

## **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 December 2020***

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

### **PMI FOURTH MONTH ABOVE 50 – BUT ONLY BARELY**

**CONTEXT FOR THIS REPORT:** As of the writing of this report, the world has seen over 86 million COVID-19 cases and the death toll has reached 1,860,584. The US leads the world in COVID deaths (362,123 – up from 274,743 when our last report was written). California is now #1 in the US in case count (2,464,237 – up from 1,234,232 last month) and is #3 in terms of statewide death count (26,997 – up from 19,210 last month and only behind New York and Texas).

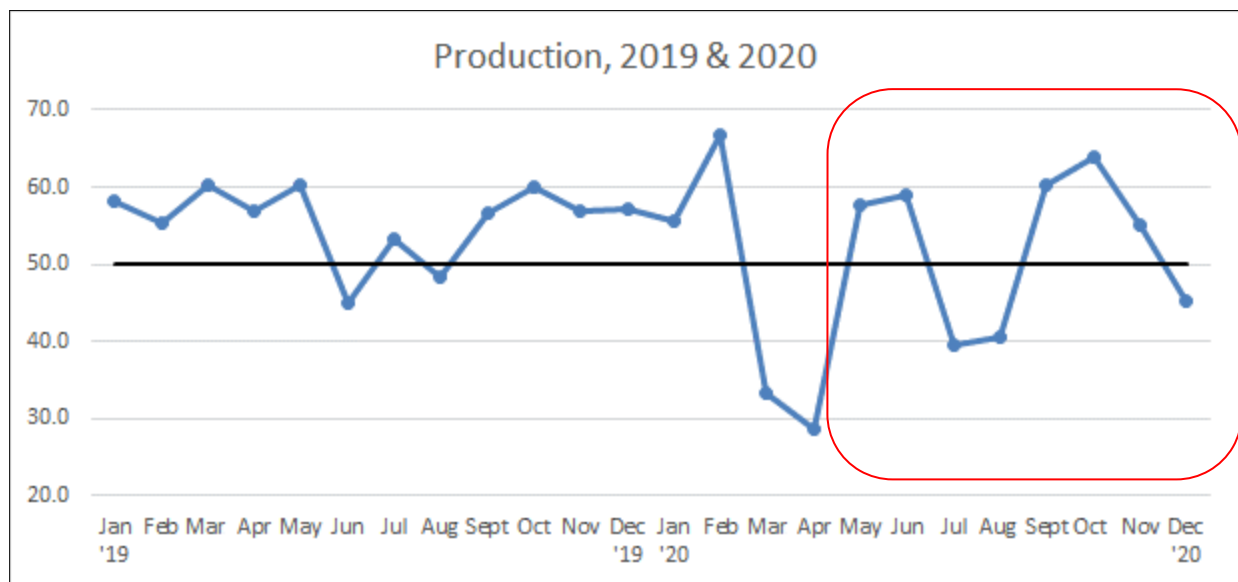
Drilling down to the county level: Riverside County is the 3<sup>rd</sup> worst county in California for COVID cases, with 198,236 confirmed cases (up from 87,383 last month) and 2<sup>nd</sup> worst county in the state for COVID deaths (2,096). San Bernardino County has 208,271 confirmed cases (up from 93,671 last month), making it the 2<sup>nd</sup> hardest hit county for cases in the state. The death toll is 1,449 (up from 1,129 total deaths last month). And another surge is likely to come within a week or two as a result of holiday travel and gatherings. (<https://www.worldometers.info/coronavirus/country/us/>)

Experts agree that the economy cannot recover until COVID-19 is under control. That is why we have begun our report with these grim COVID statistics for the past many months. 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 50.6, down from 55.5 last month. It is the fourth month above 50 indicating that the local manufacturing sector and economy are growing, but the dip in the index means that the growth is occurring at a slower pace than last month. This slowing is partially due to seasonality (a typical

decline in the index in the month of December due to completion of holiday production and stable or reduced new orders).”

“It must be noted that this month, three of the key indicators in the PMI (the Production, New Orders, and Employment Indices) have dropped below the 50% mark. The Production Index is now 45.2 (down from 55.2 last month) and the New Orders Index dropped to 41.9 (a decrease from 48.3 last month). The Employment Index dropped to 46.8 (a decrease from 53.4 last month). The Supplier Deliveries Index increased from 65.5 to 67.7, indicating slightly slower deliveries (possibly due to employees being sick with COVID). And the Commodity Prices Index remained above 50 (68%), indicating that cost pressures continue to be an issue for some companies in the Inland Empire.”



“Inventory of *raw materials* remained above 50 this month although it decreased to 51.6 from 55.2 last month. Thus, there is an increasing level of raw, MRO (Maintenance, Repair, Operating), intermediates, etc. compared with the previous month, although the rate of increase has slowed. Only 7% of companies indicated that their level of *finished goods* has increased, whereas 16% of companies indicate that their level of *finished goods* has decreased since the previous month (perhaps due to pre-holiday selling). Over two-thirds (77%) indicated that their inventory of finished goods has not changed since last month, meaning that their production of finished goods is “staying even” with sales.”

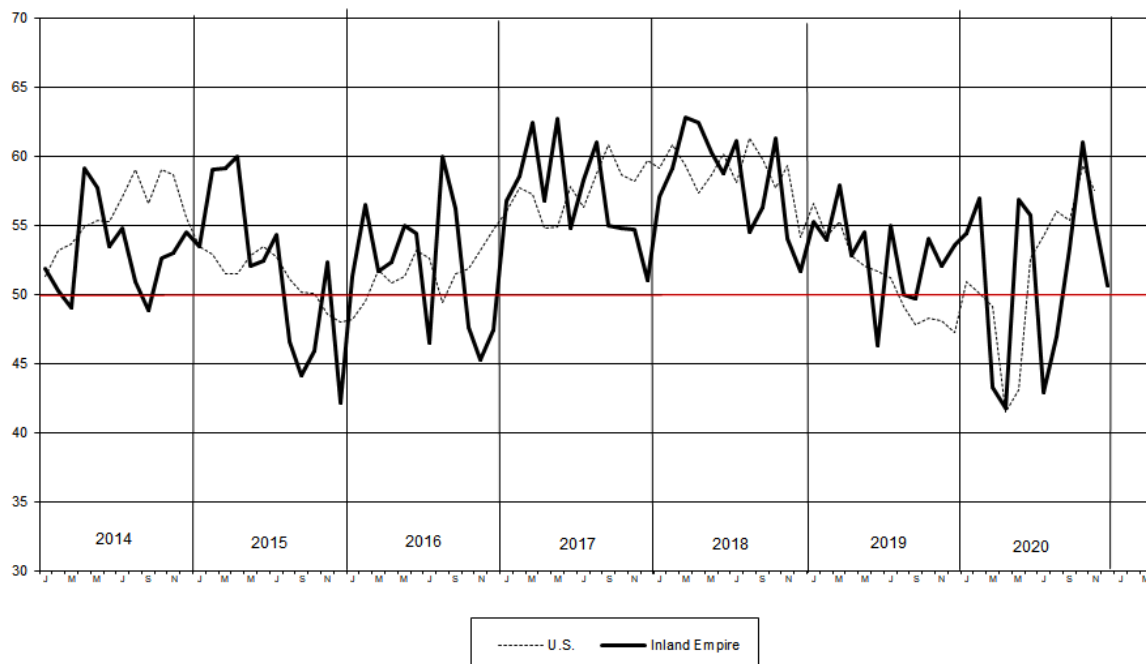
“In addition to manufacturing-specific questions (e.g., production, new orders, employment etc.), the monthly survey asks Purchasing Managers to forecast changes in the state of the local economy in the coming quarter. Purchasing Managers showed less confidence in the local economy this month when compared with last month (perhaps because of the uncertainty surrounding the pandemic). This month only 14% of Purchasing Managers forecasted that the local economy will improve in the coming

quarter (virtually unchanged from last month’s 16%). But 32% think it will become weaker in the coming quarter (up from last month’s 28%) and the rest (54%) projected that the current weak economy will remain unchanged.”

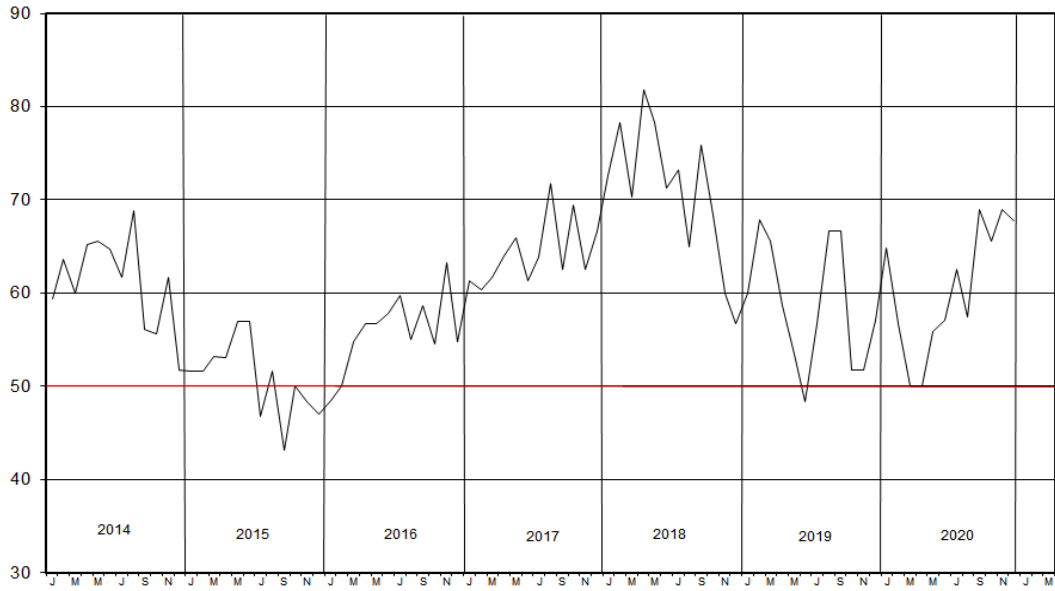
Following is a summary of highlights from this month’s report:

<b>December 2020 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	55.5	50.6	Growing	Slower	4
Commodity Prices	69.0	67.7	Increasing	Slower	18
Production	55.2	45.2	Contracting	From Growing	1
New Orders	48.3	41.9	Contracting	Faster	2
Inventory	55.2	51.6	Increasing	Slower	3
Employment	53.4	46.8	Contracting	From Growing	1
Supplier Deliveries	65.5	67.7	Slowing	Faster	15
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	16%	14%			
% Same	56%	54%			
% Weaker	28%	32%			

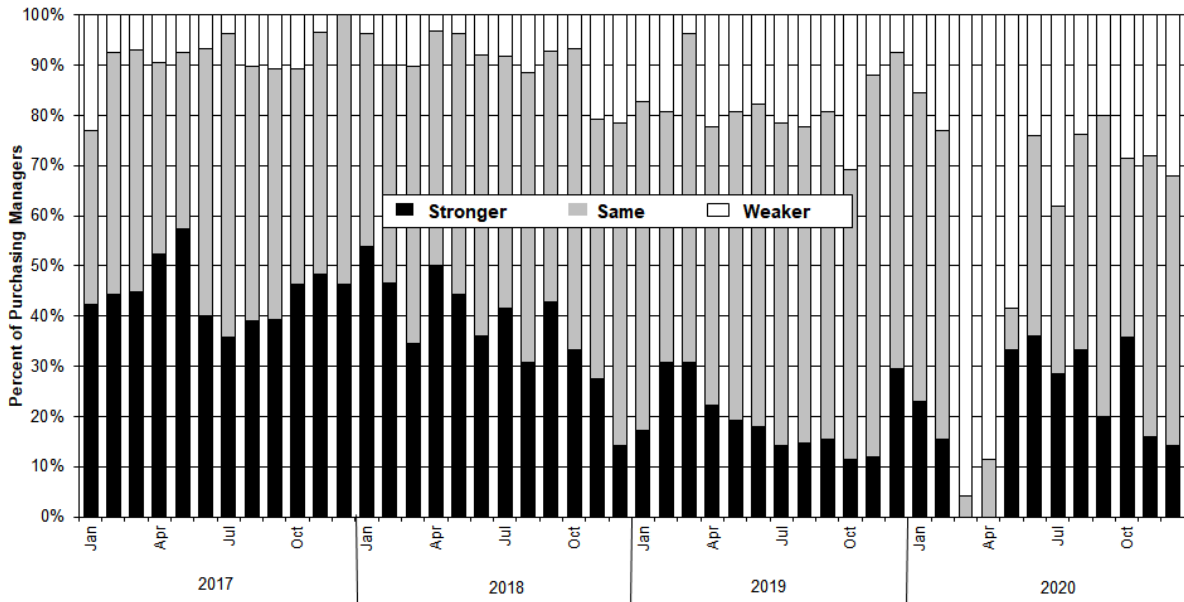
**Purchasing Managers' Index**



### Commodity Prices



### State of the Local Economy



**STATE OF THE ECONOMY: DATA FROM 12/2019 THROUGH 12/2020**

	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Weaker</b>	7	15	23	96	89	58	24	38	24	20	29	28	32
<b>Same</b>	63	62	62	4	11	9	40	33	43	60	37	56	54
<b>Stronger</b>	30	23	15	0	0	33	36	29	33	20	36	16	14

**What respondents are saying:**

Each month we ask our respondents to make comments regarding any business condition – local, national, or international – that affects the outlook of their company or industry. Most of the comments can be summarized as “cautionary” and “negative,” incorporating themes about the outcome of the election and impacts of COVID.

- "Business has slowed down."
- "Covid sucks."
- "Domestic orders are down."
- "Slow, slow, slow."
- "We are having difficulty finding people to work."
- "We are still operating with half the people we had a year ago. A few have left, a few are quarantined, the remainder work about two days a week. We closed 12/17 and reopened today, 1/4/21."
- "We had to shut down for two months due to COVID."
- "We are seeing higher commodity prices and thus price increases from our suppliers. It was just a matter of time for inflation to hit the metals industry."

The relatively few positive comments included:

- "International orders are up."
- "In 2020, our industry was marked with consolidation, competitors closing for good and other competitors narrowing their focus on what makes them profitable. So, we are finishing the year with less competitors and a stronger outlook on business from nearly all sectors of the economy that we serve. Most of our customers are optimistic about the coming year mostly based on pent up demand finally coming to market."
- "Hoping to start the New Year off very strong."
- "Sales orders continue to be very firm."
- "We have not been affected too much by the pandemic in our industry. We are considered an essential business and have experienced typical sales for this year."
- "We remain busy, and it seems that there is less uncertainty in our markets as well as in the general business climate."

Each month we ask respondents a special question regarding the effect of COVID-19

on their business operations. This month the question was: *“Leaders at the city, county, and state level are focused on helping businesses deal with the disruptions caused by the COVID-19 pandemic. What is the ONE most important thing they could do to help your organization and other businesses?”*

Several people commented about the need for government officials **to provide even more information emphasizing safety** during these difficult times, an acknowledgement of the fact that the economy cannot recover until COVID is under control:

- "Continue to strongly encourage safe social interactions. Our company tries to protect the employees' health, but I do not see safe practices used universally at other companies. This causes everyone to be in jeopardy and slows the recovery back to normal."
- "Emphasize personal responsibility at home. None of our cases are transmitted at work only from people at home, then they call in sick."
- "Need the vaccine quicker."
- "We need Covid-19 under control so people start to travel since we sell products for airliners, busses, trucks, etc."

But as may be expected, some businesses indicated that what they need is the **funding** to keep operations going:

- "It would be nice to get another PPP Stipend."
- "More programs like the PPP would be incredibly helpful. I think that was a great program that the federal government implemented, and it would be great to see more of that on the local level with even more precision to those that need it and will use it properly."
- "Supply chain is not accepting slow payments. No help from banks either!"
- "We have an EIDL loan for which payments will start to come due in April of 2021, and due to the uncertainty of cash flow in the next year it would be great to have legislation that would extend the loan payment period for a year or more."
- "Reduce our tax burden!"

Other businesses expressed the opinion that government simply needs to allow businesses to stay open:

- "Keep business open!"
- "Open up the business sector. Stop the shutdown."
- "Stay open."
- "Open things up, we close a lot of businesses down and look the spread is the same, I see a lot of businesses will have to shut down permanently and I am very saddened about this and city, county and state need to do more for them. We are very lucky to be as busy as we have been, we closed out the year doing better than last year."

Employee issues were also mentioned:

- "Find people willing to work in chemical manufacturing."
- "There are many variables that have made production worse than a month ago. Suppliers, equipment down, and people. We have had a surge of people who have been exposed to COVID. The majority of them tested negative. But this places doubt in the mind. Are these employees being truthful, or did they say this because they wanted additional paid time off?"

Finally, some businesses focused on the need for information to help them deal with the uncertainties inherent in running a business during the pandemic:

- "Improve the clarity of the message and don't change the message by the week. We need to know how to deal with this pandemic. We are experiencing a surge of cases and it has been very difficult to keep production, operations and Lab work organized and on time."

**In summary**, the good news is that the PMI has remained above 50 for four straight months, reflecting growth in the manufacturing sector and the overall local economy. Production and new orders are down, but that is not unusual during the December post-holiday production lull. The recent coronavirus economic aid package signed at the end of December should provide consumers with the funding they need to buy goods. And there is light at the end of the tunnel in that vaccine distribution is ramping up. The national PMI is 60.7, another point in an 8-month trend of growth nationwide after three months of dismal figures.

That said, California consumer confidence is down to an 8-year low, and there are more per capita unemployment claims in the state than in the nation as a whole. Southern California is a hotspot for the coronavirus, there may be another surge in the coming weeks since many people flouted the "no travel and no gathering" recommendations for the Christmas and New Year's holidays. Nearly a third of our respondents (32%) foresee weakness in the local economy for the coming quarter, up sharply from 7% a year ago. None of these factors elicit optimism about the state of the Inland Empire economy for the near future.

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

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