LOCAL ECONOMY CONTINUES ANEMIC GROWTH

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 (46.6) decreased from last month’s PMI (50.9). The fact that this figure is now below 50% indicates that the local manufacturing sector is showing a slowdown in growth. In addition, this month’s PMI is above the 44.5% mark by a slight margin, suggesting a local economy that is experiencing anemic growth. Both Production and New Orders dropped, with Production decreasing from 52.0 to 50.0 and New Orders showing a larger decline from 54.0 to 46.7. These figures are important in that they reflect a drop in consumer spending. As noted in previous reports, Production and New Orders are key components of the PMI, and thus these declines have direct implications for the economy in the immediate future.

“The Employment index (42.4) decreased this month, remaining below 50 for the 4th consecutive month (October = 40.4, November = 45.5, and December = 47.0). This is of particular concern, particularly in light of nationwide unemployment data. Indeed, what we are experiencing in the Inland Empire is apparently a reflection of a nationwide problem rather than simply an idiosyncratic problem in the local area. Further, as has been the case for the last several months, Purchasing Managers are extremely pessimistic about the state of the local economy for the coming quarter. In fact, the pessimism has strengthened, with 59% of this month’s survey respondents predicting that the economy will be weaker, as opposed last month’s 38%.”

“The methodology underpinning the PMI requires that a decisive statement about the direction/trend of the manufacturing sector and the local economy depends upon three consecutive months of consistent findings regarding direction of the PMI. This month’s figure is now the first month below the 50 benchmark, thus although this report reflects weakness in the manufacturing sector, we need two more consecutive months of similar data before we can conclusively state that the manufacturing sector is contracting.”

“In summary, then, both locally and nationwide there still remain troublesome signs pointing toward weakness in the economy. Nationwide, the housing slowdown is showing no signs of bottoming out, and oil prices remain high. Recent local data
regarding unemployment rate and a decrease in the New Orders and Production indices suggest that the manufacturing sector is weakening and that 2008’s economy is not off to a great start.”

Following are some highlights from this month’s report:

<table>
<thead>
<tr>
<th>Series Index</th>
<th>Last Month</th>
<th>This Month</th>
<th>Direction from 50*</th>
<th>Rate of Change from last index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local PMI</td>
<td>50.9</td>
<td>46.6</td>
<td>Contracting</td>
<td>From Growing</td>
</tr>
<tr>
<td>Commodity Prices</td>
<td>68.0</td>
<td>76.1</td>
<td>Increasing</td>
<td>Faster</td>
</tr>
<tr>
<td>Production</td>
<td>52.0</td>
<td>50.0</td>
<td>At 50</td>
<td>From Growing</td>
</tr>
<tr>
<td>New Orders</td>
<td>54.0</td>
<td>46.7</td>
<td>Contracting</td>
<td>From Growing</td>
</tr>
<tr>
<td>Inventory</td>
<td>46.0</td>
<td>41.3</td>
<td>Contracting</td>
<td>Faster</td>
</tr>
<tr>
<td>Employment</td>
<td>47.0</td>
<td>42.4</td>
<td>Decreasing</td>
<td>Faster</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>51.0</td>
<td>50.0</td>
<td>At 50</td>
<td>From Slowing</td>
</tr>
</tbody>
</table>

Purchasing Managers’ Confidence in the State of the Local Economy

- % Stronger: 16% (Last Month) 7% (This Month)
- % Same: 46% (Last Month) 34% (This Month)
- % Weaker: 38% (Last Month) 59% (This Month)

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

January’s Commodity Price Index (76.1) has increased again from last month’s figure (68.0) showing that inflationary pressures continue to exist in the Inland Empire. This figure is the highest since mid-2006.
When Purchasing managers were asked to make comments on the general business conditions that affected their company, some remarked positively: "Slow due to rain and time of the year,"

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

**State of the Local Economy**
but it will improve”, “Forecasting an increase over last quarter’s production levels”, “Housing and Stock Market are still troubling but maybe we have seen the worst. We always see sales slow down in January and February due to the seasonality and actually expected worse than it is. Our markets in the Western and particularly Southwestern USA are off more than other areas in USA,” “Slowly improving”, and “Things are not getting better or worse…”

Other managers had negative comments about general business conditions: “The weakness of the US dollar continues to be a challenge in regard to purchasing product.”, “Still very slow”, “The prices of lumber and nails have increased a lot lately”, “As slow as 1991-1992”, “The RV Manufacturing will be slow at least for the first seven months of 2008”, “Same slowdown that we had last year, no change, bracing for a wild 2008!”, “We are merging with our company in Ontario”, “Not much looks encouraging”, and “Our raw material prices have had a huge increase, along with shipping prices”.

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