

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for August 2006

Sponsor: *CSUSB College of Business and Public Administration*

Local manufacturing sector (and the local economy) register a steep decline for the second straight month

According to Shel Bockman, Barbara Sirotnik, and Christen Ruiz (Co-Directors of the Institute of Applied Research) and Nick Patel (Assistant Project Coordinator), "This month's PMI (43.3) has fallen below the 50% mark for the second month in a row, thus indicating a possible slowdown in both the local manufacturing sector as well as the local economy in general. We stress that it is a **possible** slowdown since this is only the second month of the three months it takes to establish a change in direction. But it should be noted that the slowdown noted in the past two months must be taken somewhat seriously since two of the key indicators (Production and New Orders) have dropped significantly. Further, Commodity Prices, although they have dropped somewhat, are still registering inflationary pressures within the Inland Empire."

Following are some highlights from this month's report:

August 2006 Business Survey at a Glance

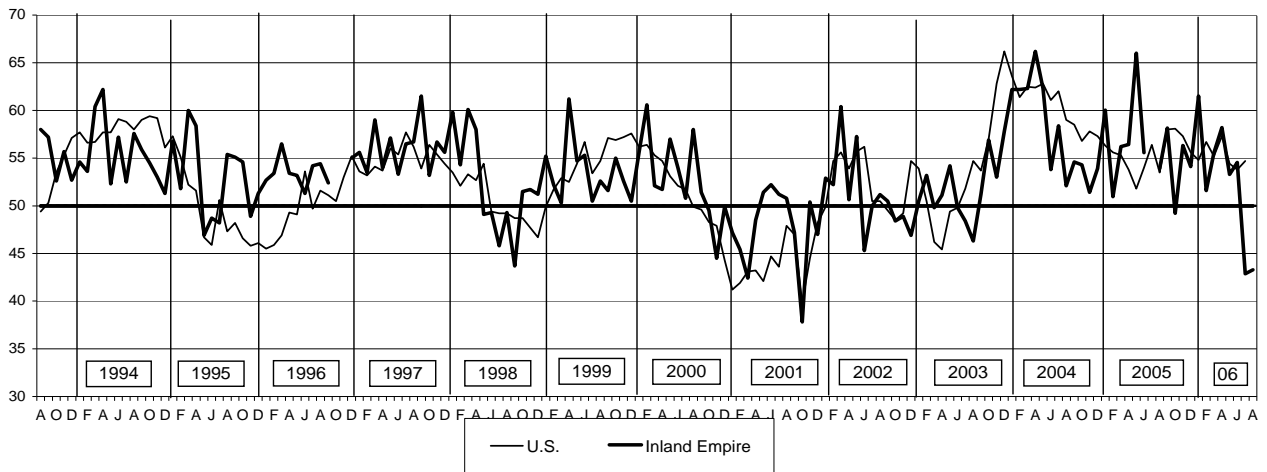
	Series Index		Direction*	Rate of Change
	Last Month**	This Month	From 50	From last index
Local PMI	42.9	43.3	Contracting	Slower
Commodity Prices	69.0	64.8	Increasing	Slower
Production	40.5	42.6	Contracting	Slower
New Orders	33.3	38.5	Contracting	Slower
Inventory	45.2	37.0	Contracting	Faster
Employment	50.0	40.7	Decreasing	From unchanged
Supplier Deliveries	54.8	61.5	Slowing	Faster

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

** IAR did not release its report last month due to technical difficulties; however we include the data in this month's report.

This month's PMI (43.3) is the second time (second consecutive month) in 55 months that the index did not register above 44.5 % mark. The reader should note that the methodology underpinning the **Report on Business** requires three consecutive months of data either consistently above or below the benchmark figures to indicate a change in direction. A PMI below 50% indicates a decline in the local manufacturing sector, and a PMI below 44.5% indicates a decline in the local economy as a whole.

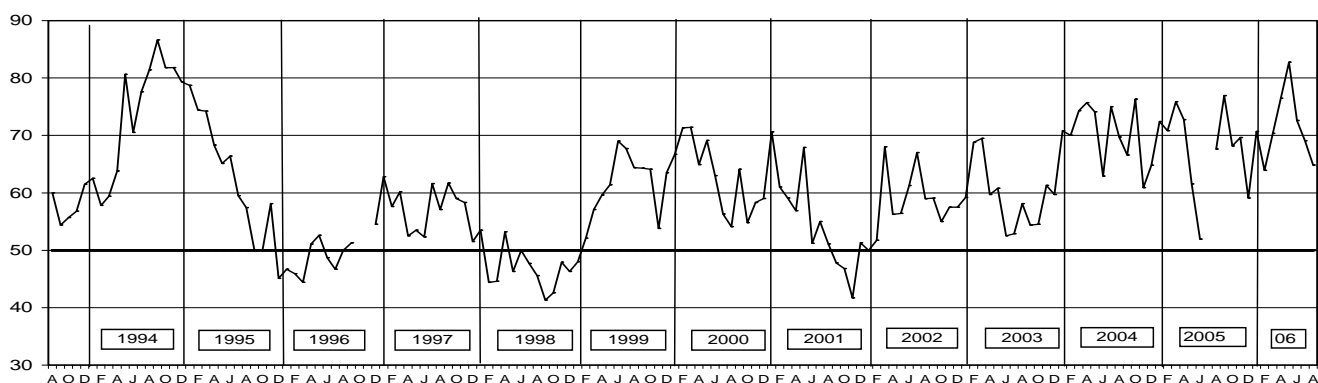
Purchasing Managers' Index



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

August's Commodity Price Index of 64.8 shows that inflationary pressures, although still present in the Riverside and San Bernardino County areas, have somewhat subsided.

Commodity Prices



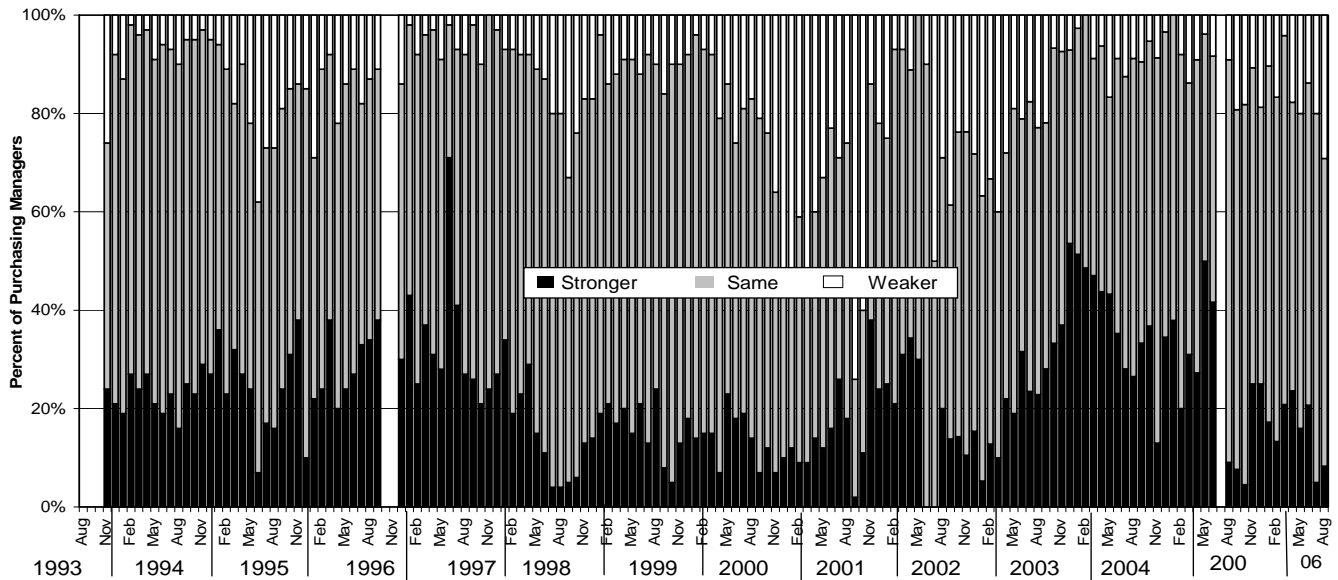
*** NOTE: Inland Empire data were not collected for the months of October and November 1996, and July 2005.

Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Only eight percent of purchasing manager predict that the local economy will become stronger in the upcoming months. Sixty-three percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining twenty-nine percent believe the local economy will become weaker by next quarter. This “pessimism” may partially be due to seasonal factors, as well as concerns about the local housing market.

STATE OF THE ECONOMY: DATA FROM 8/2005 THROUGH 8/2006

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	9	19	18	11	19	10	17	4	19	20	14	20	29
Same	82	73	77	64	56	73	70	75	56	64	65	75	63
Stronger	9	8	5	25	25	17	13	21	25	16	21	5	8

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, only one made a positive comment: "Busy." Negative comments include: "Decrease in housing starts may continue to negatively impact new orders," "Summer doldrums," "Backlog of orders have been falling in August."

In conclusion, IAR views this report as somewhat worrisome, but clearly the "verdict is still out." If, however, next month's report reaffirms the findings of these past two months, there may be in play a change in direction both for the manufacturing sector and for the local economy as a whole. On the other hand, it should be stressed that this appears to be a relatively local phenomenon since last month's National PMI remained strong. We should also note that the local housing market which has been phenomenally strong over the past several years has recently slowed, and this may be affecting consumer confidence and, as a result, purchasing managers' willingness to place orders for production materials.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Shel Bockman, Co-Director, Institute of Applied Research
(909) 880-5733

Barbara Sirotnik, Co-Director, Institute of Applied Research
(909) 880-5729