

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 2024

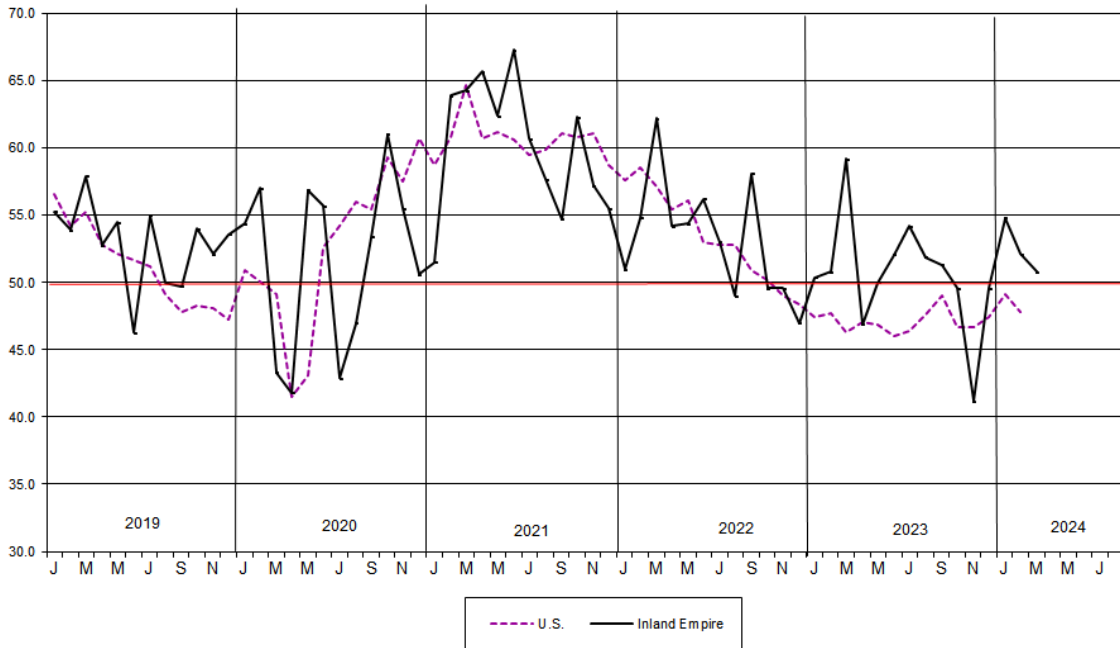
THIRD CONSECUTIVE MONTH OF GROWTH

CONTEXT FOR THIS REPORT: On Tuesday, March 26th, 2024, one day after sending the survey out to our panelists, a cargo ship crashed into the Francis Scott Key Bridge in Baltimore. The shipping container took out the bridge, injured two people, and (presumably) killed six others. The debris has blocked access in and out of the port which is the top U.S. port for autos and an important one for other goods given its location as the furthest inland port. Logistics professionals are attempting to minimize the impacts of the disruption, but increased costs are probable. It remains to be seen how much supply chains will be affected by the bridge collapse.

It is in this context that we write this report based on the data from our monthly survey of manufacturing firms in the Inland Empire.

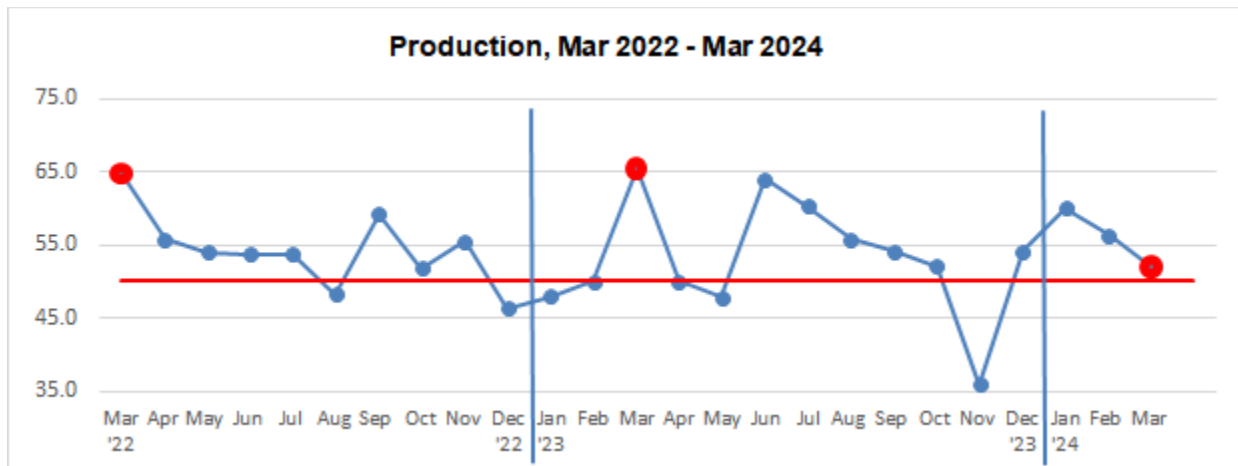
“According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Specialist, Institute of Applied Research), “The Inland Empire **Purchasing Managers’ Index (PMI)** for March registered **50.8**, a slight decrease from last month’s 52.1. It takes three consecutive months of figures above or below 50 in order to establish a new trend, and we now have three months of above-50 figures. Thus we can now definitively state that the Inland Empire manufacturing sector (and the overall IE economy) is growing.”

Purchasing Managers' Index



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 (**52.1**) decreased from last month's 56.3, thus Production continues to grow (just at a slower pace than last month).



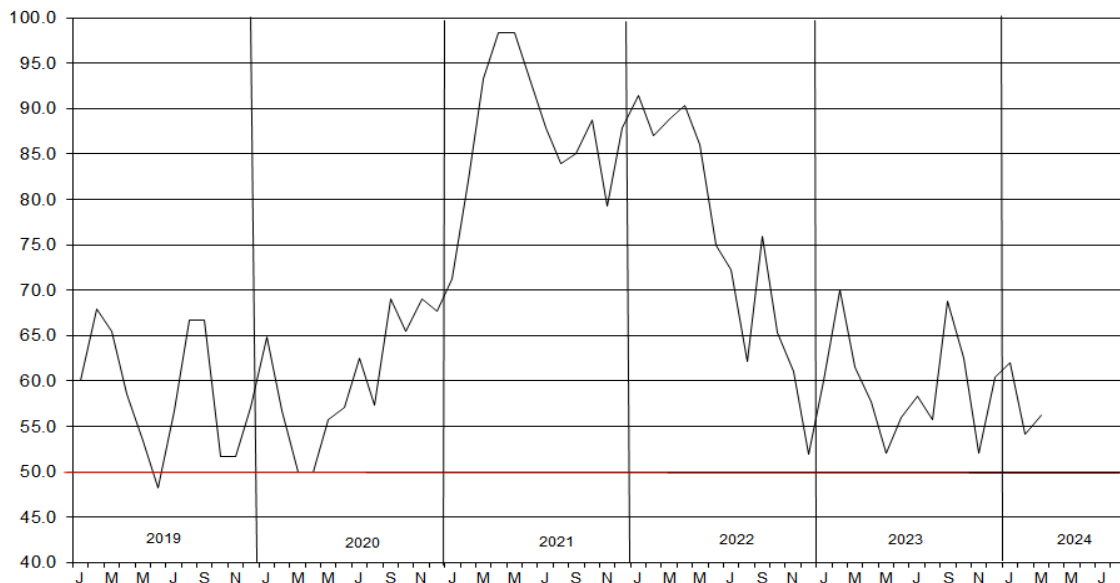
The **New Orders Index** (the other key component of the PMI) also remained above 50 although it decreased sharply from last month's 54.2 to **50.0** this month. This means that new orders have not changed since last month. But placing the figure in context, the last three months have shown figures above 50 (showing increasing new orders), thus "no change" could mean that the pace of growth is continuing at the same robust pace as before.



The last four months have seen below-50 figures for the **Employment Index**, reflecting declining employment. This month the index has increased from 45.8 back to **50.0**. That may not mean that employment is on the upswing since the value of 50.0 indicates that there has been no change in employment since the previous month, and that “no change” follows four months of declining employment. But at least the overall decline has stopped. It will take 2 more months of data before we can confidently indicate that employment has rebounded.

Over the past three years, US businesses and consumers have had to deal with inflationary pressures. As shown in the graph below, the **Commodity Price Index** for the Inland Empire soared from 2020 to 2021 but has been on a downward trend ever since. This month the March index was **56.3**, a slight increase from last month’s 54.2 but still at a relatively low level.

Commodity Prices

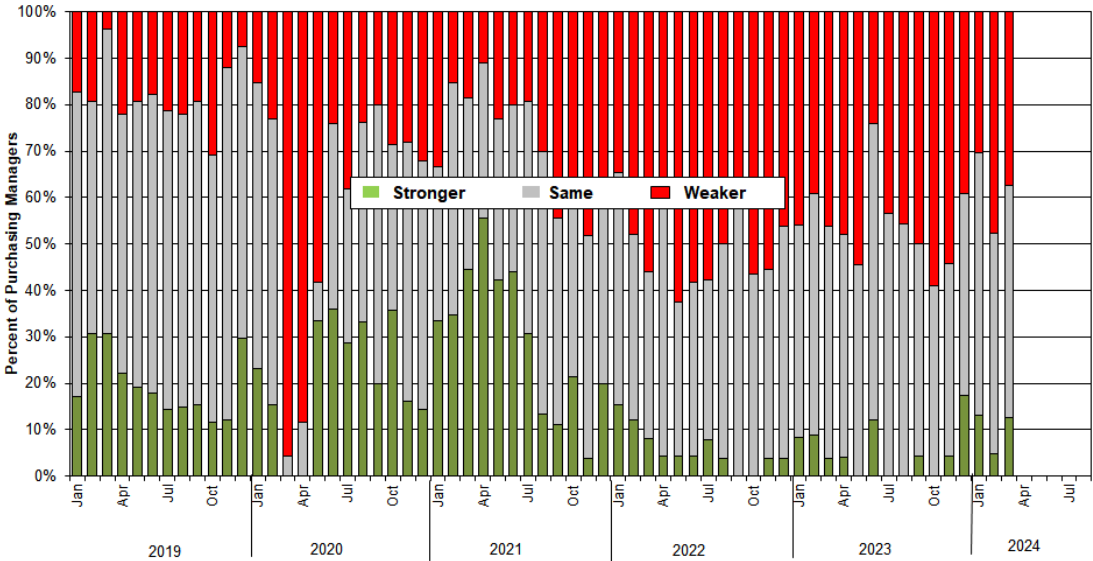


The **Supplier Deliveries Index** is a measure of the speed of supplier deliveries, with numbers above 50 indicating *slower* deliveries. The index registered **52.1** this month, showing that the speed of deliveries has slowed from last month. This could become a concern if the bridge collapse at the port of Baltimore causes delays in the supply chain.

The **overall Inventory level** (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. registered **50.0** this month, a decrease from last month's 54.2. It is the third month at or above the 50% baseline, showing that companies are holding steady or stocking up for future production. Further **25.0%** (down from 37.5%) of the panelists said that their **inventory level of finished goods** has increased, whereas **20.8%** (up from 16.7%) said that their inventory of finished goods had declined. The remaining **54.2%** (up from 45.8%) of the panelists said that their inventory level of finished goods was the same as last month. Overall, this means that production of finished goods is staying relatively even with their sales.

Panelists were also asked to make a prediction regarding the state of the local economy for the coming three months. About a third (**37.5%**) of panelists predicted the economy will be weaker in the coming three months. But that figure isn't necessarily showing a great deal of pessimism, since it is *down* from last month's 45.5%. Only **12.5%** of the panelists expressed the opinion that the local economy would improve in the next three months, an increase from last month's 4.5%. The other half of panelists (**50.0%**) believe that the Inland Empire economy will be the same over the coming quarter.

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



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

March 2024 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	52.1	50.8	Growing	Slower	3
Commodity Prices	54.2	56.3	Increasing	Faster	57
Production	56.3	52.1	Growing	Slower	4
New Orders	54.2	50.0	Unchanged	From Growing	4
Inventory	54.2	50.0	Unchanged	From Increasing	3
Employment	45.8	50.0	Unchanged	From Contracting	1
Supplier Deliveries	50.0	52.1	Slowing	From unchanged	3
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	4.5%	12.5%			
% Same	50.0%	50.0%			
% Weaker	45.5%	37.5%			

Finally, our survey always includes an overall question asking the panelists to offer general remarks regarding any business condition (local, national, or international) that affects the purchasing operation or the outlook of their company or industry. The vast majority of panelists made comments that included a sense of **stability** and/or overall **optimism** for the future:

- *“Companies worldwide are starting to replenish their inventories. Both Europe and Asia have increased their business with us over the last quarter.”*
- *“I would say that our incoming orders have stabilized. No significant change from last month.”*
- *“March continued with the "better than 2023" business climate but still not quite where we would like it to be. However, business is brisk from both consistent and old clients. Given that this is an election year, I would say that business seems to be better than previous election years.”*
- *“Same as last month, getting ready for our busy season.”*
- *“Starting to see a shift to the positive for new sales orders. Recent inquiries are turning into orders on a quicker pace than we have experienced in the previous three months.”*
- *“The movement towards a more stable approach to federal funding through bipartisan collaboration is a welcome sign for companies such as ours that work with projects associated with that funding. In our company's case, we had a lull in 2023 as programs ended and new programs had not yet come on line. Those new programs are now being implemented, and we are showing robust growth due to this.”*
- *“Things are busy from early orders. New orders seem to be slowing down a little bit.”*
- *“We are slower this month, but the quarter results are on track for our 25% growth.”*
- *“We are still obtaining new customers and opening new accounts so hopefully our growth will continue next month.”*
- *“We still see a lot of "Public Works" Jobs coming out for bid. It hasn't really*

slowed down as of yet. 2024 and 2025, at this time, look like they will be a very profitable. However, this could change. We are still seeing an increase of pricing on some of our products but have been able to accommodate the increase into our bidding process.”

But as usual, there were also some cautionary comments:

- *“I am sure we are not the only company that has been negatively affected by the new law for \$20.00 an hour for fast food workers, but that probably goes without saying!!!!!!!!!!!! A move to another state could be complicated but is still a consideration.”*
- *“Slower.”*
- *“The Federal Reserve’s sustenance of the current prime rate has impacted us with unproductive costs, even though we are less dependent on financing than many manufacturers. We are concerned that due to the liquidity in the economy, difficulty reaching the Fed’s 2% target may cause more delays in their ability to lower the Prime.”*

In summary, this report is generally positive for the Inland Empire Manufacturing sector and overall local economy. The PMI has remained over 50 for three months, thus we are back in growth mode. Production and new orders are holding steady or increasing, and employment has stopped its decline.

Placing these Inland Empire numbers in a broader context, we see that nationwide, consumer prices were up 3.2% year over year in February (March numbers won’t be available till mid-April), with food (especially food away from home) and shelter showing large increases. This could cause consumers to be cautious about purchasing products (including those produced in the Inland Empire). This month the Fed has left the interest rate unchanged for the fifth consecutive time, in an attempt to tame inflation and reach a “soft landing” for the US economy.

Adding to these factors is the uncertainty of the extent to which supply chains will be affected by the collapse of the Francis Scott Key Bridge in Baltimore. 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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