

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for September 2011

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

LOCAL ECONOMY'S FRAGILE RECOVERY MAY BE IN JEOPARDY

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 (46.7) registered a significant decrease from last month's figure (53.5), and is the first drop below the 50% baseline since September 2009.

"Production decreased from 57.8 last month to 45.3 this month, and New Orders dropped from 51.6 to 40.6. Further, the Employment Index dropped to 50.0 from 54.7 last month, threatening to drop again below the 50% mark as it was before January of this year. The Commodity Price Index decreased sharply from 54.7 last month to 51.6 this month, possibly reflecting a decrease in petroleum prices.

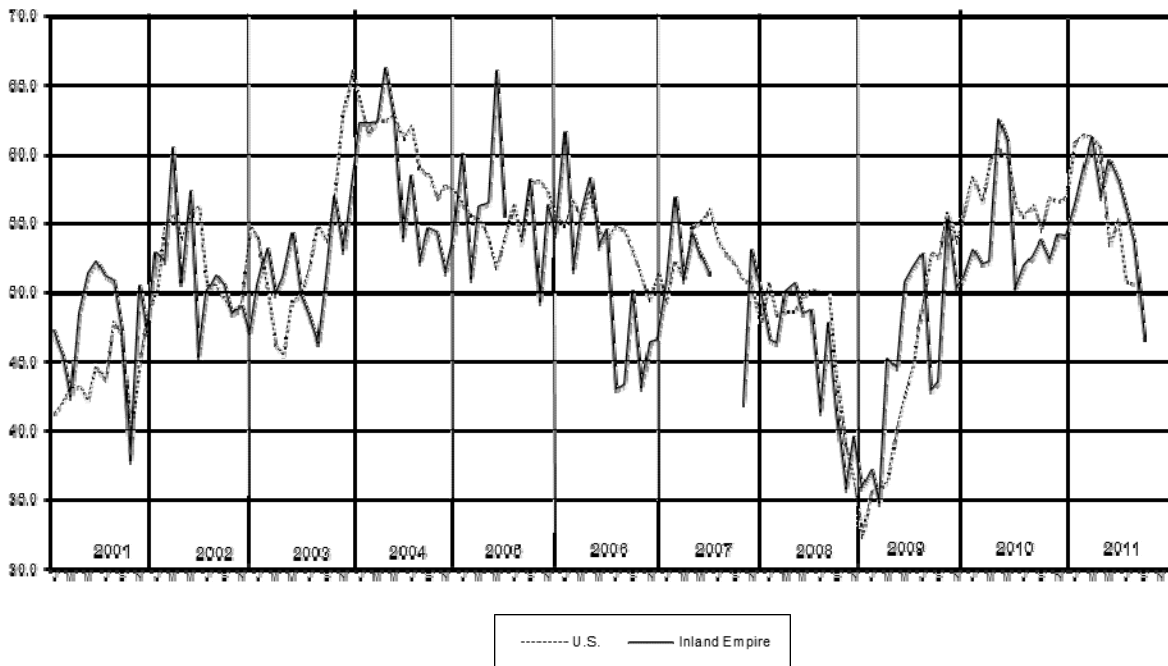
Purchasing Managers' optimism about the state of the local economy for the coming quarter remains low. Last month, 55% of Purchasing Managers expected the next quarter's economy to become weaker. This month that figure dropped to 45%, however 52% said the economy would remain the same as it has been (not an overwhelmingly positive statement). Only 3% expect the economy to become stronger.

Following are some highlights from this month's report:

September 2011 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	53.5	46.7	Contracting	From Increasing
Commodity Prices	54.7	51.6	Increasing	Slower
Production	57.8	45.3	Contracting	From Increasing
New Orders	51.6	40.6	Contracting	From Increasing
Inventory	46.9	45.0	Decreasing	Slower
Employment	54.7	50.0	Unchanged	From Increasing
Supplier Deliveries	53.3	58.1	Slowing	Faster
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	6%	3%		
% Same	39%	52%		
% Weaker	55%	45%		

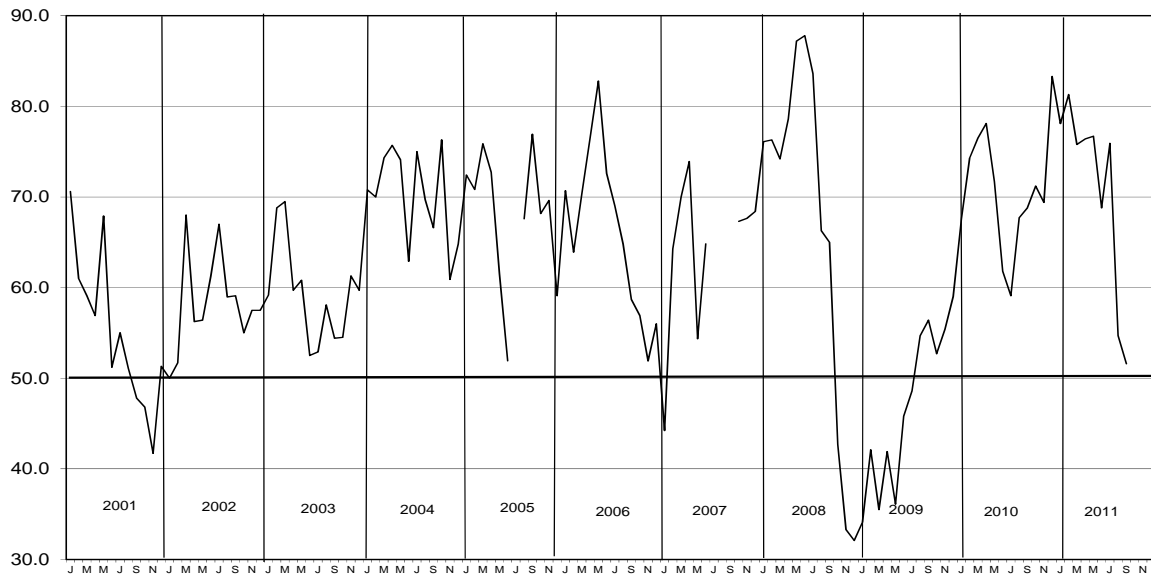
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Purchasing Managers' Index



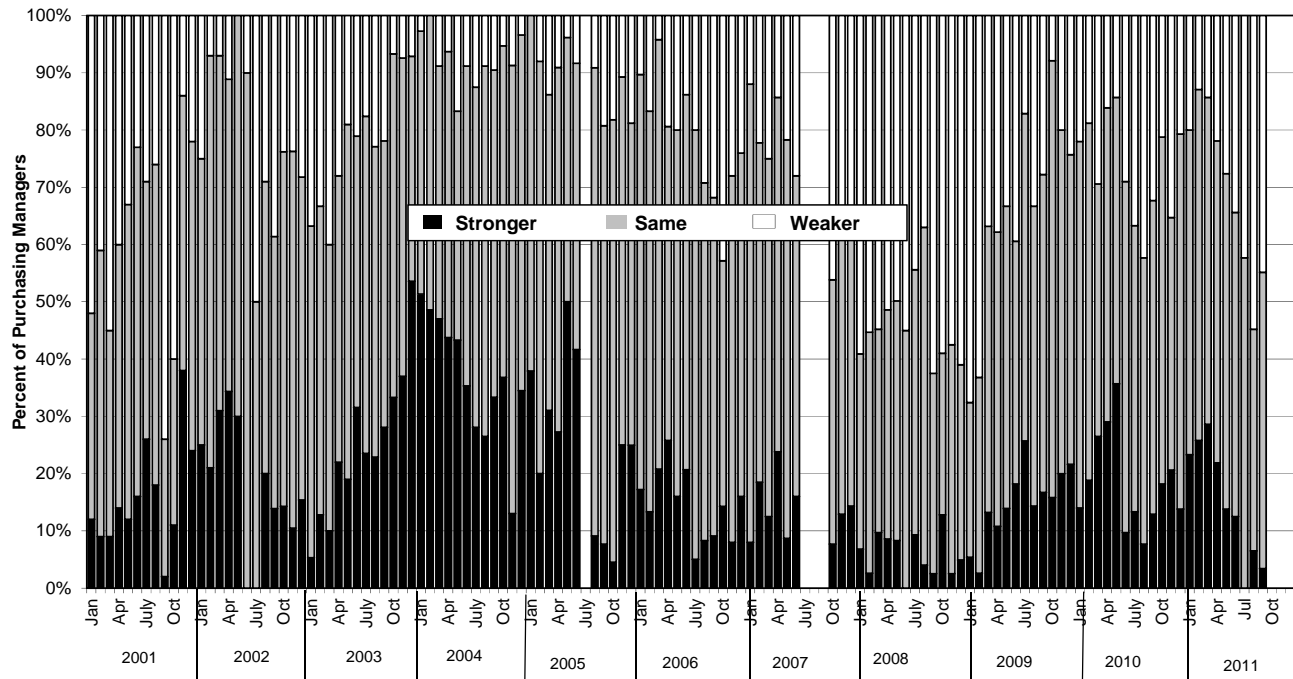
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Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 09/2010 THROUGH 09/2011

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Weaker	32	21	35	21	20	13	14	22	28	34	42	55	45
Same	55	61	44	64	57	61	57	56	59	53	58	39	52
Stronger	13	18	21	14	23	26	29	22	14	13	0	6	3

When Purchasing Managers were asked to comment on the general business conditions that affected their company, positive remarks included: "Natural gas prices are down," "Sales orders are brisk – largest backlog in our history," and "Business remains solid."

But many Purchasing Managers offered negative comments: "Business is up and down, no consistency," "Preparing for our off season slow down," "Still short supply on beef gelatin, will be hard to get," "Concerns are still paramount regarding escalating prices in certain commodities, although we have seen some relief aligned with petroleum like product," "Business activity continues to decline," "Getting worse," and "Very slow."

In summary, the three most important indicators composing the PMI (New Orders, Production, and Employment), all registered sharp declines from last month suggesting that the local economy's fragile recovery may be in jeopardy. But it is important to remember that it takes three months of the PMI remaining either above or below 50 to establish a change in direction. This is the first month the PMI has plummeted below 50 since September, 2009. Hopefully the decline noted in this report will not be reflected in next month's report.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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