

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for October 2008

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

Supporter: College of Business and Public Administration, CSUSB

PMI AT LOWEST LEVEL SINCE REPORT'S INCEPTION IN 1993

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 report clearly reflects recent national and global events, as well as those in the Inland Empire. In October the media has continued its daily front page headlines regarding the dismal state of the national and global economy, including such worrisome events as the need for a \$700 billion bailout package, banks closing their doors, layoffs by the thousands, and long time retailers closing their doors or downsizing."

"It is not surprising, therefore, that this month's PMI (35.7) has hit a new low since the report's inception in 1993. The only PMI figure which was close occurred in October 2001 (37.8), after 9/11 attack. All key indicators contracted: the Employment Index decreased from 36.6 to 30.0 and reached its lowest level since 1993. Production dropped from 42.7 to 41.3, Inventories fell from 37.2 to 27.5 and New Orders decreased from 41.5 to 35.4. Supplier Deliveries increased from 47.6 to 40.2. The Commodity Price Index plummeted to 42.7."

"Economists generally agree that a decline in the GDP for two consecutive months indicates a national recession. Similarly, a PMI below 41.1% over a period of time generally indicates that the economy is in decline (this is the currently readjusted figure from the Institute for Supply Management which conducts the national PMI study). Since this is the first month with a PMI below that level and the 6th consecutive month of PMI figures below 50, the manufacturing sector is in decline and we may very well now be witnessing the beginning of a declining local economy as well."

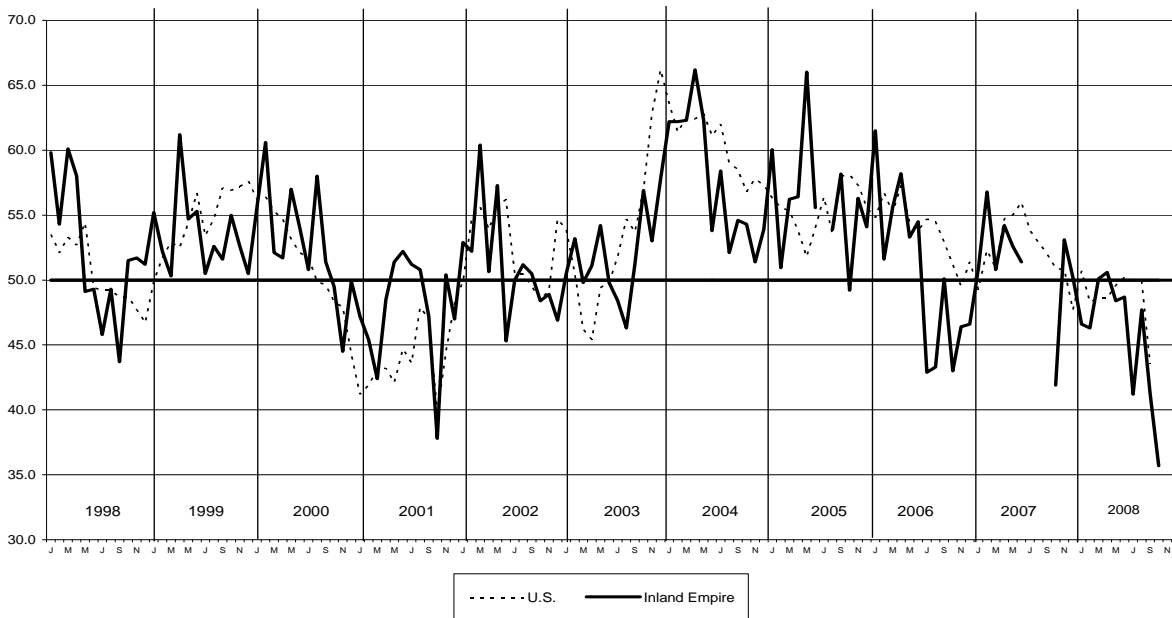
Following are some highlights from this month's report:

October 2008 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	41.3	35.7	Contracting	Faster
Commodity Prices	65.0	42.7	Decreasing	From Increasing
Production	42.7	41.3	Contracting	Faster
New Orders	41.5	35.4	Contracting	Faster
Inventory	37.2	27.5	Decreasing	Faster
Employment	36.6	30.0	Decreasing	Faster
Supplier Deliveries	47.6	40.2	Slowing	Faster

Purchasing Managers' Confidence in the State of the Local Economy			
% Stronger	3%	13%	
% Same	35%	28%	
% Weaker	63%	59%	

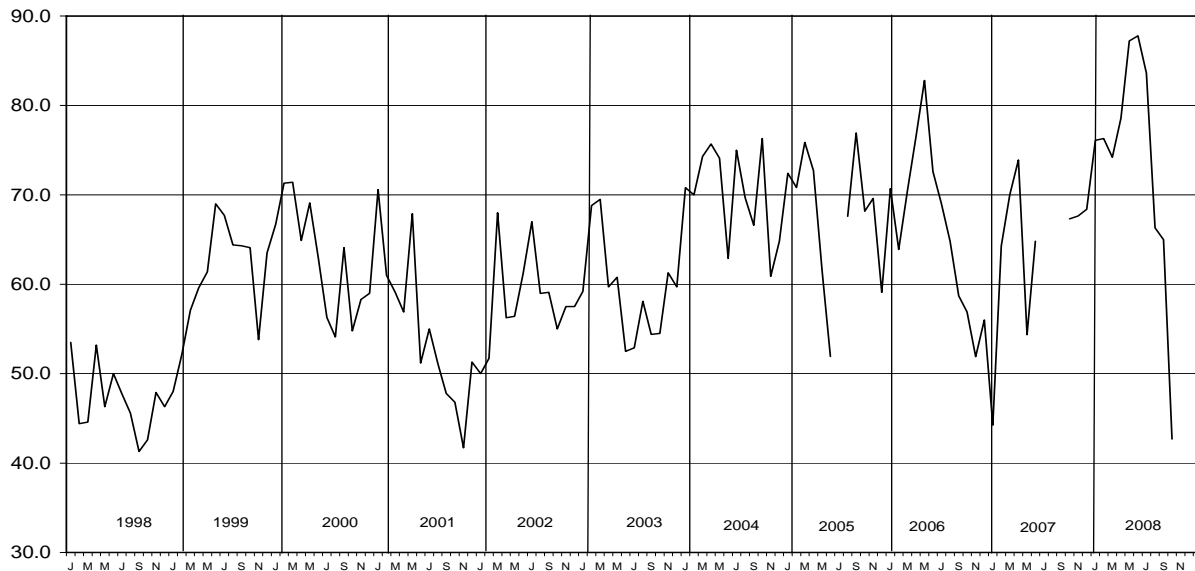
- NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

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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Conventional wisdom would indicate that in a weak economy, demand for finished goods declines. This drop in demand often results in decreased prices for the raw materials used in production (e.g. oil, metals). Although October's Commodity Price Index (42.7) declined dramatically this past month from 65.0 last month, comments from Purchasing Managers indicate that they are still concerned about high prices (even though some indicated that pricing "leveled out" since last month). Employee layoffs and slow sales were the biggest concerns stated in this month's data collection.

The percentage of Purchasing Managers predicting that the state of the economy will be weaker during the next quarter has decreased slightly from 63% in September to 59% in October. Thirteen percent of the Purchasing Managers forecast that the state of the local economy will be stronger in the coming quarter, up from 3 % last month and 28% believe the local economy will continue to be the same.

STATE OF THE ECONOMY: DATA FROM 10/2007 THROUGH 10/2008

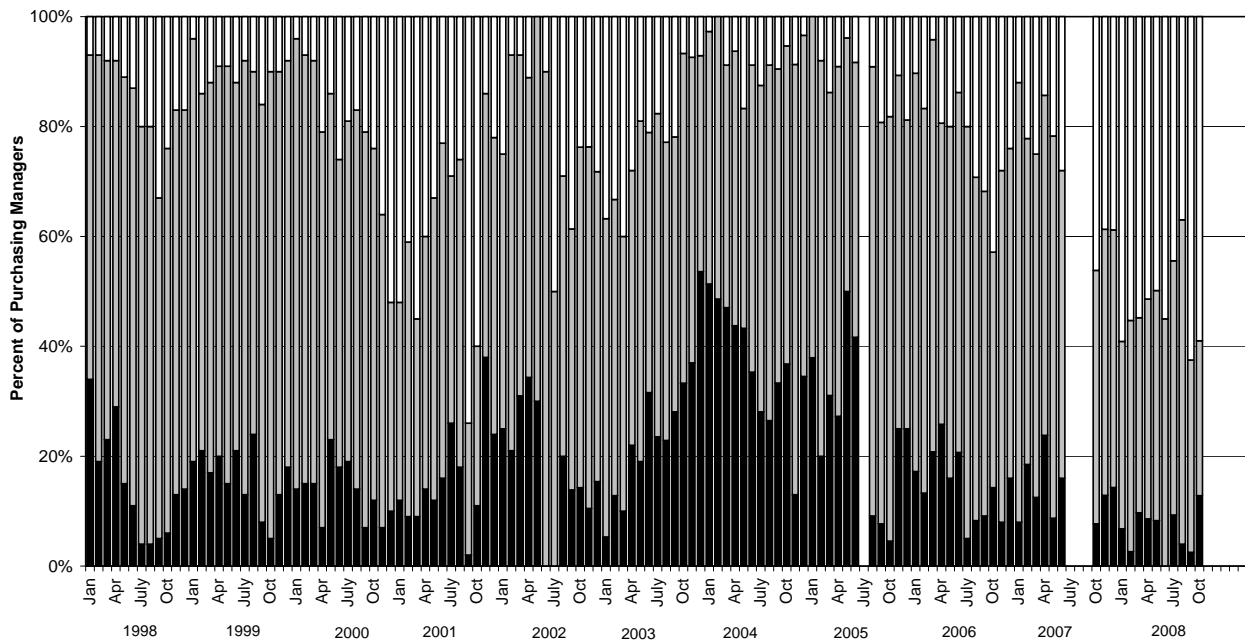
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Weaker	46	39	38	59	55	55	51	50	55	44	37	62	59
Same	46	48	46	34	42	35	40	42	46	46	59	35	28
Stronger	8	13	16	7	3	10	9	8	0	9	4	3	13

When Purchasing managers were asked to make comments on the general business conditions that affected their company, a few remarked positively: "We are a government

contractor and have not seen too much of a slow down in military purchases as of October," "Business is better for us in the fall and winter. This year is no exception," "Overall same as last year this time," "Order position for primary product still strong," "Our plant is busy with 2 overseas orders... will see a slow down sometime after the 1st of the year," "Several steel suppliers indicate reduced prices between now and end of the year," and "Stronger dollar and weaker financial markets depressing commodities prices which improve our purchasing power against export pressure."

But many Purchasing Managers offered negative comments about general business conditions: "No improvement," "We've had a layoff of 8% because of slow sales," "Back log down 50%--slowing of orders coming in! Outlook not good for balance of 2008," "Sales has decreased slightly, however new product release will off-set," "Still very slow, but it has bottomed," "Slow, going into our slow part of the year with high inventory," "The tightening of bank credit is hurting," "Ugly," "We have laid off 110 employees on October 10th. This was in addition to three lay offs during the summer of 49 people each. We are now down to less than 1/3 of our work force," and "Slow."

State of the Local Economy



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FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:
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