

**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**

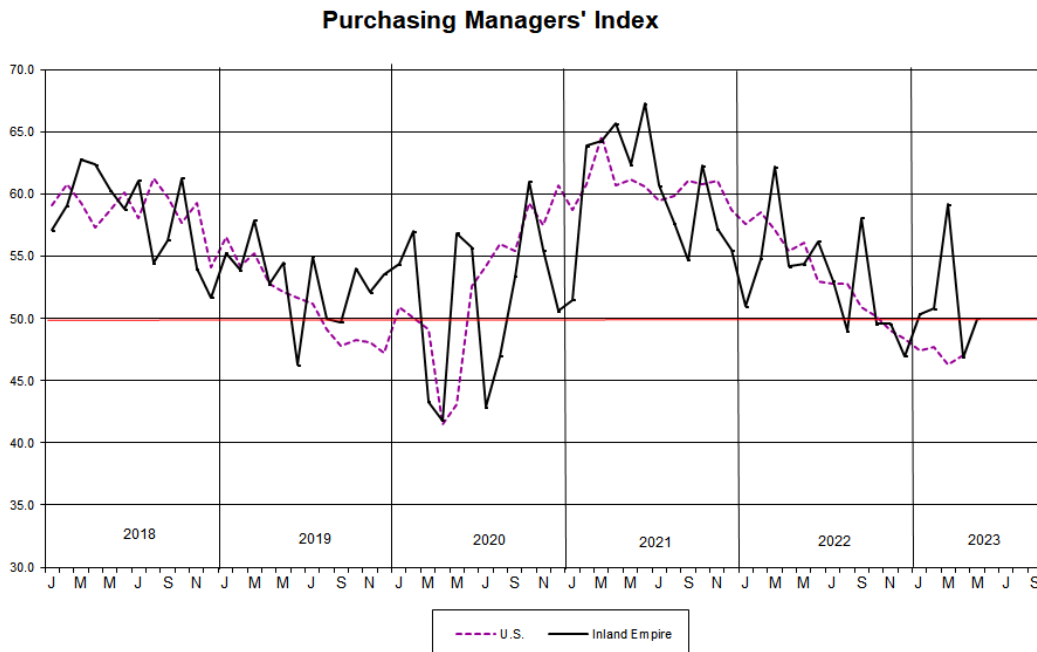
**Report for May 2023**

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

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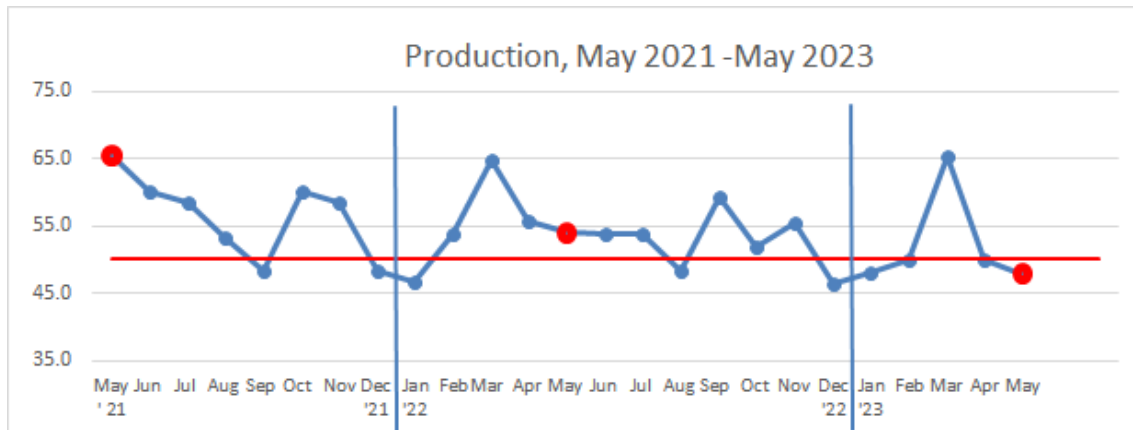
**PMI AT 50.0, UP FROM LAST MONTH BUT NOT YET IN "GROWTH TERRITORY"**

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 **50.0**, an increase from last month's 46.9. This increase to the baseline of 50 comes after one month registering below the baseline. Given the overall downward trend in the local PMI, this increase is not cause for celebration (yet). It will take two more months at or above the 50 baseline to determine a new trend of stability or growth."



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

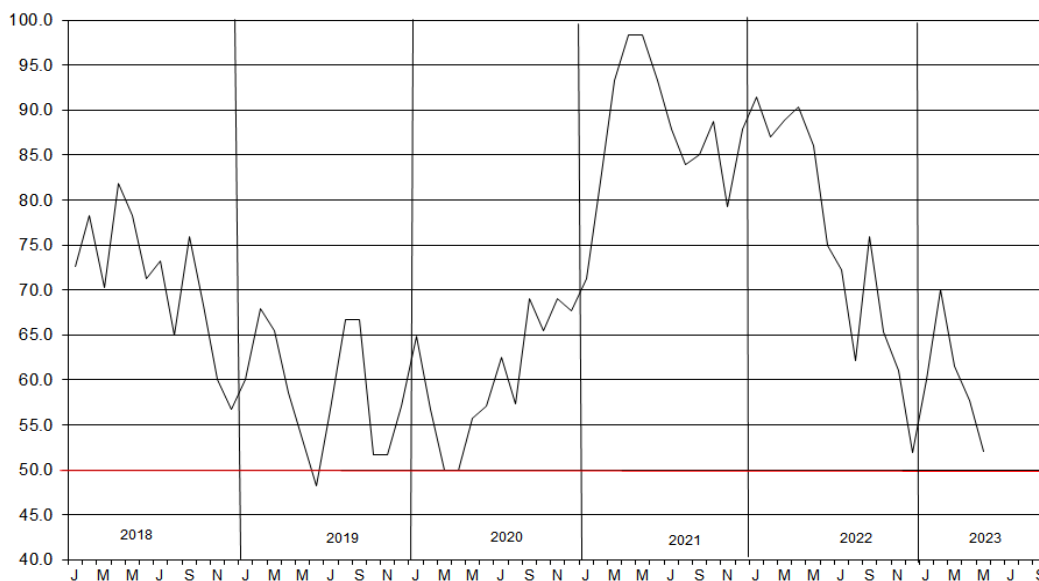
The **Production Index** (one of the two key components of the PMI) registered a significant decrease from last month's 50.0 to **47.9**.



The **New Orders Index** (the other key component of the PMI) registered **43.8**, a slight increase from last month's 42.3. The index has registered at or below 50 (indicating a decrease in new orders) for 9 of the last 12 months.

There were two bright spots in this month's report. First, the **Employment Index** increased to **54.2** from last month's 48.1. In addition, the **Commodity Price Index** continued to drop again this month. Specifically, the index dropped from 57.7 to **52.1** this month, reflecting an easing of inflation in the region. Overall, this inflation index has been declining since early 2021.

**Commodity Prices**

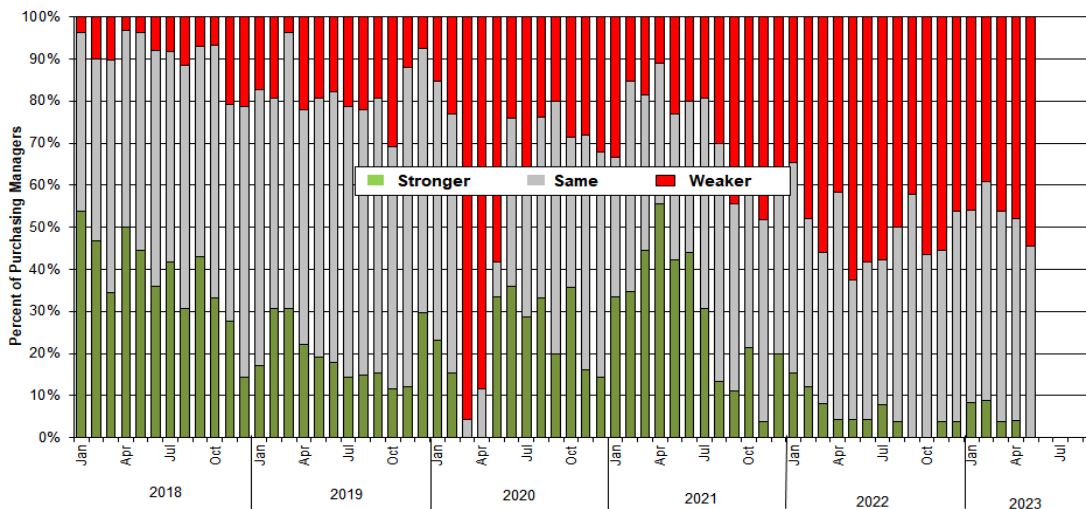


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers below 50 indicating *faster* deliveries. The index increased from 48.1 last month to **52.1** this month, indicating that supply deliveries are slowing.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **52.1** this month, an increase from last month's 46.2. Further, this month **70.8%** (up from 65.4% last month) reported that their **inventory level of finished goods** was the same as last month, meaning that production of finished goods is "staying even" with sales. Only **12.5%** of panelists (a drop from last month's 19.2%) reported an increase in the inventory level of finished goods, and the remaining **16.7%** (up slightly from last month's 15.4%) reported that their inventory level of finished goods had decreased.

Optimism about the state of the economy in the near-future continued to decline again this month. There were NO panelists stating that they believe the economy will be *stronger* in the coming quarter. More than half (**55%**) believe that the local economy will become weaker in the coming quarter, and the remaining **45%** 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:

<b>May 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	46.9	50.0	Unchanged	From Contracting	1
Commodity Prices	57.7	52.1	Increasing	Slower	47
Production	50.0	47.9	Contracting	From Unchanged	1
New Orders	42.3	43.8	Contracting	Slower	2
Inventory	46.2	52.1	Increasing	From Decreasing	1
Employment	48.1	54.2	Growing	From Contracting	1
Supplier Deliveries	48.1	52.1	Slowing	From Faster	1
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	4.0%	0.0%			
% Same	48.0%	45.5%			
% Weaker	48.0%	54.5%			

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 and subcomponents are relatively negative, there were a few positive/mixed comments from panelists. Those comments included:

- *“Imported materials cost less.”*
- *“New products for Canadian customers.”*
- *“Some raw materials are dropping in price and availability has improved.”*

Most of the comments, however, had a negative slant:

- *“Feeling a little worried that things are slowing down. Hoping for a bounce back in the summer.”*
- *“Imports are taking too long to arrive. Need to control cost of inventory.”*
- *“Lead times too long.”*
- *“May continued to slow down from the peak levels of earlier this year. Business remains above pre-COVID levels but obviously seems slow since we have become used to running at 100%+. Deliveries are now mostly early, something unheard of in this industry. For us, it is a welcome relief as we head into the vacation times of the summer. A slower business environment will make it so we are not scrambling during the summer when we are short-handed. We will also be able to get to some delayed maintenance issues that will not affect production. Assuming this is only a temporary slowdown, it will be a good time for us to catch up on those items and upgrades that we have not been able to get to due to strong business demand and lack of time.”*
- *“New orders are still slow. Inquiries are coming in but new orders not so much.”*
- *“Orders a little slower this month but material prices seemed to be stable. More candidates applying for open positions.”*
- *“Still slow. No signs of improving.”*

- *“We are still slow. Customer orders are slow and causing higher inventories.”*

As mentioned in previous reports, most of the questions on the IAR’s monthly survey remain the same each month so as to enable a trend analysis over time, and they are the same questions asked on the national survey each month. But at times IAR does ask a “special” open-ended question regarding a current issue. The special question added this month was: *“Finally, think about all of the challenges experienced in your organization this past year. What has been your major concern for the business?”* Concerns were quite varied, including issues about the supply chain, ability to find new employees, inflation, California and international politics, and the overall economy.

**The major concerns mentioned include:**

- “Being able to get the raw materials delivered in a timely manner.”
- “California and national politicians.”
- “Inflation, ability to find new employees.”
- “Interest rates and material availability. Cost of doing business in California. . California too involved in what we pay employees.”
- "It went from material availability and high material cost to now cash flow and employee turnover."
- “Keeping employees with new raising hourly rates and trying to keep up with the cost of living.”
- “Major slowing of the economy overall has me very concerned. The period of COVID was super hectic and chaotic, but business was very good. Now orders are slowing and it appears to be the trend for at least a few months coming. I don't like to be pessimistic, so I'm hopeful that this is just a rebound from surge buying during the pandemic and will balance out in the next few months.”
- “Our major concern has been the escalation of cost for parts and materials. In order to stay competitive, we have reduced our profit margin on our finished goods. Recently, we are now experiencing slow sales. This is not typical for us, and we are concerned we will see a continued decline in sales.”
- “Political state with China and Russia.”
- “Slow down causing pressure from corporate office to reduce costs and maintain quality and productivity.”
- “Slow Economy. Clients not placing new orders in the quantities they used to.”
- “Staying in California with more taxes and regulations as a chemical company.”
- “Supply of materials critical to maintaining the production. Items like steel have longer lead times to obtain. Fabricated parts are also delayed for a similar reason.”
- “The major concern was finding good employees. We are now past that hurdle, we found several new, quality people for our warehouse and we appear to have the right number of people going into the balance of 2023. My new major concern is taking this time to really improve our processes, especially taking a hard look at new technologies available that will enable us to grow and handle

the next wave of business without having to add additional people to the mix.”

- “Whether we would have enough sales to keep operating.”
- “With the increase in employee opportunities we have had some move on to other companies in our production work staff and this has required a greater attention to integrating new staff, although not many, into our unique cultural way of manufacturing.”

**In summary**, this month’s PMI continued its overall downward trend, with a pull-back in new orders causing angst among our panelists. In addition, panelists continued to mention problems finding good new employees, and some expressed concerns about political realities in California and the nation as a whole which are wreaking havoc on the overall economy. In fact, some may question whether the pessimism in this month’s data may be due to the fact that the data were collected during the last week of May when it was possible that a deal might not be reached in terms of raising the debt ceiling (NOTE: as we write this report, we note that the House has overwhelmingly passed the debt limit package, and it is moving to the Senate for review and passage). As mentioned by one of our panel members:

*“The uncertainty in the economy due to the political gamesmanship on raising the debt ceiling creates the worst possible condition for us and others to avoid risk in our plans for the immediate and near future. So as we all "pull in our horns", so to speak, we sit in neutral waiting to see the outcome of both Fed Policy and political resolution to the debt ceiling debacle before moving forward in our own business.”*

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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