

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 August 2020

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

PMI SECOND MONTH BELOW 50

CONTEXT FOR THIS REPORT: As of the writing of this report, the U.S. COVID-19 case count is an astounding 6,211,796 (up from 4,790,889 when the July *Report on Business* was released). There have been 187,736 deaths in the U.S. (up from 158,188 at the end of July). California has the dubious distinction of having the highest case count of any USA state (712,351), and the third highest U.S. death count (13,020). Those sobering statistics look a bit better when we look at cases and deaths relative to population size: California has now reached 18,029 cases per 1 million population (up from 12,889 cases per 1 million population at the end of July, but a far cry from Louisiana's 31,878 cases per 1 million population). And California has 330 deaths per 1 million population, way less than New Jersey's 1,807 deaths per 1 million population. But regardless of California's "relative ranking," it is objectively clear that the public health crisis is severe and growing.

Drilling down to the county level: Riverside County has 52,909 confirmed cases (up from 37,612 last month) and 1,019 deaths, and San Bernardino County has 47,642 confirmed cases (up from 32,696 last month) and 716 deaths. And the numbers continue to rise. (<https://www.worldometers.info/coronavirus/country/us/>)

Just a few days ago (on August 28) Governor Gavin Newsom unveiled a new plan for reopening businesses and schools, however the plan is much more conservative and cautious than the approach a few months ago.

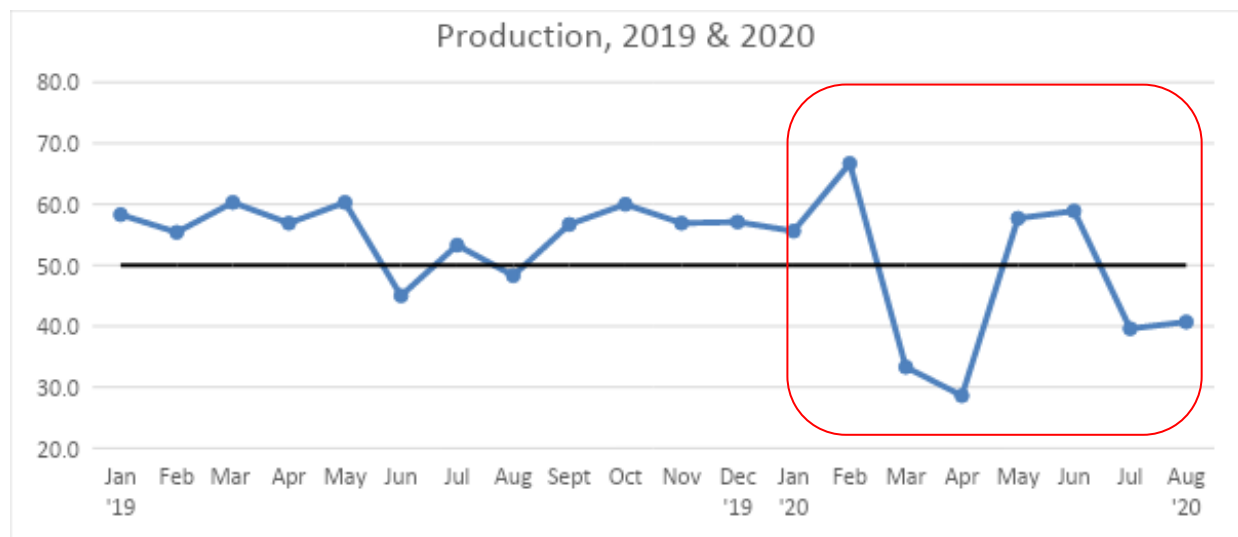
It is in this context that we write this report based on the data from our monthly survey of manufacturing firms in the Inland Empire.

According to Dr. Barbara Sirotnik (Director, Institute of Applied Research) and Lori Aldana (Project Coordinator, Institute of Applied Research), "This month's Inland

Empire Purchasing Managers' Index (PMI) registered 47.0, an increase from last month's 42.9, but still below the 50 baseline. This indicates that the manufacturing sector is still contracting, although at a slower rate than the previous month."

"Since March there has been a repeating pattern of 2 months of contraction in the manufacturing sector followed by 2 months of increase (probably a "bounce back" from the incredibly low numbers registered the months before). For example, March and April showed contraction (43.3 and 41.8, respectively) followed by two months of above-50 figures which normally would be an indication that the manufacturing sector is expanding (56.9 in May and 55.7 in June). July dipped back to 42.9, and this month increased only slightly. The figures are obviously reflecting great volatility, and it will take one more month of a below-50 PMI to definitively determine that the Inland Empire manufacturing sector and economy are in decline."

"Two of the most critical components of the index (Production and New Orders) showed an increase from last month, but still remained below 50. As noted in the graph below, production increased to 40.7 from 39.6 the previous month. New Orders showed a similar pattern, increasing from 35.4 to 46.3 this month.



"Inventory of *raw materials* also increased from 41.7 to 48.1 this month showing a diminishing level of raw, MRO (Maintenance, Repair, Operating), intermediates, etc. compared with the previous month. It is possible that companies have purposely reduced inventory in anticipation of decreased production over the next few months. It is interesting that 51.9% of companies indicated that the level of *finished goods* is unchanged from last month (meaning that their production of finished goods is "staying even" with sales). Several companies (37%) said their inventory of finished goods has actually declined, a figure down from 25% last month. For these companies, products ARE selling."

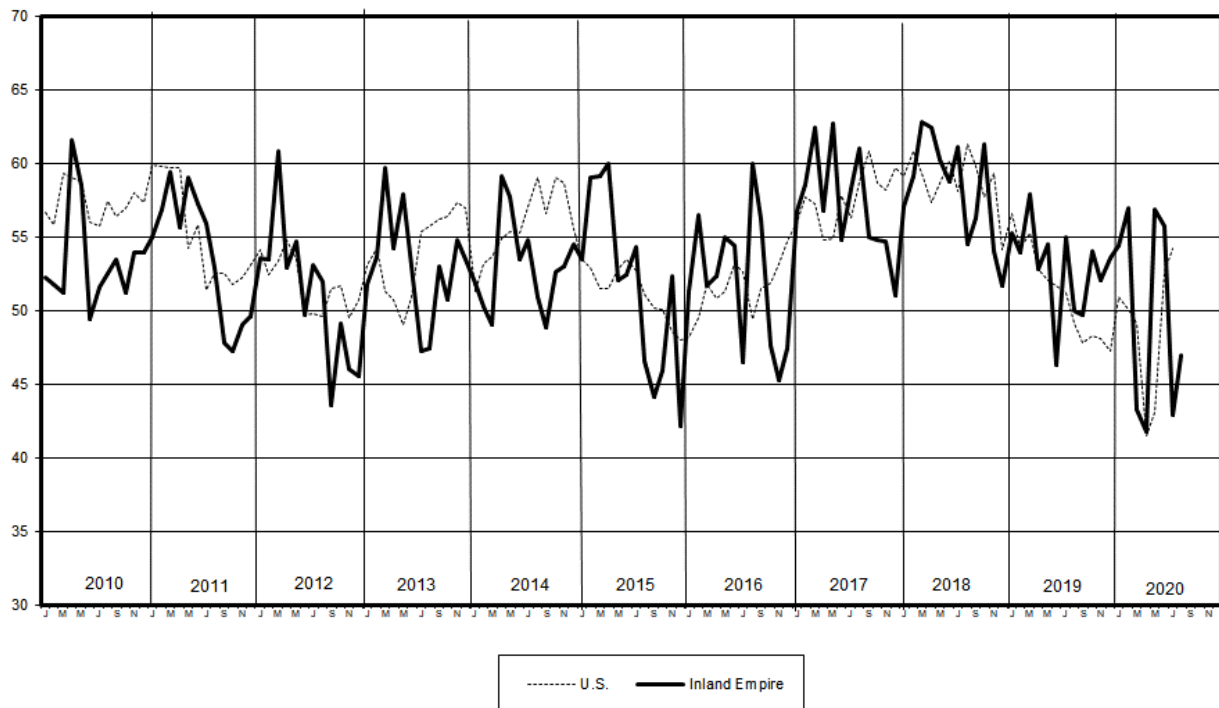
“The decrease in employment continued, with the Employment Index remaining below 50 and showing only a slight increase from 41.7 last month to 42.6 this month. The Supplier Deliveries Index (57.4) showed continued slowing of deliveries. And the Commodity Prices Index remained above 50, indicating that cost pressures continue to be an issue for companies in the Inland Empire.”

“Although the PMI figures show continuing weakness in the manufacturing sector and overall economy, some Purchasing Managers are still optimistic about the outlook for the coming quarter. Over a third (33%) believe that the economy will become even stronger in the coming quarter (up from 29% last month). Only 24% (down from last month’s 38%) think the economy will be weaker over the next few months, and the remaining 43% think the economy will remain about the same (where the “same” reflects a struggling economy). Clearly our respondents do not agree with the relatively few economists who believe that a “V” shaped recovery is likely.”

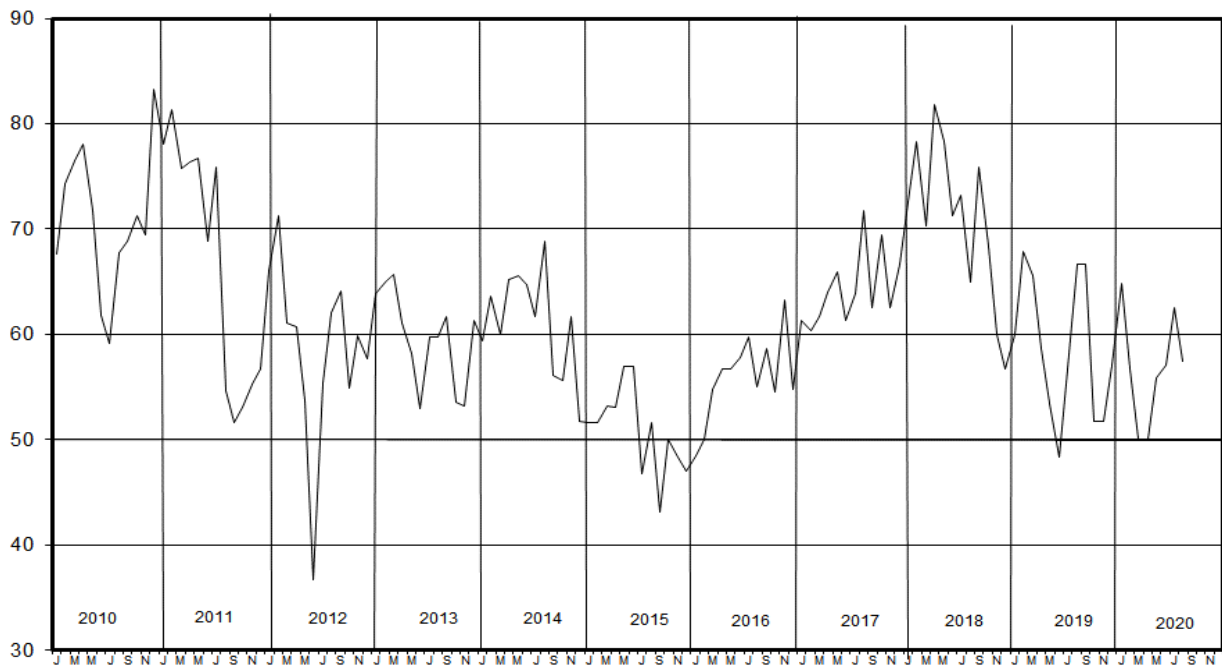
Following is a summary of highlights from this month’s report:

August 2020 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	42.9	47.0	Contracting	Slower	2
Commodity Prices	62.5	57.4	Increasing	Slower	14
Production	39.6	40.7	Contracting	Slower	2
New Orders	35.4	46.3	Contracting	Slower	2
Inventory	41.7	48.1	Decreasing	Slower	2
Employment	41.7	42.6	Contracting	Slower	2
Supplier Deliveries	56.3	57.4	Slowing	Faster	11
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	29%	33%			
% Same	33%	43%			
% Weaker	38%	24%			

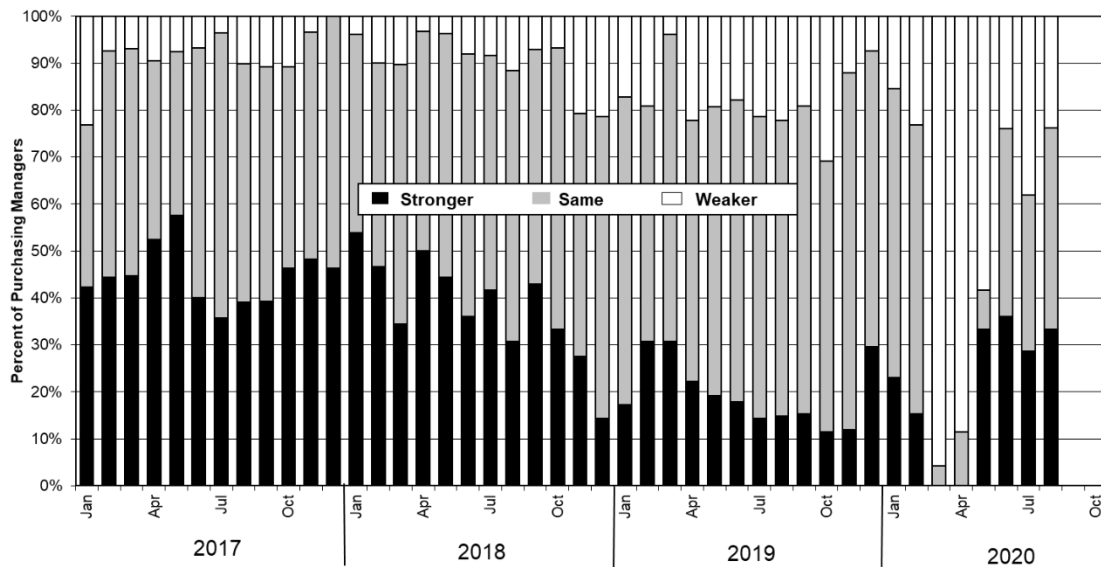
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 8/2019 THROUGH 8/2020

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Weaker	22	19	31	12	7	15	23	96	89	58	24	38	24
Same	63	65	58	76	63	62	62	4	11	9	40	33	43
Stronger	15	16	11	12	30	23	15	0	0	33	36	29	33

What respondents are saying:

This month, relatively few respondents made comments (either positive or negative) regarding the business outlook for their company or industry. Positive comments included:

- "Orders are very good. We have exceeded 2019 sales and shipments for the entire year, and we have 4 more months to go. It is a very good year."
- "We are finishing up our busy season ahead of last year and budget, so it's been good."
- "Picking up."
- "Things look to be coming back with the larger projects."
- "Excellent new orders."
- "New orders in August from Europe is typically very slow due to vacations."

Negative and/or mixed/cautionary comments included:

- "We seem to be seeing a lot of bidding going on in the Public Works Industry. We are busy; however, we may see a slowdown in the next couple of months."
- "Sales are down 30% currently operating at a loss."
- "August did not bring about the increase that I was hoping for. Business was light overall. In addition to a slow August, we had one of our best customers close for 3 weeks during August because they had several employees test positive for COVID-19. That certainly did not help sales. As August closes, we are seeing a slight uptick in business, especially from customers that we have not heard from in a while. Maybe people are re-stocking their shelves????"
- "Business conditions are not improving...down to 4-day work week...."
- "Obviously we have had to make many adjustments due to COVID-19, and are slowly getting staff back after having those who showed symptoms or tested positive require that we close for one week while we took measures to create social distancing measures and disinfect our facility. This has caused delays in both sales and production, but we are slowly getting back to our normal production capacity. Still we need skilled workers to move into our company who can fulfill the technical requirements that we must meet. To that end we have just brought on board a graduate engineer who is working on our quality control, and will soon have another worker for production."
- "Still very slow. August may be a bit better than July which was awful. We are operating at reduced hours with some people coming in Monday and Tuesday, some Wednesday and Thursday."
- "Because of COVID-19 things are slower."

Special Questions: This month we continued to add a few special questions regarding the challenges of the Inland Empire business community during this crisis. Following is a summary of responses to those questions:

1) And finally, we have a couple of questions about the challenges of operating during this COVID-19 crisis. First, what is your biggest business concern at this point?

Comments were split between those concerned mainly about the lack of sales consistent with the overall economic downturn, and those concerned about employee issues (employee health and safety, as well as the usual issues of finding qualified personnel to work).

Concerns about the economy included:

- "Customers are not ordering parts due to pandemic."
- "Everything shutting back down."
- "Keeping businesses open."
- "Lack of sales, domestic and international."
- "Lack of new orders to keep production going."
- "Sales."

- “Strength of the economy - If the government can't come up with a plan to let all people and businesses open back up, we'll just keep sputtering along.”
- “That our current customers survive this pandemic. Hoping face to face meetings can come back.”
- “When will restaurants open, we are a food manufacturer and it is very slow.”

Concerns about employees included:

- “Infection of employees.”
- “Orders are smaller due to no one stocking.”
- “Biggest concern is that my employees remain healthy. So far, we have had zero among our group of employees.”
- “Finding qualified personnel to work...not just during the crisis but generally speaking.”
- “Hiring new employees. There are not enough people applying for jobs right now.”
- “Keeping staff at a level to be able to meet demand requirements.”
- “We have had a couple people out due to quarantine. Everyone is masked and spread out.”

2) What does your business need in terms of information, resources, etc., in order to help you “weather the storm” of COVID-19?

Overall, comments indicated that respondents have the information they need. What they need is money!

- “We received PPP funds which was a big help. Now we are utilizing the EDD work share program.”
- “We need help to keep up to date on any grants or financial help from the government or other sources.”
- “We need money and new orders!”
- “Not sure at this point. We've used the PPP money and now are facing additional financial problems in continuing.”

Others need to find ways to keep their employees healthy and coming to work safely:

- “Workers”
- “Guidelines for business/ employees to operate safely and how to handle potential cases effectively.”
- “People who want to work!”

And still others commented on the need for testing and/or a vaccine (reflecting the opinion that it is impossible to improve the economy until the pandemic is under control:

- “I'm not sure what information is out there that I can rely on. We just need a vaccine to come along so the country can start returning to normal.”
- “Reliable and timely testing for personnel...including the results of the test(s).”

In summary, the authors of this report tend to see the world through an “optimistic lens,” however that perspective is difficult to maintain these days. The ultra-volatile PMI was back down below 50 for the second month in a row. Yes, the number of new cases of the virus is falling nationwide, but Riverside and San Bernardino Counties have still not achieved the threshold to get off the watch list (which would enable more businesses and schools to open). Based on our data, we don’t see a return to growth mode until at least early 2021. Only when the health crisis is under control through effective treatments and a readily available vaccine will life return to “normal.”

IAR will continue to provide the most up-to-date data on business conditions that we can during this uncertain time.

FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:

Dr. Barbara Sirotnik
Director, Institute of Applied Research
(909) 537-5729

Soua Vang
Interim Economic Development Director
San Bernardino County Economic Development Department
(909) 387-4385

Rob Moran
Economic Development Manager,
Riverside County Economic Development Agency
(951) 955-6673

Dr. Lawrence Rose
Dean, Jack H. Brown College of Business and Public Administration
CSUSB
(909) 537-3703