

IAR'S INLAND EMPIRE REPORT ON BUSINESS
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College of Business and Public Administration

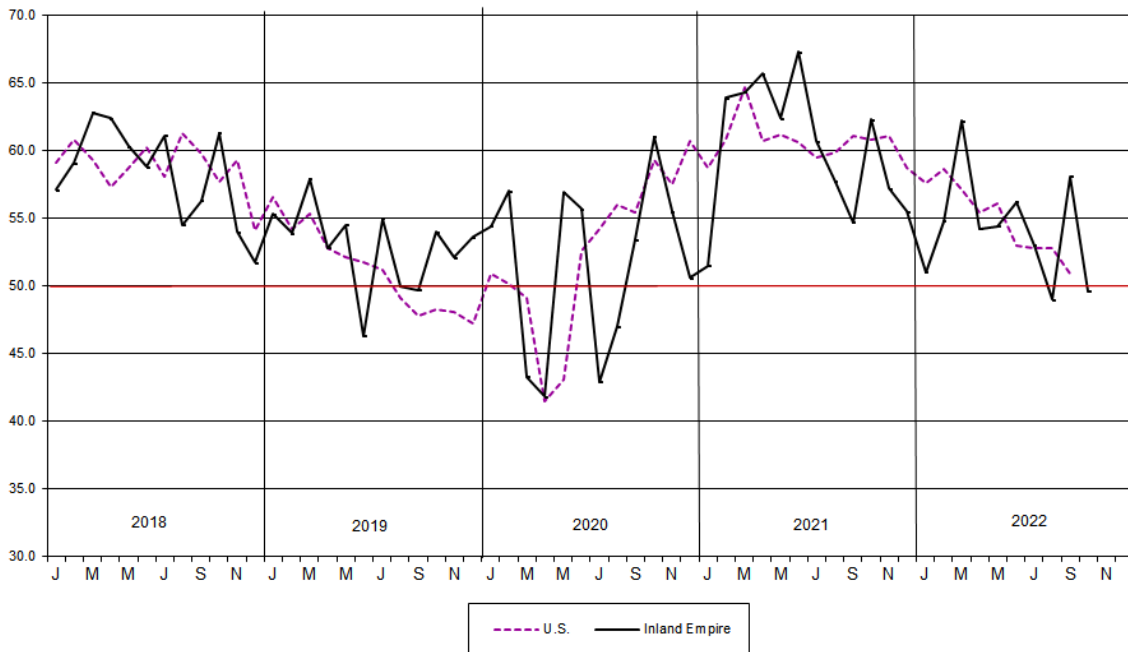
Report for October 2022

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

INLAND EMPIRE PMI ROLLER-COASTER RIDE CONTINUES

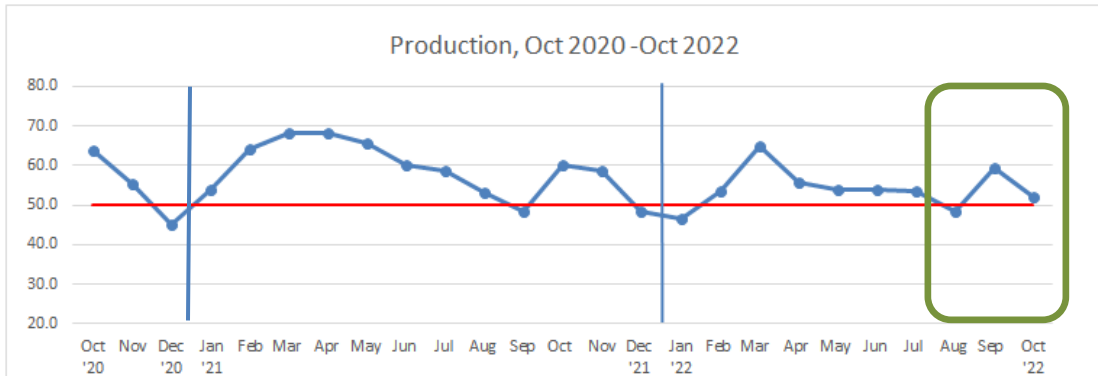
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **49.6**, the second dip below the baseline of 50 in the past three months. We remind the reader that it would take three consecutive months of figures below 50 to establish a new trend of decline in the manufacturing sector. At this point all we see is the continued volatility due to ongoing inflation, supply chain, and employment issues.

Purchasing Managers' Index



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

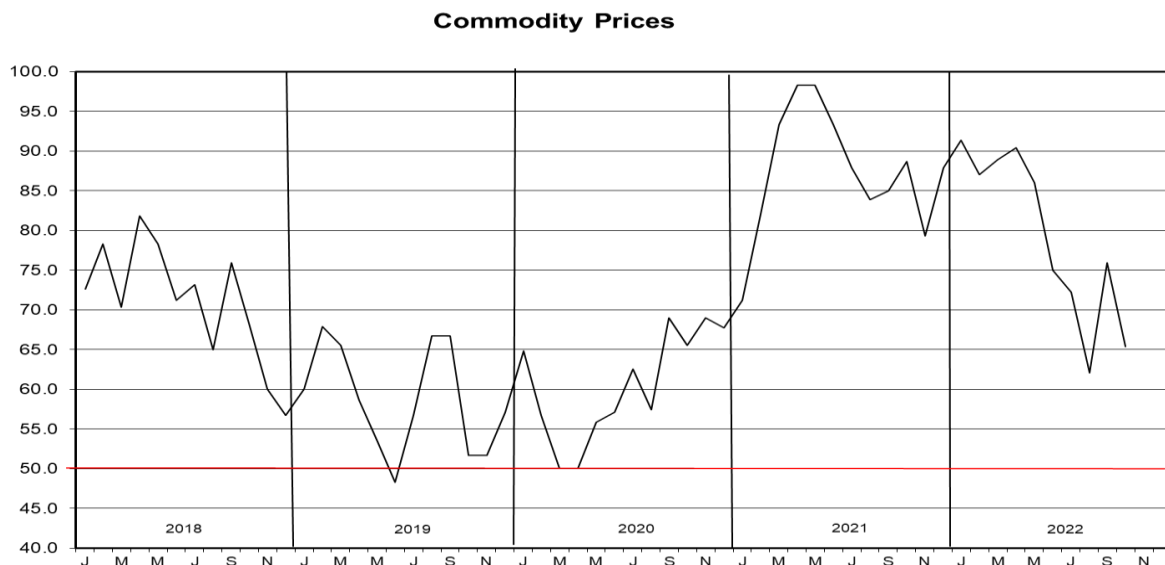
The **Production Index** (one of the two key components of the PMI) decreased to **51.9** from last month's 59.3. This decline was, perhaps, expected following last month's significant increase.



The **New Orders Index** (the other key component of the PMI) also decreased, dropping from last month's 50.0 to **42.3** this month. Typically our panelists report that October is a good month for new orders, but that was not the case this month. This is the first October since 2016 that the index declined.

The **Employment Index** registered **57.7**, a drop from last month's 64.8. But the important thing is that employment is still above the 50 baseline, showing growth.

The **Commodity Price Index** for the Inland Empire declined from last month's 75.9 to **65.4** this month, reflecting an easing of inflationary pressures, perhaps due to weakening consumer demand. As noted in the graph below, there has been an overall trend of reduction in inflation since April of last year.



Nationwide surveys conducted in early 2022 indicated that industry executives expected the rising cost of raw materials to continue to impact their supply chain into 2023. We wondered whether our Inland Empire panelists would agree based on their experience through the first 10 months of the year, and not surprisingly, the overwhelming majority (**80.8%**) agreed. Only **3.8%** do not believe that it will take till 2023 for costs to decline, and the other **15.4%** were uncertain.

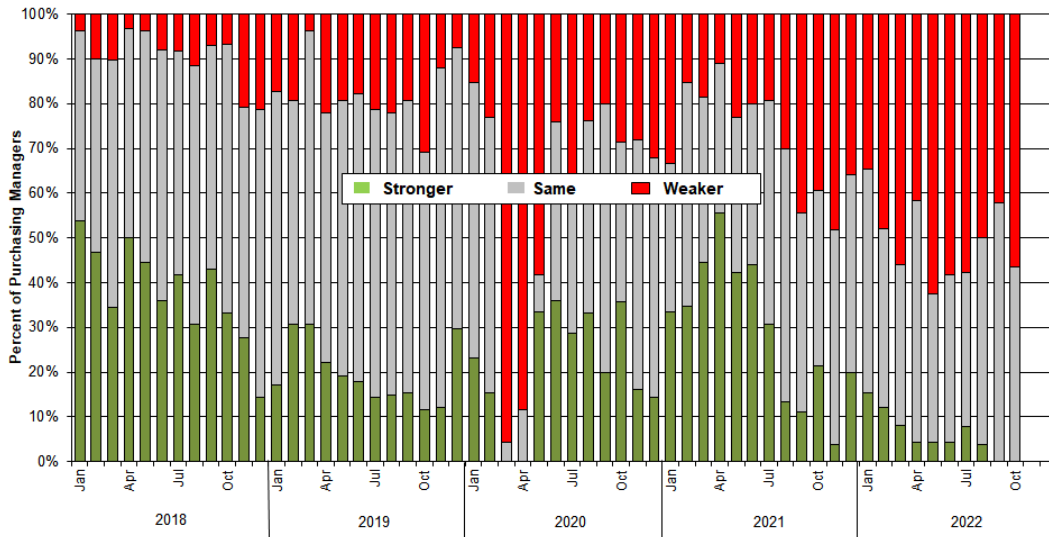
The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index decreased from 63.0 last month to **51.9** this month. This indicates that the speed of deliveries has slowed in the past month, however the *rate* of slowing has declined.

We asked a special question this month focusing on supplier deliveries: “How concerned are you about port delays and disruptions?” Most (**65.4%**) stated that they are “somewhat concerned,” and **30.8%** are not concerned at all. Only **3.8%** are very concerned about the issue.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered at **44.2**, a significant decrease from last month’s 53.7. Although **19.2%** of panelists (up from last month’s 7.4%) indicated that their **inventory level of finished goods** has *decreased* (meaning sales were “good” and they were able to clear out inventory), the majority (**65.4%**) reported that their inventory level of finished goods is “staying even” with sales. Only 15.4% reported that the level has increased.

Overall, “optimistic” is not the word we would use this month when it comes to our panelists’ evaluation of the state of the local economy for the coming quarter. Over half (**56%**, up from last month’s 42%) believe that the local economy will become weaker in the coming quarter, and the remaining **44%** believe that the next quarter’s economy will continue to be the same as it has been – that is, volatile and somewhat struggling to reach pre-pandemic levels. This is the second month in a row that **none** of the panelists predicted a strengthening economy. We have not seen this level of lack of optimism since March and April of 2020, when the stay at home order was put in place.

State of the Local Economy Manager's Predictions



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

October 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	58.1	49.6	Contracting	From Growing	1
Commodity Prices	75.9	65.4	Increasing	Slower	40
Production	59.3	51.9	Growing	Slower	2
New Orders	50.0	42.3	Contracting	From Unchanged	1
Inventory	53.7	44.2	Decreasing	From Increasing	1
Employment	64.8	57.7	Growing	Slower	2
Supplier Deliveries	63.0	51.9	Slowing	Slower	37
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	0%	0%			
% Same	58%	44%			
% Weaker	42%	56%			

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. Comments seem to be split between positive and negative remarks, and some reflect BOTH sentiments. Here are some of the positive comments:

- "Price of lumber coming down, good news."
- "3 great sales months in a row! Was able to hire 2 people! Life is good!"
- "Our west coast operation is busy and has a large backlog."

Several panelists made observations about continuing business challenges:

- “Commodity prices seem to be increasing monthly now....costs are getting out of control. We only buy USA made items.”
- “Having issues finding skilled labor.”
- “Production got a little slower this last month and we had to let go of 2 production workers. Seems like quotes are going out that are just a little bit down, but people are becoming slower to book the projects.”
- “Still have a strong backlog, but new orders have slowed the last 3 weeks.”
- “The inflation is driving purchased material cost higher. Current administration for the State and Federal government needs to make policy modifications to reduce the current trend.”
- “When the Feds raise interest rates, consumer spending slows down. This has a direct effect on our business. We laid off 10% of our workforce in early October which is something we hated to do, but we need to reduce our costs and this is the fastest way to do so. We are hopeful that things will level out as the holidays come. Our season is coming and we are looking forward to a ramp up in sales.”

Finally, one panelist provided a “mixed”/balanced view of general business conditions:

- “There are significant challenges at all levels to ensure supplies are there when you require them and for those who need financing that they can afford it. In our particular case we have worked hard to eliminate dependency on financing and have planned ahead to resolve potential issues with the materials we need to produce our orders and to meet both potential and existing customer requirements. In part because of this planning along with the resources we have, including our long term staffing, 2022 is going to be the best year in our history.”

In summary, although the PMI dipped slightly below 50 this month, we are not overwhelmingly concerned...yet. Most economists agree that the worst of the pandemic’s impact on the economy is clearly over. The most recent stats for the US gross domestic product show that the nation’s economy grew in the third quarter, and employment is strong. On the other hand, the Fed has raised rates five times this year and is set to do so again relatively soon. As noted by one of our panelists, business is affected when interest rates are raised. Nationwide, talk of a recession in mid-2023 still lingers.

We will continue to track the opinions of our business leaders over the coming months.

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