

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: The Institute of Applied Research

***Housed in CSUSB's Jack H. Brown
College of Business and Public Administration***

Report for September 2025

Key Summary of the Report:

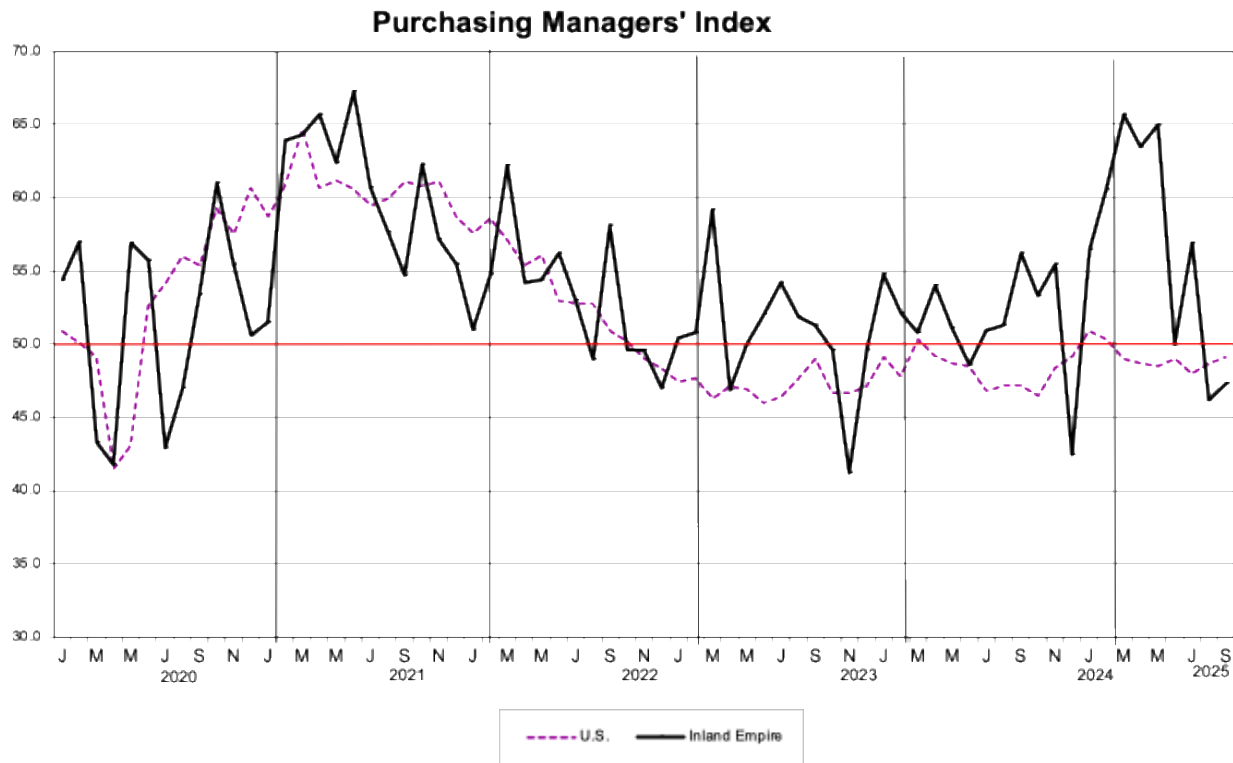
The September 2025 report reflects a continue contraction in the Inland Empire manufacturing sector. Gains in employment were tempered by continued declines in production and demand, while cost pressures intensified and business sentiment remained cautious.

- **PMI:** The PMI rose slightly to 47.3, still in contraction and below the national figure.
 - **New Orders:** Edged up to 36.7; contraction is easing but persists.
 - **Production:** Fell over 40% to 33.3, reach the lowest level in over two years.
 - **Employment:** The Employment Index rebound to 60, returning to expansion.
 - **Commodity Prices:** The Commodity Price Index rose to 83.3, signaling faster increase in input-cost pressure.
 - **Economic Sentiment:** outlook remains pessimistic, only 6.7% of the panelists report a positive view.
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PMI

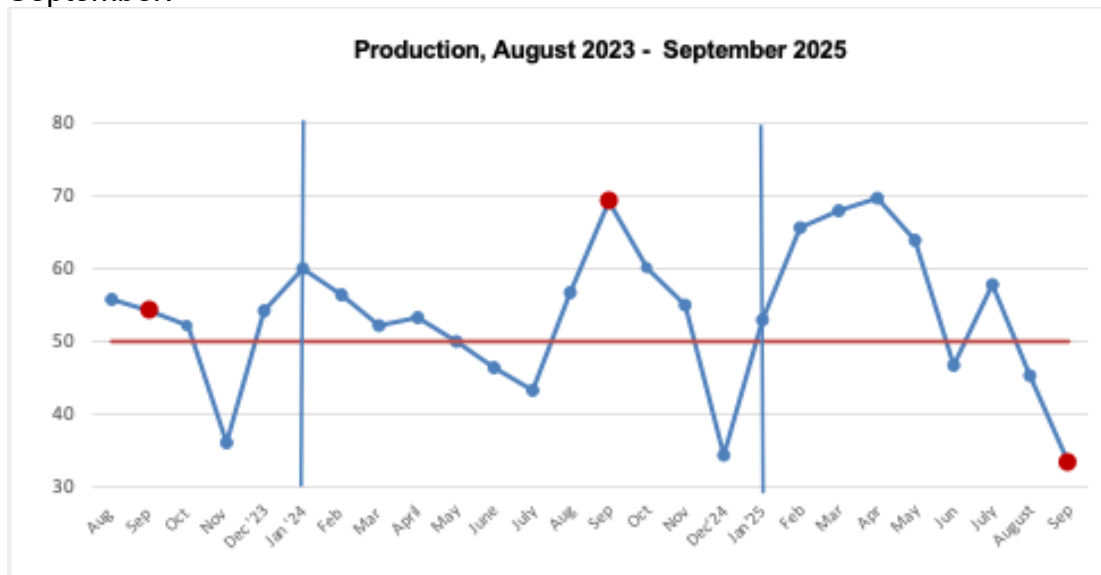
According to Dr. Anna Long and Dr. Peiyi Jia of the Institute of Applied Research (IAR), the Inland Empire **Purchasing Managers' Index (PMI)** increase slightly to **47.3** in September 2025, up about 2% from 46.2 in August. It remains in contraction territory after dropping below the 50-point mark in August for the first time since January 2025.

August's sharp decline reversed the IE PMI's trend, ending a seven-month run in expansion territory and its outperformance of the national index. September edged up slightly to 47.3, but remained below the 50-point threshold and below the national level. The IAR will continue to monitor conditions closely in the months ahead.

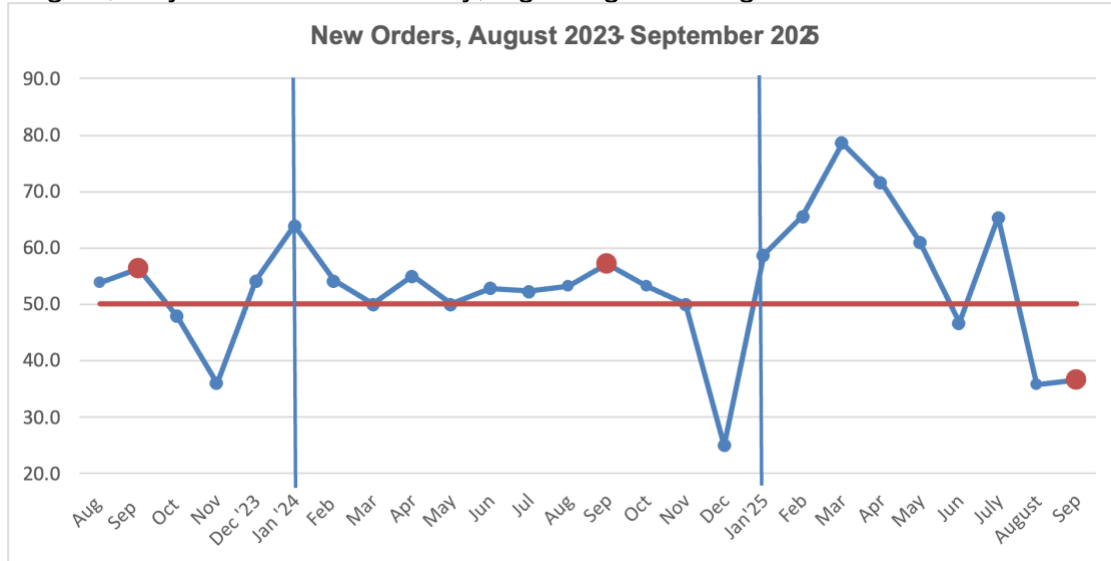


Source of U.S. PMI®: Institute for Supply Management®, Source of IE PMI®: Institute of Applied Research

The **Production Index** for September 2025 declined further to **33.3** from 45.2 in August. Marking the lowest level in over two years. It's the second consecutive sub-50 reading since January, which indicates that the contraction in production intensified in September.

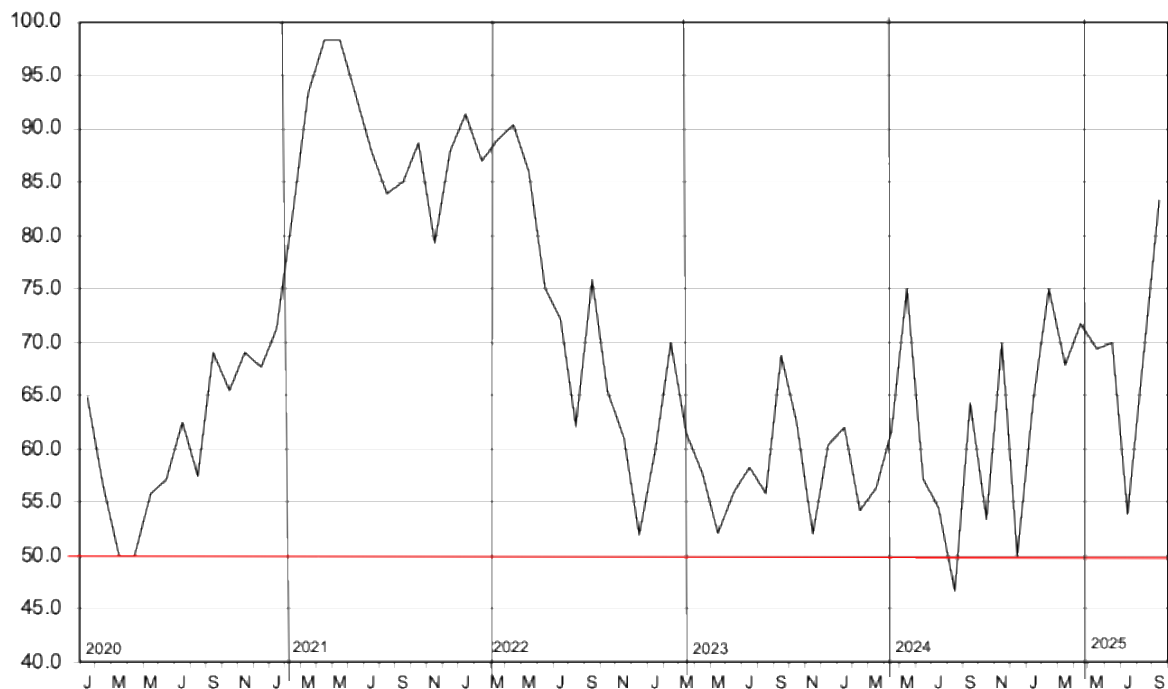


The New Orders Index for September 2025 increased slightly to 36.7 from 35.7 in August, stayed in sub-50 territory, signaling declining demand.



The **Commodity Price Index** for July 2025 rise significantly to **83.3** from 69.1 in August, marking 13 consecutive months above 50 and the sharp increase points to an accelerating cost pressures.

Commodity Prices

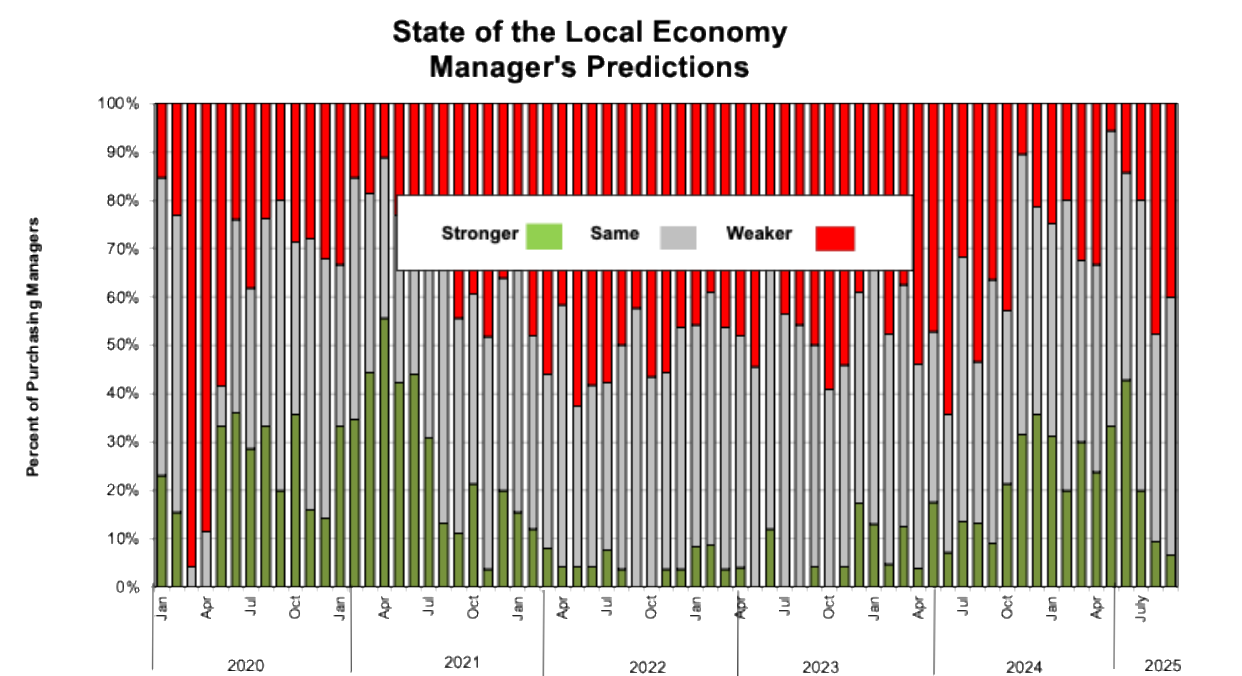


In September 2025, the **Employment Index** rebounded 40% from 42.9 in August to 60, returning to the above 50-point growing territory.

The **Supplier Deliveries Index** for September 2025 decreased to **53.3** from 59.5 in August. A reading above 50 indicates slower deliveries. This reading suggests that supply chain conditions has slowed compared to last month, but the pace of slowing moderated from last month.

The **Overall inventory** level for September 2025 increased to **53.3** from 47.6 in August. Indicating that the overall inventory level is increasing compared to last month.

Panelists were asked to forecast the state of the local economy over the next three months. **53.3%** of the panelists believe the economy will remain unchanged. Meanwhile, only **6.7%** expect it to strengthen, while another **40%** anticipate a weaker economy. Compared with prior months, views have converged toward the middle, suggesting a more neutral/guarded outlook.



Following is a summary of the figures shown in this month's report:

September 2025 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	46.2	47.3	Contracting	Slower	2
Commodity Prices	69.1	83.3	Increasing	Faster	13
Production	45.2	33.3	Contracting	Faster	2
New Orders	35.7	36.7	Contracting	Slower	2
Inventory	47.6	53.3	Increasing	From Decreasing	1
Employment	42.9	60.0	Growing	From Contracting	1
Supplier Deliveries	59.5	53.3	Slowing	Slower	4
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	9.50%	6.70%			
% Same	42.90%	53.30%			
% Weaker	47.60%	40.00%			

Finally, our survey always includes an overall question asking the panelists to offer general remarks regarding any business condition (local, national, or international) that affects the purchasing operation or the outlook of their company or industry. This section yielded diverse insights, with responses reflecting optimism or concerns.

Some expresses stability and optimistic outlook for the future

“Business remains good overall, ongoing tariffs does affect customer quoting and from keeping stocking levels at adequate levels due to ongoing price increases.”

“Business remains strong for the aerospace sector, both defense/military and commercial. Production hours are holding steady versus previous months. Cost of purchased goods increasing slightly but can be managed with some supplier negotiation/agreements.”

“seasonal slow-down in effect work level remains solid”

Many expressed concerns.

“We have seen customers leave due to competition having lower prices. Volume continues to be down YOY.”

“Direct phone/web inquiries for new customers have slowed down. Past customers are running the revenue right now as new businesses are purely looking for price.”

“Sales are down 40%. Customers are very slow pay. We still have all the same customers, but their orders are much smaller, they are only ordering what they need and not stocking parts. Hearing from customers and vendors that their business is way down and layoffs are eminent.”

“The local economy is slowing. Believe this is due to State budget challenges.”

“Still slow”

“Businesses, particularly those as ours as manufacturers, must always be prepared to adapt to changes, whether they are internally or externally imposed, and this is certainly the situation that we and others are facing today. The only non-answer in these situations is to not be prepared to analyze and identify alternatives that may or will be needed to adapt to face the new realities these changes bring.”

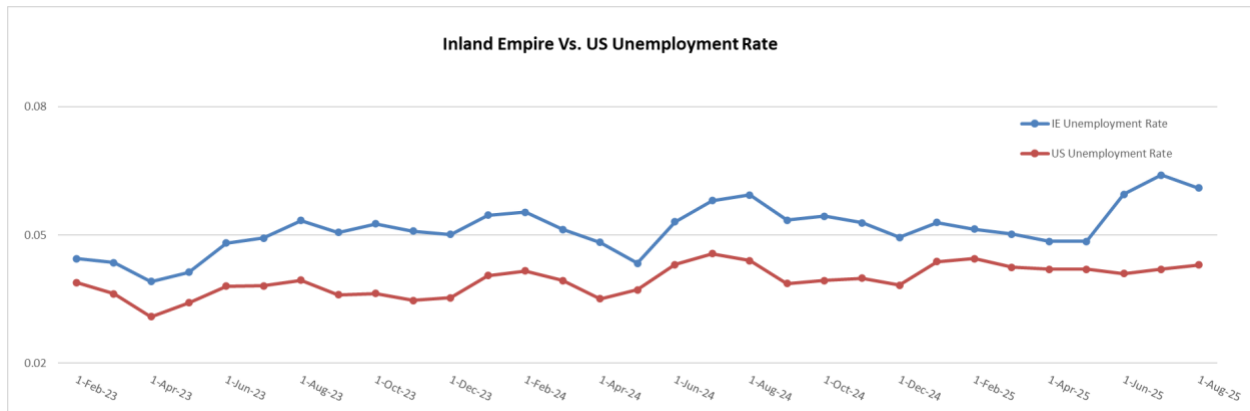
“Seeing a slight pickup in news sales orders. Still slower than a year ago.”

“Not much has changed over the last 2 quarters”

Economic Context: Unemployment Rate

In the most recent few months, the Inland Empire unemployment rate has shown a noticeable uptick—rising in June and peaking in July 2025, then easing slightly in August—after a period of relative stability earlier in the year. In contrast, the national unemployment rate remained much flatter, hovering around 4.2%–4.3% with only slight month-to-month movement.

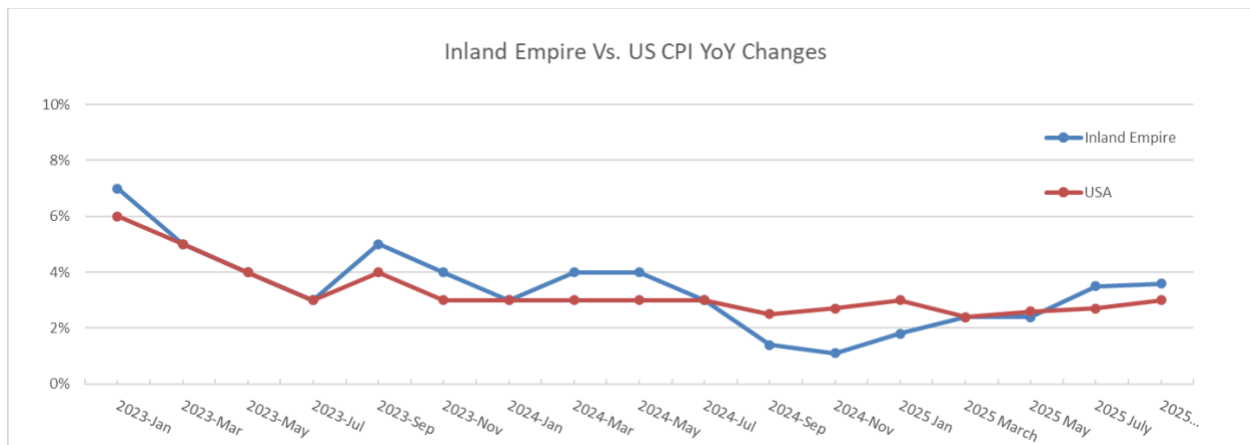
This widening gap highlights how the IE labor market is experiencing more volatility compared to the national average. While U.S. unemployment stayed fairly steady, the IE saw sharper swings—signaling greater regional sensitivity to shifts in logistics, construction, and hospitality that are more exposed to cyclical slowdowns. With the recent government shutdown and a series of layoffs across the public and private sectors, we anticipate short-term to medium-term shocks to the economy that could keep regional unemployment elevated and choppy.



Economic Context: CPI – Inflation

In the past few months, both the Inland Empire (IE) and the U.S. have seen a modest uptick in inflation after a long period of steady decline. Nationally, CPI edged up from roughly 2.5% in early 2025 to about 2.7% in July and ~3.0% by September—a fairly stable, gradual rise. The IE rebounded much faster, climbing from a low near 1.0% in late 2024 to about 3.5% in July and ~3.6% by early fall.

This pattern suggests that while national inflation pressures remain moderate, the IE is facing more pronounced local price increases—likely tied to housing, energy/fuel, and services (including logistics-linked costs). The widening gap underscores how regional factors can amplify inflation beyond the national baseline.



National and Regional PMI Comparison

Manufacturing is contracting in both the Inland Empire and the United States. PMI is in contraction for both. In the Inland Empire, Production is contracting while national

Production is growing, and New Orders are contracting at both levels—clear evidence of soft demand locally and nationally.

Where the Inland Empire diverges: Employment is growing locally (versus contracting nationally), Inventory is increasing locally (versus contracting nationally), and Supplier Deliveries are slowing in both. Net: the Inland Empire shows weaker demand momentum (Production, New Orders) but pockets of resilience in labor. The inventory build bears watching; if demand does not firm, it may become excess stock.

The Researcher's Opinion: Reading Between the Lines of a Slowing Economy

Local manufacturers appear to be holding onto talent while throttling output—a hedge against future labor shortages even as demand softens. The mix of weak production/new orders alongside firmer employment suggests capacity preservation rather than expansion; if orders do not rebound, this stance can flip quickly via hiring pauses or hours cuts. Input costs remain elevated and inventories are edging up, so near-term watch items are: (1) does employment remain above 50 if production stays sub-50, and (2) do inventories convert to sales or drift into excess—i.e., prudence, not panic while keeping cash discipline and operational agility.

Federal Government Shutdown context. Historically, federal shutdowns have delayed spending and dented activity, with the 2018–2019 episode delaying about \$18 billion in outlays and leaving roughly \$3 billion in GDP permanently lost even after catch-up. Current CBO assessments indicate that a prolonged 2025 shutdown would likely lead to non-trivial output losses and broader knock-on effects (for example, postponed permits, SBA loans, program delays), creating near-term headwinds for orders and small-business cash flow.

AI/automation context. The Inland Empire's labor mix—especially transportation, warehousing, and logistics—carries above-average automation exposure relative to coastal tech metros. Recent research work also finds uneven AI labor effects, with early-career workers showing larger employment impacts in AI-exposed roles. Near term, that argues for using AI to tighten operations (forecasting, scheduling, quality) while ring-fencing safety/quality and upskilling incumbent workers rather than expecting broad dislocation.

Practical Implications for the next 1–2 quarters:

- If the government shutdown stays around: expect slower, bumpier sales. Collect cash faster, be careful with who you extend credit to, and keep inventory lean so it turns quickly.
- Try small, useful AI/automation: start with things that cut costs (fix machines before they break, plan routes better, forecast demand). Train your team as you roll it out. Keep score: fewer breakdowns, faster routes, fewer stockouts.

- Watch jobs vs. output: if you keep hiring while production stays weak, you are carrying extra cost. Either wait to hire until new orders clearly pick up, or trim hours/hiring if weak orders last a few months.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Anna Long
Associate Professor, CSUSB
anna.long@csusb.edu
909-537-5779

Dr. Peiyi Jia
Assistant Professor, CSUSB
peiyi.jia@csusb.edu

Dr. Ezekiel Bonillas
Assistant Professor, CSUSB
EBonillas@csusb.edu

Dr. Tomás Gómez-Arias
Dean
The Jack H. Brown College of Business and Public Administration, CSUSB
909-537-3703

References are available upon request.