

# **INLAND EMPIRE REPORT ON BUSINESS**

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

at California State University, San Bernardino

**Report for June 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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## **Commodity Price Index Registers Record High as Purchasing Manager's Confidence Declines**

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 (48.7) continues to manifest high variability. Since November 2007 the PMI has hovered around the baseline 50% mark without three consecutive months either above or below 50% which would determine a trend in the local manufacturing sector. On the other hand, this month's PMI continues to remain above the 44.5% mark, suggesting that the **local economy** is maintaining its pattern of weak growth."

An encouraging sign is that the Production Index (54.4) remained above 50% this month (although it dropped from 59.0), thus indicating that manufacturing firms are continuing to increase their production. Another positive sign (albeit a weak one) is that New Orders increased from 46.2 to 50.0 indicating that the rate of decline in new orders has slowed. The local employment remains below 50% for the 9<sup>th</sup> consecutive month; however the rate of decline has slowed a bit, with the Employment Index up slightly 47.7 from last month's 44.9. **The big news of this report is that the Commodity Price figure climbed again this month to another record high: 87.8, up from 87.2 last month.** Purchasing Managers remain pessimistic about the state of the local economy for the coming quarter, with 45% indicating that the economy would remain the same, 55% expecting it to continue to weaken in the next quarter, and none anticipating a stronger economy.

"When Purchasing managers were asked if they had any overall remarks to offer, two had positive or "neutral" comments: "Orders are picking up," and "Same as a month ago." But on a worrisome note, several Purchasing Managers expressed concerns about their business: "The escalating price of crude oil continues to affect our business directly. We've seen price increases from our suppliers each month in 2008," "Fragile economy. Business is good but unsure how long it will last," "Construction very slow,"

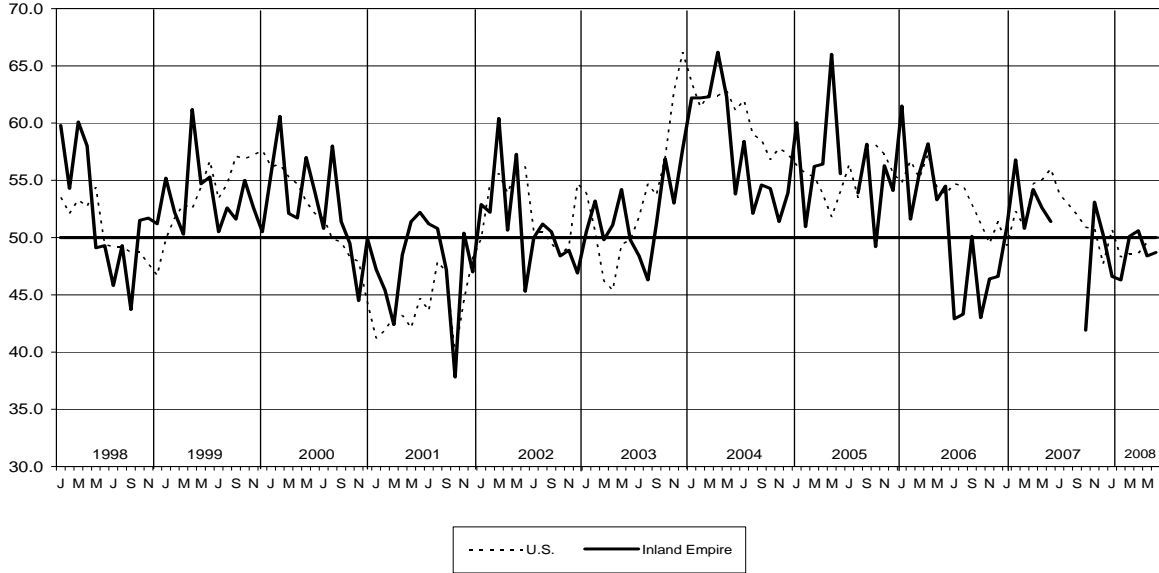
"We are shut down and waiting new orders to start manufacturing," "Still very slow," "Summer months are slower for us," "Business conditions are deteriorating. Inventories are being reduced to conserve cash," "A majority of our business is commercial aerospace, We expect a slowdown as airlines cancel orders for new aircrafts due to fuel costs," "Steel prices continue to rise, some sizes not readily available," and "Increasing fuel price certainly affects airline industry which in turn trickles down to our industry."

Following are some highlights from this month's report:

<b>June 2008 Business Survey at a Glance</b>				
	<b>Series Index</b>		<b>Direction from 50*</b>	<b>Rate of Change from Last Index</b>
	<b>Last Month</b>	<b>This Month</b>		
Local PMI	48.4	<b>48.7</b>	Contracting	Slower
Commodity Prices	87.2	<b>87.8</b>	Increasing	Faster
Production	59.0	<b>54.4</b>	Growing	Slower
New Orders	46.2	<b>50.0</b>	Unchanged	From Contracting
Inventory	47.4	<b>48.9</b>	Decreasing	Slower
Employment	44.9	<b>47.7</b>	Decreasing	Slower
Supplier Deliveries	40.8	<b>37.8</b>	Slowing	Faster
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>				
% Stronger	8%	0%		
% Same	42%	45%		
% Weaker	50%	55%		

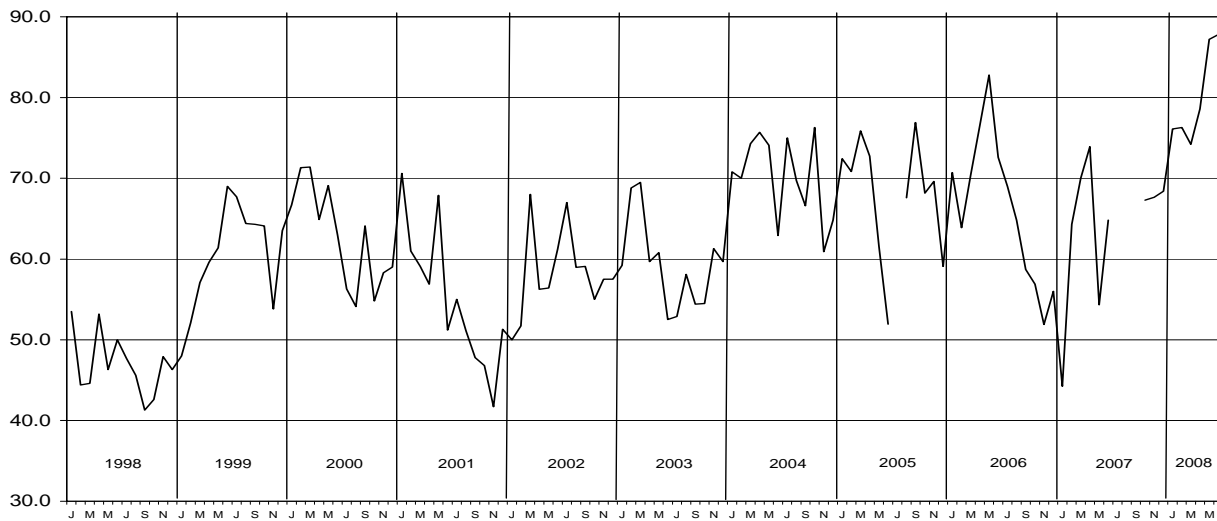
- NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

## 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.

June's Commodity Price Index (87.8) has increased from last month's figure (87.2) and is the highest figure since the report's inception in 1993. Figures in the 80's have not been seen since 1994. More importantly, several Purchasing Managers stressed in their comments that the high price of fuel is impacting their industry as well as the logistics industry (e.g. airlines), and they anticipate a further "trickle-down" effect.

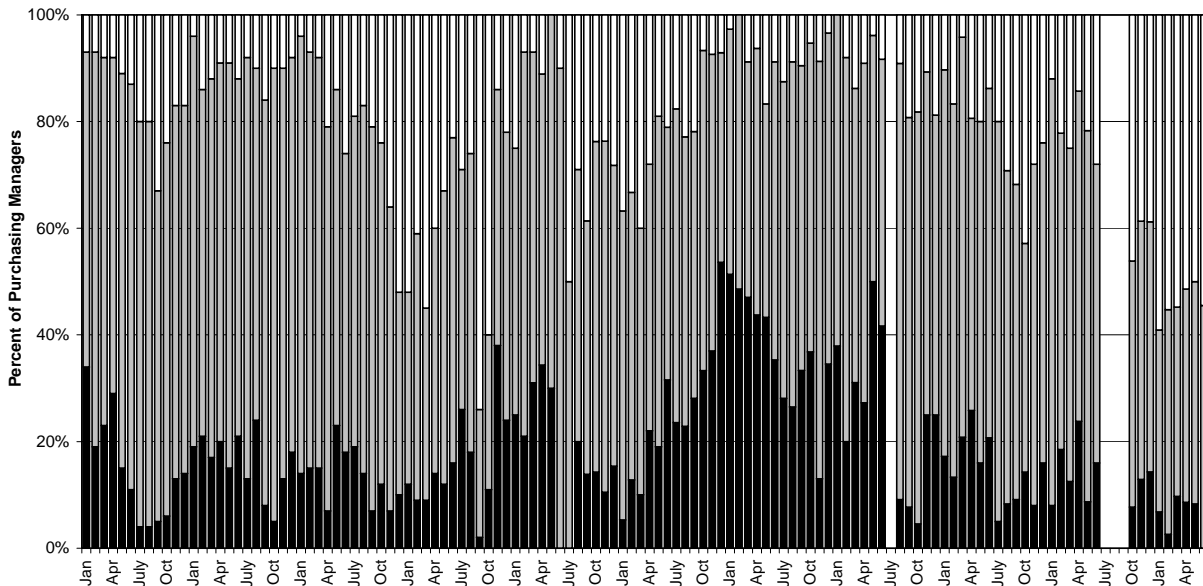
Purchasing Managers continue to be pessimistic about the state of the local economy. Fifty-five percent of purchasing managers believe the local economy will continue to be weak, and forty-five percent commented that they feel it will remain the same. This month is the first month since 2002 that not one Purchasing Manager stated the economy in the next quarter will be stronger.

**STATE OF THE ECONOMY: DATA FROM 6/2007 THROUGH 6/2008**

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
<b>Weaker</b>	28	-	-	-	46	39	38	59	55	55	51	50	55
<b>Same</b>	56	-	-	-	46	48	46	34	42	35	40	42	46
<b>Stronger</b>	16	-	-	-	8	13	16	7	3	10	9	8	0

- 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**



**FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:**

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