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 March 2022

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

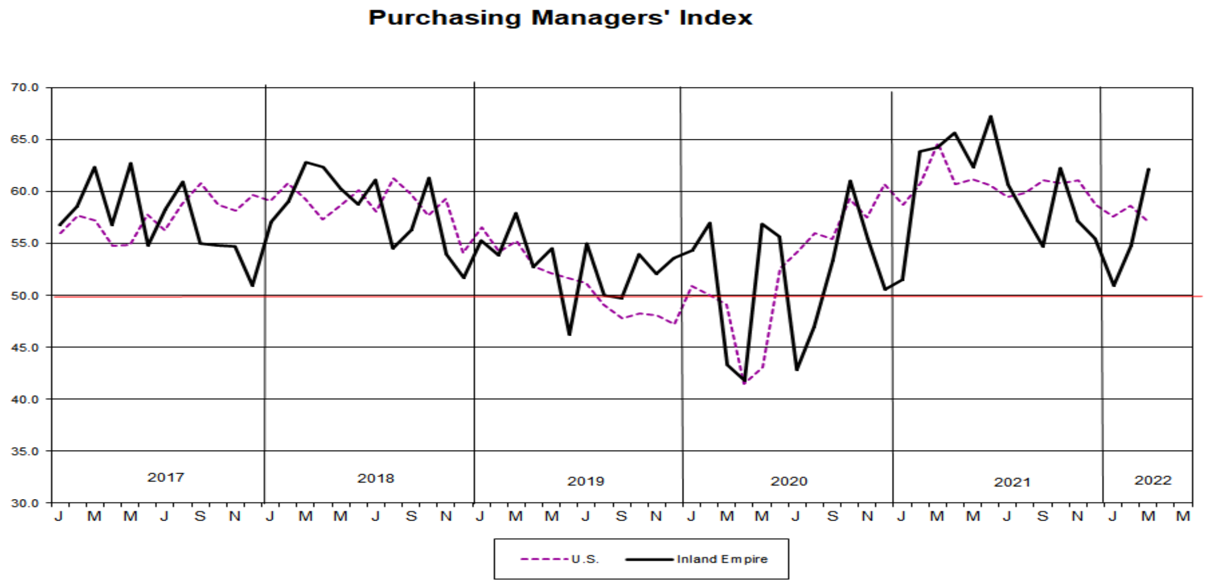
PMI IS FIRMLY IN GROWTH MODE
BUT NO CHANGE IN NEGATIVE KEY FACTORS

CONTEXT FOR THIS REPORT:
It has been two years since the World Health Organization declared COVID-19 a pandemic and California issued a statewide stay-at-home order which created huge adverse effects on the economy. The good news is that COVID Omicron variant cases and hospitalizations are decreasing, but we are not out of the woods yet, considering the appearance of a new variant now in the US.

But perhaps the big news from a humanitarian, economic, and geopolitical perspective, is the Russian invasion of Ukraine on February 24, 2022. As noted in the Harvard Business Review on March 17, "Russia's invasion of Ukraine is adding to the woes of global supply chains. It is affecting industries ranging from semiconductors to cars to food. It almost certainly will accelerate the shift from global to regional sourcing that had already been underway due to the China-U.S. trade war and pandemic- and climate-related events. But given China's dominance in a lot of sectors, the shift will only happen gradually and will require government assistance."

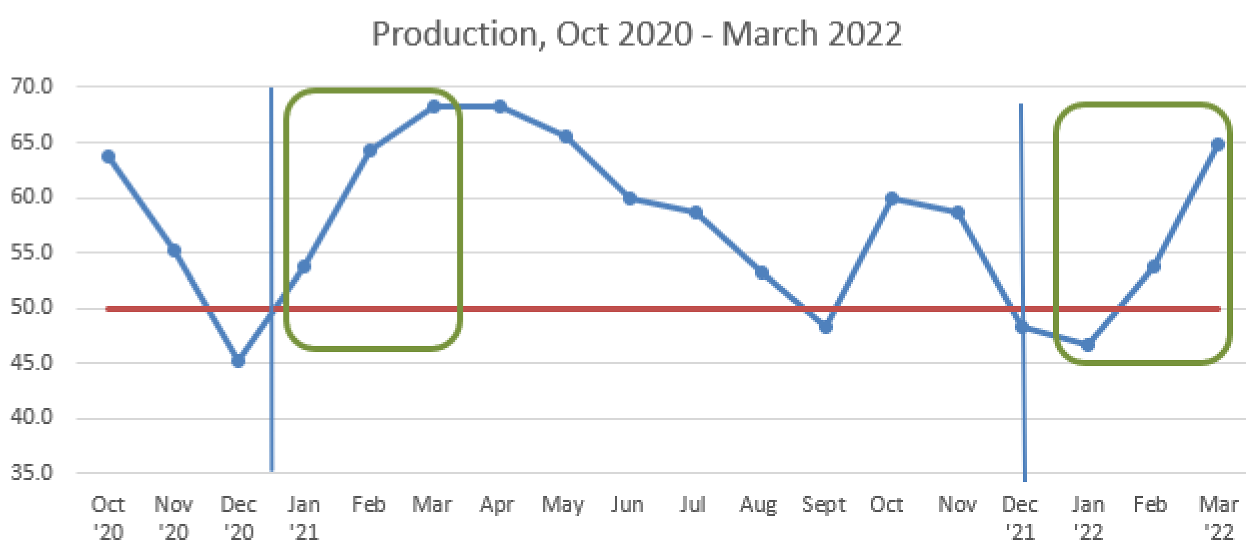
This report will include our Inland Empire panelists' comments regarding issues that have arisen due to the pandemic and the Russian/Ukrainian conflict. The data were gathered between March 28 through April 1, 2022. The report was delayed by one day due to CSUSB's campus closure for the Cesar Chavez holiday.

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)** surged to **62.2**, a sharp increase from last month's 54.8. The index has remained above the baseline 50% mark for nineteen consecutive months, indicating that the Inland Empire manufacturing sector and the overall economy have continued the trend of steady growth for over a year. That's the good news. But sad to say, the Inland Empire is still reeling from some of the same issues we have noted over the past few months: increasing inflation, snarled supply chains, and gas prices higher than ever before. We expect to see continued economic volatility in the Inland Empire economy over the next few months."



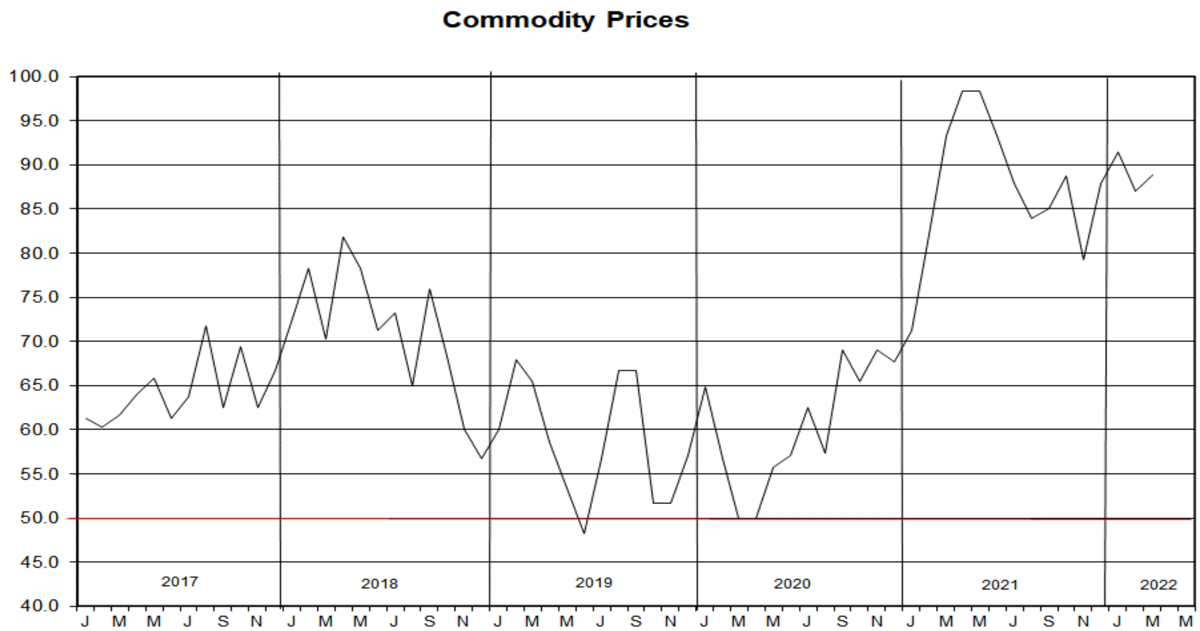
Source of U.S. PMI®: Institute for Supply Management®, Source of IE PMI®: Institute of Applied Research

As noted in previous reports, the Production Index and New Orders Index are the two key components of the PMI. This month both have increased significantly, thus explaining the increase in the PMI. **The Production Index** registered a huge jump from 53.7 last month to **64.8** this month. This could be a seasonal factor (as highlighted by the green boxes below) or a reflection of improvement in the Inland Empire economy.



This month's **New Orders Index** also saw an increase, jumping from last month's 51.9 to **59.3** this month. And the **Employment Index** increased from 53.7 last month to **59.3** this month. Several panelists did say they hired people in permanent positions (as opposed to temporary).

Inflationary pressures continue to be felt within the Inland Empire and beyond, although this month's figures are nowhere near the highs seen at the beginning of 2021. The **Commodity Price Index** increased only slightly from last month's 87.0 to **88.9** this month. The White House plans to release 1 million barrels of oil a day for about six months, so hopefully, this will help to lower gas prices at the pumps.



The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index was unchanged from last month, staying at 72.2. This indicates that deliveries continue to be slowing, at the same pace as last month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw an increase from 42.6 last month to **55.6** this month. A majority of our panelists **(66.7%)** 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. **14.8%** of the companies (down from last month's 22.2%) indicated that their level of finished goods has *decreased*, and **18.5%** (down from last month's 22.2%) indicated that their level of finished goods has *increased* since the previous month.

Each month IAR includes a special question of interest in its monthly survey, and this month it seemed logical to ask businesspeople about the effect of the war in Ukraine on their business. Specifically, we asked: "***The war in Ukraine has resulted in suspended sales of Russian goods and supply shortages of various food products, electrical components, paper, etc. Has your company experienced any of these impacts?***" The vast majority of panelists indicated that they had not seen such impacts other than the high price of gas and other material costs which, as one person noted, "started long before Ukraine became the talk of the world." One person said: "We have not experienced any additional shortages yet, but we do expect to see shortages soon. We have increased our inventory by 3 times the normal level. This has become quite expensive for a small company." And one said: "A significant customer order was canceled because it was to ship to Russia. We do not purchase any material directly from Russia or Ukraine, but minerals within the raw material are sourced from these two countries."

We also asked: ***"What is your company's biggest concern regarding business conditions over the next three months?"*** Overall, the responses fell into 3 categories: supply chain, workforce issues, and inflation.

Concerns about supply chain/resource issues:

- "We are concerned about the availability (or lack thereof) of raw material from our suppliers. They continue to slowly fall further and further behind in deliveries."
- "Our biggest concern is fear of hitting a block wall. Specifically, we worry that our unexpected increase in sales will eventually slow or stop (hitting a block wall), due to component shortages. If we cannot obtain or source out all components necessary to manufacture, we lose sales."
- "Paper availability for printing."
- "Supply chain breakdown."
- "The uncertainty may slow down orders or material availability."
- "The inconsistency and insecurity of both supplier and sales activities are being created by both the international situation and the domestic polarity and political dissidence that impacts national, state and local policies."

Concerns about workforce issues:

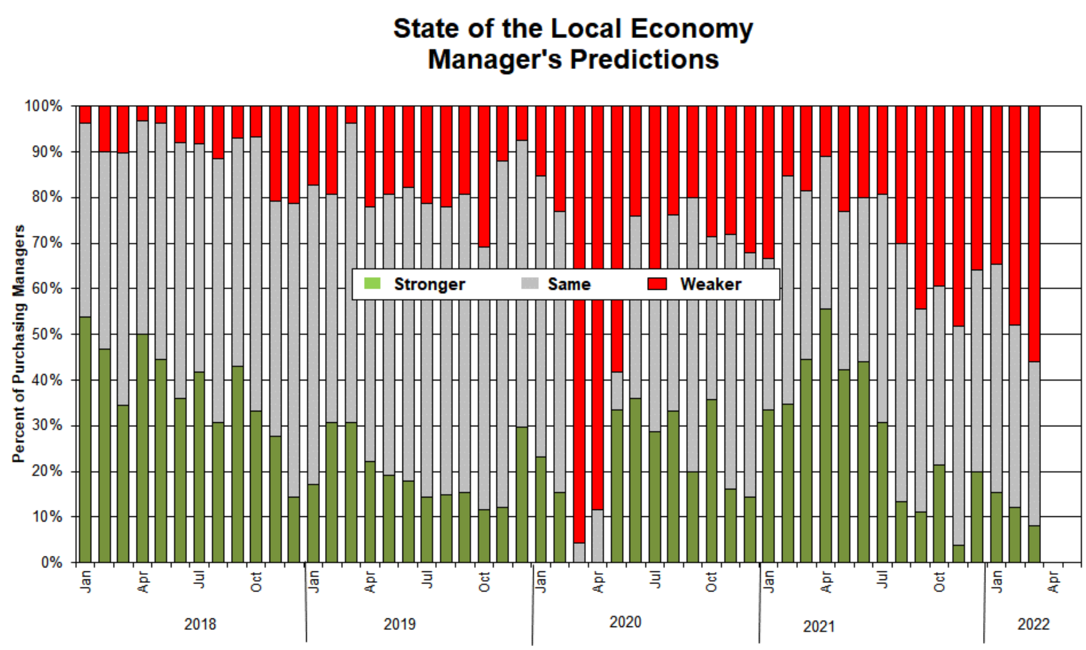
- "Continued inability to get workers who stay for 30 days."
- "Finding people to work."
- "People who show up to work."

Concerns about inflation/prices:

- "Cost of chemicals, fuels, transportation, and commodities are all increasing at rapid rates."
- "Inflation is making it difficult to adjust prices and to plan for inventory needs."
- "Prices going up very fast."
- "Price increases and the threat of China invading Taiwan."

- “Pricing on raw materials going up to unmanageable costs and it being passed on to the customer. The customers stop buying as much product and we slow down.”
- “Increased logistics costs due to gas.”
- “Rising prices for the company and our employees.”
- “Rising raw material prices.”
- “Supply Chain & price increases.”
- “We need prices for gas, aluminum, and other products to stop the steady climb.”
- “The increase in costs for materials, gas, wages, etc. It's all a big concern especially in our industry as we bid projects sometimes a year or more before they ever start. Because of the price of resources, our prices quoted to our customers are too low. We have no idea what prices will be by the time we order materials and actually build the products and then take them out and install them.”
- “Tight margins where raw material price increases cannot be completely passed through.”

So, with all the pressures, and concerns just mentioned, we are not surprised by the lack of, optimism about the future state of the economy. Over half (**56%**) of panelists predicted that the economy would be *weaker* in the coming quarter (up from last month’s 48%). This is the highest level since May of 2020. And only **8%** of panelists forecasted a *strengthening* local economy for the next 3 months (green bar below). The remaining **36%** predicted that the economy would remain unchanged over the next few months.



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

March 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	54.8	62.2	Growing	Faster	19
Commodity Prices	87.0	88.9	Increasing	Faster	33
Production	53.7	64.8	Growing	Faster	2
New Orders	51.9	59.3	Growing	Faster	6
Inventory	42.6	55.6	Increasing	From Decreasing	1
Employment	53.7	59.3	Growing	Faster	2
Supplier Deliveries	72.2	72.2	Slowing	Unchanged	30
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	12%	8%			
% Same	40%	36%			
% Weaker	48%	56%			

What respondents are saying about business conditions that affect their operation:
Each month we ask our respondents to make overall comments regarding business conditions – local, national, or international – that affect their purchasing operation or the outlook for the company or industry. The vast majority of the panelist's comments reflected concerns about prices, material availability, and resource shortages.

Beginning with the positive comments (or comments about dealing effectively with challenges):

- "Adding new customers, orders on the rise."
- "Obviously, the war has had an impact on the general economy in the form of accelerating inflation, which combined with supply chain challenges is creating a need for creative approaches for those of us in manufacturing. In our particular case, we are projecting meeting sales demand requirements by placing longer-term order commitments, including in some cases minimum order requirements from suppliers. So, some degree of "educated" speculation is a part of our process."
- "Still strong."
- "Business has remained good so far, and our business is healthy."
- "The supply disruption has caused everyone to search out alternate sources. That can be a two-edged sword. So far, we have benefited to the plus side."

Negative comments included:

- "Shipments are coming in late but arriving on the raw material side."
- "Material costs rising rapidly, and we have to be diligent in raising prices appropriately. Competing with companies where their labor costs are 28% lower

than ours and they do not have to deal with California's wage and benefit requirements! Very challenging for California Manufacturers."

- "As a general comment, we are still seeing some increases in prices and still some slowing in product delivery."
- "Concerns over the rising fuel prices and what effects it may have on supply pricing."
- "Fuel and material costs are out of control and national policy changes are not helping."
- "It's getting even harder to find help."
- "In general sales, labor, and material availability have stayed about the same as February. However, we continue to see raw material prices increase. Shipping container prices have relaxed a little bit."
- "Prices for all materials used to produce, package, and ship orders continue to increase with no letup in demand. Our costs are up nearly 30% from last year and our selling prices are up 30 to 40% from this time last year. There is no end in sight for when prices may stabilize. I really do not know where people on TV (CNBC) get their information that commodity prices have topped out. We are not even close to seeing that."
- "Raw material prices are still going up. The average increase has been 10 – 12%. We have never seen this in over 25 years."
- "Resources shortages- nickel prices increase for plating and stainless material."
- "Paper required to print jobs is not in stock and is currently 2 to 4 months out for delivery."
- "Our suppliers are having issues finding truck drivers."
- "Very busy, but no supplies!"

In summary, forecasting these days is especially difficult due to the dizzying array of uncertainties stemming from the pandemic's supply chain disruptions, ongoing price increases, labor shortages, and now shortages and price hikes for commodities such as paper, food products, and oil due to the conflict in Ukraine.

This will sound like a broken record, but all we can say with certainty is that short-term predictions about the regional economy are impossible to make with any sense of accuracy. IAR will continue to monitor the situation in the months to come.

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. Shanthi Srinivas
Interim Dean, Jack H. Brown College of Business and Public Administration
CSUSB
(909) 537-5701