

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for January 2007

Sponsor: *CSUSB College of Business and Public Administration*

LOCAL MANUFACTURING SECTOR HAS SHIFTED DIRECTION AFTER THREE MONTHS OF DECLINE

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 (50.9) registered a substantial gain from last month's PMI (46.6). On the other hand, several of the major indices remain of concern. For example, the new orders index is unchanged from last month (which was a weak month). However, this month's PMI suggests that local manufacturing sector and the local economy are growing, but at a significantly slower rate than early last year.

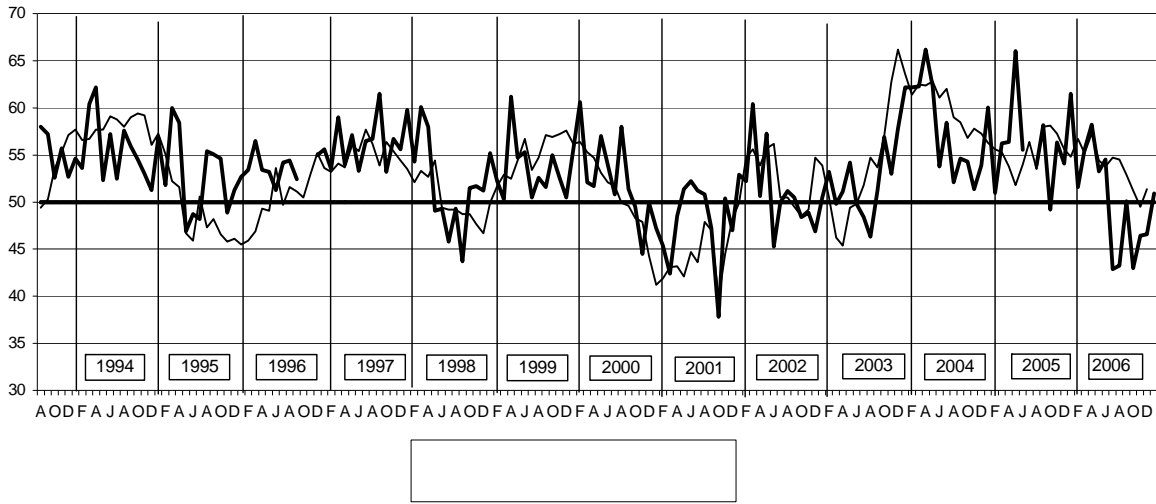
Following are some highlights from this month's report:

January 2007 Business Survey at a Glance				
	Series Index		Direction*	Rate of Change
	Last Month	This Month	From 50	From last index
Local PMI	46.6	50.9	Growing	From Contracting
Commodity Prices	56.0	46.0	Contracting	From Growing
Production	46.0	52.0	Increasing	From Contracting
New Orders	44.0	50.0	Unchanged	From Contracting
Inventory	38.0	46.0	Contracting	Slower
Employment	50.0	48.0	Decreasing	From Unchanged
Supplier Deliveries	54.0	58.0	Slowing	Faster

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

January's PMI (50.9) has increased from last month's figure (46.6), and suggests that the last three months of data below the 50% mark may not have signaled a true change in direction of the manufacturing sector. On the other hand, this month's "rebound" after three months under the 50% mark, again, indicates volatility in the local manufacturing sector.

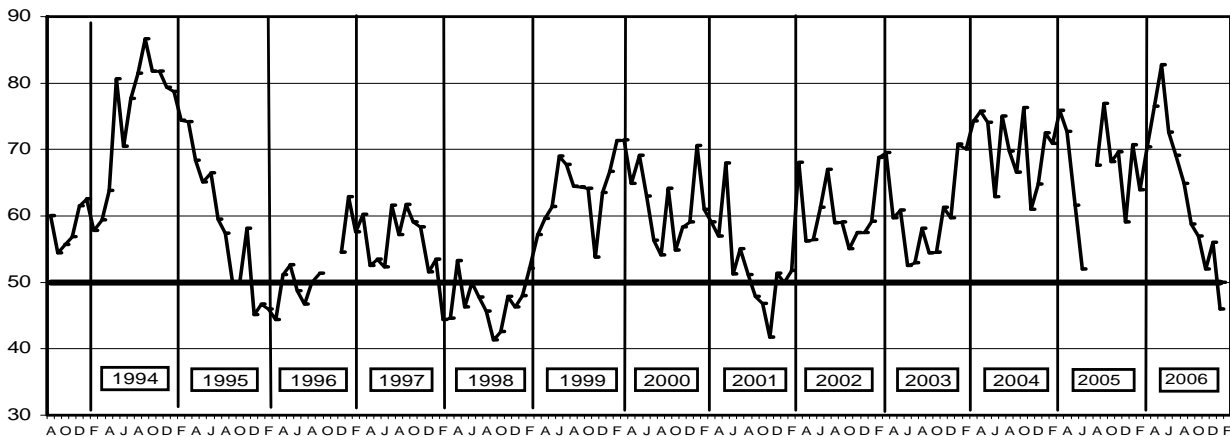
Purchasing Managers' Index



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

January's Commodity Price Index of 46.0 decreased from last month's figure of 56.0, showing that inflationary pressures in the Riverside and San Bernardino County areas have subsided. Further, January's Commodity Price Index is below 50%; it is important to note that this has not occurred since the end of 2001, in particular, the months following the 9/11 attack.

Commodity Prices



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

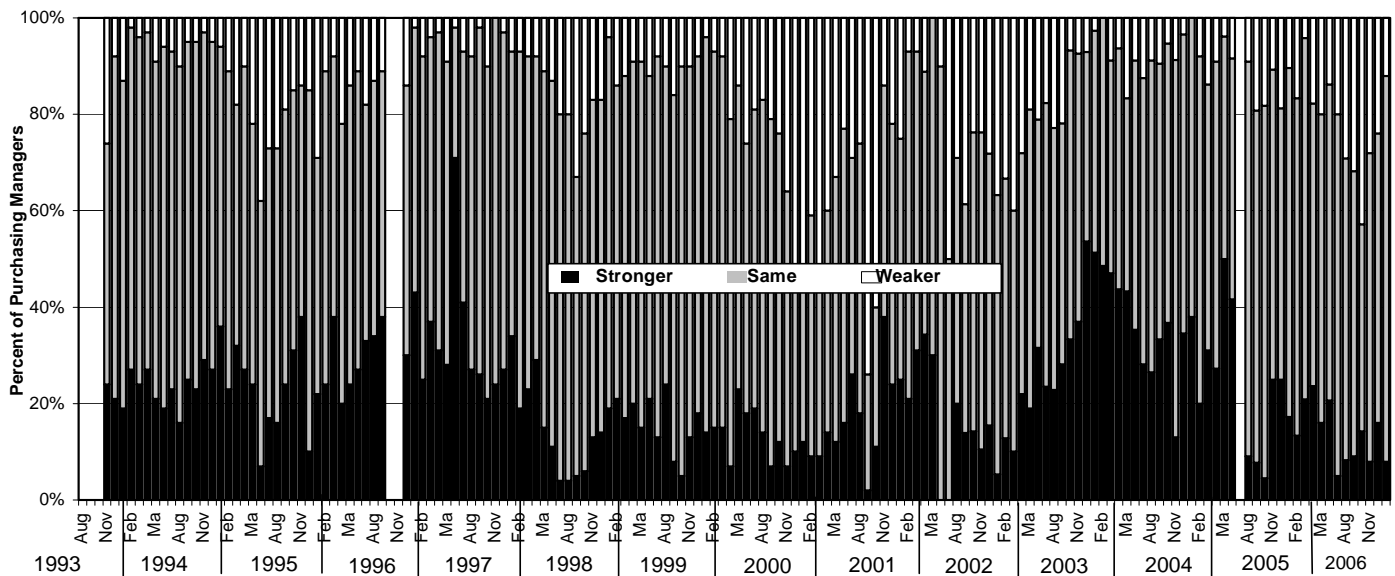
In January, the Employment Index decreased from 50.0 to 48.0, Production increased from 46.0 to 52.0, Inventories increased from 38.0 to 46.0, Supplier Deliveries increased from 54.0 to 58.0, and New Orders also increased from 44.0 to 50.0.

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. Eighty percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining twelve percent believe the local economy will become weaker by next quarter. 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 01/2006 THROUGH 01/2007

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan
Weaker	10	17	4	19	20	14	20	29	32	43	29	24	12
Same	73	70	75	56	64	65	75	63	59	43	63	60	80
Stronger	17	13	21	25	16	21	5	8	9	14	8	16	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, some remarked positively: " 2 [second] quarter looks great," " Good start for 2007." Meanwhile, negative comments include: " May have to close," " Slow Winter months," " Still soft."

In conclusion, IAR views this report as an indication of slow growth in the local manufacturing sector, and growth in the economy as a whole. The PMI returned to a figure above 50% -- a good sign (especially if it continues). The commodity price index registered below 50% for the first time since 2001. The production index increased after registering below 50% for three months in a row. On the other hand, the new orders index was unchanged from last month, which was a slow month. On balance, this report suggests that the "soft landing" we've anticipated in previous months' reports may in fact have occurred.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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