

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for December 2006

Sponsor: CSUSB College of Business and Public Administration

LOCAL MANUFACTURING SECTOR AND LOCAL ECONOMY CONTINUE TO SHOW SIGNS OF WEAKNESS

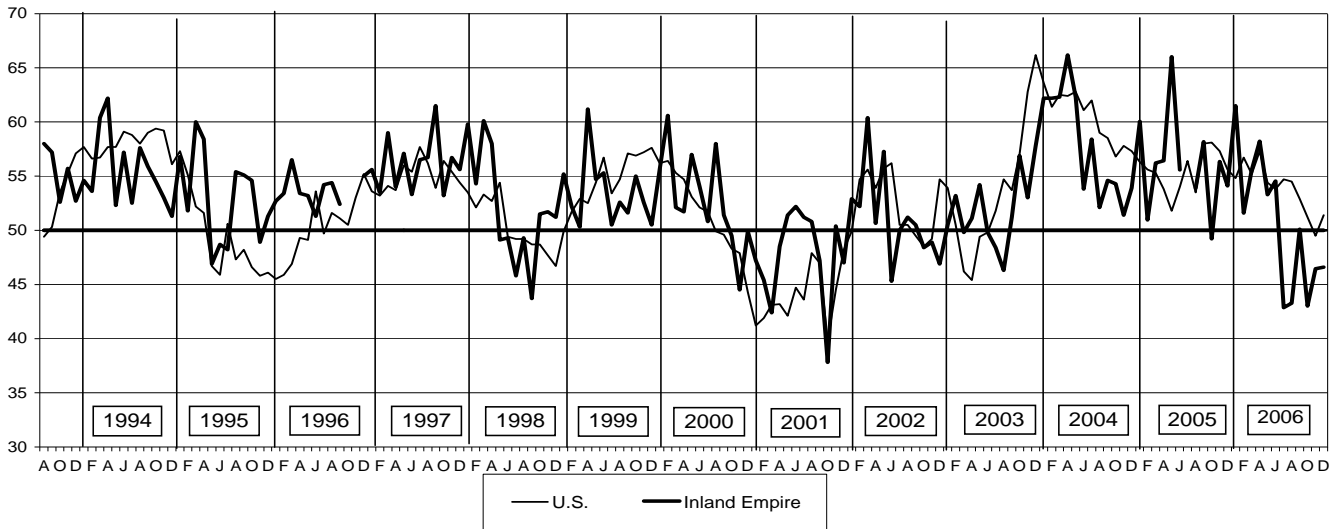
According to Shel Bockman, Barbara Sirotnik, and Christen Ruiz (Co-Directors of the Institute of Applied Research) and Nirav Patel (Project Coordinator), "This month's PMI (46.6) is virtually unchanged from last month's PMI (46.4). It continues to remain beneath the 50% mark for the third consecutive month, which suggests that over the last three months the local manufacturing sector has shifted to a "no-growth" mode. On the other hand, the local PMI continues to remain above 44.5%, thus indicating that the local economy as a whole continues to grow (albeit at a slightly slower pace than last month). The general softening of the manufacturing sector is clearly seen in the poor performance of the major indices, especially Production and New Orders."

Following are some highlights from this month's report:

December 2006 Business Survey at a Glance				
	Series Index		Direction*	Rate of Change
	Last Month	This Month	From 50	From last index
Local PMI	46.4	46.6	Contracting	Slower
Commodity Prices	51.9	56.0	Increasing	Faster
Production	48.1	46.0	Contracting	Faster
New Orders	44.2	44.0	Contracting	Faster
Inventory	38.5	38.0	Contracting	Faster
Employment	46.2	50.0	Unchanged	From Contracting
Supplier Deliveries	53.8	54.0	Slowing	Faster

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

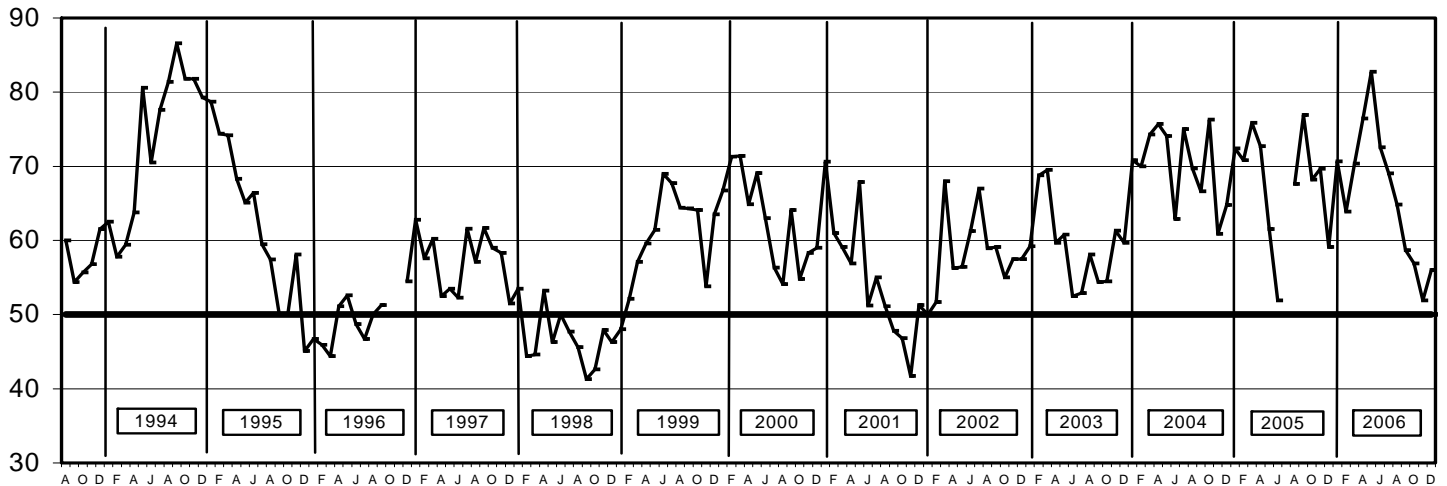
Purchasing Managers' Index



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

December's Commodity Price Index of 56.0 increased from last month's figure of 51.9, showing that inflationary pressures remain strong in the Riverside and San Bernardino County areas.

Commodity Prices



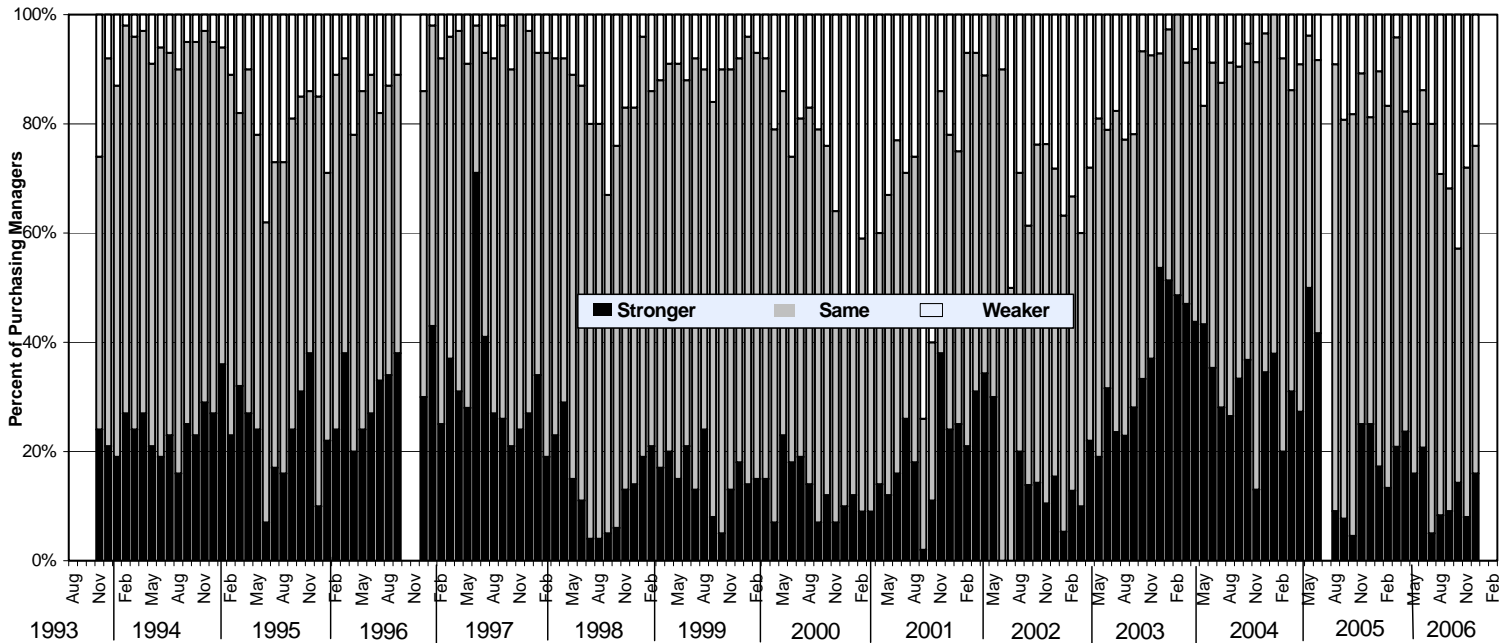
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Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Only sixteen percent of purchasing manager predict that the local economy will become stronger. Sixty percent of purchasing managers believe the local economy will remain unchanged, and the remaining twenty-four percent believe the local economy will become weaker by next quarter. These figures are almost the opposite from those reported for the month of December, 2005.

STATE OF THE ECONOMY: DATA FROM 12/2005 THROUGH 12/2006

	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Weaker	19	10	17	4	19	20	14	20	29	32	43	29	24
Same	56	73	70	75	56	64	65	75	63	59	43	63	60
Stronger	25	17	13	21	25	16	21	5	8	9	14	8	16

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 manager remarked positively: "Better than last month." Negative comments include: "Holiday Slow!" "Cannot find competent help plus dealing with offshore competition," " Business is slow to steady."

Since July, our data have suggested that the manufacturing sector has been in a state of decline and the local economy has shown weakness. During this time, the National PMI figures have been more positive than the regional figures, but both have shown an overall decline. In fact, increasingly the debate is not over *whether* there is a decline, but rather the debate is over the *significance* of the decline and over whether the data are signifying a “hard or soft landing.” Of course, there are many “wildcards” in the equation (e.g. a new congress, perhaps a new policy in Iraq, a weak residential real estate market). However at this stage of the game, there is little in our report which would suggest that the local economy is headed for a hard landing.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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