

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for May 2008

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

Supporter: College of Business and Public Administration, CSUSB

COMMODITY PRICES SOAR

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 (48.4) dropped below the baseline 50% mark for the first time since February's reading of 46.4. The methodology underpinning the PMI requires three consecutive months either above or below 50% in order to determine that a change in direction has occurred in the local manufacturing sector. Therefore two month's figures continue below 50 would suggest that the manufacturing sector is contracting. On the other hand, this month's PMI remained above the 44.5% mark, suggesting that the **local economy** is continuing its pattern of weak growth."

"It is encouraging that the Production Index (59.0) remains strong for the third month. But New Orders has dropped to 46.2 from last month's 54.3. The local employment picture in the Inland Empire, however, remains troublesome, with the Employment Index (44.9) remaining below 50% for the 8th consecutive month. The Commodity Price figure soared to new heights – 87.2, up from 78.6 last month. Purchasing Managers remain generally pessimistic about the state of the local economy for the coming quarter: only 8% percent of the Purchasing Managers commented that they expect the economy to be stronger in the next three months; yet 50% indicated that they expect it to be weaker, and the remaining 42% expect it to stay the same as it has been (i.e. weak growth)."

"When Purchasing managers were asked if they had any overall remarks to offer, a few had positive comments: "Volumes are picking up," "Economic activity has improved slightly as sales of existing homes increased," "A little better, not much though," "New orders up somewhat (seasonality)." But on a worrisome note, several Purchasing Managers expressed concerns about their business: "Business continues to be affected by the record prices of oil...", "The recreational marine industry continues to experience negative growth for another month," "Honey prices are rising weekly. Business is slower for us in the spring and summer," "Prices continue to rise in steel with spot shortages related to allocations," "Inventory valuation is rising while material on hand

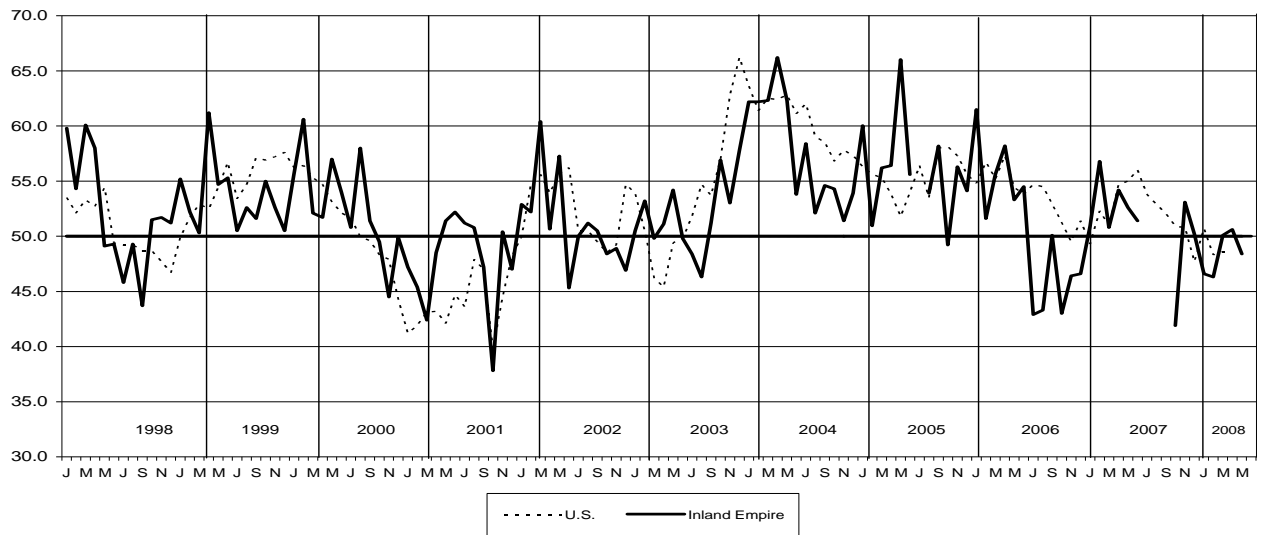
lowers," "Business not picking up as expected this time of year," "Price increases in material, cost are out of control," "Slower sales," "Unstable raw material costs have caused tighter inventory levels on both supplier and consumer sides," "Is getting difficult to keep up with prices everything is increasing."

Following are some highlights from this month's report:

May 2008 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	50.6	48.4	Contracting	From Increasing
Commodity Prices	78.6	87.2	Increasing	Faster
Production	52.9	59.0	Growing	Faster
New Orders	54.3	46.2	Contracting	From Increasing
Inventory	48.6	47.4	Decreasing	Faster
Employment	45.7	44.9	Decreasing	Faster
Supplier Deliveries	47.1	40.8	Slowing	Faster
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	9%	8%		
% Same	40%	42%		
% Weaker	51%	50%		

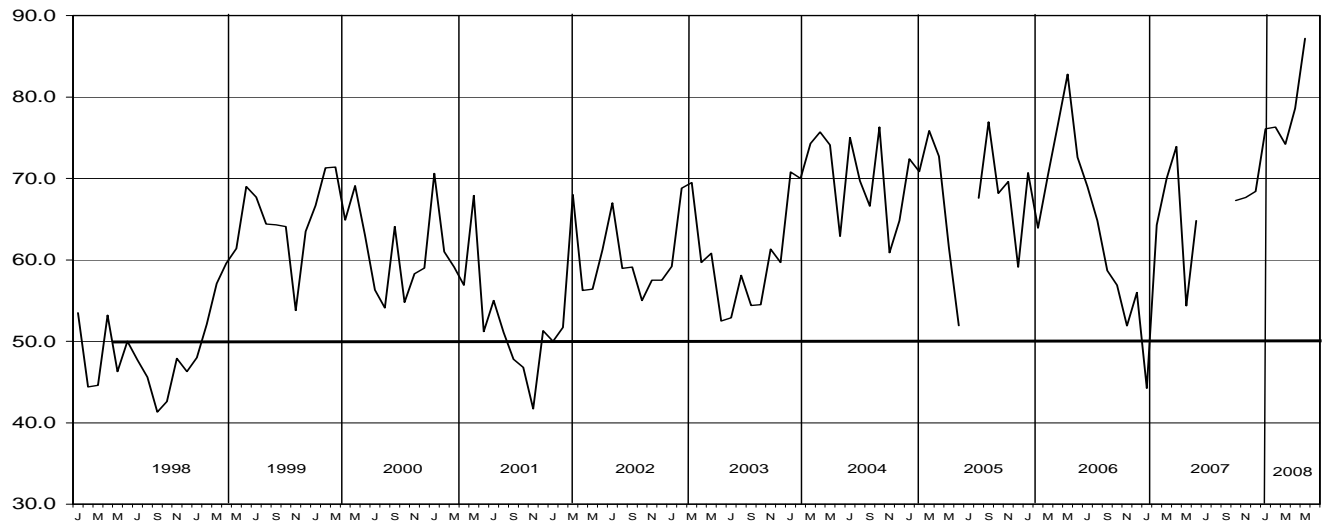
- NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

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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May's Commodity Price Index (87.2) has increased from last month's figure (78.6) 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 inflationary pressures are strongly impacting their business.

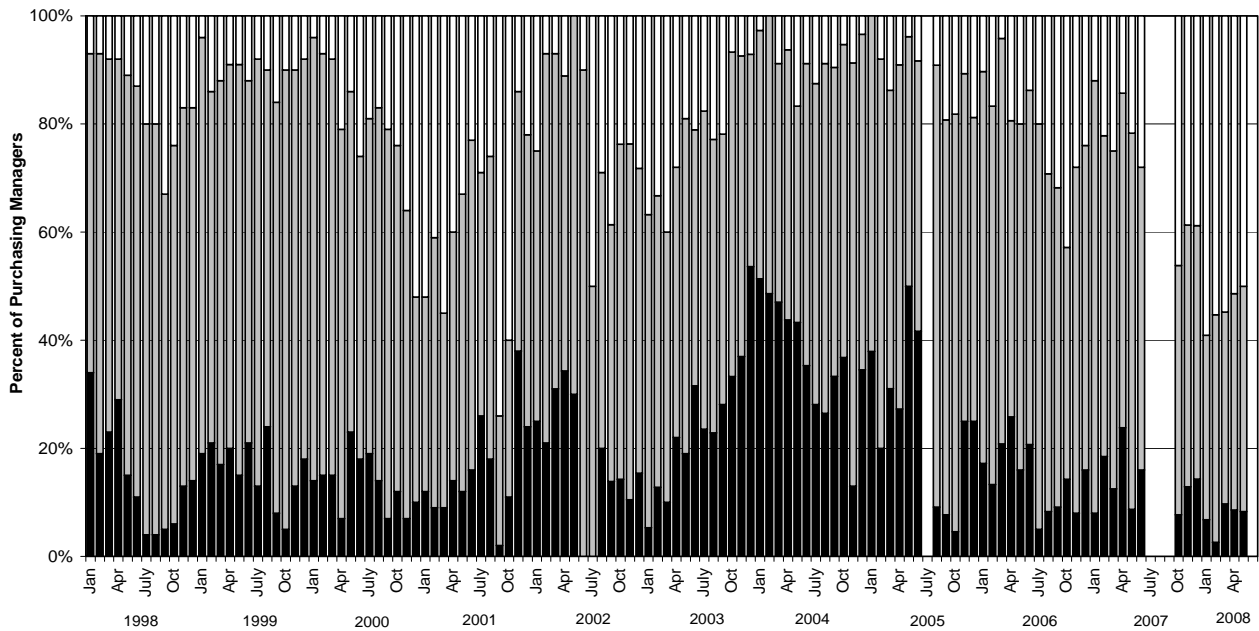
Purchasing Managers continue to be generally pessimistic about the state of the local economy. Only eight percent of purchasing managers predict that the local economy will become stronger in the upcoming months. Fifty percent of purchasing managers believe the local economy will continue to be weak, and forty-two percent commented that they feel it will remain the same.

STATE OF THE ECONOMY: DATA FROM 3/2007 THROUGH 3/2008

	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Weaker	22	28	-	-	-	46	39	38	59	55	55	51	50
Same	69	56	-	-	-	46	48	46	34	42	35	40	42
Stronger	9	16	-	-	-	8	13	16	7	3	10	9	8

- 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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