

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

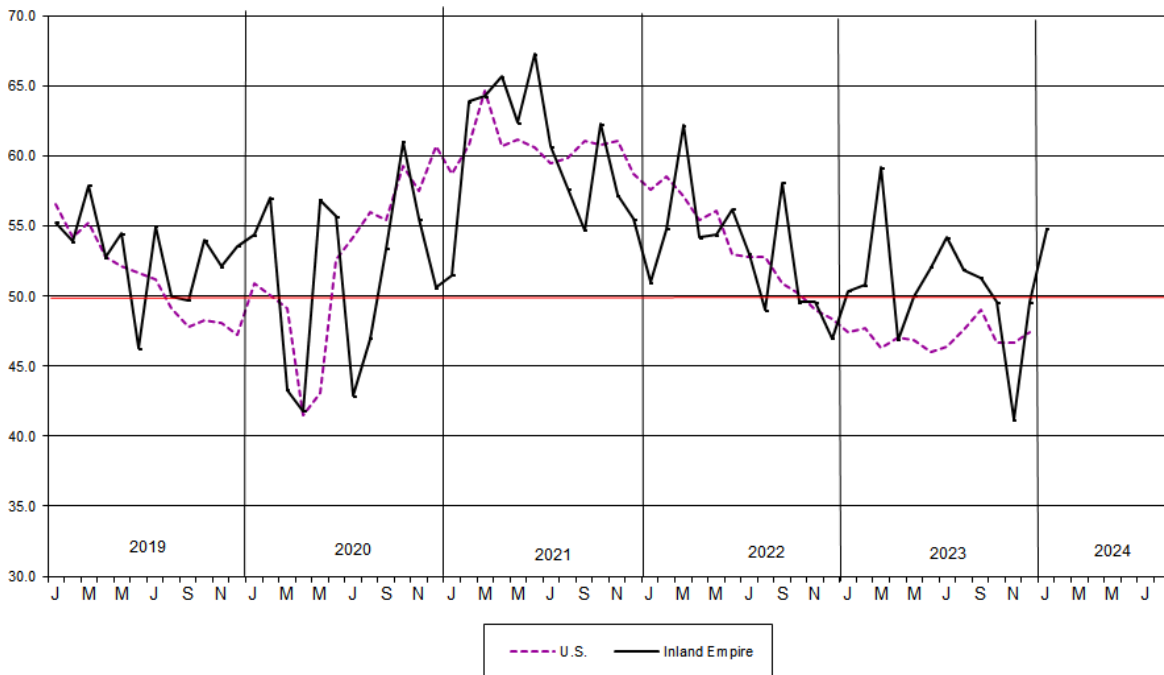
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Report for January 2024

2024 STARTING ON A HIGH NOTE, WITH PMI ABOVE 50

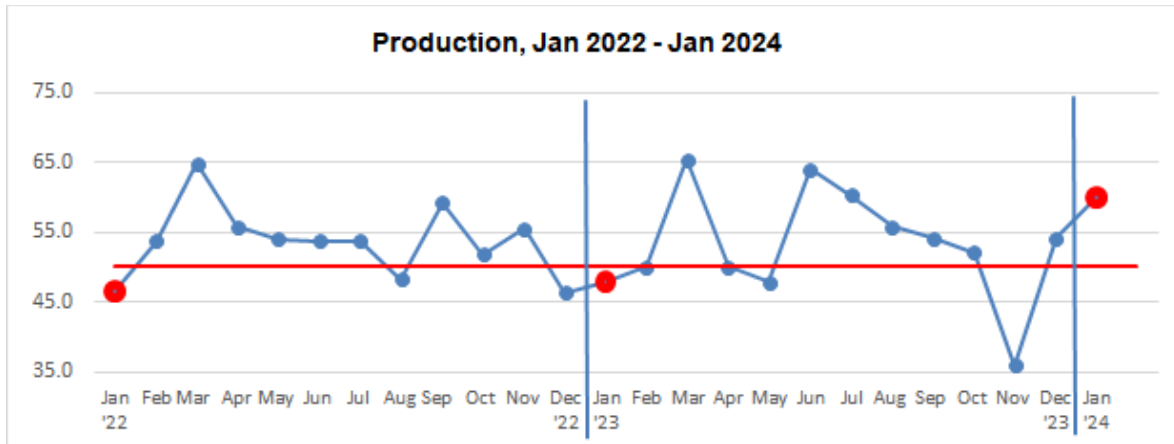
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "2024 started on a high note, with this month's Inland Empire **Purchasing Managers' Index (PMI)** registering **54.8** (a significant increase from last month's 49.6). This optimistic figure comes after three consecutive months of figures below the baseline of 50. It takes three consecutive months of figures above or below 50 in order to establish a new trend, so hopefully the January figure is a good start toward re-establishing a trend of growth in the Inland Empire manufacturing sector."

Purchasing Managers' Index

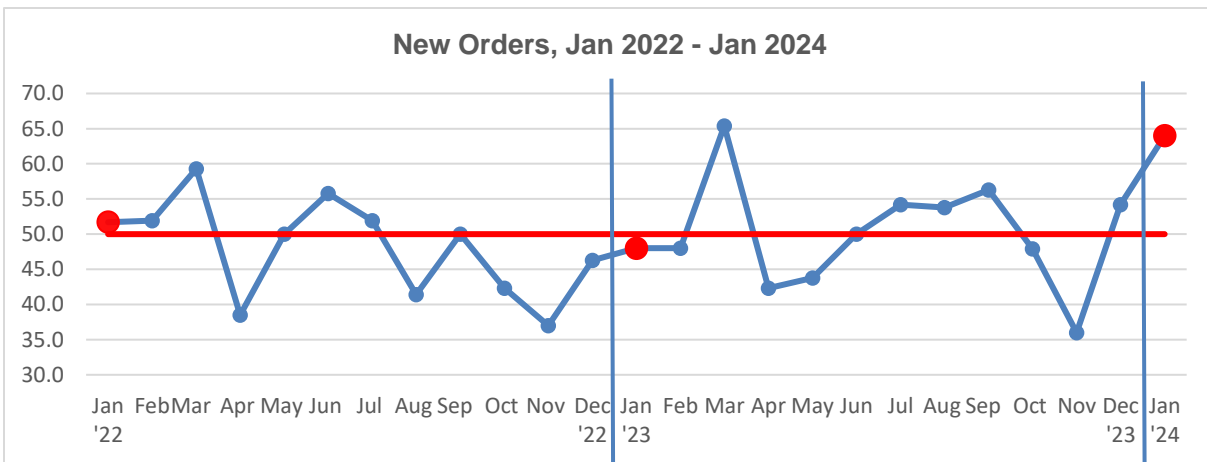


Source of U.S. PMI®: Institute for Supply Management®, Source of IE PMI®: Institute of Applied Research

An additional piece of positive news in this report is that the **Production Index** (one of the two key components of the PMI) registered an increase from last month's 54.2 to **60.0** this month. This is not just part of a seasonal trend, and hopefully portends good news for the economy over the next several months.



The **New Orders Index** (the other key component of the PMI) also painted an optimistic picture of business activity, registering **64.0** (a significant increase from last month's 54.2).



The main negative aspect of this report is the **Employment Index** which registered **46.0**, virtually unchanged from last month's 45.8. This is the third month the index has registered below 50, meaning that a trend of slowdown in employment has been established.

A consistent concern for US businesses and consumers over the past 3 years has been inflation. Yet in late January the government released data showing that annual inflation has virtually reached the 2 percent Federal Reserve target. The question is: has that good news reached our Inland Empire panelists? Not necessarily. The **Commodity Price Index** for the Inland Empire saw an increase from last month's 60.4 to **62.0** this month, meaning our panelists are still experiencing inflationary pressures. Yet we must

note that this month's figure is still way below the figure of 98.3 experienced in 2021, or 91.4 in January 2022.

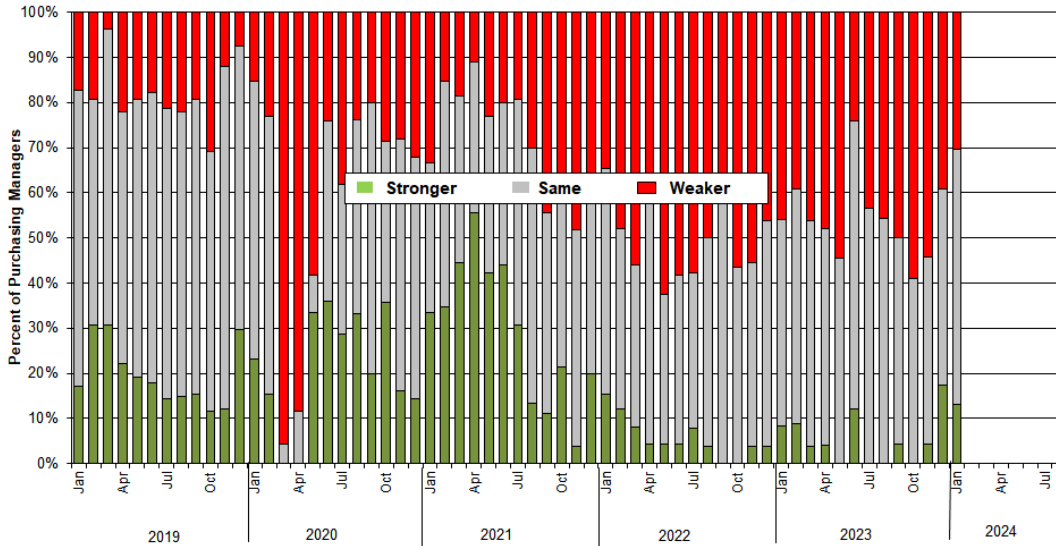


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index increased to **52.0** this month from last month's 47.9, showing that deliveries slowed. This is good news -- typically deliveries get slower if customer demand increases and suppliers are busy.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **52.0** this month, an increase from last month's 45.8. It is now above 50% baseline showing that companies are stocking up for future production. Further **32.0%** of the panelists said that their **inventory level of finished goods** has increased, meaning that they are gearing up for increased consumer purchases. Another **12.0%** (down from 16.7%) said that their inventory of finished goods had declined (meaning more people bought than expected). The remaining **56.0%** (down from 62.5%) of the panelists said that their inventory level of finished goods was the same as last month (meaning that production of finished goods is "staying even" with their sales).

Panelists were also asked to make a prediction regarding the state of the local economy for the coming three months. From one point of view, panelists were relatively pessimistic: **30.4%** of panelists predicted the economy will be weaker in the coming three months. Yet we must note that the figure is down from last month's 39.1%. Only **13.0%** of the panelists expressed the opinion that the local economy would improve in the next three months, and the rest (**56.5%**) believe that the Inland Empire economy will be the same over the coming quarter.

State of the Local Economy Manager's Predictions



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

January 2024 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	49.6	54.8	Growing	From Contracting	1
Commodity Prices	60.4	62.0	Increasing	Faster	55
Production	54.2	60.0	Growing	Faster	2
New Orders	54.2	64.0	Growing	Faster	2
Inventory	45.8	52.0	Increasing	From Decreasing	1
Employment	45.8	46.0	Contracting	Slower	3
Supplier Deliveries	47.9	52.0	Slowing	From Faster	1
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	17.4%	13.0%			
% Same	43.5%	56.5%			
% Weaker	39.1%	30.4%			

Finally, our survey always includes an overall question asking the panelists to offer general remarks regarding any business condition (local, national, or international) that affects the purchasing operation or the outlook of their company or industry. The vast majority of comments were positive:

- "2024 has started out stronger than 2023 finished. Not sure if it is the normal pick-up we see this time of year or if it really is demand turning around."

- *"Business seems to be picking up slightly."*
- *"Manufacturing conditions remain excellent."*
- *"Ordering and appointments have picked up a little bit. Cash flow and new business has been better than Q4."*
- *"Unusually busy sales month due to orders from Navy contractors!"*
- *"We are seeing the potential for growth and expansion in 2024. There are still significant uncertainties regarding policies at all levels of government that can impact us, but the potential for recession and the potential for inflation has diminished significantly. In the meantime we are doing what we have always done, and suspect others are doing the same: pursuing our self-determined future."*
- *"We find that we are still receiving multiple bid invites. We are being told by other "Contractors"/"CM's" that there is an abundance of work out there and will continue to be until 2025/26."*

A few comments expressed negativity/concerns. For example:

- *"Continuing challenge for lead time on deliverables (manufactured or OEM parts)."*
- *"Natural gas is high, hope the wars don't raise it higher."*
- *"Sales continue to be slow in comparison to 18 months ago. Inquiries appear to be on the upswing but follow up orders have not followed yet. We have cut our employee numbers 30% from a year ago."*

In summary, much of the national economic news has been positive of late, citing decreased inflation, increased consumer confidence, and strong GDP recovery. Quantitative data and comments from our Inland Empire panelists appear to mirror this good economic news, with employment being the only slightly negative spot in a very positive report.

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

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

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