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Inland factory sector growth slowed in April

Precision Molded Products, a Riverside-based company, makes rubber and composite components for the aerospace industry.

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Inland Southern California's factory executives saw some gaps in their order books in April, suggesting that a string of federally mandated spending cuts are starting to affect the local economy, according to a report released Wednesday, May 1.

The Purchasing Managers Index, which measures the pace of manufacturing activity in Riverside and San Bernardino counties, declined to 54.2 in April from 59.7 the previous month, reported the Institute of Applied Research at Cal State San Bernardino. A marked slowdown in new orders received last month indicates that there could be less spending and less factory production in the near future.

A reading above 50 suggests growth in the sector, but the five-point decline means that the pace of growth is likely to slow in May. The Inland index has been above the 50 level for four straight months.

A component of the PMI that measures new orders showed a very steep decline last month, dropping from 63.9 in March to 48.6. The Cal State study is based on questionnaires received from 36 factory executives in the Inland area.

Nationally, a separate study by Tempe, Ariz.-based Institute for Supply Management found its monthly index also declined, although not as sharply as in the Inland region. The broader PMI declined to 50.7, its lowest level this year, from 51.3 in March.

The national index did have small increases in new orders and production. “This is not a slump, just more slow growth,” said John Silvia, chief economist for Wells Fargo Securities.

Economists are warning that the weaker numbers nationally and in the Inland area are reactions to the federal government’s sequestered spending cuts. They were mandated to start on March 1, but some are just now going into effect.

For example, cutbacks in federally funded unemployment benefits are taking effect that will reduce the spending power of about 400,000 Californians and probably more than 40,000 in the Inland counties. That tends to lower overall consumer spending and convince factories to throttle back on producing.

“This is where we expect to bear the brunt of sequestration,” said Robert Kleinhenz, chief economist for the Los Angeles County Economic Development Corp. “That’s taking the edge off the overall economic picture, and we might be seeing that in the drop in new orders.”

An estimated 85,700 people were making a living at factory jobs in March in the Inland area, and manufacturing is one of the sectors that has not come back to pre-recession payroll volumes. There were more than 125,000 positions in manufacturing in mid-2006, according to state data.

Chris Kozloski, president of Precision Molded Products, a Riverside company that makes rubber, plastic and composite seals for aircraft, said he has ongoing plans to expand but can't go forward unless the major aerospace manufacturers ramp up production. His customer list includes government and military contracts.

"We're at the very edge of growth, but we don't have the balance sheet of the larger companies," Kozloski said. "We have to just play it by ear."

Kozloski added that it's difficult for a small company such as his to finance a major expansion.

John Anderson, director of California Manufacturing Technology Consulting, said that's a problem he often hears about. Anderson said that small business owners are especially cautious about major moves, especially if it involves putting up personal property, like a home, as collateral to finance a business expansion.

"There are so many hooks now," Anderson said. "It just slows everything up."

Anderson added that recession in Europe and a weaker economy in China means less demand for goods from American manufacturers.

Also contributing: The Associated Press