

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for January 2010

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

Supporter: College of Business and Public Administration, CSUSB

Local Economy Continues to Show Signs of Recovery But is Clearly Still Fragile

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 (53.1) registered an increase over last month's figure (51.1) and continued to stay above the baseline 50% mark for the fourth 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."

"It is especially noteworthy that New Orders increased from 51.3 to 56.9 this month and the Production Index increased from 51.3 to 52.8. The fact that these two key components of the PMI increased indicate that manufacturing companies anticipate increasing purchases from consumers in the coming months. However this month's Employment Index dipped back below the 40% baseline, registering a disappointing 48.6. As everyone knows, the Employment Index is especially key to the current economic environment in that it is well recognized that the long run sustainability of any economic recovery rests on job creation and job growth."

"This month's questionnaire asked Purchasing Managers to indicate whether any additional hires in their company were in temporary or permanent positions. Very few people commented on this question since the vast majority of Purchasing Managers indicating that their employment level hadn't changed. Of those who provided comments, two indicated that they hired temps, four said the positions were permanent ones (which of course is the bedrock for economic recovery). One company indicated that they were reducing furlough hours in an effort to increase production."

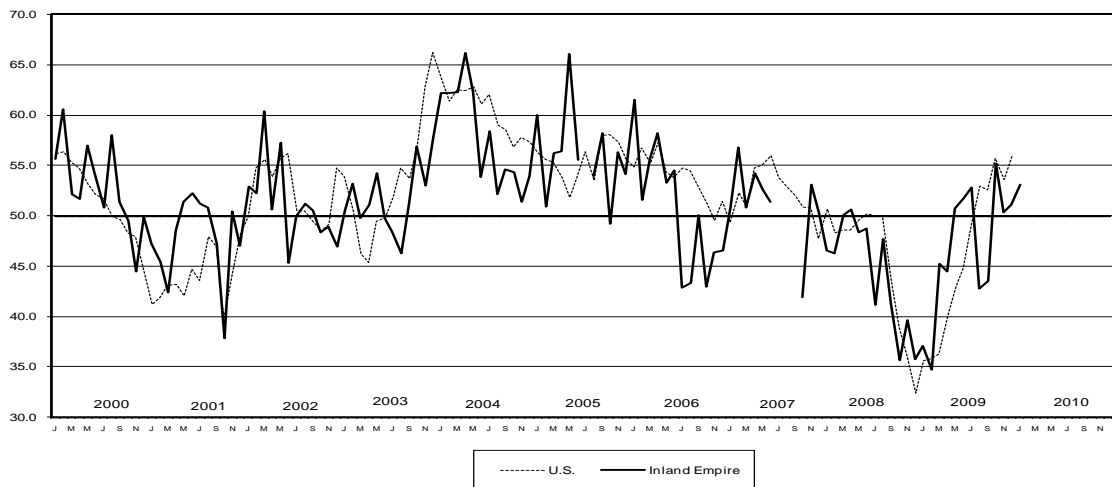
"A somewhat worrisome factor in this report is that inflationary pressures within the Inland Empire may be on the rise since the Commodity Prices Index has registered above 50 since last August, and registered an increase to 67.6 from last month's figure of 59.0."

“We should also note that one of our regular contributors to this report notified us this month that the company is moving its divisions overseas. This is another indicator that although there is some improvement in the economy, we are not yet “out of the woods.”

Following are some highlights from this month’s report:

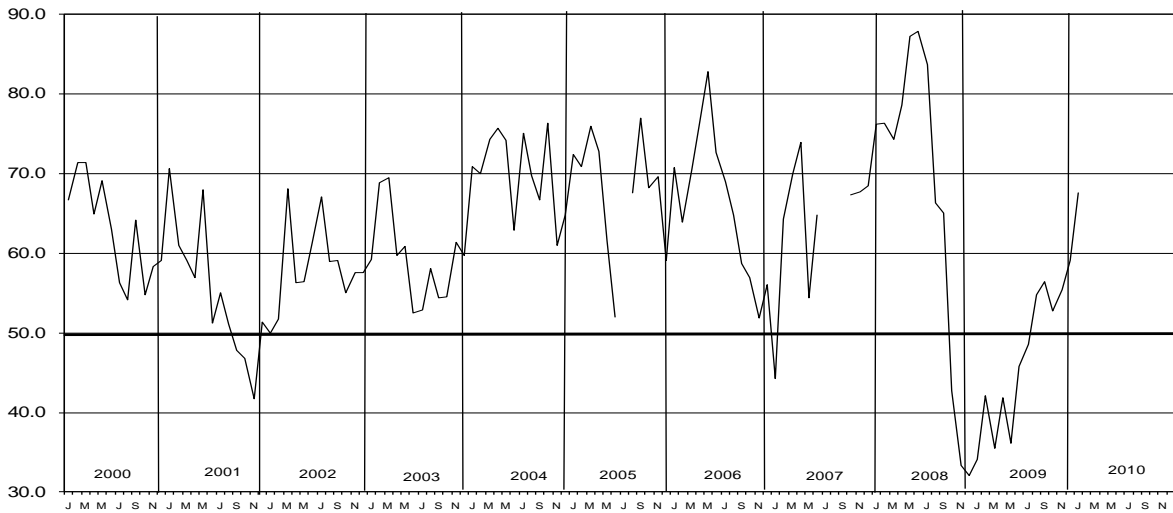
January 2010 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	51.1	53.1	Growing	Faster
Commodity Prices	59.0	67.6	Increasing	Faster
Production	51.3	52.8	Growing	Faster
New Orders	51.3	56.9	Growing	Faster
Inventory	39.5	47.1	Decreasing	Slower
Employment	51.3	48.6	Decreasing	From Increasing
Supplier Deliveries	57.7	55.7	Slowing	Slower
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	22%	14%		
% Same	54%	64%		
% Weaker	24%	22%		

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 than last month in their projections about the state of the local economy for the coming quarter. This month, twenty-two percent predicted that the economy will be weaker in the coming quarter (a slight increase from last month's 24 percent). Only fourteen percent of purchasing managers predicted that the local economy will be stronger in the upcoming months (down from 22 percent last month), with sixty-four percent predicting that the local economy will be unchanged.

STATE OF THE ECONOMY: DATA FROM 1/2009 THROUGH 1/2010

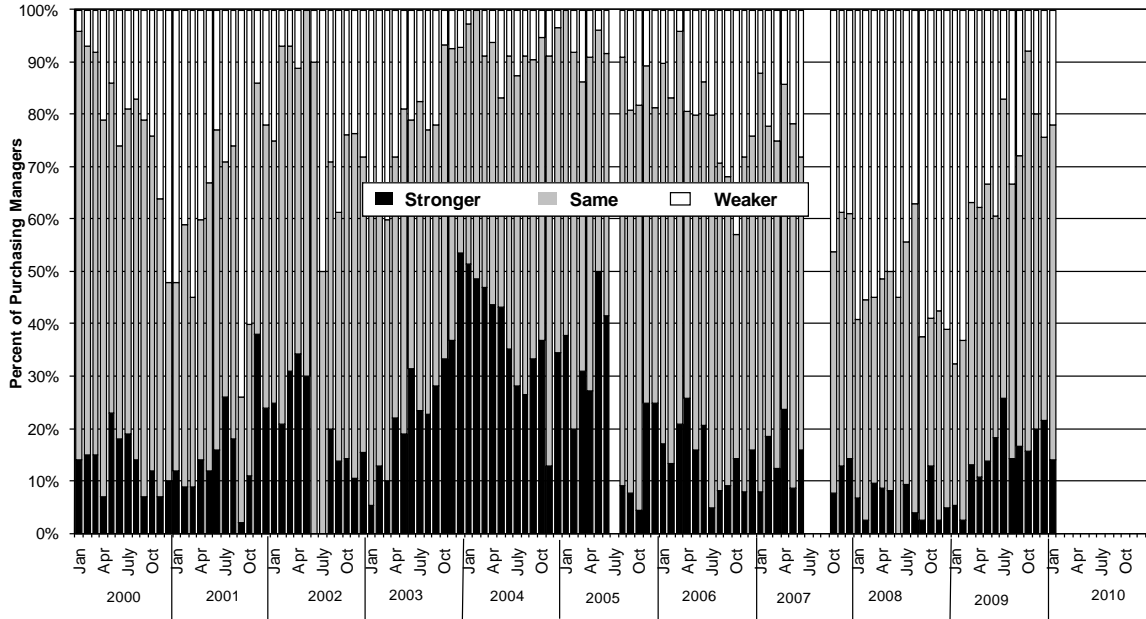
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Weaker	68	63	37	38	33	39	17	33	28	8	20	24	22
Same	27	34	50	51	53	43	57	52	55	76	60	54	64
Stronger	5	3	13	11	14	18	26	14	17	16	20	22	14

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included: "Definitely an upswing in orders," "Recent high-spots for the aerospace sector include first flight of the Boeing 787 Dreamliner (early-December) and the Gulfstream G650 (late November). Both programs will become increasingly significant to our activity as program rates ramp-up through 2012."

Some Purchasing Managers had negative comments about general business conditions: "Margins continue to deteriorate because of Chinese support on chemical commodities," "This division is closing. It will be transitioned to China, India, Mexico and Marion, Kentucky. This process has been reducing our spend and head-count," "Pricing for polypropylene (plastic), our primary raw material, is going to go up in the next few months so it should change things for Q1 and Q2," "Domestic steel prices have gone up and are continuing to go up. May have to shop China or other import mills,"

"Company has been sold," "Most of our orders are international if we don't get orders from the counties then our business is down," "Rain always gets in the way but we need it. Very slow."

State of the Local Economy



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In short, this month's report indicates a growing manufacturing sector and general economy which is driven by new orders and an increase in production. Yet as noted throughout this report, the recovery will continue to be fragile until there is a significant improvement in job creation and new hires.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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