

**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 July 2021**

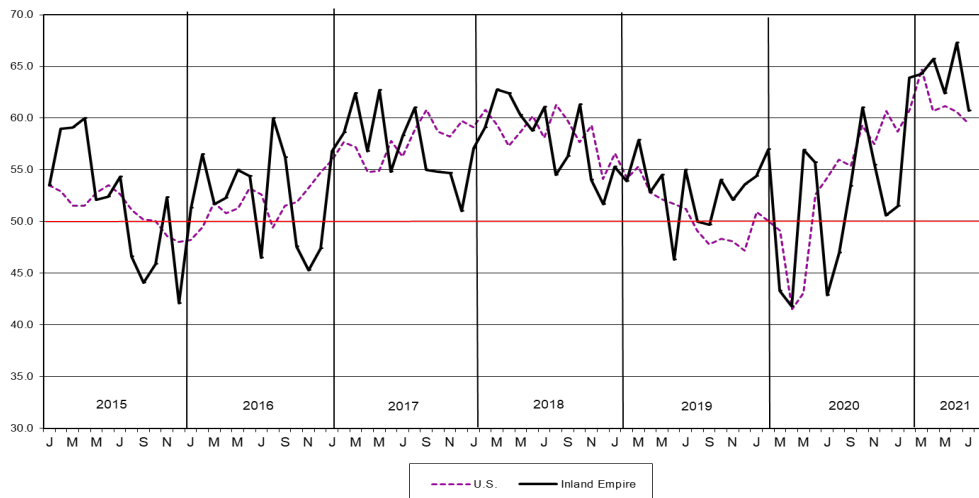
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**PMI ABOVE 50 FOR 11<sup>TH</sup> MONTH IN A ROW**  
**Issues: Labor shortage, Port Backlog, and Commodity Prices**

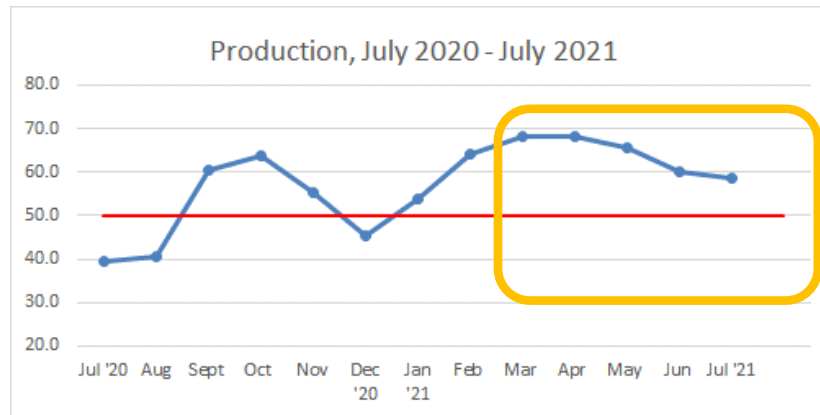
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **60.7**, a decrease from last month's 67.3. But the good news is that the index has remained above the baseline 50% mark for eleven consecutive months, indicating that the Inland Empire manufacturing sector and overall economy continued the trend of steady growth (although at a slower pace than last month). The national manufacturing index produced by the Institute of Supply Management also showed continued growth with a small decrease in the rate of growth."

**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 decrease from last month's figure (60.0) to **58.6** this month, indicating that production is still growing, although at a slower pace than last month.

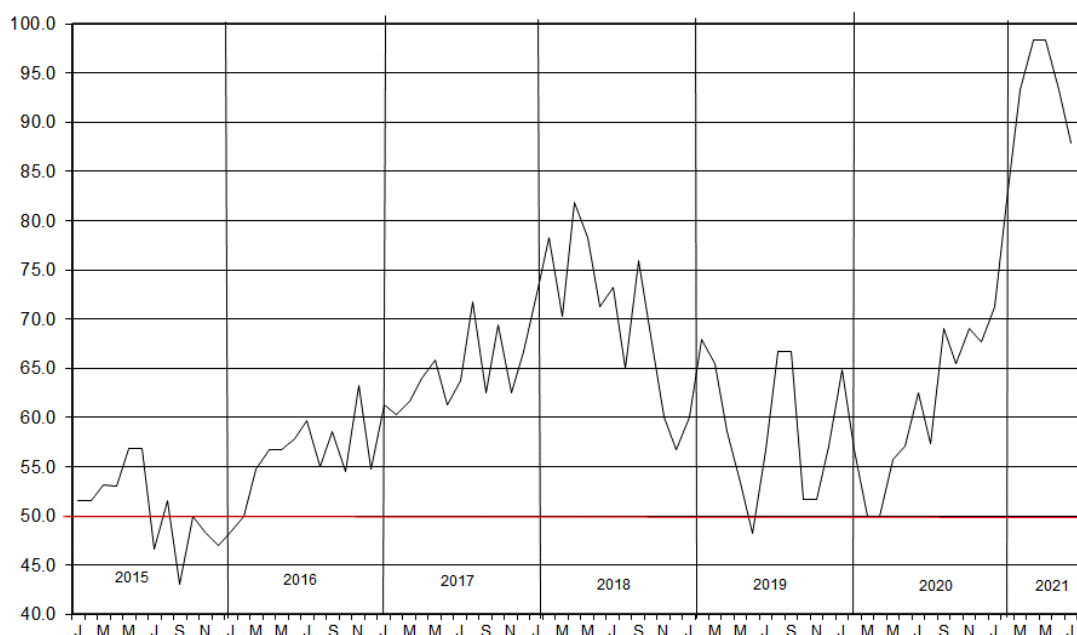


This month's **New Orders Index** is **51.7** – a sharp decrease from last month's 61.7. This means that new orders continued to grow last month, although the rate of growth slowed significantly. The fact that these two key components (Production and New Orders) of the PMI remained solidly above 50% indicates that the manufacturing companies anticipate steady growth as the Inland Empire economy recovers. Is the decrease in the indices cause for concern? Probably not. The decrease simply indicates that the economy grew quite quickly when businesses began to reopen after the lockdown, so the growth rate decelerated a bit in July.

**The Employment Index** showed continued strength, dropping slightly from 61.7 last month to **58.6** this month. Based on comments from survey respondents/panelists, it seems clear that the index would have been higher if companies weren't having so much trouble finding employees to hire. As one respondent/panelist commented: "Business is picking up tremendously. Struggling to find employees." Another comment: "Cannot find workers to handle increase in workload !!!" This is not just an Inland Empire issue. Rather, it is a nationwide issue.

Inflationary pressures continue to be felt with in the Inland Empire. The **Commodity Price Index** still extremely high at **87.9**, but it **is** a decrease from last month's 93.3. The past five months' figures in the 90's were the highest on record since the inception of this report back in 1993.

### Commodity Prices



Since the pandemic has hit, IAR added a special question each month, IAR included a survey question dealing with what respondents/panelists respondents are experiencing in terms of **which commodities are getting more expensive**. Panelists expressed concerns about the price of electronic components, paper, steel, aluminum, and lumber (wood products). Some complained about the price of “everything.”

- "Aluminum, wood, acrylic."
- "Carbon steel, stainless steel and brass along with other supplies and services."
- "Chemicals, electrical equipment, base metals, freight."
- "Domestic made yarn and material."
- "Electrical, motors, freight, pvc."
- "Electronic Components."
- "Everything."
- "Natural gas, gasoline, diesel fuel, chemicals."
- "Oil, raw material, gas."
- "Paper products and our metal prices continue to rise"
- "Paper."
- "Plastic, steel and aluminum."
- "Pretty much everything, paper to metal."
- "Rubber compounds."
- "Soybean oil, all flours."
- "Steel and related products as well as cost of delivery."
- "Steel, wood and components."
- "Steel."

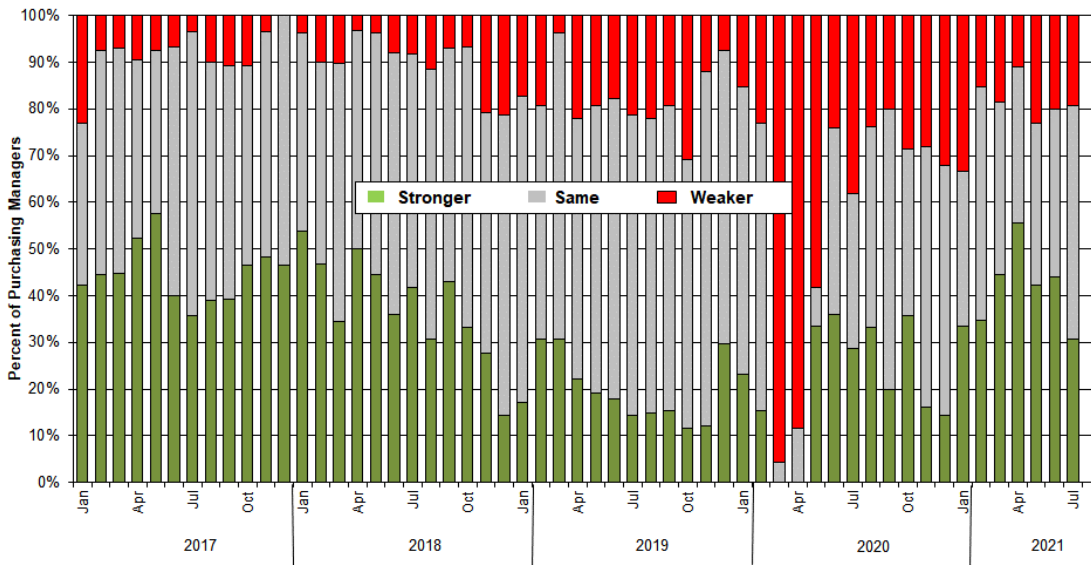
- "Stretch wrap."
- "Switch driver for multipliers."
- "Wood products."

The **Supplier Deliveries Index** dropped from 93.3 last month to **81.0** this month, indicating that the speed of deliveries is continuing to slow down, but at a slower pace since the previous month. One respondent stated: "We had our first delay in material availability this month. Our steel vendor was giving us a month lead time on 3/16 plate steel. It was kind of a shock. We have been able to work it out and fill our customers orders'."

The overall **Inventory level (units, not dollars) including raw, MRO** (Maintenance, Repair, Operating), intermediates, etc. a decrease from 60.0 last month to **53.4** this month. Only (3%) of companies indicated that their level of **finished goods** has decreased (reflecting increased sales), whereas (17%) of companies indicate that their level of finished goods has increased since the previous month. Most (79%) 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 optimistic about the state of the economy for the next 3 months. Nearly a third (31%) forecasted a **strengthening** local economy over the next 3 months and another 50% predicted that the economy would remain unchanged from the strong conditions seen in June. Only (19%) predicted that the economy would be weaker (down slightly from 20% last month).

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



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

<b>July 2021 Business Survey at a Glance</b>					
	<b>Series Index</b>		<b>Direction from 50</b>	<b>Rate of Change from Last Index</b>	<b>Trend Months</b>
	<b>Last Month</b>	<b>This Month</b>			
Local PMI	67.3	60.7	Growing	Slower	11
Commodity Prices	93.3	87.9	Increasing	Slower	25
Production	60.0	58.6	Growing	Slower	7
New Orders	61.7	51.7	Growing	Slower	7
Inventory	60.0	53.4	Increasing	Slower	2
Employment	61.7	58.6	Growing	Slower	6
Supplier Deliveries	93.3	81.0	Slowing	Slower	22
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	44%	31%			
% Same	36%	50%			
% Weaker	20%	19%			

### **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:

- "Business has been steady and good. Having the best consecutive months in company history."
- "Business is picking up tremendously, but we are struggling to find employees."
- "Cannot find workers to handle increase in workload!!!"
- "Domestic business is slower, but we are generally slower at this time of year. It is hard to find labor."
- "I am so tired of price increases. I place orders all day long and every confirmation a price increase When is this going to ease?? When will we stop being on backorder?? Inflation like I have never seen in my life."
- "In July, business continued to be as strong as ever. Absolutely no letup in sight regarding customer demand. Supply chain issues continue to keep available material at extremely low levels. Seems that if it's not one thing, it is another when it comes to supply chain issues. 2021 is certainly the year for shortages in just about every industry."
- "Lumber still, high looking for some relief."
- "Orders have slowed considerably and this should be our busiest time. Not replacing employees that leave at this time"
- "Pricing up and raw material availability limited."
- "Right now there's not too much business."
- "Still busy."

- "Still experiencing the prices of materials going up. Makes it hard to make a profit."
- "Stop the unemployment subsidies as they are killing availability to hire - people don't want to work with all the free money."
- "Summer is slower in the heater business. We had good June due to some larger orders from one customer. Otherwise orders for July were down quite a bit. At this time July shipments will be a bit over half of the June shipments."
- "The barriers to collaborative policy making at the Federal level is still reducing the expectations for the economy to continue its growth. I think it is one of the factors in the lack of supply chain build up, and in our particular case, we have had a limitation on our ability to ship some of our major orders do to the risk aversion created by these conditions. On the other hand, midway into the year we are almost to the point of total sales for last year, and our expectation are that we will close to double last year's sales by EOY."
- "We had our first delay in material availability this month. Our steel vendor was giving us a month lead time on 3/16 plate steel. It was kind of a shock. We have been able to work it out and are filling our customers' orders."

### **SPECIAL QUESTION FOR JULY 2021**

Again, this month, IAR included a survey question asking about what, if any, **supply chain bottlenecks** respondents are experiencing. Panelist expressed concerns about logistics issues, freight reliability, long lead times, and suppliers unable to fill orders:

- "All availability is limited."
- "Availability of transportation/delivery."
- "Bottlenecks both in supplier's production and shipping ability."
- "Carrier availability is strained."
- "Having trouble getting certain types of vinyl material that we never had issues getting before."
- "Orders for mixed rubber compounds are taken twice as long to be received."
- "Our distributors cannot get product in fast enough!!!!"
- "Our vendors that use resin are having a hard time procuring it. Also labor issues and delivery issues are troublesome as well."
- "Paper."
- "Port congestion."
- "Port delays."
- "Railroad and truck transportation."
- "Some items are back ordered. Copper, plastic compounds."
- "Suppliers do not have workers to produce items."
- "The stainless-steel melt mills in the US are way behind, re-promising delivery dates and under shipping everything."
- "Too many to mention."

- "Trucking is taking longer nobody had enough drivers even at \$25.00 per hour they all want to collect at home."
- "Unloading raw material off of docks."
- "We are looking at bottlenecks in almost all areas. Electrical components, wood, resin products, mechanical, etc. Extensive hold ups, things we used to acquire within a few weeks are now taking months."

**In summary**, all the major indices of the Purchasing Managers Index are showing strength, with production, new orders, and employment remaining above the 50% benchmark for several months in a row. That indicates that the Inland Empire manufacturing sector and the overall economy are continuing their steady growth.

Amidst this good news is concern about labor shortages and employees demanding higher wages as they return to work. Commodity prices are still high. Freighters wait off the California coast until docking space opens up, thus causing supply chain disruption. Further, the increasing COVID case counts and hospitalization rates due to the current outbreak of the Delta variant are cause for concern.

But on balance, the forecast for the Inland Empire manufacturing sector and overall economy is relatively strong.

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

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

Soua Vang  
Interim Economic Development Director  
San Bernardino County Economic Development Department  
(909) 387-4385

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