

INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for September 2008

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

Supporter: College of Business and Public Administration, CSUSB

LOCAL ECONOMY DECLINES AMIDST LOW CONFIDENCE, AND ALL KEY INDICATORS CONTRACT

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 is overshadowed by national and global events. At the time the data were collected the news was filled with the decline of the likes of Fannie Mae, Lehman Brothers and AIG, as well as other dire economic news. And as we write this report, the much-heralded proposed bailout has failed to materialize and the stock market has plummeted 778 points (the worst single-day point loss ever). In this context one must note that this report is based on a methodology which does not incorporate such unprecedented "wild cards" following data collection."

"This month's PMI (41.3) decreased from 47.7 last month. This is the third lowest PMI since the report's inception in 1993. The only PMI figures which were lower occurred in July 2008 (41.2) and in 2001 (just after 9/11) when it was recorded at 37.8. All key indicators contracted: the Employment Index decreased from 38.8 to 36.6, Production dropped from 56.1 to 42.7, Inventories fell from 43.4 to 37.2 and New Orders decreased from 50.0 to 41.5. Supplier Deliveries increased from 43.8 to 47.6. Since this is the 5th consecutive month of PMI figures below 50, it is fair to say that the local manufacturing sector is declining and that we may be witnessing the beginning of a declining local economy as well."

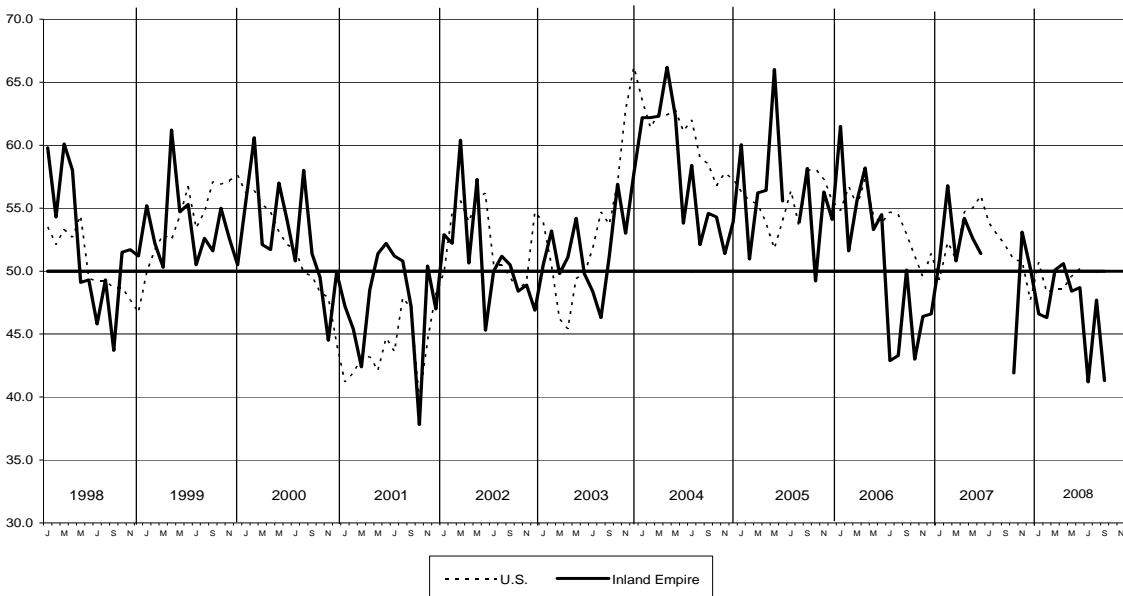
"Commodity prices continue to remain relatively high, indicating that purchasing managers perceive inflationary pressures in the local areas. Purchasing managers' pessimism about the coming quarter's economy soared to levels only seen at 9/11 and its immediate aftermath."

Following are some highlights from this month's report:

September 2008 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from Last Index
	Last Month	This Month		
Local PMI	47.7	41.3	Contracting	Faster
Commodity Prices	66.3	65.0	Increasing	Slower
Production	56.1	42.7	Contracting	From Increasing
New Orders	50.0	41.5	Contracting	From Unchanged
Inventory	43.4	37.2	Decreasing	Faster
Employment	38.8	36.6	Decreasing	Faster
Supplier Deliveries	43.8	47.6	Slowing	Slower
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	4%	3%		
% Same	59%	35%		
% Weaker	37%	62%		

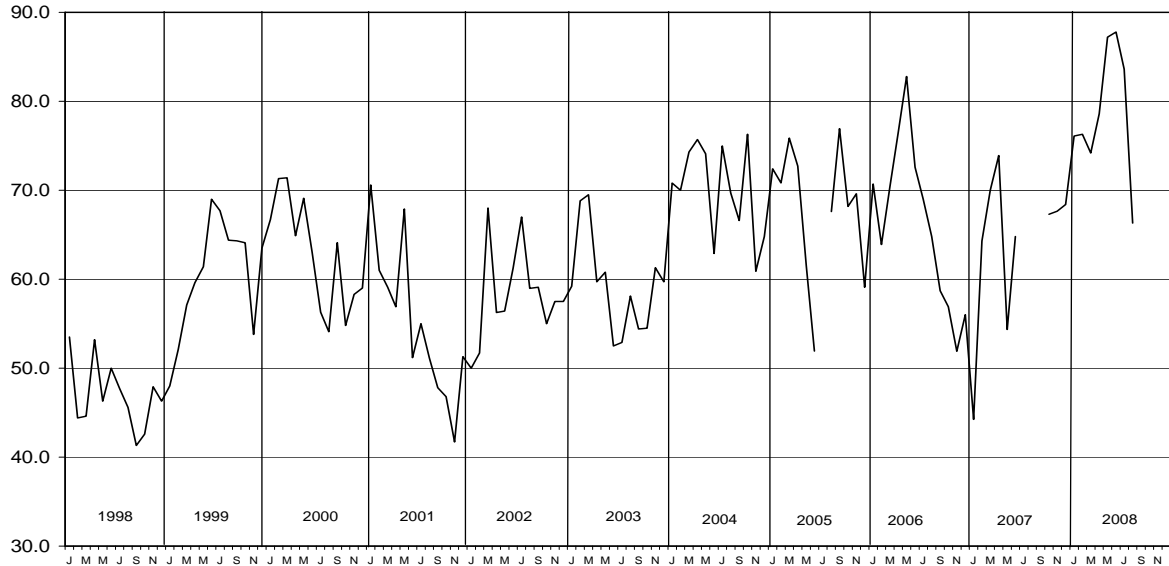
- NOTE: In all cases except Supplier Deliveries, the "Direction" refers to whether the index is above 50% (growing) or below 50% decreasing.

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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While Septembers' Commodity Price Index (65.0) has decreased slightly from last month's figure (66.3), the index still shows that inflationary pressures in the Inland Empire remain.

The Employment index continues to be of concern, having dropped again this month to 36.6 from last month's 38.8. The last time the figure was above 50% was May of last year, reinforcing the fact that the decline in the manufacturing sector is not simply a one-time data abstraction, but rather a continuing problem affecting the quality of life for residents of the region. There have been two past Employment index in the thirties since this report's inception in 1993 (36.2 in October 2001 and 38.9 in July 2003).

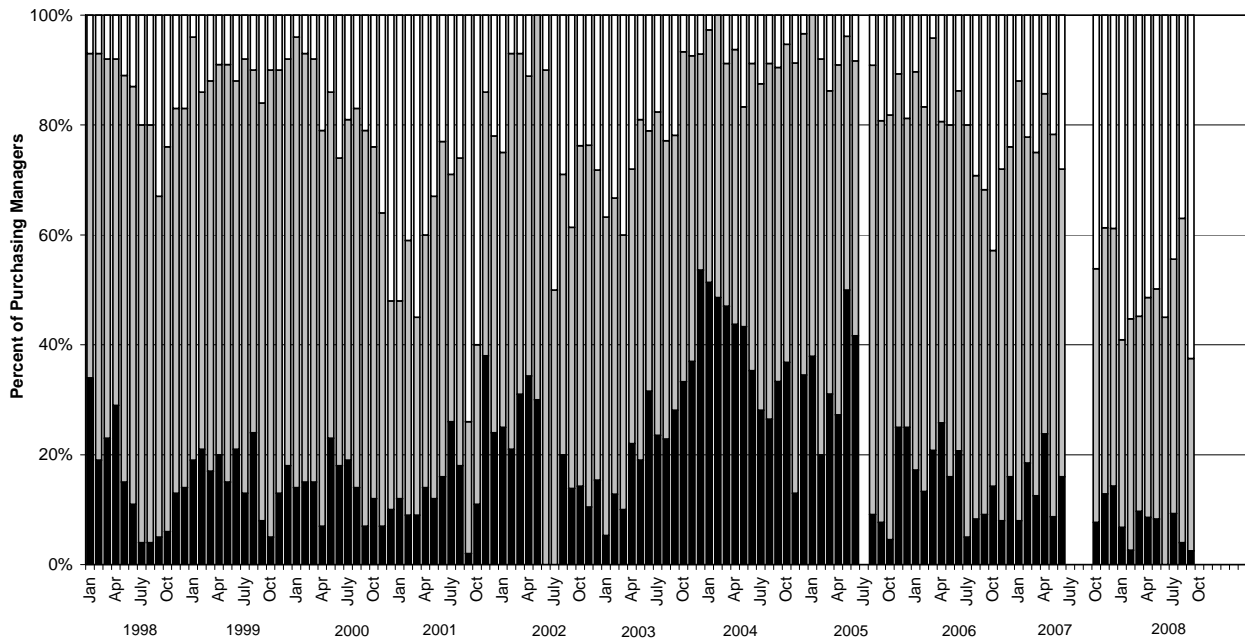
The percentage of Purchasing Managers predicting that the state of the economy will be weaker during the next quarter has sharply increased from 37% in August to 63% in September. Three percent of the Purchasing Managers forecast that the state of the local economy will be stronger in the coming quarter, and 35% believe the local economy will continue to be the same.

STATE OF THE ECONOMY: DATA FROM 9/2007 THROUGH 9/2008

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Weaker	-	46	39	38	59	55	55	51	50	55	44	37	63
Same	-	46	48	46	34	42	35	40	42	46	46	59	35
Stronger	-	8	13	16	7	3	10	9	8	0	9	4	3

When Purchasing managers were asked to make comments on the general business conditions that affected their company, a few remarked positively: "Our company is doing better than last year," "We have just ended the busiest quarter of the year for us and are now entering the slower quarter of the year. We have seen some relief due to oil coming down dramatically over the last month," "Steel prices have stabilized during the 3rd quarter with slight increase expected during 4th quarter,"... Other managers, however, had negative comments about general business conditions: "The financial bailouts will continue to play havoc with strength of the dollar and thereby increasing export competition for domestic commodities," "Sales are slowing, material prices stabilized," "Very very **very** slow," "Companies are now charging fuel surcharges for delivery," "The worst I have seen business in 70 years," "As of September 1st business has slowed," "Housing market is affecting about 20% of lost sales," "Outlook for the company is poor till the end of the 2008 with hopes of a better year in 2009," "Business slowing coming of our high season," "Outlook has deteriorated since last month," and "Increase in chemical costs negatively impacting our business,".

State of the Local Economy



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In closing, the local manufacturing sector and the local economy were generally weak even prior to the recent economic turmoil that has taken place nationwide in the days following our data collection efforts. Only time will tell, of course, how this will all play out.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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