

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 June 2020

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

PMI ABOVE 50 FOR THE SECOND MONTH IN A ROW

CONTEXT FOR THIS REPORT: As of the writing of this report, the U.S. COVID-19 case count is 2,723,262 (up from 1,836,322 when the May *Report on Business* was released). There have been 130,067 deaths in the U.S. (up from 106,174), with the state of New York still being the hardest hit. California has the second highest case count in the nation (230,140, up from 112,454 last month). Riverside County has 17,683 confirmed cases (up from 7,492 last month) and 457 deaths, and San Bernardino County has 12,550 confirmed cases (up from 5,246 last month) and 253 deaths. (<https://www.worldometers.info/coronavirus/country/us/>).

The economy took an unprecedented blow back in March when the Governor announced a mandatory stay-at-home order throughout California. Essential businesses remained open, but others were forced to close their doors – some temporarily, some permanently. In early May the Governor announced that California was ready to move into Stage 2 of reopening businesses, and June saw the reopening of restaurants, bars, gyms, and personal care establishments (hair and nail salons). People flocked to the beaches and began to resume their lives until some states (e.g. Texas and Florida) reversed course and rolled back the reopening in late June because of a huge spike in cases and ICUs which were dangerously near capacity. Finally, we note that on June 30 a public safety alert appeared on cellphones in Riverside indicating that effective immediately, all Riverside County brewpubs, breweries, bars, and pubs are closed until further notice. Presumably this mode of delivery was meant to increase the chance that young adults (who don't necessarily read newspapers or watch TV news) would see the message.

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 55.7, a slight drop from last month's 56.9. A figure above 50 indicates that the manufacturing sector is expanding, whereas a figure below 50 indicates that the sector is contracting. Although the PMI is moving "in the right direction," we must note that the prediction of a change in trend requires three consecutive months of figures above 50. This is the second month above the 50% benchmark, thus one more month of positive figures will allow us to state that the manufacturing sector is solidly back in growth mode."

"On the other hand, we must remind the reader that the methodology behind the PMI and its indices requires the respondents to compare one month's activity with that of the previous month. Considering that the PMI registered record lows in April, it was not surprising to see somewhat of a rebound in May and again in June as Purchasing Managers compared current activity to the dismal activity in previous months. In other words, we are not out of the woods yet."

"Two of the most critical components of the index (Production and New Orders) showed increases last month. Production increased to 58.9 from 57.7 last month, and New Orders increased to 58.9 from last month's 50.0. The Employment Index dropped to 51.8 from 59.6 last month, but still remained above 50 (indicating that employment is increasing, although at a slower pace than in May). The slower pace of employment increase may reflect that in May, a large percentage of employees flocked back to work when their company reopened, thus in June there were relatively fewer jobs left to fill. Further, anecdotal evidence indicates that some employees do not wish to come back to work, either because they are concerned for their own safety, or are making more money on unemployment than they did working full time. Thus employment increases have slowed."

"Inventory of *raw materials* increased slightly from 50.0 to 51.7, indicating that companies are beginning to prepare for increased production. It is interesting that 61% of companies indicated that the level of *finished goods* is the same as last month (meaning either that they are not selling their product at all, or else their production is "staying even" with sales). About a quarter of companies (25%) said their inventory of finished goods had declined (meaning products are selling!). The Supplier Deliveries Index (57.1) still showed slowing of deliveries, however at a reduced rate from last month when the index was 67.3. And the Commodity Prices Index increased from 55.8 last month to 57.1 this month, indicating that inflationary pressures continue in the Inland Empire, although at a slightly slower pace than in May."

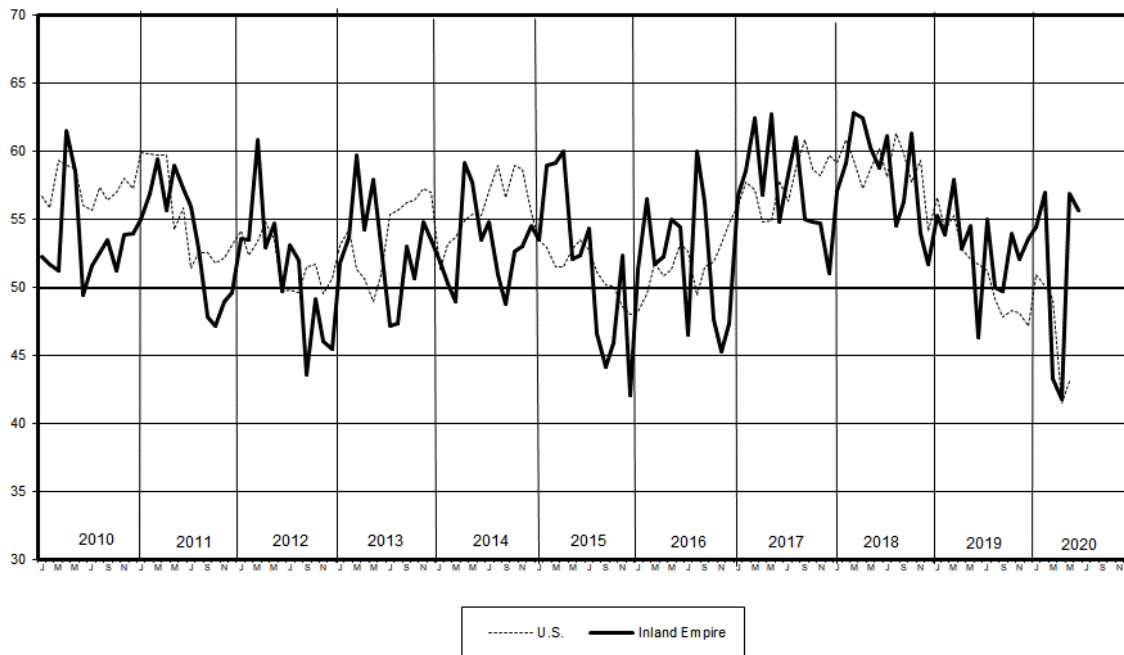
"The improvement in the PMI indices was reflected in Purchasing Managers' optimism about the state of the local economy for the coming quarter: 36% of the Purchasing Managers commented that they expect the local economy to be stronger in the next quarter (up from 33% last month). Another 24% believe that the economy will be weaker (down sharply from last month's 58%). The remaining 40% feel the economy will be unchanged (up from 9%). It must be noted that last month there was little optimism about the economy, so having 40% saying their opinions haven't changed from last

month is not necessarily a positive statement.”

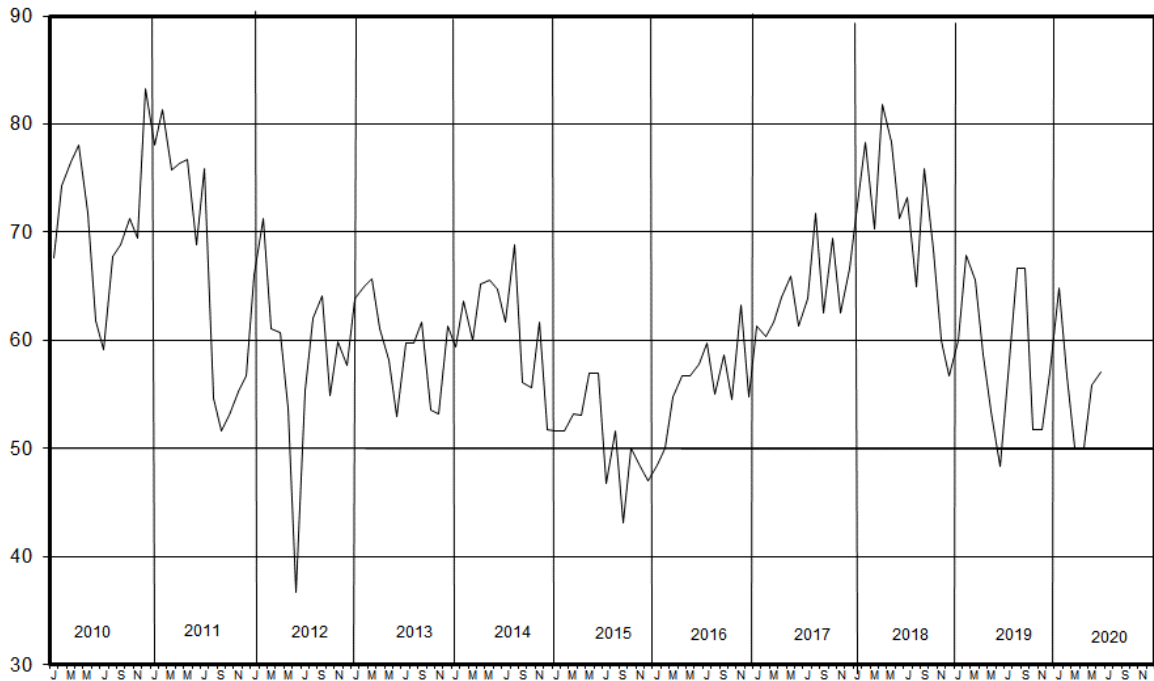
Following is a summary of highlights from this month’s report:

June 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	56.9	55.7	Growing	Slower	2
Commodity Prices	55.8	57.1	Increasing	Faster	12
Production	57.7	58.9	Growing	Faster	2
New Orders	50.0	58.9	Growing	From Unchanged	2
Inventory	50.0	51.8	Increasing	From unchanged	2
Employment	59.6	51.8	Growing	Slower	2
Supplier Deliveries	67.3	57.1	Slowing	Slower	9
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	33%	36%			
% Same	9%	40%			
% Weaker	58%	24%			

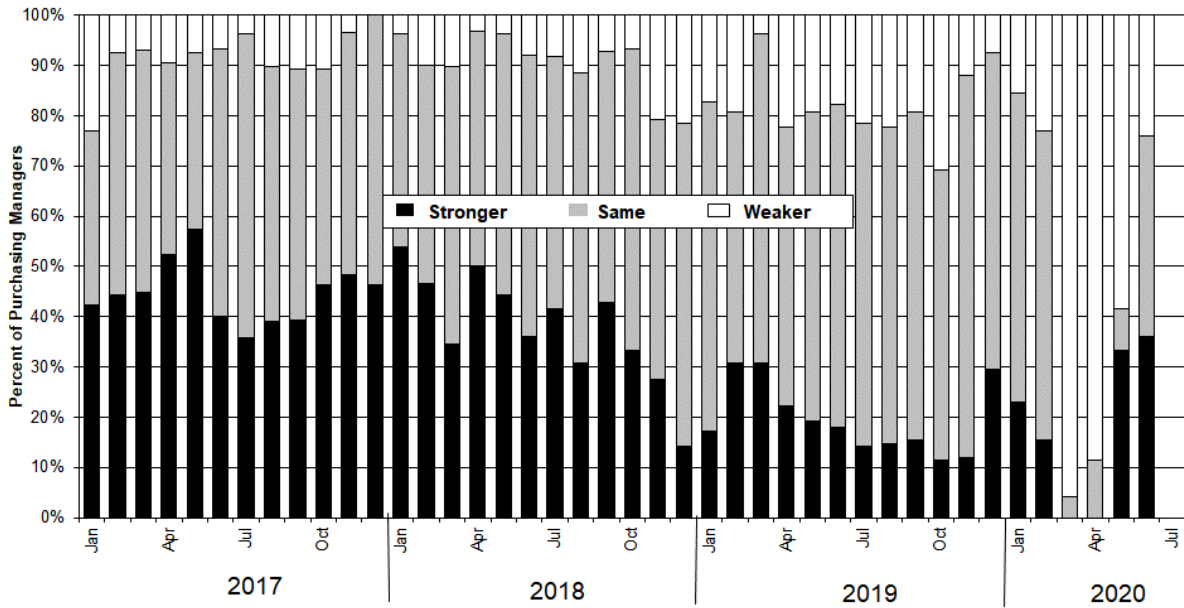
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 6/2019 THROUGH 6/2020

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Weaker	18	22	22	19	31	12	7	15	23	96	89	58	24
Same	64	64	63	65	58	76	63	62	62	4	11	9	40
Stronger	18	14	15	16	11	12	30	23	15	0	0	33	36

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:

- "Business continues to be firm."
- "Business in June was slightly more upbeat than May. We are still well below pre-COVID levels, but I am a bit more optimistic about the coming months than I was before."
- "Business picking up – automotive has ramped up quicker than expected."
- "Our business fortunately has not slowed down during the pandemic. Actually, we have hired more employees in the past couple months."
- "Our generation of new orders and continuing orders seems to be holding steady despite challenges to the economy."
- "We see regular business returning, besides the emergency orders for the COVID crisis."
- "We are importing more this month. We had put off ordering and now must order some raw materials. This was only because of concentrating on needed raw materials domestically for the COVID crisis."

Negative and/or mixed/cautionary comments included:

- "Business is still slow! We will close for the week following July 4th. We have not had any layoffs but will soon reduce the hours for everyone."
- "Sales were down 50% in May, and it is much better in June. But things are still much slower than normal."

Comments specifically about employment:

- "We are attempting to hire, but find it difficult to attract entry level applicants, possibly due to the supplemental unemployment insurance of \$600 per week, but we're not sure."
- "We have noticed that our freight company is struggling with a shortage of drivers. I have also heard from one or two customers who have labor shortages. They have said that they can't their workers back because the workers receive more money from unemployment than from working."

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:

Does your firm handle its own logistics operations, or does it outsource to a third-party logistics (3PL) firm? And has that changed?

All of the respondents indicated that nothing changed over the past few months. Most (96.4%) stated that they handle the logistics function in-house and have not changed, and one indicated that they continue to use a 3PL.

Stay-at-home orders have now eased, and retailers are reopening. How would you compare your firm's current business level with your pre-COVID-19 level?

About two-thirds of companies indicated that their current business level is still below pre-COVID levels.

- 10.7%: "We are the less than 50% of our pre-COVID-19 level"
- 32.1%: "We are at 50%-75% of our pre-COVID-19 business level"
- 25.0%: "We are at more than 75% of our pre-COVID-19 business level"
- 32.1%: "Our business actually increased from pre-COVID-19 levels"

Over the past month have you experienced any supply chain disruptions? If so, please explain, indicating the product/component and also the geographic source of the issue (e.g. China).

About half of the respondents indicated that there have NOT been supply chain disruptions, either in terms of lead times, cost, or unavailability of needed product.

The people that cited disruptions commented:

- "Yes, lots of them. The COVID crisis has really hurt manufacturers and supply chain deliveries."
- "Any raw material coming in from China have gone up in cost and lead times are longer."
- "In the last month suppliers have not had any major disruptions. Slight increase in lead time but nothing dramatic that would impact our business."
- "Longer lead times as well as tight credit terms."
- "Our suppliers are saying that they have lower business than expected so they are able to deliver to us faster, if needed."
- "PPE shortage for products coming from China."
- "Some of our domestic suppliers were either delayed or slowed down. The state of the economy does not give our suppliers a sense of confidence that allows them to take what they consider to be risks."
- "The only supply chain disruption has been our deliveries from UPS Ground. We have noticed a big increase in package delays and a few missing packages. This is very unusual for us to experience any problems with our daily deliveries"

from UPS. I receive delay notices via email from UPS almost every day."

Over the past few months there has been a great deal of demand and supply volatility. Have things now “settled down” at your firm? Please comment.

Some of the respondents indicated that things have settled down, and things are becoming more predictable (or are beginning to “pick up”). Comments included:

- "The "panic" is gone. People now know that there are not shortages and there is no need to build up excessive inventories or safety stock."
- "Compared to before the Covid event, our business has seen an increase in demand. We are up about 15% compared to a year ago."
- "Never had problems with purchasing materials."
- "Our business has seen an increase in sales and has not slowed down."
- "Sanitation and Safety supply lead times have come down in general."
- "Settled down."
- "We are the busiest we have ever been. A lot of us are not sure why. I know we are a “if you need it fast” company, and maybe this is why."
- "We didn't have any major issues with supply and demand for items we require. We experienced a couple of slightly longer lead times, but nothing catastrophic."
- "We have been lucky with no real volatility."

Some companies are still seeing a decline in business or a high level of volatility:

- "Huge drop in business and not returning fast enough."
- "Orders are still very erratic. Supply side has settled down."
- "Just picking up."
- "Not "settled down", but we are proceeding in a way that allows all of our staff to be ensured of the continuation of their positions, as they know from our 44 years of history that our culture is based on their core competencies. We have left it up to our staff to determine their level of comfort to be near other working colleagues given their and their family's situations."
- "Still up and down, very unpredictable."
- "Things are starting to get a little busier now."

Based on what you’ve seen in your industry, will the Inland Empire economic recovery be behind or ahead of the rest to the nation?

Over a quarter of respondents have no idea about the relative speed of the IE recovery. Of those that were willing to comment, most feel that the Inland Empire will be on par with the rest of the nation.

- 3.6%: Behind the rest of the nation
- 25.0%: Ahead of the rest of the nation
- 42.9%: On par with the nation
- 28.6%: No idea

In summary, the reader may recall the 1959 song by Dinah Washington entitled: ““What a Difference a Day Makes.” For the purposes of this economic forecast, the quote should read “what a difference a *week* makes.” A week ago when companies responded to our survey, businesses were reopening and things were looking up even as coronavirus cases were increasing due to a lack of social distancing in bars, large Memorial Day gatherings, and warm weather enticing people to head to the beach. But since that time, states (including California) have reconsidered their reopening plans and some businesses have been ordered to close again.

Our data look relatively rosy based on the snapshot in time of the survey, however the recent turn of events over the past few days may result in further economic pain to the Inland Empire. Uncertainty about the future is definitely the name of the game, but at this point we believe that economic conditions will show a very slow and bumpy recovery until a vaccine is developed and life begins to “return” to normal (the “new normal,” that is).

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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