

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

Housed in CSUSB's *College of Business and Public Administration*

Report for October 2012

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

PMI (49.1) is on the rise, but still remains below 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), "Although this month's PMI (49.1) registered a sharp increase from last month's figure (43.6), it is still below 50%. Further, all main indicators which comprise the PMI registered 50 or below. If in fact the PMI remains below 50% for another month, there will be indications that the local manufacturing sector has changed direction and is now contracting."

"When we examine the two most critical components of the index (Production and New Orders), we see some slightly positive signs. The Production Index increased to 50.0 from 37.5 and the New Orders Index increased from 37.0 to 48.8. The Employment Index increased from 44.6 to 47.6 with several companies stating they added permanent staff this month. Inflationary pressures within the Inland Empire appear to have eased somewhat, with the Commodity Prices Index registering at 54.9 (a decrease from 64.1 last month).

Imports showed a slight decrease from last month (43.8 to 40.0). Exports increased from 35.7 to 43.8. Comments include: "Apparently stimulus money is available in Mexico, Saudi Arabia, Bahrain, Czech Republic, all places where we have sold machinery. Canada sales are strong because economy is strong. US sales are good driven by tax incentives." and "In the process of both developing our Export effort as well as continue to ship to current customers outside of the USA," and "Business in Middle East, Mexico, Canada is strong."

"Fewer Purchasing Managers this month (when compared to last month) indicated that they expect the state of the local economy to remain "the same" in the coming quarter. What this suggests is that there is a polarization in views between those who think the economy is getting stronger (21%, up from 12% last month) and those who think it is getting weaker (49%

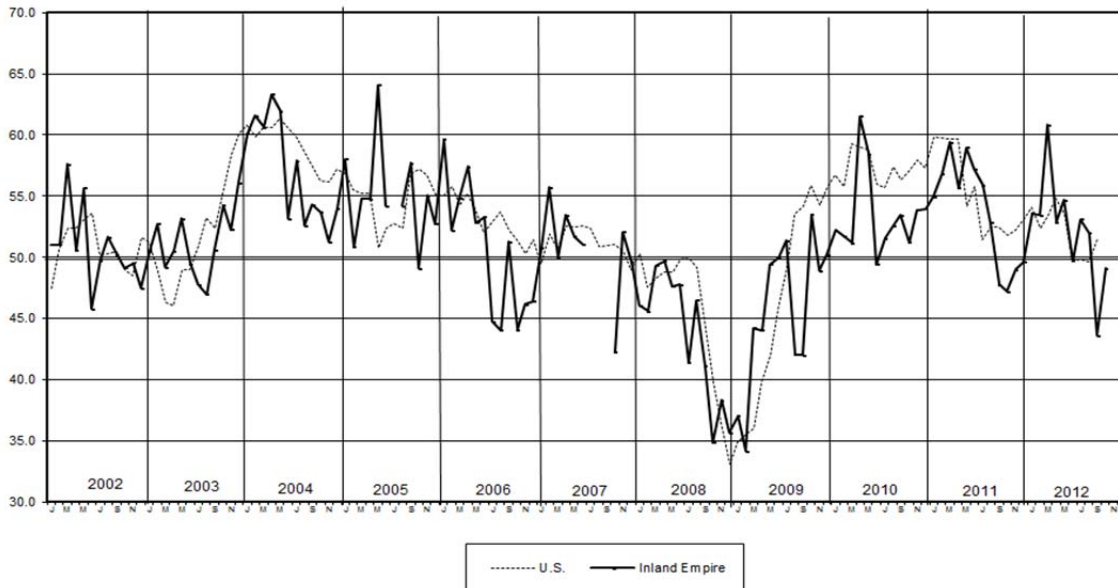
this month, up from 42%). Only 31% now think the economy will remain the same, whereas last month that figure was 47%.”

Following are some highlights from this month’s report:

October 2012 Business Survey at a Glance				
	Series Index		Direction from 50	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	43.6	49.1	Contracting	Slower
Commodity Prices	64.1	54.9	Increasing	Slower
Production	37.5	50.0	Unchanged	From Contracting
New Orders	37.0	48.8	Contracting	Slower
Inventory	46.7	42.9	Decreasing	Faster
Employment	44.6	47.6	Decreasing	Slower
Supplier Deliveries	51.1	56.1	Slowing	Faster
Imports	43.8	40.0	Contracting	Faster
Exports	35.7	43.8	Contracting	Slower
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	12%	21%		
% Same	47%	31%		
% Weaker	42%	49%		

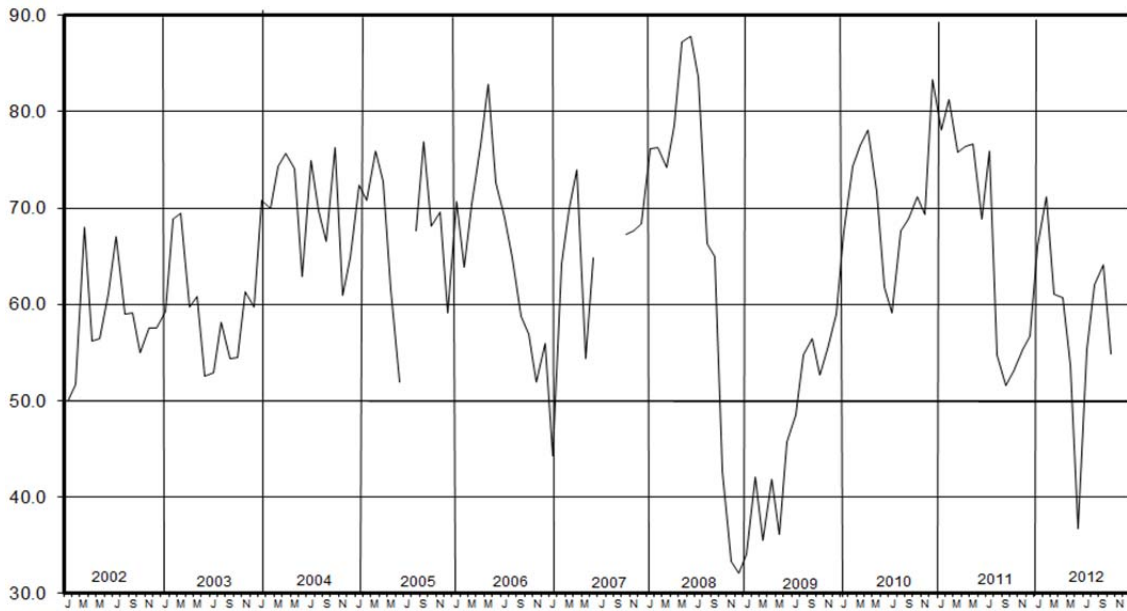
* Numbers may not sum to 100% due to rounding differences.

Purchasing Managers' Index



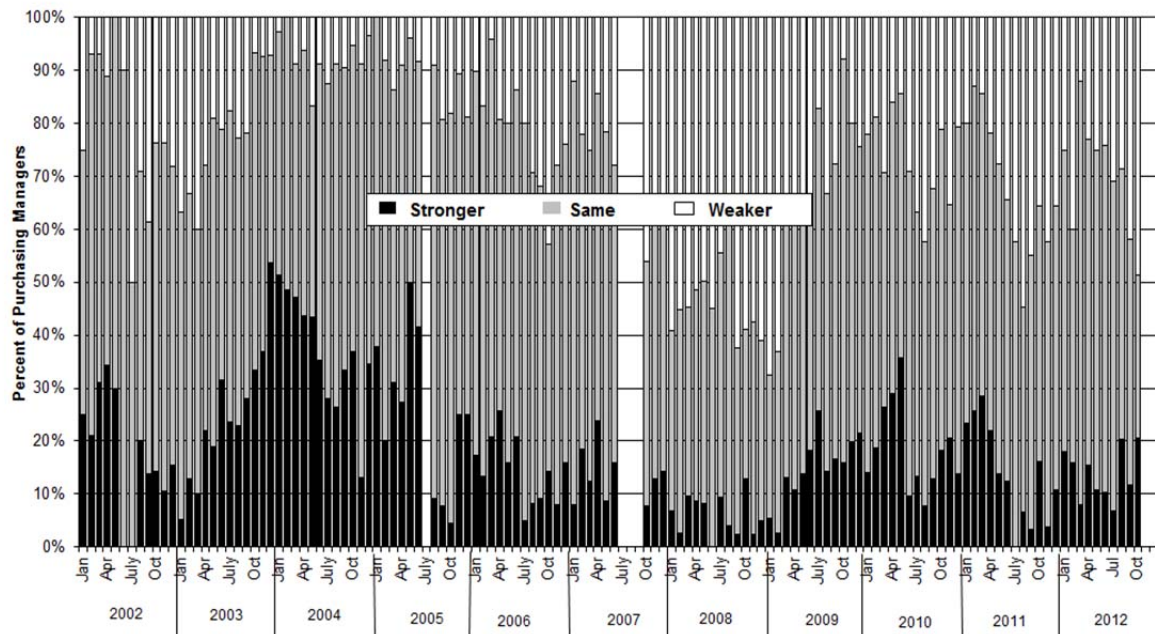
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 10/2011 THROUGH 10/2012

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Ma	Jun	Jul	Au	Sep	Oct
Weaker	36	42	36	25	40	12	23	25	24	31	29	42	49
Same	48	54	53	57	44	80	62	64	66	62	51	47	31
Stronger	16	4	11	18	16	8	15	11	10	7	20	12	21

Positive remarks from Purchasing Managers included: "Business in U.S. is up significantly," "We see a slight upswing in new residential construction, with re-roofing about the same as the last several years," "Improving little by little," and "Steady improvement."

Negative comments include: "The uncertainty created by the government in subjects from taxes to the election is having an effect," "Our roofing industry has over capacity which will not be cured through demand for at least two years," "Cash flow sometimes hinders purchasing in construction industry," "Deteriorating economic conditions are adversely affecting the general retail environment," "We are anticipating a down turn in business over the next 6 to 12 months due to the political climate. Economic uncertainty in the U.S. and California are effecting our sales," "The world economy will have some effect on our export sales," "Business has slowed slightly," "Uncertainty about the election and the amount of defense spending budget are effecting us," "No activity due to election uncertainty," "It is usually a slow time for us, but this year it is even slower than usual," and "China pricing is weakening demand for U.S. products."

In summary, this month's report shows improvements in the areas of Production and New Orders, but the indices still don't show enough strength to cross the baseline 50% mark. Distilling Purchasing Managers remarks, political and economic uncertainty remain the name of the game.

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