

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

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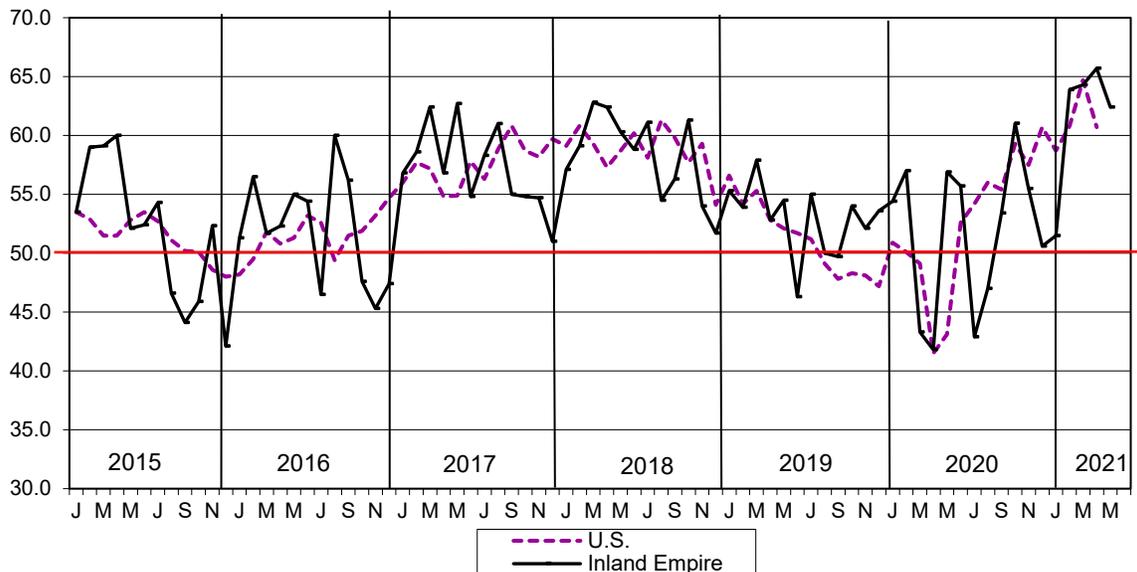
Report for May 2021

Sponsors: San Bernardino County Economic Development Agency
Riverside County Business and Community Services

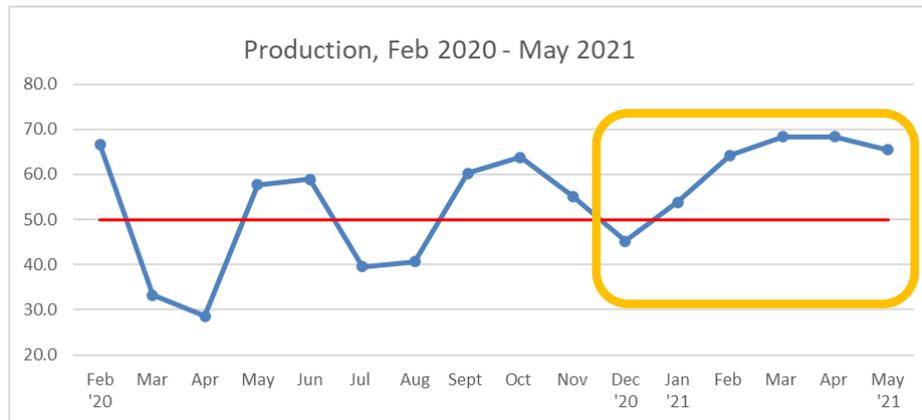
INLAND EMPIRE ECONOMY IS FIRMLY IN GROWTH MODE
COMMODITY PRICES, LABOR, AND SUPPLIES ARE MAJOR CONCERNS

According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **62.4**, a slight decrease from last month's 65.7. The index remained above the baseline 50% mark for the ninth consecutive month, indicating that the Inland Empire manufacturing sector continued its trend of steady growth, although this month the sector grew at a slightly slower pace than last month."

Purchasing Managers' Index



In other good news for the local economy: in our last report we noted that the **Production Index** had been rising since December 2020, signifying that manufacturers were experiencing a higher level of production than the month before. This month the Production Index dipped slightly from 68.3 to **65.5**, meaning that production is still firmly in growth mode (again just at a slower pace than last month).



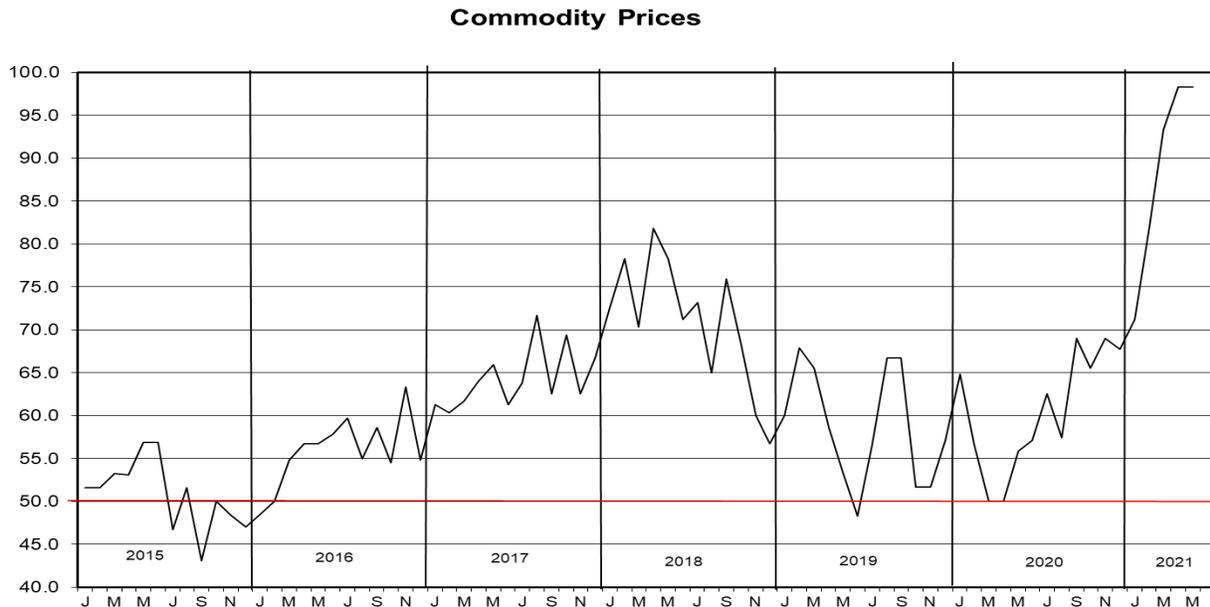
The Production Index tracks firm’s activity on orders made over the past months, whereas the New Orders Index reflects orders that just came in. This month’s **New Orders Index** is **67.2**, a sharp increase from last month’s 61.7. This means that new orders are increasing over time as the economy rebounds. The Employment Index increased from 55.0 last month to **58.6** this month. Based on comments from survey respondents (reported below), the index would have been higher if companies weren’t having so much trouble finding employees to hire.

On the downside: The **Commodity Price Index** soared to **98.3** in our last report and has not changed. This figure is the highest on record since the inception of this report back in 1993. This month’s survey included a probe concerning the prices: “*Which commodities are getting more expensive.*” In response, one respondent said “All. Every one of them. You name it, it’s higher.” Another said: “All suppliers have sent a pricing increase on average of 7%.”

Lumber and wood products were mentioned by several people, with one indicating that lumber prices are up “by 260%.” Of course, wood demand increased during the pandemic as homeowners took the opportunity during the “shelter-at-home” order to build decks, playhouses, etc. Yet production at mills couldn’t keep pace since they were having difficulty hiring new workers, and there was a shortage of truck drivers to bring the lumber from the forest to the mill, and from the mills to distribution centers. (<https://www.forbes.com/sites/billconerly/2021/05/22/why-lumber-and-plywood-prices-are-so-high-and-when-they-will-come-down/?sh=64f009264b71>).

Higher prices and supply issues were also reported for electronic components, metals,

oil and fuels, PVC, rubber base polymers, and packaging material.

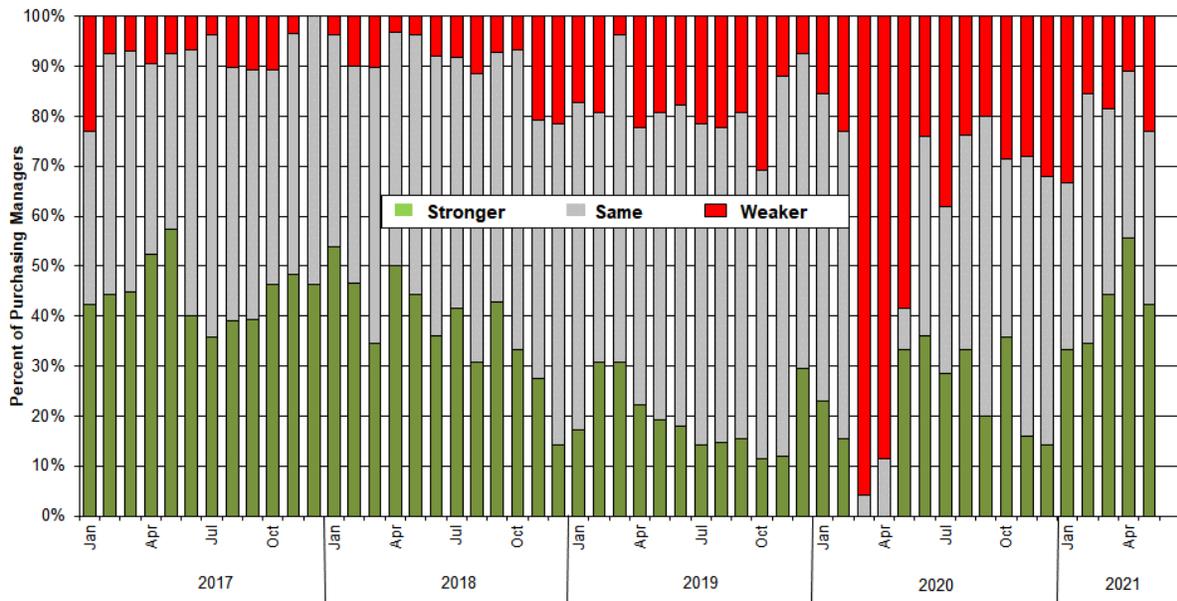


The **Supplier Deliveries Index** dropped from 86.7 last month to **74.1** this month, indicating that deliveries are continuing to slow, but at a reduced pace since the previous month. One respondent stated: “Lead times are longer, and freight is insane.” Another said: “Lead times are up 50% meaning we might not be able to make some orders by the requested date.” And another commented: “Struggling to get some of the items that used to be very quick. What used to take a couple days, now takes a couple weeks.”

The overall **Inventory level (units, not dollars) including raw, MRO** (Maintenance, Repair, Operating), intermediates, etc. dropped significantly from 56.7 last month to **46.6** this month. Nearly a quarter (24%) of companies indicated that their level of **finished goods** has decreased, whereas 14% of companies indicate that their level of finished goods has increased since the previous month. Most (62%) indicated that their inventory of finished goods has not changed since last month, meaning that their production of finished goods is “staying even” with sales.

Purchasing Managers continue to be optimistic about the state of the economy for the coming quarter. This month 42% forecasted a **strengthening** local economy over the next 3 months, and another 35% predicted that the economy would remain unchanged. Nearly a quarter (23%) predicted that the economy would be weaker (up from 11% last month).

State of the Local Economy Manager's Predictions



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

| May 2021 Business Survey at a Glance | | | | | |
|--|---------------|---------------|----------------------|-----------------------------------|-----------------|
| | Series Index | | Direction from 50 | Rate of Change from Last Index | Trend Months |
| | Last Month | This Month | | | |
| Local PMI | 65.7 | 62.4 | Growing | Slower | 9 |
| Commodity Prices | 98.3 | 98.3 | Increasing | Unchanged | 23 |
| Production | 68.3 | 65.5 | Growing | Slower | 5 |
| New Orders | 61.7 | 67.2 | Growing | Faster | 5 |
| Inventory | 56.7 | 46.6 | Decreasing | From Increasing | 1 |
| Employment | 55.0 | 58.6 | Growing | Faster | 4 |
| Supplier Deliveries | 86.7 | 74.1 | Slowing | Slower | 20 |
| Purchasing Managers' Confidence in the State of the Local Economy | | | | | |
| % Stronger | 56% | 42% | | | |
| % Same | 33% | 35% | | | |
| % Weaker | 11% | 23% | | | |

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

What respondents are saying:

Each month we ask our respondents to make comments regarding business conditions – local, national, or international. Despite the strong quantitative indices reported above, many of the comments had a **negative or cautionary** slant focusing mainly on rising commodity prices, difficulty finding skilled labor, and supply chain disruptions:

- "Business has been good, but we've had struggles with turnaround times from suppliers and trying to hire."
- "Can't keep up."
- "Cannot hire people to work !!!"
- "Critical raw materials not available in the USA."
- "Increase in orders, material prices soaring. Dealing with delayed deliveries."
- "Prices are going up. I believe it is a reflection of a broken supply chain and the increase of minimum wage."
- "Supply is getting worse by the day – raw material prices, components availability, logistics issues."
- "We are getting hit hard by the lumber market."
- "We are matching demand, however having difficulty getting the product shipped, by air or by sea."
- "We are starting to see more long lead times now. I'm told staffing is part of the issue and it's hard to get new recruits. And once you do they only work a few days or walk out mid shift."
- "We are waiting on imported components from our overseas vendors."
- "We see our challenge at this point will be to be able to ensure sustainability of the growth we are experiencing and the degree to which we continue to diversify in meeting the needs we address through our ability to provide engineered fabric products."

Following are the **relatively positive** comments:

- "May was our strongest month of the year. Business has continued to increase in nearly every industry we serve locally and nationally. Couple the strong growth with lack of supply and we absolutely have the perfect storm for sellers. Business could not be more of a 180 degree turn from 12 months ago."
- "More incoming orders from Canada."
- "Suppliers prices are ticking up slightly. Overall business is still very firm."
- "We are having an excellent month. New quotes and opportunities abound, domestic and international."
- "We see our challenge at this point will be to be able to ensure sustainability of the growth we are experiencing and the degree to which we continue to diversify in meeting the needs we address through our ability to provide engineered fabric products."

This month IAR also included a survey question dealing with what respondents are experiencing in terms of **supply chain bottlenecks**:

- "A labor strike at the country's second largest stainless steel mill has caused a delay throughout the entire supply chain."
- "In our industry (water treatment equipment) we see a combination of increase of incoming orders along with backorder for components. This is causing us to have longer lead times for our customers as we wait for parts to come in before we assemble."
- "Multiple bottlenecks: raw material - steel, components lead time, lead time for matching and laser cut, plating and painting boxes, logistics issues!"
- "Outside process vendors stating lack of employees."
- "Pallets, incredibly high price and hard to purchase."
- "Paper."
- "Port issues. both export and import. But getting better."
- "Still manageable, but suppliers have longer lead times."
- "The build-up in the markets has challenged suppliers to increase capacity, and their concern over the risk in increasing staff and resources to do so when it could begin to bottom out after the current surge."
- "We are experiencing bottlenecks with all of our supply chain."
- "We are seeing them in many areas now. Most pressing as of late have been with aluminum, glass, electrical components, and HEPA filters."
- "We have major issues securing containers for export shipping."

In summary, the data in this report reflect that the Inland Empire manufacturing sector and the overall economy are growing, and the numbers for the production and new orders indices are impressive. Yet the region is far from being "fully recovered." Commodity prices are near an all-time high, transportation costs are surging, and companies are dealing with shortages and long lead times for lumber, electrical components (especially semiconductors), metals, and other commodities. Worker shortages continue to be an issue for manufacturers and their suppliers.

Yet the bottom line is that things are looking up. IAR will continue to provide the most up-to-date data on business conditions that we can during this time of renewal and growth.

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