

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

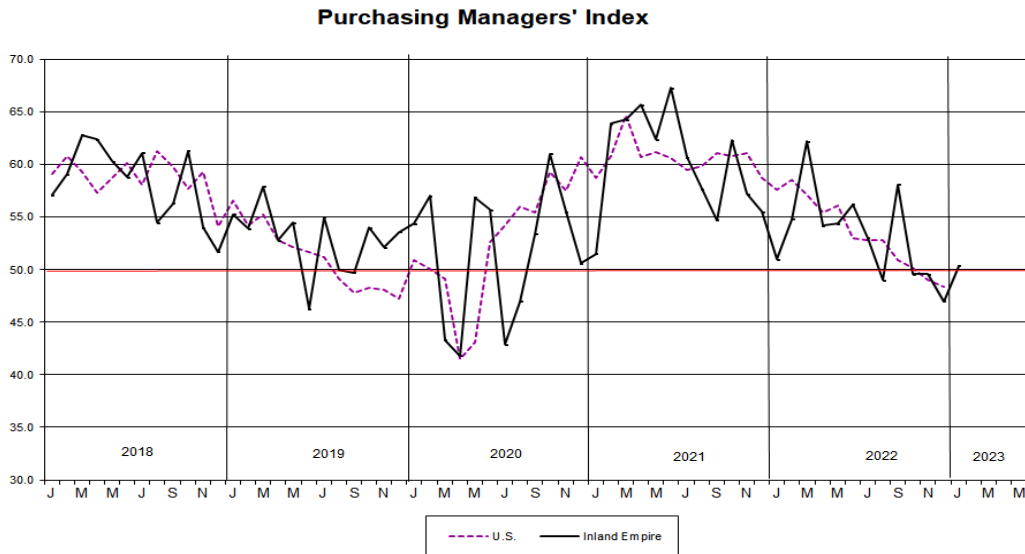
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College of Business and Public Administration

Report for January 2023

Sponsors: San Bernardino County Economic Development Agency
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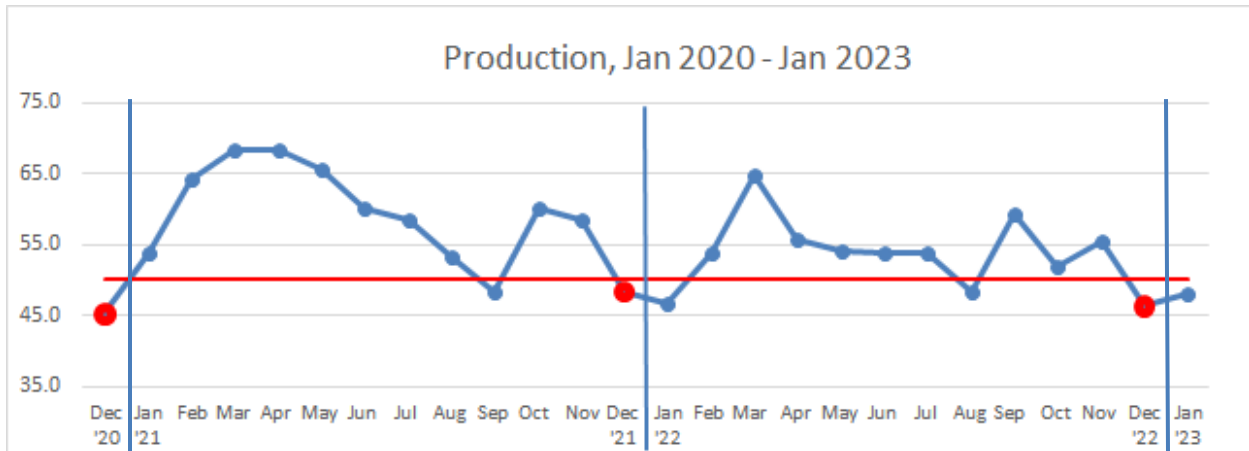
PMI SHOWS GROWTH FIRST MONTH OF 2023

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 **50.4**, an increase from last month's 47.0. It takes three consecutive months of figures above 50 to establish a new trend of growth or decline. Since this is the first month returning above the baseline of 50, it will take two more months of 50+ figures to say the manufacturing sector has returned to growth mode."



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 an increase from last month's 46.3 to **48.0** this month. The fact that it has remained below the baseline of 50 is not yet a cause for concern. Since the inception of this report in 1993, we have often seen a pattern of December/January figures registering below 50.

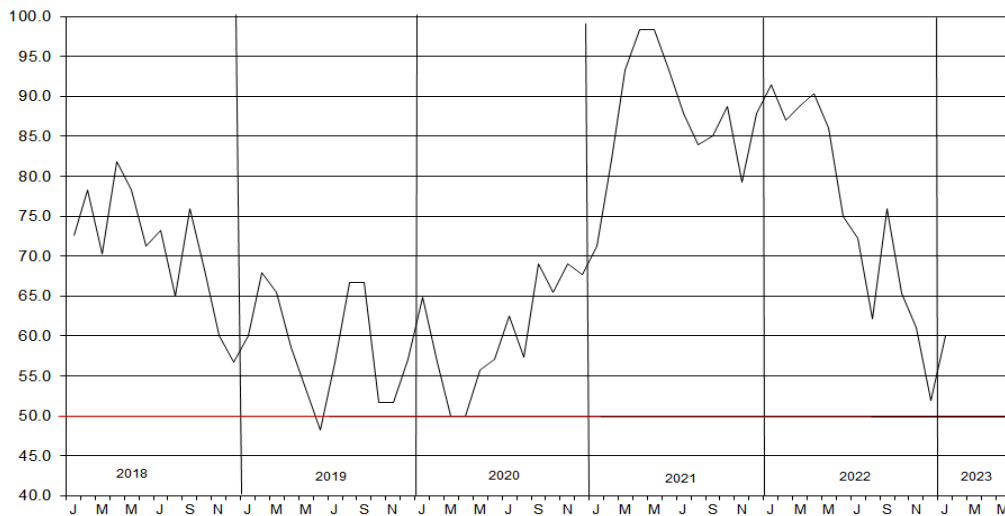


The **New Orders Index** (the other key component of the PMI) also registered **48.0** this month, up from last month's 46.3. This is the fourth month in a row that the index has remained below the baseline 50.

The **Employment Index** increased sharply to **56.0** over last month's 48.1. Several of the companies stated they hired permanent positions (as opposed to temps), thus increasing staffing this month in anticipation of a busy year.

The **Commodity Price Index** for the Inland Empire increased from last month's 51.9 to **60.0** this month. Gas prices (which have increased incrementally over the last month nationwide) are a big contributing factor. One panelist commented: "Power and fuel prices need to return to affordability."

Commodity Prices



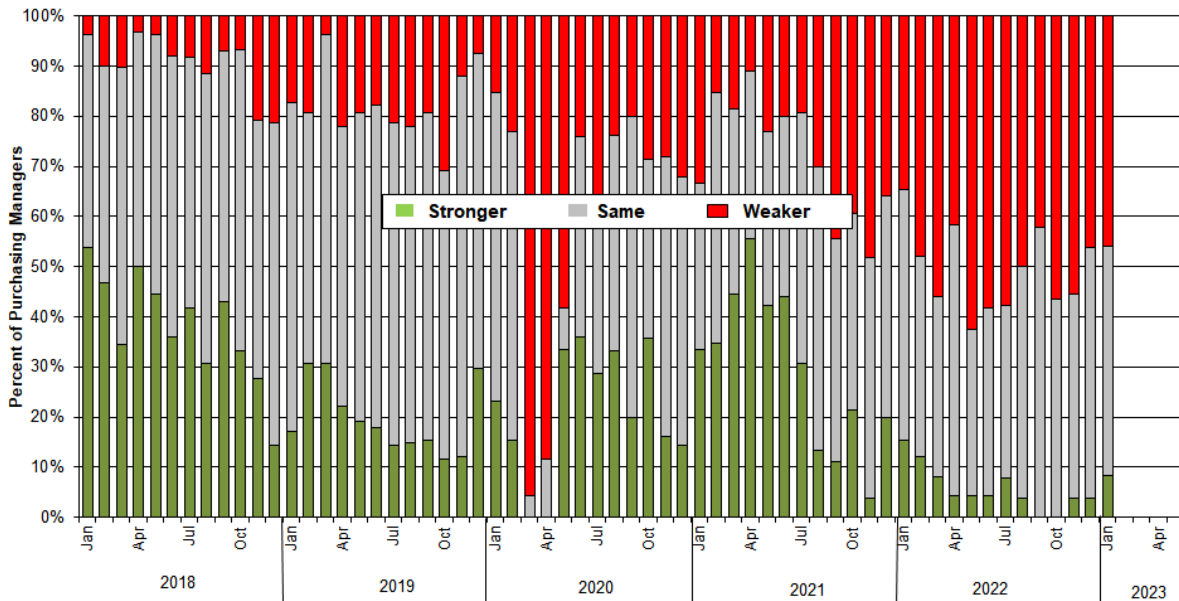
The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index decreased from 53.7 last

month to **50.0** this month. An index of 50.0 means that the speed of deliveries is unchanged since last month. One comment made: "Thanks to some very concentrated marketing efforts, supply chain remedies and factory improvements, our business in January of 2023 has increased dramatically as compared to the last quarter of 2022."

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered at **50.0**, a significant increase from last month's 40.7. Last month, 29.6% of panelists said that the **inventory level of finished goods** had *decreased* from the previous month (meaning sales were "good" and they were able to clear out inventory). This month, only **12.0%** of panelists reported such an increase. The majority (**64.0%** up from last month's 55.6%) reported that their inventory level of finished goods is the same as the previous month (meaning that production of finished goods is "staying even" with sales). **24.0%** (up from last month's 14.8%) reported that the level of finished goods has increased.

This first month of the new year continues to show that our panelists have a "less than positive outlook" for the overall economy. Only **8%** stated they believe the next quarter's Inland Empire economy will be *stronger* (up from 4% last month). Less than half (**46%**) believe that the local economy will become weaker in the coming quarter, and the remaining **46%** believe that the next quarter's economy will continue to be "the same" as it has been (where "same" means an economy struggling to return to pre-pandemic levels).

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



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

January 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	47.0	50.4	Growing	From Contracting	1
Commodity Prices	51.9	60.0	Increasing	Faster	43
Production	46.3	48.0	Contracting	Slower	2
New Orders	46.3	48.0	Contracting	Slower	4
Inventory	40.7	50.0	Unchanged	From Decreasing	1
Employment	48.1	56.0	Growing	From Contracting	1
Supplier Deliveries	53.7	50.0	Unchanged	From Decreasing	40
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	3.8%	8.3%			
% Same	50.0%	45.8%			
% Weaker	46.2%	45.8%			

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. Overall, the number of positive comments from panelists is greater than the number of negative ones. Positive/mixed remarks included:

- "Everything seems to be the same in January."
- "Material prices seem to be going down and hopefully will get low enough that we can again be competitive with other states."
- "Orders slowing, but this is our normal slowdown for this time of year."
- "Our business in January of 2023 has increased dramatically as compared to the last quarter of 2022."
- "Receiving some work from Mexico."
- "The International orders are improving."
- "The new year has started well. Overall new orders are looking steady and our anticipation is sales to be up for upcoming quarter, if not further into the year."
- "Things have remained busy so far this year."

Some comments, however, were cautionary/negative:

- "Customers want to lock in prices for the year, concerns of inflation."
- "First quarter appears to be slowing down."
- "Power and fuel prices need to return to affordability."
- "Slow time of the year plus the rain does not help; production is down so purchasing is slow."
- "Slowdown in customer orders."
- "Still having trouble finding employees."

In summary, the good news is that the employment index is up, and the PMI returned to growth mode after remaining below 50 for three months in a row. If input from our panelists results in two more months of figures above 50, we will be able to conclusively say that the Inland Empire manufacturing sector is back in growth mode. But at this point it is impossible to predict the probability of this occurring, especially given that some logistics experts are indicating that supply chain disruptions are likely to continue in 2023.

The following comments from two of our panelists indicate that a “wait and see” approach (along with continued good business management, use of technology such as predictive analytics and A.I., a focus on marketing, etc.) is probably prudent:

- “The year is moving along just as expected. We should have a better idea of what the year is going to bring by late February early March.”
- "Starting 2023 has been adventurous as the local markets for us have seemed to be awakening from a sleep, trying to figure out which way they want to go. Our task has been to ensure that we manage our resources in a way that capitalizes on our ability to respond to demands as they come to us. Our senior staff's projections therefore have been to maintain expectations similar to 2022 results...conservative, but ready to respond."

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

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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