

IAR INLAND EMPIRE REPORT ON BUSINESS

Report for February 2007

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Prepared by:



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and Policy Analysis

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Supporter: **CSUSB College of Business and Public Administration**

LOCAL MANUFACTURING SECTOR SHOWS GROWTH WITH ALL MAJOR INDICES ON THE UPSIDE

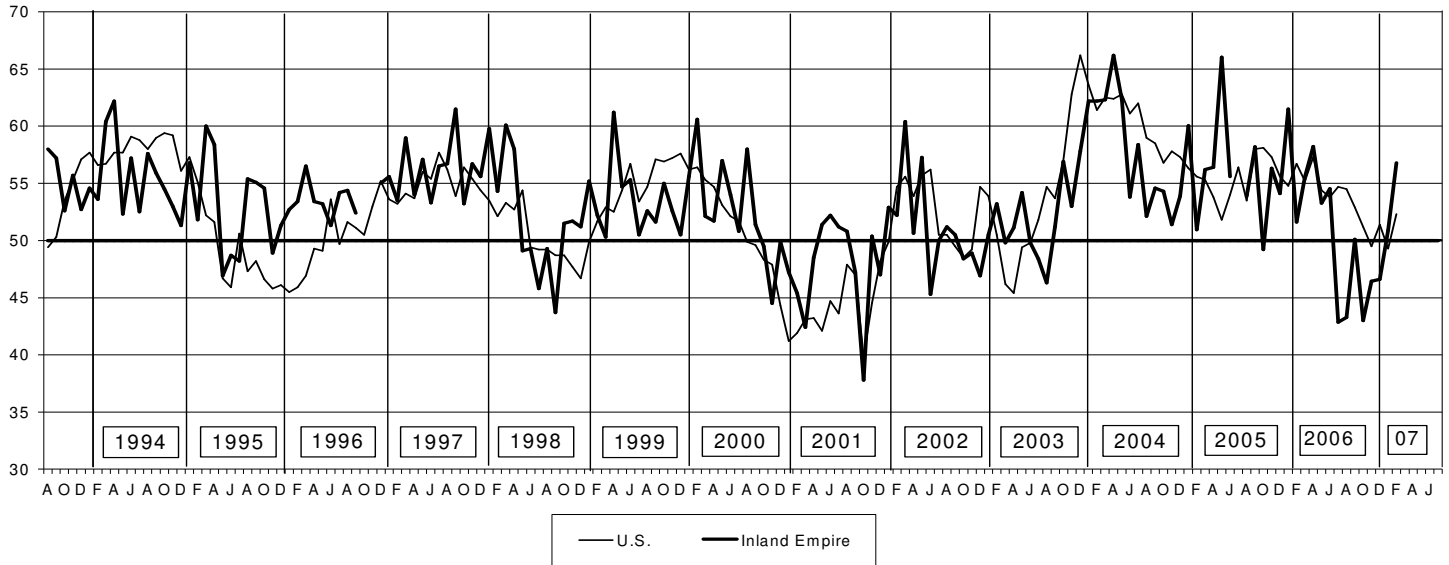
According to Shel Bockman, Barbara Sirotnik, Christen Ruiz, (Co-Directors of the Institute of Applied Research) and Nirav Patel (Project Coordinator), "This month's PMI (56.8) registered a substantial gain from last month's PMI (50.9), suggesting that the local manufacturing sector and the local economy are not only growing, but growing at a substantially faster rate than last month." Encouraging news for the two-county area? Yes. But it is too soon to conclude that this month's PMI portends a long-run strengthening of the local manufacturing sector, especially in light of how extremely volatile the local PMI has been the past few months. Yet the fundamental indicators which underpin this report look fundamentally sound. Specifically, New Orders index, a major index, increased from 50 (unchanged) to 62.5. Production jumped from 52.0 to 57.1. And the unemployment index rose from 48.0 to 53.6. On the downside, however, Inland Empire Purchasing Managers continue to be less than enthusiastic about the state of the local economy for the coming quarter.

Following are some highlights from this month's report:

February 2007 Business Survey at a Glance				
	Series Index		Direction*	Rate of Change
	Last Month	This Month	From 50	From last index
Local PMI	50.9	56.8	Growing	Faster
Commodity Prices	46.0	64.3	Increasing	From Contracting
Production	52.0	57.1	Growing	Faster
New Orders	50.0	62.5	Growing	From Unchanged
Inventory	46.0	55.4	Growing	From Contracting
Employment	48.0	53.6	Increasing	From Contracting
Supplier Deliveries	58.0	50.0	Unchanged	Slower

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

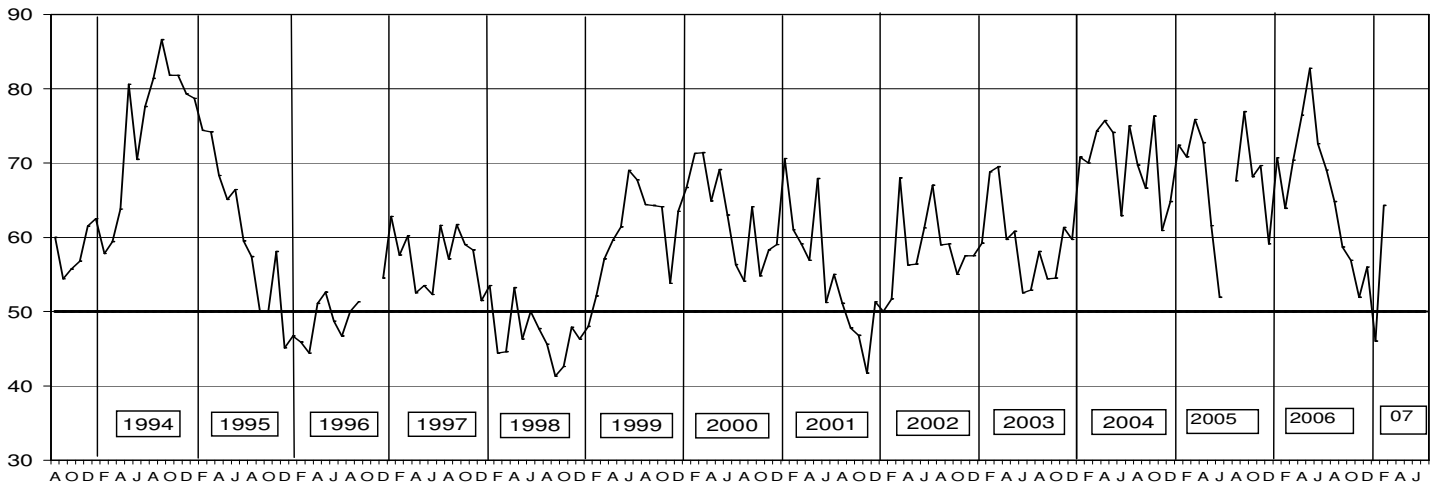
Purchasing Managers' Index



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

February's Commodity Price Index of 64.3 increased from last month's figure of 46.0, showing that inflationary pressures in the Riverside and San Bernardino County areas are still present although last month, the pressure seemed to be subsiding. This further illustrates the volatility in the local manufacturing sector.

Commodity Prices



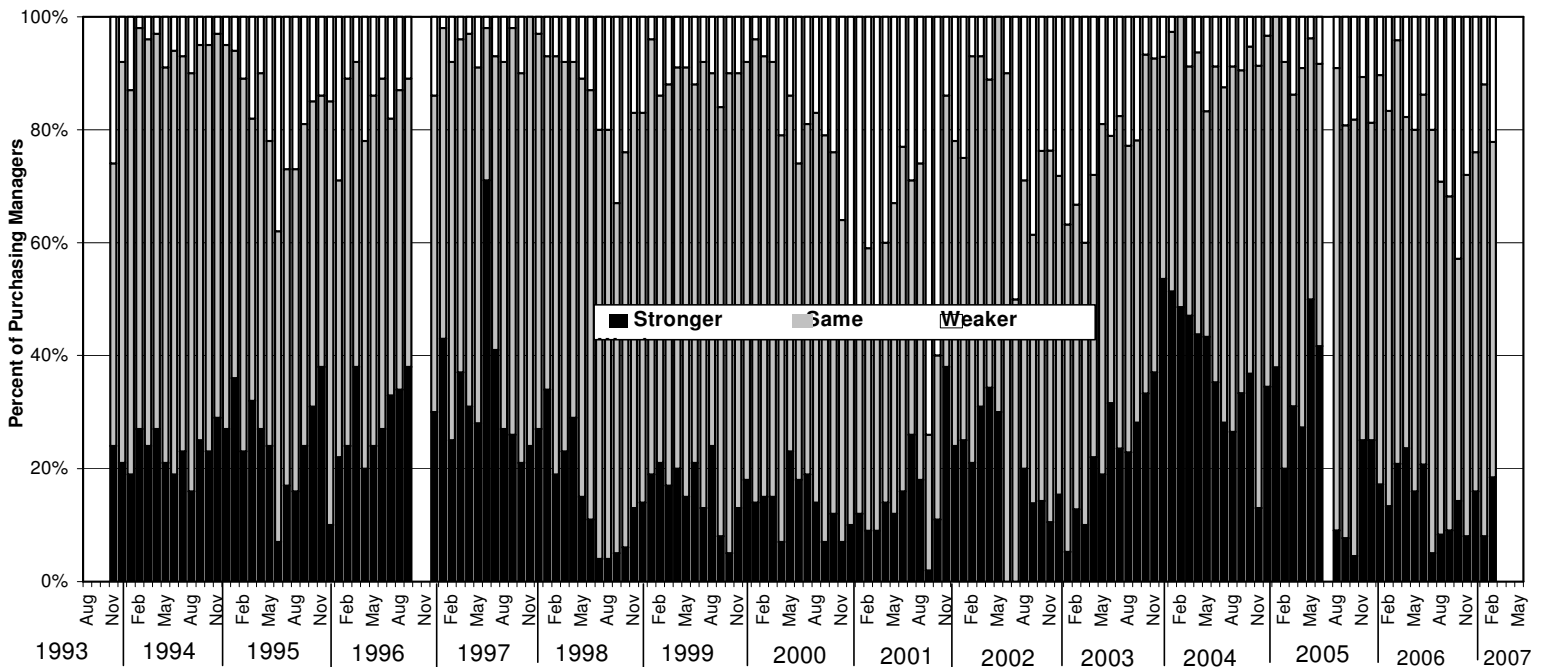
** NOTE: Inland Empire data were not collected for the months of October and November 1996, and July 2005.

Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Nineteen percent of purchasing manager predict that the local economy will become stronger in the upcoming months. Fifty-nine percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining twenty-two percent believe the local economy will become weaker by next quarter. Again, this supports previous statements regarding the volatility of the manufacturing sector as evidenced by the PMI through the eyes of Purchasing Managers.

STATE OF THE ECONOMY: DATA FROM 02/2006 THROUGH 02/2007

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
Weaker	17	4	19	20	14	20	29	32	43	29	24	12	22
Same	70	75	56	64	65	75	63	59	43	63	60	80	59
Stronger	13	21	25	16	21	5	8	9	14	8	16	8	19

State of the Local Economy



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

When Purchasing managers were asked to make comments on the general business conditions that affected their company, some remarked positively: "Material prices going down and ability

to find employees improved," " [New production orders] better than last year, but still about average for previous," " Better than 2006." Meanwhile, negative comments include: "Business is Slow to Steady," "Slower," "Flat," "Very slow in construction business."

In conclusion, IAR views this report as especially encouraging, but as noted earlier it is too soon to discern whether this report represents a rebounding manufacturing sector or just another incidence of high volatility which has been documented in these reports over the past few months.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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