

***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 February 2022

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

INLAND EMPIRE PMI REMAINS IN GROWTH MODE

CONTEXT FOR THIS REPORT:

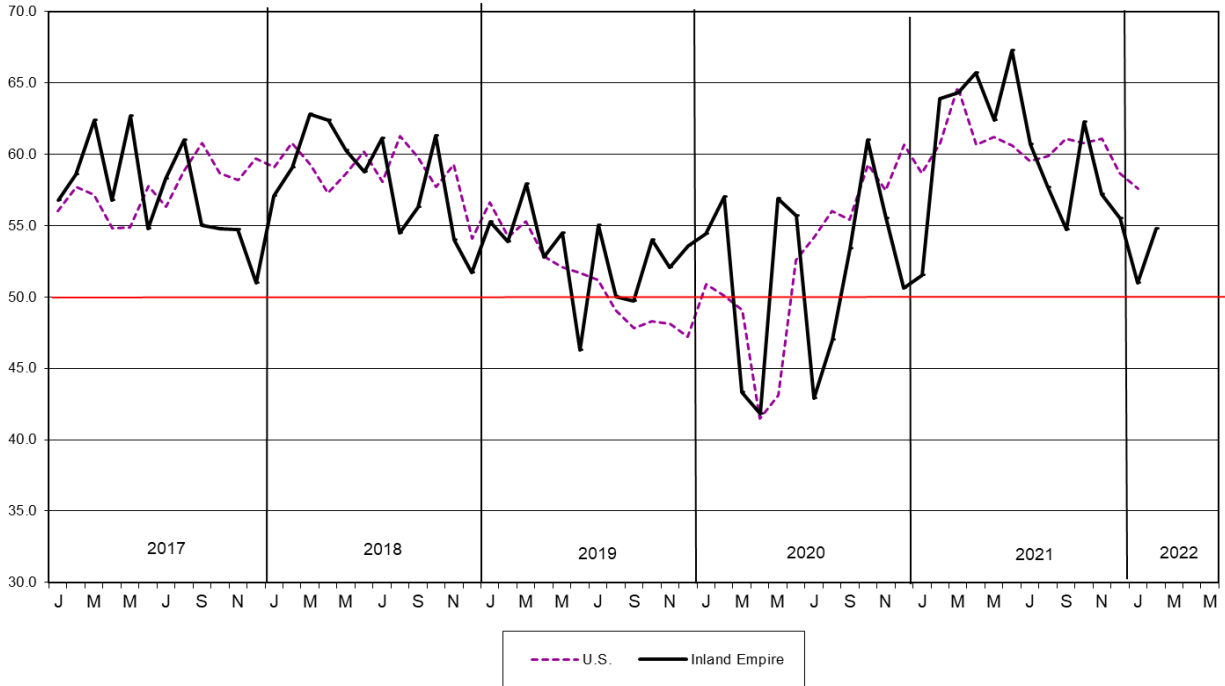
As we write this report, the Russian invasion of Ukraine is underway, as Russian forces surround the capital of Ukraine and Putin has issued a directive to increase the readiness of Russia's nuclear weapons. The US and EU have imposed sanctions against Russia, as well as against Putin himself and various oligarchs in an attempt to pressure Russia to halt its invasion. But the US and global economy will also be affected by the global turmoil. Specifically, oil prices have skyrocketed (even though the sanctions have thus far excluded the energy sector). US farmers will most probably see increases in the price of fertilizer since Russia is a major producer of the commodity. The stock market has seen sharp declines.

The good news, however, is that COVID Omicron variant cases and hospitalizations are decreasing, and mask policies are being adjusted nationwide.

It is in this context that we write this month's report, with data gathered during the period of February 23 through February 28, 2022.

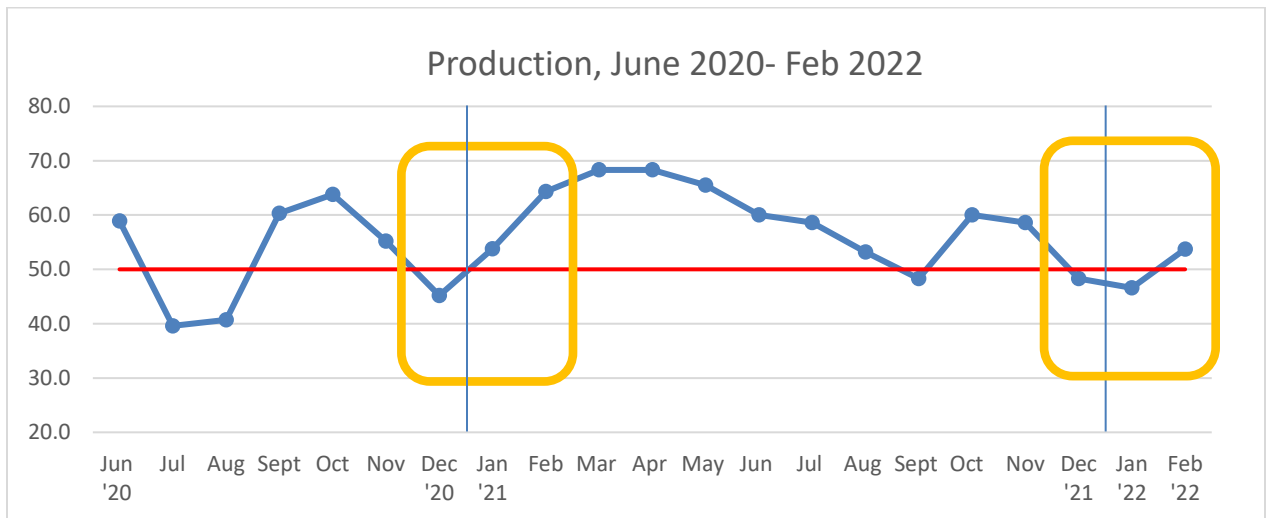
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **54.8**, an increase from last month's 51.0. The good news is that the index has remained above the baseline 50% mark for eighteen consecutive months, indicating that the Inland Empire manufacturing sector and the overall economy have continued the trend of steady growth for over a year. But with the conflict/war between Russia and Ukraine, inflation on the rise, an increase in borrowing rates, snarled supply chains, and talks of gas prices higher than ever seen before, we expect to see continued economic volatility in the Inland Empire economy."

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 huge jump from 46.6 last month to **53.7** this month. As we commented in last month's report, the Production Index typically rebounds in January as firms go back to their normal post-holiday activity. This year, however, it seemed to take another month to rebound.

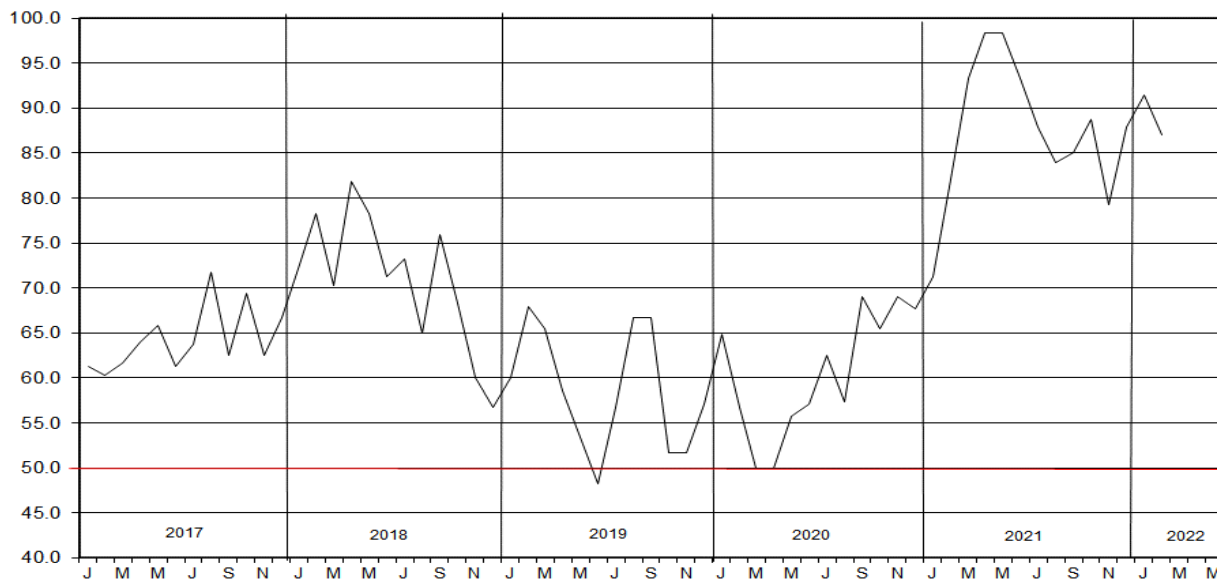


This month's **New Orders Index** was virtually unchanged from last month's 51.7, increasing only slightly to **51.9** this month. We note that the index has remained above 50 for five consecutive months, thus indicating continued growth in new orders for Inland Empire firms.

The **Employment Index** showed a sharp increase from 43.1 last month to **53.7** this month, rebounding back above 50 after three consecutive months of below-50 figures. We are not convinced that the rebound is "permanent" given the nationwide issue of workers choosing to leave the job market due to early retirements, fears of COVID, employees out sick with Omicron, and employees who are willing to quit lower paying jobs and accept jobs at companies willing to pay large hiring bonuses. It will take 2 more months of data before we can confidently indicate that employment is on the upswing.

Inflationary pressures continue to be felt within the Inland Empire and beyond. The **Commodity Price Index** dropped slightly from last month's 91.4 down to **87.0**, but the region continues to experience near-record high inflationary pressures. And now with the conflict between Russian and Ukraine, we anticipate a continued rise in prices, especially for gas, food, automobiles, and other imports.

Commodity Prices



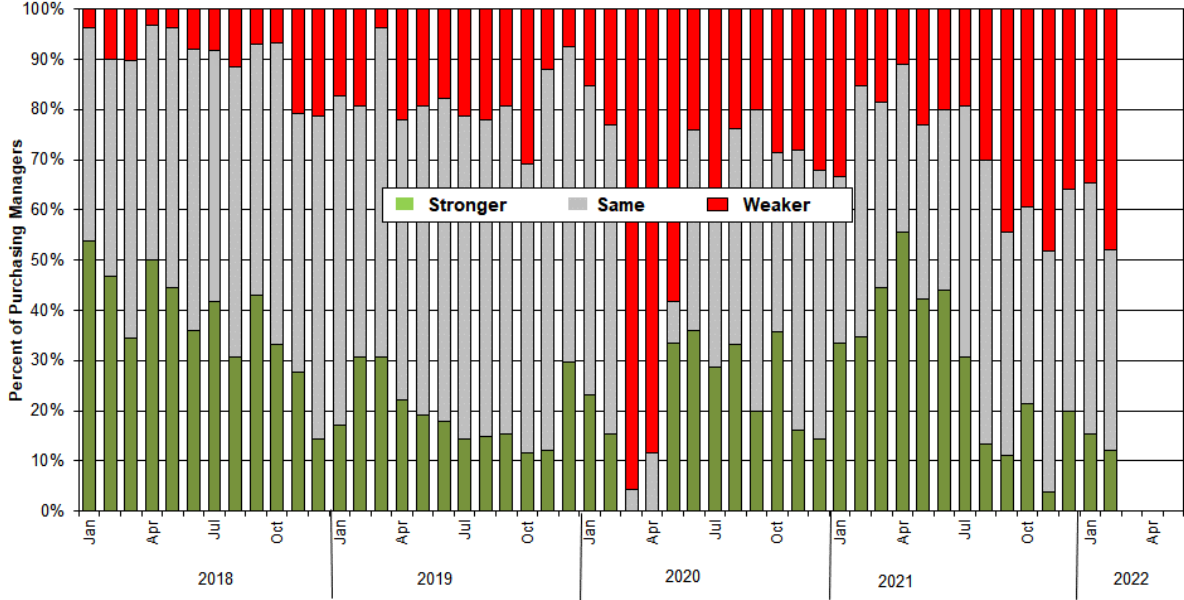
The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index was virtually unchanged from last month, moving from 72.4 last month to **72.2** this month. This indicates that deliveries continue to be slowing, at virtually the same pace as last month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw an increase from 41.4 last month to **42.6**

this month. A majority (**55.6%**) 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. **22.2%** of the companies (up from last month’s 17.2%) indicated that their level of finished goods has *decreased*, and **22.2%** (up from last month 13.8%) indicated that their level of finished goods has *increased* since the previous month.

Most panelists are feeling cost and supply chain pressures, and they are not expressing much optimism about the future state of the economy. Nearly half (**48%**) of panelists predicted that the economy would be *weaker* in the coming quarter (up from last month’s 35%), and only **12%** of panelists forecasted a *strengthening* local economy for the next 3 months (green bar below). The remaining **40%** predicted that the economy would remain unchanged over the next few months.

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



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

February 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	51.0	54.8	Growing	Faster	18
Commodity Prices	91.4	87.0	Increasing	Slower	32
Production	46.6	53.7	Growing	From Contracting	1
New Orders	51.7	51.9	Growing	Faster	5
Inventory	41.4	42.6	Decreasing	Slower	4
Employment	43.1	53.7	Growing	From Contracting	1
Supplier Deliveries	72.4	72.2	Slowing	Slower	29
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	15%	12%			
% Same	50%	40%			
% Weaker	35%	48%			

What respondents are saying:

Each month we ask our respondents to make overall comments regarding business conditions – local, national, or international. The vast majority of the panelist’s comments reflected frustration and concern, with some indicating that although demand for their product is strong, supply chain and price concerns continue to be felt.

Comments included:

- “Business is in a typical slowdown that is usual this time of year. We have been presented with some new opportunities due to new companies moving into California which would greatly increase our business. Just as we were going to increase our prices due to high cost of material, material costs have started going down. Our issue is that we compete with manufacturers outside of California for some of the same products and their labor costs are approximately 25% less than ours forcing us to purchase robotic equipment to compete. The wage policies that California has forced on small business has not helped! Also we have had an open position for 4 months and cannot find a person to fill it. It is a low-level position, and we would train but that hasn't helped.”
- “Currently the market is seeing a bigger shift now due to inflation- auto is still not stabilized and we continue to see supply disruption for incoming purchases”.

- “Finding labor is a real challenge and the inflation is not helping for planning projects...the price for electricity is going to price many into another state.”
- "Have long lead times for raw material coming from Indonesia. Pallets - wood is going up in price again and no signs of relief."
- “Inflation is beginning to bite, but the needs of the market are overlooking the impact. We are seeing reliability and quality beginning to emerge as a basis, although within reason. The global political environment hasn't hit yet, but it is bound to do so and impact the economy by creating greater domestic demand, but also creating some insecurity.”
- “Orders have picked up a bit but material lead times have slowed production.”
- “Raw material is still just as hard to get today as it was at any time last year. The supply chain for domestic stainless steel is not getting better and I do not see it improving at all this year. People are still willing to pay pretty much any price if they can get their material needed immediately. In addition, this war in Ukraine will only send our raw material prices higher as Russia account for 10% of the world's nickel production. Over the past month we have seen a steady rise in nickel prices. All that being said, we just had the best month (total sales, average daily sales and total profit) in the 51-year history of our company.”
- “Raw material prices still increasing, and deliveries are slow.”
- “Slightly slower.”
- “Supply chain is still slow, but business has been good.”
- “The current supply shortages have created both opportunities and risks. If you can make delivery, you can get the order. If not, customers will shop to find someone who can.”
- “We are continuing to experience backorders on parts. Getting worse, not better.”
- “We are finding that materials are still increasing. As of right now, we are able to get our materials, maybe just a little slower. Not much has changed.”
- "We have strong contracts from December, but January and February have been disappointing on new orders."
- “Business is still slow.”

In summary, over the past several months we have noted that supply chain disruptions, price increases, and labor shortages have caused significant challenges for Inland Empire companies. There have been some indications that price pressures are beginning to ease, and the Fed is taking actions to curb inflation. Yet it is possible that the geopolitical crisis will lead to even higher energy and food prices as well as deeper supply chain bottlenecks.

At this point all we can say with certainty is that short term predictions about the regional economy are impossible to make with any sense of accuracy. IAR will continue to monitor the situation in the months to come.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Barbara Sirotnik
Director, Institute of Applied Research
bsirotni@csusb.edu
(909) 537-5729

Ryan Niesen
Economic Development Coordinator
San Bernardino County Economic Development Department
(909) 387-4552

Rob Moran
Deputy Director
Riverside County Office of Economic Development
(951) 955-6673

Dr. Shanthi Srinivas
Interim Dean, Jack H. Brown College of Business and Public Administration
CSUSB
(909) 537-5701