

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

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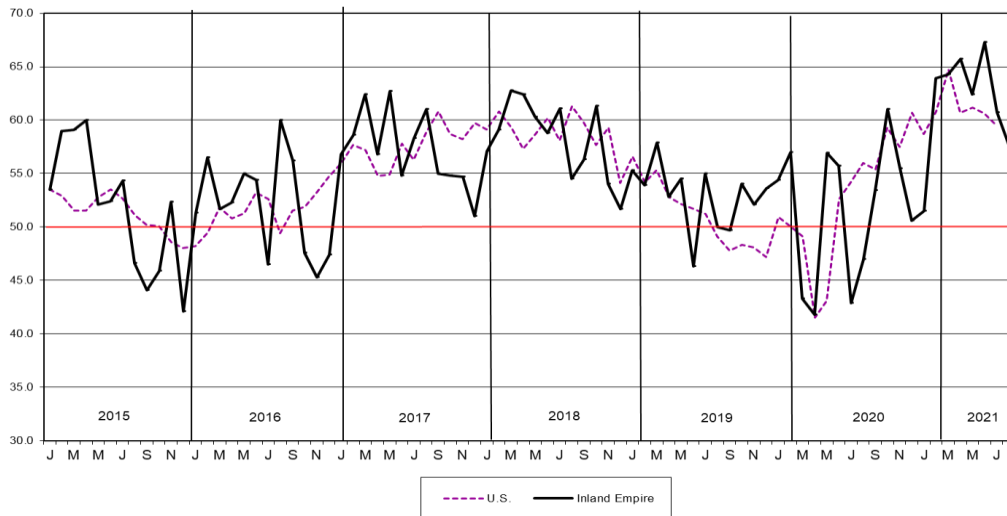
Report for August 2021

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

PMI HAS REMAINED ABOVE 50 FOR 1 YEAR
But labor shortages are causing havoc

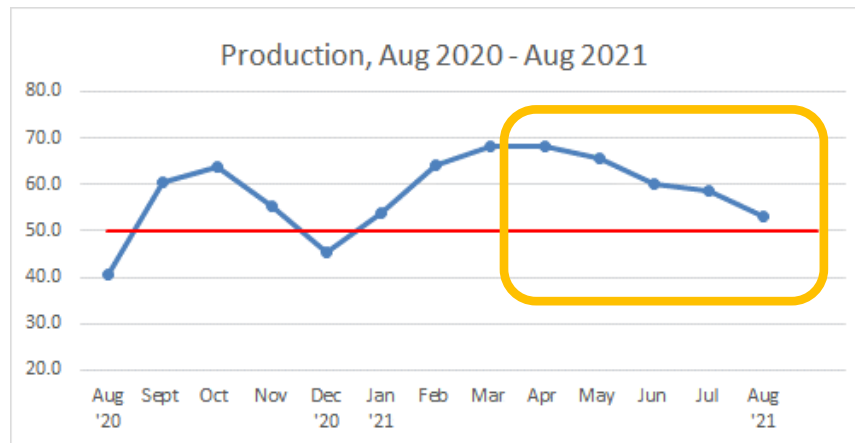
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **57.7**, a decrease from last month's 60.7. But the good news is that the index has remained above the baseline 50% mark for twelve consecutive months, indicating that the Inland Empire manufacturing sector and overall economy has continued the trend of steady growth for an entire year (although at a slower pace than last month). The national PMI produced by the Institute of Supply Management has also showed continued growth with a small decrease in the rate of growth in recent months."

Purchasing Managers' Index



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

The Production Index registered a strong decrease from last month's figure (58.6) to **53.2** this month, indicating that although production is still growing, the rate of growth is much slower pace than last month.



This month's **New Orders Index** is also **53.2** – an increase from last month's 51.7. This means that new orders continued to grow last month. The fact that these two key components (Production and New Orders) of the PMI remained solidly above 50% indicates that the manufacturing companies anticipate steady growth as the Inland Empire economy recovers.

The Employment Index showed a significant drop from 58.6 last month to **48.4** this month. The labor shortage is causing havoc on the supply chain and production, which is coming across clearly in comments from our panel members. To cite just a few:

- "Freight is so expensive. There are no drivers available, everything is always back ordered I am so frustrated with the whole back-order situation."
- "Shippers are unable to find carriers/drivers for truck load freight, primarily bulk liquid chemicals."
- "It's taking 10 weeks to get materials when it used to take 3-4, and it's due to not having enough workers and raw materials needed."
- "Staffing has been difficult to find and retain."
- "Very difficult to add to staff."

With the past few months, the **labor shortage** has been mentioned as a major concern for our local economy, so this month we added a follow-up question on our survey: "Some companies have found that the pandemic has forced them to increase the pay of their workers to recruit/retain talent. What is the situation at your company?" Here are the comments:

Comments from those whose companies have increased pay

- "Everyone has received a raise, to the highest we have ever paid!"

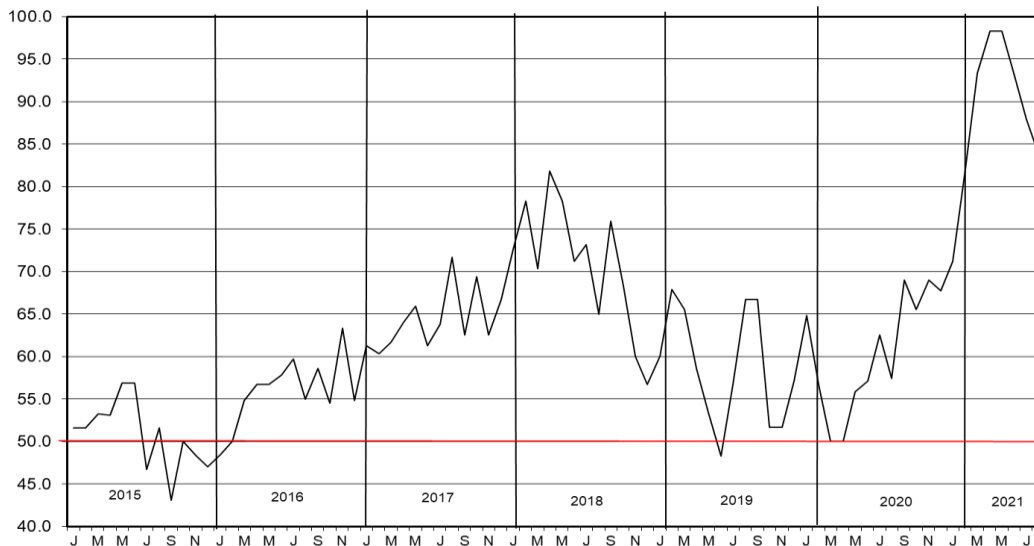
- "We have been going through our normal process of evaluating and providing wage increases as merited. We did provide a \$500 per employee profit bonus earlier in the year. We continue to mentor in production so staff can grow, and we continue to emphasize the values expressed in the culture we have created, and many of our staff identify the values to them and their families that this culture represents."
- "We gave everyone raises back in March/April. It was not so much as to retain them, but since times are good, we felt it is important to reward our employees with better pay. However, my new hires have all come in at higher starting wages than we used to pay in 2020. At this point, we are just happy to find good employees."
- "We have given raises to our more experienced employees to show our appreciation and encourage them to stay."
- "We have had many open positions for skilled labor that cannot be filled- we have had to raise our overall pay rate amongst any skilled labor in our facilities. Also 1 out of 10 will maybe show up for an interview at all – we have tried to work with technical schools for labor, but we cannot get anyone who wants to work."
- "We have increased hourly wages."
- "We have only increased wages to keep pace with local competition."
- "We increased wages at the end of May to help recruit and retain people. Still having trouble finding new people."
- "Yes, we are paying higher than we ever have for starting employees."
- "Yes, we had to raise wages couple of times this year to retain employees."
- "Yes. We have increased wages to retain existing work force."
- "Pay is higher."
- "We are union and pay our employees very well."
- "We had to bring a few employees up to meet new hourly requirements."
- "We have had trouble hiring, but I do not think it is the pandemic as much as it is the benefits for being unemployed and the stimulus that is being offered. Hard to compete with."

No pay increases or not hiring additional help

- "Getting 1 applicant a month. No experience but wants starting pay of \$19.00."
- "No Changes."
- "We are a small company. Two owners and one part-time employee. Have not needed to hire additional help."
- "We have not had to do increase."
- "We have not increased in ages. It remains hard to find employees."
- "We haven't had to do that yet."
- "It's very hard to hire people right now. Amazon opened a warehouse close by and they are paying wages we cannot afford, so we've been busy and working with the employees we have. We have not hired a new employee since January."

Inflationary pressures continue to be felt with in the Inland Empire. The **Commodity Price Index** still extremely high at **83.9**, but it the good news is that the index has decreased since the high of 98.3 in April 2021. The past six months' figures in the 80-90's were the highest on record since the inception of this report back in 1993.

Commodity Prices



As a follow-up question, IAR asked respondents **which commodities are getting more expensive**. One person noted that it's not the commodity prices that have increased, it's the transportation that is getting more expensive. Other panelists expressed concerns about the price of electronic components, paper, steel, aluminum, and lumber (wood products). Some complained about the price of "everything." Following are the comments:

- "Certain types of Wood."
- "Plastics, packaging, steel and aluminum"
- "Across the board"
- "Aluminum, wood, acrylic"
- "Everything"
- "Ingredient, boxes and pallets"
- "Lubricants, metals, fuel"
- "Metal"
- "Most of them."
- "Paper, Ink, Aqueous Coating"
- "PVC, metal"
- "Rubber compounds"
- "Soybean Oil"
- "Steel, nuts and studs, cardboard, etc."
- "Textiles"
- "Wire, oil, solvents"

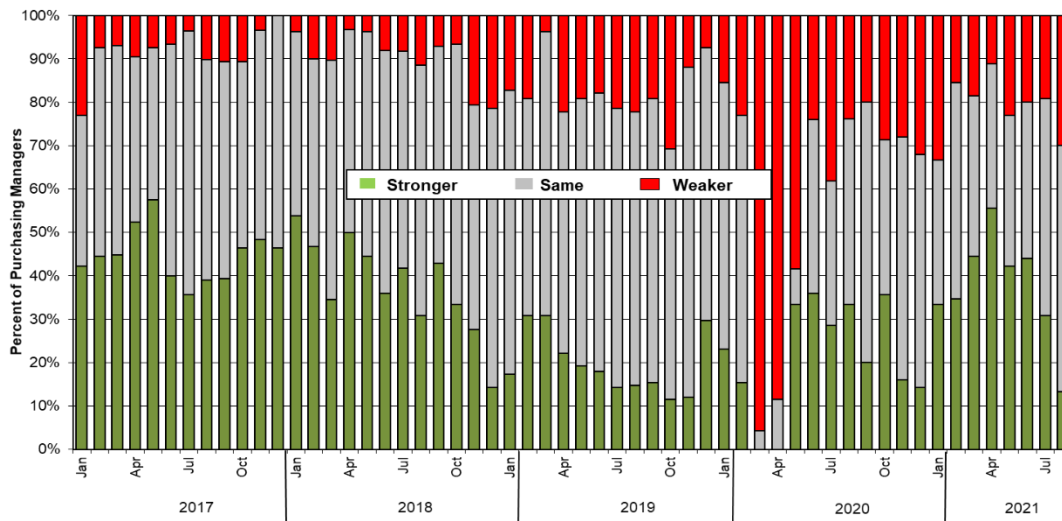
- “Yarn, material, freight”
- “Foil, wire.”
- “Carbon steel and stainless-steel pipe and tubing and brass forgings. All with delayed deliveries. Hydraulic costs doubled!”

The **Supplier Deliveries Index** dropped from 81.0 last month to **77.4** this month, indicating that the speed of deliveries is continuing to be slower than the previous month, however the rate of slowing has decreased somewhat. One respondent stated: *"August was a continuation of what we have seen in 2021. Incredible demand and still a very tight supply. We continue to place orders with the mills with lead times that are much longer than normal and even longer than we saw a few months ago. What used to be 2 months lead time is now 5 to 6 months."*

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw an increase from 53.4 last month to **56.5** this month. Only 9.7% of companies indicated that their level of **finished goods** has decreased (reflecting increased sales), and 9.7% of companies indicate that their level of finished goods has *increased* since the previous month. A majority (80.6%) indicated that their inventory of finished goods has not changed since last month, meaning that their production of finished goods is “staying even” with sales.

Most panelists seemed less optimistic than they were a month ago about the state of the economy over the next 3 months. Only 13% (a significant drop from last month’s 31%) forecasted a **strengthening** local economy over the next 3 months and another 57% predicted that the economy would remain unchanged from the strong conditions seen in June and July. An increasing number (30%) predicted that the economy would be weaker (up from 19% last month).

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



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

August 2021 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	60.7	57.7	Growing	Slower	12
Commodity Prices	87.9	83.9	Increasing	Slower	26
Production	58.6	53.2	Growing	Slower	8
New Orders	51.7	53.2	Growing	Faster	8
Inventory	53.4	56.5	Increasing	Faster	3
Employment	58.6	48.4	Contracting	From Growing	1
Supplier Deliveries	81.0	77.4	Slowing	Slower	23
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	31%	13%			
% Same	50%	57%			
% Weaker	19%	30%			

What respondents are saying:

Each month we ask our respondents to make comments regarding business conditions – local, national, or international. Despite the strong quantitative indices reported above, many of the panelists mixed their optimistic comments with concerns about the difficulty hiring people willing to work, high prices, limited availability of raw materials, and slow deliveries:

- "August was a continuation of what we have seen in 2021. Incredible demand and still a very tight supply. We continue to place orders with the mills with lead times that are much longer than normal and even longer than we saw a few months ago. What used to be 2 months lead time is now 5 to 6 months."
- "Automotive has seen multiple shutdowns due to the lack of semiconductor availability- Also the lack of raw material (steel) and components from Asia have been a big issue."
- "Business has remained good, and we are poised to do our best year ever."
- "Obviously the situations with the COVID variant Delta and Afghanistan have dominated the news, but it is hard to connect the two to the economy, except for the effect they have had on the stock market, which is not the economy. In our case, business is continuing to grow, mostly attributable to our own development efforts and the growth of the markets we serve."
- "Price of raw material and transportation keeps going up."
- "Sales continue to be robust, however finding new employees is becoming more challenging. Suppliers continue to slow down deliveries."
- "Some lumber prices are starting to come back down. Certain types of plywood are not however."
- "Staffing has been difficult to find and retain."

- "The Dog Days of Summer. low on new orders."
- "Things are good."
- "Very difficult to add to staff."
- "We are concerned about the continued decline in availability of parts and material and also the almost weekly price hikes on our cost of goods."
- "With the Delta variant it feels like we may be slipping back a little bit. Our order intake is suffering because of the lack of confidence in the market."
- "We are hanging on, better than during the pandemic but still with less work than we have employees."
- "Orders coming in slow until last week or so then very large orders. Have had several price increases due to higher material costs which change every other day!!! We are getting new customer applications. Labor force out there is not great and unemployment benefits have forced us into higher wages. We are competing with other coupling manufacturers from out of state with lower labor costs, so it is a difficult situation. Our services are unique in our industry so that helps us weather some of the storms!!!."

SPECIAL QUESTION FOR AUGUST 2021

With another month of uncertainty, IAR once again included a survey question asking about what, if any, **supply chain issues** respondents are experiencing. The vast majority of respondents (**87.1%**) stated they *have had supply chain issues in the past and STILL having issues*. Only 6.5% stated have had issues in the recent past (during the pandemic), but not currently, and another 6.5% stated they have not had any supply chain issues. Clearly supply chain issues are causing severe delays and frustration among the manufacturing companies who are trying to keep up with production of the products consumers want and need. Following are respondents' comments:

- "Stainless steel has been backordered for 9-14 months now. Components coming in, especially from Asia, are still delayed."
- "Anything coming from overseas is an issue!"
- "Delays in raw materials is causing downstream products to be affected. Vehicles, paints, chemicals, etc."
- "Freight delays, and Port delays."
- "It's taking 10 weeks to get materials when it used to take 3-4, it's due to not enough workers and raw materials needed."
- "Lead times have doubled in the last three months."
- "Long lead times, trouble getting product out of Asia (China) due to shortage of containers, weather issues, and COVID issues."
- "Many finished parts are coming from overseas. Our Vendors continue to be out-of-stock of many items. We have not seen or heard of the supply getting better."
- "Multiple suppliers have given us extended lead times and failed to even meet those. We are now getting used to anywhere from 12 to 20-week lead times on things we used to see within 1 to 4 weeks."

- "Raw material and pallets still are not at normal levels, the cost of Barium Carbonate transportation has tripled."
- "Shippers are unable to find carriers/drivers for truck load freight, primarily bulk liquid chemicals."
- "Some steel and petroleum products have been back ordered and are slow to recover."
- "Stainless steel has been backordered for 9-14 months now. Components coming in, especially from Asia, are still delayed."
- "Suppliers are having difficulty with allocations from imported wire. Two price increases in 3 weeks."
- "The issue is lead times. Supply is still limited, demand high and therefore lead times from our suppliers continue to stretch further and further. There is not so much a problem with eventually getting the raw material, just that it is taking much longer than normal."
- "The issues seem to be with the raw material suppliers to the finished roll good suppliers we depend on for materials to process into our finished products."
- "Vinyl and other products are coming in slower from the manufacturer. Becoming harder to find certain products. Things that used to take a week or two, are now taking a month or two."
- "Delaying production."
- "Freight is so expensive. There are no drivers available, everything is always back ordered I am so frustrated with the whole back-order situation."
- "Paper, both Coated & Uncoated."
- "Higher prices and hard to find some sizes. We used to be able to get hydraulics in a week or so, now at least six weeks delivery. Very difficult for my brass forger to get material in a time manner, Delivery for them was about 1 week, now about 5 weeks. Times are really difficult for manufacturers right now, especially for the smaller companies."
- "Port backups, so we have adjusted our lead times to account for that."
- "Cannot get enough material from domestic sources."

In summary, the PMI continues to show the strength it has reflected for a full year. That indicates that the Inland Empire manufacturing sector and the overall economy are continuing their steady growth.

On the other hand, supply chain issues and the rising commodity prices are a concern. The ports of Los Angeles and Long Beach are impacted – less than a week ago, 44 container carriers were anchored and awaiting a berth space (above the figure of 40 which was a record set in February of this year). Part of this increase can be blamed on labor shortages, part is due to employees falling sick with COVID, and part is a seasonal issue of companies needing to stock up for the holidays. But the bottom line is that businesses are feeling the extreme pain of supply chain disruptions, with no sign of those disruptions abating any time soon.

But to end on a positive note: The PMI is strong as are the Production and New Order indices (the two key indices underpinning the PMI). The Inland Empire manufacturing sector and overall economy can be expected to continue its steady growth for at least the coming quarter.

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