Local economy displays weak growth as employment declines and new orders remain flat

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 (51.9) represents a slight increase over last month’s figure (50.2) and is now in the tenth consecutive month above the 50% benchmark indicating growth in the manufacturing sector. Another positive sign for the economy is that Production (57.6) is up this month from 51.5 last month. With that said, the drop in the local Employment Index (down from 51.5 in June to 47.0 this month) and the fact that the New Orders index remained at the 50% mark for the second month in a row, represent a worrisome constellation of economic events. Moreover the number of Purchasing Managers who expect a weaker economy in the months ahead is now thirty-seven percent, a substantial increase from last month’s twenty-nine percent. July’s Commodity Price Index (59.1) is slightly down from last month’s 61.8, indicating that prices of raw materials continue to rise (although at a slightly slower rate than last month)."

"When these key components of the monthly Purchasing Managers survey are placed in an analytical context, they suggest that the local economy’s present growth is fragile and that the slight recovery that has been in place over the past few months could possibly be in jeopardy."

Following are some highlights from this month’s report:
July 2010 Business Survey at a Glance

<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>50.2</td>
<td>51.9</td>
<td>Growing</td>
<td>Faster</td>
</tr>
<tr>
<td>Commodity Prices</td>
<td>61.8</td>
<td>59.1</td>
<td>Increasing</td>
<td>Slower</td>
</tr>
<tr>
<td>Production</td>
<td>51.5</td>
<td>57.6</td>
<td>Growing</td>
<td>Faster</td>
</tr>
<tr>
<td>New Orders</td>
<td>50.0</td>
<td>50.0</td>
<td>Unchanged</td>
<td>From Unchanged</td>
</tr>
<tr>
<td>Inventory</td>
<td>41.2</td>
<td>47.0</td>
<td>Decreasing</td>
<td>Slower</td>
</tr>
<tr>
<td>Employment</td>
<td>51.5</td>
<td>47.0</td>
<td>Decreasing</td>
<td>From Increasing</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>53.0</td>
<td>56.3</td>
<td>Slowing</td>
<td>Faster</td>
</tr>
</tbody>
</table>

Purchasing Managers' Confidence in the State of the Local Economy

<table>
<thead>
<tr>
<th></th>
<th>% Stronger</th>
<th>% Same</th>
<th>% Weaker</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Stronger</td>
<td>10%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>% Same</td>
<td>61%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>% Weaker</td>
<td>29%</td>
<td>37%</td>
<td></td>
</tr>
</tbody>
</table>

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

Purchasing Managers' Index

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<table>
<thead>
<tr>
<th></th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weaker</td>
<td>17</td>
<td>33</td>
<td>28</td>
<td>8</td>
<td>20</td>
<td>24</td>
<td>22</td>
<td>19</td>
<td>27</td>
<td>16</td>
<td>14</td>
<td>29</td>
<td>37</td>
</tr>
<tr>
<td>Same</td>
<td>57</td>
<td>52</td>
<td>55</td>
<td>76</td>
<td>60</td>
<td>54</td>
<td>64</td>
<td>63</td>
<td>44</td>
<td>55</td>
<td>50</td>
<td>61</td>
<td>50</td>
</tr>
<tr>
<td>Stronger</td>
<td>26</td>
<td>14</td>
<td>17</td>
<td>16</td>
<td>20</td>
<td>22</td>
<td>14</td>
<td>19</td>
<td>29</td>
<td>29</td>
<td>36</td>
<td>10</td>
<td>13</td>
</tr>
</tbody>
</table>

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included: “Increase in production expected during next few months. Slight drop in steel pricing. Delivery time stable,” “Business good, normal slow season,” “Things are good.”

Some Purchasing Managers had negative comments: “Confusing -- sometimes business looks good then it drops off, so I have no idea what is going to happen,” “Construction spending still low, business at 40% of capacity,” “Things are slightly better, but I'm not comfortable that this will last.”

In summary, this month's report suggests that the soft recovery seen over the past few months could possibly be in jeopardy. In other words, although there are a few positive signs in this month's report, the local economy is not yet "out of the economic woods."

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