

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for October 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

PMI Jumps Above 50

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 (55.2) registered a substantial gain from last month's PMI (43.5), suggesting that the local manufacturing sector and the local economy are growing. It is too early to tell if this indicator of growth in the Inland Empire's manufacturing sector can be sustained for the next two months so that a new trend can be established. A PMI above 41.1% over a period of three consecutive months generally indicates that the economy is in the growth mode."

"It is noteworthy that the Production Index increased to 57.9 from 47.5, and New Orders increased from 46.3 to 59.5. The fact that these two key components of the PMI increased indicate that some of the manufacturing companies anticipate increasing purchases from consumers. The Employment index (55.3) showed sharp improvement when compared with last month's figure (40.0), which is the first time above 50 since May of 2007."

"Commodity prices remain high (52.7, down slightly from 56.4 last month), showing that inflationary pressures are still present (especially due to unstable oil prices). According to our Purchasing Managers, the figure above 50 reflects higher prices of raw materials such as plastic, polypropylene, oil, all metals, strapping, bearings, gears, liners, etc."

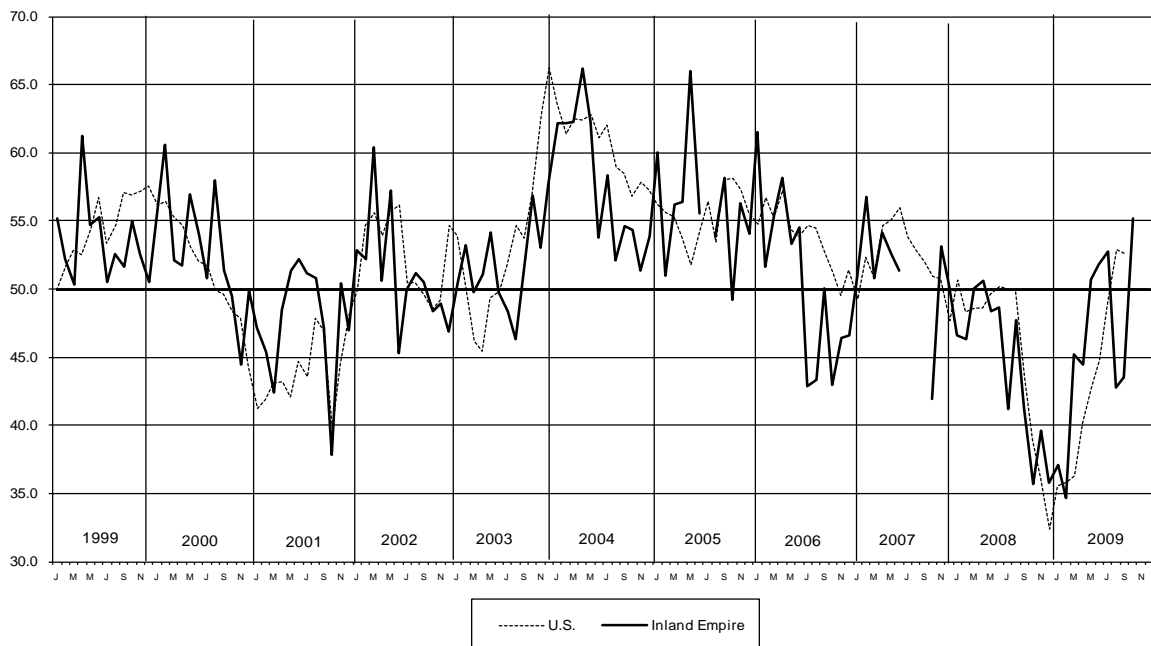
"Although this is the strongest report in recent months, it is still too early to tell whether this is a signal that the end of the recession in the Inland Empire is near, or just another indication of a volatile economy."

Following are some highlights from this month's report:

| October 2009 Business Survey at a Glance | | | | |
|--|---------------------|-------------------|---------------------------|---------------------------------------|
| | Series Index | | Direction from 50* | Rate of Change from Last Index |
| | Last Month | This Month | | |
| Local PMI | 43.5 | 55.2 | Growing | From Contracting |
| Commodity Prices | 56.4 | 52.7 | Increasing | Slower |
| Production | 47.5 | 57.9 | Growing | From Contracting |
| New Orders | 46.3 | 59.5 | Growing | From Contracting |
| Inventory | 33.8 | 47.4 | Decreasing | Slower |
| Employment | 40.0 | 55.3 | Increasing | From Decreasing |
| Supplier Deliveries | 42.5 | 47.4 | Slowing | Slower |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | |
| % Stronger | 17% | 16% | | |
| % Same | 56% | 76% | | |
| % Weaker | 28% | 10% | | |

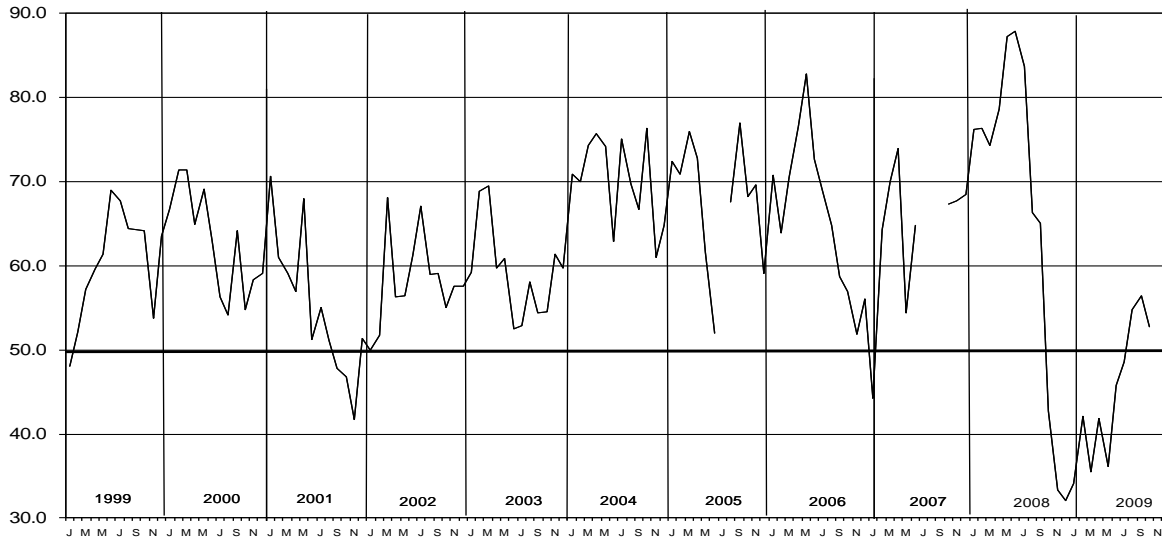
NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

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, and July 2005 and July through September 2007.

Purchasing Managers continue to be cautious about the state of the local economy, but are clearly more upbeat than we have seen them for years. Although only sixteen percent of purchasing managers predict that the local economy will be stronger in the upcoming months, it is noteworthy that only 8 percent predicted that the local economy would be weaker (a low figure that hasn't been seen since 2006).

STATE OF THE ECONOMY: DATA FROM 10/2008 THROUGH 10/2009

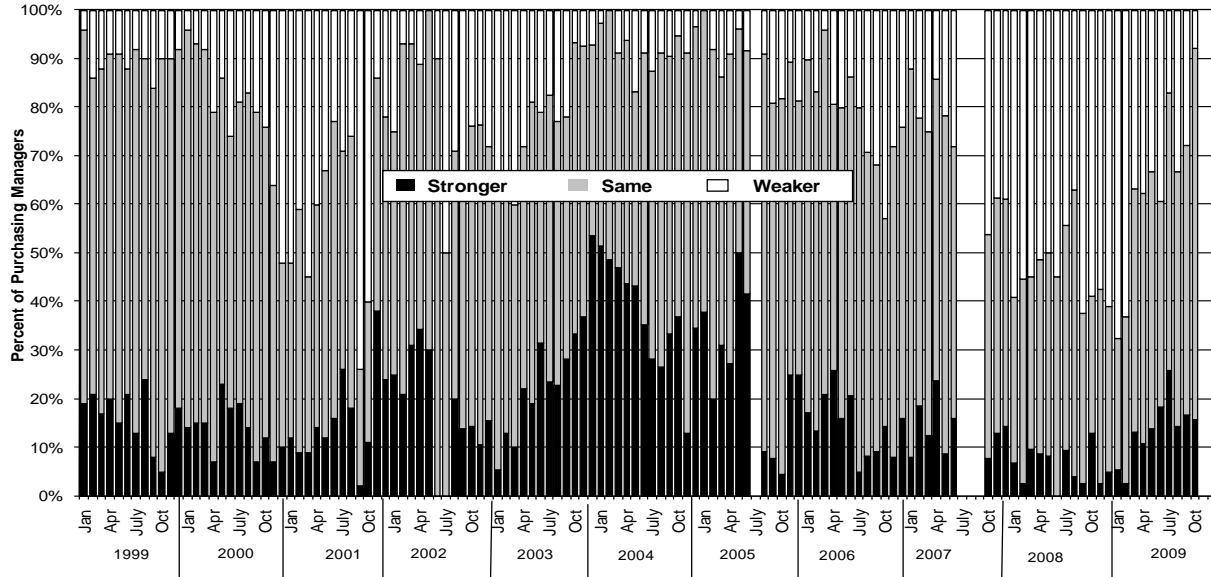
| | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct |
|----------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Weaker | 59 | 58 | 61 | 68 | 63 | 37 | 38 | 33 | 39 | 17 | 33 | 28 | 8 |
| Same | 28 | 40 | 34 | 27 | 34 | 50 | 51 | 53 | 43 | 57 | 52 | 55 | 76 |
| Stronger | 13 | 3 | 5 | 5 | 3 | 13 | 11 | 14 | 18 | 26 | 14 | 17 | 16 |

When Purchasing Managers were asked to make comments on the general business conditions that affected their company, positive remarks included: "Looking up somewhat," "Still busy with government related orders. Construction related products still down," "Business remains strong," "Funding is being released for projects. We are starting to receive orders from bids down 5 or 6 months ago," "October best month in 5," "This is our busy time of year. Sales are up and so is production."

Some Purchasing Managers had negative comments about general business conditions: "Still slow," "The signs of a recovery might have been a bubble after all," "The price of our raw material decreased this month from last month, even with oil continuing to rise. We expect plastic to come down next month as well, but it should spike up thereafter. We are in our slow season, so not much has changed from last

month," "Slow down period, time of the year, looking to shut down November and December."

State of the Local Economy



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In conclusion, IAR views this report as one of the strongest in recent months, with all key indicators showing marked improvement. Moreover, it is especially important that employment has registered above 50 since mid-2007.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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