

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 September 2012

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

PMI Plunges to 43.4 as Purchasing Managers Express Pessimism about the Future

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 (43.4) registered a dramatic drop from last month's figure (52.0), and is the lowest figure since September 2009. Typically there is some decline in the PMI the last quarter of each year; however such a precipitous decline is disturbing. If in fact the PMI remains below 50% for another two months, there will be indications that the local manufacturing sector has changed direction and is now contracting."

"When we review the five key indicators which underpin this report, we note that all are showing weakness. Both Production and New Orders dropped, with Production decreasing from 55.0 to 37.5 and New Orders showing a decline from 52.0 to 37.0. Purchasing Managers' comments included: "It is going into the last quarter with a normal slowdown except for holiday production." "Our business has taken a reversal in the past 60 days. Usual customers like the government, construction contractors and roofing contractors claim they will not be back until after the National Election. The Government clients are concerned about budget reductions going forward. Contractors say they have a few new orders," and "The election is killing sales – people are wondering who will be in office and what affect it will have on the economy."

"The Employment index (44.6) decreased this month, dropping below 50 for the first time since December 2011. Commodity prices remained high (64.1, up slightly from 62.0 last month), showing that inflationary pressures are still present."

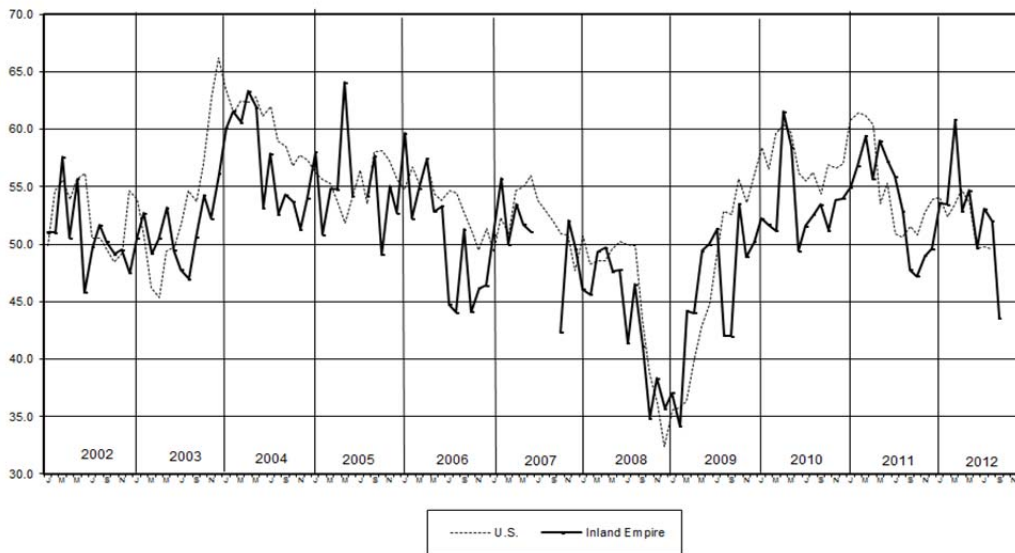
"Imports showed a slight increase from last month (41.9 to 43.8), but more importantly Exports have slowed from 52.1 to 35.7. One Purchasing Manager commented: "Not buying raw materials, since overseas orders for products are slower."

“Purchasing Managers’ optimism about the state of the local economy for the coming quarter has declined: 12% percent of the Purchasing Managers commented that they expect the economy to be stronger (down from 20% last month), 47% think the economy will stay the same, and 42% expect it to be weaker (a large jump from 29% last month).”

Following are some highlights from this month’s report:

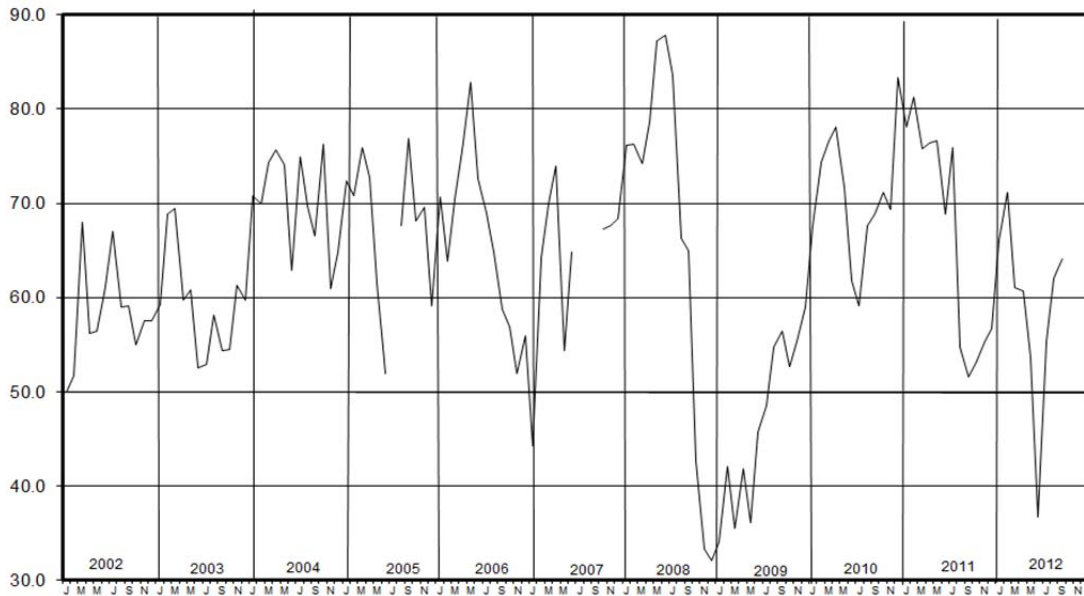
September 2012 Business Survey at a Glance				
	Series Index		Direction from 50	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	52.0	43.6	Contracting	From Increasing
Commodity Prices	62.0	64.1	Increasing	Faster
Production	55.0	37.5	Contracting	From Increasing
New Orders	52.0	37.0	Contracting	From Increasing
Inventory	45.0	46.7	Decreasing	Slower
Employment	52.0	44.6	Decreasing	From Increasing
Supplier Deliveries	56.0	51.1	Slowing	Slower
Imports	41.9	43.8	Contracting	Slower
Exports	52.1	35.7	Contracting	From Increasing
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	20%	12%		
% Same	51%	47%		
% Weaker	29%	42%		

Purchasing Managers' Index



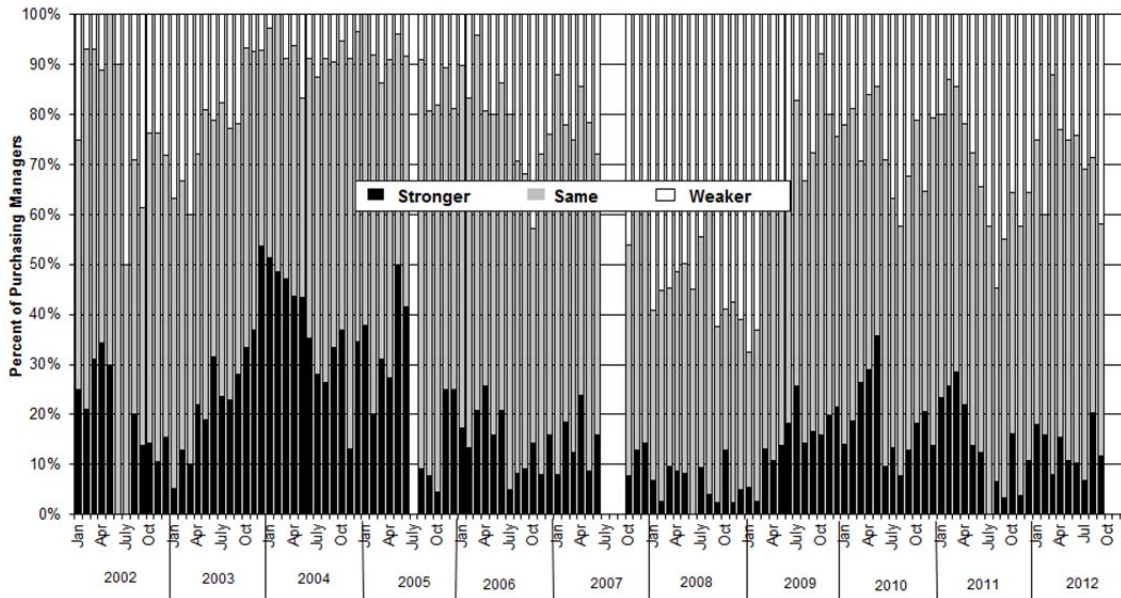
Note: Inland Empire data were not collected for the months of October and November 1996, and July 2005 and July through September 2007.

Commodity Prices



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State of the Local Economy



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STATE OF THE ECONOMY: DATA FROM 9/2011 THROUGH 9/2012

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Ma	Jun	Jul	Au	Sep
Weaker	45	36	42	36	25	40	12	23	25	24	31	29	42
Same	52	48	54	53	57	44	80	62	64	66	62	51	47
Stronger	3	16	4	11	18	16	8	15	11	10	7	20	12

Most of the comments about the state of the local economy were negative: “Business a little slower than previous couple of months”, “Government spending is low when more progress is needed in infrastructure,” “Orders slowing,” “Our main customer is the Department of Defense. They appear to be not responding to our needs resulting in not allowing us to finish contracts we have with them,” “Flat over last month,” “Business conditions have moderated in the past month from activity in the previous month,” “Business is real slow,” “After two quarters of above normal order quantities, we are experiencing a slowing in orders,” “We are approaching the final quarter of the year and typically customers are trying to reduce inventories for the end of the year. This time of the year we usually see a slowdown on the shipments although the orders keep coming in – but for deliveries starting at the beginning of the year,” and “Labor and compliance costs in California have risen so drastically that it is extremely difficult to compete in the Women's Apparel Market. There is a significant price pressure from retailers so we have had to reduce our selling prices while our costs continue to increase. Profitability has suffered greatly while volume and order size have both declined as more product comes from China and other countries.”

In summary, some of the decline reflected in the local economy may be due to a seasonal drop typical at this time of year. In addition, the upcoming elections are producing an uncertain environment which often results in business leaders “standing still” relative to buying and hiring.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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