

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

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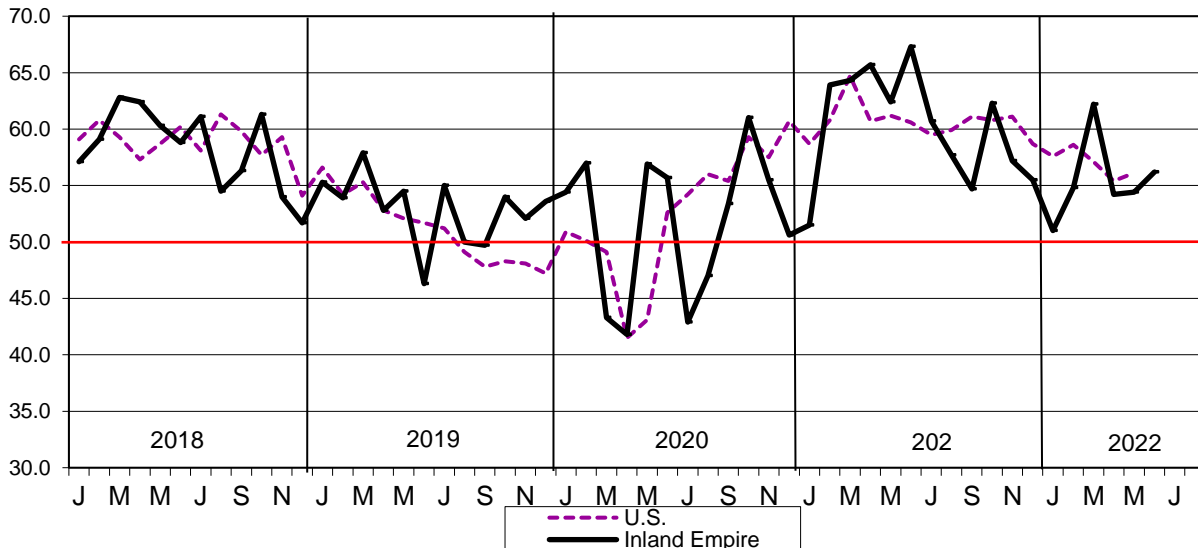
**Report for June 2022**

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

**INLAND EMPIRE PMI STILL SHOWS STRENGTH**

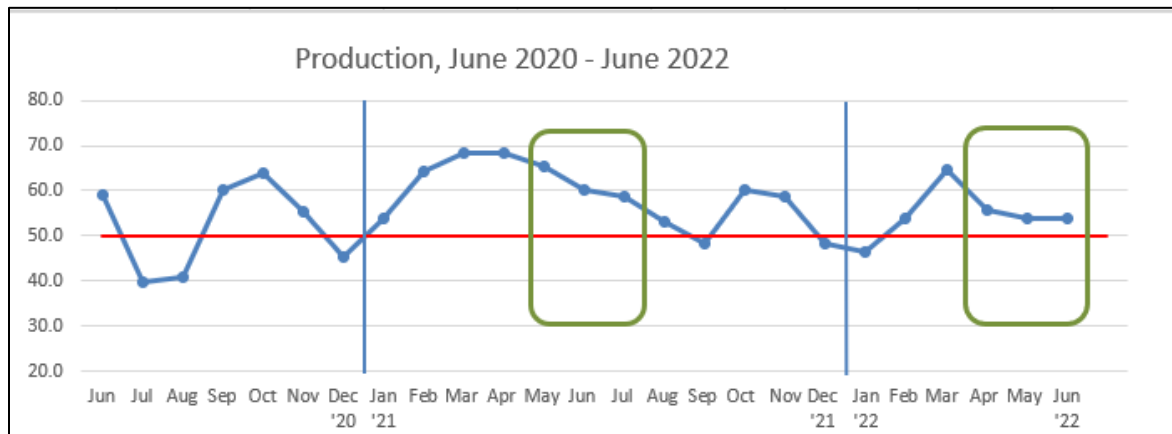
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** is **56.2**, a slight increase from last month's 54.4. This indicates that the Inland Empire manufacturing sector and overall economy remain in growth mode since the index is above the baseline 50% mark. Further, the increase in the PMI indicates that the growth is occurring at a faster pace than last month. It is important to note that the index has remained above 50 for twenty-two consecutive months – a good sign.

**Purchasing Managers' Index**



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 and New Orders Index are the two key components of the PMI. **The Production Index (53.8)** was virtually unchanged from last month's 54.0. Again, the good news is that the index has remained above the baseline level of 50 for five months in a row, indicating that production continues to be in growth mode.

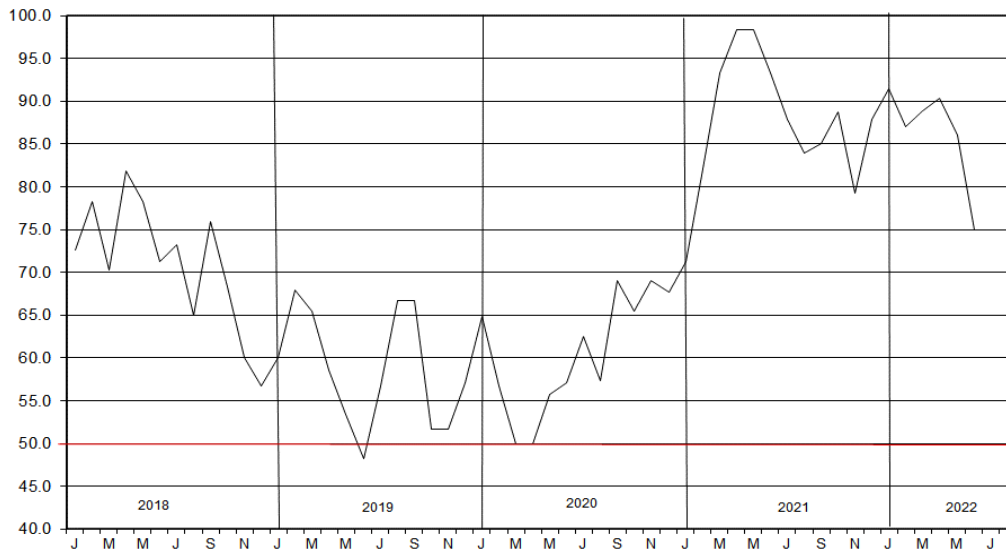


The **New Orders Index** jumped from last month's 50.0 to **55.8** this month, indicating that new orders are back in growth mode after dipping below 50 in April of this year. One panelist provided a positive comment regarding New Orders: "Things are staying pretty steady for new orders. Hoping it remains that way throughout the summer." Another expanded by saying: "We continue to see extremely strong demand from our customers all over the US. Inflation or higher costs are still not a worry at this point. People still care more about getting their hands on material than what it costs. Everyone seems to be able to pass along these higher prices without any issues. Seems that even if a small percentage of customers have to cut back due to higher prices, there is still plenty of demand to keep new orders coming in and the economy moving forward."

Some additional good news is that the **Employment Index** has remained in growth mode (above 50) since February 2022. The index increased from 56.0 last month to **57.7** this month, indicating that the pace of growth has increased since the previous month. For the fifth month in a row, most panelists who saw increased employment said they hired people in *permanent* positions (as opposed to temporary).

Anyone who listens to the national news has heard stories about inflation registering its highest level in 40 years, with the price of gas, food, and most other goods continuing to rise. In the Inland Empire, the **Commodity Price Index** has reflected inflationary pressures for 36 consecutive months. The good news, however, is that the index dropped sharply from last month's 86.0 to **75.0** this month. This is the lowest it has been since November 2021 when it registered at 79.3.

### Commodity Prices



The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index increased from 62.0 last month to **63.5** this month. This indicates that deliveries continue to be slowing, and the *rate* of slowing increased from the previous month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **50.0%** for the second month in a row.

The same basic trend held for inventory of **finished goods**: Most of the panelists (**73.1%** -- up from last month's 68%) 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 **15.4%** indicated that their inventory level of finished goods has *decreased* (meaning sales were "good" and they were able to clear out inventory), whereas **11.5%** 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 two months, the responses have fallen into 3 main categories: cost of doing business, supply chain, and workforce issues. Did that change? Only slightly. This month there have been additional concerns about the overall economy and concerns about falling consumer confidence and lagging orders.

**Concerns with cost of doing business/inflation:**

- “The continuing rise in transportation costs and raw materials.”
- “Difficulty of passing cost increases on to our customers.”
- “Fuel prices.”
- “High Prices of Materials and Labor.”
- “How Governmental budgets are going to be affected by inflation.”
- “Increase pricing.”
- “Inflation.”
- “Natural gas prices.”
- “The cost of raw material and fuel must level out. Otherwise, we will be forced to increase pricing which could make us lose business as we are a small company that cannot continue to absorb these increases for our customers to remain.”

**Concerns about supply chain/resource issues:**

- “Material shortages.”
- “Paper.”
- “Trucking / diesel / gas. Concerned about the delivery delay for both receiving our goods and delivery delay of our completed equipment to the customer.”

**Concerns with workforce issues:**

- ““Employment - keeping the staff we have once trained.”
- “Still the biggest concern is finding quality employees to help us process all of these orders we have. We just can't get quality people in here that want to work in manufacturing.”

**Concerns with Economy:**

- “Concerned that the worry of a recession does not slow companies down from spending.”
- “Economic downturn.”
- “Possible recession.”
- “Stability. Too many ups and downs.”

**Concerns about consumer confidence and the resulting lack of orders:**

- “I want our customers to remain confident and not pull back on ordering product.”
- “Lack of orders. We've seen a severe downturn in new work in the past couple of months.”
- “Variability of orders.”

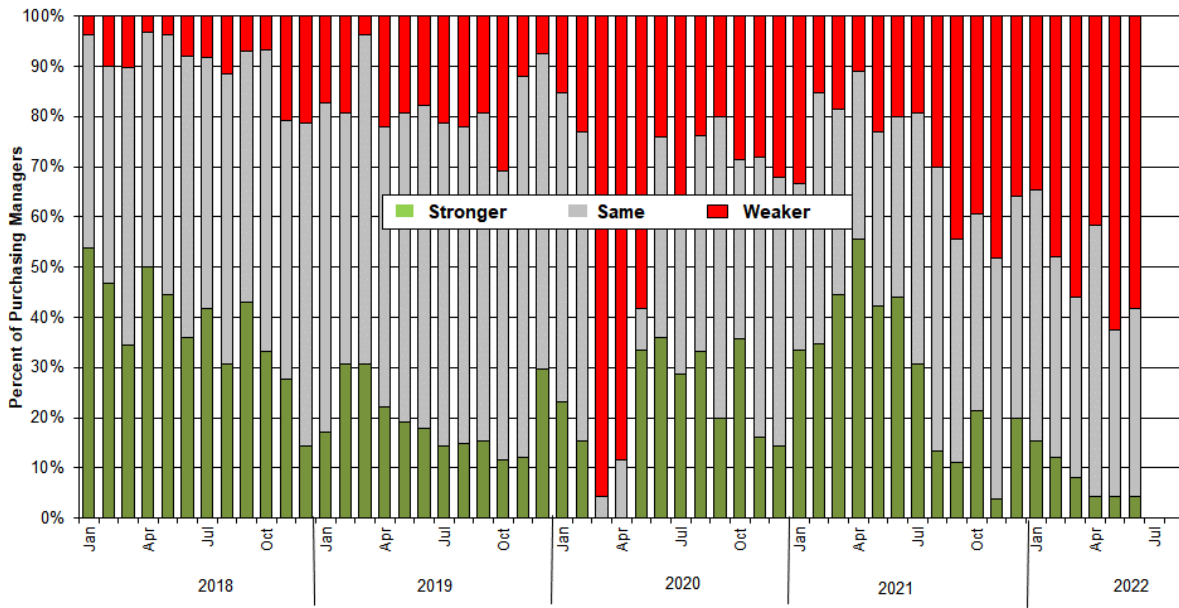
**Other Comments/Concerns:**

- “Despite the political and economic diversions, we need to keep our "eye on the ball" and remain dedicated to our diversified approach to the various markets that require our products and services. Yes, slow deliveries impact us; yes, inflation impacts us; yes, the political insanity impacts us...but it is we who have to

determine our future, keeping in mind that we have been through all of this before losing this focus, becomes our "biggest concern."

Given the strong/frustration just mentioned, it is not surprising that **58%** of panelists predicted that the economy would be **weaker** in the coming quarter (down from last month's 63%). Only **4%** of panelists forecasted a **strengthening** local economy for the next 3 months unchanged from last month (green bar below). That leaves only **38%** (up from 33% last month) predicting that the economy will remain unchanged over the next few months.

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



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

<b>June 2022 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	54.4	56.2	Growing	Faster	22
Commodity Prices	86.0	75.0	Increasing	Slower	36
Production	54.0	53.8	Growing	Slower	5
New Orders	50.0	55.8	Growing	From Unchanged	2
Inventory	50.0	50.0	Unchanged	From unchanged	2
Employment	56.0	57.7	Growing	Faster	5
Supplier Deliveries	62.0	63.5	Slowing	Faster	33
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	4%	4%			
% Same	33%	38%			
% Weaker	63%	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. Virtually all of this month's comments reflected concerns.

- "Customers are concerned about the economy."
- "Imports are lower due to shut down in China."
- "Imports are lower due to the length of time to get material."
- "Labor market is not getting better."
- "Material shortages are having a great impact this month."
- "National policy choices make State policy choices even more difficult on business in the State of California."
- "Obviously there continues to be a lot of uncertainty in both the domestic and international marketplace, and as local business owners, we have to keep in mind the reason we are in business in the first place: to provide value and quality to drive products and services to the markets we are and can be serving with those products and services. We cannot lose focus despite the pressures that we perceive in these economic conditions."
- "Slowing."
- "Still fighting high transportation cost and lack of supplies."
- "Supplies are getting even more difficult to find and pricing has almost doubled on consumable items since 2020."
- "Thanks to the addition of 2 new businesses, each with many branches, we have had a great increase in orders but finding labor is still an issue. Now working overtime which of course decreases our profits. I feel that the economy is in a tailspin with no remedy in the near future."
- "We are extremely busy this time of year and we are finding that we are unable to find quality workers."

- “We are still feeling the effects of the Covid delays in regard to receiving of goods purchased. Also, the increase of pricing for basic raw materials has severely affected our ability to maintain a profitable cost structure. Lead times have been adversely affected as well, again causing delays in the production of our products. While some lead times have improved, some have not.”

**In summary**, this month has seen lots of bad news about a bear market, out of control inflation, and the national consumer confidence statistics which are at a new low over the period since January 2021. Our Inland Empire panelists continue to cite supply chain disruptions, ongoing price increases, labor shortages, and concerns about the overall national economy. Indeed, other surveys (e.g., a manufacturing survey from JDSupra: <https://www.jdsupra.com/legalnews/manufacturing-snapshot-june-2022-mental-4680536/>) indicate that manufacturers face increasing challenges from a decline in workplace mental health due to the issues mentioned above.

But the good news is that our monthly survey for the Inland Empire is continuing to show growth for the manufacturing sector and the regional economy 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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