

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

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Report for September 2021

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Riverside County Business and Community Services

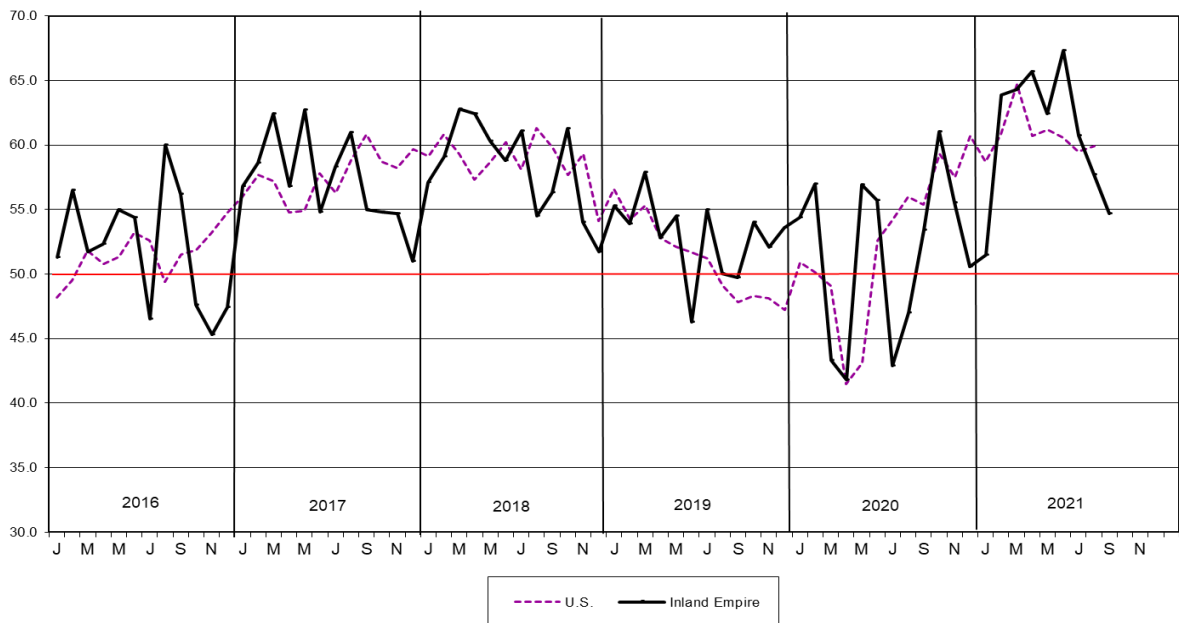
PMI HAS REMAINED ABOVE 50 FOR 13 months
Supply Chain Disruptions Causing Extreme Delays

CONTEXT FOR THIS REPORT:

As we write this report, the news media is reported that “an estimated 500,000 containers are sitting on cargo ships off the Southern California coast” (<https://losangeles.cbslocal.com/2021/09/28/backlog-of-cargo-ships-at-port-of-la-reaches-boiling-point/>). Some point fingers at a trucker shortage causing the problem, others blame “outdated infrastructure, importers with nowhere to store the containers, and dock help not keeping up with demand.”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 of 9/29/21, a record 66 ships were at anchor waiting to dock – they are waiting an average of six days, compared to a “typical” wait time of two days. And 29 ships were adrift off the coast. Clearly this is a serious situation 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.

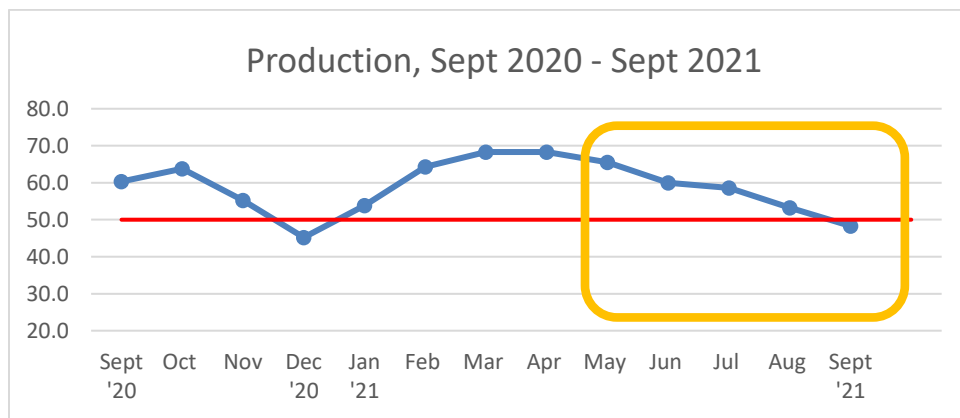
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), “This month’s Inland Empire **Purchasing Managers’ Index (PMI)** registered **54.7**, a decrease from last month’s 57.7. But the good news is that the index has remained above the baseline 50% mark for thirteen consecutive months, indicating that the Inland Empire manufacturing sector and overall economy have continued the trend of steady growth for over a year (although at a slower pace than last month).”

Purchasing Managers' Index



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

The Production Index registered another strong decrease, dipping below 50 for the first time since December 2020. The index decreased from 53.2 last month to **48.3** this month, indicating that production is contracting.

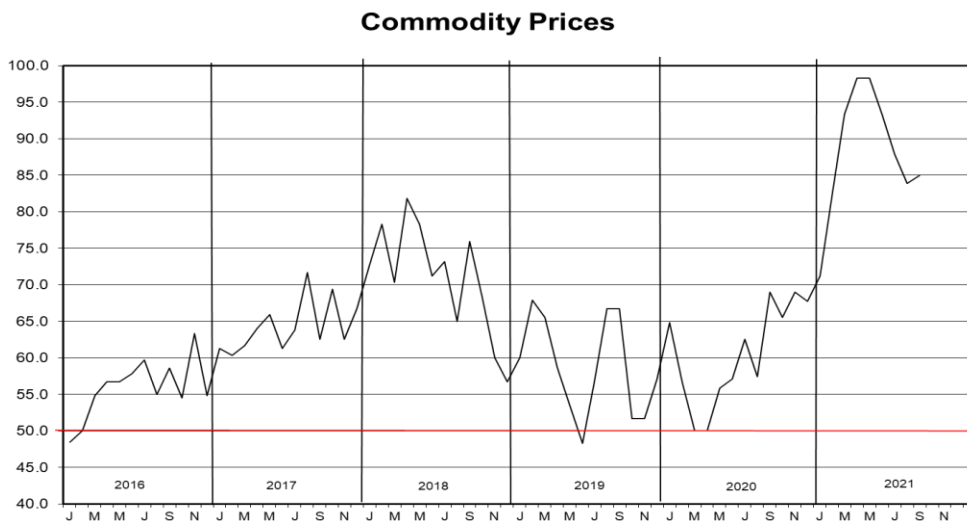


This month's **New Orders Index** also showed a sharp decline, decreasing from 53.2 last month to **46.7** this month. New orders typically decline at the end of the year, but not usually as early as September. The fact that both Production and New Orders are down this month would indicate that the Inland Empire recovery is not as strong as it has been in previous months.

In last month's report we indicated that the **Employment Index** had declined from 58.6 in July to 48.4 in August, and we are now seeing a further drop **46.7** this month. It takes three months to establish a new trend, so if next month's figure is below 50, we will have established a trend of declining employment. The Inland Empire is not unique in having difficulty keeping employees. 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 that may continue until job seekers run out of money as enhanced unemployment insurance and the rent eviction moratorium expire.

To further delve into the employment situation, IAR asked a **special question in this month's survey**: "Now that the Federal Unemployment Benefit has ended are you receiving more applications for your job openings." The answer is "no." Only 10% of respondents reported receiving an increased level of applications for their job openings, and 63.3% said they had NOT received more applications (with the remainder, 26.7% saying they don't know. Clearly job seekers do not feel an "urgency" to secure a job. As one panelist said: *"The labor condition is so bad right now, one company making these bags had 20 employees call off on one day."*

Inflationary pressures continue to be felt with in the Inland Empire. The **Commodity Price Index** increased again this month to **85.0** up from last month 83.9, but we note that the index is still lower than the high of 98.3 in April 2021. The past six months' figures in the 80-90's were the highest on record since the inception of this report back in 1993.



As a follow-up question, IAR asked respondents: "which commodities are getting more expensive?" One panelist said: **"Everything is up in price. I hate my job as a purchaser."**

Other panelists expressed concerns about the price of electronic components, steel, aluminum, and lumber (wood products). Following are the comments:

- "All materials and services"

- “Chemicals, natural gas”
- “Electrical, plastics, all products coming from overseas.”
- “Electronic components”
- “Electronics, wood, steel, aluminum, resin, etc.”
- “Lumber products.”
- “Metals”
- “Plastics, steel and aluminum”
- “Raw ingredients”
- “Lubricants, freight, fuel, chemicals”
- “Steel and petroleum products”
- “Steel, components and freight”
- “Textiles”
- “Wire”
- “Yarn and plastics”

The **Supplier Deliveries Index** decreased from 77.4 last month to **76.7** this month, indicating that the speed of deliveries is continuing to be slower than the previous month. One respondent stated: *“We are slower than we'd like to be, and we are suffering some supply chain delays.”* And another one stated: *“Continually experiencing inventory backlog. The shortage has become a daily struggle to find product.”*

Supply chain disruption issues have been mentioned throughout the past several months. This month we asked a special question regarding whether the disruption issues have eased over the past month. The predominant answer (given by 46.7% of panelists) was that the supply chain disruptions got worse over the past month, and another 43.3% said there were the same level of disruptions as the previous month. Clearly supply chain issues are causing severe delays and frustration among the manufacturing companies who are trying to keep up with production of the products consumers want and need. Following are respondents’ comments:

- “Everything is back ordered, prices are up, purchasing is not fun anymore.”
- “The delay to unload at ports is getting worse. Still having allocation issues with some raw materials.”
- “Orders being pushed out 6 months for bags that would normally be 5 weeks.”
- “We talked to a power cord vendor who said the cable to which they add plugs is now a **40-week** delivery!”
- “The supply chain issues are everywhere, delivery time, delivery inaccurate times, pick up date for containers is pushed back over and over.”
- “There seems to be no way to tell what is either going to be in short supply or added pricing.”
- “We have significant production requirements that are being held up by delayed delivery of the primary material we need.”
- “Supply for various materials and parts are becoming more difficult to obtain. We are now spending more money in freight costs in order to air freight product from overseas, rather than wait for the product sitting in a container, not moving. I fear

we will run out of options with some of our components needed to build our equipment.”

- “Delayed deliveries on hydraulics for equipment we manufacture as well as our raw materials, pipe and tubing. We can sometimes find what we need at smaller suppliers, but the price is a lot higher because we do not have a relationship with them.”
- “Vinyl and other aluminum products have been taking longer to get. We have had to use other materials than the material we used to use to make certain items.”
- “In addition to the COVID related disruptions the recent weather issues in Louisiana has interrupted production of some rubber polymers.”
- “Finding transportation for delivery or the cost of delivery out of touch with reality.”
- “Just when we think we have enough supplies for packaging or supplies to process orders, the most random and basic items become scarce. This month it was 1" cardboard spacers! What is this world coming to? If the metal that we sell isn't hard enough to get, the simplest packaging materials are just as hard to get.”
- “Items continue to be on back-order. Logistics also causing delays in deliveries.”
- “Transportation is a problem due to lack of drivers.”
- “Incoming items through ports delayed and trucking taking longer.”
- “Lead times are getting worse for Copper. Other items are improving.”
- “Lead times for supplies continue to be pushed out past promised deliveries.”
- “Lead times are being pushed out more for yarn. Supplier does not have the raw material.”
- “Long lead-times for processing orders.”

We also asked if respondents feel that the supply chain disruptions will “get better in the next few months.” Overall, the answer is “no.” Following are verbatim comments:

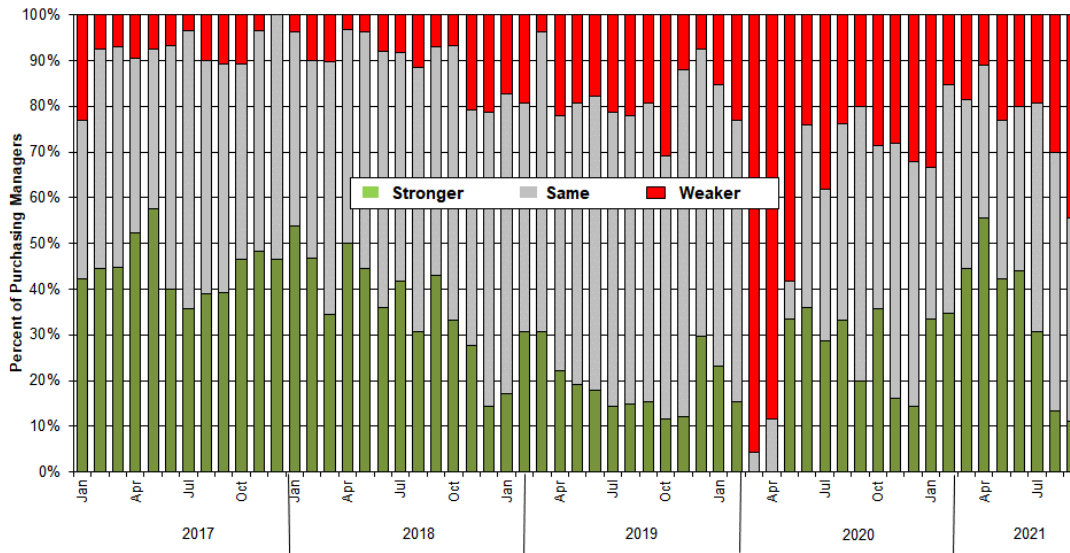
- “No, this supply chain problem will NOT get better within the next few months. We expect this to be a problem for the next 12 months.”
- “I do not believe it will get better based on "supply chain delays. This has become a common excuse and makes for an easy answer when product is delayed for any reason. We have also been hearing "we are understaffed" coming up in a lot of conversations. The question is, is corporate not hiring based on trying to make up for lost margins in 2020 or is there really that much of a lack of professionals in the job market.”
- “Not seeing any ease of issues with current political leadership.”
- “Unknown if it will get better in the next few months.”
- “I feel these will get better, but probably a month or more away from improvement.”
- “I think it's already improved some, but overall, it will take a while to completely level out. There is simply too much demand and not enough supply in several areas.”

- “I do not see any turn around in the supply shortages for at least 6 months.”

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. saw a slight decrease from 56.5 last month to **55.0** this month. A majority (80.0%) 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. Only 3.3% of the companies indicated that their level of finished goods has decreased (reflecting increased sales), and 16.7% of companies indicate that their level of finished goods has *increased* since the previous month.

Most panelists are feeling the pressure of supply disruptions and labor strains that are causing them to feel less optimistic than they were just a month ago about the state of the economy over the next 3 months. Only 11% forecasted a *strengthening* local economy over the next 3 months. This is relatively unchanged from last month’s 13%, but a significant decline from the 31% in July (see green bar below). Another 45% predicted that the economy would remain unchanged from the strong conditions seen in June, July and August. As represented by the red bar below, **an increasing number predicted that the economy would be weaker in the coming quarter** (44%, up from 30% last month).

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



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

September 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	57.7	54.7	Growing	Slower	13
Commodity Prices	83.9	85.0	Increasing	Faster	27
Production	53.2	48.3	Contracting	From Growing	1
New Orders	53.2	46.7	Contracting	From Growing	1
Inventory	56.5	55.0	Increasing	Slower	4
Employment	48.4	46.7	Contracting	Faster	2
Supplier Deliveries	77.4	76.7	Slowing	Slower	24
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	13%	11%			
% Same	57%	45%			
% Weaker	30%	44%			

What respondents are saying:

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

- “Business has remained good, and we finally hired the labor help we needed.”
- “Normalizing”

Most panelist comments reflected frustration and concern:

- "Economy is still slow. Our best orders are from international."
- “No availability out of Southeast Asia due to COVID.”
- “September was much like August not much change.”
- “Slowdown in all automotive sectors - many non-production days and have had to reduce production staff to 32 hours weekly.”
- “The mask and jab mandate is a negative for business. Having a challenge to find reliable employees without the infringement of personal liberties on the current employees.”
- “There are many issues going on that have an impact on the general economy and therefore potentially can impact our and other businesses: the hyper-partisanship at the political decision-making level of government is endangering the resolution of the debt ceiling extension is primary among those as I write this. Added this situation is the continuing pandemic challenge, the impact of the world economy, including the challenge created by a major Chinese company's bankruptcy, the process that will be required to stabilize the border and absorb those entering the country, all have potentials for risk that can affect us.”
- “We all see how much prices have skyrocketed and demand still continues at an all-time high. I don't know how this all plays out but anyone with fixed price contracts has to be in real trouble. As a distributor with a large inventory, this

continues to be the best case scenario for us. There is absolutely no let-up in sight and we are not complaining.”

- “Transportation prices through the roof and a lot of times we can’t get raw materials at any price.”
- “We are slower than we'd like to be, and we are suffering some supply chain delays.”
- “We had some large orders this month but probably because we has a price increase and orders were placed before they went into effect. This was our third price increase this year!!! Have one position open that requires no experience, we will train and cannot get anyone to even come in for an interview.”

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. But there are troublesome signs ahead (for the Inland Empire and the nation as a whole) given continuing supply chain issues and the rising commodity prices.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Barbara Sirotnik
Director, Institute of Applied Research
bsirotni@csusb.edu
(909) 537-5729

Soua Vang
Interim Economic Development Director
San Bernardino County Economic Development Department
(909) 387-4385

Rob Moran
Deputy Director
Riverside County Office of Economic Development
(951) 955-6673

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