

IAR'S INLAND EMPIRE REPORT ON BUSINESS

Prepared by: The Institute of Applied Research

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Jack H. Brown College of Business and Public

Administration

Report for January 2021

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



PMI FIFTH MONTH ABOVE 50 – ECONOMY IS GROWING BUT SLOWLY

CONTEXT FOR THIS REPORT: It has been one year since an airplane evacuating 201 Americans from Wuhan arrived at March Air Reserve Base. At that time we had no idea that a global pandemic was coming which would shutter businesses, cause over 400 thousand deaths within a year, leave huge groups of individuals unemployed, and change the way we work and play (perhaps permanently).

As of the writing of this report, the world has seen a staggering 103.4 million COVID-19 cases and the death toll has reached 2,233,913 (up from 1,860,584 just a month ago). The US leads the world in COVID deaths (450,700, up from 362,123 when our last report was written). California is now #1 in the US in terms of case count (3,309,388), and #2 in terms of statewide death count (40,682, up from 26,997 last month).

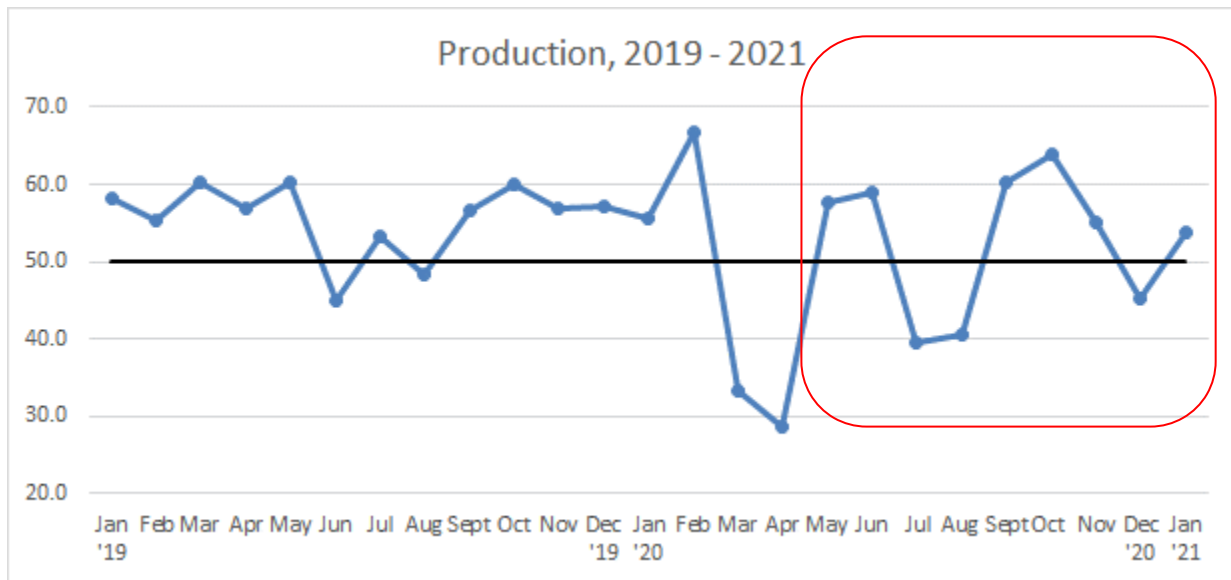
Drilling down to the county level: San Bernardino County is the second hardest hit county in the state, with 273,520 total cases (but it is #5 in the state for deaths – 1,821). Riverside County is the 3rd worst county in California for COVID cases (271,910) and second in the state for deaths (3,091). Hospitalizations are now declining, but another surge is likely to come soon as a result of people gathering for Super Bowl parties. (<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 51.5, up slightly from 50.6 last month. It is the fifth month above 50 indicating that the local manufacturing sector and economy are growing, but only slightly and at an uneven pace.”

“Production and New Orders (two of the key indicators in the PMI) jumped back above the 50% baseline, indicating growth. Production increased to 53.8 from 45.2 last month and New Orders increased to 51.9 from 41.9.”



“The Commodity Prices Index also showed an increase from last month’s 67.7 to 71.2 this month, signaling continued price pressures. The Employment Index remained below 50 for the second month in a row (46.2, virtually unchanged from last month’s 46.8), indicating that the level of employment continues to decline. The Supplier Deliveries Index decreased this month to 61.5 from 67.7 last month, indicating a slowing of deliveries. Typically that would mean that suppliers are very busy and unable to keep up their usual pace, however anecdotal evidence would indicate that the slowing in deliveries may be due to a COVID-19 generated shortage of employees making deliveries of raw materials.”

“Inventory of *raw materials* raw, MRO (Maintenance, Repair, Operating), intermediates, etc. decreased from 51.6 last month to 44.2 this month. Only 12% of companies indicated that their level of *finished goods* has increased, whereas 31% of companies indicate that their level of *finished goods* has decreased since the previous month (perhaps due to pre-holiday selling). Over half (58%) 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.”

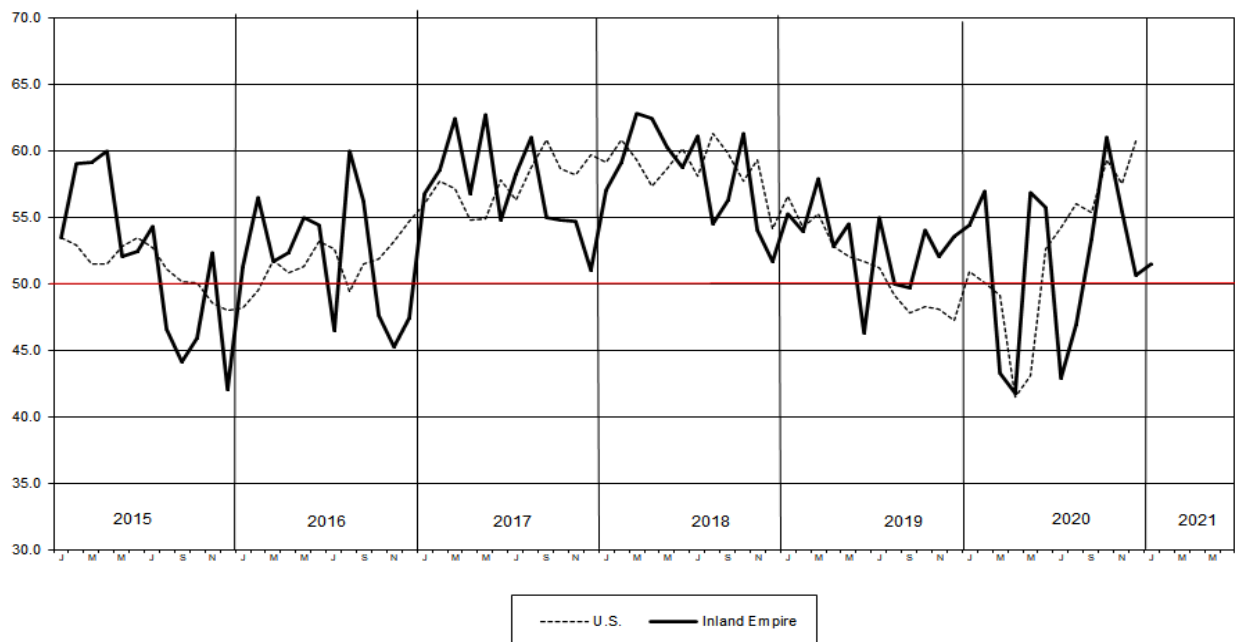
“Purchasing Managers showed an increase in optimism for the coming quarter. This month 33% of Purchasing Managers forecasted that the local economy would improve

in the coming quarter (up from 14% last month). But an equal number (33%) foresee that it will become weaker in the coming quarter (virtually unchanged from last month's 32%). The rest (34%) projected that the economy will be unchanged over the next 3 months."

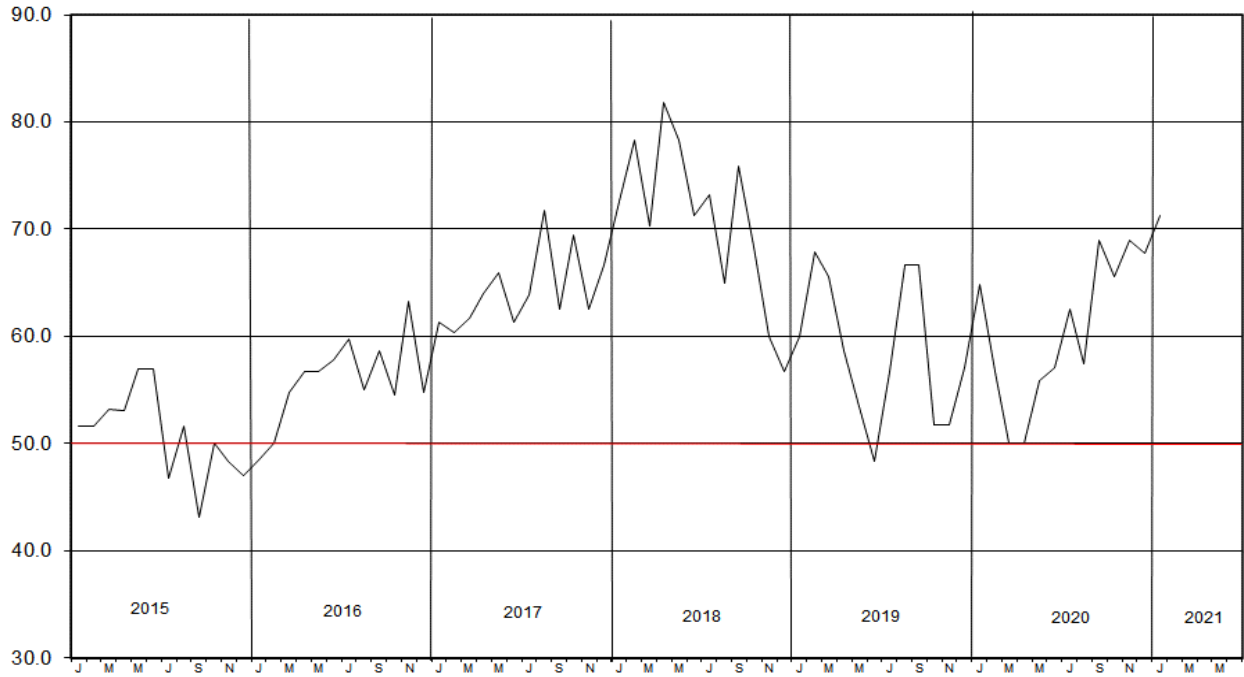
Following is a summary of highlights from this month's report:

January 2021 Business Survey at a Glance					
	Series Index		Direction from 50	Rate of Change from Last Index	Trend Months
	Last Month	This Month			
Local PMI	50.6	51.5	Growing	Faster	5
Commodity Prices	67.7	71.2	Increasing	Faster	19
Production	45.2	53.8	Growing	From Contracting	1
New Orders	41.9	51.9	Growing	From Contracting	1
Inventory	51.6	44.2	Decreasing	From Increasing	1
Employment	46.8	46.2	Contracting	Faster	2
Supplier Deliveries	67.7	61.5	Slowing	Slower	16
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	14%	33%			
% Same	54%	34%			
% Weaker	32%	33%			

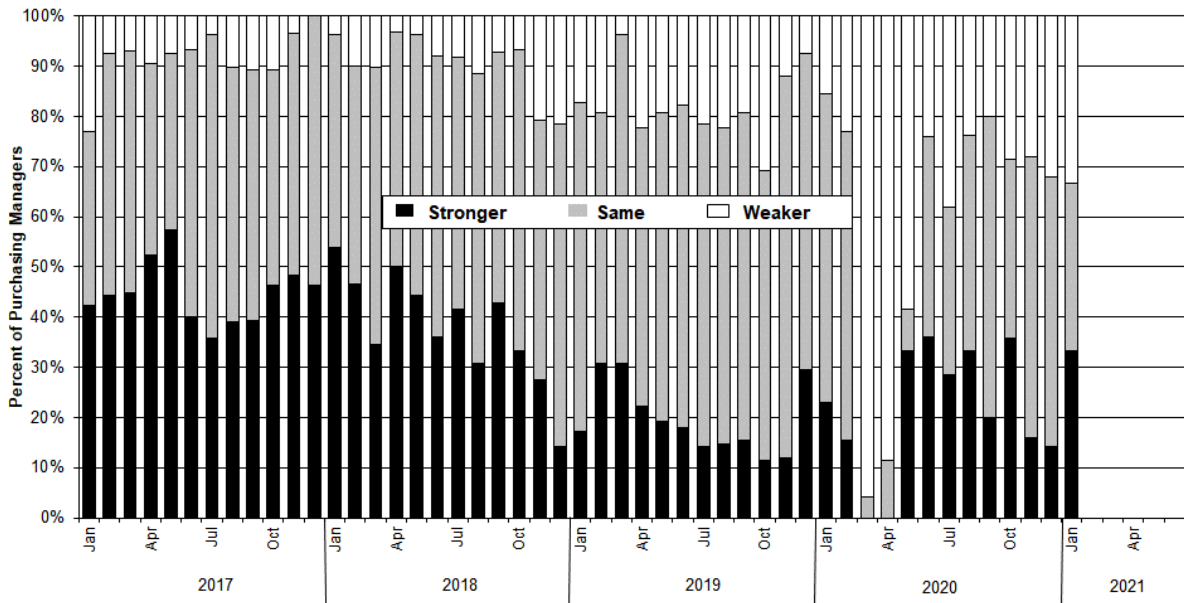
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 01/2020 THROUGH 01/2021

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

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. This month most of the comments can be summarized as “cautionary,” mixed, or “negative,” incorporating themes about the outcome of the election and impacts of COVID.

- “Foreign trade issues need to be reviewed at the federal level quickly.”
- “Needed specialized materials not available in the USA.”
- “Orders have picked up a bit, but we do not expect to return to pre-COVID levels in 2021.”
- “Slowdown in production and communication from customers has not been very good.”
- “Starting the year slow as usual.”
- “We cannot evaluate business trends right now. December and September 2020 were good months, November had fewer orders, and in January 2021 the orders were low. Lots of variability.”
- “For the short term we are concerned as we try to manage the residual issues that we have been facing and as we work through the rest of the COVID impacts on our company “family” and our customers. But we have great hopes for the long term and for the rest of this year as our backlog just doubled.”
- “Very low orders.”
- “We seem to be in a New Year hangover. Business is a little slower than normal.”
- “Who knows? COVID? Politics?”

The relatively positive comments included:

- “Anticipating lowering of tariffs and more orders being placed.”
- “Domestic and International orders have improved.”
- “Good.”
- “The steel and stainless markets in the US seem to be in fifth gear. Outlook from most customers is very positive while supply of material remains tight. It is an absolute sellers’ market right now. And, thankfully, just in time. Not sure how much longer we could have gone without having to make cuts since we are not eligible for additional PPP funding (loss of sales did not meet threshold).

International business remains soft but domestic business is back to pre-pandemic levels.”

- “Very hopeful that the pandemic will now be managed out of existence and allow the economy to open up for all sectors. Not expecting miracles, just intelligent guidance.”

Each month we ask respondents a special question regarding the effect of COVID-19 on their business operations. This month the question was: *“The future of work is changing. Manufacturing firms across the country are increasingly relying on automation and technological innovation. Robots that move goods to workers, 3-D printing, drones, autonomous vehicles, and artificial intelligence (AI) have been adopted to offset the high costs of human labor while reducing time from production to delivery. How would you characterize YOUR company’s adoption of automation/technological innovation since the start of COVID-19?”*

The vast majority of respondents (88%) indicated that there have been no changes to their company’s adoption of automation/technological innovation since the start of COVID-19. Only a few respondents (8%) indicated that adoption had accelerated, and 4% said it has slowed down.

Following are comments explaining why there had been no change:

- "Automation has not replaced headcount."
- "In most cases human touch is a requirement for the equipment we service."
- "Need the sales to level out so we can look at automation in the future."
- "No plans to automate until things normalize."
- "Not too sure on automation in our production."
- "The products we fabricate are to a large extent crafted and engineered and are not made in large volume so our ability to automate is somewhat limited."
- "We are a mining industrial facility and due to the process, we require some degree of automation, however the process requires personal observation and manual assistance."
- "We do custom."
- "We don't have the room for automation."
- "We don't see enough of an increase in sales to warrant new automation."
- "We had made great strides in automating as much as we could during the past 10+ years. Not sure how much more there is as AI and robots can't do what we do (there's just not enough of a market for someone to figure out how to allow robots to slit thin gauge stainless steel. That being said, we are always investing in our software systems and upgrading/improving as much as we can. What we have learned is that we can be just as effective with about half of the staff actually in the office and the other half working remotely. Unfortunately, working remotely is not an option for our warehouse / production workers."

- "We have had a plan in place for continuous improvement, which includes upgrading and automating some of our operations. The rate of change for this plan has not changed since the start of COVID-19."

The only other comment regarding changes in the level of automation referred to a slowing in the adoption of technological innovations:

- "Lack of orders has caused us to not purchase any additional automated machinery, i.e., laser cutting machines."

In summary, this month's PMI reflects a local manufacturing sector and overall economy that is continuing to grow despite the horrendous obstacles posed by the pandemic. Nationwide surveys show that there is a great deal of pent-up demand for goods such as electronics, furniture, and automobiles, and this bodes well for the economy in 2021 (assuming that the vaccine roll-out successfully brings COVID under control).

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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