

# **INLAND EMPIRE REPORT ON BUSINESS**

Prepared by: ***The Institute of Applied Research***

at California State University, San Bernardino

Report for July 2008

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

Supporter: **College of Business and Public Administration, CSUSB**

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## **PMI CONTRACTING Third month below 50% Benchmark**

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 (41.2) decreased sharply from 48.7 last month, and is at its lowest point since October 2007 (41.9). Placing this month's PMI in context, this is the second lowest PMI since the report's inception in 1993. The only PMI figure which was lower occurred in 2001 (just after 9/11) when it was recorded at (37.8).

The methodology underpinning this report requires three consecutive months either above or below 50 to register a change in trend. Since this is the third consecutive month with the PMI below the 50% mark, a trend of a contracting ***local manufacturing sector*** has been established. The last time such a trend was established was in the last quarter of 2006. On the other hand, it must be noted that this is only the first month that the PMI dropped below the 44.5% mark. If the PMI continues to remain this low for the next two months, this will indicate that the ***local economy*** is in recessionary mode. But at this stage of the game, it is too early to tell whether this month's PMI is a "one-time event" or whether it actually portends a recession in the Inland Empire.

Two of the key indicators in the PMI (the Production and New Orders indices) dropped sharply below the 50% mark. The Production Index is only 38.2 (the second lowest figure since the report's inception and a sharp drop from last month's 54.4). And the New Order index dropped to 42.7 from 50.0 last month. And the other three indices (Inventories, Employment, and Supplier Deliveries) continue to manifest weakness. The Commodity Price Index (83.6) continued to show inflationary pressures (although there has been a slight drop in this month's figures).

Following are some highlights from this month's report:

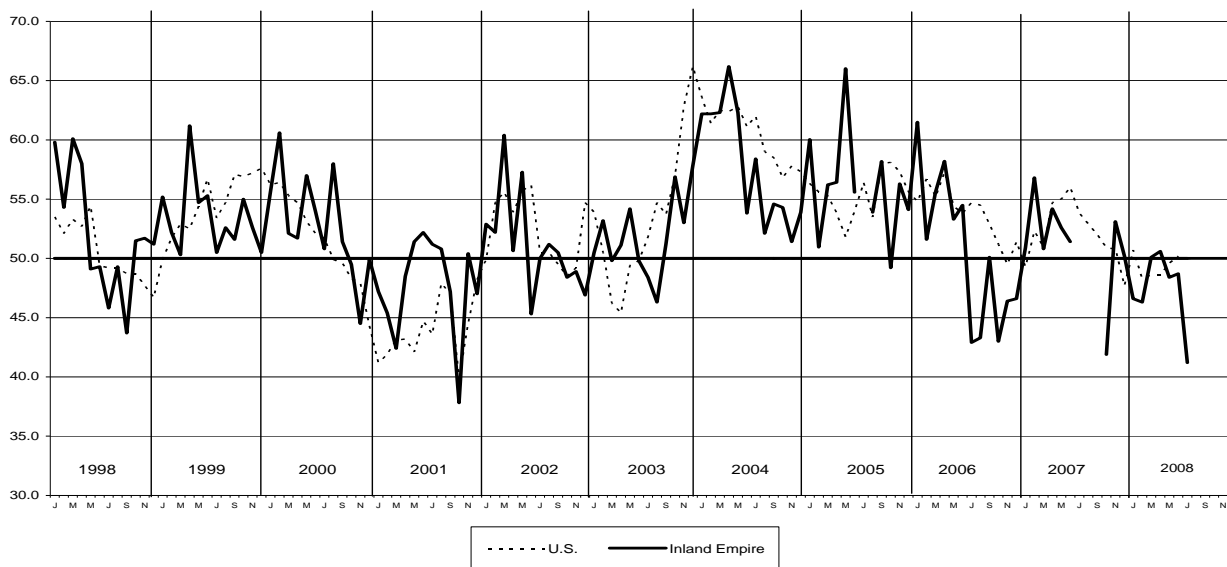
July 2008 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	48.7	<b>41.2</b>	Contracting	Faster
Commodity Prices	87.8	<b>83.6</b>	Increasing	Slower
Production	54.4	<b>38.2</b>	Contracting	From Growing
New Orders	50.0	<b>42.7</b>	Contracting	From Unchanged
Inventory	48.9	<b>43.4</b>	Decreasing	Faster
Employment	47.7	<b>42.7</b>	Decreasing	Faster
Supplier Deliveries	37.8	<b>40.0</b>	Slowing	Slower

Purchasing Managers' Confidence in the State of the Local Economy			
% Stronger	8%	9%	
% Same	42%	46%	
% Weaker	50%	44%	

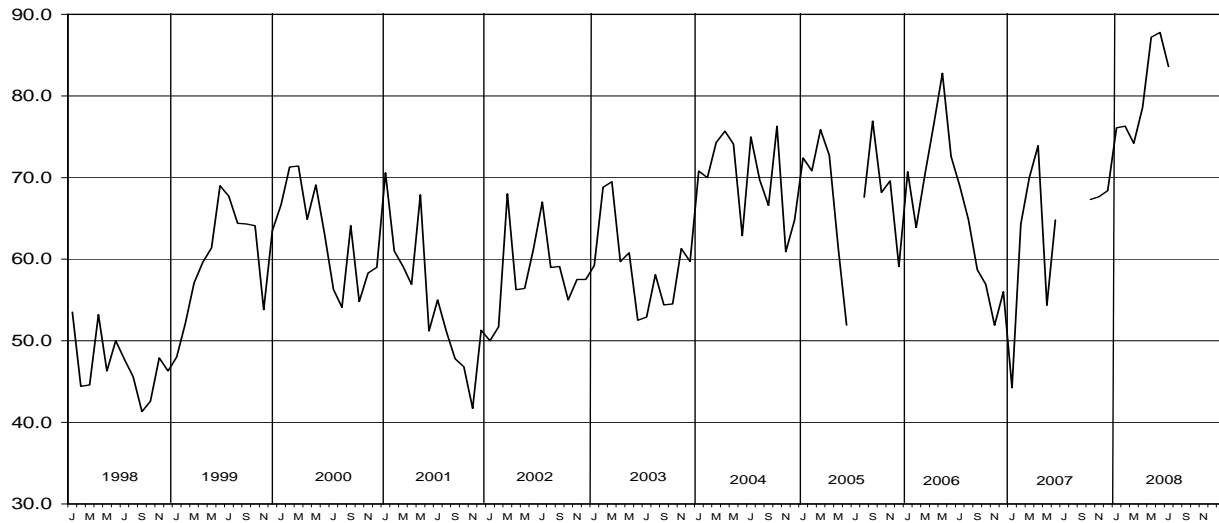
- NOTE: In all cases except Supplier Deliveries, the “Direction” refers to whether the index is above 50% (growing) or below 50% decreasing.

## 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



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

Although July's Commodity Price Index (83.6) has decreased from last month's figure (87.8), the figures remain near record high levels, with the cost of oil, metals, and plastic causing the most problems for manufacturing companies. A few Purchasing Managers expressed concern over the availability of plastic, and were worried about the uncertainty of oil price hikes.

Of special concern is that the Employment index has remained below 50% since May of last year and dropped this month to 42.7 from last month's 47.7. Another disturbing sign of weakness in the Inland Empire's manufacturing sector is that when conducting this month's survey with Purchasing Managers, we reached a major glass manufacturing company in the process of closing its doors (releasing another 280 laborers into the unemployment lines). Other manufacturing companies are cutting hours but "holding on." These anecdotes reflect the weak state of today's economy in the Inland Empire.

Nine percent of the Purchasing Managers forecast that the state of the local economy will be stronger in the coming quarter. Forty-four percent of purchasing managers believe the local economy will continue to be weak, and forty-six percent commented that they feel it will remain the same.

When Purchasing managers were asked to make comments on the general business conditions that affected their company, the only positive comment was: "I am going to stay positive." Negative comments include: "Steel prices appear to be leveling with the increases announced for August being lower," "Steel prices continue to rise," "We

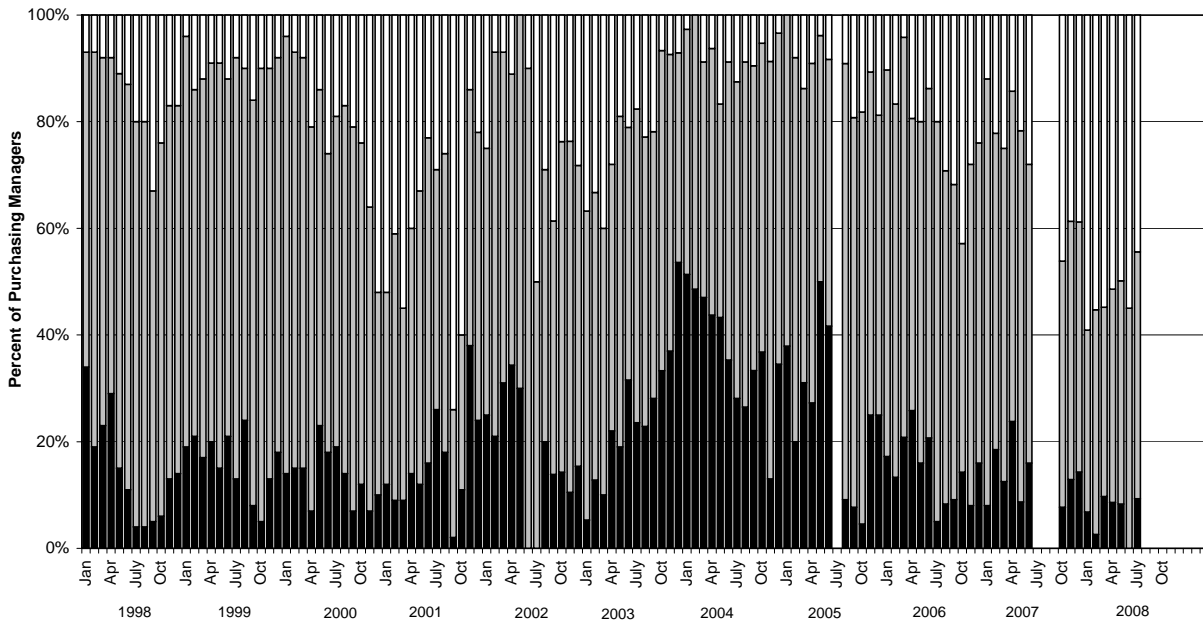
thought the 3rd quarter would start better-now we feel it could be 2nd or 3rd quarter 2009 for turnaround," "This is our busy time yet we are building inventory," "Summer is traditionally our slowest sales period," "Our outlook continues to disappoint," "Business is down," and "Very slow."

**STATE OF THE ECONOMY: DATA FROM 7/2007 THROUGH 7/2008**

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>Weaker</b>	-	-	-	46	39	38	59	55	55	51	50	55	44
<b>Same</b>	-	-	-	46	48	46	34	42	35	40	42	46	46
<b>Stronger</b>	-	-	-	8	13	16	7	3	10	9	8	0	9

- 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**



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