

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

Housed in CSUSB's Jack H. Brown
College of Business and Public Administration

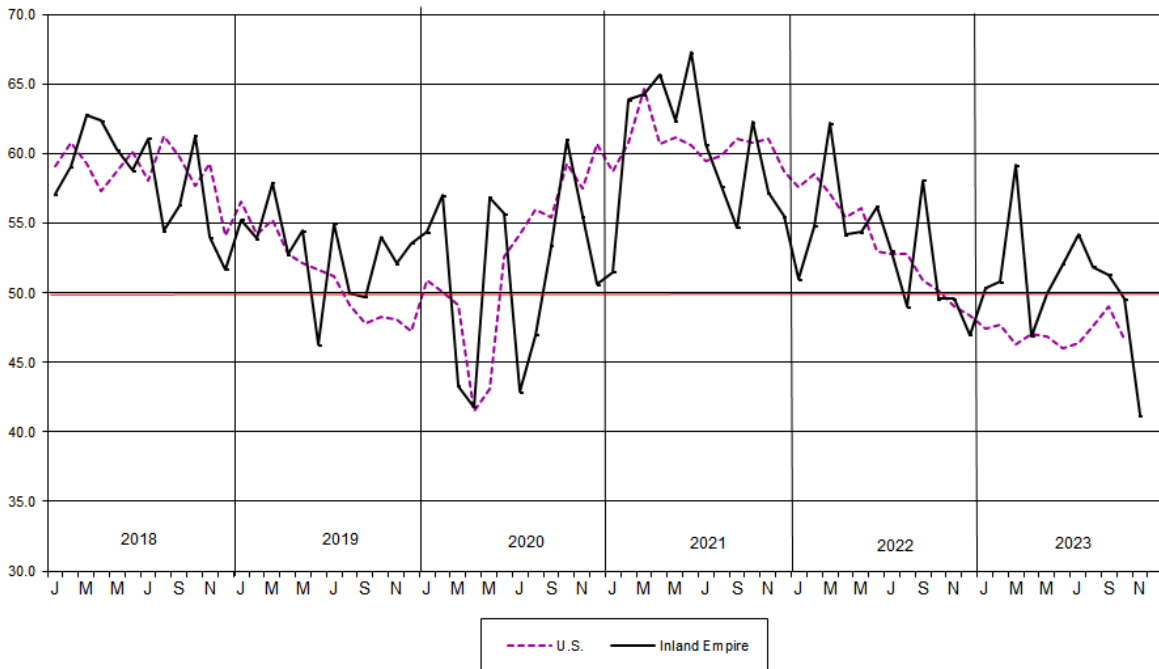
Report for November 2023

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

PMI FALLS SHARPLY BELOW 50% BASELINE

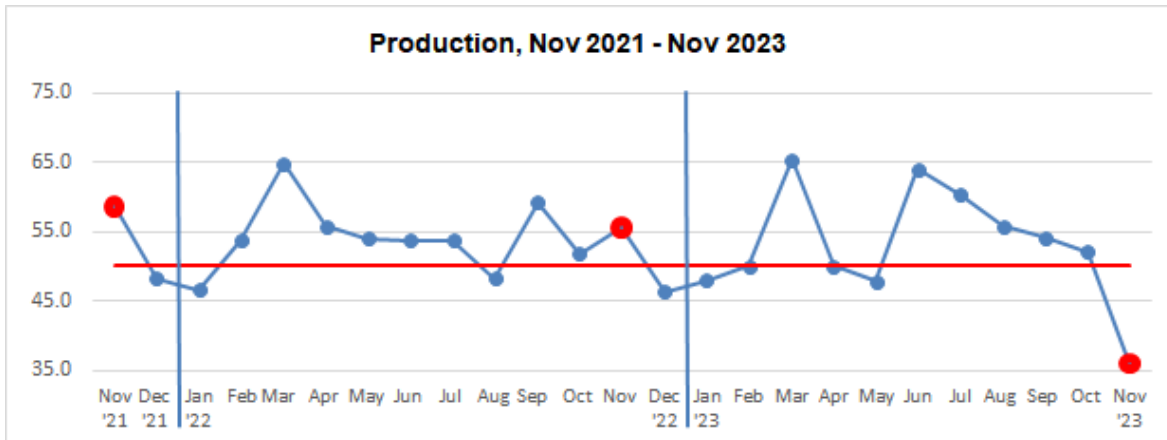
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **41.2**, a sharp decrease from last month's 49.6, and the second month with a drop below the 50% baseline. This drop appears to be a repeat of the pattern seen last year in the last quarter of 2022. We can only hope that the pattern will also show a January rebound (as it did in 2022)."

Purchasing Managers' Index

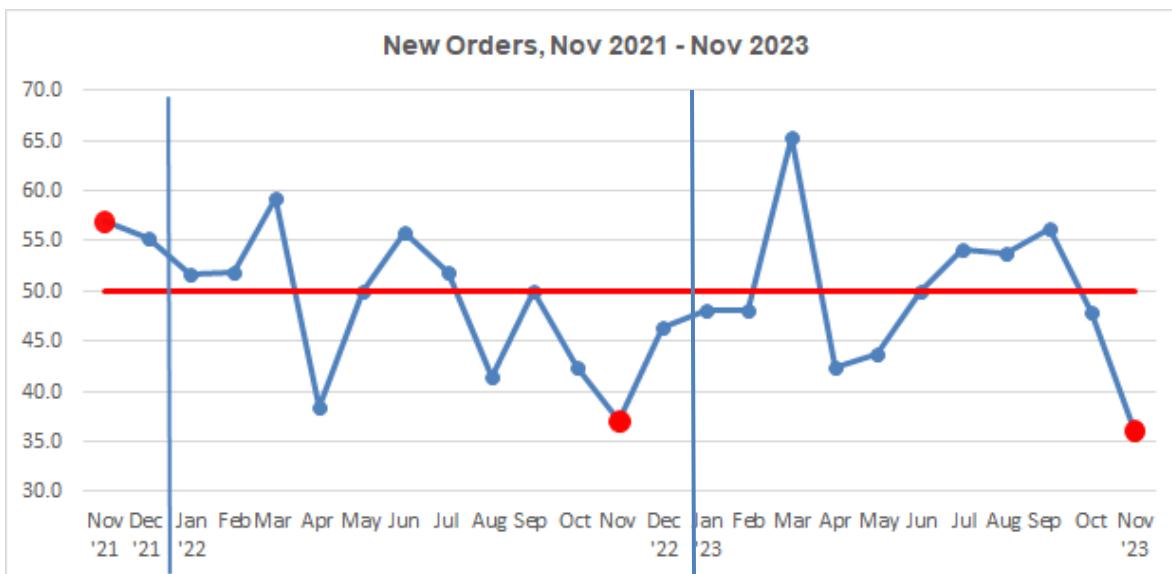


Source of U.S. PMI®: Institute for Supply Management®, Source of IE PMI®: Institute of Applied Research

The **Production Index** (one of the two key components of the PMI) registered a substantial decrease from last month's 52.1 to **36.0** this month. This is partially responsible for the large dip in the PMI figure. The Production Index has only registered figures that low five times since IAR started doing its survey in 1993 (in 2001, 2008, 2009, and twice in 2020).



The **New Orders Index** (the other key component of the PMI) also registered **36.0** (a significant decrease from last month's 47.9). As the graph shows November 2022 had the same dip in new orders.

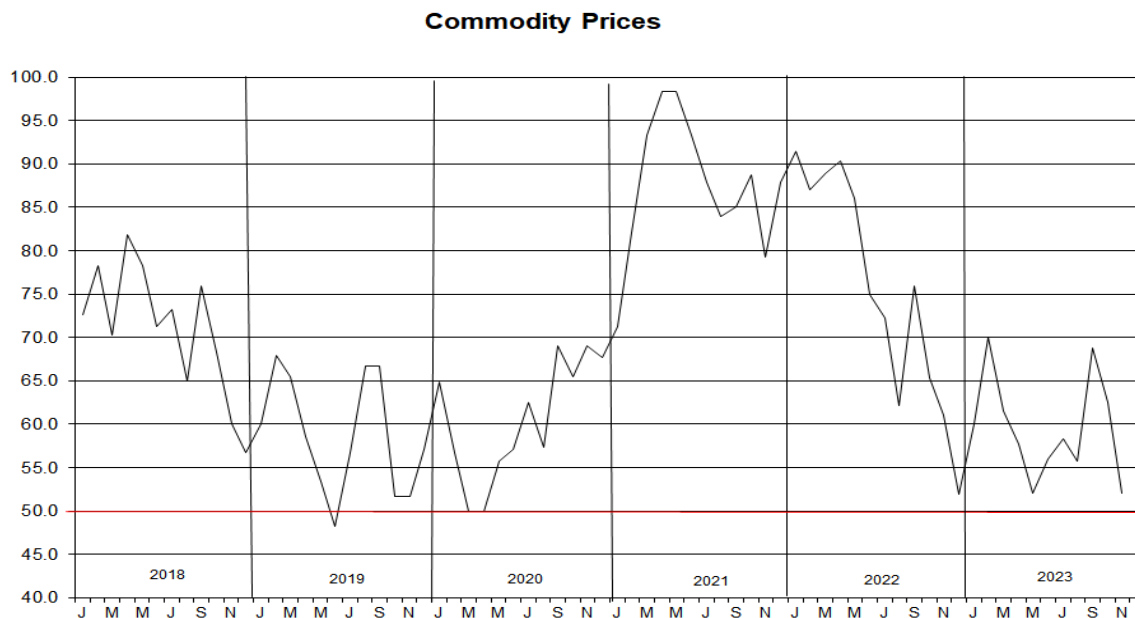


The **Employment Index** has dipped back below 50 after two months of figures showing growth. This month registered **46.0**, a significant drop from last month's 56.3. A few panelists made comments regarding employment, including:

- "Having hard time again retaining new employees!!!"
- "We are having a hard time keeping employees on regular working hours."

A consistent concern of our panelists over the past 3 years has been inflation.

Nationwide, inflation has been dropping, and the **Commodity Price Index** for the Inland Empire saw a significant decrease from last month's 62.5 to **52.0** this month.

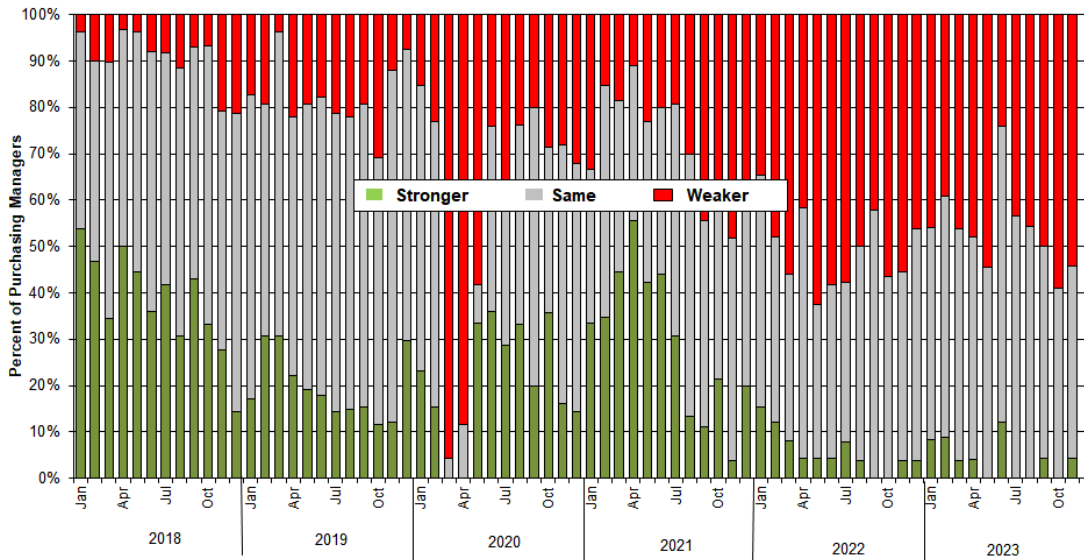


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index remained below 50 this month, and showed a slight decrease from last month's 47.9 to **46.0** this month. This indicates that supply deliveries are getting faster, which is not necessarily good news. Typically deliveries get faster if customer demand drops and suppliers are not as busy as they used to be.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **42.0** this month, a slight drop from last month's 43.8. This is not an unusual pattern for the end of the year when production and new orders typically drop. Further, **44%** 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. Another **40%** said that their inventory of finished goods had declined (meaning more people were buying than expected), and the remaining **16%** said inventory had increased.

Panelists were also asked to make a prediction regarding the state of the local economy for the coming three months. As has been the case since 2021, optimism about the state of the economy continues to be low. **Only 4.2%** of the panelists expressed the opinion that the local economy would improve in the next three months. Over half (**54.2%** --down from 59.1% last month) believe that the economy will be weaker over the coming quarter, and **41.7%** predict it will remain the same (up from last month's 40.9%).

State of the Local Economy Manager's Predictions



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

November 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	49.6	41.2	Contracting	Faster	2
Commodity Prices	62.5	52.0	Increasing	Slower	53
Production	52.1	36.0	Contracting	From Growing	1
New Orders	47.9	36.0	Contracting	Faster	2
Inventory	43.8	42.0	Decreasing	Faster	3
Employment	56.3	46.0	Contracting	From Growing	1
Supplier Deliveries	47.9	46.0	Getting Faster	Faster	3
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	0.0%	4.2%			
% Same	40.9%	41.7%			
% Weaker	59.1%	54.2%			

Finally, 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. Most of the comments expressed negativity/concerns. For example:

- *“Business continues to be flat. Practically the same story from everyone - working through the high inventory they have on hand. I would imagine it will stay this way for at least another quarter.”*

- *“Business is slow!”*
- *“Having hard time again retaining new employees!!!”*
- *“New Orders have reduced greatly.”*
- *“Slow”*
- *“The uncertainty over funding at the federal level for our major aerospace customers remains as a major concern due to the political dysfunction that exists in Washington, and the number of legislators who are leaving for other opportunities compounds this situation as they will probably be replaced with new members who will be on a long learning curve which will impact programs and their funding.”*
- *“We are not receiving many orders and has been that way for the 4th quarter.”*

There were only a few relatively positive comments:

- *“Another big month for shipments. Sales are slowing which is normal for this time of year. Material prices stabilized.”*
- *“We have a strong push internally to increase production, this is why we have increased materials on hand. We are up 30% in shipping as compared to last year for this month.”*

In summary, for the second month in a row, the PMI index has remained below 50. It takes three successive readings above or below 50 to establish a new trend, so we will wait and see if we get one more “below-50” reading before we conclude that the Inland Empire manufacturing sector is longer in growth mode. Nationwide polls show that respondents are not optimistic about the economy, and our Inland Empire panelists seem to be reflecting that gloomy perspective. Considering that inflation has dropped significantly and unemployment is low, the drop in the PMI almost seems to be a disconnect.

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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