

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: *The Institute of Applied Research*

at California State University, San Bernardino

Report for October 2006

Sponsor: CSUSB College of Business and Public Administration

Local manufacturing sector and the local economy register a decline after a short “bounce” from last month

According to Shel Bockman, Barbara Sirotnik, Christen Ruiz (Co-Directors of the Institute of Applied Research) and Nick Patel (Assistant Project Coordinator), “This month’s PMI (43.0) registered a substantial loss from last month’s PMI (50.1). Additionally, this month’s PMI, 43.0, falls below the 50% mark, thus pointing towards a possible slowdown in the local manufacturing sector and economy in general. Further, it is below 44.5% mark—the benchmark for growth in the local economy. Commodity prices continue to increase at a slower rate for the third month in a row, indicating that inflationary pressures are subsiding in the Inland Empire.

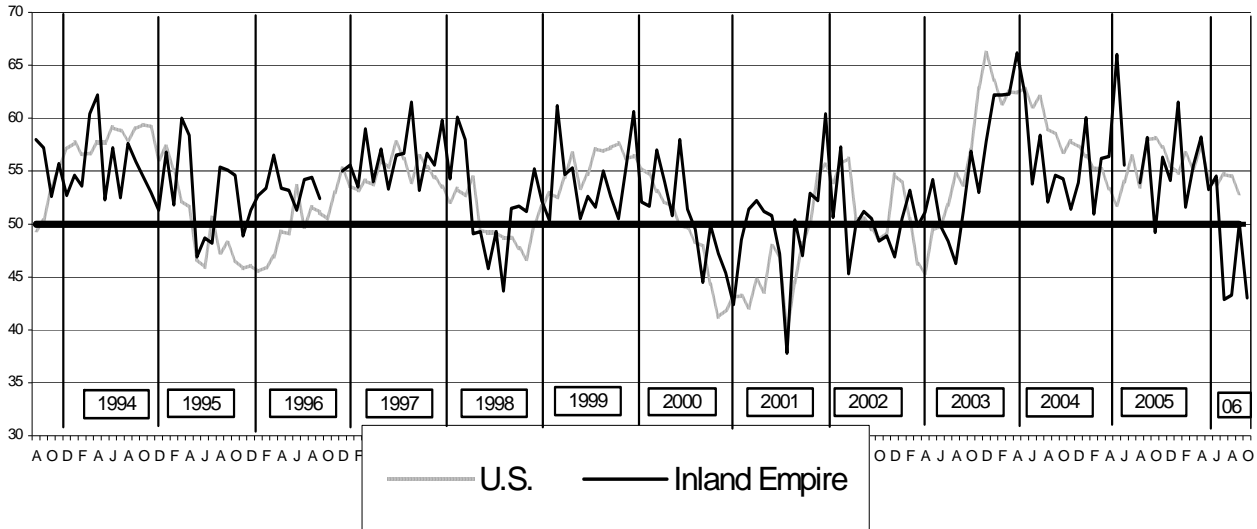
Following are some of the highlights from this month’s report:

October 2006 Business Survey at a Glance				
	Series Index		Direction*	Rate of Change
	Last Month	This Month	From 50	From last index
Local PMI	50.1	43.0	Contracting	From Growing
Commodity Prices	58.7	56.9	Growing	Slower
Production	50.0	41.1	Contracting	From Unchanged
New Orders	43.5	36.2	Contracting	Slower
Inventory	47.8	39.7	Contracting	Slower
Employment	50.0	48.3	Contracting	From Unchanged
Supplier Deliveries	65.2	55.2	Increasing	Slower

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

October’s PMI (43.0) has decreased from last month’s figure (50.1), and suggests that the last two months of data at or below the 50% mark did not reflect a change of direction within the manufacturing sector.

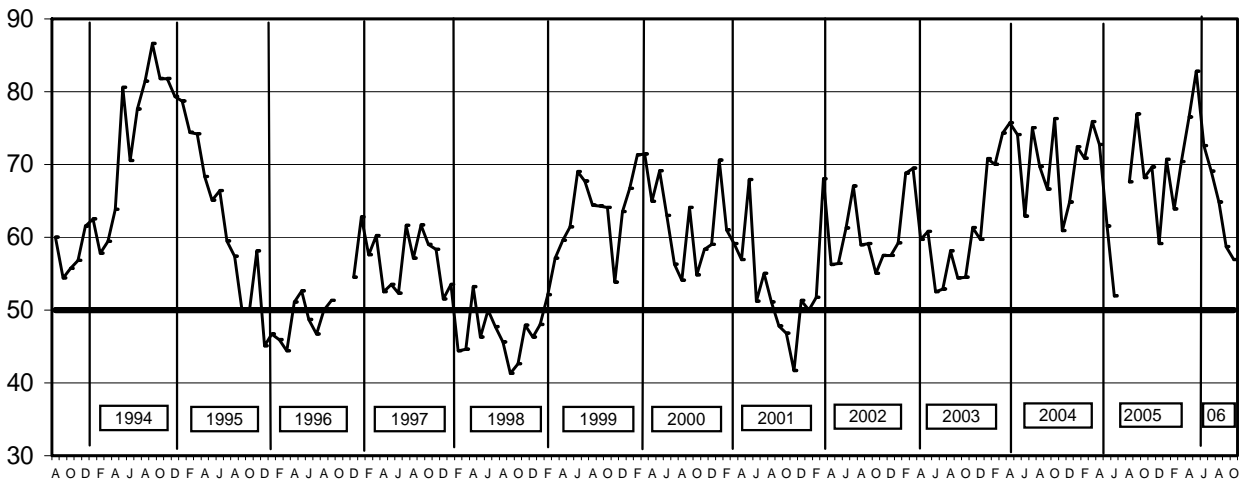
Purchasing Managers' Index



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

October's Commodity Price Index of 56.9 decreased from last month's figure of 58.7, showing that inflationary pressures although still present in the Riverside and San Bernardino County areas, have somewhat subsided.

Commodity Prices



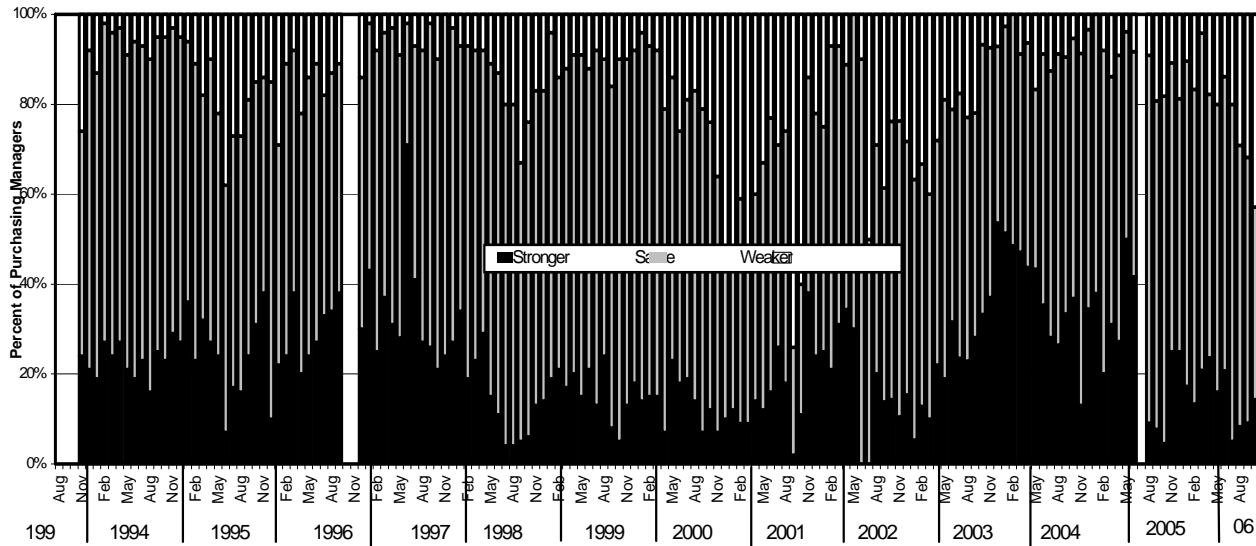
In October the Employment Index decreased from 50.0 to 48.3, Production decreased from 50.0 to 41.1, Inventories also decreased 47.8 to 39.7, Supplier Deliveries increased from 65.2 to 55.2, and New Orders decreased from 43.5 to 36.2.

Purchasing Managers continue to be less than enthusiastic about the state of the local economy. Only fourteen percent of purchasing manager predict that the local economy will become stronger in the upcoming months. Forty-three percent of purchasing managers believe the local economy will remain unchanged. Meanwhile, the remaining Forty-three percent believe the local economy will become weaker by next quarter. Based on these figures, more and more purchasing managers, starting from July 2005, believe that the state of the economy continues to be weak.

STATE OF THE ECONOMY: DATA FROM 10/2005 THROUGH 10/2006

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Weaker	18	11	19	10	17	4	19	20	14	20	29	32	43
Same	77	64	56	73	70	75	56	64	65	75	63	60	43
Stronger	5	25	25	17	13	21	25	16	21	5	8	9	14

State of the Local Economy



*** NOTE: Inland Empire data were not collected for the months of October and November, 1996, July 2005 and June 2006.

When Purchasing managers were asked to make comments on the general business conditions that affected their company, none remarked positively. Negative comments included: "Sales Slowing," " Construction slowing down," " Very slow."

In conclusion, when this month's report is read as standalone report, it clearly suggests a significant weakness in the manufacturing and the Inland Empire economy. On the other hand, when this month's report is read in the context of the previous three reports, it suggests that either the local economy is extremely volatile or that our Purchasing Managers are experiencing dramatic changes in their monthly perspectives toward the region.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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