

IAR INLAND EMPIRE REPORT ON BUSINESS

Report for December 2007

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Prepared by:



Institute of Applied Research
and Policy Analysis

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Sponsors:

**Riverside County Economic Development Agency
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LOCAL ECONOMY CONTINUES SLOW GROWTH

According to Shel Bockman, Barbara Sirotnik, and Christen Ruiz (Co-Directors of the Institute of Applied Research), and Lori Aldana (Project Coordinator, Institute of Applied Research), “This month’s PMI (50.9) decreased slightly from last month’s PMI (53.1). The fact that this figure remains above 50% indicates that the *local manufacturing sector* is continuing to grow (albeit at a slower pace than last month). In addition, this month’s PMI is above the 44.5% mark, suggesting an expanding *local economy*. Both Production and New Orders remain strong although there has been somewhat of a decrease in both indices, with Production decreasing from 57.4 to 52.0 and New Orders registering a slight decrease from 55.9 to 54.0. As noted in previous reports, Production and New Orders are key components of the PMI since they directly portend future consumer purchases.”

“The Employment index (47.0) is improving when compared with figures from November (45.5) and October (40.4). On the other hand, it is still of concern since it remains below 50, particularly since nationwide data seems to suggest that unemployment is growing. Further, as has been the case for the last several months, Purchasing Managers remain pessimistic about the state of the local economy for the coming quarter, with only 16% expressing the opinion that the economy will be stronger in the coming quarter.”

“The methodology underpinning the PMI requires that a decisive statement about the direction/trend of the manufacturing sector and the local economy depends upon three consecutive months of consistent findings regarding direction of the PMI. This month’s figure is only the second month above 50. Next month’s report will be especially important in that a PMI above the 50% mark will be a significant indication that indeed, the local manufacturing sector and local economy are in growth mode.”

“On the other hand, as noted in last month’s report, both locally and nationwide there still remain troublesome signs pointing toward weakness in the economy. Recent national data show an

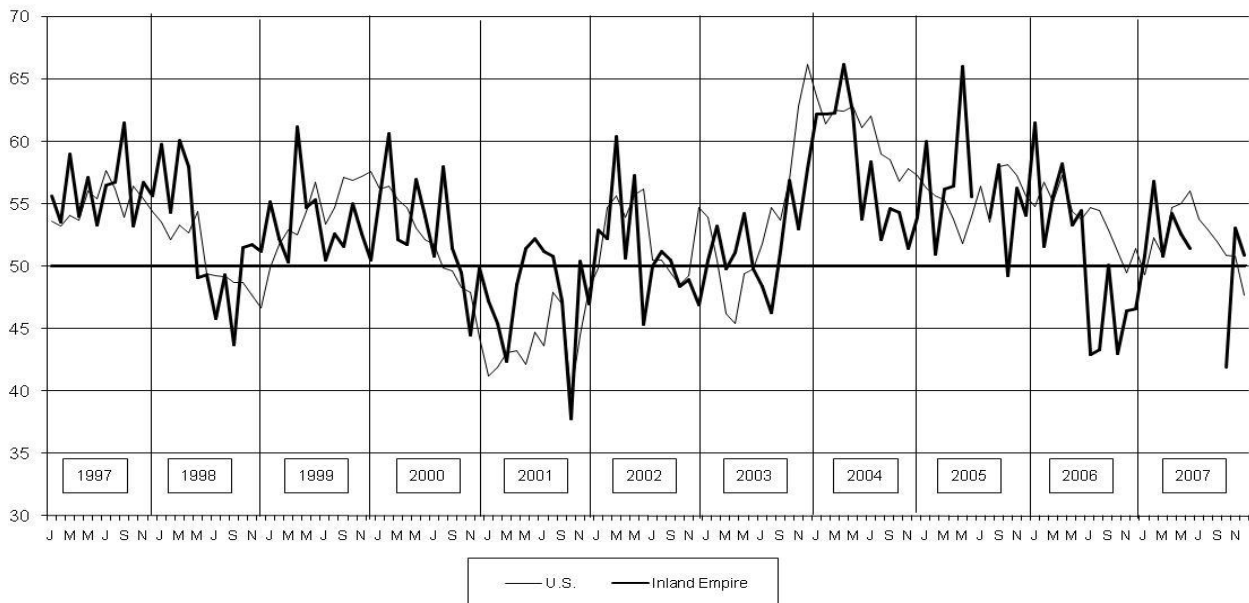
increase in the unemployment rate. The housing slowdown is showing no signs of bottoming out. And oil prices remain high.”

Following are some highlights from this month’s report:

December 2007 Business Survey at a Glance				
	Series Index		Direction from 50*	Rate of Change from last index
	Last Month	This Month		
Local PMI	53.1	50.9	Growing	Slower
Commodity Prices	67.6	68.0	Increasing	Faster
Production	55.9	52.0	Growing	Slower
New Orders	57.4	54.0	Growing	Slower
Inventory	47.1	46.0	Contracting	Faster
Employment	45.5	47.0	Decreasing	Slower
Supplier Deliveries	54.4	51.0	Slowing	Slower
Purchasing Managers' Confidence in the State of the Local Economy				
% Stronger	13%	16%		
% Same	48%	46%		
% Weaker	39%	38%		

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

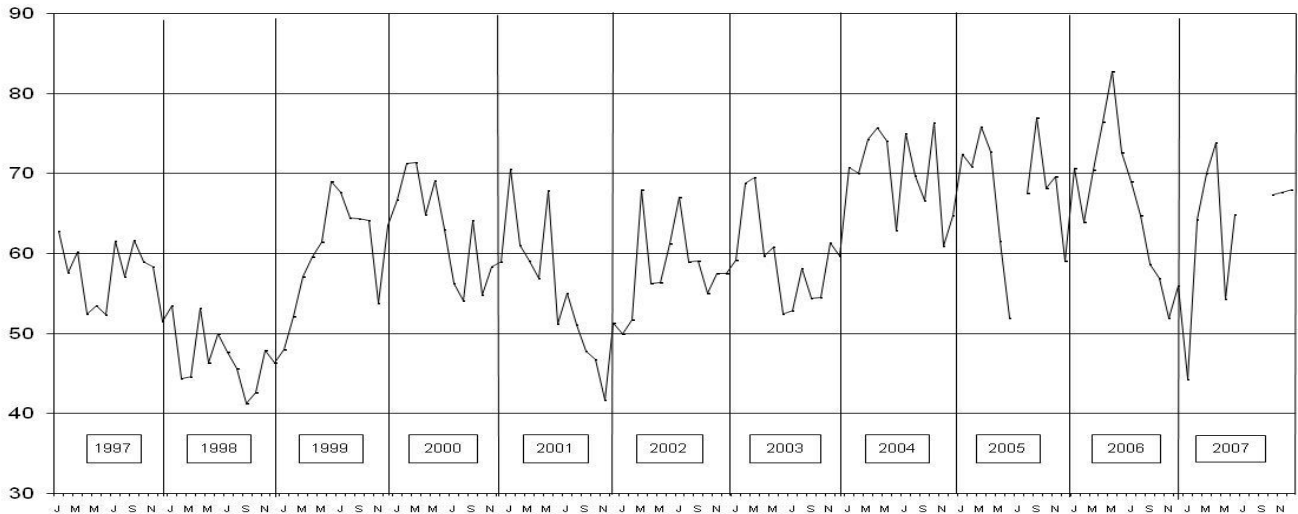
Purchasing Managers' Index



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

December's Commodity Price Index (68.0) is virtually unchanged from last month's figure (67.6) indicating that inflationary pressures continue to exist in the Inland Empire.

Commodity Prices



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

STATE OF THE ECONOMY: DATA FROM 12/2006 THROUGH 12/2007

	Dec	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sept	Oct	Nov	Dec
Weaker	24	12	22	25	14	22	28	-	-	-	46	39	38
Same	60	80	59	63	62	69	56	-	-	-	46	48	46
Stronger	16	8	19	12	24	9	16	-	-	-	8	13	16

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

When Purchasing managers were asked to make comments on the general business conditions that affected their company, some remarked positively: "General Holiday slowdown", "Business is at the same level as a few months ago. Hopefully, it will get busier", "Actually ended 2007 two percent higher than 2006", "Aerospace business is still strong overall", and "Customer Service."

Other managers had negative comments about general business conditions: "The rising cost of crude oil has directly affected our business as our main source of raw material is polypropylene, which is derived from oil", and "Was greatly impacted by housing slump!"

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