

# **IAR'S INLAND EMPIRE REPORT ON BUSINESS**

**Prepared by: *The Institute of Applied Research***

at California State University, San Bernardino

**Report for February 2006**

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

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## **LOCAL ECONOMY EXPERIENCES SLOWING GROWTH, ESPECIALLY IN PRODUCTION AND NEW ORDERS**

According to Shel Bockman and Barbara Sirotnik (Co-Directors of the Institute of Applied Research) and Candice Tsegga (Project Coordinator): "This month's PMI (51.6) decreased sharply from last month's PMI (61.5), but continues to remain above the 50% mark, indicating that the manufacturing sector continues to grow but at a decreasing rate. Further, it remains above the 44.5% mark which is the benchmark for growth in the local economy. It should be noted, however, that much of this decline may reflect the nature of a diffusion index in which comparisons are made between one month and the next. It is not uncommon that the month after a sharp increase would show a decline. However the decrease in the Employment Index cannot be explained on that basis. The Commodity Price Index remains high, although it has decreased somewhat."

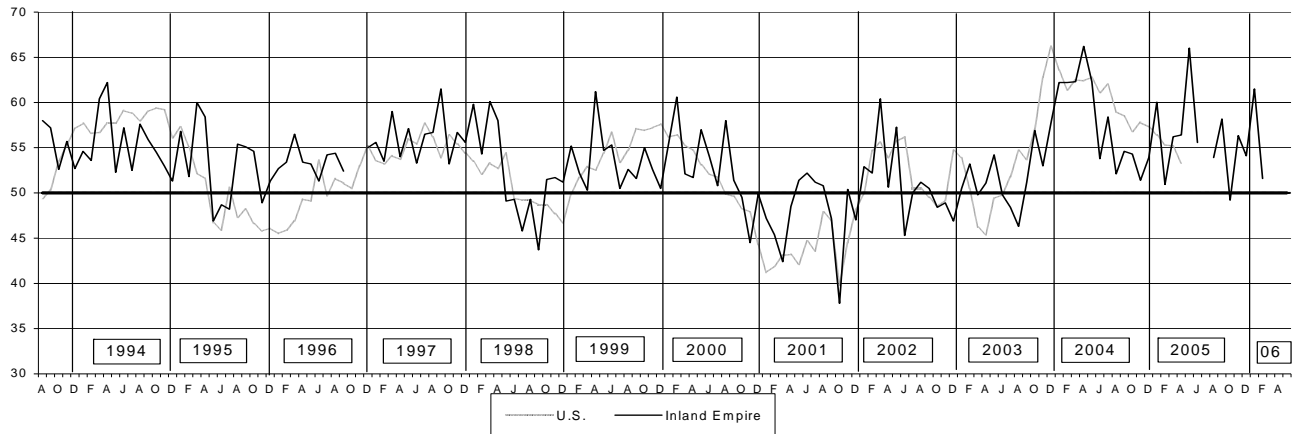
Following are some highlights from this month's report:

<b>February 2006 Business Survey at a Glance</b>				
	<b>Series Index</b>		<b>Direction*</b>	<b>Rate of Change</b>
	<b>Last Month</b>	<b>This Month</b>	<b>From 50</b>	<b>From last index</b>
Local PMI	61.5	51.6	Growing	Slower
Commodity Prices	70.7	63.9	Increasing	Slower
Production	63.3	50.0	Unchanged	Slower
New Orders	70.0	51.4	Growing	Slower
Inventory	53.3	51.4	Growing	Slower
Employment	51.7	45.8	Decreasing	From Growing
Supplier Deliveries	60.0	62.5	Slowing	Faster

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

February's PMI (51.6) has decreased from last month's figure (61.5), but continues to remain the 44.5 mark. This is the 51<sup>st</sup> consecutive month that the PMI has registered above the 44.5% mark, indicating that the local economy as a whole has experienced sustained growth for over four years.

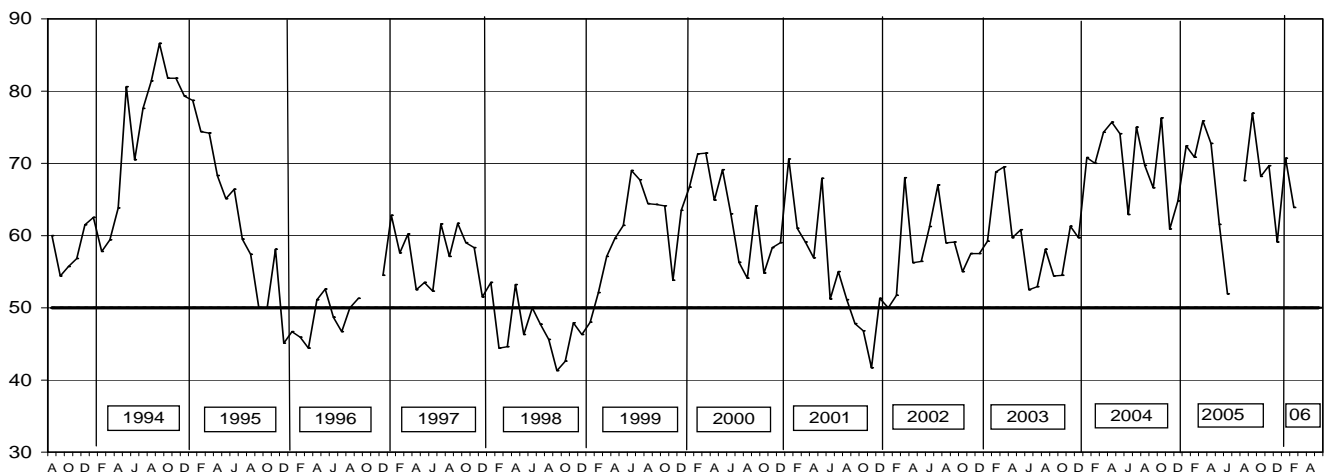
## Purchasing Managers' Index



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

February's Commodity Price Index of 63.9 decreased from last month's figure of 70.7, showing that inflationary pressures, although present in the Riverside and San Bernardino County areas, have somewhat subsided.

## Commodity Prices



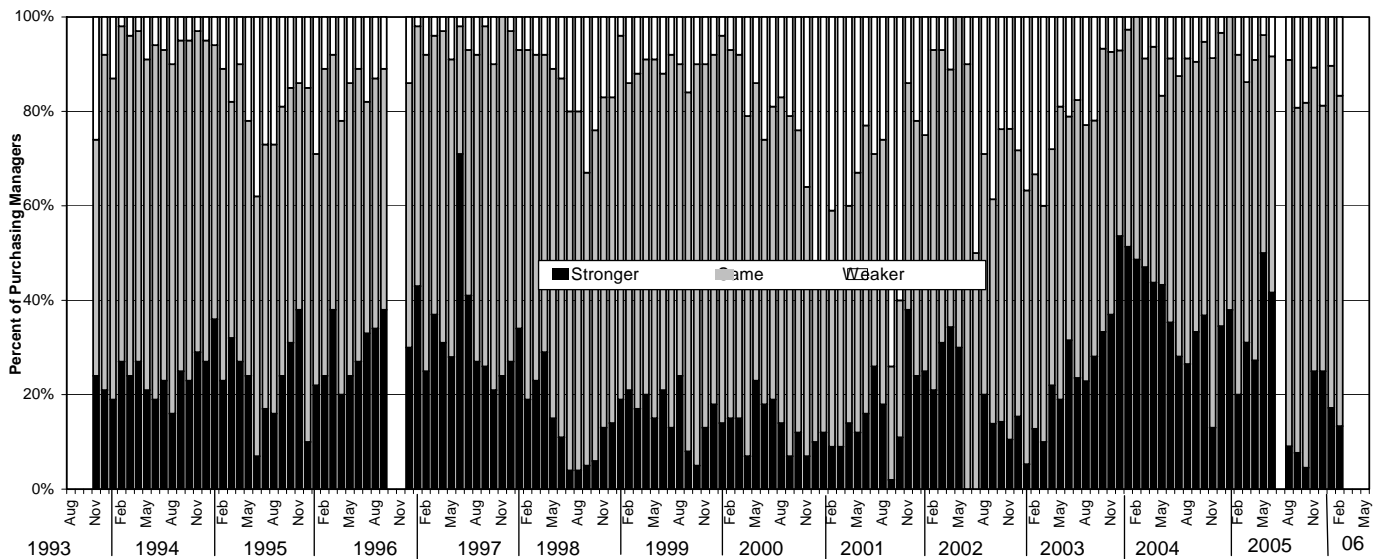
In February the Employment Index decreased from 51.7 to 45.8, Production decreased from 63.3 to 50.0, Inventories decreased from 53.3 to 51.4, Supplier Deliveries increased from 60.0 to 62.5, and New Orders decreased from 70.0 to 51.4.

Purchasing Managers are confident about the state of the local economy, with thirteen percent of purchasing managers predicting the local economy will become even stronger in the next quarter and another seventy percent indicating that the local economy will remain the same (which in the context of years of growth is a very positive statement). Only seventeen percent believe the local economy will be weaker in the coming months.

**STATE OF THE ECONOMY: DATA FROM 2/2005 THROUGH 2/2006**

	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb
<b>Weaker</b>	8	14	9	4	8	10	9	19	18	11	19	10	17
<b>Same</b>	72	55	64	46	50	80	8	73	77	64	56	73	70
<b>Stronger</b>	20	31	27	50	42	10	9	8	5	25	25	17	13

## 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, they remarked positively: " Staying steady," " Everything is good," and " Outlook is up (expanding market)." Negative comments include: " Business is brisk, but material costs continue to rise. Unable to fill open positions to increase production," " Order backlog up slightly because employment is down due to illness and personnel absence," and "Soft."

**In summary, IAR views this report as reflecting continued growth in the local manufacturing sector and the economy as a whole.** As noted earlier, the decline in the key indicators are considered at this point in time to be an artifact produced by a diffusion index that asks purchasing managers to compare the present month with the past month. But we also note that this explanation does not hold for the Employment Index. Next month's report should provide retrospective insight into this month's report.

**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