

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

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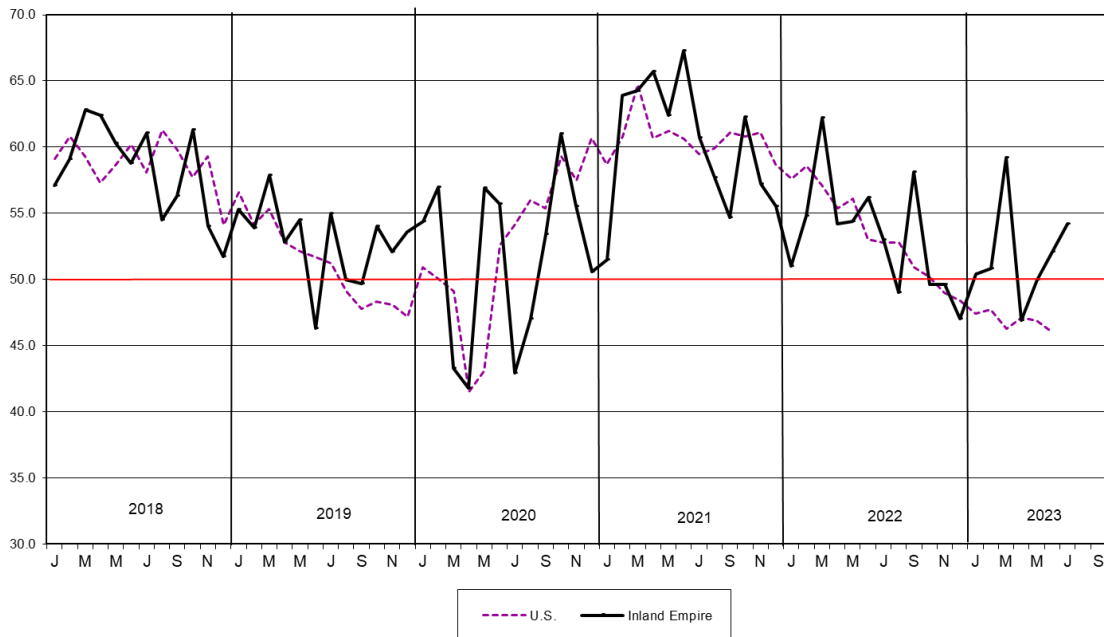
Report for July 2023

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

PMI AT 54.2, THIRD MONTH OF A FIGURE AT OR ABOVE 50

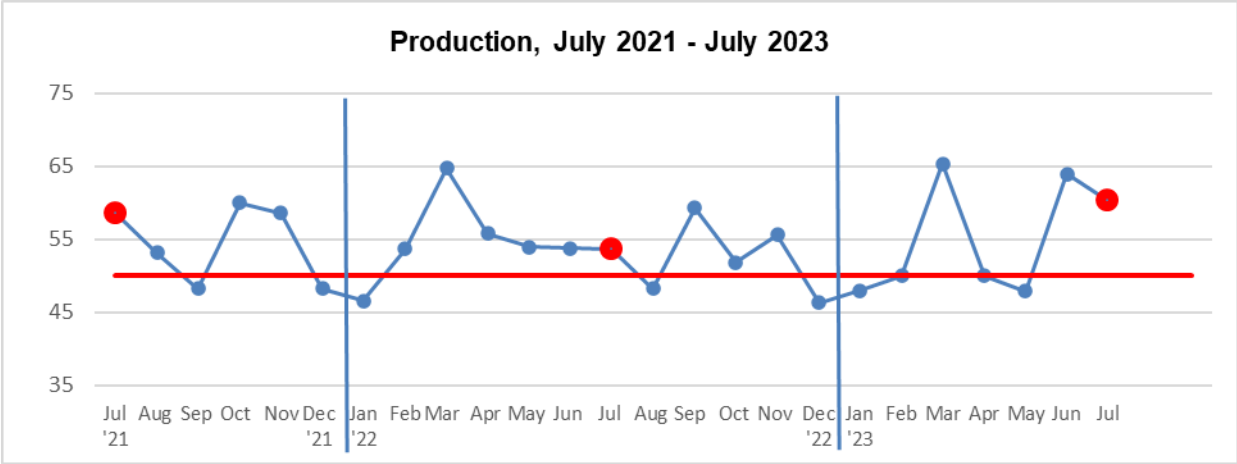
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **54.2**, an increase from last month's 52.1. The good news is that this is the third month the index has remained at or above 50.0, thus a trend of growth in the Inland Empire manufacturing sector has now been re-established."

Purchasing Managers' Index



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

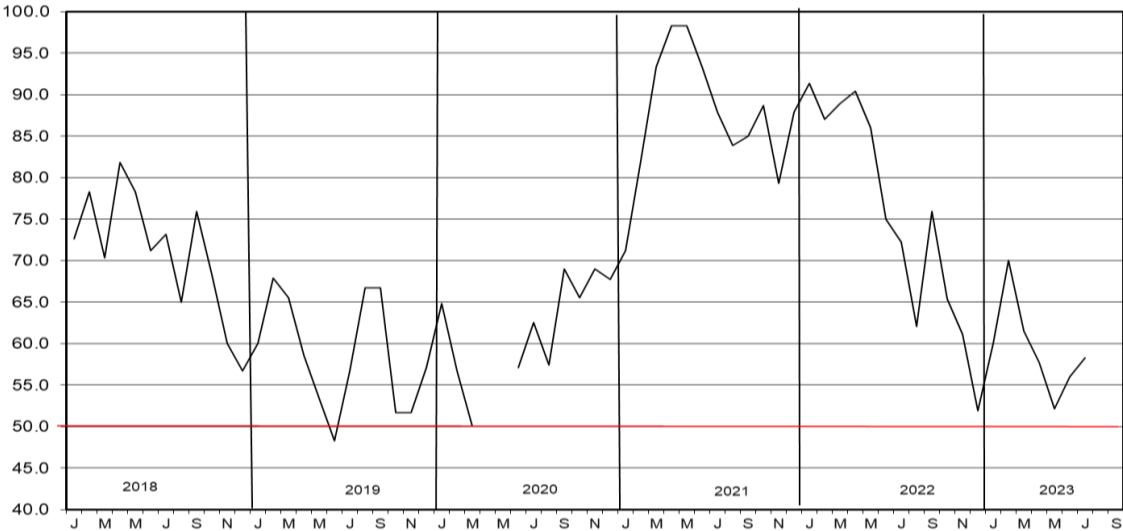
The **Production Index** (one of the two key components of the PMI) registered a decrease from last month's 64.0 to **60.4** this month, indicating that the rate of growth has slowed somewhat (although production is still growing).



The **New Orders Index** (the other key component of the PMI) registered 54.2 (an increase from last month's 50.0). This indicates that new orders are growing again. We note that this is only the fifth time since last July that the index has registered 50.0 or above, reflecting stable or increasing new orders. The volatile **Employment Index** dropped back below 50.0 to **47.9** (with 54.2% of panelists saying that employment was the same as the June level, 20.8% saying it is higher, and 25.0% saying it had decreased)

The **Commodity Price Index** increased from 56.0 to **58.3** this month, reflecting only a slight increase in inflationary pressures. As we noted last month, the index is WAY below the 2022 high of 98.3 (when U.S. inflation hit a 40-year high of 9.1%).

Commodity Prices

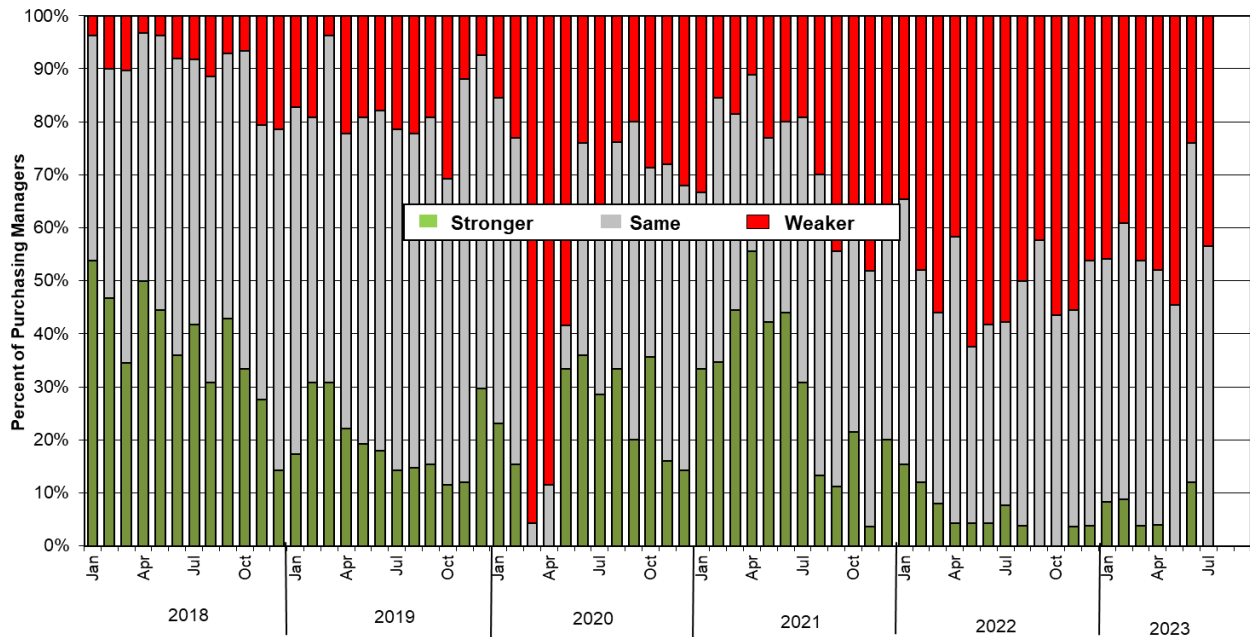


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index dropped from 46.0 last month to **43.8** this month, indicating that supply deliveries are getting faster overall.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **64.6** this month, a sharp increase from last month's 52.1. Further, about two-thirds of panelists (**69.6%** -- down from 72.7% last month) 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. Nearly a quarter of panelists (**21.7%** -- an increase from last month's 12.0%) reported an increase in the inventory level of finished goods, and **8.7%** reported that their inventory level of finished goods had decreased.

Optimism about the state of the economy in the near-future has declined this month compared to the past few months (see the green bars below). **No one** on the panel voiced a belief that the next quarter would see a stronger Inland Empire economy. Over half (**56.5%**) believe that the economy will basically stay the same over the coming quarter, and **43.5%** predict it will be weaker (up from last month's 24.0%).

State of the Local Economy Manager's Predictions



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

July 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	52.1	54.2	Growing	Faster	3
Commodity Prices	56.0	58.3	Increasing	Faster	49
Production	64.0	60.4	Growing	Slower	2
New Orders	50.0	54.2	Growing	From Unchanged	2
Inventory	52.1	64.6	Increasing	Faster	3
Employment	50.0	47.9	Contracting	From Unchanged	1
Supplier Deliveries	46.0	43.8	Getting Faster	Faster	2
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	12.0%	0.0%			
% Same	64.0%	56.5%			
% Weaker	24.0%	43.5%			

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. There were only a few comments that were uniformly positive. Others were negative or had a negative slant.

Following are the positive comments:

- *“Business is up and material prices are going down.”*
- *“Excellent business conditions for us.”*
- *“Sales are steady, trend is looking positive for new orders.”*
- *“Things have picked up after the 4th of July. Looks to be a good summer ahead for signage.”*
- *“We are seeing good, new business from customers in the US and Asia.”*

The negative/mixed comments include:

- *“Another month gone by with little/no improvement. Everything seems to be about the same as it was last month.”*
- *“Demand for my product slowing.”*
- *“It is usually high season for us, but it’s not as expected. We are hoping for sales to pick up.”*
- *“Our customers in Asia seem to be a bit busier this past month. We do not have a lot of business in Asia, so nothing that moves the needle for us but at least there is a pick-up in business from that part of the world.”*
- *“Our numbers are down across the board but still at decent levels. My vendors seem to be slowing significantly, almost begging for orders. I feel that we may just be in the summer doldrums.”*
- *“SLOOOOOOOOOOW.”*
- *“Staffing is still a problem.”*

- *"Still a mixed bag for us as bookings of new orders were slow in July, but inquiries increased substantially. I think the guessing on interest rates has had an impact, but we are optimistic that the signs of recession are significantly less than earlier in the year. For me personally the dependence on the Fed's interest rate to control inflation leaves many other factors out of the discussion that impact inflation: unemployment, job openings, the money folks have to spend that is not based on loans, etc. Further, in our main market, the holds on military appointments has a potentially severe negative impact, and policy members need to understand that."*
- *"Supply chain continues to be a concern for our company. Our best supplier for our main component of our product has had maintenance issues all month and deliveries of raw materials have basically come to a dead stop. This severely impacts our cash flow which makes it impossible to purchase other supplies needed to operate our business."*
- *"The price and reliability of power in the State is a major concern as an industrial consumer."*
- *"We have been very slow for the last 3 weeks. It's just not one product, it's **all** products. I feel that inflation has finally started to take its toll and that's why production is down. I have heard production is down in other companies as well."*

Most of the questions on IAR's monthly survey of panelists remain the same from month to month so as to allow for tracking over time. Occasionally, however, we include a "special" question of immediate interest based on what is happening locally, statewide, or nationally. This month we asked about the potential UPS strike (which was still a possibility when most of the panelists responded to our survey).

The vast majority of panelists (91.7%) indicated that their organization uses UPS for its shipping needs (thus creating anxiety in the face of an upcoming strike which was potentially going to begin on August 1, but was averted on July 25). We asked those individuals: *"If UPS goes on strike, will you switch to another shipper, or postpone shipping till the strike ends?"*

Only 20 people chose to respond to that question, and 12 indicated that they would use FedEx for their shipping. As few specific comments about FedEx (with conflicting views regarding cost) included:

- *"Our shipments are very dependent on UPS. Alternatives like FedEx and USPS are options but not as efficient."*
- *"In anticipation of the UPS strike, we set ourselves up with FedEx a few months ago. We learned the hard way from the last UPS strike. Also, by getting setup with FedEx, we learned that UPS had been giving us some pretty lousy rates. So, not only were we proactive in getting a new shipping partner, we were able to lower our shipping costs. Dumb luck, I suppose!"*
- *"We already have a contingency plan to use Fed Ex, however, the cost is much higher which is concerning. There is also a potential YRC strike as well which is a highly used carrier by us and our customers when they ship third party. This will be problematic as well."*

In addition, 5 said they would switch to another carrier, but did not indicate which one. Three said that they would probably be relying on USPS as an alternative. One person indicated that their organization was being proactive: “*We have already begun moving shipments to other carriers.*” Only two people indicated a plan to hold off on orders (i.e., postpone shipping).

In summary, it takes three months of PMI figures at or above 50 to create a new trend. This month is the third consecutive month of “positive” figures, thus we can now say that the Inland Empire manufacturing sector is back in growth mode. The overall IE economy is also in growth mode based on those PMI figures.

We also need to place this month’s report in context of nationwide economic reports which show optimism that the national economy could avoid a recession this year. For example, the consumer confidence index increased to 117.0 in July – a two-year high. Inflation was at its lowest point in over two years (although it still remains somewhat high). The labor market is strong, as is consumer spending.

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

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