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

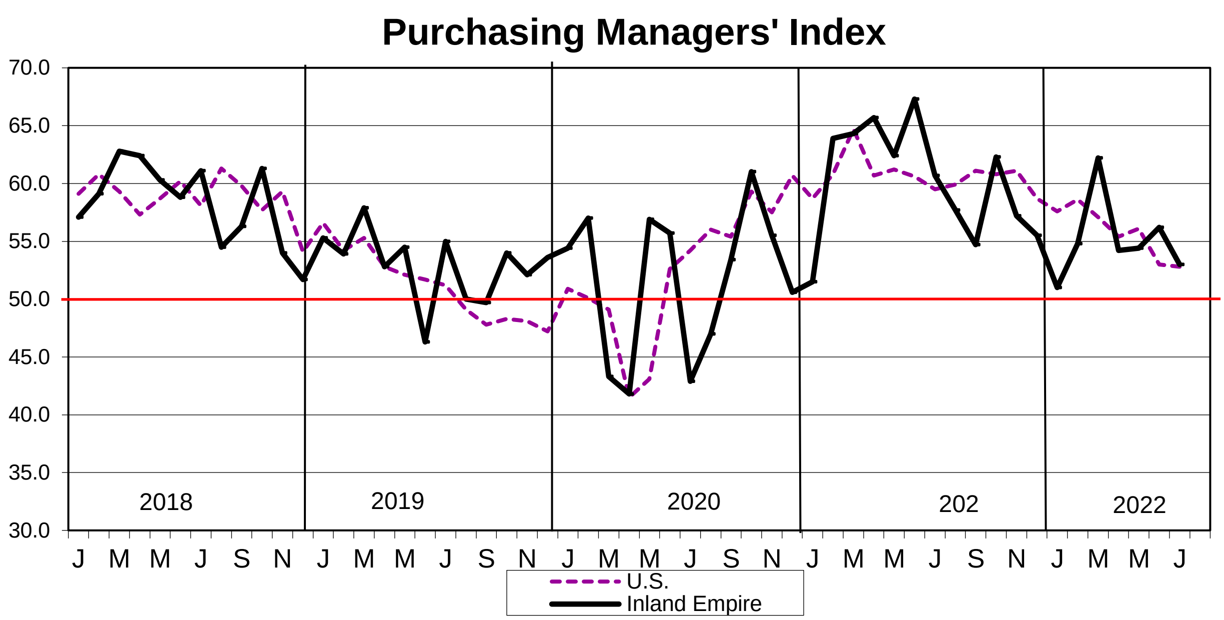
Housed in CSUSB's
Jack H. Brown College of Business and Public Administration

Report for July 2022

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

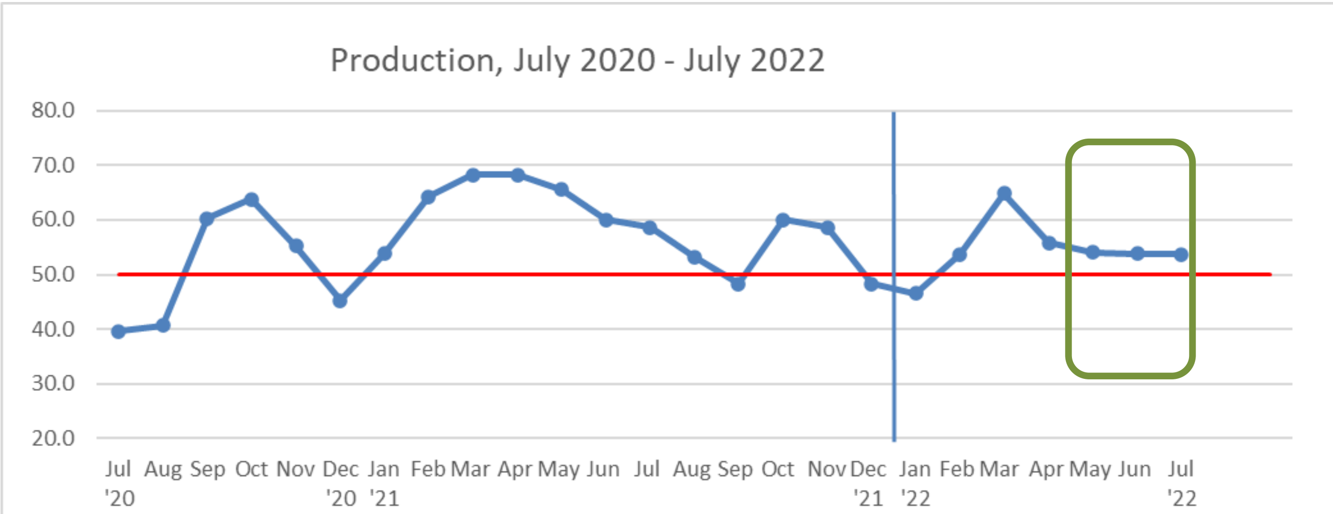
INLAND EMPIRE PMI GROWTH SLOWS
EMPLOYMENT DROPS BELOW 50

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 **53.0**, a strong drop from last month's 56.2. This is not cause for concern -- the Inland Empire manufacturing sector and overall economy remain in growth mode since the index is above the baseline 50% mark. However, the rate of growth has slowed."



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

As noted in previous reports, the Production Index is one of the two key components of the PMI. **The Production Index** (**53.7)** has shown stable growth for the third month in a row. Again, the good news is that the index has remained above the baseline level of 50 for six months in a row, indicating that production continues to be in growth mode.

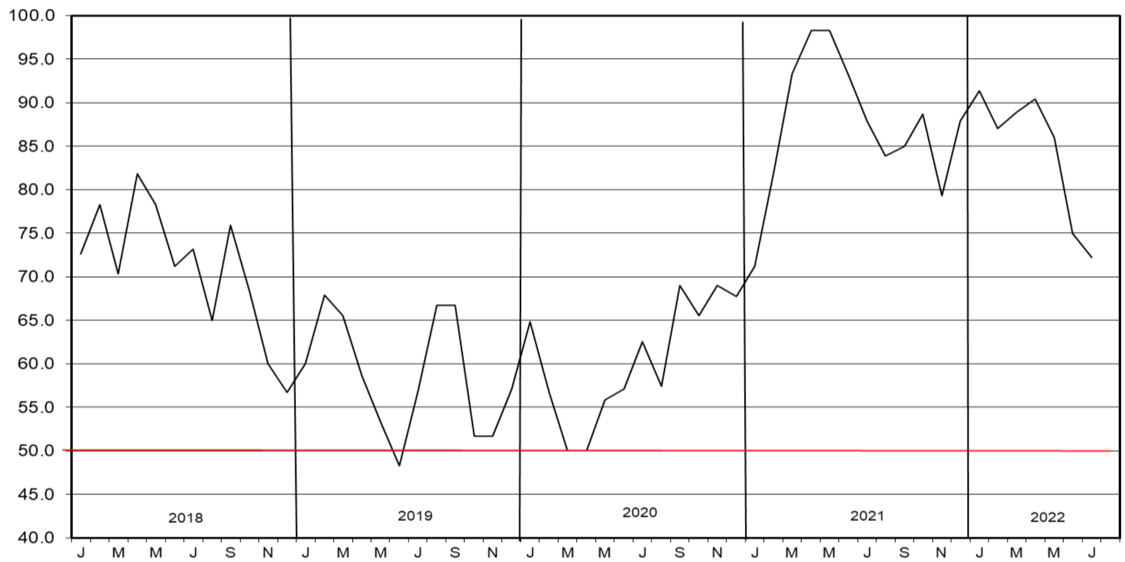


The **New Orders Index** (the other key component of the PMI) dropped from last month's 55.8 to **51.9** this month, indicating that new orders are still in growth mode, but the orders are growing at a slower pace than in June.

The bad news is that the **Employment Index (44.4**, down sharply from last month's 57.7) has now dropped below 50 for the first time since January 2022. As one of the panelists commented: "Things have become busier, but we are having employee issues who can't afford rent in the area. Some are leaving us, others are moving farther away from the office." Another panelist cited employee turnover as a problem.

Anyone who listens to the national news has heard stories about price increases in gas, food, shelter, and many other goods. Our **Commodity Price Index** for the Inland Empire has reflected those inflationary pressures for 37 consecutive months. The good news, however, is that the index dropped again from last month's 75.0 to **72.2** this month. That is significantly below the high of 98.3 registered in April and May of 2021.

Commodity Prices



The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index did decrease slightly from 63.5 last month to **61.1** this month. This indicates that deliveries continue to be slowing, but the *rate* of slowing decreased slightly from the previous month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **53.7**, an increase from last month's 50.0 and the third month at or above the baseline of 50. For the most part, the inventory of **finished goods** has remained at the same level as a month ago. Most of the panelists **(63.0% --** down from last month's 73.1%) reported that their inventory of finished goods has not changed since last month, meaning that their production of finished goods is "staying even" with sales. A total of **18.5%** indicated that their inventory level of finished goods has *decreased* (meaning sales were "good" and they were able to clear out inventory), whereas **18.5%** indicated that their level of finished goods has *increased* since the previous month.

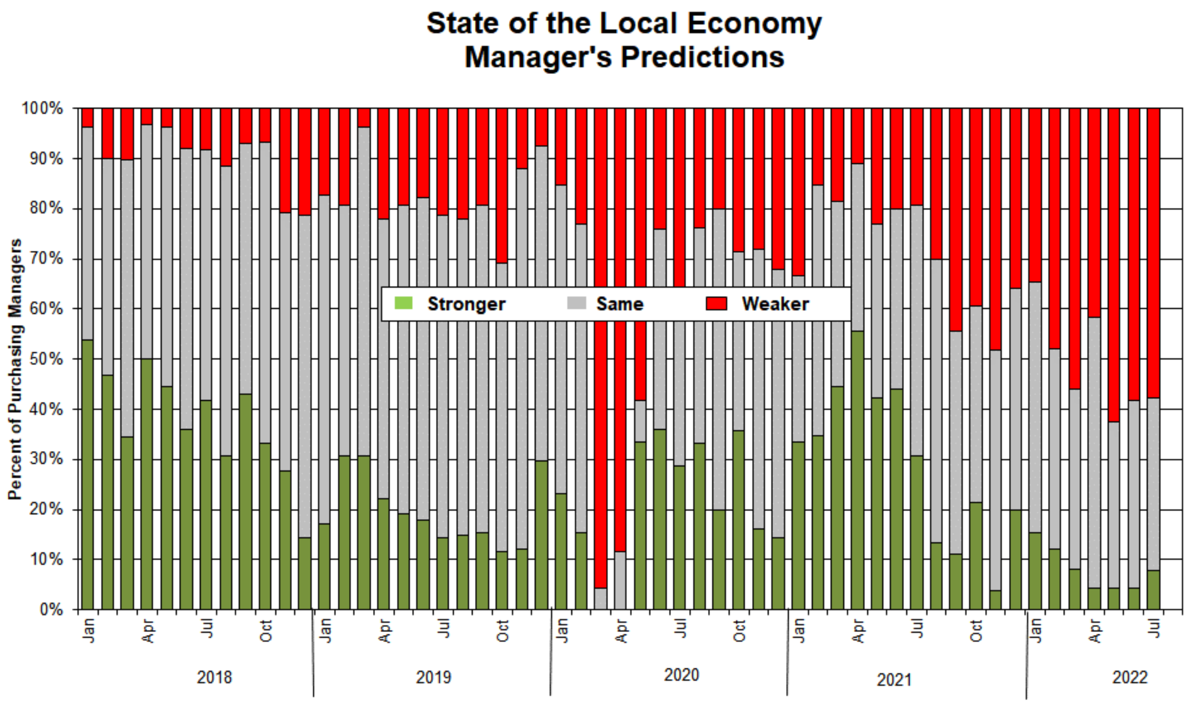
Since the pandemic started, IAR has included a special question of interest in its monthly survey. With so many issues facing our manufacturing industry, we asked again, this month: "***What is your company's biggest concern regarding business conditions over the next three months?"*** Over the last three months, the responses have fallen into 3 main categories: cost of doing business, supply chain, and workforce issues. Did that change? Sadly, the answer is "no." As one panelist this month mentioned: "Managing through the labyrinth of the new realities of the economy: supply chain challenges, increases in material costs, ensuring continued stability of our workforce."

Concerns with the cost of doing business/inflation:
- "Difficulty in passing price increases on to our customers."
- "Higher shipping prices, higher electric prices, higher prices raw materials."
- "Inflation, transportation cost."
- "Rising commodity prices and freight costs."
- "Maintaining profit levels against inflation woes."
- "Need inflation to slow down."
- "Wood prices and nail prices."

Concerns about supply chain/resource issues:
- "Availability of components."
- "Concerned about energy and oil supply, and its impact on material prices."
- "Our concern is that lead times have been extended, some to almost double now."
- "Overall delays in purchased parts. Stainless steel still severely delayed."
- "Paper not being available."

Concerns about workforce issues:
- "Ability to attract and retain unskilled labor."
- "Covid. People have been missing work."
- "Employee turnover and consistency of new orders."
- "Hiring of employees. Having a difficult time finding competent people and people who have any kind of work ethic. Most do not want to work hard. It's unfortunate."
- "Keeping employees and getting orders finished on time."
- "Lack of production labor."
- "Lack of workers."
- "My main concern remains finding quality labor. We are still not able to catch up on our backlog as we do not have the manpower to get those orders out the door despite having the inventory to do it."
- "Replacing employees that are retiring. Hiring new employees is a real challenge."

Panelists were also asked to make a prediction regarding the "health" of the economy over the coming three months. Both last month and this month, the majority (**58%)** of panelists predicted that the economy would be ***weaker*** in the coming quarter (red bar below). Only **8%** of panelists forecasted a ***strengthening*** local economy for the next 3 months unchanged from last month (green bar below). The remaining **34%** (down from 38% last month) predicted that the economy will remain unchanged over the next few months.



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

July 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	56.2	53.0	Growing	Slower	23
Commodity Prices	75.0	72.2	Increasing	Slower	37
Production	53.8	53.7	Growing	Slower	6
New Orders	55.8	51.9	Growing	Slower	3
Inventory	50.0	53.7	Increasing	From unchanged	3
Employment	57.7	44.4	Contracting	From Growing	1
Supplier Deliveries	63.5	61.1	Slowing	Slower	34
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	4%	8%			
% Same	38%	34%			
% Weaker	58%	58%			

Finally, 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. Most of this month's comments reflected concerns instead of "up-beat" attitudes.

- “After a year and half of cost increases, inventory shortages and increased sales (yes---increased sales), we are feeling beat up. It is a daily struggle to stay on top of inventory shortages, recalculating pricing changes while happily taking new orders that have increased to a point that we need to hire additional help. We are a small manufacturing business and have always kept a slim workforce. We just keep holding out, not hiring that extra help, thinking the sales surge is short-lived. We also hear from other friends/business owners that hiring is quite difficult since most new employees do not stay long.”
- “Automotive is still in flux. Components and incoming items from Asia are still delayed. Inflation not helping consumers - along with gas prices.”
- “China Shutdown.”
- “Export business is facing pressure due to high dollar.”
- “Government policy still has the economy and supply chain in a mess...hoping November brings some relief. Demand for product still very high and current challenge is obtaining fuel and lubrication products.”
- “In crisis mode for hiring new employees. Have a larger company interest in acquiring our company and I am sooo tempted due to issues related to manufacturing and the state of California, but they want to move the company out of state. They pay 13.00 per hour for the same job that I pay 18.00 for!!!”
- “Lack of equipment, been waiting for 5 forklifts for over a year now.”
- “Not much has changed over the past few months. Demand still remains strong but supply still remains low and finding additional labor is next to impossible.
- “Slower”
- “We are having problems finding good consistent workers. We hire them and then they leave. Also, we are still suffering from some supply chain delays.”

A few comments portrayed a positive or mixed view:

- “Prices at least have cooled. We are off the high prices in commodities, so that is a big positive looking out the next few quarters.”
- “Orders are steady and the process going well.
- “Vendors seem to be improving the delivery times for raw materials (rubber compounds in particular).”
- “With the number of narratives regarding the economy, some valid and some false, we see movements in the economy that can be interpreted both as progressive and as regressive, but some facts: there is an increase in issues with the supply chain, so some of what we need to produce is impacted. Further, prices for these materials have gone up, and we are forced to increase our prices as well, which will certainly impact future sales. Additionally, we see that there is more money circulating in the economy. This has resulted in a greater amount of funding available to both companies with which we work as well as the individuals we serve with our commercial and industrial products. We attribute this to the high employment rate and the raises many have received to be competitive in the labor market. Further, there has been the impact of increased

government funding to companies as well as governments at all levels. So more opportunities. More than ever, management has to really manage through these as well as other conditions with well thought out intelligent decisions and try to identify the intended and unintended consequences of those decisions."

In summary, our Inland Empire panelists continue to experience supply chain disruptions which could get even worse in the months to come since the trucking industry relies on contractors who must now comply with California's Assembly Bill 5. The Fed just raised interest rates by .75 percentage points in order to battle out-of-control inflation, but this has raised concerns about recession. Inland Empire employers continue to have difficulty hiring skilled labor. Consumer confidence is down. The economic picture in the Inland Empire and beyond is certainly not rosy.

But amidst this not-so-good news, the Inland Empire PMI is still showing growth in the manufacturing sector and overall economy. We will continue to track the opinions of our business leaders over the coming months.

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. J. Tomás Gómez-Arias
Dean, Jack H. Brown College of Business and Public Administration
CSUSB