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

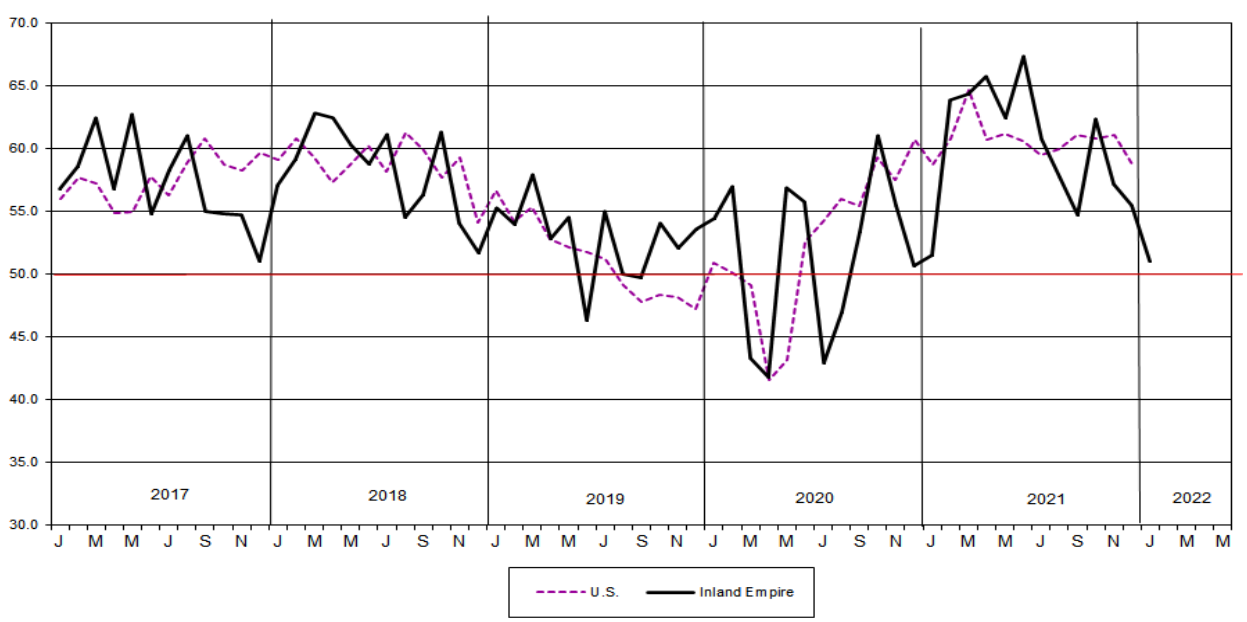
Report for January 2022

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

2022 IS STARTING OFF WITH WEAK ECONOMIC GROWTH
INFLATION PRESSURES RISING

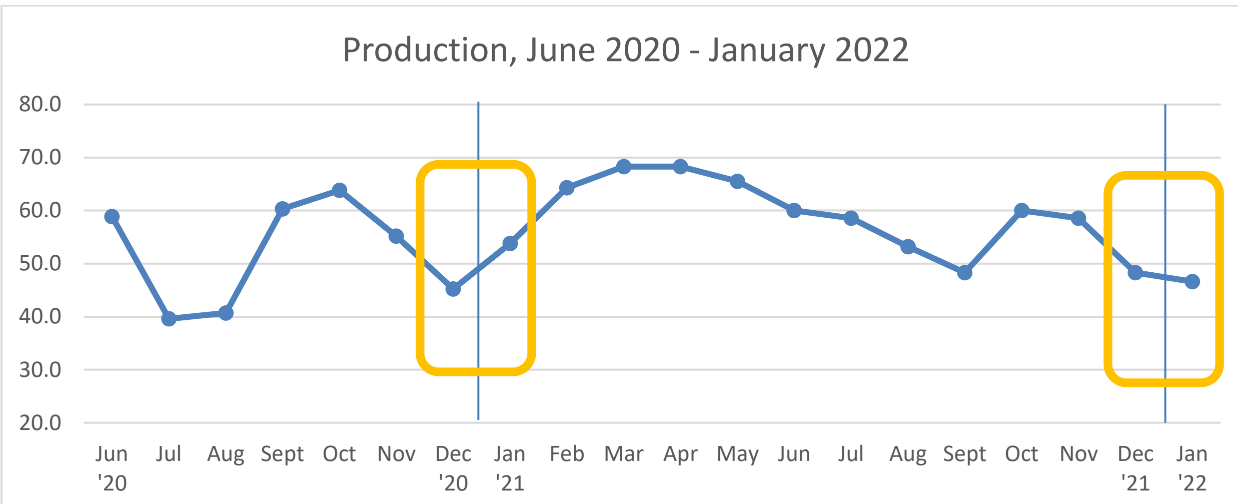
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **51.0**, a decrease from last month's 55.5. The good news is that the index has remained above the baseline 50% mark for seventeen consecutive months, indicating that the Inland Empire manufacturing sector

Purchasing Managers' Index



Source of U.S. PMI®: Institute for Supply Management®, Source of IE PMI®: Institute of Applied Research and the overall economy have continued the trend of steady growth for over a year (although the rate of growth slowed again this month). But with inflation on the rise, difficulties hiring skilled and unskilled labor, employees out sick due to Omicron, and supply chain disruptions causing problems on the national and local levels, downward trend of the PMI is of some concern for the Inland Empire."

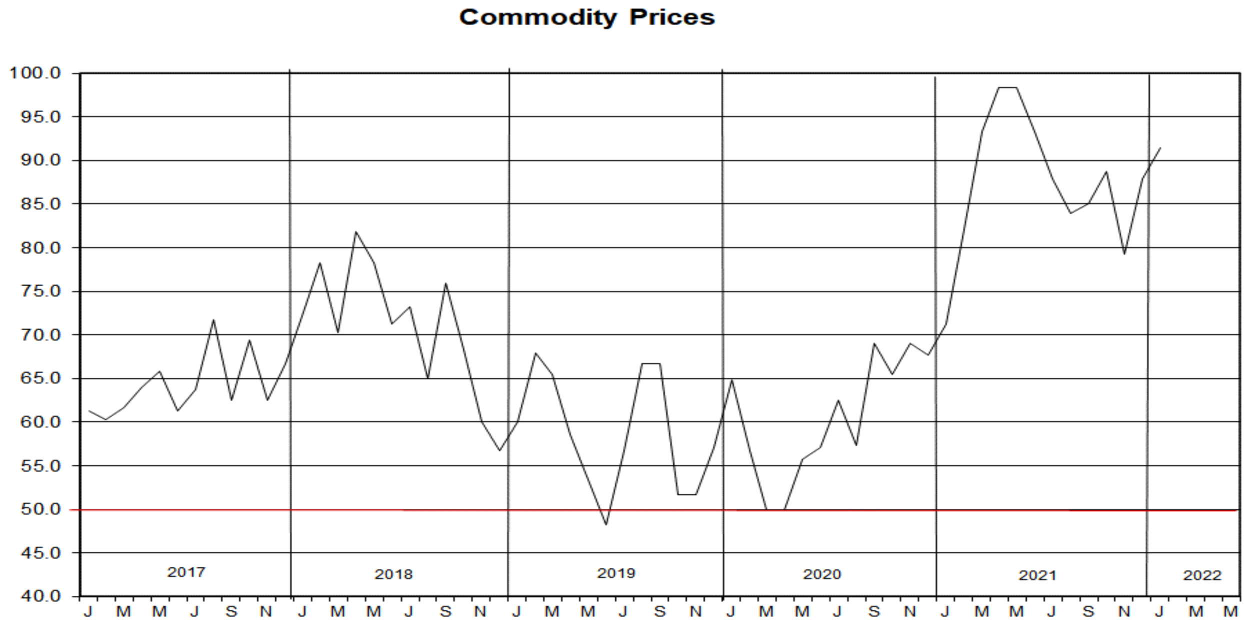
The Production Index registered another decrease from 48.3 last month to **46.6** this month. Typically, the Production Index rebounds in January as firms go back to their normal post-holiday activity, but that didn't happen this year (perhaps due to the factors cited above: supply chain issues, labor shortages, inflationary pressures).



This month's **New Orders Index** decreased for the fourth consecutive month, moving from 55.2 last month to **51.7** this month. The decrease is not cause for concern since the index still remains above 50, indicating continued growth (although at a slower pace than last month).

The **Employment Index** remained at **43.1** for the second consecutive month. This is the third month the index has registered below 50, reflecting a new trend of declining employment. This is not unexpected since none of the issues mentioned in our past reports have been resolved (e.g., the nationwide issue of workers choosing to leave the job market due to early retirements, fears of COVID, employees out sick with Omicron, or the need to care for ill family members). We may also be seeing signs of what has been dubbed the "Great Resignation" (employees who are willing to quit lower paying jobs and accept jobs at companies willing to pay large hiring bonuses). Overall, labor shortages are causing havoc throughout the supply chain.

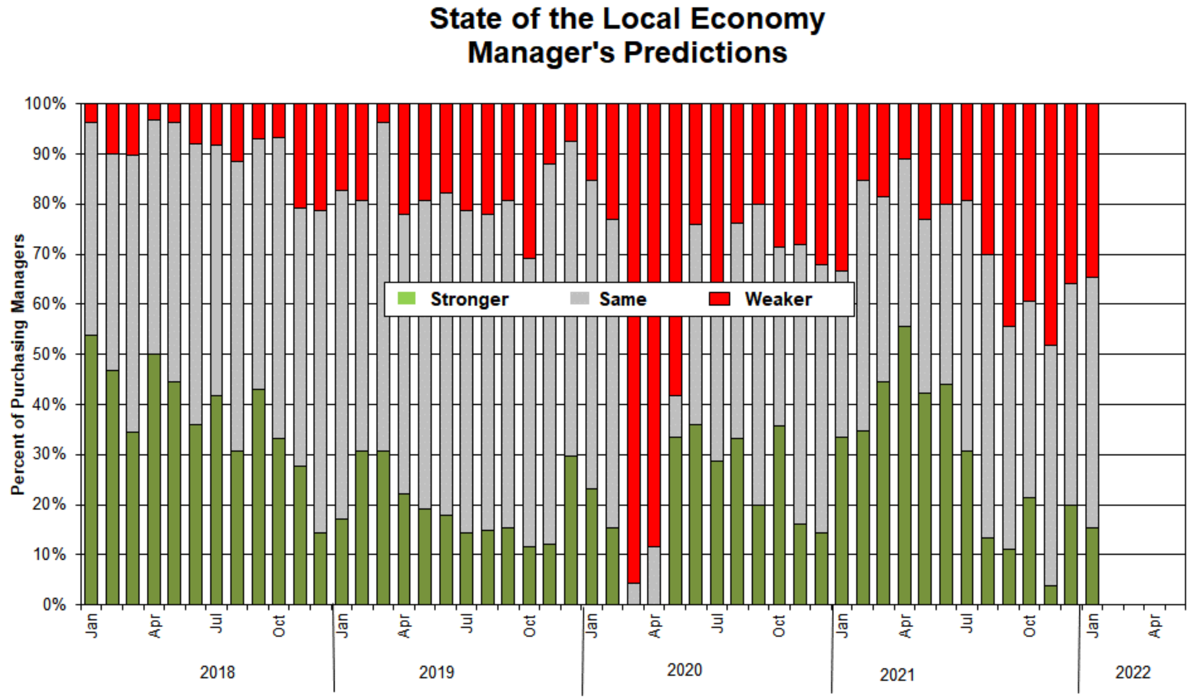
Nationwide, inflation is on the rise. The Inland Empire's **Commodity Price Index** jumped significantly from last month's 87.9 up to **91.4**, indicating that the region continues to experience near-record high inflationary pressures. There seems to be no relief for the manufacturing firms needing to buy raw materials, or consumers who are not able to purchase as much because of high prices on everything from cars to computers to gasoline and food. As of the writing of this report, the Fed is expected to raise interest rates at every meeting this year as a way to fight inflation. Yet higher interest rates often force businesses to cut back on spending, so it remains to be seen whether the anticipated Fed actions will actually help the Inland Empire manufacturing sector and overall economy.



The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index decreased from 82.8 last month to **72.4** this month, indicating that deliveries continue to be slowing, but at a diminished rate.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw a decrease from 48.3 last month to **41.4** this month. A majority **(69%)** 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. **17.2%** of the companies (down from last month’s 20.7%) indicated that their level of finished goods has *decreased*, and **13.8%** (unchanged from last month) indicated that their level of finished goods has *increased* since the previous month.

Optimism about the future state of the economy is not high, with only **15%** of panelists forecasting a *strengthening* local economy for the next 3 months (green bar below). This is a decrease from last month’s 20%. As represented by the red bar below, **35%** of panelists predicted that the economy would be *weaker* in the coming quarter (virtually unchanged from last month 36%). The remaining **50%** predicted that the economy would remain unchanged over the next few months…not a comforting thought.



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

January 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	55.5	51.0	Growing	Slower	17
Commodity Prices	87.9	91.4	Increasing	Faster	31
Production	48.3	46.6	Contracting	Faster	2
New Orders	55.2	51.7	Growing	Slower	4
Inventory	48.3	41.4	Decreasing	Faster	3
Employment	43.1	43.1	Contracting	Unchanged	3
Supplier Deliveries	82.8	72.4	Slowing	Slower	28
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	20%	15%			
% Same	44%	50%			
% Weaker	36%	35%			

What respondents are saying:
Each month we ask our respondents to make overall comments regarding business conditions – local, national, or international. The 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. As one person summarized: “We continue to see demand as strong as ever. Business remains extremely strong, but we have not seen an easing in our supply chain shortage. January was our first month of declining sales due to the shortage finally catching up with us.”

Other comments included:

- “Had a rough two weeks in mid-January with multiple employees testing positive with Omicron. Material suppliers still having delays and price surges.”
- “Imported paper that has been ordered has not been delivered. It is still waiting to be offloaded at port authority.”
- “Not back up to our volume of manufactured parts, but sales are up based on dollars because the cost of material has forced us into some crazy price increases. We are exploring selling the company to another manufacturer based outside of California. It is very difficult for a small company in California due to all the employment requirements.”
- "Orders are slower for January."
- “Our biggest challenge is finding entry level employees. Second challenge is the increased cost of purchased materials and extended lead time for the delivery.”
- “Port contention causes delays which must be covered with local supplies at a premium cost.”
- "Raw materials are hard to get from overseas."
- “Still having a hard time finding unskilled laborers willing to work.”
- “Supply issues and increased costs are beginning to impact us, especially for our single sourced raw materials.”
- “The continued COVID protocols in California are hurting our ability to bring in work force – also the supply chain disruptions continue, including delays in ports and trucking.”
- “Things got a little slower as usual after the holiday, but they are steadily picking back up. We are still having issues with hiring and enough good employees to fill the positions we have.”
- “Transportation of product very difficult and much more expensive. Especially in Southern California.”
- “We are still seeing price increases of materials we use. Not much has changed.”
- “We seem to be getting more orders than in the past few months, but we are not yet profitable.”

In summary, it is clear that the issues noted throughout this report are negatively impacting the Inland Empire’s manufacturing sector and overall economy. In particular, supply chain disruptions, price increases, and labor shortages are causing significant challenges for Inland Empire companies. And our panelists are increasingly expressing concerns about their ability to operate profitably in this business environment.

That said, if the COVID virus is brought under control without the emergence of new variants, things will begin to return to pre-pandemic predictability and normalcy.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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