

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

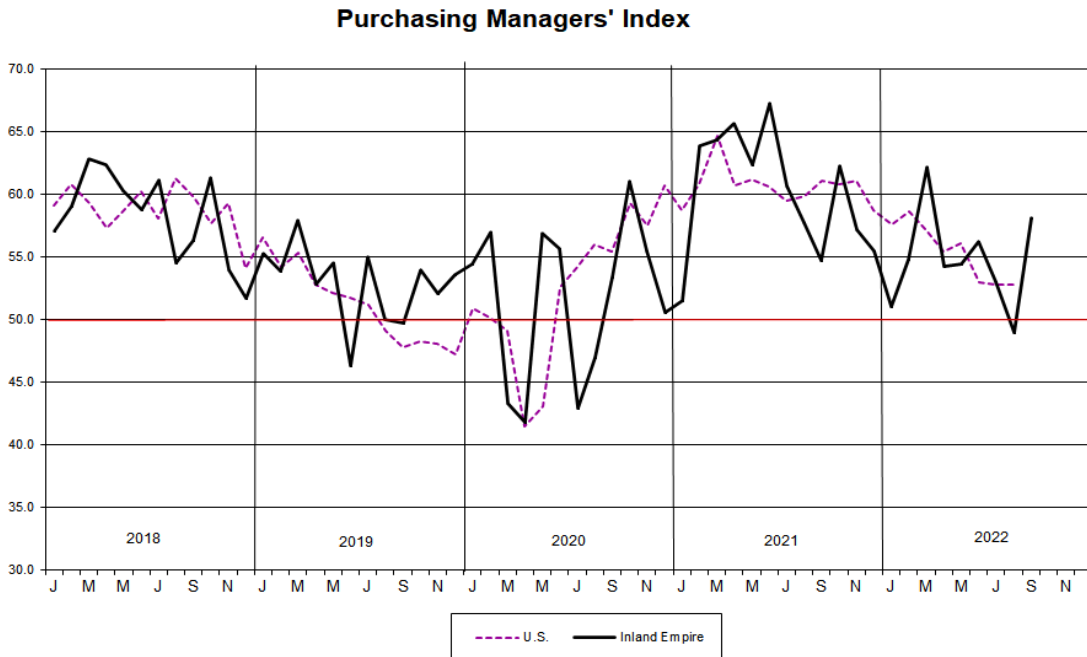
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**Report for September 2022**

**Sponsors: San Bernardino County Economic Development Agency**  
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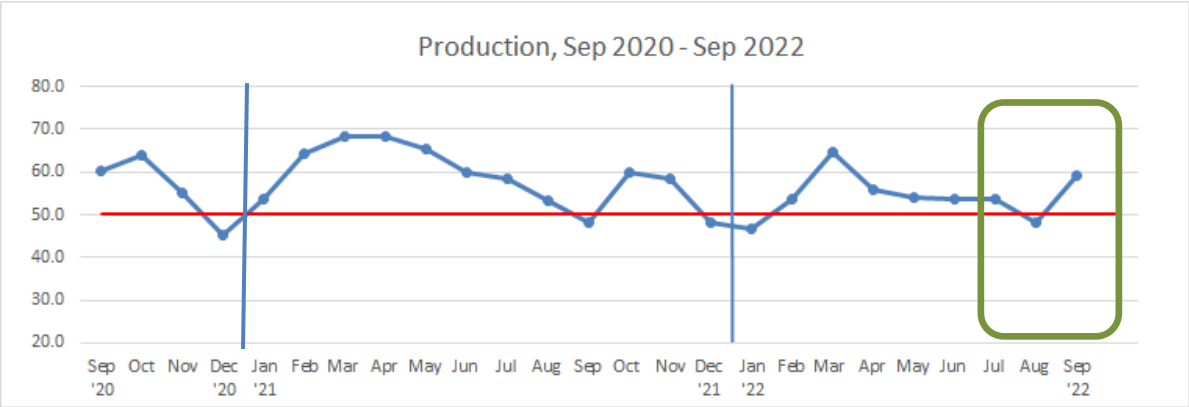
**INLAND EMPIRE PMI RETURNS TO GROWTH MODE**

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 **58.1** after dipping below 50 in August for the first time in 23 months. It appears that last month's figure may have been a statistical anomaly, and that the Inland Empire economy is continuing its slow and steady growth.



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

As noted in previous reports, the **Production Index** is one of the two key components of the PMI. This month's Index (**59.3**) increased sharply from last month's 48.3, and is predominantly responsible for the increase in this month's PMI figure.

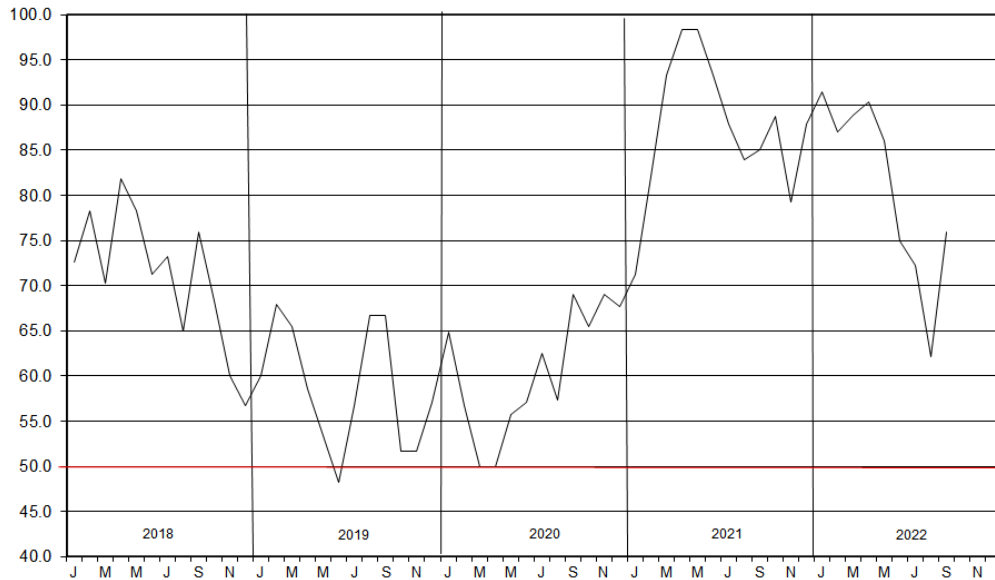


The **New Orders Index** (the other key component of the PMI) also increased, jumping from last month's 41.4 to **50.0** this month. An index of 50.0 indicates that new orders are at virtually the same level as the previous month.

The **Employment Index** showed a positive turn this month, registering at **64.8** (a significant increase from last month's 44.8 and the highest figure since 2018). One panelist commented: "Seems like we are having a better time getting new employees."

The **Commodity Price Index** for the Inland Empire increased again from last month's 62.1 to **75.9** this month, reflecting an increase in inflationary pressures. We note, however, that the figure is nowhere near the highs seen in early 2021. Inflation has dominated the national economic news, and California is not immune to that trend. One area of concern for California's residents and businesses is the especially high gas prices. The AAA California average is \$6.382 as of 10/2/22, whereas the national average is \$3.799 (<https://gasprices.aaa.com/?state=CA>). But energy and food costs have also skyrocketed.

### Commodity Prices

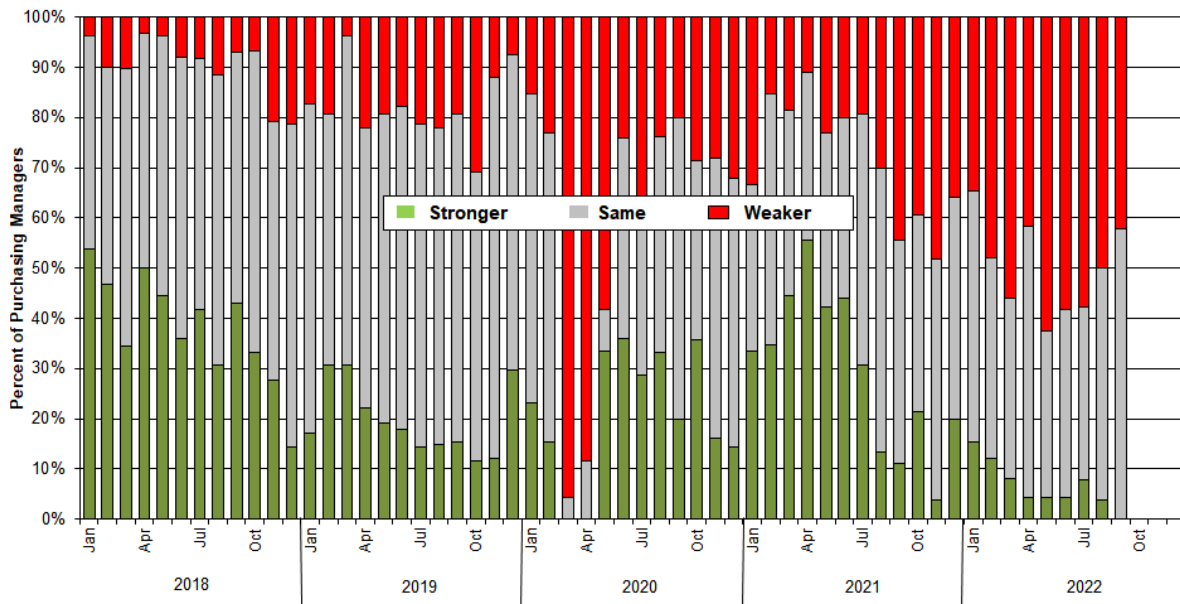


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index increased slightly from 62.1 last month to **63.0** this month. This indicates that the speed of deliveries continues to be an issue, with the *rate* of slowing increasing slightly from the previous month.

The overall **Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered at **53.7**, a significant increase from last month's 48.3. Most of the panelists (**70.4%**, up from last month's 58.6%) reported that their **inventory of finished goods** has not changed since last month, meaning that their production of finished goods is "staying even" with sales. A total of **7.4%** (down from 20.7%) indicated that their inventory level of finished goods has *decreased* (meaning sales were "good" and they were able to clear out inventory), whereas **22.2%** up from last month's 20.7% indicated that their level of finished goods has *increased* since the previous month.

Panelists were also asked to make a prediction regarding the overall "health" of the Inland Empire economy over the coming three months. Over half (**58%**, up from last month **46%**) of panelists predicted that the economy would remain unchanged over the next few months, and the remaining **42%** (down from 50% last month) predicted that the economy would be **weaker** in the coming quarter (red bar below). None of our panelists predicted that the economy will be stronger (whereas last month **4%** of panelists forecasted a **strengthening** local economy). We have not seen zero optimism since March and April of 2020, when the stay at home order was put in place.

## State of the Local Economy Manager's Predictions



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

<b>September 2022 Business Survey at a Glance</b>					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	49.0	58.1	Growing	From Contracting	1
Commodity Prices	62.1	75.9	Increasing	Faster	39
Production	48.3	59.3	Growing	From Contracting	1
New Orders	41.4	50.0	Unchanged	From Contracting	1
Inventory	48.3	53.7	Increasing	From Decreasing	1
Employment	44.8	64.8	Growing	From Contracting	1
Supplier Deliveries	62.1	63.0	Slowing	Faster	36
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	4%	0%			
% Same	46%	58%			
% Weaker	50%	42%			

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. Comments seem to be split between positive and negative remarks, and some reflect BOTH sentiments. Here are some of the positive comments:

- “Business appears to be improving for the third quarter.”
- “Business is continuing to be strong.”

- Seeing requests for polymers that are scarce nationwide, customers are getting creative and are trying to use alternatives materials that would not have been considered 2 years ago.”
- “Things have been busy and we have hired a lot in the last months. Hoping the business stays strong through the winter.”
- “New customers in Canada.”

Several panelists made observations about continuing business challenges:

- "Both domestic and international orders are down which is somewhat typical for this time of year. We are having another price increase of 10% to keep pace with inflation in October."
- “Increased inventory prior to possible future shortages and/or price increases.”
- “Orders are still not coming in at a normal pace which is affecting our productivity. We are sending people home after four hours so as not to add to an already precarious situation. This is traditionally a slower time for us, but we are not seeing business pick up in the near future.”
- "Still waiting on 6 forklifts ordered one and a half years ago."
- “We are in need of more machine parts which are manufactured in Taiwan to keep our equipment running. If we could find another source, we would.”

Finally, some panelists provided a “mixed”/balanced view of general business conditions:

- “Business is brisk mainly because of our 2 new customers. Regular customers have slowed down but are still ordering. But they are only ordering what they need, no stock orders. Some material prices are going down.”
- “Demand continues to be strong. It’s not what it was earlier in the year but it is still near all-time highs and higher prices have certainly stuck. We continue to see customers quoting new business. We continue to see the mills struggling to meet deliveries. So, as negative as those want to be due to higher interest rates and a pending recession, we are just not seeing that anticipated decline from our customers. So, we continue to purchase as much as we can get from our suppliers. Our inventory is still about 40% below normal levels.”
- “Slowdown of certain industry orders, but raw material prices are leveling off.”
- “Slowing down, but it seems like we are having a better time getting new employees.”

**In summary**, the PMI is back in growth mode after dipping below 50 last month, but the short-term forecast for the future of the Inland Empire economy can best be described as “uncertain.” As one panelist said: “The impact of inflation, along with challenges in the supply chain that have affected production schedules and therefore shipments (i.e., sales), coupled with the aggressive increases in the Fed Rate, have all pointed to the importance of a strategy for businesses to be as self-dependent as is possible. Of course, this is always a goal of people going into business in the first place, but very often a strategy difficult to pursue as they are dependent on outside sources for

financing, supplies, personnel, etc. Nevertheless, to the extent possible it is a long-term strategy to pursue, and the current conditions show why.”

Concerns about economic contraction continue locally, nationally, and globally. We will continue to track the opinions of our business leaders over the coming months.

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

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