

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

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College of Business and Public Administration

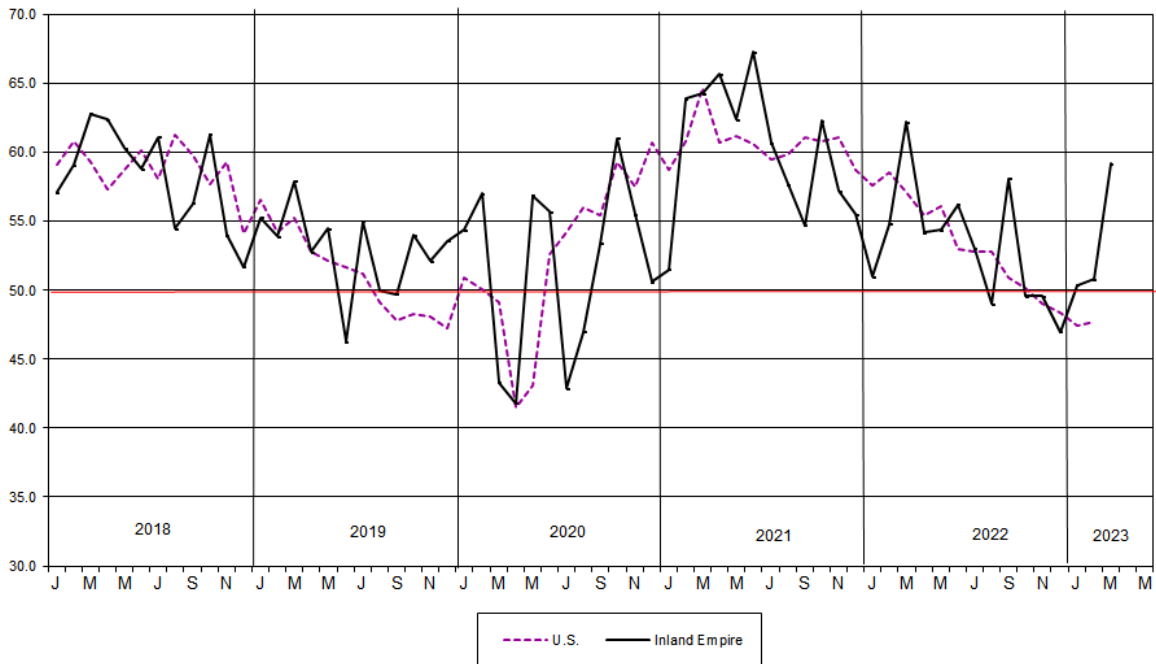
Report for March 2023

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

THIRD MONTH PMI ABOVE 50, GROWTH TREND RE-ESTABLISHED

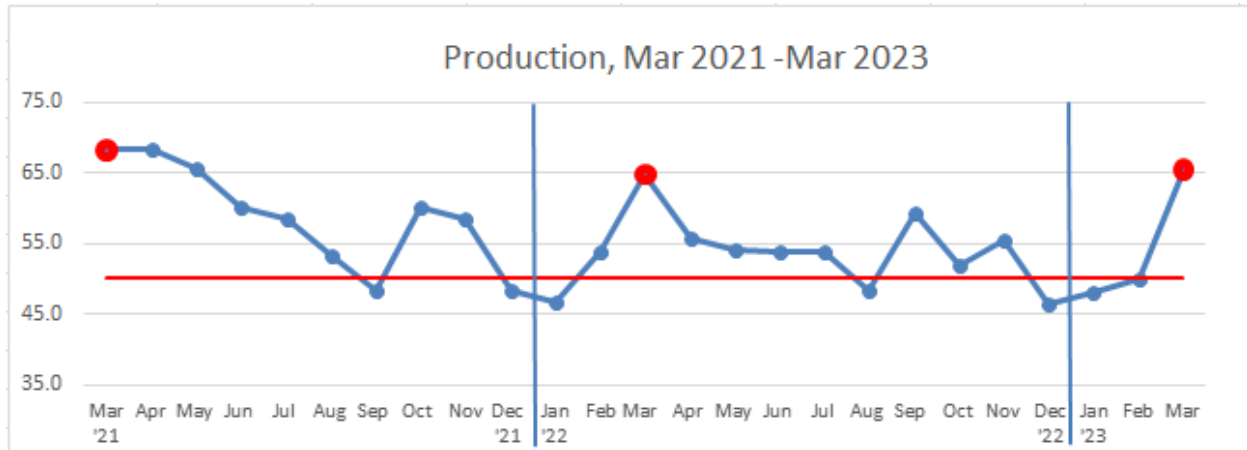
According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), "This month's Inland Empire **Purchasing Managers' Index (PMI)** registered **59.2**, a significant increase from last month's 50.8. This is the third month the PMI has remained above 50, indicating that the manufacturing sector has returned to 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 50.0 to **65.4**. This trend of an increase in March has been a typical pattern over the past few years. We will see next month if the typical "dip" follows this month's high point.

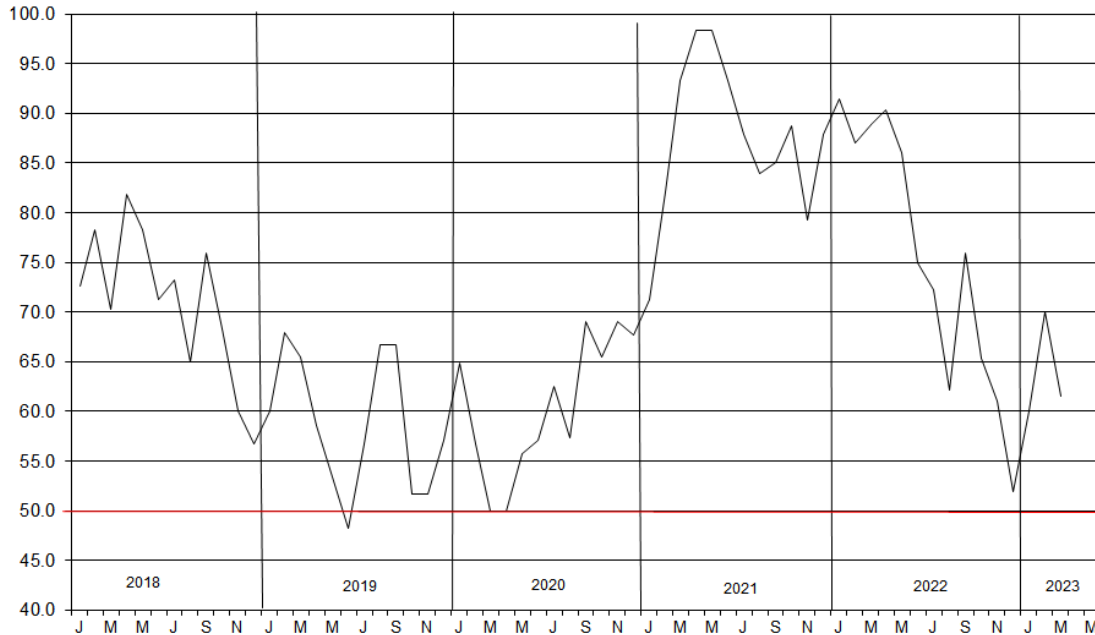


The **New Orders Index** (the other key component of the PMI) also registered **65.4** this month, a jump up from last month's 48.0. This is the first month that the index has increased above the baseline 50 in the past several months, indicating that new orders may be improving.

Another positive sign is the **Employment Index** which increased to **59.6** over last month's 58.0. Several of the companies stated they hired permanent positions (as opposed to temps again this month) and indicated that they are increasing staffing this month in anticipation of a busy year. This is the third month above the baseline 50, indicating a definitive change to a positive trend after several "negative" months.

Further, in more positive news, the **Commodity Price Index** for the Inland Empire dropped from 70.0 to **61.5** this month. Inflation has been easing since early 2021, and even with the latest turmoil in the banking industry, the Fed is expected to continue to raise interest rates in an attempt to rein in inflation even further.

Commodity Prices

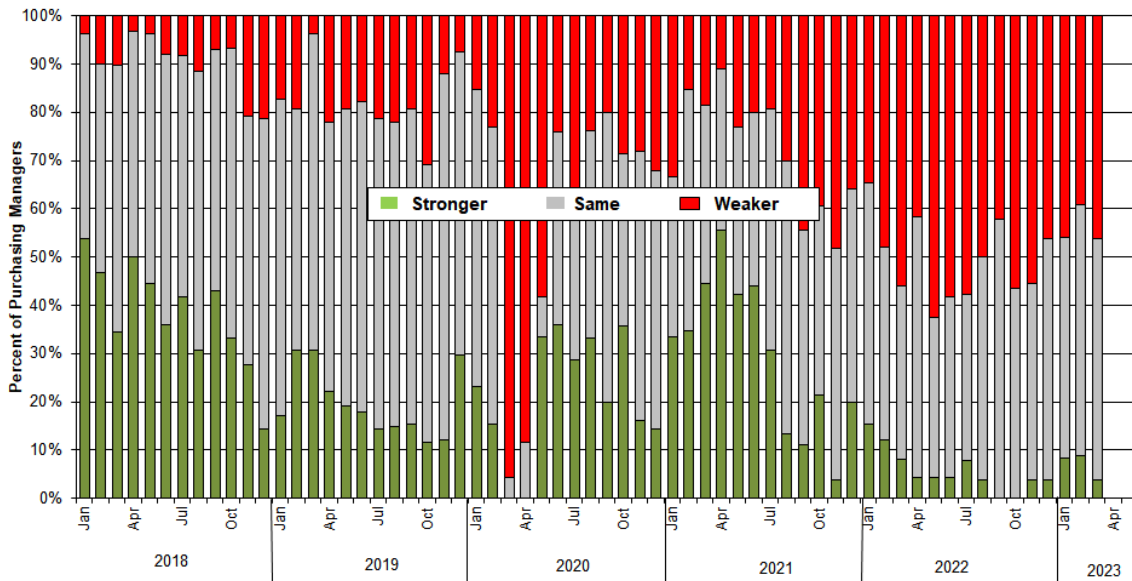


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index dropped from 50.0 last month to **44.2** this month, indicating that the speed of deliveries has increased since last month. This is the first time since the end of 2019 that the index has dropped below 50.0.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **61.5** this month, an increase from last month's 48.0. This increase tends to be part of a seasonal pattern. Further, this month **34.6%** of panelists reported an increase in the **inventory level of finished goods** (up from 8%) last month. The majority (**53.8%**) reported that their inventory level of finished goods was the same as the previous month (meaning that production of finished goods is "staying even" with sales), and the remaining **11.5%** reported that their inventory level of finished goods had decreased.

Panelists' perspectives about the state of the Inland Empire economy have not changed much over the past twelve months, with optimism remaining in the single digits. Only **4%** stated they believe the economy will be *stronger* in the coming quarter (a drop from 9% last month). Almost half (**46%**) believe that the local economy will become weaker in the coming quarter, and the remaining **50%** believe that the next quarter's economy will continue to be "the same" as it has been (where "same" means an economy still struggling both in the IE and nationwide).

State of the Local Economy Manager's Predictions



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

March 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	50.8	59.2	Growing	Faster	3
Commodity Prices	70.0	61.5	Increasing	Slower	45
Production	50.0	65.4	Growing	From Unchanged	2
New Orders	48.0	65.4	Growing	From Contracting	1
Inventory	48.0	61.5	Increasing	From Decreasing	1
Employment	58.0	59.6	Growing	Faster	3
Supplier Deliveries	50.0	44.2	Getting Faster	From unchanged	1
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	9.0%	4.0%			
% Same	52.0%	50.0%			
% Weaker	39.0%	46.0%			

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. Even though the PMI index is relatively positive, there were a number of negative comments from panelists. Negative remarks included:

- *“Russia and China's partnership is a cause for concern. We sold off all holdings in Russia, but remain present in China.”*

- *“Seeing more softening for large orders. It appears that inventory levels are high, and demand is going down.”*
- *“The Fed's efforts to address inflation through interest rate hikes has resulted in a slowdown of new orders, but not a decrease in prices for the materials or labor to manufacture products customers want and need.”*
- *“The number of orders has been lower than previous months.”*
“We had a 10% price increase at the first of the year. This price change may be having an influence.”
- *“We rely on international suppliers for raw materials and machine parts. Unfortunately, we have had several machine failures resulting in the need to purchase several parts that cost in the tens of thousands of dollars. Due to cash flow reasons, we have had to postpone some of our raw material purchases and this past month, we made those purchases.”*

Some positive/mixed comments include:

- *“Adding new customers mostly from Canada.”*
- *“Business has seemed to pick up a little bit in the last month, but still struggling to find hourly help.”*
- *“Orders are coming in ahead of last year. We have been notified of price increases for material and outside processes. It is difficult to compete with companies outside of California. We are finally able to hire personnel.”*
- *“Overall, most things remained constant month over month. We experienced some supply chain delays due to international imports making additional stops along the way without our knowledge. This caused us to purchase other raw materials from local suppliers at double and triple the cost.”*
- *“We see no letup in demand from the previous month. We still continue to see the strong demand continue at this level that we have come accustomed to. Prices have stuck and it is rare that someone asks for a lower price. It seems that we have been waiting for “the shoe to drop” but it has not happened yet. We are seeing better supply from the US mills. The supply availability is pretty much back to pre-COVID levels. So, maybe the mills are seeing lower demand but it is not at our distribution level yet.”*

Most of the questions on IAR’s monthly survey remain the same each month so as to enable a trend analysis over time. But it often includes a “special” open-ended question regarding a current issue. The special question added this month was: *“It is now the 3rd anniversary of the COVID “stay at home” order. Looking back, how has your company changed? What has been learned, and what has changed?”*

Of the 19 comments, 8 basically noted that there was **no change** due to the “essential” nature of the business. Several talked about having **remote schedules** for a portion of the workforce (which did not happen before COVID), and one noted that *“The most significant change we have witnessed is Teams and Zoom meetings seem to be the go-to now versus face-to-face interactions.”* Two people noted that because of previous

supply chain disruptions, they can no longer implement “just in time” ordering, and they keep **higher inventory on hand** to “*stay ahead of price increases and lack of availability.*” And one focused on changes in **health policies**.

Following are a few other interesting comments:

- “*We learned to operate more efficiently, and we became more resourceful by striking up local partnerships to get products, parts and services that we used to get nationally or internationally.*”
- “*We grew during that time. So the only changes have been more employees, bigger space, and more customers. Not sure if it is because competition went out of business, or if we just did our best job to make sure customers knew of us.*”
- “*We still have work time lost to covid, but much less. Hand sanitizers are all around the shop and used. We learned to get vaccinated.*”

In summary, this report includes some good news regarding production, new orders, and employment. The local PMI has now registered above 50 for three months in a row, thus we can now say that the local manufacturing sector (and overall economy) are back in growth mode.

On the national scene, consumer confidence was up in March, the stock market was better in March than in February (which is a typical yearly pattern), and the nationwide personal consumption expenditures price index (a key gauge of U.S. inflation) rose by less than expected. Of course the banking situation, war in Ukraine, and US political turmoil are all wildcards which could quickly change the economic recovery nationally and in the Inland Empire.

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

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