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 November 2021

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

THE GOOD NEWS: THE PMI HAS REMAINED ABOVE 50 FOR 15 MONTHS

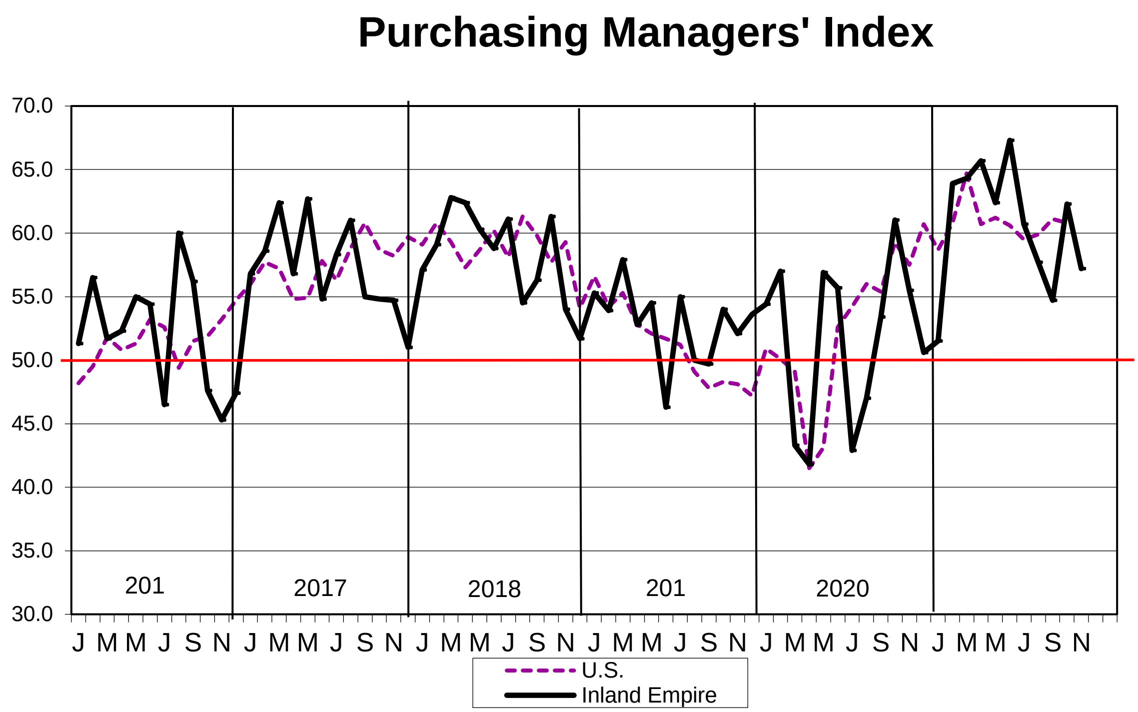
THE NOT SO GOOD NEWS: PRICE HIKES, DIFFICULTY FINDING WORKERS, AND SUPPLY CHAIN DISRUPTIONS CONTINUE

CONTEXT FOR THIS REPORT:
Over the past week the stock market has stumbled due to concerns about the new omicron variant of the COVID-19 virus. On Black Friday (November 26), the Dow Jones Industrial Average had its worse day of the year, and both the S & P and Nasdaq Composite declined.

At the same time, inflation has settled in, with prices skyrocketing on commodities from gasoline to cars to major appliances to food. The U.S. Consumer Confidence index is down, and it is anticipated that supply chain disruptions will dampen the spirit of the holiday which is right around the corner. According to a Bloomberg report, congestion at the ports of Long Beach and Los Angeles has improved somewhat, but "transit time for vessels arriving from Asia has more than doubled to 62 days compared with pre-pandemic levels" (https://www.bloomberg.com/news/articles/2021-11-29/oakland-vessel-calls-drop-43-in-october-as-ships-queue-in-l-a).

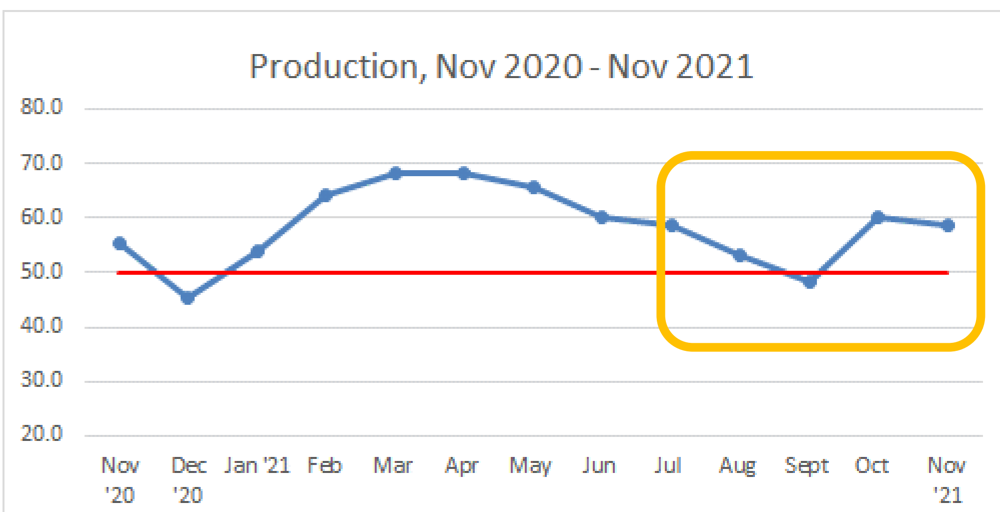
It is in this context that we present this month's data from our monthly survey of Inland Empire companies.

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 **57.2**, a decrease from last month's 62.3. The index has remained above the baseline 50% mark for fifteen consecutive months, indicating that the Inland Empire manufacturing sector and overall economy have continued the trend of steady growth for over a year. But with so many variables wreaking havoc on the economy, that could turn around at any time."



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

The Production Index registered a slight decrease from 60.0 last month to **58.6** this month, but this may be due to seasonal factors experienced every year as we head into the holiday season.

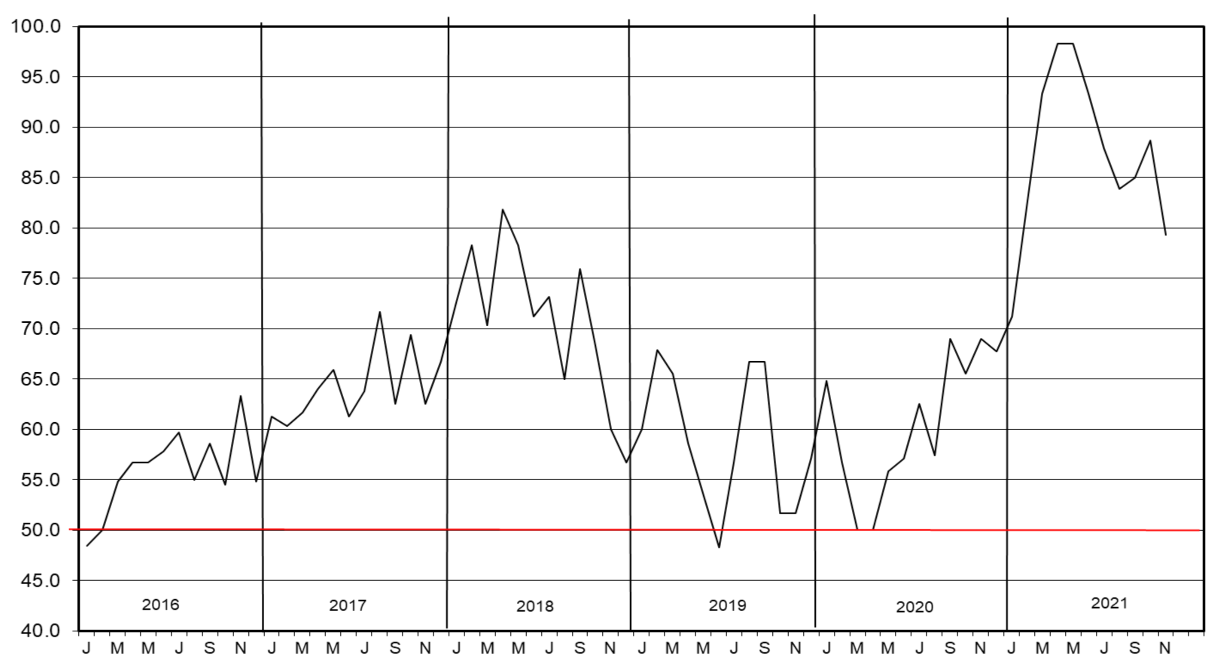


This month's **New Orders Index** also decreased, moving from 62.9 last month to **56.9** this month. The decreases in the Production and New Orders indices (two of the most important indices in the composite PMI) are not cause for concern since both have remained above 50, reflecting an Inland Empire economy in growth mode (although the growth is at a much slower pace than last month).

This month the **Employment Index** dropped significantly from last month's 59.7 to **48.3**. Part of this decline may be due to seasonal factors, but part may be reflecting a nationwide issue of workers choosing to leave the job market due to early retirements, fears of COVID, or the need to care for ill family members. Another factor may be employees' willingness to quit their job and accept jobs at companies paying large hiring bonuses. Yet job openings are near record highs, and labor shortages are causing havoc throughout the supply chain. As noted by one of our panel members: "We need to hire. The largest issue is finding people to work."

The **Commodity Price Index** decreased from last month's 88.7 to **79.3**, indicating that although inflationary pressures eased a bit, persistently high prices continue to be seen within the Inland Empire.

Commodity Prices



As a follow-up question, IAR asked respondents: "which commodities are getting more expensive?" One panelist said: "***Everything – materials and outside services."*** Other panelists mentioned price increases for steel, aluminum, wood products, natural gas, and transportation.

Following are the specific commodities mentioned as showing price increases:

- "Raw material availability and transportation cost very high. Also, natural gas is high."
- “Aluminum, Acrylic, Vinyl, Wood.”
- “Cereal grains, fuel, you name it.”
- “Copper”
- “Freight”
- “Metal foils used for etched foil elements.”
- “Natural gas, specialty chemicals”
- “Plastics, packaging, aluminum, steel”
- “Rubber polymers, silicone gum in particular”
- “Textiles requiring special processing as well as our standard products requirements.”
- “Fabrics”
- “Wire, processing”
- “Wood”
- “Wood products that we use.”

The **Supplier Deliveries Index** (a measure of the speed of supplier deliveries) decreased from 79.0 last month to **77.6** this month, indicating that deliveries continue to be slow. This is nothing new – it has been in our reports and the news for the entire year of 2021.

Supply chain disruption issues that have been mentioned in our reports (and the news media nationwide) over the past year. This month we asked our panelists a **special question** regarding the disruption issues: *“How optimistic are you that your company’s supply chain disruptions (if any) will ease by the end of 2021?”* About a third of panelists (**34.5%)** were “somewhat” or “very” optimistic that the disruptions will ease by the end of 2021. But **62.1%** indicated that they are **not very optimistic.** Clearly supply chain issues are causing severe delays and frustration among the manufacturing companies which are trying to keep up with production of the products consumers want and need.

When asked to explain the reason for their lack of optimism, panelists said:

- “Both rail and truck transportation are slow.”
- “Each time we find that lead times are improving for one item another item gets hit with even longer lead times. This feels never ending.”
- “Lead times continue to get worse. Lead times are being missed and almost double pre-COVID.”
- “Our suppliers have a combination of raw materials and personnel challenges that they don't seem to have under control. Also, we are concerned about the challenges to their quality control in order to provide the level we require for our technical applications given both their personnel and raw material challenges. This means we have to be even more vigilant when materials are coming to us during our receiving inspection.”

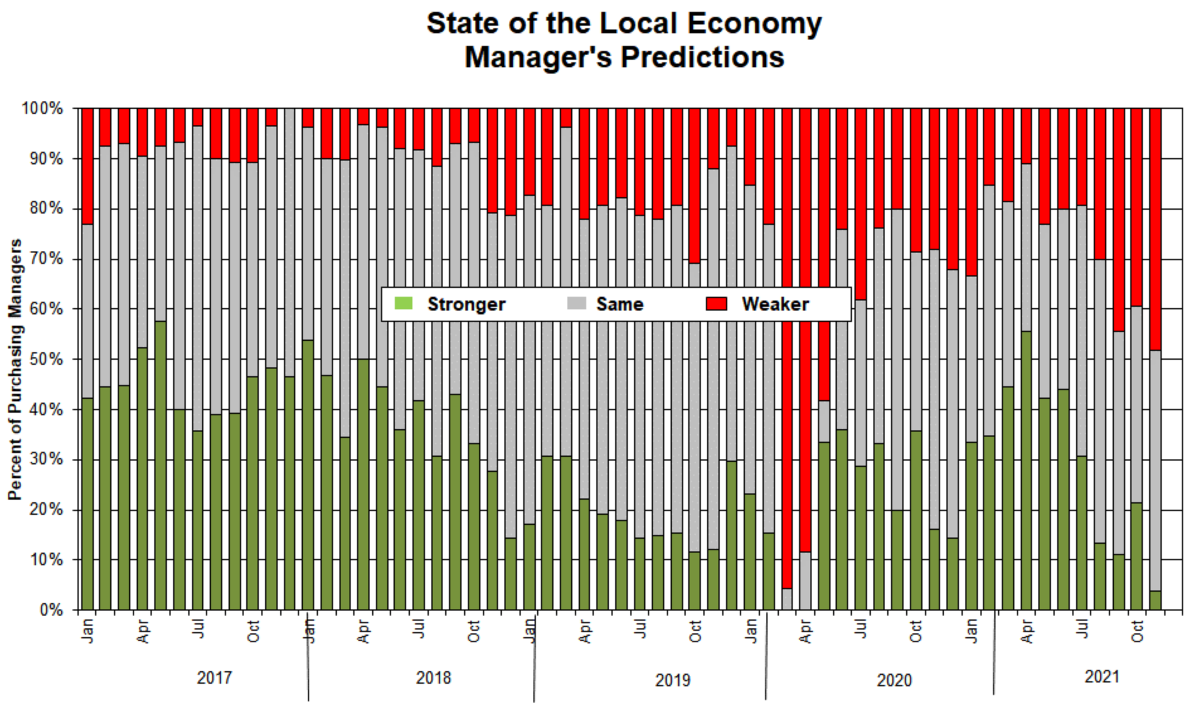
- “Our Vendors have continued to inform us of continuing delays from cargo. They do not see light at the end of the tunnel.”
- "Raw material outlook is grim."
- “So far, we have been able to find work arounds, but hoping after the holidays that things ease a little bit.”
- “Softer demand.”
- “Some of our suppliers can no longer quote material because they can’t obtain any.”
- “Supply Chain is very fragile right now. While some areas have gotten better, it only takes one weak link for the entire chain to break. This is what we are seeing now.”
- “Supply is not getting any better and we will not see any improvement until at least Q3 2022. I was previously under the belief that things would improve by Q2. No longer do I think that. I believe that the effects will linger into 2023.”
- “The backlog is too big to expect significant improvement in the short term.”
- “We just are not hearing good things yet on the supply chain getting any better. We are hopeful that next year will be better and sooner rather than later.”
- “We just received material ordered in September. We have been quoted deliveries in March or April on materials we used to get in 4 weeks.”
- “We've been waiting on 2 orders of bags for 6 months and our vendor is not sure when they can have them made for us. Some ingredients are a little slower as well. I feel it's going in the wrong direction.”
- “Without people working in the ports or the ease up on the vaccine mandate, the ports and railways will continue to be slow. The only thing to help will be a decline in a consumer spending.”

Those who expressed optimism said:

- “As the election gets closer, I suspect the issues will begin to become less disruptive.”
- “Everyone seems to be adjusting to longer deliveries and making changes in scheduling and stock levels to accommodate the times.”
- “I am just an optimist.”

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw a decrease from 50.0 last month to **44.8** this month. A majority (**69.0%)** 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. **17.2%** (down from last month’s 22.6%) of the companies indicated that their level of finished goods has *decreased* (reflecting increased sales), and **13.8%** of companies indicate that their level of finished goods has *increased* since the previous month.

The pressure of supply disruptions, price increases, and labor strains are causing panelists to feel less optimistic than they were just a month ago about the future state of the economy. As represented by the red bar below, **48%** of panelists predicted that the economy would be weaker in the coming quarter (up from 39% last month).
Another **48%** predicted that the economy would remain unchanged (up from 39% last month). Only (**4%**) forecasted a *strengthening* local economy over the next 3 months (drop from last month's 22%).



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

November 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	62.3	57.2	Growing	Slower	15
Commodity Prices	88.7	79.3	Increasing	Slower	29
Production	60.0	58.6	Growing	Slower	2
New Orders	62.9	56.9	Growing	Slower	2
Inventory	50.0	44.8	Decreasing	From unchanged	1
Employment	59.7	48.3	Contracting	From Growing	1
Supplier Deliveries	79.0	77.6	Slowing	Slower	26
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	22%	4%			
% Same	39%	48%			
% Weaker	39%	48%			

What respondents are saying:

Each month we ask our respondents to make overall comments regarding business conditions – local, national, or international. Only a few of the comments were completely positive:

- "New orders are up, domestic and foreign."
- “New orders very strong. We are finding some strong candidates for employment.”
- "November 2021 will be the largest sales month in our history. Normally November and December are slower."

The majority of the panelist’s comments reflected frustration and concern:

- “Finding domestic sources of materials has been challenging.”
- "Hard time hiring employees and we are below budget levels."
- “I am retiring mid to late January 2022, and my job as a purchaser has been a challenge. This is one of the main reasons I am stepping down.”
- “Logistics delays and no possible vaccine mandate and railroads requiring vaccines will be a huge issue in all transport across US.”
- “Needing to hire is still the largest issue. It is hard to find people to work.”
- “Sales are down for the fourth month.”
- “Supply constraints/delays are still the biggest factors in our business today. We have not seen an easing of this constraint, actually this month the outlook has become a little worse. My biggest fear is that lead times become so long that companies have to lay-off workers for a period of time thus disrupting the economic recovery we are seeing.”
- “We are still experiencing that our materials are slower than normal and are still high in price.”

Some of the comments were “mixed:”

- “Bookings were up in November, but shipping was lower due mostly to material shortages.”
- “Business is good but is slowing down a little bit. Might be because of holiday reasons.”
- “Easing off a little.”
- “When networking with our colleagues in the industry, we hear a mixed story. Many have had severe challenges during the last few years due to economic conditions such as supply chain interruptions and price increases. Others, such as ourselves, have found robust growth due to our ability to diversify into markets. I see dramatic "haves" and "have nots" in our industry as well as in the general economy. Business is very robust, but suppliers are having difficulty meeting current demand, so many booked orders are moving into 2022.”

In summary, this month’s PMI continues to reflect a growing Inland Empire manufacturing sector and overall economy. Unfortunately, however, companies are continuing to experience supply chain disruptions, difficulty finding employees, and increasing prices. This is fueling concerns that shelves will be emptier than usual during the holiday rush. We can only hope that future reports will be more positive.

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