

# **IAR'S INLAND EMPIRE REPORT ON BUSINESS**

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

at California State University, San Bernardino

**Report for November 2007**

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

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## **LOCAL ECONOMY GROWS IN NOVEMBER**

According to Shel Bockman, Barbara Sirotnik, and Christen Ruiz (Co-Directors of the Institute of Applied Research), "This month's PMI (53.1) increased dramatically from last month's PMI (41.9). This figure indicates that the **local manufacturing sector** is growing. In addition, this month's PMI is above the 44.5% mark, suggesting an expanding **local economy**. Moreover, the New Orders and Production indices (two of the major components of the PMI) are especially strong (57.4 and 55.9, respectively). Although Purchasing Managers still remain generally pessimistic about the state of the local economy for the coming quarter, even this indicator was more positive than last month."

"We noted in last month's report that it takes three consecutive months of consistent findings regarding direction of the PMI to establish a trend. In this context, this month's data is only the first data point above 50 since June (our last report before the three-month hiatus), thus it will take two more months before we can conclusively establish whether there is a growth trend in place or whether the economy is simply turbulent. But this month's finding does allow us to say that last month's extremely low PMI figure was not indicative of a downward trend."

"While this month's PMI figure is encouraging, it still needs to be interpreted in light of other economic indices/factors. Clearly the slowdown in construction, the instability in oil prices, and the weak dollar are of concern. Consumer confidence surveys indicate that consumers may be spending less at this time of year than in previous years. And a glance at historical PMI figures shows that there is typically a temporary spike in the PMI towards the end of the year, one which precedes a slight downturn during the first quarter of the following year."

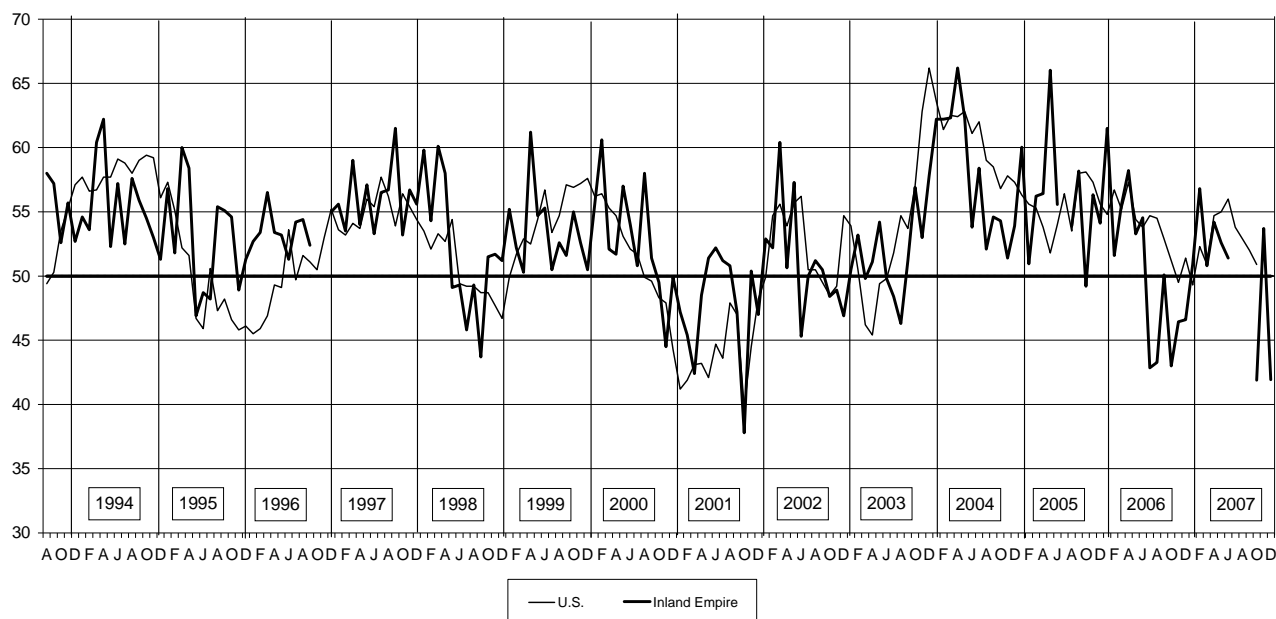
"In summary, it should be noted that over the past year and a half the economy has been especially volatile. There are areas of strength in this economy as well as areas of weakness as noted above. This volatility will probably continue until some of the major issues such as the oil and mortgage crises are resolved."

Following (on the next page) are some highlights from this month's report:

<b>November 2007 Business Survey at a Glance</b>				
	<b>Series Index</b>		<b>Direction*</b>	<b>Rate of Change</b>
	<b>Last Month</b>	<b>This Month</b>	<b>From 50</b>	<b>From last index</b>
Local PMI	41.9	53.1	Expanding	From contracting
Commodity Prices	67.3	67.6	Increasing	Faster
Production	46.2	55.9	Expanding	From contracting
New Orders	36.5	57.4	Expanding	From contracting
Inventory	38.5	47.1	Contracting	Slower
Employment	40.4	45.5	Contracting	Slower
Supplier Deliveries	50.0	54.4	Slowing	From unchanged
<b>Purchasing Managers' Confidence in the State of the Local Economy:</b>				
% Stronger	8%	13%		
% Same	46%	48%		
% Weaker	46%	39%		

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

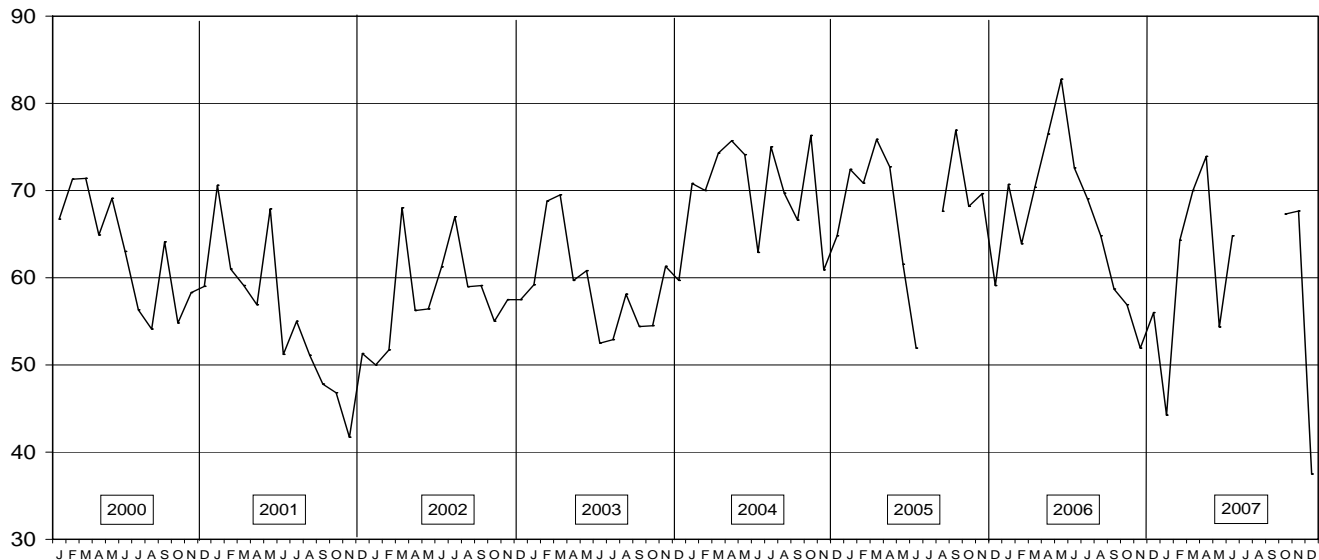
## Purchasing Managers' Index



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

November's Commodity Price Index of 67.6 is virtually unchanged from last month's figure of 67.3 which shows that inflationary pressures in the Riverside and San Bernardino County continue to exist (although they are not significantly worse than last month).

## Commodity Prices



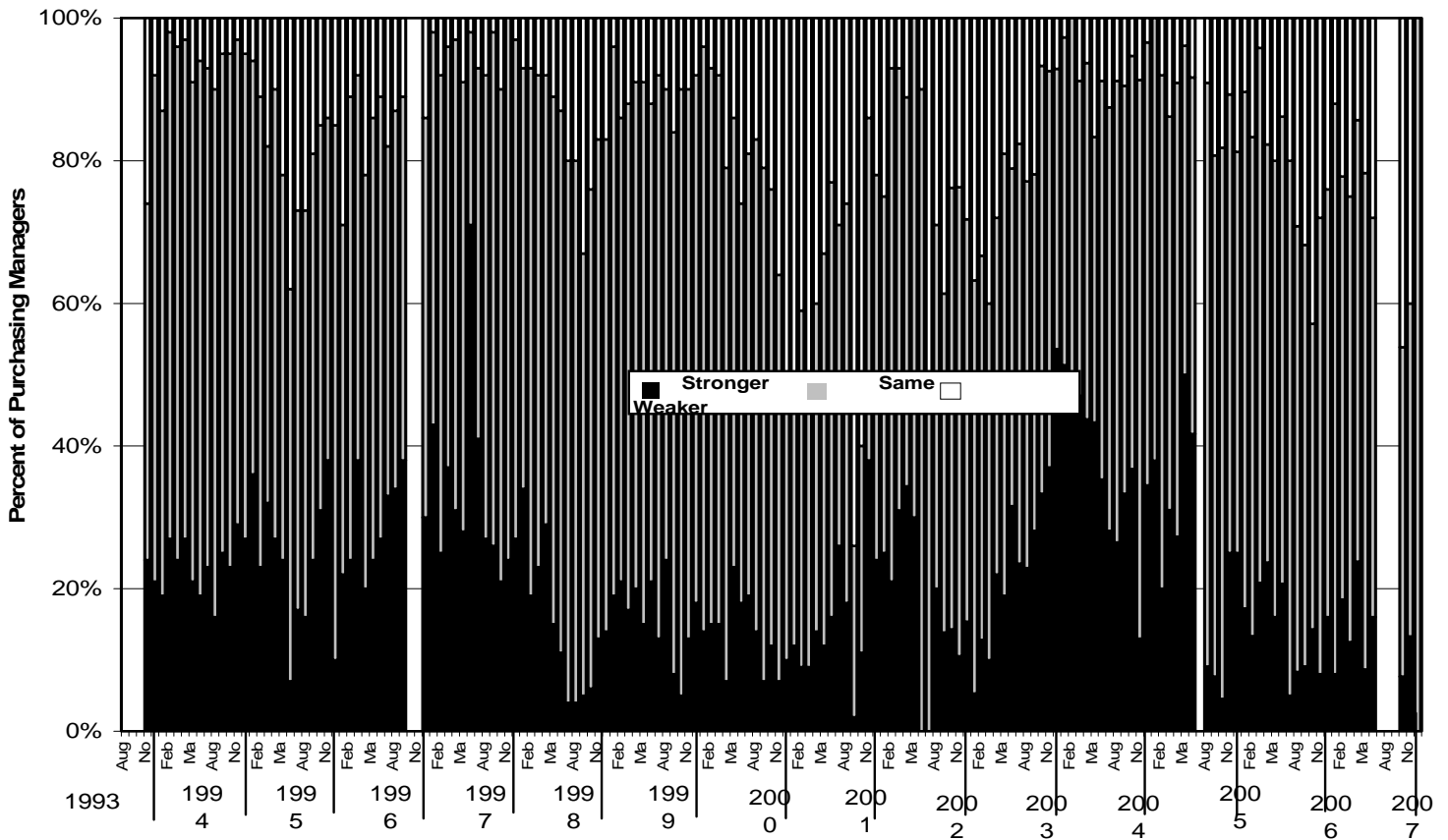
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Purchasing Managers continue to be “less than optimistic” about the state of the local economy for the coming quarter. Only 13% of purchasing managers predict that the local economy will become stronger in the upcoming months, whereas 39% of purchasing managers believe the local economy will become weaker by next quarter. The remaining 48% feel that the economy is in a “holding pattern” and expect the local economy to remain unchanged for the next three months.

**STATE OF THE ECONOMY: DATA FROM 11/2006 THROUGH 12/2007**

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Weaker</b>	24	12	22	25	14	22	28	-	-	-	46	39	100
<b>Same</b>	60	80	59	63	62	69	56	-	-	-	46	48	0.0
<b>Stronger</b>	16	8	19	12	24	9	16	-	-	-	8	13	0.0

## State of the Local Economy



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When Purchasing managers were asked to make comments on the general business conditions that affected their company, some remarked positively: "Commercial sector is strong", and "Other sectors picked up."

Meanwhile, other managers remarked negatively : "The housing credit correction has started to spillover into the general economy", "The instability of the oil pricing is causing a strain on our profit forcing us to increase pricing in 2008", "Little soft", "Housing starts still slow", and "Slow down in construction, has affected our sales!"

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

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