

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

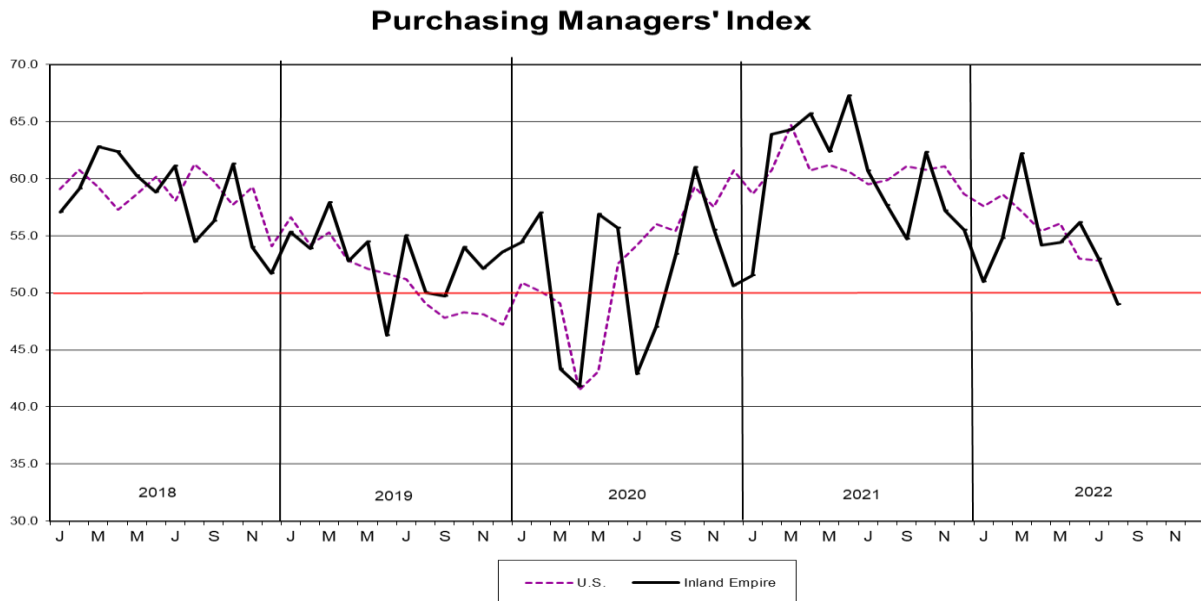
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Report for August 2022

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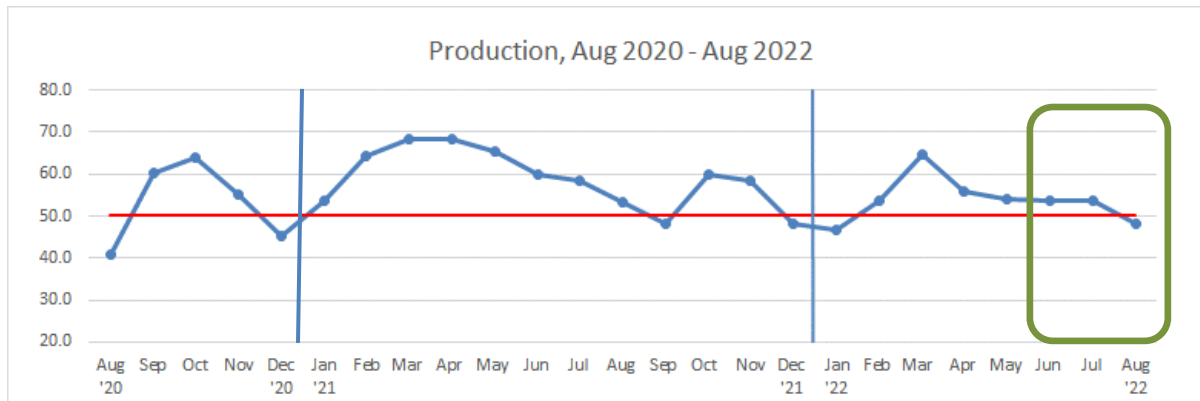
INLAND EMPIRE PMI DIPS BELOW 50 FOR THE FIRST TIME IN 23 MONTHS

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)** registered **49.0**, a decline from last month's 53.0. This is the first time in nearly two years that the index has dropped below the 50.0 baseline. But there is no cause for concern – "yet" – since it would take 3 months of measurements below the 50 baseline to establish a new trend of decline in the manufacturing sector. On the other hand, we must note that there has been an overall downward trend in the PMI since this year's high of 62.2 in March. Hopefully, this month's figure is only a one-time drop below 50 rather than a continuation of that downward trend."



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** is one of the two key components of the PMI. The Index (**48.3**, down from last month's 53.7) has shown a significant drop below 50 for the first time since January 2022. It remains to be seen if this is part of an expected seasonal factor as is often experienced in August or September when holiday production has been completed. As stated above, it takes three months to determine if there is a new pattern established for any of the indices.



The **New Orders Index** (the other key component of the PMI) dropped from last month's 51.9 to **41.4** this month, indicating that new orders have also declined significantly.

Last month we reported that the **Employment Index** had dropped below 50 to 44.4 after 5 months of continuous growth. This month's figure (**44.8**) is virtually unchanged since last month. As noted by one of the panelists: "The labor market is not getting better. We use E-Verify and we are unable to get candidates that can pass the review."

But there IS one positive note to this report, and that is that the **Commodity Price Index** for the Inland Empire declined from last month's 72.2 to **62.1** this month, reflecting a decrease in inflationary pressures. The last time we reported a figure that low was in August 2020, and the trend over time is definitely downward as shown in the graph below.

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 61.1 last month to **62.1** this month. This indicates that deliveries continue to be slowing, with the *rate* of slowing increasing slightly from the previous month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered at **48.3**, a significant drop from last month's 53.7 and the first month below the baseline of 50 since April 2022. Most of the panelists (**58.6%** -- down from last month's 63.0%) 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. A total of **20.7%** indicated that their inventory level of finished goods has *decreased* (meaning sales were "good" and they were able to clear out inventory), whereas **20.7%** indicated that their level of finished goods has *increased* since the previous month.

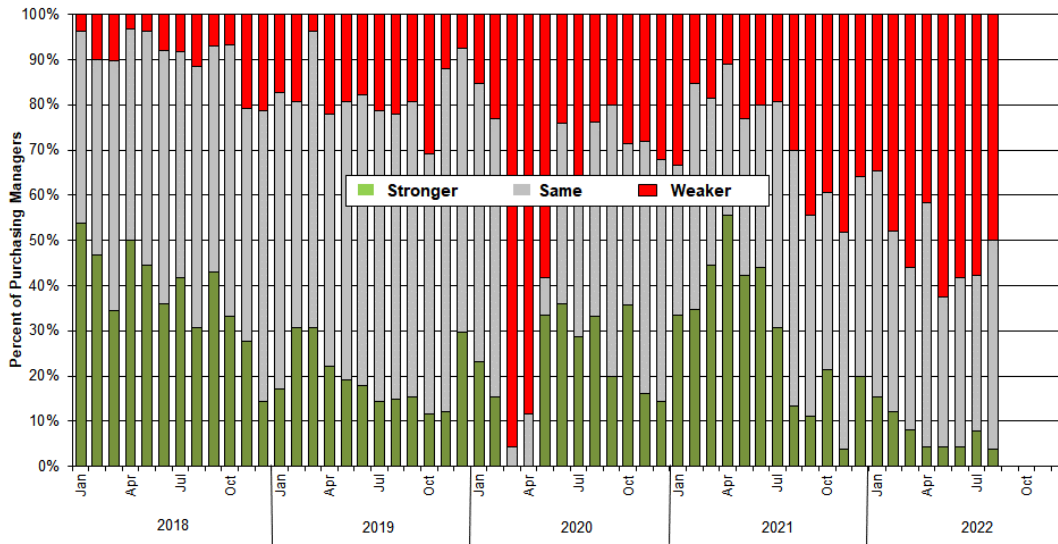
Since the pandemic started, IAR has included one or more special questions of interest in its monthly survey. This month we asked a question similar to one asked by consultant PwC when it polled more than 700 U.S. executives and board members across a range of industries nationwide. The question read: "*Recent surveys have shown that the workplace is changing. What changes has your organization been considering (or is considering for the near future)?*"

The change mentioned most often was "boosting pay for employees" in order to attract talent (mentioned by **51.7%** of respondents). This compares with about two-thirds of firms nationwide that are boosting pay or expanding mental health benefits. Further, **10.3%** of our panelists mentioned that they are expanding employee benefits in order to

recruit and retain good people. On the downside, 6.9% are planning layoffs, 3.4% are implementing a hiring freeze, and 3.4% are reducing or eliminating the sign-on bonuses previously used to attract talent.

Panelists were also asked to make a prediction regarding the “health” of the economy over the coming three months. Nearly half (**46%**) of panelists predicted that the economy would remain unchanged over the next few months. But a full **50%** (down from 58% last month) predicted that the economy would be **weaker** in the coming quarter (red bar below). Only **4%** of panelists forecasted a **strengthening** local economy. This is the sixth month in a row that the percentage of panelists expressing optimism about the economy has remained in the single digits (green bar below).

**State of the Local Economy
Manager's Predictions**



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

August 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	53.0	49.0	Contracting	From Growing	1
Commodity Prices	72.2	62.1	Increasing	Slower	38
Production	53.7	48.3	Contracting	From Growing	1
New Orders	51.9	41.4	Contracting	From Growing	1
Inventory	53.7	48.3	Decreasing	From Increasing	1
Employment	44.4	44.8	Contracting	Slower	2
Supplier Deliveries	61.1	62.1	Slowing	Faster	35
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	8%	4%			
% Same	34%	46%			
% Weaker	58%	50%			

Finally, our survey always includes an overall question asking the panelists to give general remarks regarding any business condition (local, national, or international) that affects the purchasing operation or the outlook of their company or industry. Comments seem to be split between positive and negative remarks, and some reflect BOTH sentiments. Here are some of the positive comments:

- “August is typically our slowest month for order entry. It thankfully was this August and gave us a chance to catch up on past due orders. Business still seems brisk, and I do not have many, if any, customers concerned about a possible recession or slowdown. People still want to build their inventories. So, my outlook remains positive on the economy or at least the metals industry.”
- “Business is continuing relatively strong, and we are encouraged by the market outlook.”
- “Business is way up due to new customers and seasonal orders. Prices are still high, but slowly going down. We still have 2 positions open, but at least we are getting applicants.”
- “New orders have been up and we have been busier in the last couple of months.”

Several panelists made observations about continuing business challenges:

- “Business continues down an unpredictable path. Possible recession and markets dropping out for steel.”
- “Business is slowing a little.”
- “Slowdown in customer orders.”
- “Still waiting for forklifts, ordered a year ago.”
- “The impending recession is making it difficult for people to make decisions.”
- “The inflation is not under control and federal "assistance" is not seen as controlling the trend.”

- “We have been experiencing a very slow time for manufacturing. Orders have been trickling in and supply chain issues are still prevalent.”

Finally, some panelists provided a “mixed”/balanced view of general business conditions:

- “On balance our company has been very fortunate. In comparing today's numbers to prior to the outbreak of covid, we are up in both sales and profits. That is taken into account labor shortages, supplier slowdowns, and accommodating shifting government covid requirements. The bump in business, along with increases in labor and material costs had started prior to the pandemic. I believe the government reaction to the pandemic increased the speed of the upward pressure on costs, but costs were going up regardless. Throw in a major military conflict in Eastern Europe, severe weather in the gulf coast of the US, and supply lines are now critically log jammed. The good news is costs seem to be more stable and not going up as fast as 6 months ago.”
- “Supply chain continues to be a challenge to navigate. With this there are pluses and minuses. The positive is we are repairing items that would normally be replaced. The negative is finding the parts to repair the items.”
- “There is still a degree to which uncertainty in the business and political climate is impacting the ability to make strategic business decisions based on the facts needed for those strategies. The stock market is not a reflection of the economy, but the wide fluctuations in the market are symptomatic in my opinion of the uncertainty that does impact our ability to predict based on the facts needed. However, there are signs we are moving in the right direction and our business is looking to surpass our predicted sales for this year.”

In summary, for the first time in 23 months, the PMI has dipped below 50, indicating that the Inland Empire economy may no longer be in growth mode. But as was mentioned earlier, we need to wait and see if the indices over the next two months continue to reflect economic weakness in the area, or if this month's data will simply reflect one month of statistical variation. After all, good signs abound at the national, state, and local levels: consumer sentiment nationwide has improved (based on the recent Michigan Consumer Sentiment index), unemployment is down, job openings are up, and inflationary pressures are easing.

We will continue to track the opinions of our business leaders over the coming months.

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