

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

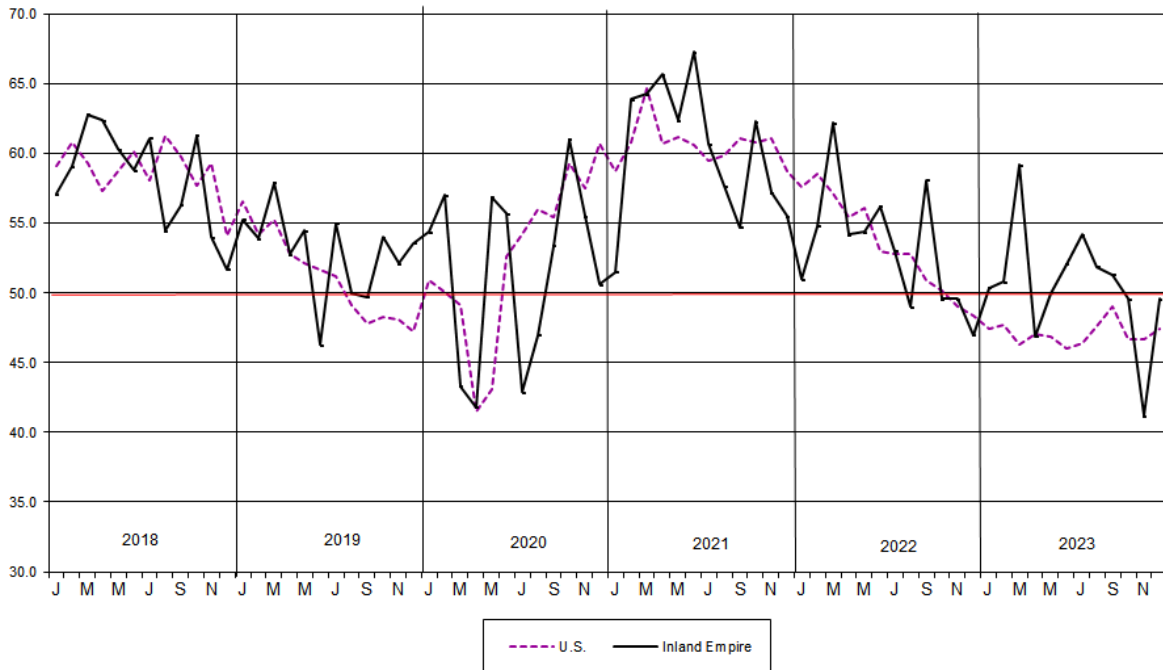
**Housed in CSUSB's Jack H. Brown**  
**College of Business and Public Administration**

**Report for December 2023**

**PMI NEW DIRECTION**

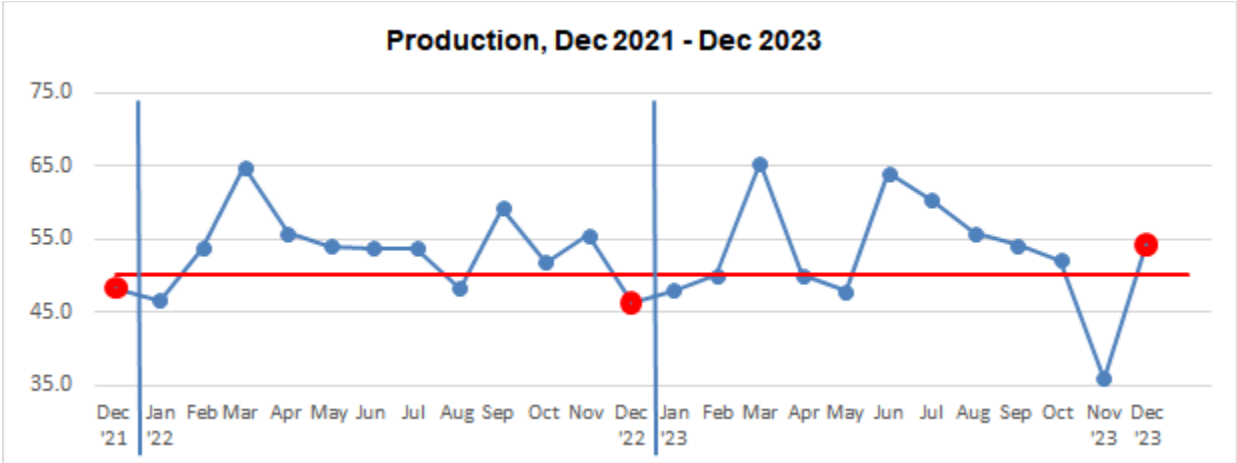
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **49.6**, a significant increase from last month's 41.2, but the third month below the 50% baseline. Since it takes three consecutive months of figures above or below 50 in order to establish a new trend, we can now say that the Inland Empire manufacturing sector is no longer in growth mode (although the overall economy is still growing). On the other hand, we note that both the October and December figures were 49.6 (just barely below 50), so we are not ready to "panic" yet."

**Purchasing Managers' Index**



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

One of the positive notes of this report is that the **Production Index** (one of the two key components of the PMI) registered a substantial increase from last month's 36.0 to **54.2** this month. This indicates that production grew last month. In December 2021 and 2022, the figure was below the 50% baseline, so this increase is good news.



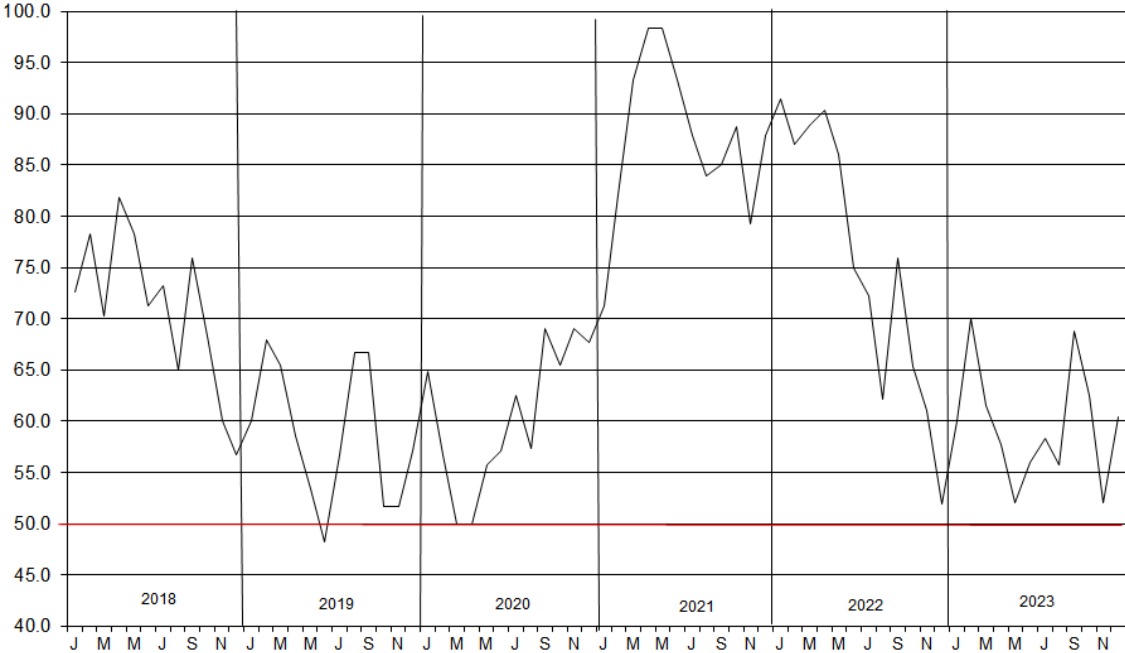
The **New Orders Index** (the other key component of the PMI) also registered **54.2** (a significant increase from last month's 36.0). The fact that both production and new orders rose just reinforces the earlier statement that this month's PMI does not necessarily portend a trend of decline which would normally be predicted with three consecutive months of below-50 PMI figures.



The **Employment Index** registered **45.8**, a slight drop from last month's 46.0. This is the second month the index has registered below 50 – a pattern we typically see at the end of the year when holiday production is over.

A consistent concern for US businesses and consumers over the past 3 years has been inflation. Nationwide, inflationary pressures have been easing. For example, consumer prices were up 3.1% in November from a year earlier – not quite the target 2% rate, but certainly well below the 9.1% from June 2022. Prices continue to increase on a variety of commodities, but certainly not at the rates experienced since the beginning of 2021. Focusing on the Inland Empire picture, the volatile **Commodity Price Index** for the Inland Empire saw an increase from last month’s 52.0 to **60.4** this month. This is still way below the figure of 98.3 experienced in 2021.

**Commodity Prices**



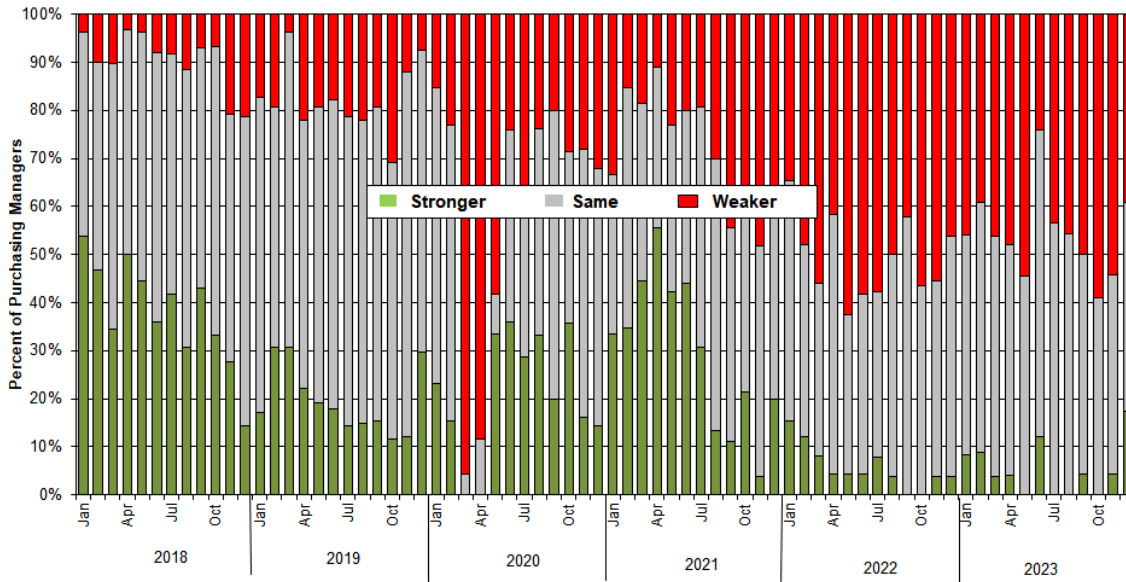
The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index remained below 50 this month, and showed a slight increase from last month’s 46.0 to **47.9** this month. Typically deliveries get faster if customer demand 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 **45.8** this month, an increase from last month’s 42.0, but still below the 50% baseline. Further, **62.5%** 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 **16.7%** said that their inventory of finished goods had declined (meaning more people were buying than expected), and the remaining **20.8%** said inventory had increased.

Panelists were also asked to make a prediction regarding the state of the local economy for the coming three months. From one point of view, panelists were relatively pessiistic:

**39.1%** of panelists predicted the economy will be weaker in the coming three months. Yet we must note that the figure is down significantly from last month's 54.2%. Further **17.4%** of the panelists expressed the opinion that the local economy would improve in the next three months (an increase from last month's 4.2%). The rest of the panelists believe that the economy will be the same over the coming quarter. Bottom line: the green bar in the graph below (reflecting the prediction of a stronger economy) is larger than it has been since the end of 2021, and the red bar (reflecting weakness) is smaller than it has been most of the past two years.

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



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

<b>December 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	41.2	49.6	Contracting	Slower	3
Commodity Prices	52.0	60.4	Increasing	Faster	54
Production	36.0	54.2	Growing	From Contracting	1
New Orders	36.0	54.2	Growing	From Contracting	1
Inventory	42.0	45.8	Decreasing	Slower	4
Employment	46.0	45.8	Contracting	Faster	2
Supplier Deliveries	46.0	47.9	Getting Faster	Slower	4
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	4.2%	17.4%			
% Same	41.7%	43.5%			
% Weaker	54.2%	39.1%			

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. Many of the comments expressed negativity/concerns. For example:

- *“2023 has been a down year. Glad it's over and looking forward to a more positive 2024.”*
- *“Continues to be slow. We are forecasting an even slower 2024.”*
- *“Hope the wars don't cause a rise in natural gas prices.”*
- *“It has been a very slow 4th quarter. Q-1 looks a little more promising but not near as well as the start of 2023.”*
- *“Same revenue as last year with increasing costs. Business climate does not look good.”*
- *“Slow”*

There were only a few relatively positive/mixed comments:

- *“Our industry is still suffering from the inventory recession going on. However, it seems to be looking a little brighter and we are seeing a little more activity from our customers. We are hopeful that this pick up continues into 2024.”*
- *“We are experiencing growth and it looks like a very strong 2024 for our products.”*
- *“We are seeing a lot of projects out for bid. Considering where the economy is and what is going on in the State of California we are surprised to see this much upcoming work. Fact is, we have plenty of work through 2024 and into 2025 at this time.”*
- *“We make a product that is used by the Navy and the sales of that product has greatly increased in volume, probably because of the issues in the middle east. Our other products have stabilized but we continue to get new customers.”*
- *“While there continues to be uncertainty in the national and international business climate, our particular business is seeing a significant buildup of backlog, particularly in our technical markets. This past year was very lean for us as a series of new programs were being developed in aerospace, and our diversity in other markets helped us meet the challenges as the new programs began to materialize, so we were able to avoid layoffs. This is critical for us, as our staff and their abilities provide the long-term competency we need to address these new technical requirements, for which we are now receiving orders. We go into 2024 with a growing backlog and growing optimism.”*

Finally, two of our panelists made comments specific to the California (not Inland Empire) economy:

- *“We find that California is declining in a lot of areas. Our employees are having a much tougher time making ends meet. Health Insurance in the State of California is absolutely out of control. Something needs to be done about that otherwise, companies like ours will not be able to afford to give our employees coverage.”*
- *“We have had 3 of our major suppliers move their operations out of California increasing supply lead time and shipping cost. We were given the reason*

*California has become too expensive to keep operations here. I have also interviewed 3 applicants that have made the same statement about the companies they were working for. Their reasons for leaving the companies is because the companies were closing their California operations and relocating to different states. This is not a good sign for California economics. It feels like we are moving from a manufacturing base to a storage base.”*

**In summary**, there are mixed signals in this report. The PMI itself shows that the Inland Empire economy is no longer in growth mode, and employment is down. Yet production and new orders are up! Further, numbers are obviously important, but they don't tell the whole story. Comments show that although some businesses are thriving, there are concerns about the national economy and geopolitical situation. In addition, there are disturbing comments and California's business climate and overall economy.

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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