

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

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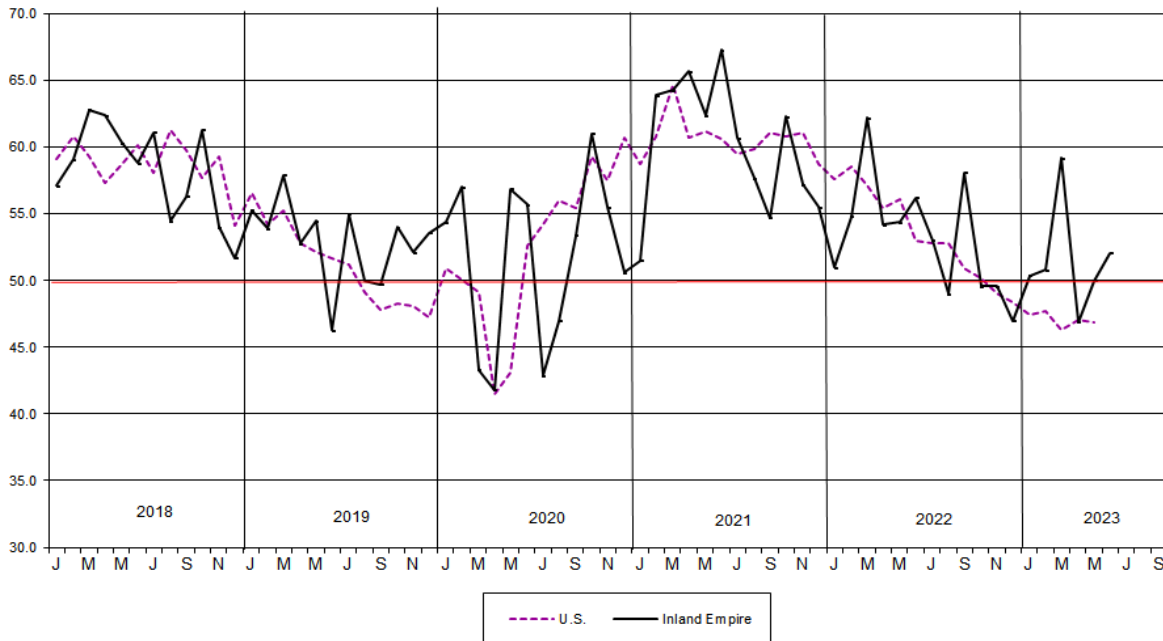
Report for June 2023

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

PMI AT 52.1, SECOND MONTH OF A FIGURE AT OR ABOVE 50

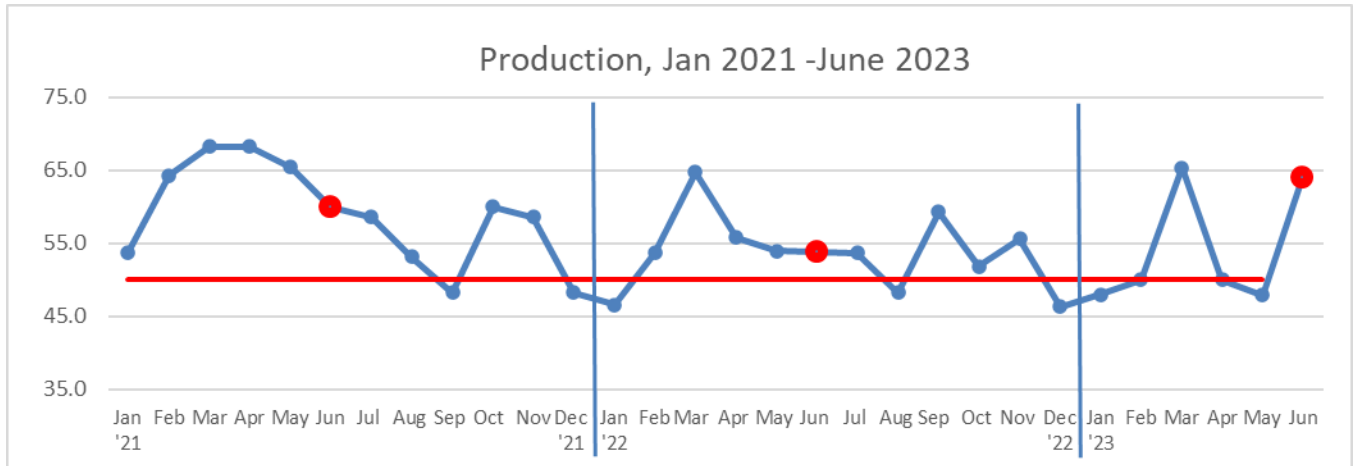
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **52.1**, an increase from last month's 50.0. It takes three consecutive months to establish a new trend, so if the index remains at or above 50 for one more month, we will be able to say that the Inland Empire manufacturing sector is back in growth mode."

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 increase from last month's 47.9 to **64.0**. The index registered higher than it was back in June 2021 (60.0) or June 2022 (53.8).

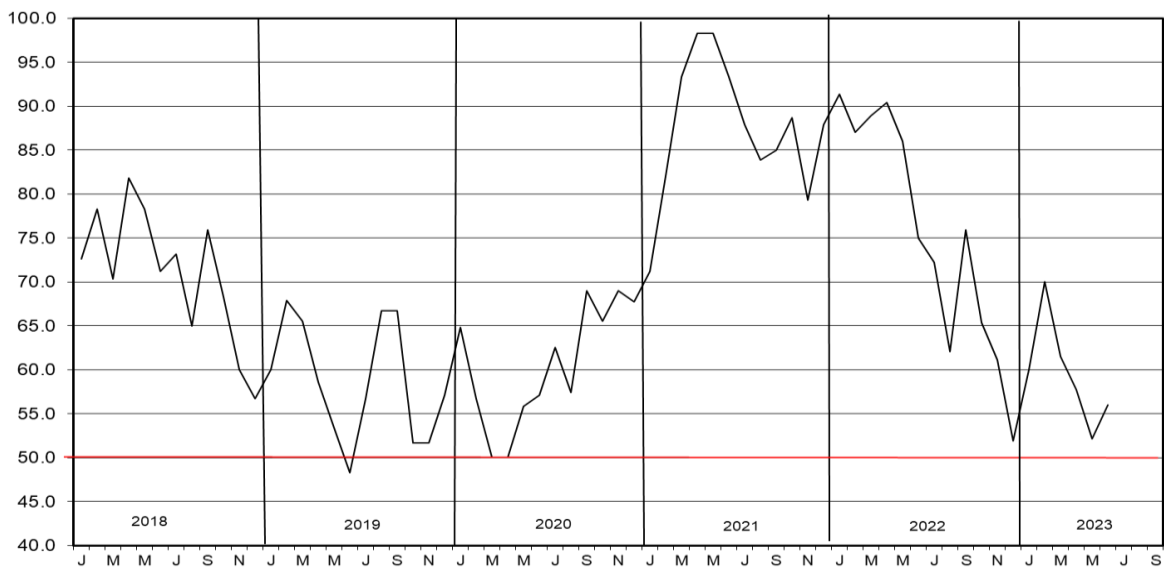


The **New Orders Index** (the other key component of the PMI) registered **50.0**, an increase from last month's 43.8. This is only the fourth time in the last 12 months that the index has registered 50.0 or above, reflecting stable or increasing new orders.

The **Employment Index** decreased to **50.0** from last month's 54.2. This means that the level of employment is the same as last month (which had seen a jump in hiring).

The **Commodity Price Index** increased from 52.1 to **56.0** this month, reflecting a slight increase in inflationary pressures. The index is WAY below the 2022 high of 98.3 which occurred when U.S. inflation hit a 40-year high of 9.1%.

Commodity Prices

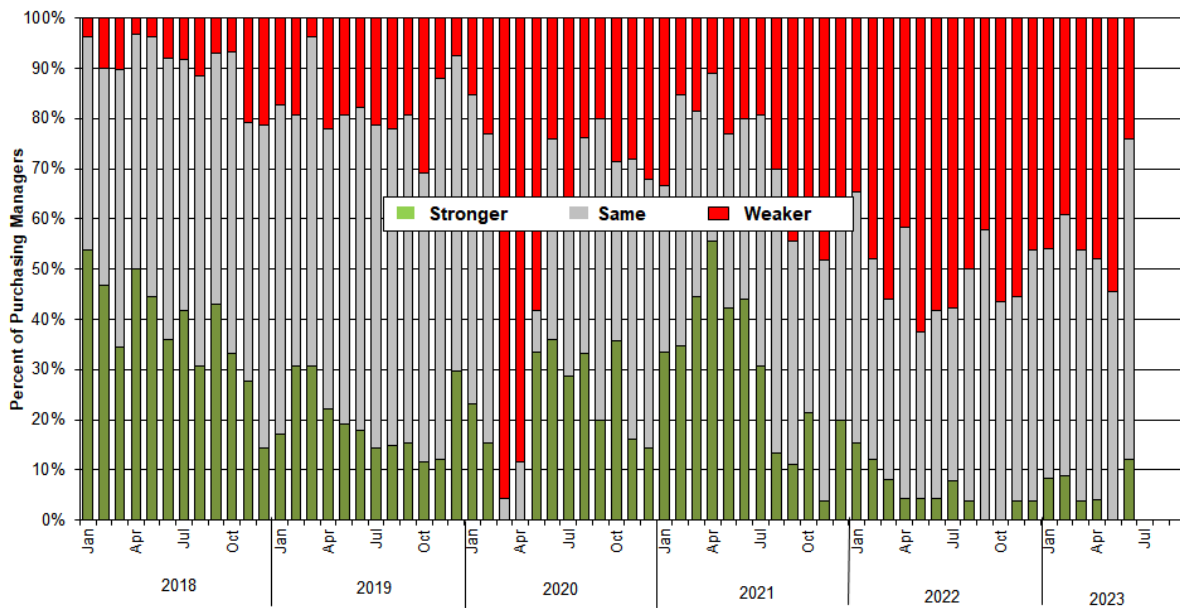


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index dropped from 52.1 last month to **46.0** this month, indicating that supply deliveries are getting faster.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **52.1** this month (unchanged from last month). Further, this month **76.0%** (up from 70.8% last month) reported that their **inventory level of finished goods** was the same as last month, meaning that production of finished goods is “staying even” with sales. Only **12.0%** of panelists (a drop from last month’s 12.5%) reported an increase in the inventory level of finished goods, and the remaining **12.0%** (down from last month’s 16.7%) reported that their inventory level of finished goods had decreased.

Optimism about the state of the economy in the near-future has improved this month compared to the past few months (see the green bars below). Although that is good news, we must point out that the percent of people believing that the economy will improve over the next quarter is an “underwhelming” **12.0%** (up from 0% last month and 4.0% the previous month). Nearly two-thirds (**64.0%**) believe that the economy will basically stay the same over the coming quarter, and **24.0%** predict it will be weaker (down from last month’s 54.5%).

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



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

| June 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 | 50.0 | 52.1 | Growing | From Unchanged | 2 |
| Commodity Prices | 52.1 | 56.0 | Increasing | Faster | 48 |
| Production | 47.9 | 64.0 | Growing | From Contracting | 1 |
| New Orders | 43.8 | 50.0 | Unchanged | From Contracting | 1 |
| Inventory | 52.1 | 52.1 | Increasing | Unchanged | 2 |
| Employment | 54.2 | 50.0 | Unchanged | From Growing | 2 |
| Supplier Deliveries | 52.1 | 46.0 | Getting Faster | From Decreasing | 1 |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | | |
| % Stronger | 0.0% | 12.0% | | | |
| % Same | 45.5% | 64.0% | | | |
| % Weaker | 54.5% | 24.0% | | | |

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. The positive/mixed comments include:

- *“Ability to get new workers has improved. People are looking for work.”*
- *“Business conditions are excellent. Record open orders and slightly falling raw material prices.”*
- *“Business is improving compared to last month.”*
- *“Increase in orders, but staffing is still a problem!”*
- *“Not much has changed from last month. It seems business has leveled off at spot higher than pre-COVID levels but below the highs of 2022. Most of our customers are still optimistic about the next year and see this “slow-down” as nothing more than an inventory correction. We still see several new jobs every month, so my outlook is cautiously optimistic.”*
- *“Some supplier chains seem to be getting back on track, but most are still missing deliveries.”*
- *“Still strong, but signs that may be slowing.”*
- *“Things seem to be moving a little more than before. We are busy and there is a lot of work bidding.”*
- *“While there is still a degree of uncertainty that makes it difficult to assess risk, we are seeing progress in booking new orders, mostly based on our diversity. This has enabled us to capitalize on new opportunities in markets we are capable to serve. During the times which have been challenging to us and others in manufacturing, capitalizing on where our capabilities can take us has led to those opportunities.”*

A few of the comments, however, had a negative slant:

- *“Continues slow business.”*

- *“Seeing a little slow down in late June. Hoping it is a summer slump before the 4th of July.”*
- *“We continue to struggle with supply chain issues which in turn affects our ability to fill customer orders in a timely manner.”*

In summary, this month’s PMI has rebounded back above 50. It is important to note, however, that the PMI has been incredible volatile since the pandemic began, so we will need at least one more month above 50 before we can say with any level of certainty that the manufacturing sector is firmly in growth mode. At this point, however, things look positive, with production improving and the majority of our panelists making comments reflecting an improving regional business climate.

But the news is not all rosy: Jerome Powell has indicated that there may possibly be two more rate hikes this year, thus raising fears among some economists that a nationwide recession is on the horizon. Further, the announcement in mid-June about a possible work stoppage of UPS workers starting next month may cause issues for the economy nationally, state-wide, and locally. Finally, we note that the National PMI has not registered above the 48.7 percent mark (the level needed to indicate an expansion of the overall economy) since December 2022.

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

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