INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for May 2009

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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 SIGNALS POSSIBLE RECOVERY

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 (50.7) registered an increase from last month's PMI (44.5). This is the third month the PMI has registered above the 41.1% figure which, based on the methodology underpinning the PMI, indicates a change in direction of the local economy. Simply put, the short-run forecast for the next 3 months is that the local economy is once again in growth mode. Of course, there are still a lot of "wildcards in the deck" at the state, federal, and international levels. However, at this point the local economy appears to have turned the corner."

"In addition, this is the first month over the 50% benchmark for the manufacturing sector since April 2008. Another two months of PMI figures above 50 would signal that the manufacturing sector has turned around."

"When we break down the PMI in terms of its five key components, it is clear that there are many positive signs of an improving economy. In particular, the Production Index increased from 45.9 to 54.2 and New Orders increased from 47.3 to 54.2. These two components are among the most critical in the PMI in that they show that companies are gearing up for future increases in consumer purchases. The Employment index (47.2) also registered a sharp increase when compared with last month's figure (37.8), although the fact that the figure remained below 50 indicates that employment is still slightly declining. Of course, one would expect that companies would be reluctant to hire until the economy shows signs of sustained growth -- that seems to be the case as expressed by this month's Employment Index. Inflationary pressures continue to be a

non-issue within the Inland Empire, with the Commodity Prices Index registering below 50% again this month (36.1)."

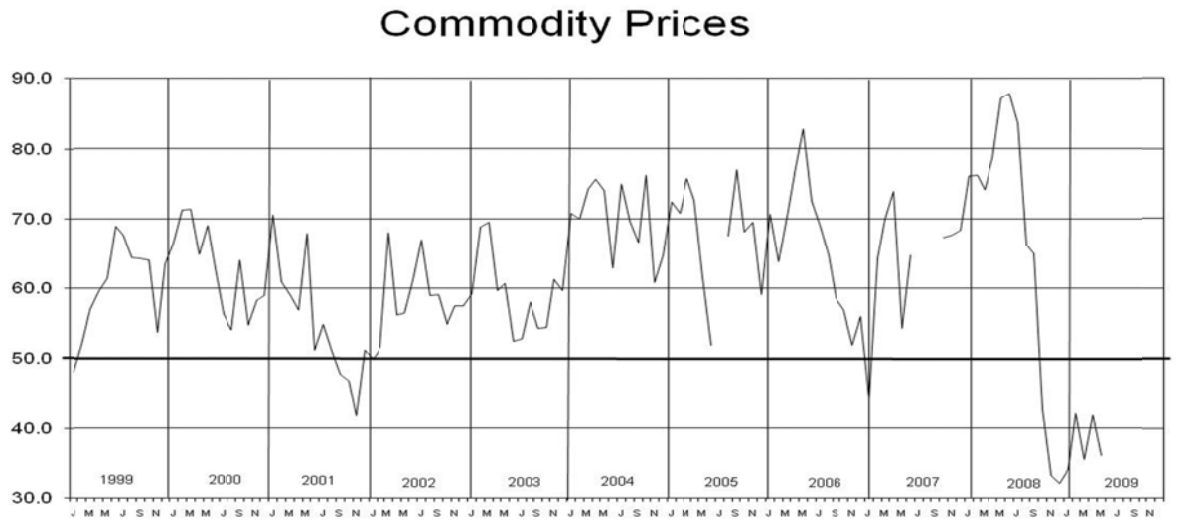
"In the midst of this encouraging news, there is still a cautionary note in that a third of the Purchasing Managers still believe that the economy will be weaker in the coming quarter, and 53% believe that it will remain the same."

Following are some highlights from this month's report:

May 2009 Business Survey at a Glance				
	Series Index			
	Last Month	**This Month**	**Direction from 50***	**Rate of Change from Last Index**
Local PMI	44.5	**50.7**	Growing	From Contracting
Commodity Prices	41.9	**36.1**	Decreasing	Faster
Production	45.9	**54.2**	Growing	From Contracting
New Orders	47.3	**54.2**	Growing	From Contracting
Inventory	41.9	**45.8**	Decreasing	Slower
Employment	37.8	**47.2**	Decreasing	Slower
Supplier Deliveries	47.3	**45.8**	Slowing	Faster
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	11%	14%		
% Same	51%	53%		
% Weaker	38%	33%		

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

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



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Purchasing managers continue to be less than enthusiastic about the state of the local economy. Fourteen percent of the purchasing managers predict that the local economy will become stronger in the upcoming months. Although that appears encouraging, the reader should note that fifty-three percent of purchasing managers believe the local economy will remain unchanged (where "unchanged" refers to a weak economy). Meanwhile, the remaining thirty-three percent believe the local economy will become weaker by next quarter, which is a decline from April's thirty-eight percent.

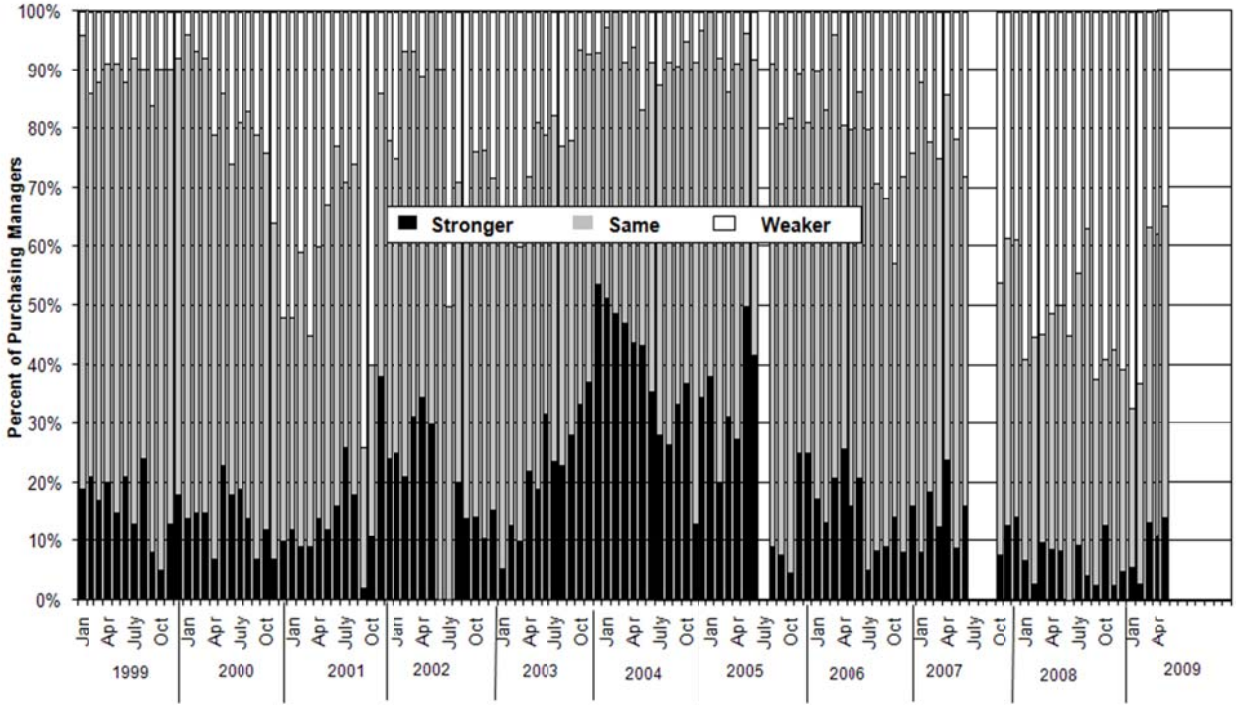
STATE OF THE ECONOMY: DATA FROM 5/2008 THROUGH 5/2009

	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Weaker	50	55	44	37	62	59	58	61	68	63	37	38	33
Same	42	46	46	59	35	28	40	34	27	34	50	51	53
Stronger	8	0	9	4	3	13	3	5	5	3	13	11	14

It is noteworthy that this month the Purchasing Managers' positive comments outweigh the negative comments. When Purchasing Managers were asked if they had any overall remarks to offer, positive comments included: "Business is solid in the gun, safe, and security products industry," "Increased quotes, increased orders!!! Still working 4 days a week," "Volume increasing steadily. New production lines added in last 6 weeks total 4," "Economy appears to be slightly stronger over last month. We are preparing for our busiest season of the year, the summer, so our production, inventories, employment are higher," "Business picking up," "Current back log is better than previous months, but the 4th quarter looks bad unless something falls out of the sky," and "Current production stable…slight increase on orders for next month's production."

A few Purchasing Managers expressed concerns about their business: "Still very slow," "Overall business is very slow due to excess inventories and economic global slowdown," and "Suppliers are hungry and very competitive. Things do not appear to be as good as the news media would like us to believe."

State of the Local Economy



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FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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