

# **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 February 2021***

***Sponsors: San Bernardino County Economic Development Agency  
Riverside County Business and Community Services***

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## **POSITIVE ECONOMIC NEWS IS IN THE AIR: THE PMI IS ABOVE 50 FOR THE 6<sup>TH</sup> MONTH IN A ROW**

**CONTEXT FOR THIS REPORT:** In January 8, 2021 when the US saw its highest level of new COVID-19 cases per day (300,619). Since that time, there has been a relatively steady overall trend of decline in cases (although there has been a slight uptick in US cases over the last few days). There has also been a decline in US deaths since the peak in February.

Although this decline in cases and deaths is certainly encouraging, we must also acknowledge the staggering effect of the pandemic as the US death toll surpassed the milestone of 500,000 this past week. There have now been 524,631 COVID-19 deaths nationwide (up from 450,700 when our last report was written).

California remains #1 in the US in terms of case count (3,551,062 – up from 3,309,388 last month) as well as total deaths (51,964 – up from 40,682 last month). Drilling down to the county level: Los Angeles County (the county with the largest population – 10,081,570) leads the state in total cases (1,190,894) and total deaths (21,328). That means that LA county has seen 11,813 total cases and 1,791 total deaths per 100,000 population since the pandemic began.

Riverside County, with a population of 2,411,439, is the 2<sup>nd</sup> hardest hit county in California in terms of total COVID cases (289,450, up from 271,910 last month) and 3<sup>rd</sup> in the state for total deaths (3,767, up from 3,091 last month). That equates to 12,003 total cases and 1,301 total deaths per 100,000 population over the past year (worse than LA in terms of cases, but better in terms of deaths).

San Bernardino County, with a population of 2,149,031, is the 3<sup>rd</sup> hardest hit county in the state, with 286,291 total cases, but it is #5 in the state for deaths (2,816, up from 1,821 last month). Again, scaling that by population, San Bernardino county has had a

higher total case count than LA or Riverside (13,322 per 100,000 population) but lower death count than either county (984 per 100,000).

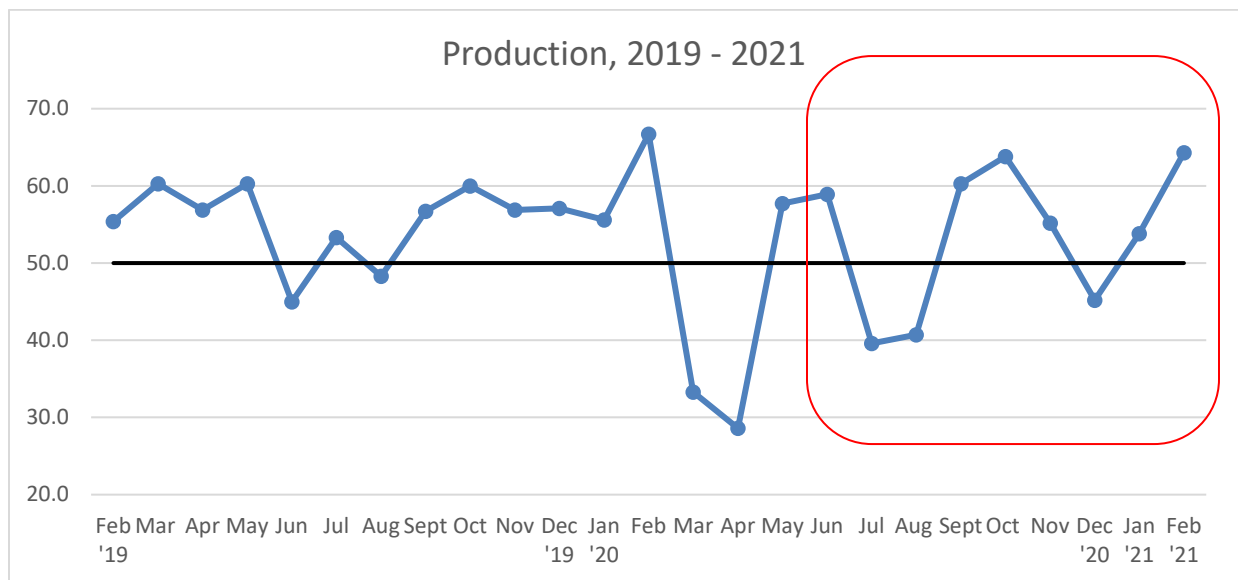
(<https://www.worldometers.info/coronavirus/country/us/> and [https://www.california-demographics.com/counties\\_by\\_population](https://www.california-demographics.com/counties_by_population))

Experts agree that the economy cannot recover until COVID-19 is under control. That is why we have begun our report with these types of grim COVID statistics for the past many months.

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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 **63.9**, a significant jump up from last month’s 51.5. This is the sixth month the index has been above 50, indicating that the local manufacturing sector and economy are firmly in growth mode. Figures above 60 have only occurred 19 times since the inception of the report in 1993, with 6 of those times falling in the last two years: March, April, May, July, and October of 2018; and then October 2020. This month’s PMI figure is the second highest ever recorded in the 28 years IAR has calculated the index.”

“The Production and New Orders indices (two of the key components of the PMI) have increased sharply again this month, indicating a trend of growth and the anticipation that there will be increasing levels of consumer purchases soon. Specifically, this month’s Production Index increased to **64.3** from last month’s 53.8 and the New Orders Index also took a major jump to **73.2** from 51.9. One comment from a respondent sums it all up: “we are having the best booking year so far in many years.”



“The Employment Index is also on the rise. It increased from 46.2 to **51.8** this month. The Supplier Deliveries Index was **76.8** compared to last month’s 61.5, meaning that

the speed of deliveries continues to slow – typically a good sign in that it means that suppliers are very busy. On the downside, the Commodity Price Index soared to **82.1** (up from last month’s 71.2). This is a rare event – there have only been 6 times since the inception of the report that the index has been this high.”

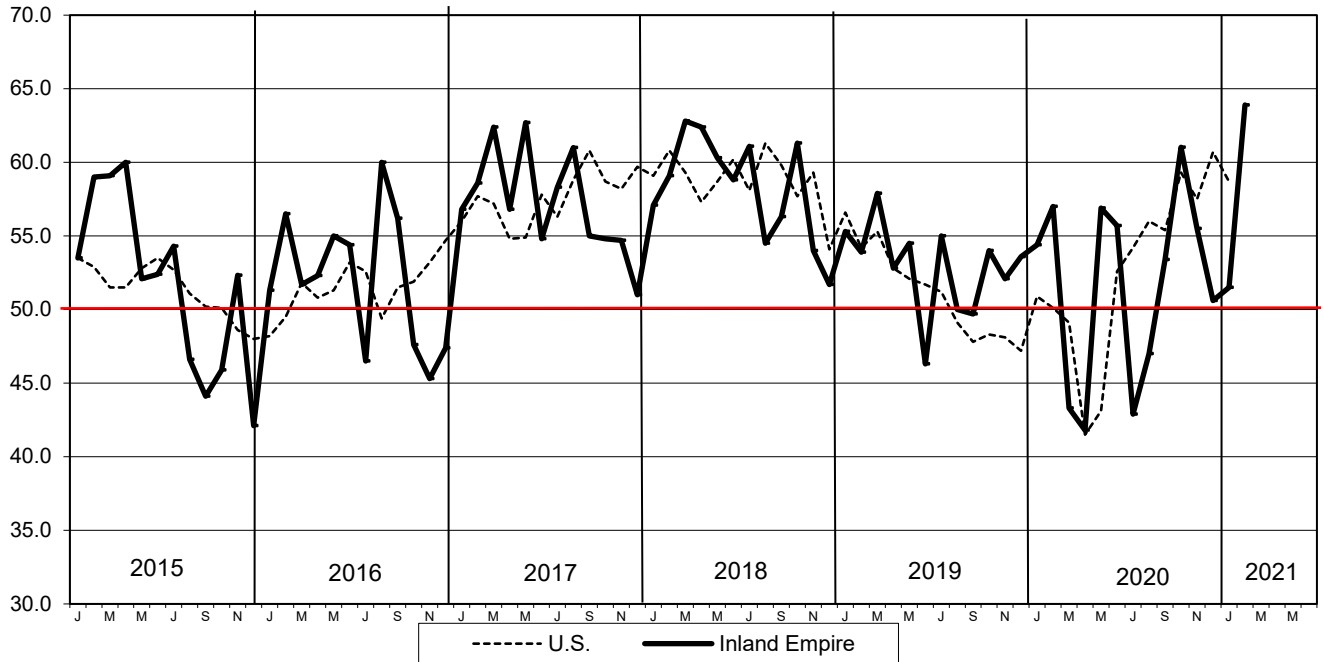
“The overall Inventory level (units, not dollars) including raw, MRO (Maintenance, Repair, Operating), intermediates, etc. increased from 44.2 last month to **53.6** this month, perhaps in anticipation of increased production and new orders. Respondent comments also indicated that a buildup of raw materials was important to guard against delivery slowdowns or price increases. Only 14% of companies indicated that their level of *finished goods* has increased, whereas 18% of companies indicate that their level of *finished goods* has decreased since the previous month (perhaps due to pre-holiday selling). Over (71%) 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.”

Thirty-five (35%) of Purchasing Managers predicted that the local economy will become stronger in the upcoming months (up from last month’s 33%), and only 15% believe that it will become weaker in the coming quarter (down from 33% last month). Half (50% -- up from 34% last month) believe the local economy will remain unchanged (a positive figure considering that this rating of “unchanged” is relative to six months of growth).”

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

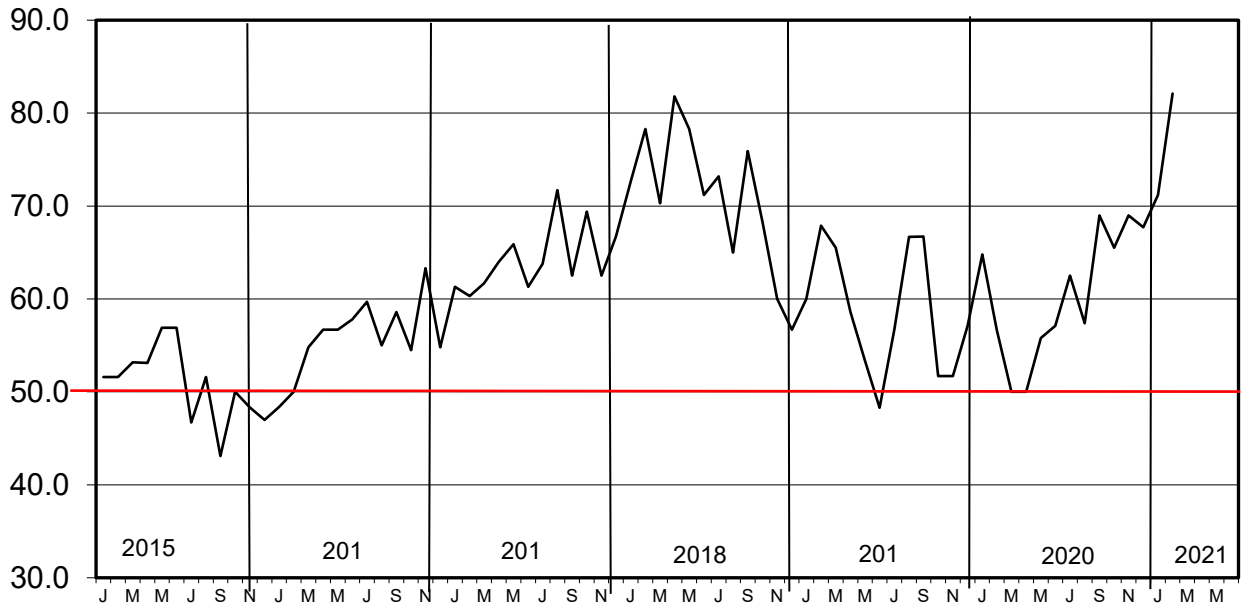
<b>February 2021 Business Survey at a Glance</b>					
	<b>Series Index</b>		<b>Direction from 50</b>	<b>Rate of Change from Last Index</b>	<b>Trend Months</b>
	<b>Last Month</b>	<b>This Month</b>			
Local PMI	51.5	63.9	Growing	Faster	6
Commodity Prices	71.2	82.1	Increasing	Faster	20
Production	53.8	64.3	Growing	Faster	2
New Orders	51.9	73.2	Growing	Faster	2
Inventory	44.2	53.6	Increasing	From Decreasing	1
Employment	46.2	51.8	Growing	From Contracting	1
Supplier Deliveries	61.5	76.8	Slowing	Faster	17
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	33%	35%			
% Same	34%	50%			
% Weaker	33%	15%			

## Purchasing Managers' Index

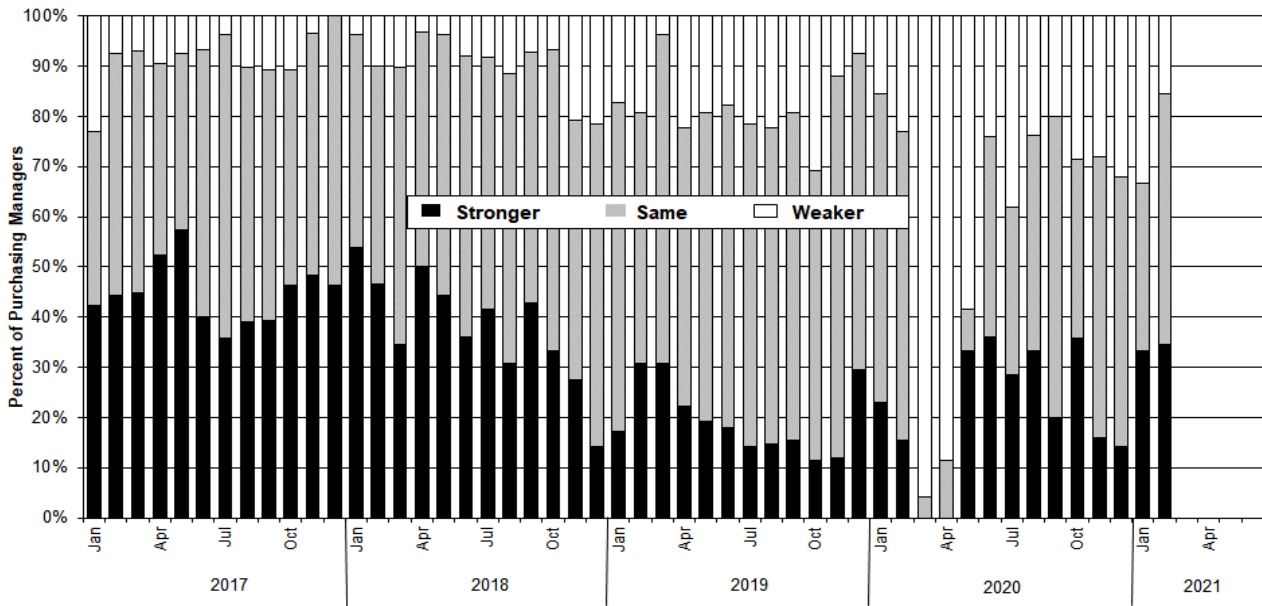


Source of U.S. PMI®: Institute for Supply Management®, Source of IE PMI®: Institute of Applied Research

## Commodity Prices



## State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 02/2020 THROUGH 02/2021

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
<b>Weaker</b>	23	96	89	58	24	38	24	20	29	28	32	33	15
<b>Same</b>	62	4	11	9	40	33	43	60	37	56	54	34	50
<b>Stronger</b>	15	0	0	33	36	29	33	20	36	16	14	33	35

### What respondents are saying:

Each month we ask our respondents to make comments regarding any business condition – local, national, or international. Their relatively positive comments included:

- “Business conditions are picking up.”
- “Business has seemed to pick back up again.”
- “Business is certainly as good as we have seen in over 10 years. Prices continue to steadily rise making our inventory worth more and more each month. Lead times from the mill as nearly as far out as we have ever seen thus making inventory worth that much more. There is no letup in sight. Supply remains constrained while demand is strong from nearly all industries we serve from all corners of the US.”
- “Economy seemed to be picking up slightly toward the end of the month.”
- “Importing more since demand is picking up.”
- “Improving.”

- “In our business' situation we are having the best booking year so far in many years. We were and remain diversified and this has allowed us to withstand dips in the markets in some areas while being able to remain open and provide products and services in other markets. In our industry we have found the same situation with those diversified being able to weather the COVID situation but those narrowly focused on one market less able to do so.”
- “Orders continue to be strong.”
- “Product demand remains chaotic. However, year to date orders compared to last year are much better.”

Even though the PMI index showed solid growth, as did many of the indices which comprise the PMI, some Purchasing Managers made cautionary or “mixed” comments:

- “Backorders on import parts.”
- “Prices are going up on materials.”
- “Raw materials and packaging have gone up significantly and the pandemic has caused our business to be down 20%. What else can happen? Ugh.”
- “Recently, we have noticed a backorder on many components. Also, LTL trucking deliveries and pick-ups have been delayed longer than usual. Our daily UPS Ground in and out shipments are experiencing many delays. This is something we have never experienced before. A few times, we have had to file lost claims for deliveries in and out that have not been found. Because of all of these delays, we are trying to order inventory ahead of our normal schedule.”
- “Unable to find general laborers willing to work for \$14.50 - \$15.00 per hour.”
- “We are still chugging along. We are a bit shorthanded as a few people found other, more steady employment.”

Each month we ask respondents a special question regarding the effect of COVID-19 on their business operations. This month we focused on experience with PPP (Paycheck Protection Program) and EIDL (Economic Impact Disaster) loans. It was somewhat surprising that 32% of respondents indicated that they had not received either type of loan (either because they were not eligible, did not apply, or were not approved for the loan). Of the 19 respondents reporting that they received a loan, 12 received a PPP loan, 1 received an EIDL loan, and 6 received both types of loans.

We then posed a follow up question to those that had received a loan: *“Some employers are hoping that the payment period of the loan(s) might be extended to give more time for their business to recover. Is that true for your company? Will cash flow be an issue for your company when the EIDL and PPP run out? If so, please explain.”*

Overall, respondent comments indicate that they appreciate the availability of the PPP and EIDL loans. Three people simply reported that cash flow is not an issue (and didn't elaborate further). Other respondents' comments included:

- “I suspect we won’t be paying the loans any time soon.”
- “It could be an issue, so any extension would be great.”
- “Cash flow is not a problem. The issue for the company is finding and hiring new employees.”
- “Our PPP Loan was already forgiven.”
- “The PPP money we received was pretty much the perfect amount. We lost almost the exact amount of money in 2020 as we received in PPP money. For us, the program worked to perfection. We were not eligible for the second round as our sales never declined more than 25% in any quarter. As nice as it would be to get more PPP, we will be fine without the second round and hopefully those that still need it, can get it.”
- “We are in a good cash position at this time. Should not have any issues for the foreseeable future.”
- “We do not have to pay this back.”
- “We have reserved the EIDL for emergencies, and fortunately have not used it.”
- “Yes, cash flow is a problem.”
- “Yes, it would be nice for this to be extended. Would also like to see the forgiveness applications more readily available from banks.”
- “Yes, Cash flow will be a problem when the PPP and EIDL funds run out. It all depends upon the economy and when it turns around.”
- “Yes, we think it would be beneficial for the economy to free up cash flow for the EIDL loan payment requirements to be delayed by one year or more. We expect our PPP loans to actually be forgiven.”
- “Yes, cash flow is an issue, but we received second round of PPP.”

In summary, this month has seen a surge in the PMI and its major indices. The improvement in these leading indicators bodes well for the local manufacturing sector and overall Inland Empire economy over the next three months.

What is responsible for this positive forecast? The authors of this report believe that there are multiple factors involved. First, vaccine supply is increasing due to efficiencies in Pfizer and Moderna production and the much-anticipated emergency use authorization has just been issued for the Johnson & Johnson vaccine. Vaccine distribution is improving, and optimism abounds that Blue Shield will improve the efficiency of the system. Riverside and San Bernardino counties are poised to enter the “red tier” as metrics for positivity and case rates continue to improve, meaning that gyms, salons, museums, movie theaters, restaurants, and other businesses can reopen at reduced indoor capacity. Schools with mitigation strategies will soon reopen so that children (at least those in elementary school) can get back to learning in the classroom rather than the kitchen or bedroom. We believe that these factors will lead to increased

willingness on the part of consumers to buy (as also noted in the recent California consumer confidence index) and a resulting economic recovery.

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

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