

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for January 2009

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

Supporter: College of Business and Public Administration, CSUSB

INLAND EMPIRE ECONOMY CONTINUES ITS DECLINE

According to Shel Bockman and Barbara Sirotnik (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), "With the continuation of bad economic news (layoffs daily in the news and companies closing their doors) it is no surprise that the PMI remains low (37.1). A PMI below 41.1% over a period of three consecutive months generally indicates that the economy is in a decline. This is now the fourth month below the 41.1% benchmark.

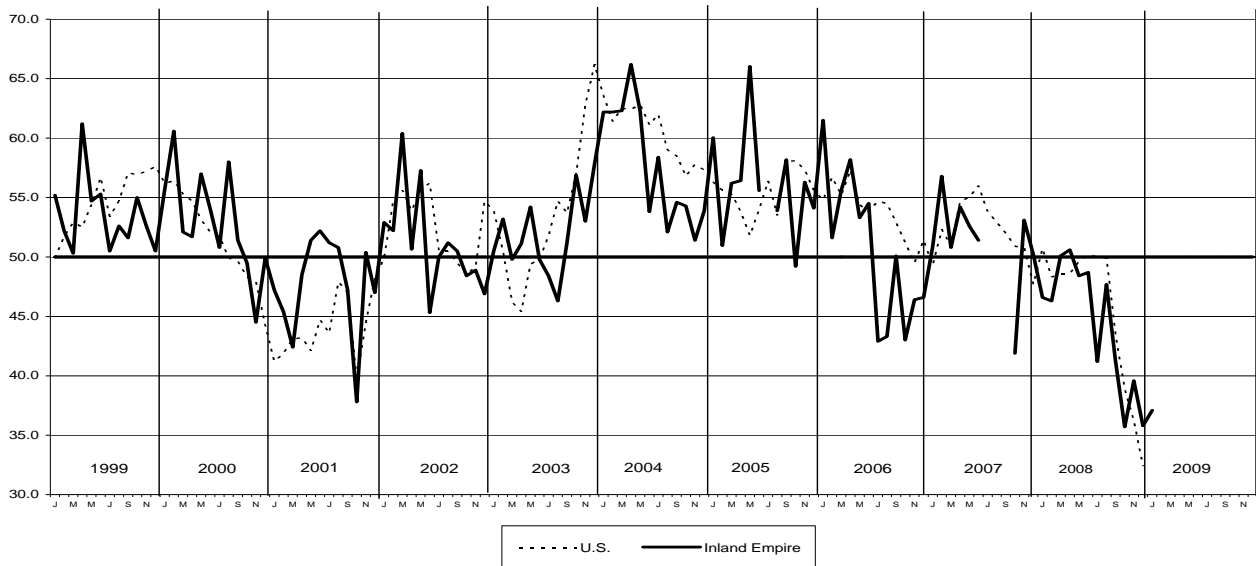
"The local Employment Index continues to decline from 34.5% in December, to 32.9% now in January and is still well below the 50% baseline figure indicating that employment continues to decline. That is probably not surprising considering the recent national news of layoffs in major companies such as Yahoo, Home Depot, Microsoft, and Circuit City. Commodity prices increased slightly from 32.1% last month to 34.1% this month in spite of the sharp decline in oil prices over the last few months. Production and New Orders (the most important indices making up the PMI) remain weak. The Production Index dropped to 32.9% in January from 35.7% from last month, but there is a slight boost in New Orders from 34.5% in December to 39.0% in January. Speed of supplier deliveries increased from 45.2% to 50.0% this month."

Following are some highlights from this month's report:

January 2009 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	35.8	37.1	Contracting	Slower
Commodity Prices	32.1	34.1	Decreasing	Slower
Production	35.7	32.9	Contracting	Faster
New Orders	34.5	39.0	Contracting	Slower
Inventory	28.6	30.5	Decreasing	Slower
Employment	34.5	32.9	Decreasing	Faster
Supplier Deliveries	45.2	50.0	Unchanged	From Decreasing
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	5%	5%		
% Same	34%	27%		
% Weaker	61%	68%		

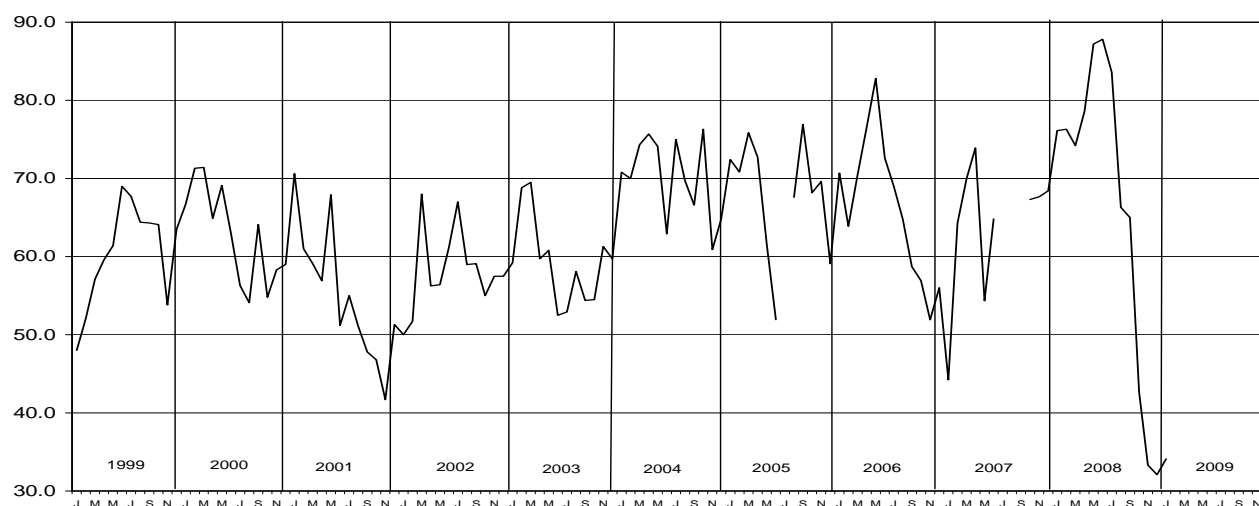
- NOTE: In all cases except Supplier Deliveries, the “Direction” refers to whether the index is above 50% (growing) or below 50% decreasing.

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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68% of the Purchasing Managers maintain their forecast that the state of the economy would be weaker in the next quarter. Only 5% of Purchasing Managers predict that the state of the local economy will be stronger in the coming quarter (and 27% believe the local economy will continue to be about the same).

STATE OF THE ECONOMY: DATA FROM 1/2008 THROUGH 1/2009

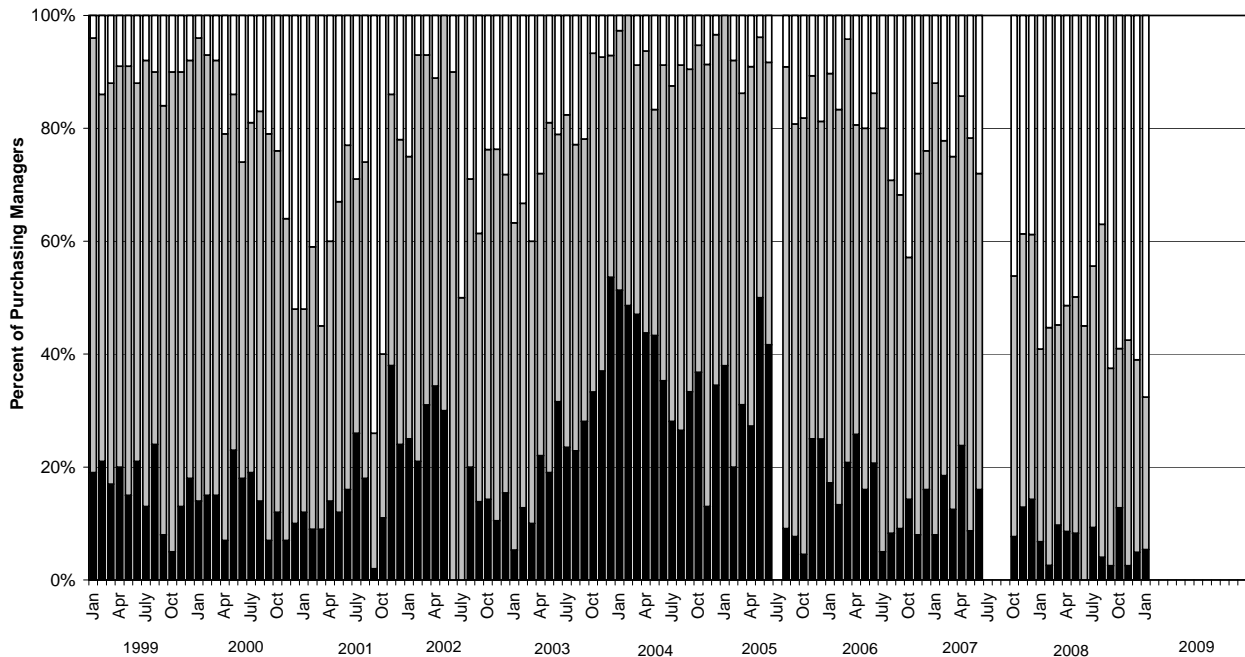
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan
Weaker	59	55	55	51	50	55	44	37	62	59	58	61	68
Same	34	42	35	40	42	46	46	59	35	28	40	34	27
Stronger	7	3	10	9	8	0	9	4	3	13	3	5	5

When Purchasing managers were asked to make comments on the general business conditions that affected their company, a few remarked positively: "Slight increase in orders," "Conditions for first 3 weeks of 2009 similar to 2008, last week have shown a slight decrease but overall incoming demand is very positive," and "Business is good."

But many Purchasing Managers offered negative comments about general business conditions. Employee layoffs and slow sales continue to be the biggest concerns stated in response to this month's survey. Comments included: "Very, very slow," "May reduce work week!" "We are still currently experiencing a shortage of gelatin; I'm told that it's all made out side the United States, so we are looking at making some changes so we don't have to be so dependent on this product." "Our primary customers are retailers, and the almost daily announcements of layoffs at these major retailers have put us on edge. Since

oil has come down considerably since July 2008 we are able to enjoy low prices on our primary source of raw material. However, it appears that oil may rise within the next couple of months. All in all did not see much change from December 2008.” “Customers inability to get financing is preventing them from starting projects and buying material.” “I have growing concerns regarding the financial health of key suppliers in our supply chain. And strangely there are increases in some raw materials, as if other manufactures are raising prices in order to compensate for the lost volumes. This seems to be contrary to the normal laws of supply and demand rules that have prevailed for many years.” “A lot of bidding going on but very few buyers.” “Cut staff by approximately 20% and reduced raw material inventory to start year at conservative levels,” and “Cost of shipping supplies are on the rise.”

State of the Local Economy



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FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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