

**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**

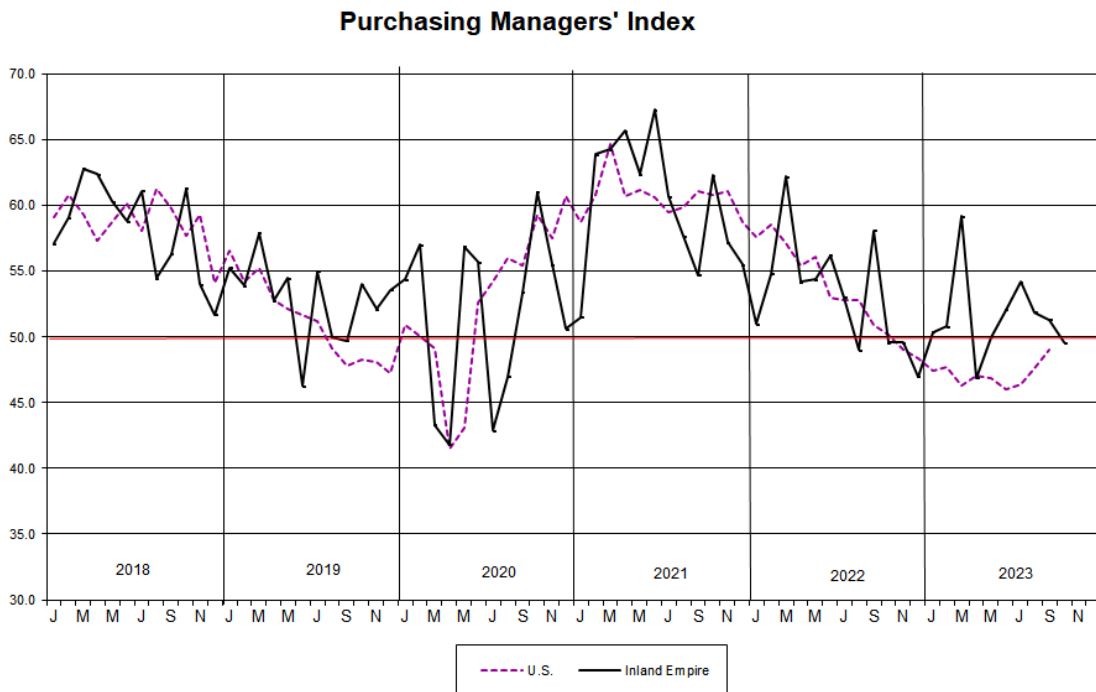
**Report for October 2023**

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

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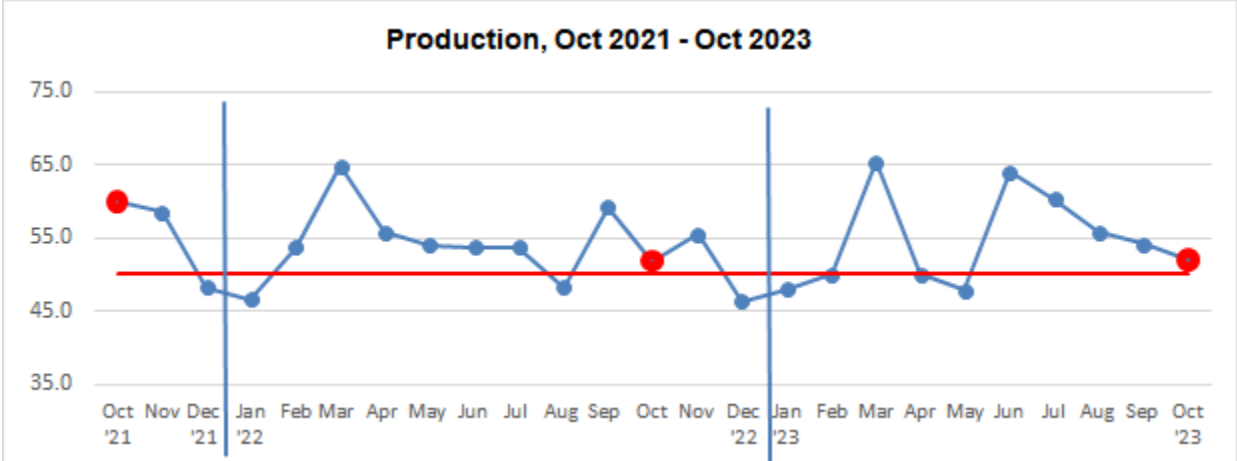
**PMI FALLS BELOW 50% BASELINE ONCE AGAIN**

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 **49.6**, a decrease from last month's 51.3. This is the first month with a drop below the 50% baseline after five consecutive months in growth mode."

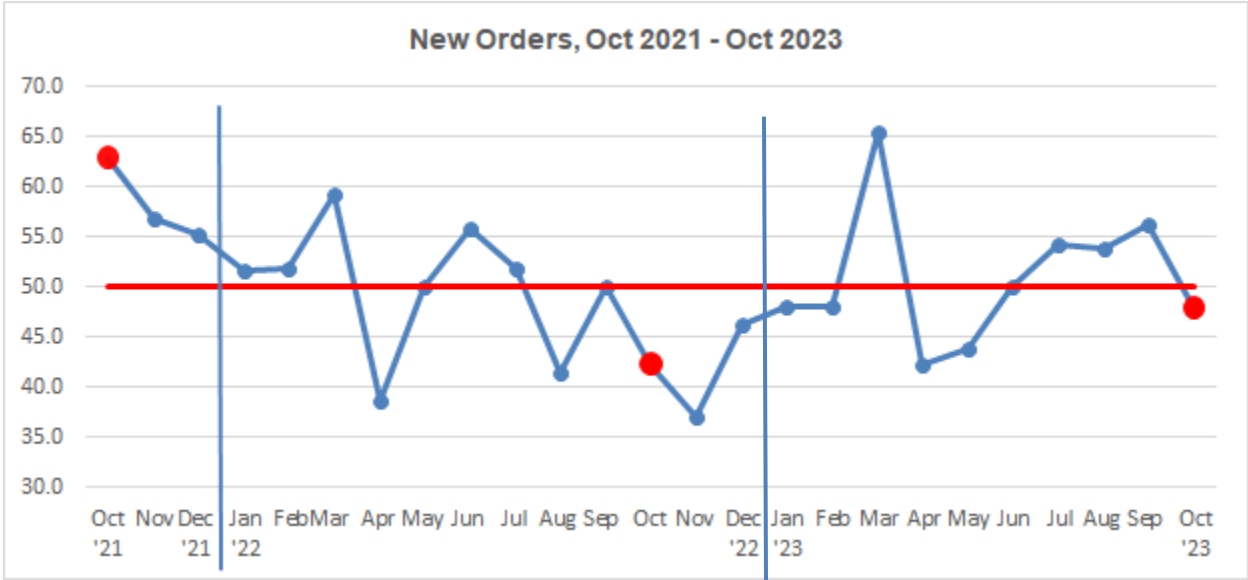


Source of U.S. PMI®: Institute for Supply Management®, Source of IE PMI®: Institute of Applied Research

The **Production Index** (one of the two key components of the PMI) registered a decrease from last month's 54.2 to **52.1** this month, indicating that although production is still growing, the *rate* of growth continues to slow down. As the graph shows, there typically tends to be the beginning of a slowdown in production at year end going into a new year.



The **New Orders Index** (the other key component of the PMI) registered **47.9** (a significant decrease from last month's 56.3). Again, this is an expected year-end decrease, however we note that this index has registered below 50 for 5 out of the 10 measurements taken in 2023. This bears watching, as a continuing trend of declining new orders could portend trouble for the Inland Empire manufacturing sector and economy.

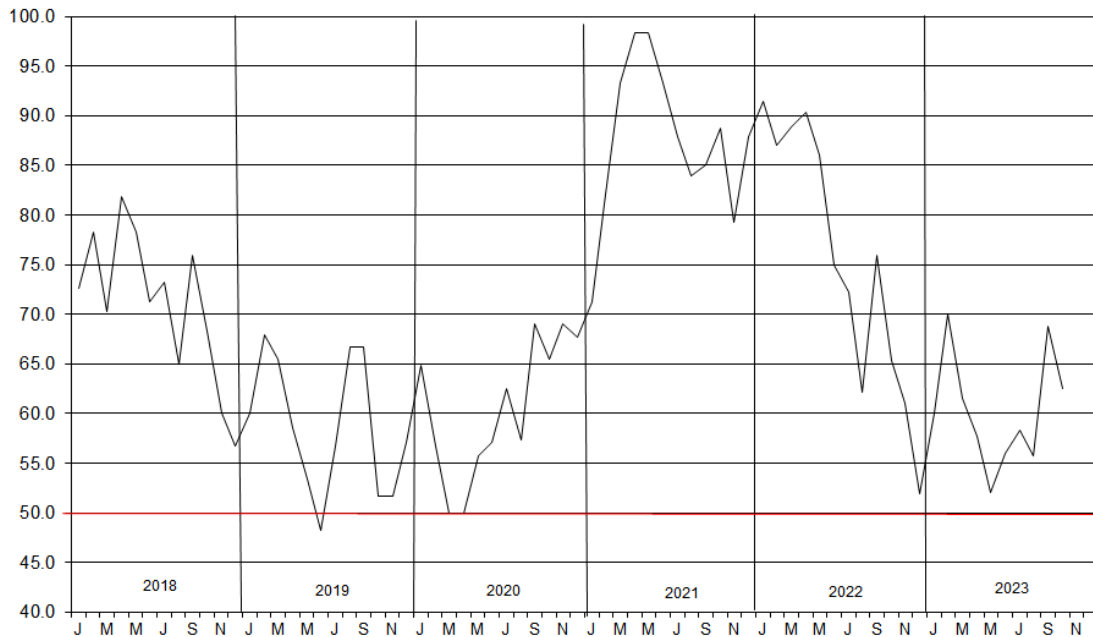


In more positive news, the **Employment Index** has now shown two consecutive months of figures above 50. This month registered **56.3**, a significant jump up from last month's 50.0. A few panelists commented that they hired permanent (as opposed to temporary)

staff in the month of October.

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 slight decrease from last month's 68.8 to **62.5** this month. One panelist's comment: *"The best news is that fuel costs are going down."*

**Commodity Prices**



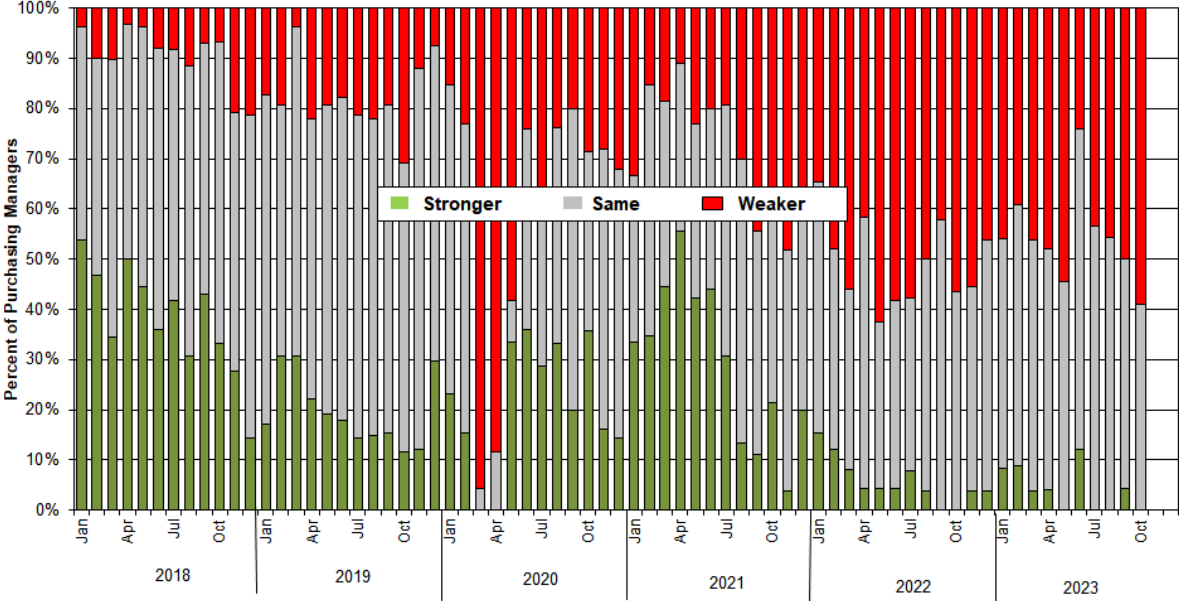
The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index is unchanged from last month's **47.9**, indicating that supply deliveries are getting faster. This is not necessarily good news. Typically deliveries get 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 **43.8** this month, a drop from last month's 47.9. This is not an unusual pattern for the end of the year when new orders typically drop. Further, over half of the panelists (**62.5%**) 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 **20.8%** said that their inventory of finished goods had declined (meaning more people were buying than expected), and the remaining **16.7%** 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 is at a low ebb. **None** of the panelists expressed the opinion that the local economy would improve by the end of the year. Over half (**59.1%** --up from

45.8% last month) believe that the economy will be weaker over the coming quarter, and **40.9%** predict it will remain the same (down from last month's 54.2%).

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



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

<b>October 2023 Business Survey at a Glance</b>					
	<b>Series Index</b>		<b>Direction from 50</b>	<b>Rate of Change from Last Index</b>	<b>Trend Months</b>
	<b>Last Month</b>	<b>This Month</b>			
Local PMI	51.3	49.6	Contracting	From Growing	1
Commodity Prices	68.8	62.5	Increasing	Slower	52
Production	54.2	52.1	Growing	Slower	5
New Orders	56.3	47.9	Contracting	From Growing	1
Inventory	47.9	43.8	Decreasing	Faster	2
Employment	50.0	56.3	Growing	From Unchanged	2
Supplier Deliveries	47.9	47.9	Getting Faster	Unchanged	2
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	4.2%	0.0%			
% Same	54.2%	40.9%			
% Weaker	45.8%	59.1%			

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:

- *"New orders have slowed."*
- *"New sales have been down and the economy seems to be slowing up a little bit. Only certain corporate customers are still buying while the smaller business has almost stopped."*
- *"Not much has changed since last month which wasn't a great month."*
- *"October saw a slight pick-up in business from the lousy months of August and September, however business is still significantly down from Q1. Most customers continue to say the same thing - inventory recession."*
- *"Sales are stagnant and prospects of improving in the next 2 months are not good. Perhaps the new year will show improvement."*
- *"Still slow. Down 30% year over year."*
- *"The overall issue that will reverberate in business conditions is the unpredictable consequences that are created by the U.S. Government's inability to function. The only thing predictable is that it will have negative consequences, but the form that negativity will take, while profoundly important, is unpredictable. We need to have this resolved to provide a more predictable business climate."*

There were only a few relatively positive comments:

- *"The best news is that fuel costs are going down."*
- *"Most customers are still generally upbeat about the coming few quarters, but they need to get through their current high inventory levels."*
- *"October will be the biggest month in our history, but unfortunately it was due in part to the sale of products used on naval carriers to refuel aircraft. These products are most probably in demand due to the conflict in the middle east. We are still getting new customers and our other products are selling at a faster rate."*

**In summary**, after five consecutive months of "positive" PMI figures, the index has dipped back 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 two more "below-50" readings before we conclude that the Inland Empire manufacturing sector is longer in growth mode.

On the other hand, the index has historically shown a great deal of volatility, thus it is quite possible that it will bounce back above 50 in the next month or two. Further, we note that the overall trend of the PMI had been declining from mid-2021 through the end of 2022 but has somewhat "flattened out" in 2023. Thus this month's PMI reading may not be as worrisome as it could be.

National GDP has been increasing, but the global economic environment is not thriving. The wars in Ukraine and Israel, continuing inflation, and congressional gridlock have severely impacted the global, national, statewide, and local economy. We hope that some of these issues will be resolved in the coming months.

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

**FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:**

Dr. Barbara Sirotnik  
Director, Institute of Applied Research  
bsirotni@csusb.edu  
(909) 537-5729

Ryan Niesen  
Economic Development Coordinator  
San Bernardino County Economic Development Department  
(909) 387-4552

Rob Moran  
Deputy Director  
Riverside County Office of Economic Development  
(951) 955-6673

Dr. Tomás Gómez-Arias  
Dean  
The Jack H. Brown College of Business and Public Administration, CSUSB  
909-537-3703