

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 2020

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

Coronavirus

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 57.0 in February 2020, up slightly from last month's January's 54.4. This is the fifth month in a row that the index has remained above the baseline 50% mark. Normally with these numbers we would feel relatively confident forecasting that the manufacturing sector and the economy as a whole are in growth mode. However, given the recent drops in the stock market and fears about the coronavirus hitting our shores, any forecast must be made with caution."

"The Production Index increased from last month's 55.6 to 66.7 this month, and the New Orders Index increased from 57.4 to 65.0. It is important to note that these two key components of the PMI have remained at or above 50% mark for more than three consecutive months, indicating a trend of growth. The Commodity Prices Index decreased from last month's 64.8 to 56.7 this month, meaning that prices of raw materials continue to rise, but at a slower pace than the previous month. The Inventory Index which measures the overall inventory level of purchased materials (including raw, MRO, intermediates, etc.) increased from 44.4 to 48.3, indicating that the inventory is decreasing, but at a slower rate than the previous month. The Supplier Deliveries Index decreased from 59.3 to 56.7 this month, indicating continued slowing of deliveries. This could possibly be due to the issues surrounding the coronavirus and its effect on the global supply chain. The volatile Employment Index registered a big decrease from 55.6 last month to 48.3 this month."

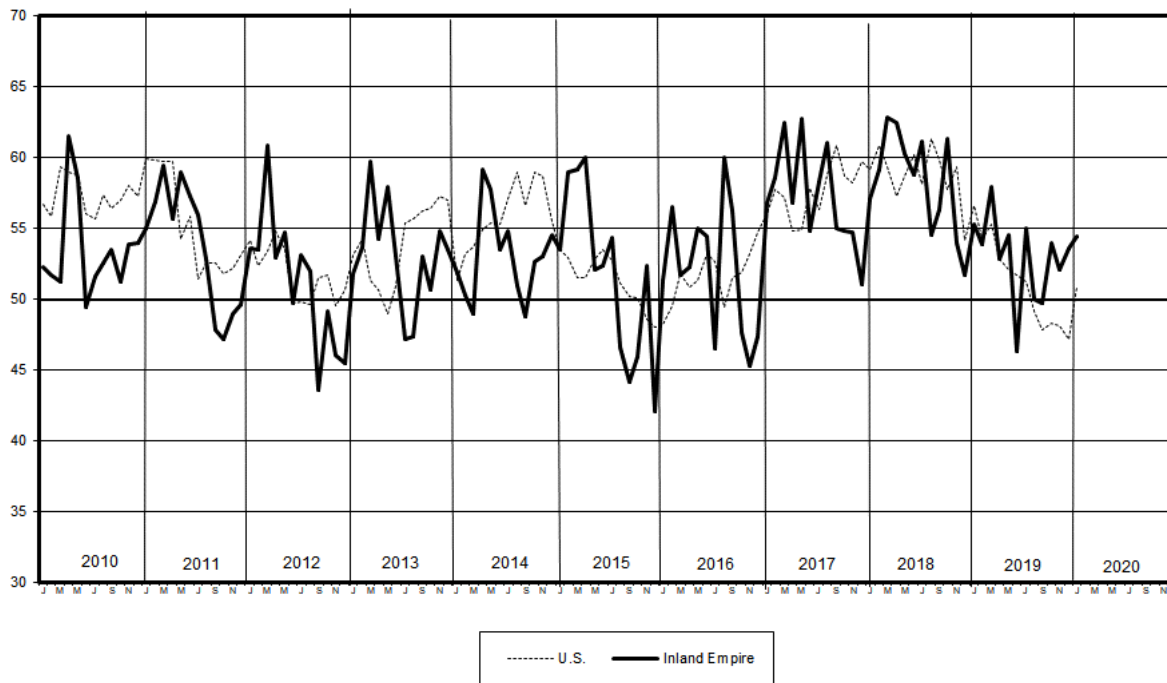
"Nearly a quarter of respondents (23%) believe that the economy will become weaker over the next three months (up from 15% in January). Only 15% (down from 23% last month) believe that the economy will strengthen, and 62% continue to believe it will stay

the same over the next quarter.”

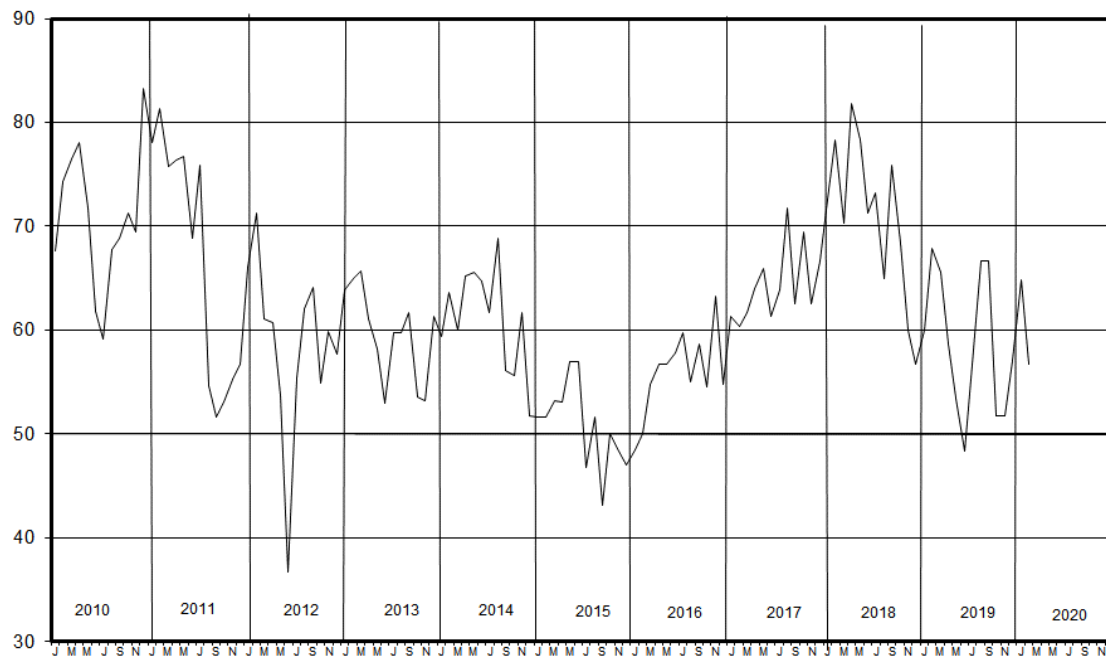
Following is a summary of highlights from this month’s report:

February 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	54.4	57.0	Growing	Faster	5
Commodity Prices	64.8	56.7	Increasing	Slower	8
Production	55.6	66.7	Growing	Faster	6
New Orders	57.4	65.0	Growing	Faster	8
Inventory	44.4	48.3	Decreasing	Slower	2
Employment	55.6	48.3	Contracting	From Growing	1
Supplier Deliveries	59.3	56.7	Slowing	Slower	5
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	23%	15%			
% Same	62%	62%			
% Weaker	15%	23%			

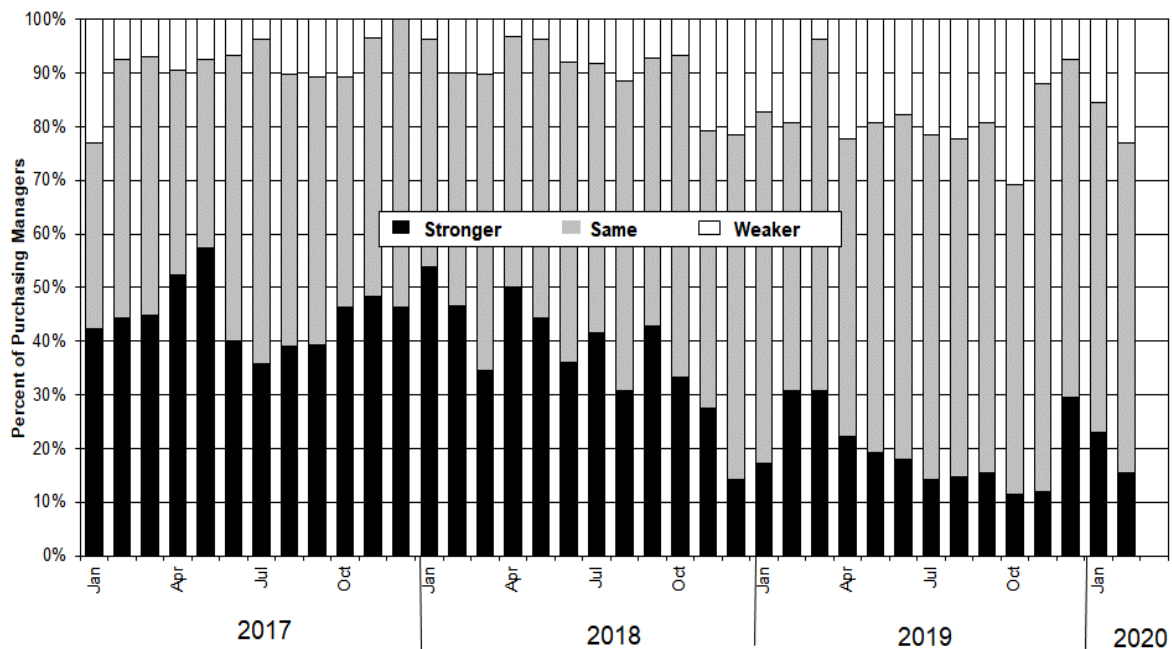
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 2/2019 THROUGH 2/2020

	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Weaker	19	4	22	19	18	22	22	19	31	12	7	15	23
Same	50	65	56	62	64	64	63	65	58	76	63	62	62
Stronger	31	31	22	19	18	14	15	16	11	12	30	23	15

As always, some respondents had positive comments regarding the business outlook for their company or industry, and others had cautionary or negative comments.

Following are the positive comments:

- "Business has picked back up after the new year."
- "Business picking up and getting ready for our busy season."
- "Economy is good."
- "February continued on January's strength. We saw increased business from several different industries during February. Although all of our material is domestic and the majority of our customers are domestic, the coronavirus issue has me wondering what will happen in March and April. Assuming things return to normal in the next 30 to 60 days, I think we should see business continue to be strong."
- "January, a short month due to a holiday break, had surprisingly poor total shipping numbers. February has shown a significant improvement."
- "Picked up from holidays."
- "We are seeing an abundance of work coming out for bid right now. We are currently booked up for the summer months."
- "Business has picked up from the last quarter of 2019."

Mixed and/or cautionary comments included:

- "Downturn in new orders, backlog still good."
- "The business still the same as last month. It is slow."
- "Still slow."
- "Corona virus is an issue."
- "General slowdown except for the products we make to protect from coronavirus."

- "Orders a little better than last month, but still slow."
- "Were not able to get some small things we order like aprons/gloves from some of our vendors due to the Coronavirus since they are outsourced from China. But they do find other sources though."
- "Due to coronavirus there has been a complete slowdown of overseas shipments."
- "Our customers in China have obviously been silent for the past month. As of Feb 24th, I have not heard from any of them since before the Chinese New Year."

Special Question: Because of the coronavirus, Chinese factories have had to shut down or cut back production. This has had an impact on global supply chains. Has coronavirus had a damping effect on your business (or do you believe that it will have an effect in the future)? Please explain.

Most of our survey respondents believe that coronavirus has had an effect on their business, either directly (i.e. not being able to obtain needed materials for their products) or indirectly (i.e. knowing that it is affecting their customers and the general economy). Some believe that there may be an issue in the future as they run out of inventory of imported parts. Following are some of their direct quotes:

NOT MUCH EFFECT YET:

- "As of right now, no it has not affected us. However, that could change down the road even though we do not purchase directly from China, I am sure there are some things we purchase that may have components from China."
- "It doesn't seem to have had an effect. We don't import or export. But our customers and suppliers might. I don't think there will be issues, but that might depend upon length of the crisis."
- "NOT YET. I think it will have an impact in the near future. We have built up inventory on Chinese produced items and will see what happens."
- "We have had customers inquire about some effect. Apart from one power cord vendor who buys the bulk cable from China, we are not in trouble. We have a good stock of this material at present. Long term interruption may be another matter."
- "Yes, we have heard of concerns from our suppliers, but have not noticed an effect yet. We are considering a business loan to purchase higher quantity of inventory before our suppliers run out of imported parts. We are a small company. Running out of inventory would be devastating to us."

- "Possibly. We received last shipment in January 2020. Next shipment is delayed by at least 30 days now. Scheduled to ship 2/27 or 3/2. Will have to wait and see if it actually leaves as scheduled. Then we have to worry about ships actually docking here????"
- I have no idea if, when all is said and done, it will help or hurt our business. My feeling is that it should be under control in the next 60 days and we will basically feel no effect from the shutdown of business in China."

YES, THERE HAS BEEN AN EFFECT:

- "Affects us indirectly because it affects our customers for sure!"
- "For the products we source from China, yes. Have delayed shipments about 4 weeks and slowed their production rates. Less than 10% of our products."
- "I believe it make the work increase because some of the parts will be made here."
- "I believe the coronavirus is causing people to not place orders. We do have an upswing in the product line that makes protective shields and goggles for infectious disease control. Huge orders for these products and we are adding capacity to fill them."
- "I believe the full effect will be a slowdown that has will reach its peak in the next quarter."
- "Coronavirus seems to be upsetting most industries. Some of our suppliers are notifying us their stock is less due to others purchasing higher quantity in order to prevent an out-of-stock situation. Some parts we purchase from local suppliers are made in Taiwan or China. Some of the materials used to make those parts are coming from China. Watching this situation closely."
- "There is an ingredient we use that is outsourced from China. I'm told that it's not an issue at this time. We have other ingredients we can use if it becomes an issue. It will be at a higher cost though."
- "It is more how these conditions affect the general economy than our company directly."
- "We are in short supply of dusk masks and backordered."
- "We have an order that has been delayed due to the issue. Not sure yet how long the delay will be or what effect this will have on the order. The order had a long lead time to begin with."

- "We have had customers inquire about some effect. Apart from one power cord vendor who buys the bulk cable from China, we are not in trouble. We have a good stock of this material at present. Long term interruption may be another matter."
- "Yes -- cannot get any shipments out from Asia."
- "With the panic over the coronavirus and the implications on other communicable contagious diseases, projects that address those conditions have been a part of our agenda. However, these issues further compound the uncertainty over how international trade policies do and will impact the general economy, especially with this year's election cycle."

In summary, the PMI is surprisingly strong this month considering that this month's survey was conducted during the worst week for stocks since 2008. The economic volatility is most likely due to the virus outbreak and its effect on the global supply chain). Manufacturers are beginning to feel the pain of not being able to get the supplies they need. Non-manufacturers have also felt the effects of the coronavirus. For example, the travel industry has taken an immediate hit as people have cancelled their travel plans. And if the US public begins to self-quarantine (as some predict), changes in their buying behavior could cause ripples throughout the entire economy. At this point there are simply too many variables to enable a good forecast...stay tuned!

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