

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

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Report for May 2022

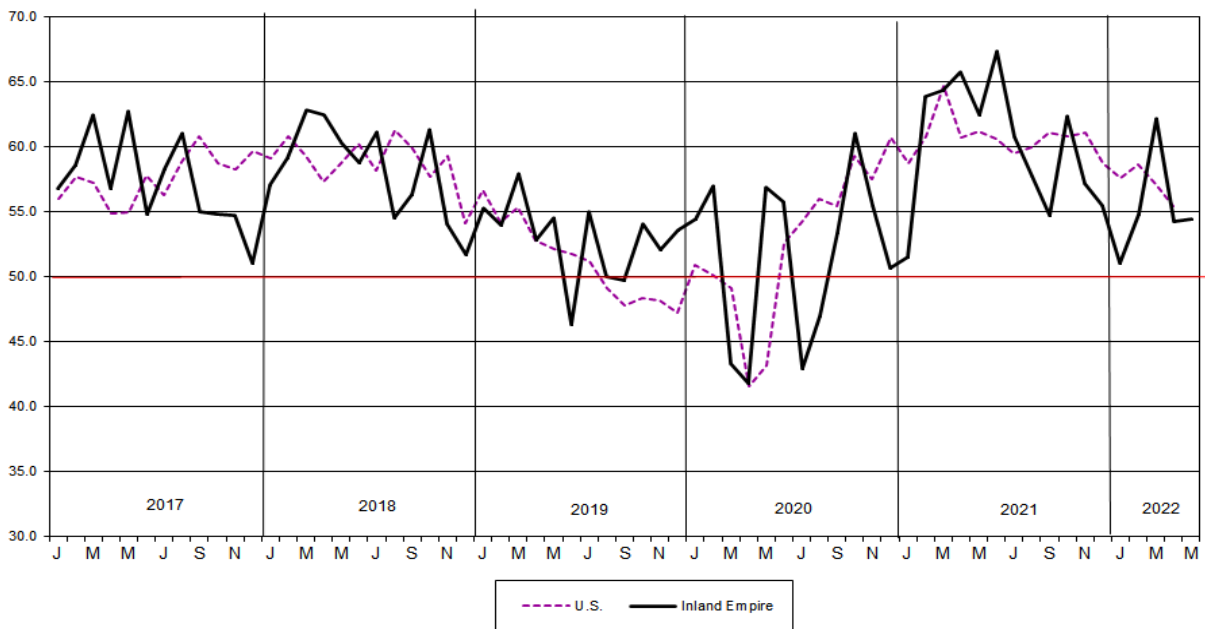
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PMI STILL STRONG, WITH TWENTY-ONE MONTHS ABOVE 50
BUT INFLATION, SUPPLY WOES, AND LABOR STILL CAUSING MAJOR STRESS

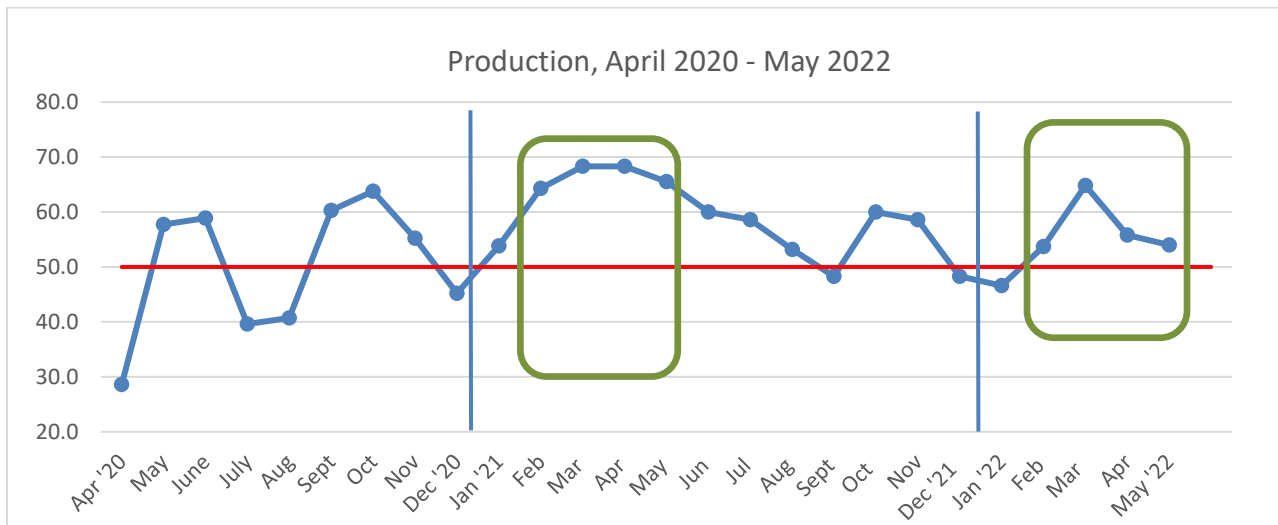
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** is **54.4**, virtually unchanged from last month's 54.2. The index has remained above the baseline 50% mark for twenty-one consecutive months, indicating that the Inland Empire manufacturing sector and the overall economy are approaching two years in growth mode. That's the good news. Unfortunately, high inflation and supply chain issues are still causing major headaches to Inland Empire businesses and residents, and gas prices are higher than they have ever been. In fact, a *Moneywatch* article notes that in some locations in California, a gallon of gas costs more than the federal minimum wage of \$7.25/hour, causing pain for residents and businesses alike."

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** registered a slight decrease from 55.8 last month to **54.0** this month, but at least the index remained above the baseline level of 50 indicating that production grew last month (although at a slightly slower pace than the previous month).

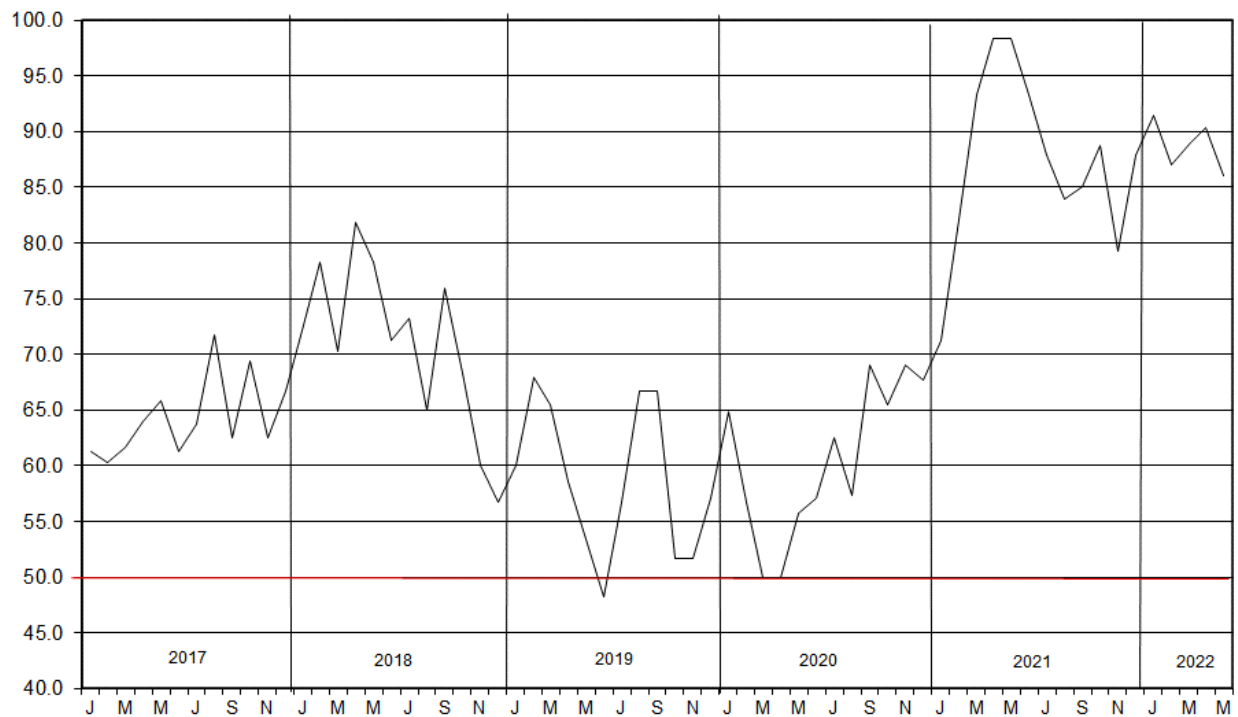


The **New Orders Index** jumped from last month's 38.5 to **50.0** this month, indicating that new orders are no longer declining as they were the previous month. However new orders have also not seen an increase.

Some good news is that the **Employment Index** remained in growth mode (above 50) for another month, although the pace of growth was slower than the previous month. The index decreased from 61.5 last month to **56.0** this month. For the third month in a row, most panelists who saw increased employment said they hired people in *permanent* positions (as opposed to temporary).

For the 35th month, the **Commodity Price Index** has reflected inflationary pressures. This is not a surprise given that getting control of inflation nationwide is one of the Fed's (and President Biden's) top priorities. The index decreased slightly from last month's 90.4 to **86.0** this month. Although the figure is quite high, we must note that it is not as high as it was between March and June 2021, and it *has* declined since January 2022.

Commodity Prices



The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index decreased from 73.1 last month to **62.0** this month. This indicates that although deliveries continue to be slowing, the *rate* of slowing has declined from the previous month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance,

Repair, Operating), intermediates, etc. registered **50.0%** this month. Three-quarters of respondents said overall inventory had not changed from the previous month, whereas 12% said the level had increased and 12% said it had decreased.

The same basic trend held for inventory of **finished goods**: About two-thirds of panelists (**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. Twenty percent (**20%**) indicated that their level of finished goods has *increased* since the previous month and the remaining **12%** indicated that their inventory level of finished goods has *decreased*.

Since the pandemic started each month IAR includes a special question of interest in its monthly survey. Again, this month we asked: “**What is your company’s biggest concern regarding business conditions over the next three months?**” Last month the responses fell into 3 main categories: cost of doing business, supply chain, and workforce issues. Those same general categories appeared this month.

Concerns with inflation:

- “Gas prices, inflation.”
- “Cost of goods.”
- “Inability to increase selling prices to keep up with cost increases.”
- “Increased cost and decreased availability.”
- “Inflation and the price of fuel, steel, and other essential items.”
- “Price increases are not slowing, and that makes planning for upcoming production a challenge.”
- “Raw material prices are very high.”
- “The fact that the price of everything keeps rising. That includes fuel prices which will affect our bottom line.”

Concerns about supply chain/resource issues:

- “Paper needed for printing.”
- “Shortage of supplies due to China’s Covid restrictions and lockdown in Shanghai.”
- “Supplier deliveries.”

Concerns with staffing/labor issues:

- “Finding good labor!”
- “Lack of productive labor. Also, cannot get existing workers to put in 40 hours.”
- “Staffing.”

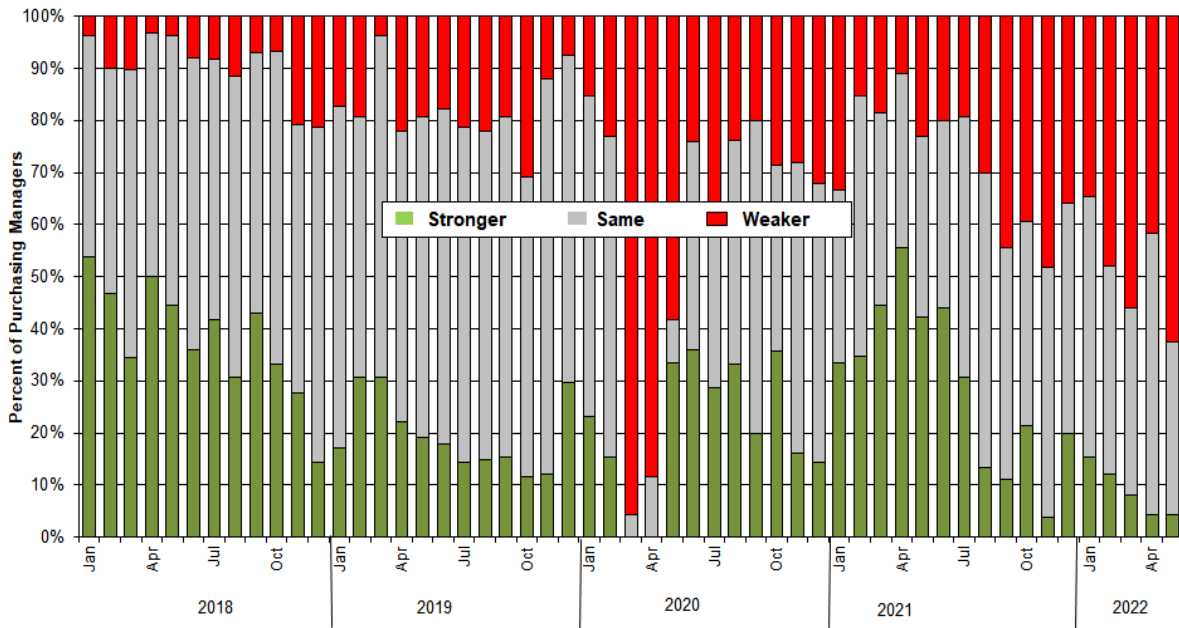
Other Comments/Concerns:

- “Incoming orders, as a whole they have slowed down drastically since the last quarter of 2021.”

- “Making sure the economy stays strong and new businesses are opening up that need signs.”
- “We need to ensure that we continue to create practices that insulate us from any outside elements that could impact our ability to serve our customers.”

Given the strong/frustration just mentioned, it is not surprising that **63%** of panelists predicted that the economy would be **weaker** in the coming quarter (up sharply from last month’s 42%). Only **4%** of panelists forecasted a **strengthening** local economy for the next 3 months unchanged from last month (green bar below). That leaves only **33%** (down from 54% last month) predicted that the economy would 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:

May 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	54.2	54.4	Growing	Faster	21
Commodity Prices	90.4	86.0	Increasing	Slower	35
Production	55.8	54.0	Growing	Slower	4
New Orders	38.5	50.0	Unchanged	From Contracting	1
Inventory	42.3	50.0	Unchanged	From Decreasing	1
Employment	61.5	56.0	Growing	Slower	4
Supplier Deliveries	73.1	62.0	Slowing	Slower	32
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	4%	4%			
% Same	54%	33%			
% Weaker	42%	63%			

The survey always includes an overall question asking the panelists to give general remarks regarding any business conditions, local, national, or international that affects the purchasing operation or the outlook of their company or industry. Here are a few remarks:

Positive comments:

- “Added two new customers, very busy! Biggest month in years. Life is good.”
- “Busy, seasonal.”
- “Demand continues to stay high, supply constraints seem to be easing up just a little and raw material prices have most likely peaked in May.”
- “Not sure why Europe is picking up but it certainly has. We have seen a pickup, especially from China, in just the past week. So maybe their lockdowns are coming to an end.”
- “Sales orders continue to be strong.”
- “We are obviously concerned about the general economic conditions such as inflation, supply chain delays, and the confidence in the national and local economic prospects; however, in our company, we are showing great progress and expect to bypass our budget projections for this year. One of the situations that we have seen in the general economy that differentiates us is the degree to which we have created strength in our own base that mitigates the impact of the general economic conditions on us.”

Comments reflecting concern:

- “Component availability is still a problem. We try to stay ahead of the problem by increasing our inventory of components over and above our standard quantity

required. It is still difficult to play this leap-frog on a daily basis.”

- “Finding labor to satisfy the demand is still an issue. Until we can find enough good labor, I do not see this inflationary period coming to an end. People are still willing to pay a premium to get their goods before the other guy.”
- “Has been tough finding labor help, but bookings also seem to be slowing down as well.”
- “Inflation is the biggest issue.”
- “Slowing”
- “Still unable to find help.”
- “Supply chain is becoming an increased "buzz word" for not being able to meet contractual obligations. Like COVID did for coming to work. Lead times and quotes are changing on a weekly if not daily basis. If not for long-standing relationships with vendors this could get very challenging.”
- “We are seeing a slowdown. Logistics are still an issue.”
- “We currently are experiencing an issue with getting our materials in a timely fashion. It is getting slower than in the past. And, in some cases, we have had to use different suppliers to get substitutes for the products that are taking so long to get.”

In summary, the newspapers are filled with “gloom and doom” about the overall U.S. economy shrinking in the first quarter, but The Conference Board is still forecasting that Q2 growth will rebound. On the other hand, our Inland Empire panelists continue to cite supply chain disruptions, ongoing price increases, and labor shortages. Most project a weakening of the Inland Empire economy over the coming quarter. Further, the uncertainty about the war in Ukraine is a concern, as is the possibility of a new Covid surge.

But the bottom line is that our monthly survey for the Inland Empire is continuing to show growth for the manufacturing sector and the economy as a whole. We will continue to track the opinions of our business leaders over the coming months.

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