

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

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Administration

Report for October 2021

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Riverside County Business and Community Services

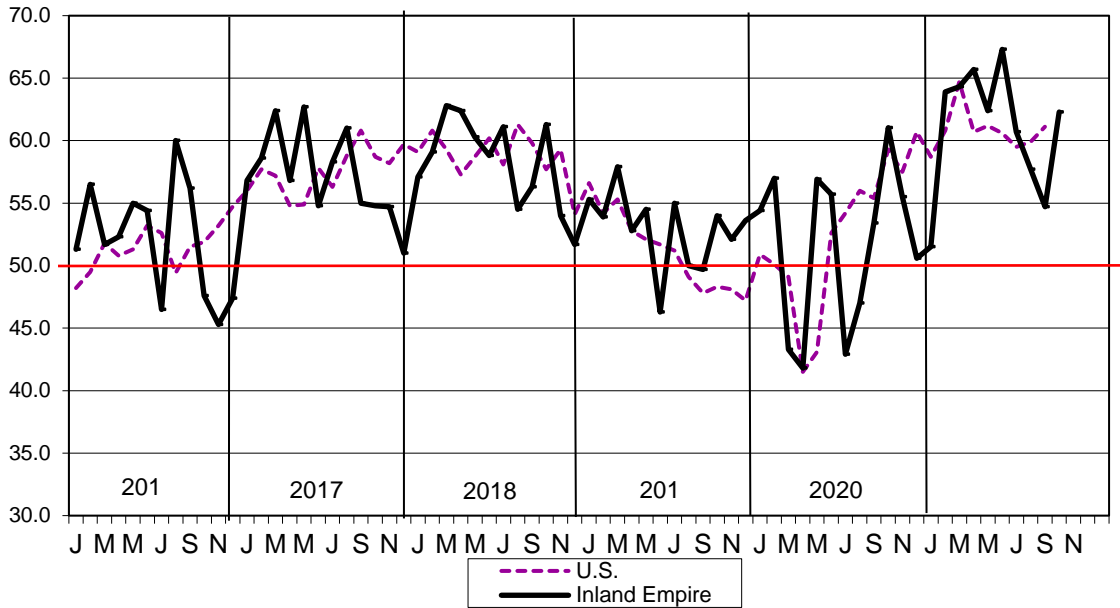
PMI HAS REMAINED ABOVE 50 FOR 14 MONTHS
CLOGGED PORTS, LACK OF LABOR, HIGH COMMODITY PRICES STILL
CAUSING CHAOS

CONTEXT FOR THIS REPORT:

As we write this report, there are still dozens of cargo ships off the Southern California coast waiting to dock, with an estimated \$24 billion in goods on the ships to be unloaded (source: Goldman Sachs). Some point fingers at a trucker shortage causing the problem, others blame outdated infrastructure, importers with nowhere to store the containers, and dock help not keeping up with demand. As we commented in last month's report, clearly this is a serious situation for the entire supply chain as we move into the holiday season and companies are hit with shortages and delays. It is in this context that we present this month's data from our monthly survey of Inland Empire companies.

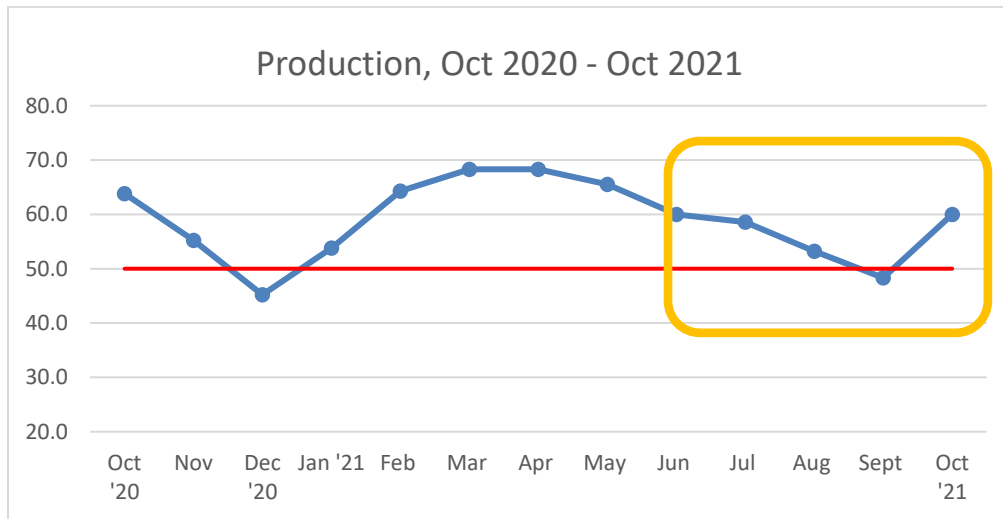
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **62.3**, a sharp increase from last month's 54.7. The index has remained above the baseline 50% mark for fourteen consecutive months, indicating that the Inland Empire manufacturing sector and overall economy have continued the trend of steady growth for over a year."

Purchasing Managers' Index



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

The **Production Index** registered a strong increase from 48.3 last month to **60.0** this month, indicating that last month's dip below 50 may have been a statistical anomaly in a positive trend of growth in production.



This month's **New Orders Index** also showed a sharp increase, moving from 46.7 last month to **62.9** this month. The fact that both Production and New Orders (two of the

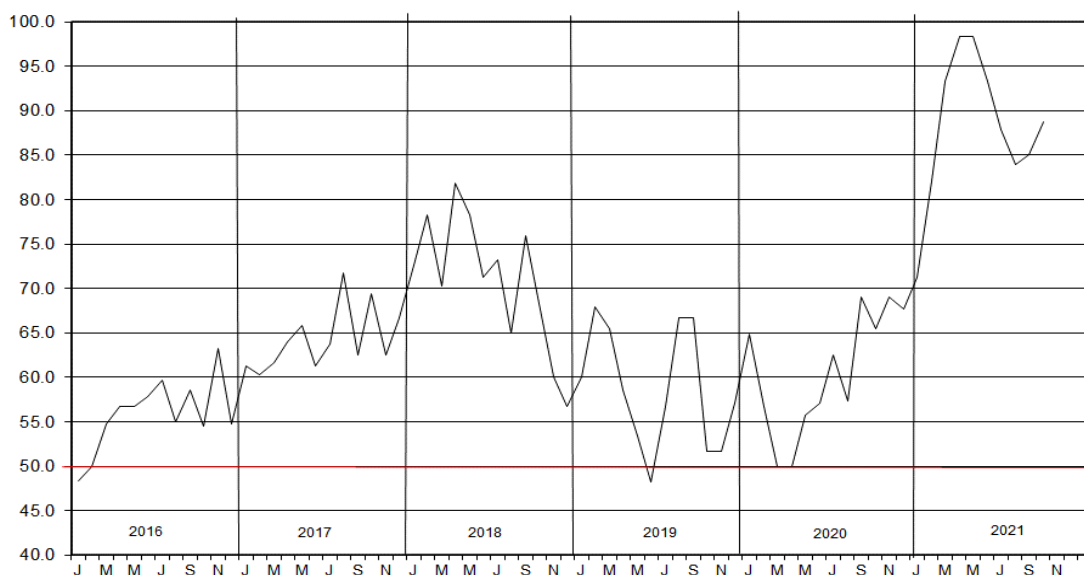
most important indices in the composite PMI) are above 50 is another good sign that the Inland Empire economy continues to be in growth mode.

This month's report the **Employment Index** jumped to **59.7** after two months of below 50 figures. This means that overall employment has increased over the previous months, although some companies are still having trouble filling open positions. The Inland Empire is not unique in having difficulty recruiting and retaining employees. As one panelist commented, "We cannot find people who want to work...at any pay rate!!!" Nationwide, companies are offering higher wages and more job flexibility to attract candidates. Yet labor shortages are still causing havoc throughout the supply chain.

And the labor shortage is possibly going to get worse, especially for companies which contract with the Federal Government and therefore need to enforce a COVID-19 vaccine mandate by December 8, 2021. This month IAR included on its monthly survey a **special question**: "Does your company have a vaccine mandate for its employees?" Only 10% currently have a such a mandate. The vast majority of panelists (80%) said that their company does **not** have a mandate and there are no plans to implement one, and the remaining 10% said they plan to implement a mandate in the near future. It must be noted that half of the companies which either currently have a mandate or plan to enforce a mandate in the future anticipate that they will lose (or have already lost) employees due to the mandate.

Inflationary pressures continue to be felt within the Inland Empire. The **Commodity Price Index** increased again this month to **88.7** from last month's 85.0, but it still remains below the record high of 98.3 experienced in April of this year. The past six months' figures in the 80-90's was the highest on record since the inception of this report back in 1993.

Commodity Prices



Of course, inflationary surges are not restricted to the Inland Empire. As noted by the Bureau of Labor Statistics, consumer prices are rising in the US at the fastest 12-month pace since 2008, causing problems for people who want to purchase everyday consumer goods such as food, gas, furniture, appliances, computers, etc.

As a follow-up question, IAR asked respondents: “which commodities are getting more expensive?” One panelist said: “**Everything.**” Another specified: “*Everything from pipe and tubing to shipping pallets to outside processes.*” Other panelists mentioned price increases for electronic components, steel, aluminum, and lumber (wood products). And another offered a clarification that price increases are from “*the transportation, more than the raw materials themselves.*”

Following are the specific commodities mentioned as showing price increases:

- “Aluminum, wood, concrete, vinyl”
- “Chemicals, natural gas, gasoline, diesel fuel”
- “Copper, Plastic, Packaging”
- “Electronic Components”
- “Fabrics”
- “Metal”
- “Paper”
- “Plastic bags and packaging, LTL freight shipments.”
- “Pretty much everything, paper, inks, material.”
- “Rubber polymers, silicone most dramatically.”
- “Stabilizers we use”
- “Steel”
- “Steel and petroleum products”
- “Steel. Plastic. Wood and cardboard. Now including paint.”
- “Wire, raw material, outside processing.”
- “The transportation, more than the raw materials themselves.”
- “Everything from pipe and tubing to shipping pallets to outside processes.”
- “Raw metal, motors, PVC.”

The **Supplier Deliveries Index** (a measure of the speed of supplier deliveries) increased from 76.7 last month to **79.0** this month, indicating that deliveries were **slower** this month than the previous month.

Supply chain disruption issues have been mentioned in our reports (and the news media nationwide) over the past several months. This is the second month we asked a **special question** regarding whether the disruption issues have eased over the past month. The predominant answer (given by 50.0%, up from last month’s 46.7% of panelists) was that the **supply chain disruptions have gotten worse** over the past month. 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. Supply chain issues/disruptions noted include:

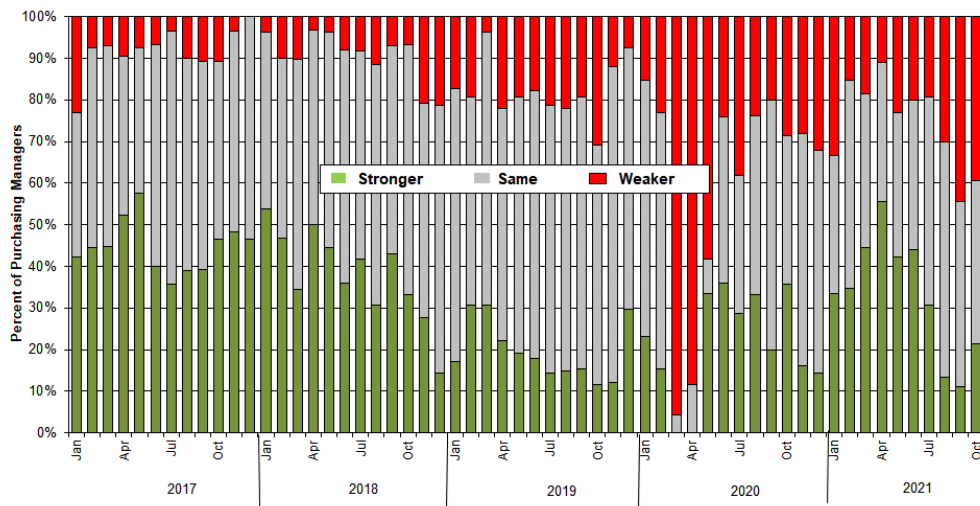
- “All incoming items from port significantly delayed.”
- “Basic material, whether US made or imported are still very slow.”
- “Forklifts and Barium Carbonate sitting out on the ocean in cargo ships.”
- “Getting delivery of products from local supply chain is affected as some products likely manufactured outside the US. Best to go back to products made in USA.”
- “I have been with my company for 38 years and have never seen such disruption in the supply chain. Prices are ridiculous and lead times have gotten worse.”
- “It is uncertain, which in and of itself creates a problem for us. We are waiting on the production and shipment of highly technical materials for our aerospace projects and have delivery dates which are being impacted both in terms of our sales and also in terms of our customers' requirements to support their customers.”
- “Lead times have doubled. We still haven't received one item we ordered in July. I hope it gets better but I'm not optimistic.”
- “Mostly anything that is trucked in.”
- “Our suppliers have extended lead times but have filled our orders in full. We are hearing of some companies being put on allocation, but we have not experienced that.”
- “Paper not available.”
- “There are still items that are near impossible to source without 12 to 20-week lead times.”
- “Some manufacturers are still quoting long lead times.”
- “Taking longer to get certain materials. Almost 3x longer than pre pandemic levels to get certain vinyl.”
- “Truck deliveries.”
- “Mfg are telling us lead times are increasing again. Order for US Army material for patches pushed out until May 2022 now...it was supposed to be delivered November 2021.”
- “As stated last month, delayed deliveries on hydraulics for equipment we manufacture as well as our raw materials, pipe and tubing.”
- “Many open Purchase Orders, waiting for product to arrive from containers in the ocean. Some Purchase Orders are 5 months old.”
- “Quoted lead times have increased, and we are going to be late in filling some orders.”
- “The mills have everyone on allocation and has caused a mad scramble for material.”
- “We continue to have shipments postponed because of congestion at the ports.”

We also asked if respondents predict that the supply chain disruptions will “get better in the next few months.” Overall, the answer is “no.” Panelists don't see any improvement happening any time in the near future (defined as the next three to six months).

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw a slight decrease from 55.0 last month to **50.0** this month. A majority (**64.5%**) 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. **22.6%** (up from last month’s 3.3%) of the companies indicated that their level of finished goods has *decreased* (reflecting increased sales), and **12.9%** 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, **39%** of panelists predicted that the economy would be weaker in the coming quarter (down slightly from 44% last month). Nearly a quarter (**22%**) forecasted a *strengthening* local economy over the next 3 months. This has doubled from last month’s 11%. The remaining 39% predicted that the economy would remain unchanged.

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



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

October 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	54.7	62.3	Growing	Faster	14
Commodity Prices	85.0	88.7	Increasing	Faster	28
Production	48.3	60.0	Growing	From Contracting	1
New Orders	46.7	62.9	Growing	From Contracting	1
Inventory	55.0	50.0	Unchanged	From Increasing	5
Employment	46.7	59.7	Growing	From Contracting	1
Supplier Deliveries	76.7	79.0	Slowing	Faster	25
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	11%	22%			
% Same	45%	39%			
% Weaker	44%	39%			

What respondents are saying:

Each month we ask our respondents to make overall comments regarding business conditions – local, national, or international. Only a few had a relatively optimistic outlook:

- “More and more we are realizing the effects of the supply log jam. For us it's been a wonderful thing. As a small manufacturer of rubber parts, it has always been a challenge to get exposure to the potential market. In the last year we are experiencing a surge of interest from companies who would not have searched us out in the past. Many companies are looking for additional sources to supplement their demand or to circumvent delays in the import channels. It is super hectic but exciting too.”
- “We see improvements in confidence and better new orders, domestic and international.”
- “Things have been very busy, but still having issues getting materials within good time frames.”
- “It looks like new orders may be picking up a bit.”
- “Business is steady. Lots of previous importers looking for a domestic source. Raw material availability continues to be a challenge to obtain.”
- “Business continues to remain as strong as ever and supply keeps tightening more and more. There really is little that I feel that can be done to alleviate the lack of availability from our suppliers. We all need to remember that we are all in the same boat. Hopefully, this does not lead to job cuts, loss of future business or business closures but I think we all know that this is the way it is headed for some businesses.”

Most panelist comments reflected frustration and concern:

- “Transportation rates on raw materials and parts are sky high.”

- “Current National and State policies are making business challenging and affecting the supply chain. More noise to make the changes in State and National policies will be helpful.”
- “Not much change.”
- “Port situation is getting worse daily and creating major supply constraints.”
- “Things have been very busy, but still having issues getting materials within good time frames.”
- “We cannot find people who want to work...at any pay rate!!!”
- “We don’t depend on imports for many of our projects, but supply chain issues are impacting our ability to process some of the orders we have on the books, and along with concerns about potential inflation, the impacts on the general economy have created uncertainties for 2022 and beyond for us and the markets in general.”
- “We are still experiencing a slow delivery on some of our materials. Also, the prices of most of our materials are still rising. Some people may think that lumber has come down in price and in some cases it has, however the type of lumber materials we use are specialty and they HAVE NOT come down in price.”
- “Even though we are into our slow season it is definitely slower than normal. What we are hearing is that our customers can't get hose deliveries and without hose they do not need fittings, which is our main product. Did not meet our sales goal for October. We do have orders, but some material is unavailable and the material that we can get is often up 25% in cost. This is material that has always been readily available.”

In summary, the PMI continues to show the strength it has reflected for over a full year. That indicates that the Inland Empire manufacturing sector and the overall economy are continuing their steady growth. Yes, there are ongoing labor issues, a surge of inflation, and concerns that supply change disruptions will cause shelves to be emptier than usual during the holiday rush. But overall, we are hopefully that the economic recovery is solid in the Inland Empire given that the COVID case rate is declining, and Americans are getting ready for their annual holiday spending spree.

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