

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for September 2009

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

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PMI Declines for Second Month in a Row

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 (43.5) was virtually unchanged from last month's (42.8). This month's figure is especially worrisome in that if next month's figure again registers below the 50% mark, this would signify that the manufacturing sector has returned to decline mode after a brief period of recovery. On the other hand, this is the seventh consecutive month the PMI has remained above the 41.1% figure, indicating that the local economy remains in growth mode."

"The two key indicators in the PMI (the Production and New Orders indices) remained below the 50% mark this month. The Production Index is now 47.5 (up from 45.3 last month) and the New Order Index increased to 46.3 from last month's 43.0. But these two indices still remain well below the 50% mark. Further, the Employment Index remained low this month (40.0, down from 40.7 last month) suggesting that the lack of job creation and the current unemployment rate remain major concerns in the Inland Empire."

"The Commodity Price Index rose this month to 56.4 from last month's 54.7, which, according to our Purchasing Managers, reflects higher prices of raw materials such as plastic, polypropylene, oil, all metals, strapping, bearings, gears, and liners for the second month in a row."

"Finally, Purchasing Managers were less optimistic this month than last month, with 28% indicating the local economy will be weaker in the next quarter and only 17%

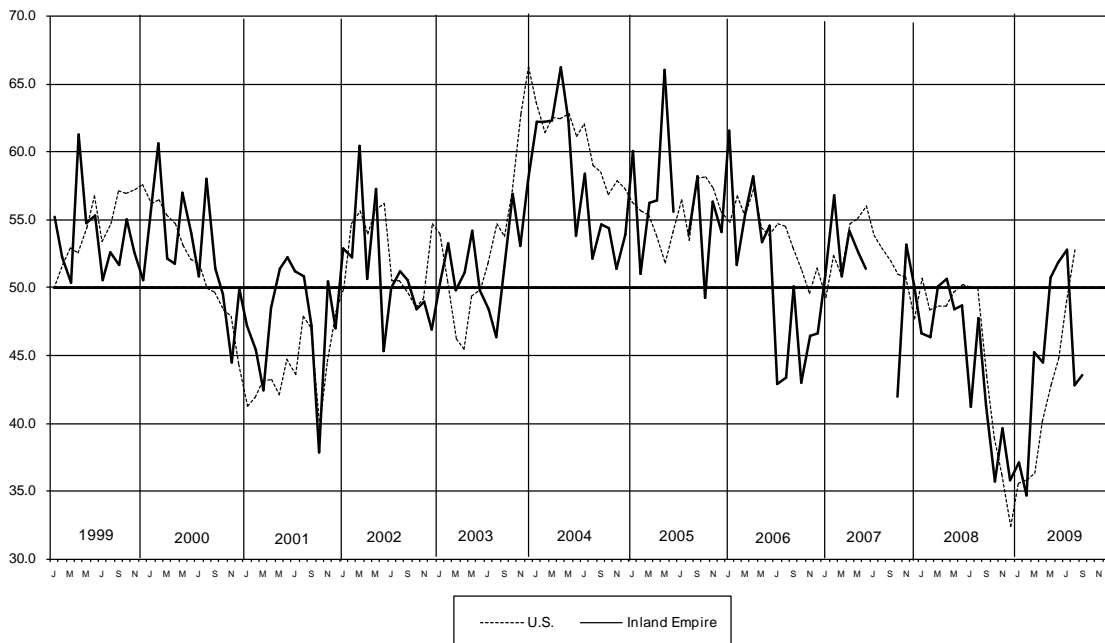
saying it will be stronger. Also, as an interesting “sign of the times,” several Purchasing Managers were unable to even venture a guess about the coming quarter’s economy.

Following are some highlights from this month’s report:

September 2009 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	42.8	43.5	Contracting	Slower
Commodity Prices	54.7	56.4	Increasing	Faster
Production	45.3	47.5	Contracting	Slower
New Orders	43.0	46.3	Contracting	Slower
Inventory	36.0	33.8	Decreasing	Faster
Employment	40.7	40.0	Decreasing	Faster
Supplier Deliveries	45.3	42.5	Slowing	Faster
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	14%	17%		
% Same	52%	56%		
% Weaker	33%	28%		

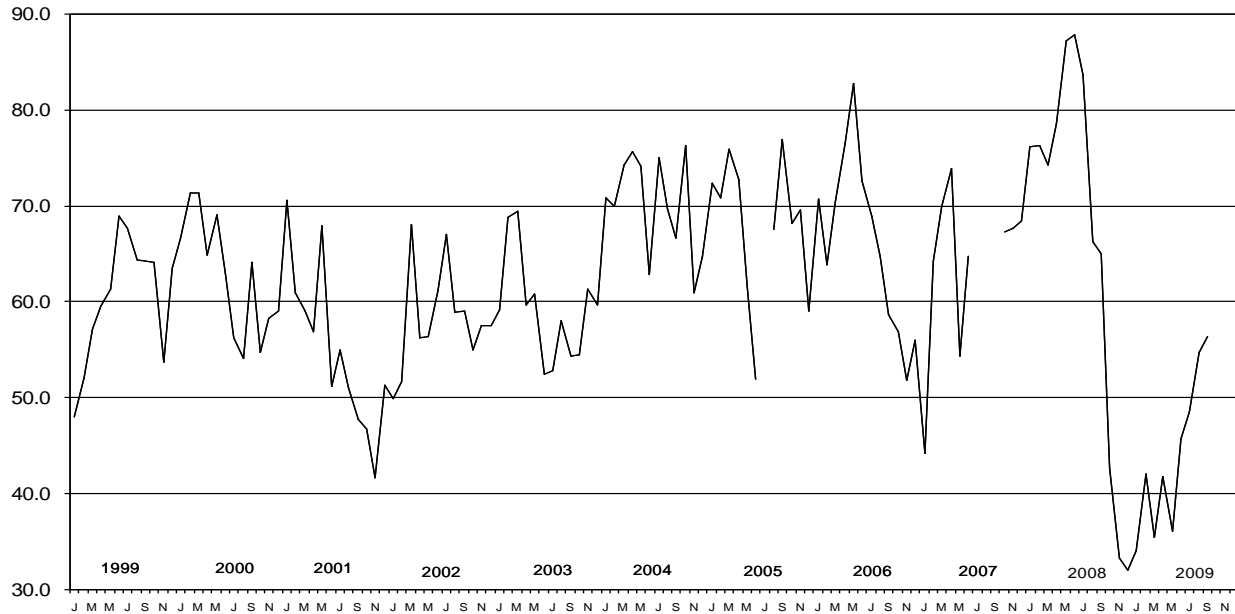
NOTE: In all cases except Supplier Deliveries, the “Direction” refers to whether the index is above 50% (growing) or below 50% decreasing.

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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Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Only seventeen percent of purchasing managers predict that the local economy will be stronger in the upcoming months. Fifty-five percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining twenty-eight percent believe the local economy will become weaker by next quarter.

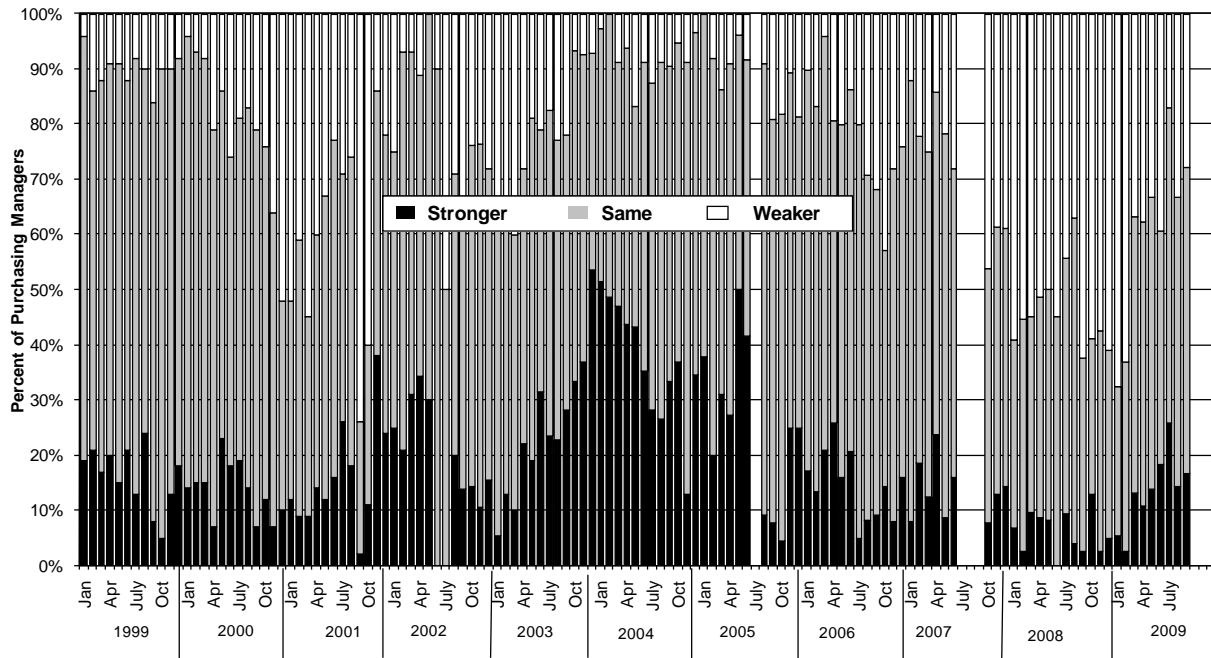
STATE OF THE ECONOMY: DATA FROM 9/2008 THROUGH 9/2009

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Weaker	62	59	58	61	68	63	37	38	33	39	17	33	28
Same	35	28	40	34	27	34	50	51	53	43	57	52	55
Stronger	3	13	3	5	5	3	13	11	14	18	26	14	17

When Purchasing Managers were asked if they had any overall remarks to offer, positive comments included: "Trying to be optimistic -- next quarter will be stronger," "Our international business is up this month," "A lot of activity, but not in our usual product line," "Business overall steady with upward/downward trends indicating the economy really does not show major improvement," "Small fluctuation in business but for most part on a slow, upward recovery," "Business improves for us in the fall and winter," and "While there is evidence the economy is improving, the growing deficit and extreme spending levels are bound to bring inflation."

But other Purchasing Managers expressed concerns about their business: "Commodity markets impact our costing," "May have gotten slower, if that was possible," "We just ended our busy season, and it appears we will be flat YTD over last year. We were hoping we would be at least +7% over last year, but that is not the case. September turned out to be a slow month. Our raw material, polypropylene continued to rise this month as well," "Season almost over, sales slowing down," "2009 was bad 2010 looks worse," "Still very slow," "Sales are flat."

State of the Local Economy



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In conclusion, although this report shows some marginal improvement from last month, it still bespeaks of an extremely weak economy. The fact that we saw three months above 50 and then two below reflects the turbulence of the local economy. Next month's report will be especially important in that if the PMI remains below 50 for a third consecutive month, we will be able to conclude that the previous apparent rebound in the economy was either temporary or simply an artifact of the data.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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