

IAR'S INLAND EMPIRE REPORT ON BUSINESS
Prepared by: The Institute of Applied Research

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Jack H. Brown College of Business and Public
Administration

Report for April 2022

Sponsors: San Bernardino County Economic Development Agency
Riverside County Business and Community Services

PMI IS FIRMLY IN GROWTH MODE
BUT NO CHANGE IN PANELISTS' CONCERNS

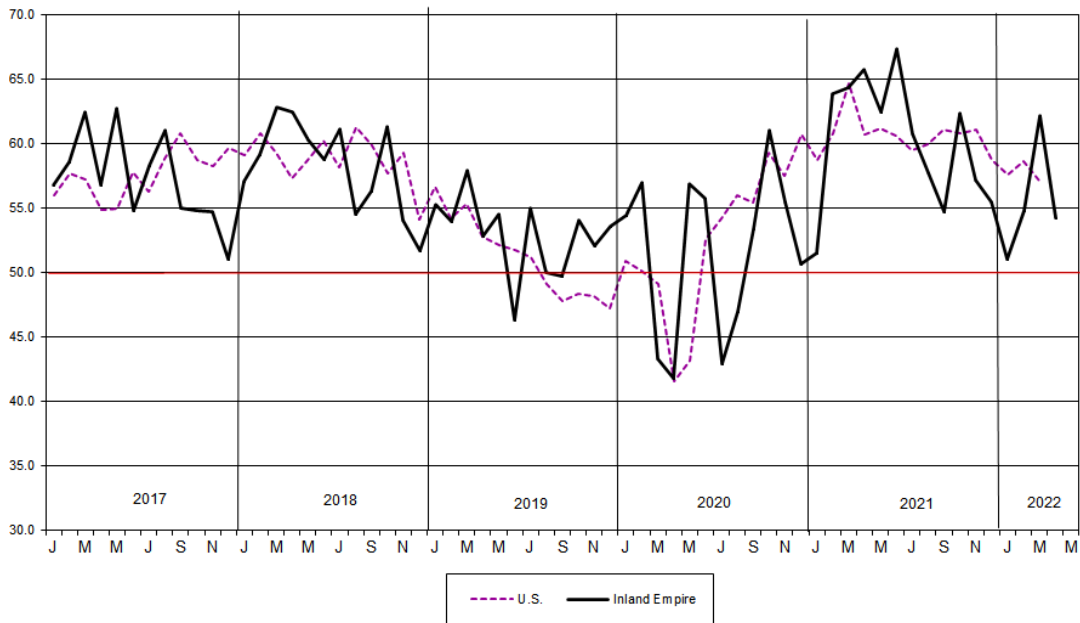
So, what's new this month? Well, Covid cases are down from the peak in January, although it appears that the numbers are slowly rising again in most American States. Further, the numbers most probably reflect an undercount given the number of people who are diagnosing using at-home self-tests, and Covid rates are expected to climb this summer as protection from boosters begins to wane – this is sure to have an effect on local business.

But the US is in much better shape relative to Covid than Shanghai, a major industrial commercial center in China. And that is causing continuing supply chain woes across the globe. When you add to that the threats from high inflation and rising interest rates, it is clear that the US economy is in a challenging position. The Inland Empire is not immune to those challenges.

It is in this context that we present this month's report.

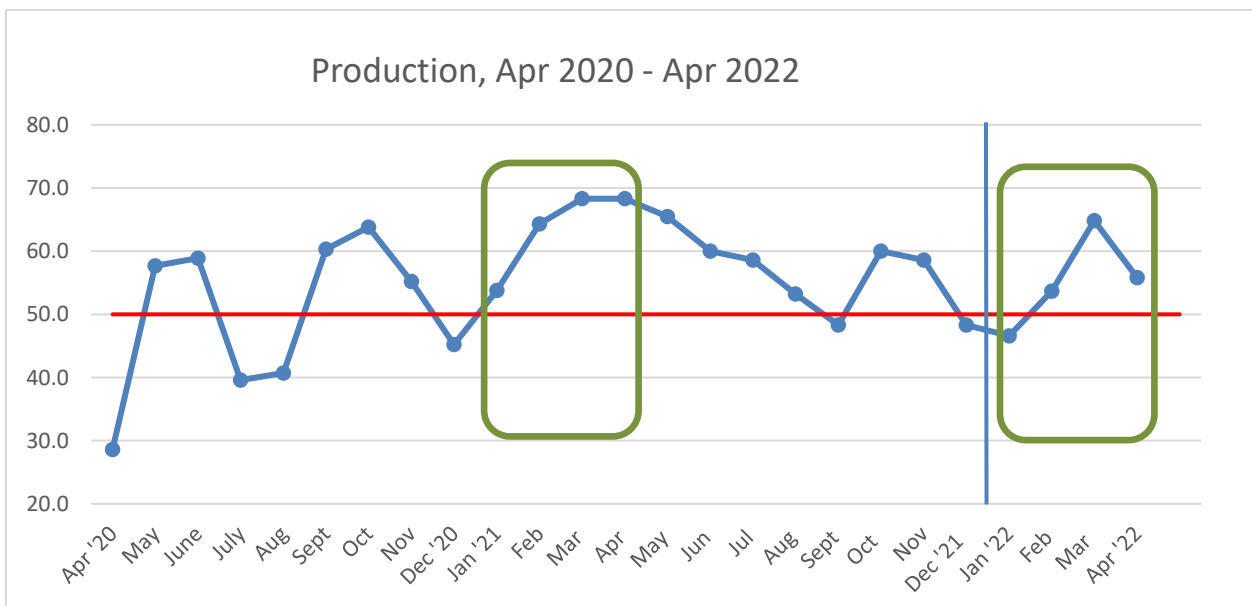
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** dropped to **54.2**, a sharp drop from last month's 62.2. The index has remained above the baseline 50% mark for twenty consecutive months, indicating that the Inland Empire manufacturing sector and the overall economy have remained in growth mode for well over a year. That's the good news. But sad to say, increasing inflation and snarled supply chains are still giving headaches to Inland Empire businesses and residents, and gas prices are nearly \$2 higher than they were at this time a year ago. We are encouraged by the continued economic recovery, but expect to see continued economic volatility in the Inland Empire economy over the next few months."

Purchasing Managers' Index



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

As noted in previous reports, the Production Index and New Orders Index are the two key components of the PMI. This month both have decreased significantly, thus explaining the decrease in the PMI. **The Production Index** registered a drop from 64.8 last month to **55.8** this month.



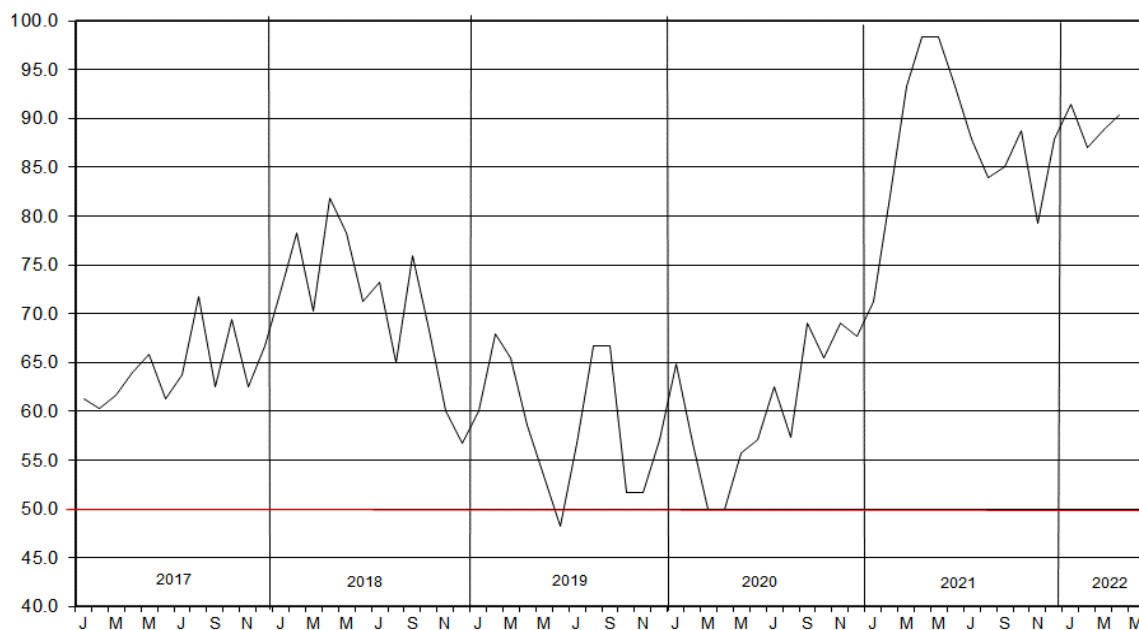
This month's **New Orders Index** also saw a huge drop from last month's 59.3 to **38.5** this month, indicating that new orders significantly declined over the last month. This

could be cause for concern if the index remains below 50 for another 2 months (the length of time necessary to establish a new trend).

The “bright side” amid this not-so-good news is the **Employment Index** increased from 59.3 last month to **61.5** this month. For the second month in a row, most panelists who saw increased employment said they hired people in *permanent* positions (as opposed to temporary).

Inflationary pressures continue to be felt within the Inland Empire and beyond. The **Commodity Price Index** increased slightly from last month’s 88.9 to **90.4** this month. Although the figure is quite high, we must note that it is not as high as it was between March and June 2021, or in January 2022.

Commodity Prices



The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index increased slightly from 72.2 last month to **73.1** this month. This indicates that deliveries continue to be slowing, with the rate of slowing increasing from last month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw a huge drop to **42.3%** from last month’s 55.6%. It may be that supply chain issues have reduced the availability of raw materials necessary for production. About a quarter (**26.9%**) of the companies (up from last month’s 14.8%) indicated that their inventory level of **finished goods** has *decreased*, whereas only **15.4%** (down from last month’s 18.5%) indicated that their level of finished goods has *increased* since the previous month. The remainder (**57.7%**) reported that

their inventory of finished goods has not changed since last month, meaning that their production of finished goods is “staying even” with sales.

Each month IAR includes a special question of interest in its monthly survey. This month we asked: “**What is your company’s biggest concern regarding business conditions over the next three months?**” This month, the responses fell into 3 main categories: cost of doing business, supply chain, and workforce issues.

Concerns about cost/prices include:

- “Cost of material is skyrocketing.”
- “Cost of supplies.”
- “Difficulty of passing price increases on to our customers.”
- “Higher prices for materials.”
- “Inflation continues to be a problem.”
- “Inflation. Cost of everything is going up weekly...”
- “Price increases make long-term planning a challenge.”
- “Rising prices.”
- “Staying competitive with the ever-increasing non-skilled labor costs.”
- “We are hoping that people will still be buying and not let the inflation scare them away from purchasing our product.”

Concerns about supply chain/resource issues:

- “Automotive is still inconsistent - Shanghai shut down affecting overall manufacturing.”
- “Availability of required material.”
- “Being able to get the materials in time to complete the projects that we have had on the books for several months.”
- “Being able to purchase and receive paper.”
- “China shutdown / no manufacturing / no import parts and materials to receive.”
- “Suppliers still struggling to make timely deliveries.”

Concerns about workforce issues:

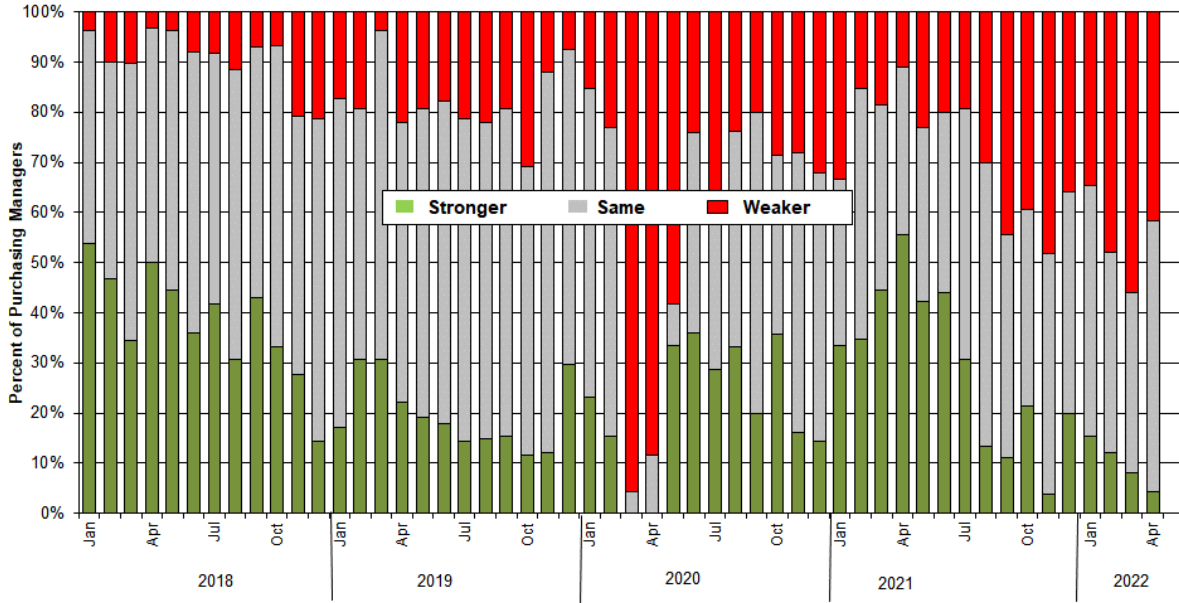
- “Finding employees.”
- “Inability to hire and retain non-skilled labor.”

In addition, one panelist cited the “overall uncertainty in both the economic and political/policy-making institutions that impact the markets we address.”

Given the concerns just mentioned, it is not surprising that **42%** of panelists predicted that the economy would be **weaker** in the coming quarter. But placing that figure in perspective, we must note that last month over half (56%) had made that dire prediction (red bars below). Only **4%** of panelists forecasted a **strengthening** local economy for the next 3 months (green bar below). The remaining **54%** predicted that the economy

would remain unchanged over the next few months, where “unchanged” refers to slow and steady growth in the context of supply chain and price concerns.

State of the Local Economy Manager's Predictions



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

April 2022 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	62.2	54.2	Growing	Slower	20
Commodity Prices	88.9	90.4	Increasing	Faster	34
Production	64.8	55.8	Growing	Slower	3
New Orders	59.3	38.5	Contracting	From Growing	1
Inventory	55.6	42.3	Decreasing	From Increasing	1
Employment	59.3	61.5	Growing	Faster	3
Supplier Deliveries	72.2	73.1	Slowing	Faster	31
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	8%	4%			
% Same	36%	54%			
% Weaker	56%	42%			

What respondents are saying about business conditions that affect their operation:

Each month we ask our respondents to make overall comments regarding business conditions – local, national, or international – that affect their purchasing operation or the outlook for the company or industry. As has become the typical pattern, this month the vast majority of the panelist’s comments reflected concerns about prices, material availability, and resource shortages.

Concerns include:

- “As of right now we are still experiencing slow delivery of materials needed to fabricate our cabinets.”
- “Business is still slow.”
- “Paper Supply & Delivery.”
- “Price increases are challenging to stay ahead of.”
- “Shanghai is almost shut down and this is critical to us.”
- “Uncertainty is the enemy of rational planning. Known risks are at least an observable element in the planning process. At this moment, uncertainty is the enemy, and businesses are faced with *avoiding risks* rather than *managing known risks*, so we are seeing a slowdown in our commercial and industrial customers' focus on the expansion we help them address.”
- “We are very concerned about future purchasing of parts/components due to China's COVID shutdown. I have made additional purchases of parts to keep in our inventory, hoping to stay ahead before everything runs out. When we run out of parts, we stop producing the product.”

Comments of a positive or “balanced” nature include:

- “Business has really picked up, may have to hire another CNC operator. Some sizes of required getting harder to find and prices increases continue to be a problem for us.”
- “Good quoting opportunities, but funds have not been released to projects.”
- “New sales are slowing down a little bit, but things are still strong with the sales we already had.”
- “Sales orders continue to be very strong. Prices increases are challenging to stay ahead of.”
- “Still strong, mostly due to supply shortage at our competition.”

In summary, we commented last month that forecasting these days is especially difficult due to the dizzying array of uncertainties stemming from the pandemic’s supply chain disruptions, ongoing price increases, and labor shortages. That hasn’t changed. But this month for the first time our panelists have expressed concerns about lockdowns in China stemming from one of the worst Covid outbreaks since Wuhan in 2019. According to shipping analytics firm Windward, “20% of the world’s roughly 9,000 active container ships are currently sitting in traffic jams outside congested ports. Close to 30% of that backlog alone is in China—double the domestic congestion rate in

February—where a virulent Omicron wave is snarling supply lines.” We foresee that this may lead to several bad months for the US in general and the Inland Empire in particular as the congestion of ships as well as trucks used in import/export activities finally clears.

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