

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for December 2009

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

Supporter: College of Business and Public Administration, CSUSB

PMI Registers Above 50% for the Third Month in a Row, And Employment Registers Impressive Gains

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 (51.1) registered above the baseline 50% mark for the third consecutive month. The methodology underpinning the PMI requires three consecutive months either above 50% in order to determine that a change in direction has occurred in the local manufacturing sector. Further, this month's PMI remained above the 44.5% mark, suggesting that the ***local economy*** is continuing its pattern of growth."

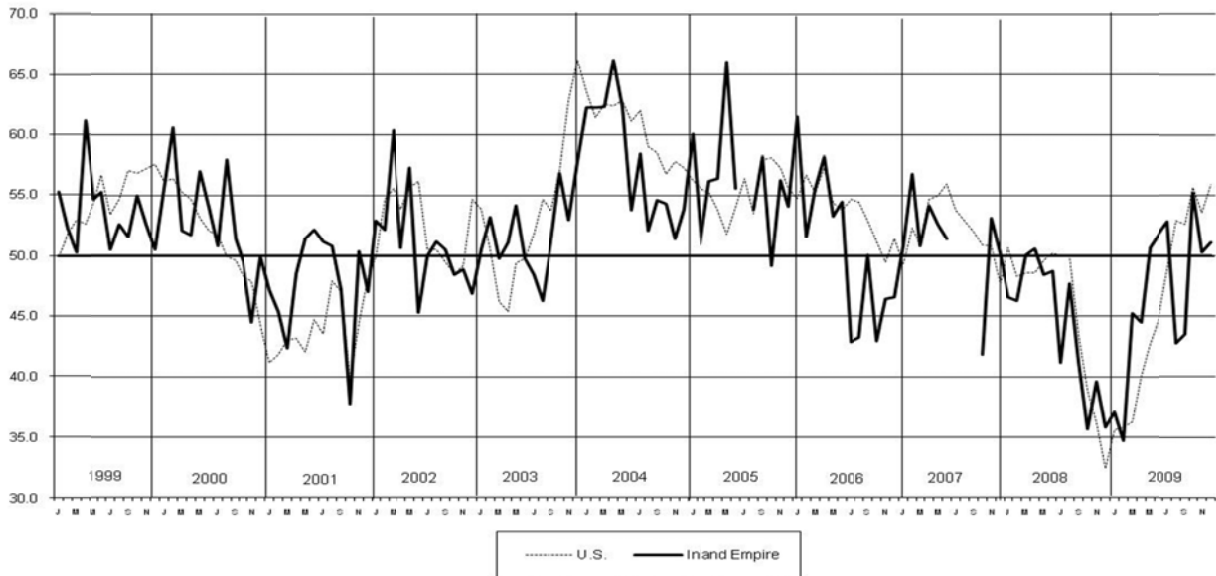
"Production is down this month from last month's 55.4 to 51.3 this month and New Orders also showed a decrease from last month's 54.1 to 51.3 this month. But those two key indicators have remained above the 50% mark for the third consecutive month. Further, the Employment index (51.3) showed sharp improvement when compared with last month's figure (43.2). In combination, these positive figures are encouraging signs for the economy.

Inflation pressures within the Inland Empire appear to have increased, with the Commodity Prices Index registering at 59.0 (an increase from 55.4 last month).

Following are some highlights from this month's report:

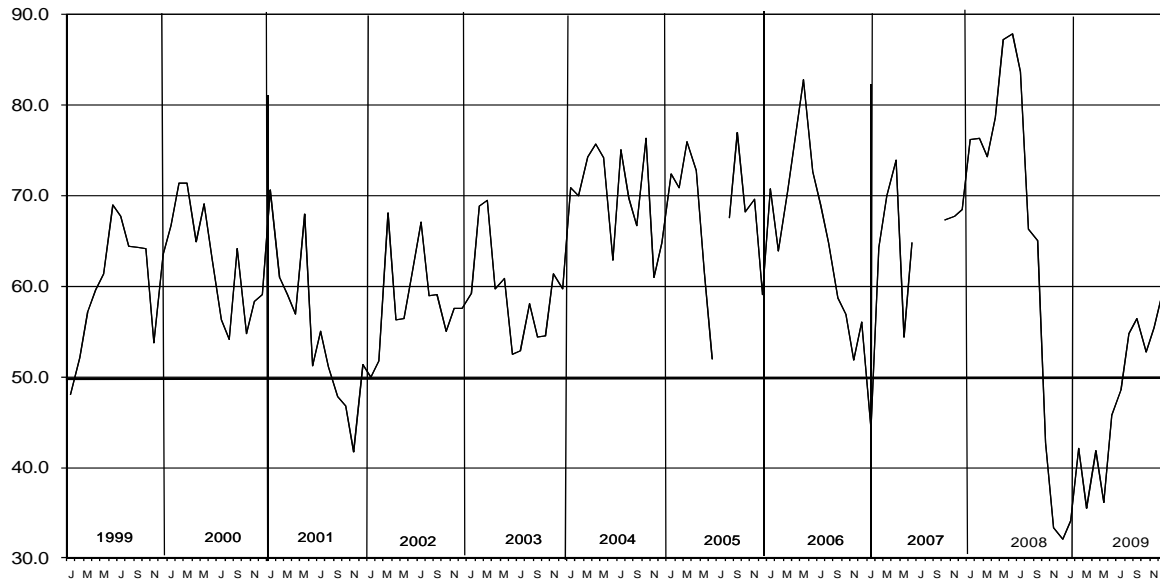
| December 2009 Business Survey at a Glance | | | | |
|--|---------------------|-------------------|---------------------------|---------------------------------------|
| | Series Index | | Direction from 50* | Rate of Change from Last Index |
| | Last Month | This Month | | |
| Local PMI | 50.3 | 51.1 | Growing | Faster |
| Commodity Prices | 55.4 | 59.0 | Increasing | Faster |
| Production | 55.4 | 51.3 | Growing | Slower |
| New Orders | 54.1 | 51.3 | Growing | Slower |
| Inventory | 44.6 | 39.5 | Decreasing | Faster |
| Employment | 43.2 | 51.3 | Increasing | From Decreasing |
| Supplier Deliveries | 47.3 | 57.7 | Slowing | From Faster |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | |
| % Stronger | 19% | 22% | | |
| % Same | 57% | 54% | | |
| % Weaker | 19% | 24% | | |

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 are less optimistic about the state of the local economy with twenty-four percent predicting that the economy would be weaker for the next quarter (an increase from last month's 20 percent). Twenty-two percent of purchasing managers predicted that the local economy will be stronger in the upcoming months (up from 20 percent last month), with fifty-four percent predicted that the local economy will be unchanged.

STATE OF THE ECONOMY: DATA FROM 12/2008 THROUGH 12/2009

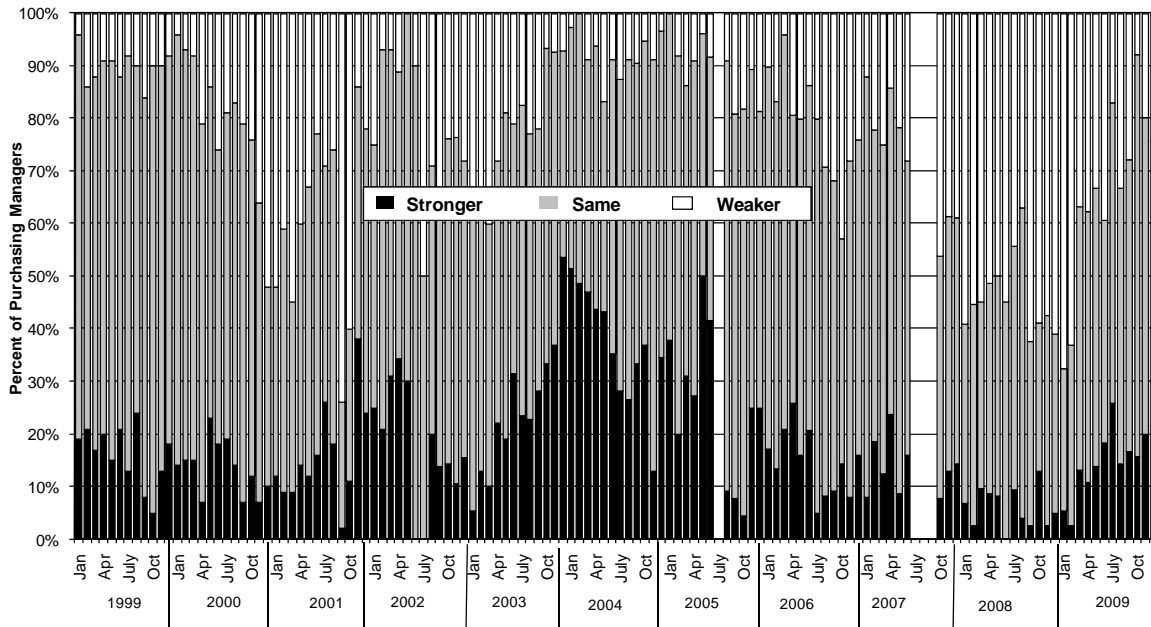
| | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Weaker | 61 | 68 | 63 | 37 | 38 | 33 | 39 | 17 | 33 | 28 | 8 | 20 | 24 |
| Same | 34 | 27 | 34 | 50 | 51 | 53 | 43 | 57 | 52 | 55 | 76 | 60 | 54 |
| Stronger | 5 | 5 | 3 | 13 | 11 | 14 | 18 | 26 | 14 | 17 | 16 | 20 | 22 |

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included: "Business is increasing," "Business looks good, and first quarter sales are excellent," "Good sales for December, construction products still not selling,"

Some Purchasing Managers had negative comments about general business conditions: "This production facility is closing in the next 6 months. We are transitioning more items each month to other facilities in low cost areas. We were closed for 50% of December 2009-not a good comparison to November stats," "Numbers are down due to seasonality," "Holiday season always slow for us, we are still beating forecast," "It will be a trying year for the coming 2010," "Many of our customers are slow during this month,"

vacations and holidays hamper production. We are already building backlog for the start of the new year,” “We have cut our staff to the bone, and I believe we are at the level we need to survive, we just need the light at the end of the tunnel to get a little brighter,”

State of the Local Economy



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In short, this month’s report paints a positive economic picture. Encouraging signs include Production and New Orders (the two most important indicators in the PMI) registering above 50, Employment registering a sharp increase, and the National PMI showing strengthening in the manufacturing sector and the general economy. Yet the researchers remain cautiously optimistic about the long haul since the economy has been on a roller coaster for the past several months.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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