

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

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College of Business and Public Administration

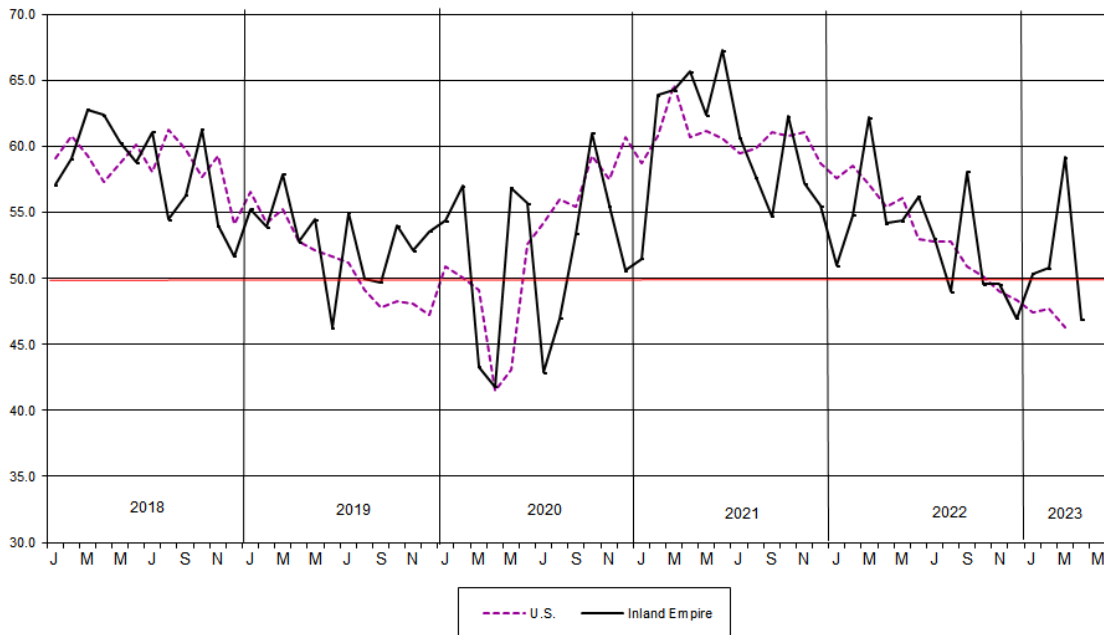
Report for April 2023

Sponsors: San Bernardino County Economic Development Agency
Riverside County Office of Economic Development

THE YO-YO CONTINUES, PMI UNDER 50

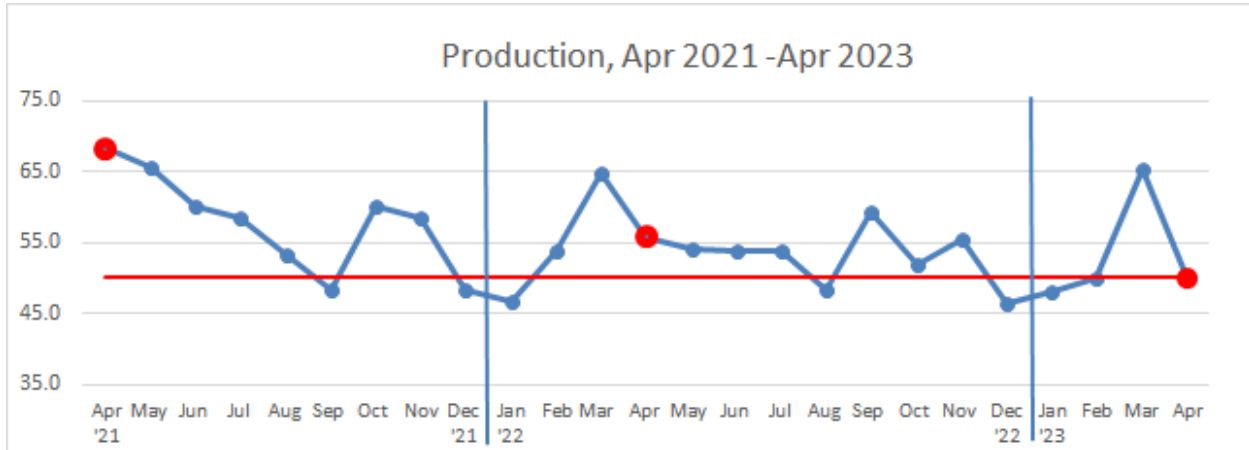
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **46.9**, a significant decrease from last month's 59.2. This decrease below the baseline of 50 comes after three months of figures which had indicated growth in the manufacturing sector. Clearly the manufacturing sector is still 'struggling' and volatile, with an overall downward trend."

Purchasing Managers' Index



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

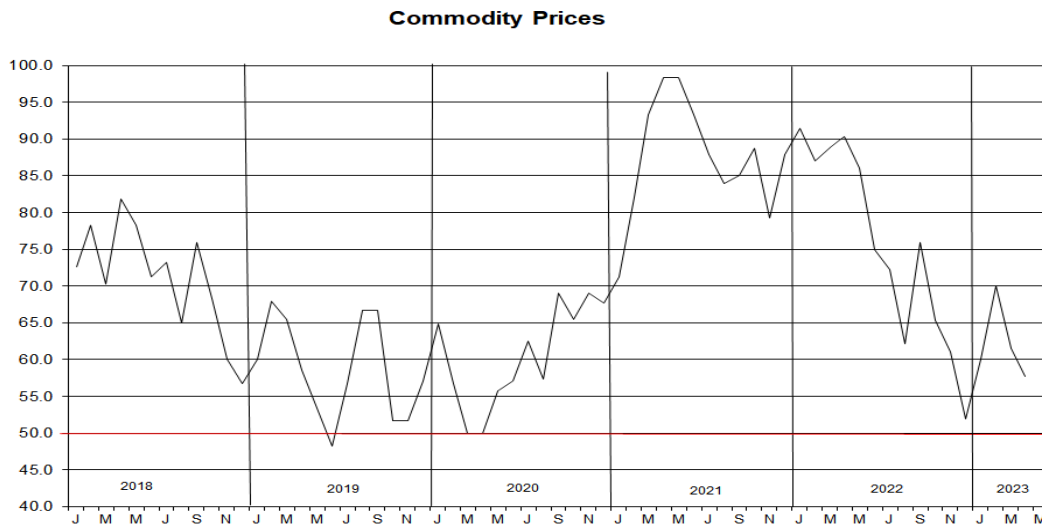
The **Production Index** (one of the two key components of the PMI) registered a significant decrease from last month's 65.4 to **50.0**, indicating that production has stayed at the same level as last month. The index typically shows a seasonal pattern of decline in April.



The **New Orders Index** (the other key component of the PMI) registered **42.3**, a huge drop from last month's 65.4. We note that last month's figure was probably a statistical anomaly since the seven months before that showed figures of 50 or less.

This month the **Employment Index** also dropped below the baseline 50, decreasing from last month's 59.6 to **48.1**.

In a bit of positive news, the **Commodity Price Index** for the Inland Empire dropped from 61.5 to **57.7** this month. Overall, this inflation index has been easing since early 2021. The Fed is expected to raise interest rates one last time in May in an attempt to rein in inflation even further, and then hold rates steady for the rest of 2023.

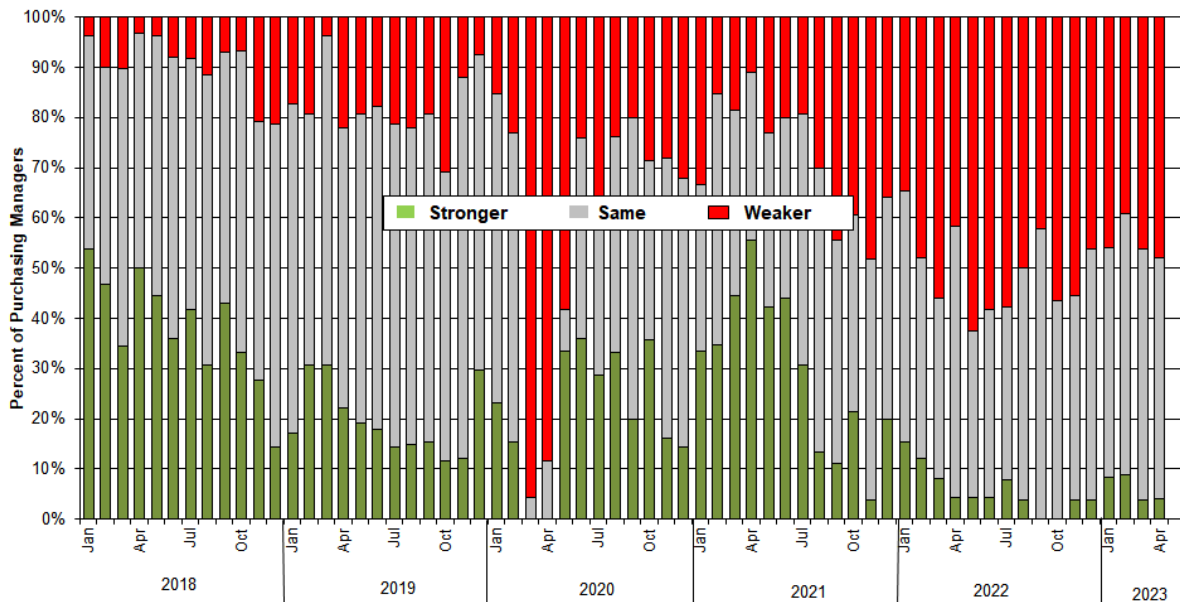


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index increased from 44.2 last month to **48.1** this month.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **46.2** this month, a decrease from last month's 61.5. Further, this month only **19.2%** of panelists (a drop from last month's 34.6%) reported an increase in the **inventory level of finished goods**. The majority (**65.4%**) reported that their inventory level of finished goods was the same as the previous month (meaning that production of finished goods is "staying even" with sales), and the remaining **15.4%** reported that their inventory level of finished goods had decreased.

Panelists' perspectives about the state of the Inland Empire economy have not changed much over the past thirteen months, with optimism remaining in the single digits. Only **4%** stated they believe the economy will be *stronger* in the coming quarter (same as last month). Almost half (**48%**) believe that the local economy will become weaker in the coming quarter, and the remaining **48%** believe that the next quarter's economy will continue to be "the same" as it has been (where "same" means an economy still struggling both in the IE and nationwide).

State of the Local Economy Manager's Predictions



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

April 2023 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	59.2	46.9	Contracting	From Growing	1
Commodity Prices	61.5	57.7	Increasing	Slower	46
Production	65.4	50.0	Unchanged	From Growing	3
New Orders	65.4	42.3	Contracting	From Growing	1
Inventory	61.5	46.2	Decreasing	From Increasing	1
Employment	59.6	48.1	Contracting	From Growing	1
Supplier Deliveries	44.2	48.1	Getting Faster	Slower	2
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	4.0%	4.0%			
% Same	50.0%	48.0%			
% Weaker	46.0%	48.0%			

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. Even though the PMI index is relatively negative, there were a number of positive comments from panelists. Those comments included:

- *"Orders are up 20% over last year, year to date."*
- *"Rain slowed our sales, but it is picking up slowly as well."*
- *"Things have become busier, and we are currently hiring for more help."*
- *"We have seen our diversity paying off as we are expanding many of the traditional market needs this year, so we remain optimistic."*
- *"We see plenty of activity and no actual slowdown in output for our customers, just an inventory glut. This seems to be the case for our local customers, as well as those across the country and in Europe."*

Negative/mixed remarks included:

- *"April marked the first slowdown in order entry that we have seen in over 3 years. We knew it was coming and it has arrived. It most certainly is a result of overstocking and over ordering by companies over the past year."*
- *"Both with our customers and in the general economy that impacts us we are seeing an attitude of both risk aversion and "wait and see", which relates to both the potential for a recession as well as the potential of a default on paying the U.S. debt. For our company we are "recovering" from a dynamic end of last year, which impacted our backlog for the start of this year as many of our customer's needs were met at the end of 2022."*
- *"Costs are up. Volumes are down."*
- *"New orders are still not at prior year levels as the economy still has a huge effect on buying habits. Supply chain issues still play a part in production"*

slowdowns as well.”

- *“Orders are slowing which happens every April to us for some reason. Material prices have leveled off and our only problem now is finding staffing. We have two positions open and just hard to find people that are a good fit. Many more orders than we can handle in a timely manner without more staff.”*
- *“Significant slowdown in inquiries and new orders, resulting to backlog down to a manageable level.”*
- *“Slower delivery times for overseas goods. We received three containers in one week where normally those would be spread out over several weeks of time. This should be a one off as long as ships don't make unscheduled stops to delay shipments.”*
- *“There is an inventory glut. Activity is still strong.”*
- *“We are currently experiencing a slowing in the delivery of our materials.”*

In summary, last month we celebrated the fact that the local PMI had registered above 50 for three months in a row, thus indicating that the local manufacturing sector (and overall economy) were back in growth mode. This month we are back in the “red.” If the PMI remains below 50 for another two months, we will have to conclude that the manufacturing sector is once again contracting (although the figures may not be low enough to conclude that the economy is no longer in growth mode).

This month’s local PMI could be a reflection of the recent Conference Board’s forecast indicating that “economic weakness will intensify and spread more widely throughout the US economy over the coming months, leading to a recession starting in mid-2023.”¹ It could also be partially due to the banking situation, war in Ukraine, and US political turmoil. We will continue to track the opinions of our business leaders over the coming months.

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1. <https://www.conference-board.org/research/economy-watch-US/Economy-Watch-April-2023-US>

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