

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

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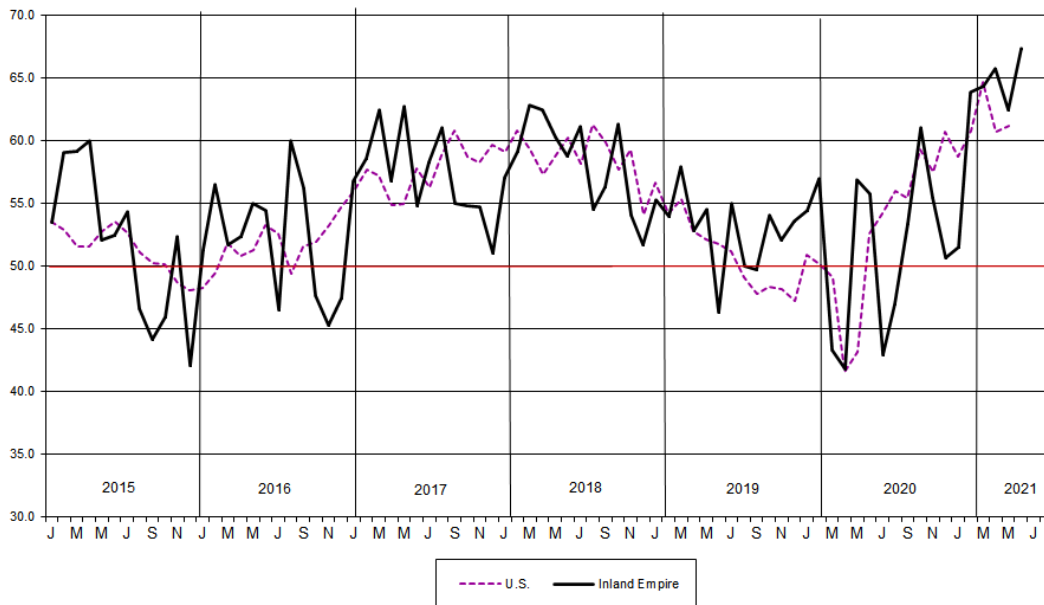
Report for June 2021

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

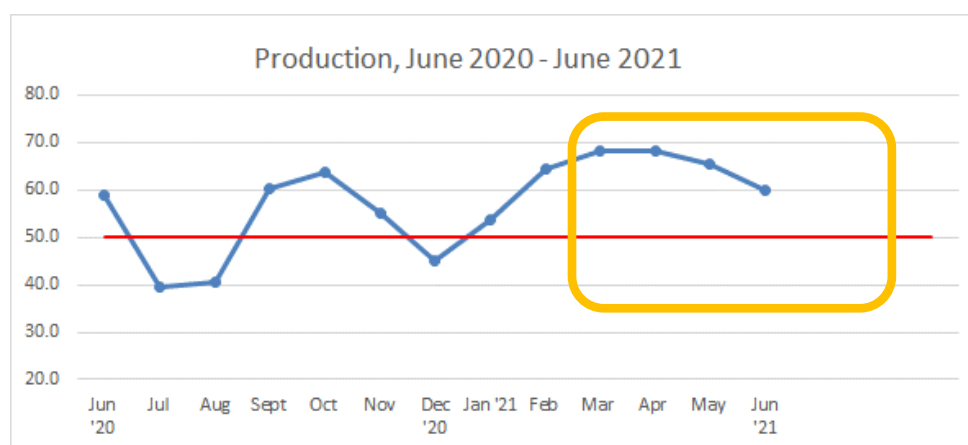
PMI REGISTERS ABOVE 50 FOR THE 10TH MONTH
SLOW SUPPLIES DELIVERIES & LACK OF STAFFING CONCERNS

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 **67.3**, an increase from last month's 62.4. The index remained above the baseline 50% mark for the tenth consecutive month, indicating that the Inland Empire manufacturing sector and overall economy continued the trend of steady growth."

Purchasing Managers' Index



The Production Index registered a decrease from last month's figure (65.5) to **60.0** this month, indicating that production is still growing, although at a slower pace than last month.



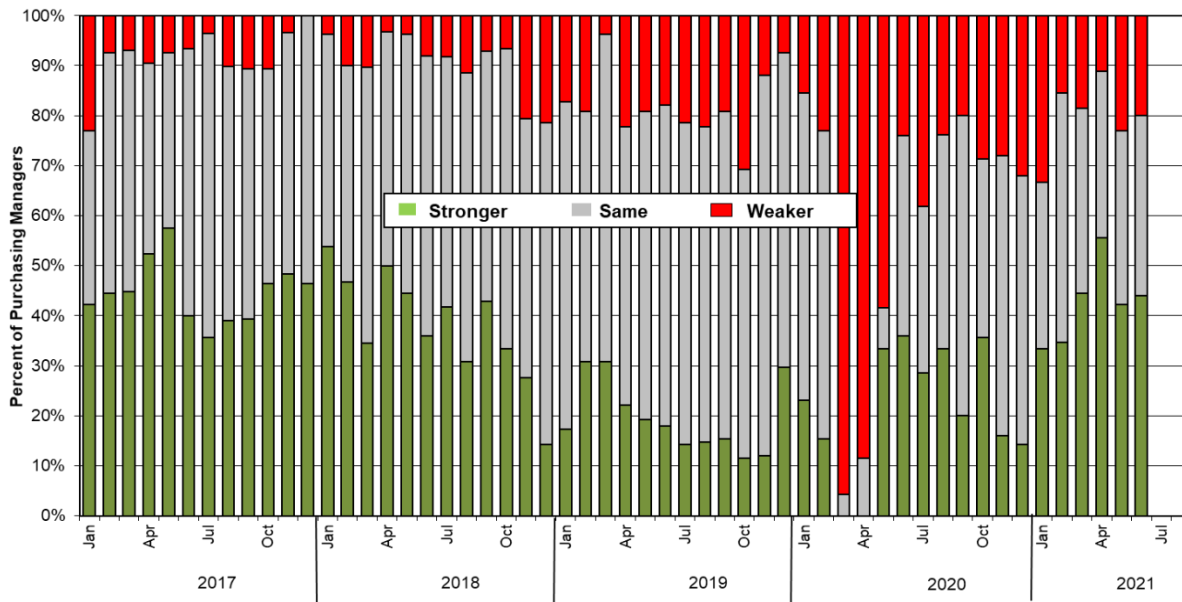
This month's **New Orders Index** is **61.7**, a decrease from last month's 67.2. This means that new orders continued to grow last month, although the rate of growth is slowing down. The fact that these two key components of the PMI remain solidly above 50% indicates that the manufacturing companies anticipate steady growth as the Inland Empire economy recovers.

The Employment Index showed continued strength, jumping from 58.6 last month to **61.7** 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: "Customer orders are increasing however there is no labor available to meet demands. We are in need of 20-25 people at this time and are not getting any applicants." 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 **93.3**, but it is a decrease from last month's 98.3. The past four months' figures in the 90's were the highest on record since the inception of this report back in 1993.

When asked which commodities are getting more expensive, one respondent/panelist said: "You name it. Every last one of them. I can't think of anything that has not gone up – and at least 20%." Four others agreed that "everything" has gone up, and one mentioned "steel, nuts and bolts, boxes, and freight." Several mentioned that lumber prices are still at record highs, although we must note that a June 22, 2021, Fortune.com article indicated that "After climbing to historic heights this spring, lumber prices are headed back down—fast. Last week the cash price per thousand board feet of lumber fell \$211 to \$1,113, according to industry trade

State of the Local Economy Panelist's Predictions



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

| June 2021 Business Survey at a Glance | | | | | |
|--|--------------|------------|----------------------|-----------------------------------|-----------------|
| | Series Index | | Direction from 50 | Rate of Change from Last Index | Trend Months |
| | Last Month | This Month | | | |
| Local PMI | 62.4 | 67.3 | Growing | Faster | 10 |
| Commodity Prices | 98.3 | 93.3 | Increasing | Slower | 24 |
| Production | 65.5 | 60.0 | Growing | Slower | 6 |
| New Orders | 67.2 | 61.7 | Growing | Slower | 6 |
| Inventory | 46.6 | 60.0 | Increasing | From Decreasing | 1 |
| Employment | 58.6 | 61.7 | Growing | Faster | 5 |
| Supplier Deliveries | 74.1 | 93.3 | Slowing | Faster | 21 |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | | |
| % Stronger | 42% | 44% | | | |
| % Same | 35% | 36% | | | |
| % Weaker | 23% | 20% | | | |

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

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 comments were a mix of **positive and cautionary**.

Predominantly positive comments included:

- "All indicators are that the economy is improving domestically and internationally."
- "Absolutely every industry in every section of the country seems to be on fire. We've even seen a nice uptick from our European and Asian customers. I have never seen a time like this for business in the US. It is incredible. Prices continue to rise at a steady pace but customers don't care. We are able to pass along any price increases that we get from our vendors with absolutely no resistance."
- "Business has been good, and we finally got the labor we needed to help complete customer orders."
- "Still very busy."

Other panelists expressing concerns regarding difficulty hiring people willing to work, high prices and material shortages, and slow deliveries:

- "Business has increased, however the ability to get raw material that is usually imported is becoming difficult."
- "Business is very robust at this time, but in the long term if there is no resolution of the partisanship at the Federal policy making level, the long-term state of the economy is both risky and potentially detrimental to businesses."
- "Can't get enough employees hired to keep up with promotions from within the company. Entry level positions are open and not being filled due to candidates who can't pass drug screen or are not interested in working."
- "Customer orders are increasing however there is no labor available to meet demands. We are in need of 20-25 people at this time and are not getting any applicants."
- "Due to the continued rise in cost of parts and materials and backorders from suppliers, we have recently obtained a loan in order to bring-in about 6 months' worth of inventory. Without sufficient inventory, we cannot build our equipment. Even the smallest, low-cost component can hold-up a \$5,000 order. We are trying to navigate through the daily twists and turns of price increases and backorders."
- "Increased inventory based on long supply delivery."
- "Needed raw materials not available domestically."
- "Orders up slightly, a lot of issues with material availability, usually out 6 weeks and pricing greatly increased."
- "Our business continues to be very steady month to month, but we are experiencing difficulty recruiting new employees."
- "Overall inflation, availability continue to affect production."
- "Resin is rising so pricing is all over the place, also pallets have gone up 60% due to pallet shortages and cost of wood is way up as well."
- "Still slower than we would like."

- “We are finding that it is getting harder to get certain materials in a timely manner. We are also finding that our materials cost has significantly increased therefore making it harder to make a profit this year.”
- “We do national and international business but both of them are kind of low. So far this month we have not had too many orders.”

SPECIAL QUESTION FOR JUNE 2021

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

- “Across the board, all supplies are taking longer to receive, and lead times have increased significantly.”
- “As stated above, suppliers did not “stock up” because of the risk caused by the pandemic and by a lack of consistent federal policy.”
- “Everything is slow now.”
- “Freight reliability.”
- “Freight is backed up because of the ports.”
- “Lack of ingredient for one of our stabilizers, usually a 3 week turn around this time it was 6 weeks.”
- “Lead times are getting longer.”
- “Less availability, logistics issues, no raw material.”
- “Lumber inventory for sale & Trucking services to deliver the material.”
- “Metal foils.”
- “Plastic Air Nozzles (Resin) are our current biggest issue, suppliers are months behind with orders. HEPA filters, electrical components, etc. We are facing shortages across the board.”
- “Sandpaper.”
- “Shipping from China.”
- “Lack of material availability and lack of drivers to deliver material.”
- “Some chemical ingredients are in short supply.”
- “Some materials that used to be delivered within a few days, can now take up to a month to get to us because of back orders.”
- “Suppliers cannot produce items because of labor shortage.”
- “Suppliers unable to fill orders.”
- “The melt mills are the big reason for the delay in our deliveries. One is on strike and another has everyone on allocation. We just can’t keep up with demand. I do not expect this to change anytime soon, certainly not for the balance of 2021.”

In summary, all the major indices of the Purchasing Managers Index are strong, 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. When placed in the context of the national PMI showing expansion of the overall economy and recent state indices

such as the Conference Board's Consumer Confidence Index showing strength, it looks like the Inland Empire economic outlook will be positive for at least the next three months. Yes, there are local and nationwide issues of labor shortages, supply chain disruptions causing long lead times, and high commodity prices. But overall, the forecast for the Inland Empire manufacturing sector and overall economy is relatively rosy.

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