

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 December 2021

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

THE GOOD NEWS: THE PMI HAS REMAINED ABOVE 50 FOR 16 MONTHS

**THE NOT-SO-GOOD NEWS: PRICE HIKES, LABOR SHORTAGES, AND SUPPLY
CHAIN DISRUPTIONS CONTINUE**

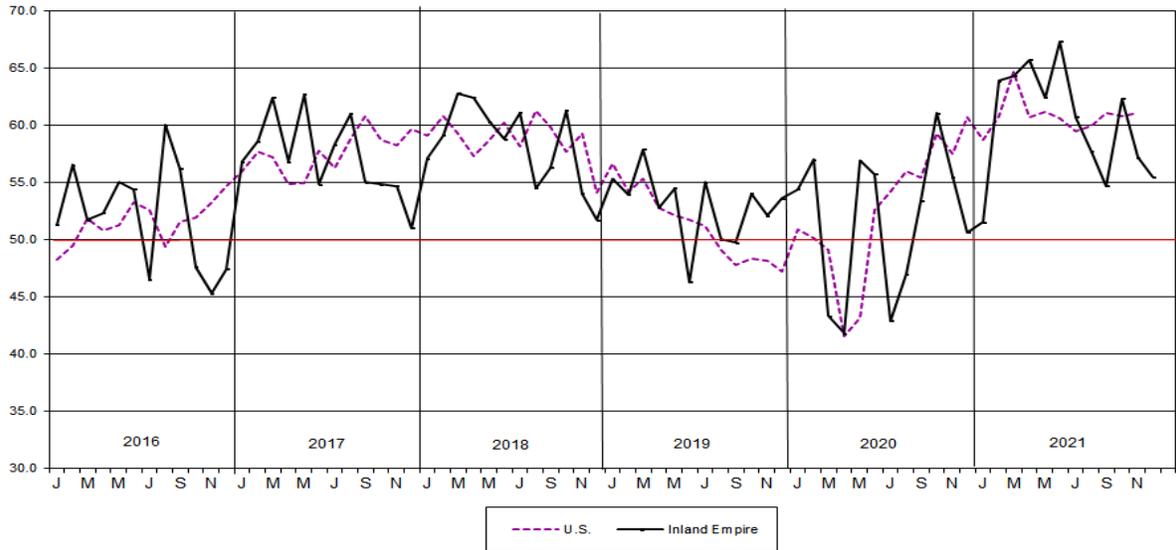
CONTEXT FOR THIS REPORT:

Over the past year the challenges to the US economy have been overwhelming. COVID-19 continues to spread, with the Omicron variant being responsible for the latest surge. Several states have been battered by massive fires and tornado outbreaks, leaving catastrophic devastation. A record number of shipping containers have languished off the coast causing serious supply chain issues, and 2021 will be known for the “the Great Resignation” of U.S. workers. Inflation has settled in, causing problems for businesses and consumers alike.

It is in this context that we present this month’s data from our monthly survey of Inland Empire companies.

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 **55.5**, a slight decrease from last month’s 57.2. The index has remained above the baseline 50% mark for sixteen consecutive months, indicating that the Inland Empire manufacturing sector and overall economy have continued the trend of steady growth for over a year (although the rate of growth slowed last month). But with inflation, labor shortages, and supply chain disruptions causing problems on the national and local levels, that could turn around at any time.”

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 significant decrease from 58.6 last month to **48.3** this month, but this may be due to seasonal factors experienced by many manufacturing firms every year as production has been completed for the holiday season.



This month's **New Orders Index** also showed a slight seasonal decrease, moving from 56.9 last month to **55.2** this month. The decrease in the New Orders index (one of the two most important indices in the composite PMI) is not cause for concern since it has remained above 50 for three consecutive months (thus establishing a trend of continued growth).

In order to shed some light on possible seasonal factors, this month we asked a special question: *“Think about the “typical” yearly patterns of your business activity. Before the pandemic, did you tend to have seasonal fluctuations in December?* Nearly half (**48.3%**) indicated that business is typically down at this time of year, whereas almost a third (**31.0%**) said that they don’t tend to see seasonal fluctuations for the holiday season. Very few (**6.9%**) reported that business is typically up at this time of year, and the remainder (**13.8%**) said there isn’t a “typical” pattern.

Comments regarding 2021 being a “worse year” than usual include:

- "December has been the same in terms of orders but we do not have raw goods to support production."
- "In general, business activity has slowed seasonally, but we have a significant backlog to work off. Therefore production/sales levels have held constant."
- "Lower this year than previous months. Seems decrease as a % is larger than previous years."
- "Slower. We are usually overwhelmed with orders toward the end of the year. This year, we are on a normal production schedule. Hoping this is not a sign of decline in sales. We reluctantly raised our pricing in October. This may have contributed to the sales decline. Although, we are also aware that our customers are experiencing backorder delays with other items from other vendors. These items are necessary to complete their entire installation, including our equipment."
- "We actually experienced less seasonal orders than we typically would during this season. I suspect it may be due to extended lead times we've had to issue due to supply chain issues."
- "We are seeing weakness in market conditions causing our customer base to limit orders in anticipation of further price drops."
- "Worse than previous COVID year."

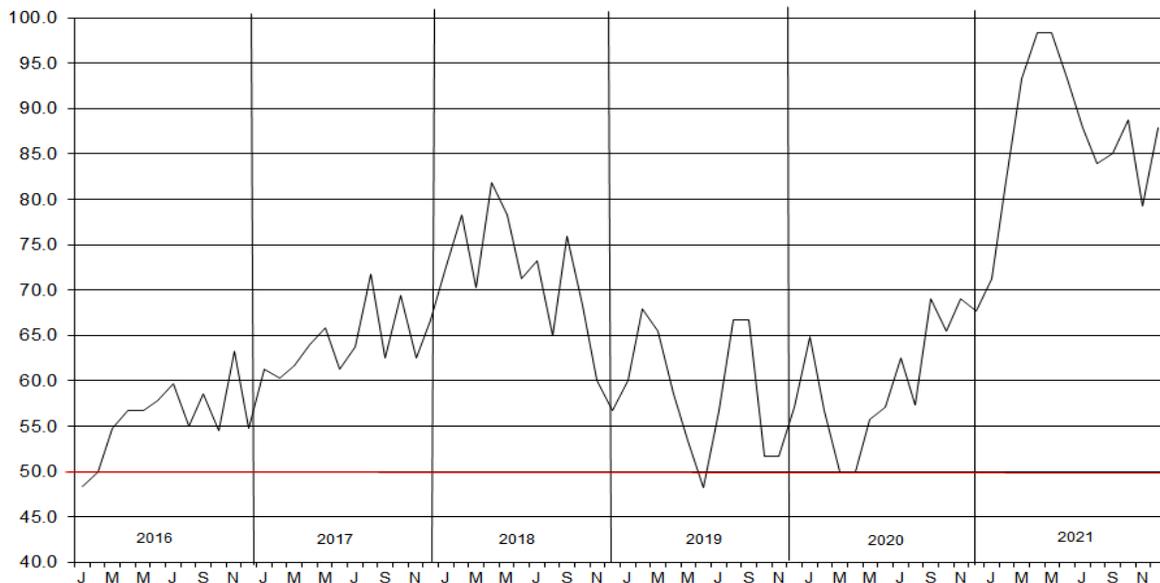
For some, December 2021 ended on a relatively “high note:”

- "November was almost our best month of all time (less than 1% lower than our best month ever) and December is going to be right there as well. Q1 is typically our best quarter but Q4 is going to turn out to be our best quarter of 2021. I would never have thought that would be possible, especially with the fewer working days and usual "slowdown" as many customers shut down for at least a week. NOT THIS YEAR!"
- "Orders are up because we have announced price increases and people want to take advantage of current pricing. Our open orders are very high, scheduled deliveries are a spread out over next year, or for release as needed. This is at the current pricing."
- "This year has been busier than most."

This month the **Employment Index** dropped from last month's 48.3 to **43.1** this month. This is the second month the index has registered below 50, indicating that employment has declined. As we noted in last month's report, part of this decline may be due to seasonal factors, but part may be reflecting a nationwide issue of workers choosing to leave the job market due to early retirements, fears of COVID, or the need to care for ill family members. Another factor may be what has been dubbed the "Great Resignation" (employees' willingness to quitting lower paying jobs and accepting jobs at companies willing to pay large hiring bonuses). Overall, labor shortages are causing havoc throughout the supply chain.

The **Commodity Price Index** took another significant jump from last month's 79.3 up to **87.9**, indicating that the Inland Empire is still dealing with inflation pressures. That is bad both for manufacturing firms needing to buy raw materials, and consumers who are not able to purchase as much because of high prices on everything from cars to computers to gasoline and food.

Commodity Prices



As a follow-up question, IAR asked respondents: "which commodities are getting more expensive?" One panelist responded: "pretty much everything!" Others mentioned price increases for steel, aluminum, chemicals, plastics, and energy.

Following are the specific commodities mentioned as showing price increases:

- "Aluminum, Vinyl, Wood, Laminates, Acrylic"
- "Barium carbonate, stretch film"
- "Chemicals, sulfuric acid"
- "Copper, PVC"
- "Electric motors, Metals, VFD's, and Soft starters"

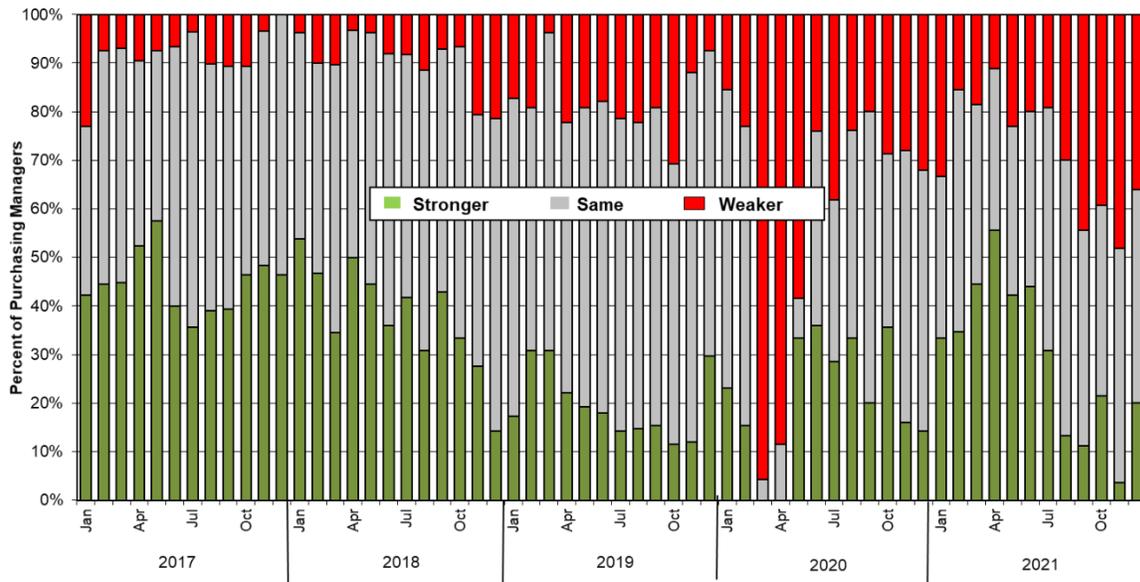
- "Freight, non-woven backing for material"
- "Fuels/lubricants"
- "Higher energy costs from November spilled over into December"
- "Motors, pumps, raw metal, electrical"
- "Nails & Lumber"
- "Pallets were \$5.00 now they are \$15.00 each"
- "Paper"
- "Plastics, aluminum and steel"
- "Products from Mexico - due to labor cost increase"
- "Rubber polymers"
- "Soybean oil, cocoa, chemicals"
- "Stainless steel, particularly rolled goods"
- "Steel and petroleum products"
- "Steel pipe and tubing"
- "Textiles"
- "Wire"
- "Wood products - Hardware Products"

The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index increased from 77.6 last month to **82.8** this month, indicating that deliveries continue to be slowing, and at an even faster rate than last month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw an increase from 44.8 last month to **48.3** this month. A majority (**66%**) 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. **20.7%** (up from last month's 17.2%) of the companies indicated that their level of finished goods has *decreased* (reflecting increased sales), and **13.8%** (unchanged from last month) of companies indicate that their level of finished goods has *increased* since the previous month.

The pressure of supply disruptions, price increases, and labor strains are still being felt by Inland Empire panelists, although optimism about the future state of the economy has crept up a bit since last month. Only **20%** forecasted a *strengthening* local economy for the next 3 months (green bar below), however we note that this is a significant increase from last month's 4%. As represented by the red bar below, **36%** of panelists predicted that the economy would be *weaker* in the coming quarter (down from 48% last month). The remaining **44%** predicted that the economy would remain unchanged.

State of the Local Economy Manager's Predictions



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

December 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	57.2	55.5	Growing	Slower	16
Commodity Prices	79.3	87.9	Increasing	Faster	30
Production	58.6	48.3	Contracting	From Growing	1
New Orders	56.9	55.2	Growing	Slower	3
Inventory	44.8	48.3	Decreasing	Slower	2
Employment	48.3	43.1	Contracting	Faster	2
Supplier Deliveries	77.6	82.8	Slowing	Faster	27
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	4%	20%			
% Same	48%	44%			
% Weaker	48%	36%			

What respondents are saying:

Each month we ask our respondents to make overall comments regarding business conditions – local, national, or international. Only a few of the comments were relatively positive:

- "Business continues to be strong, only held up because extended deliveries by suppliers."

- "Business has been good, and hoping it stays this healthy into the New Year."
- "December better than expected, gives me hope for the new year."

The majority of the panelist's comments reflected frustration and concern:

- "Again, uncertainty seems to rear its ugly head and impacts the business climate: the new Covid variant, the inflation rate, the loud minority of social media impact, the political uncertainty over the Administration's policies, the potential of higher interest rates, the impact of conflict (both trade and political) with China, etc., all contribute to a cloudy future going forward and obscure the really great news of business, employment, and economic growth. Further, these uncertainties have to have an impact on the already challenged supply chain for us and other industries."
- "Business continues to be impacted by delays - logistics and raw material."
- "Economy is still slow... product still slow in coming. Prices are still high."
- "Material stuck in the port terminal, delays on deliveries."
- "Prices continue to rise and materials remain scarce."
- "Slowing a little. Still long delays at port for unloading ships. I have a ship that arrived 11/16/21. Still not unloaded as of this morning."
- "The supply shortage continued at the same or maybe worse levels in December, while demand stayed as strong as ever. It feels almost pointless to place orders with the mills as we have no idea when we will see the material. One supplier, who used to be a 10- to 12-week lead time before the pandemic is now out to almost 52 weeks."

In summary, it is January 5 and we've all had our fill of "year in review" articles and "what's in store for 2022." The Institute of Applied Research won't add much to that. What we WILL say is that the PMI continues to reflect strength in the Inland Empire manufacturing sector and overall economy. Yes, 2021 saw skyrocketing inflation, difficulties finding skilled labor, emergence of the Delta and Omicron variants, and supply chain disruptions. If these issues begin to ease in 2022, the Inland Empire economy will continue its recovery.

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