

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

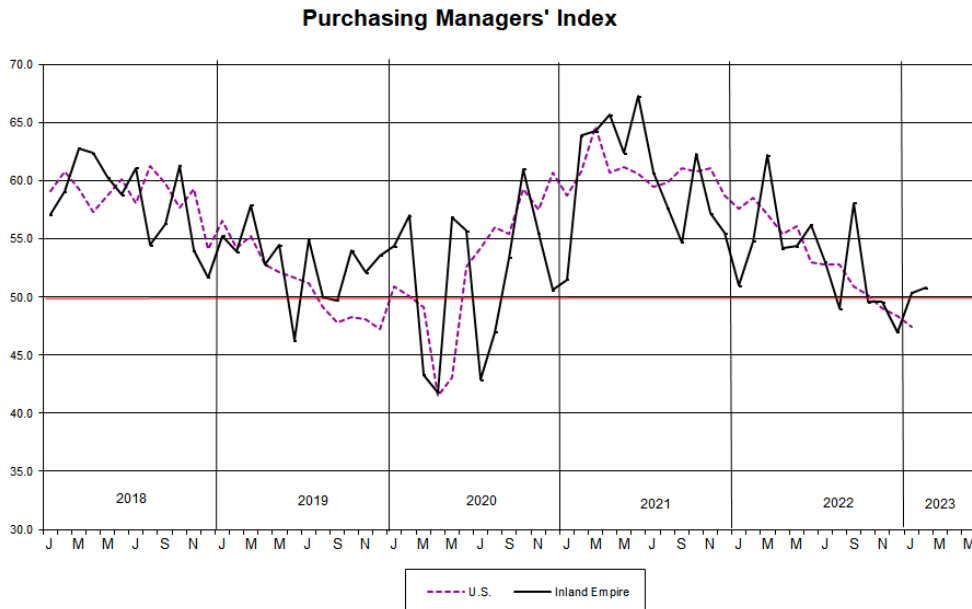
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**College of Business and Public Administration**

**Report for February 2023**

**Sponsors: San Bernardino County Economic Development Agency**  
**Riverside County Office of Economic Development**

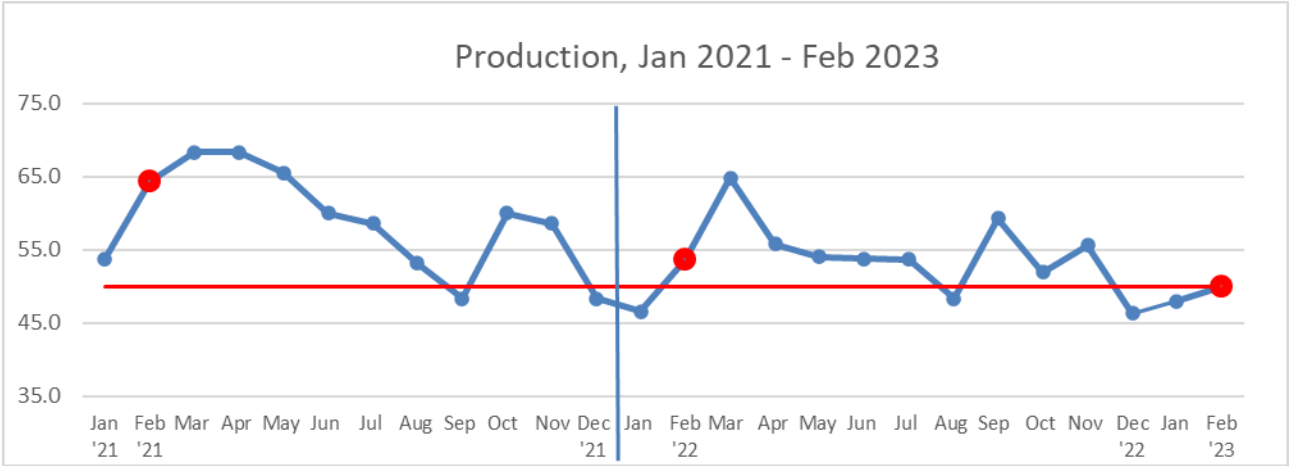
**PMI SHOWS GROWTH FOR THE SECOND MONTH OF 2023**

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 **50.8**, a slight increase from last month's 50.4. It takes three consecutive months of figures above 50 to establish a new trend of growth or decline. Since this is only the second month returning above the baseline of 50, it will take one more month of 50+ figures to say the manufacturing sector has returned to growth mode."



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

The **Production Index** (one of the two key components of the PMI) registered an increase from last month's 48.0 to **50.0** this month. This February increase over the January figure is relatively typical, as shown in the graph below.

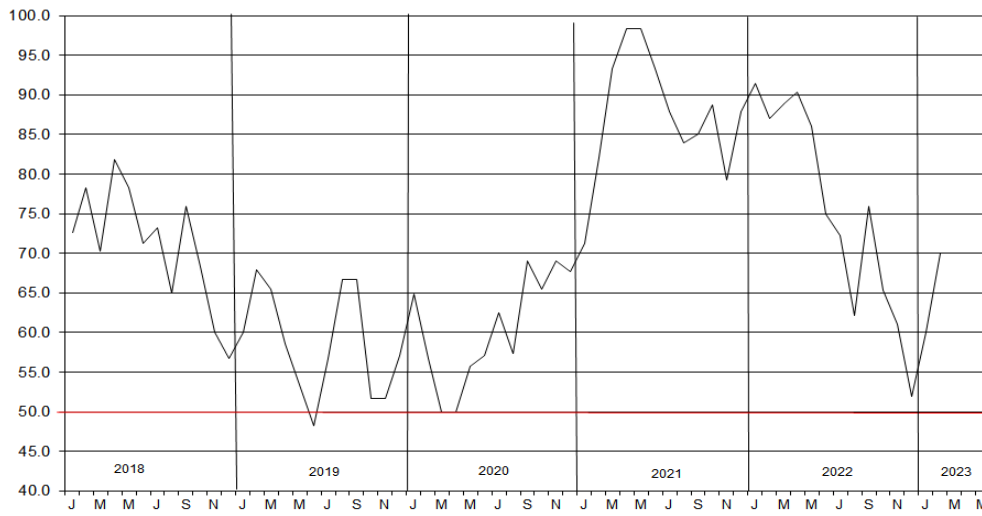


The **New Orders Index** (the other key component of the PMI) registered **48.0** this month -- no change from last month. This is the fifth month in a row that the index has remained below the baseline 50, indicating that new orders continue to decline.

Countering that negative news about new orders, the **Employment Index** increased to **58.0** over last month's 56.0. Several of the companies stated they hired permanent positions (as opposed to temps), increasing staffing this month in anticipation of a busy year.

But in more negative news, the **Commodity Price Index** for the Inland Empire jumped from 60.0 back up to **70.0** this month. Inflation has been easing since early 2021, but not fast enough, even with the Federal Reserve's multiple rate hikes designed to reduce inflationary pressures.

Commodity Prices

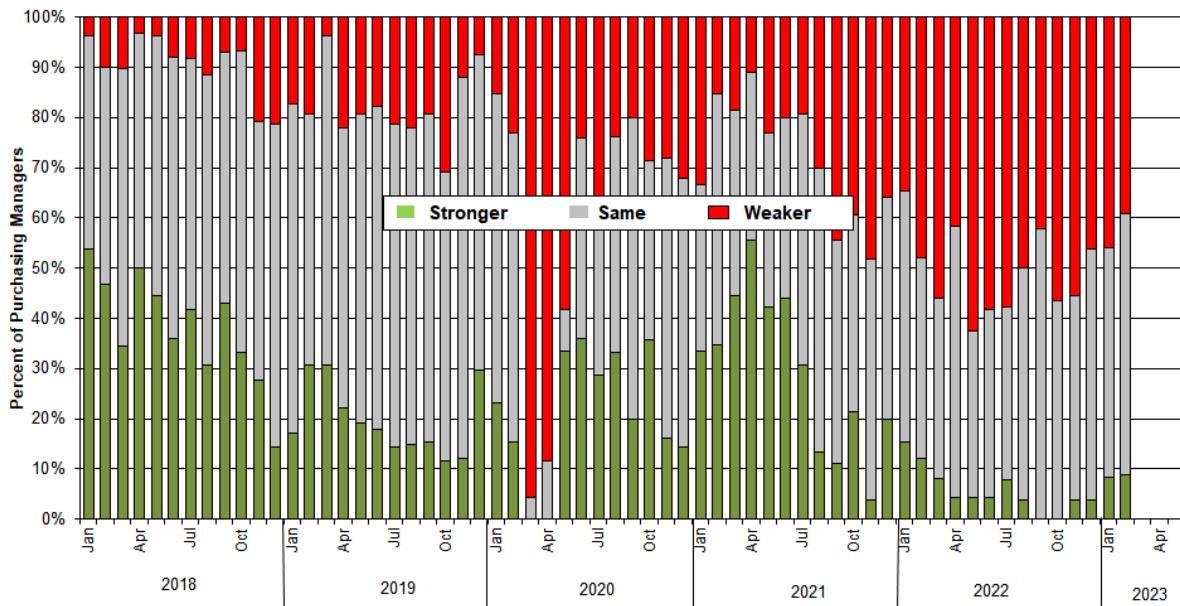


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index remained unchanged at **50.0**, meaning that the speed of deliveries has neither increased nor decreased since last month. Supply chain issues are still being felt, as noted by one of our panelists: "*We have had some supply chain issues which have caused major delays in raw materials that we must have to produce our products. This has caused us to miss on customer delivery dates and also resulted in violations and fines with agreements for some of our larger customers.*"

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **48.0** this month, a drop from last month's 50.0. Further, this month only **8.0%** of panelists reported an increase in the **inventory level of finished goods**. The majority (**68.0%** -- up from last month's 64.0%) reported that their inventory level of finished goods is the same as the previous month (meaning that production of finished goods is "staying even" with sales). Nearly a quarter (**24.0%**) reported that the inventory level of finished goods has decreased.

Panelists' pessimism about the state of the Inland Empire economy has not changed much over the past few months. Only **9%** stated they believe the economy will be *stronger* in the coming quarter. Less than half (**39%**) believe that the local economy will become weaker in the coming quarter, and the remaining **52%** believe that the next quarter's economy will continue to be "the same" as it has been (where "same" means an economy struggling to return to pre-pandemic levels).

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



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

<b>February 2023 Business Survey at a Glance</b>					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	50.4	50.8	Growing	Faster	2
Commodity Prices	60.0	70.0	Increasing	Faster	44
Production	48.0	50.0	Unchanged	From Contracting	1
New Orders	48.0	48.0	Contracting	Unchanged	5
Inventory	50.0	48.0	Decreasing	From unchanged	1
Employment	56.0	58.0	Growing	Faster	2
Supplier Deliveries	50.0	50.0	Unchanged	From unchanged	51
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	8.0%	9.0%			
% Same	46.0%	52.0%			
% Weaker	46.0%	39.0%			

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. Overall, the number of positive comments from panelists is greater than the number of negative ones. Positive/mixed remarks included:

- *“February continued to be strong, maybe even a little stronger than the past few months. Recent price increases from the mills are sticking and we are able to*

*pass along any and all increases ourselves with nearly zero resistance from our customers. As far as we can see, there is no slowdown in sight. We have continued to hire and continued to bring in as much new inventory as possible.”*

- *“Interesting to me is that the national economy has seemingly hit the “pause” button, and this is impacting us at the start of the year too. After a very robust 2022 in which much of our backlog was produced and shipped, we have seen a slow down at the beginning of this year, but our expectations are still to equal last year as we move forward with major projects under negotiation in aerospace, while our architectural, industrial and commercial projects are holding their own.”*
- *“New bid activities are up.”*
- *“Orders have increased slightly over the previous month.”*
- *“Overall sales feel steady. Seeing varied volumes across our customer base, with some up, some down, overall steady.”*
- *“Things do seem to be getting busier.”*
- *“We are seeing a lot of projects out for bid proposals. In comparison to last year, our contracts for new projects are a little less than last year. We do, however, still have plenty of work for the entire year of 2023.”*

Some comments, however, were cautionary/negative:

- *“Orders hit and miss. Customers not wanting to stock anything. Material prices seen to be stabilized.”*
- *“The weather has a big impact on our business, same as usual for this time of the year building inventory.”*
- *“We are slower than last year. We are looking for ways to save money by pressuring our suppliers.”*
- *“We import a major component of raw material for our products and unfortunately it is hard to predict at times what the usage might be. Sometimes our customers order products that are atypical of their usual causing us to use more of this particular material than normal. When this occurs, we have to place a nonstandard order to compensate for the spike in usage, causing us to pay more for this product and purchase it domestically. We still need to place the order from our importer, but due to the extensive lead time, we have to purchase locally to survive until we receive the imported goods. We have also experienced major shipping delays and random port stops during a vessel's voyage to us.”*

**In summary**, the good news is that the local PMI has registered above 50 for two months in a row (although we note that the index is only *barely* above 50). With one more month of an above-50 reading, we will be able to say that the local manufacturing sector (and overall economy) are back in growth mode. Further, employment has remained above 50 for two consecutive months.

Unfortunately, the new orders index has remained below 50 for 5 months, production is only at 50.0, and inflation is remaining stubbornly elevated. And a National Association

for Business Economics poll showed that over half of economists surveyed believe that a nationwide recession is likely to occur in 2023.

Clearly there are conflicting positive and negative signals for the Inland Empire and the nation as a whole. We will continue to track the opinions of our business leaders over the coming months.

***FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:***

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