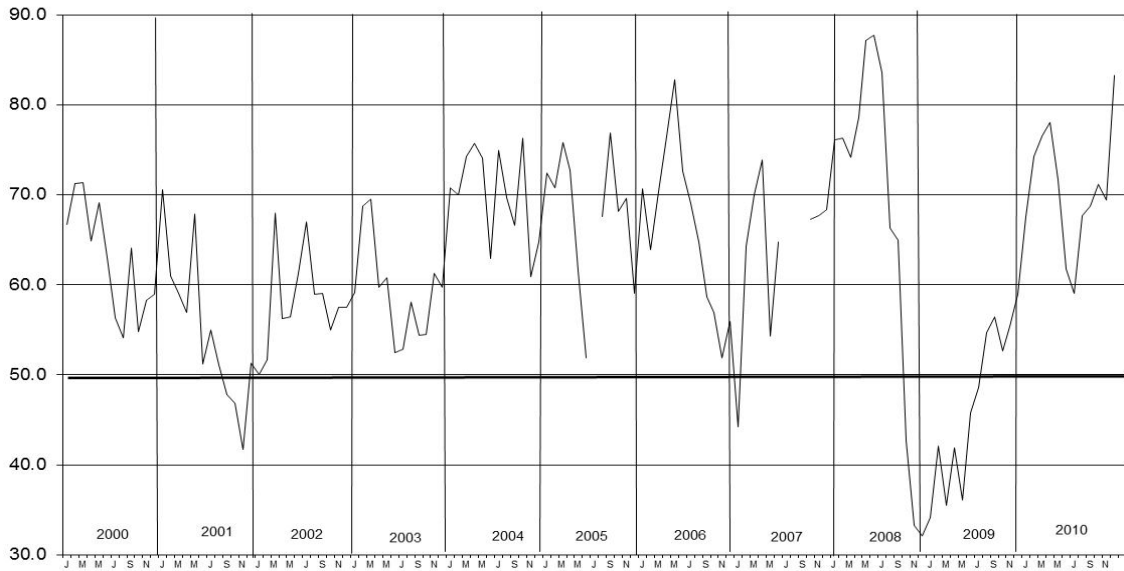
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



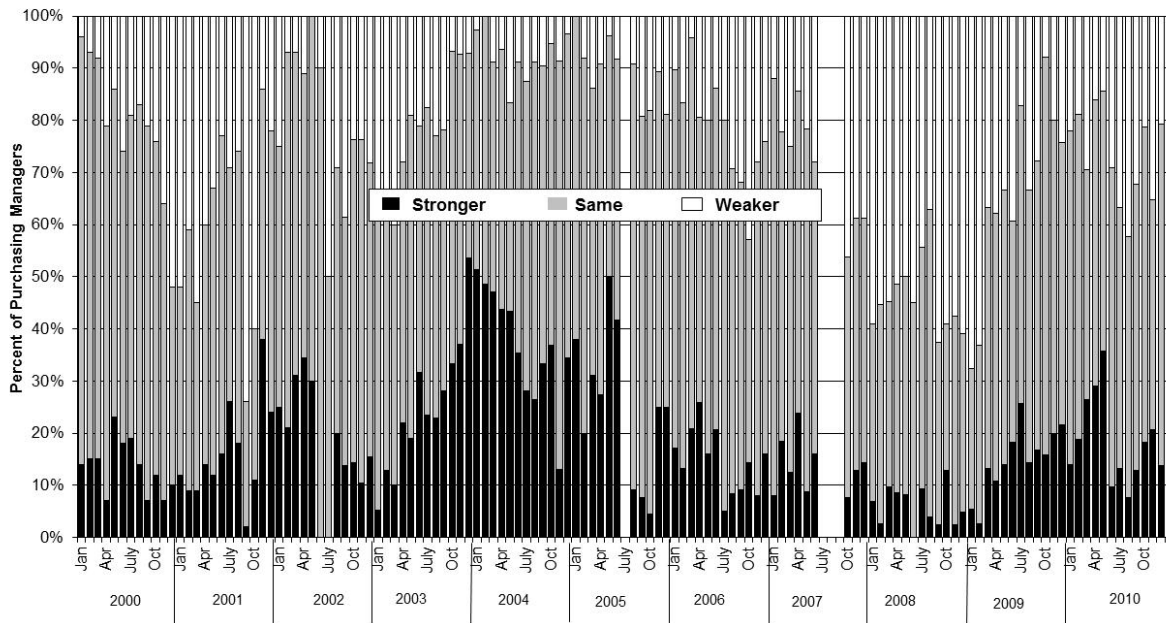
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 12/2009 THROUGH 12/2010

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Weaker	24	22	19	27	16	14	29	37	42	32	21	35	21
Same	54	64	63	44	55	50	61	50	50	55	61	44	64
Stronger	22	14	19	29	29	36	10	13	8	13	18	21	14

Note: Four of the surveyed managers stated that they have no idea what to expect in the upcoming quarter.

Positive remarks from Purchasing Managers included: "Our usual slowdown in sales this time of year did not occur," and "Overall business conditions are improving substantially."

Some Purchasing Managers had negative comments: "Commodity price inflation with retail deflation remains our largest threat," "Price of wire and steel going up during 1st quarter of 2010 and 1st quarter of 2011," "Market seems to be weak," "The price of oil is on the rise, directly affecting our raw material pricing," and "Bookings down."

In summary, this Inland Empire Report on Business is in some ways a mirror image of the national report in that we have now seen 15 consecutive months of growth in the Inland Empire economy (the national report cites 17 months). Production and New Orders shows a slight drop but remained above the 50% mark. Further, Employment registered above 50. Yet this figure may be less positive than some may think since this probably reflects an expected seasonal increase in temporary workers during the holiday season which is typically followed by a downturn in January. Moreover, the steep increase in inflationary pressures, if it continues, could be cause for concern. The bottom line? The economy continues its slow growth, but we're not out of the woods yet.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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