

## **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 November 2020***

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

### **PMI THIRD MONTH ABOVE 50**

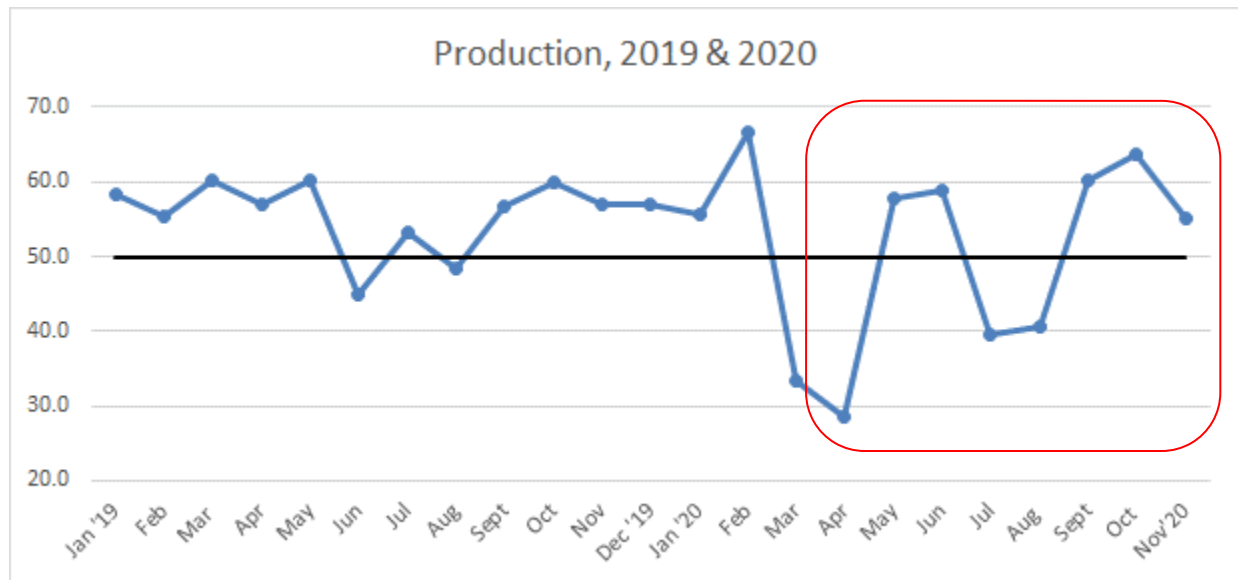
**CONTEXT FOR THIS REPORT:** As of the writing of this report, the world has seen nearly 64 million COVID-19 cases and the death toll has reached 1,479,908. The US leads the world in COVID deaths (274,743). California is #2 in the US in case count (1,234,232), just behind Texas. And it is only behind New York and Texas in terms of the statewide total death count (19,210).

Drilling down to the county level: Riverside County is the 3<sup>rd</sup> worst county for COVID (behind LA and Orange County), with 87,383 confirmed cases (up from 68,176 confirmed cases last month) and 1,442 total deaths. San Bernardino County has 93,671 confirmed cases, surpassed only by LA's 400,919. It has 1,129 total deaths (4<sup>th</sup> worst county for deaths). (<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 55.5, down from 61.0 last month. It takes three months above the 50 baseline to establish a new trend of growth in the manufacturing sector and overall economy, and this month's figure IS number three in the series. Thus after 8 months of roller coaster rides, the Inland Empire has finally returned to growth mode (although this month's level of growth is slighter less than last month's)."

“Production registered 55.2 (a drop from last month’s 63.8 – see the graph below), however the drop simply indicates that the rate of growth has slowed. New Orders also declined, slipping from 69.0 last month to 48.3 this month. The rest of the major components of the PMI index are holding above the 50 baseline indicating growth.”



“Inventory of *raw materials* increased slightly from 53.4 last month to 55.2 this month, showing an increasing level of raw, MRO (Maintenance, Repair, Operating), intermediates, etc. compared with the previous month. Only 10% of companies indicated that their level of *finished goods* has increased, whereas 17% of companies indicate that their level of *finished goods* has decreased since the previous month (perhaps due to pre-holiday selling). Nearly two-thirds (72%) 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.”

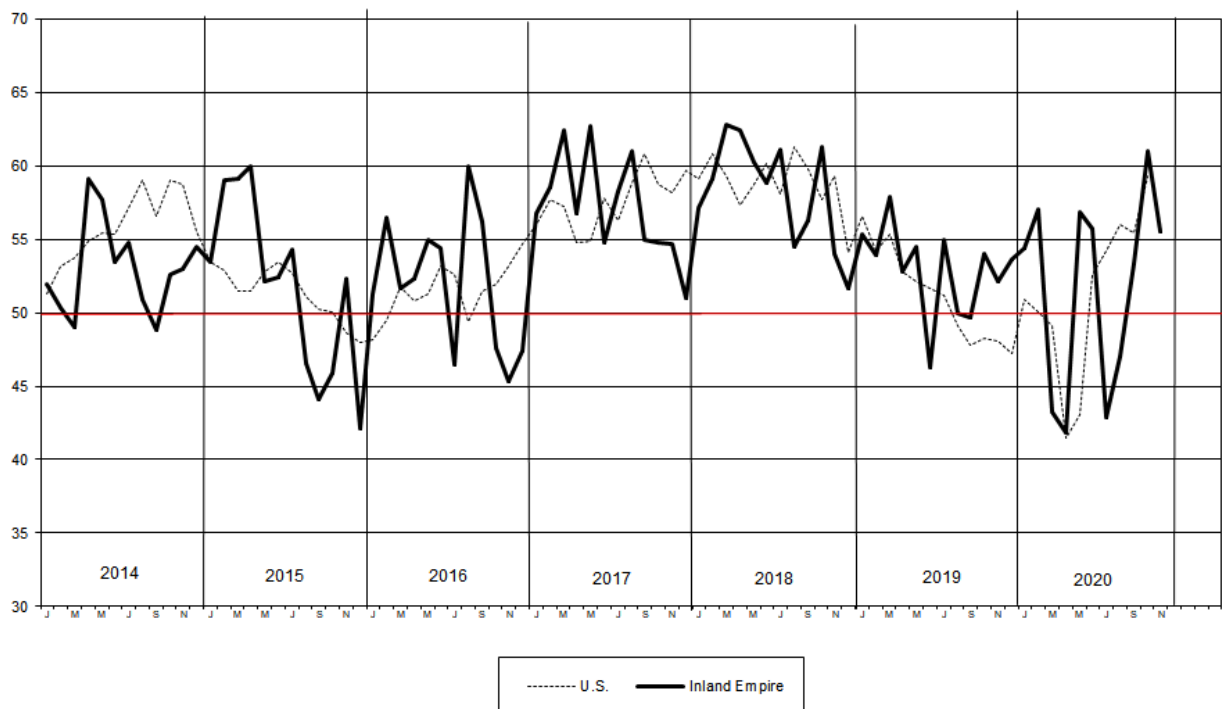
“Our Employment Index dropped sharply from 62.1 last month to 53.4 this month, however we must reinforce that this means employment is still growing – just at a slower pace than the previous month. The Supplier Deliveries Index (65.5) showed continued slowing of deliveries (indicating that suppliers are getting busier). And the Commodity Prices Index remained above 50 (69.0), indicating that cost pressures continue to be an issue for some companies in the Inland Empire.”

“Although the PMI figures show some improvement in the manufacturing sector and overall economy, level of optimism about the outlook for the coming quarter is mixed. Only 16% believe that the economy will become even stronger in the coming quarter (down from 36% last month). Further, 28% (virtually unchanged from last month’s 29%) think the economy will be *weaker* over the next few months. The rest (56%) believe that the economy will remain about the same (where the “same” reflects an economy struggling to return to “normal”).

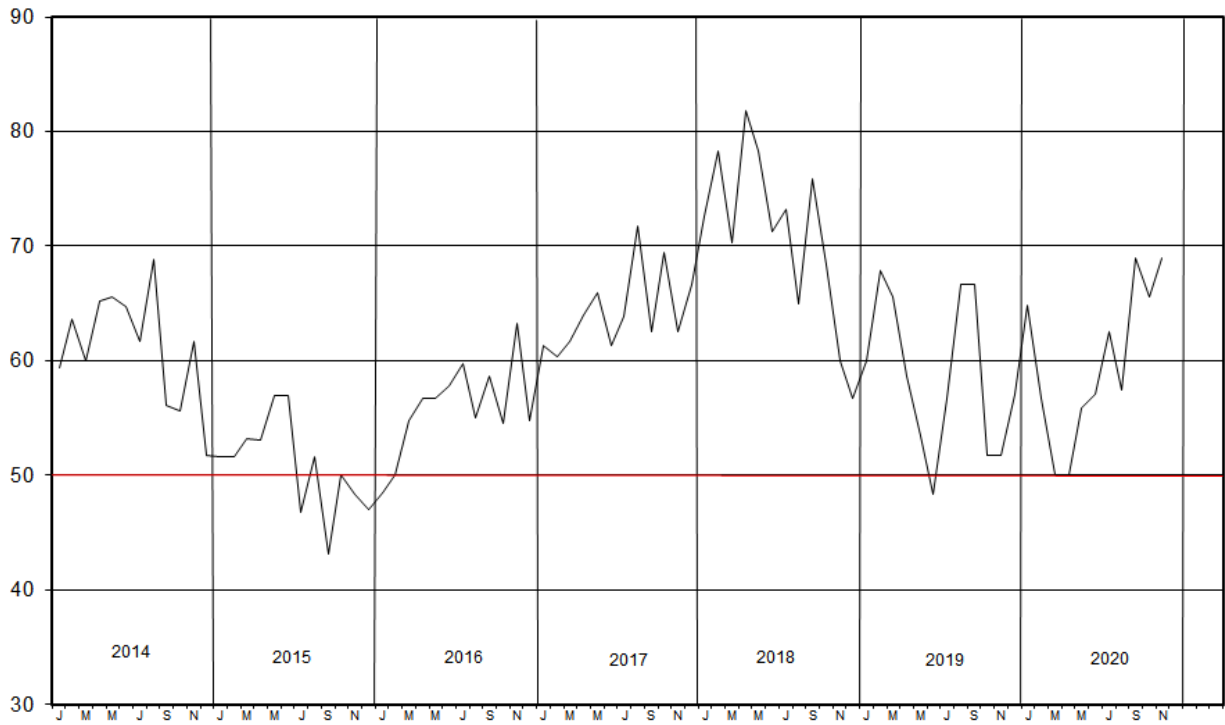
Following is a summary of highlights from this month's report:

<b>November 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	61.0	55.5	Growing	Slower	3
Commodity Prices	65.5	69.0	Increasing	Faster	17
Production	63.8	55.2	Growing	Slower	3
New Orders	69.0	48.3	Contracting	From Growing	1
Inventory	53.4	55.2	Increasing	Faster	2
Employment	62.1	53.4	Growing	Slower	2
Supplier Deliveries	56.9	65.5	Slowing	Faster	14
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	36%	16%			
% Same	37%	56%			
% Weaker	29%	28%			

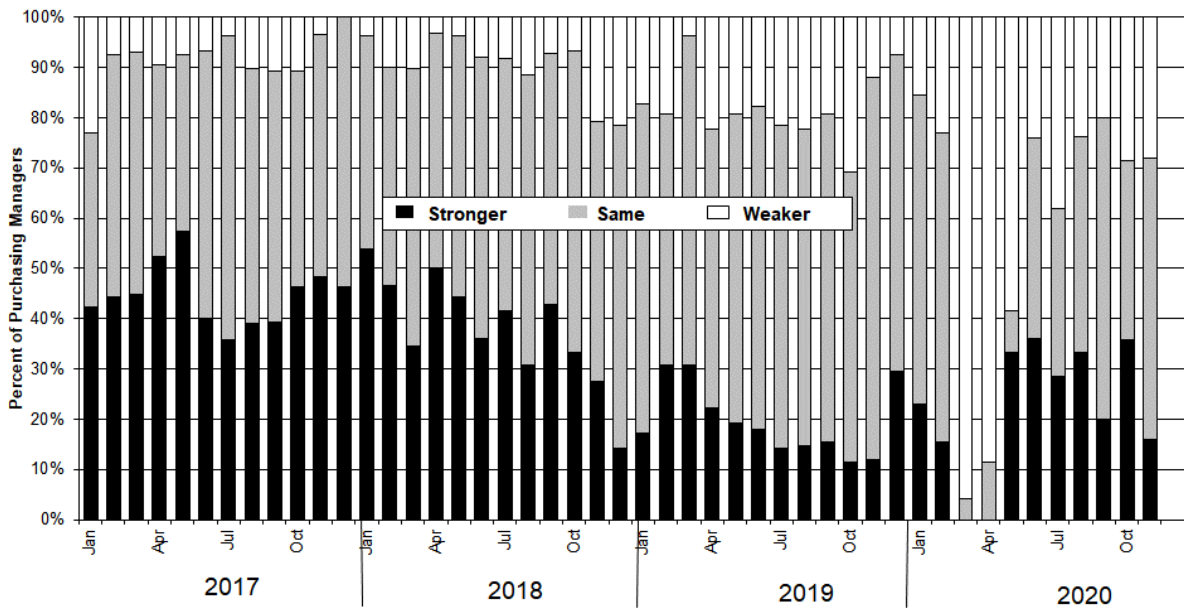
**Purchasing Managers' Index**



### Commodity Prices



### State of the Local Economy



## STATE OF THE ECONOMY: DATA FROM 11/2019 THROUGH 11/2020

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>Weaker</b>	12	7	15	23	96	89	58	24	38	24	20	29	28
<b>Same</b>	76	63	62	62	4	11	9	40	33	43	60	37	56
<b>Stronger</b>	12	30	23	15	0	0	33	36	29	33	20	36	16

**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.

- "As of the end of November has approached, we are seeing that maybe – and I use that term maybe very cautiously – the bidding on work process is going to slow down. That is just speculation. We can't be sure until after President Trump is re-elected."
- "Business is down by 50%."
- "Business is still slow."
- "If the current unverified election results are confirmed, then business in the US may decline over the next 4 years as well as a lowering of defense and government spending towards infrastructure."
- "Sales lower than our usual seasonal low!"
- "Slow down time of the year, but overall we had a good one."
- "Slow new orders since day of the election."
- "Still slow, working 20 hours per week, with some people working Monday and Tuesday and some people just Wednesday and Thursday. Now we are closing for a week because on employee has positive test for COVID-19. Exposure was a week ago, closing for a week now meets the two-week quarantine."
- "There is a lot of uncertainty again on which direction the economy is going."
- "Uncertainty over the national leadership transition creates uncertainty in the national economy. Locally and in the State, there are the challenges of COVID-19 and its public policy management: There is a need to show scientific rational for the policies relative to *who* and *where* and *why* there should be shutdowns to businesses. What is the exposure difference if one were to go to a big box store verses a small shop, and where is the data to substantiate those conclusions and policies? We must have data driven information and rational in order to build acceptance for the public policies, or they will be defied without the ability to enforce them."
- "We seem to be slowing back down."
- "General reduction in business when it comes to import/export."
- "Seasonal."

- "Need raw materials that are not available in the USA."

The relatively few positive comments included:

- "Business around the country seems to have picked up a little since the election. It seems many were putting off buying material until after the election. Seems like this happens every four years. Not sure why people do that. So, things look a little more promising than they did a month ago."
- "Business continues to be good. Surprisingly very little impact on new orders caused by the COVID-19 situation."
- "Business still is going well with new customers and higher revenue at than at the same time last year."
- "Busy."

Each month we ask respondents a special question regarding the effect of COVID-19 on their business operations. This month we asked: "Will you need to make any changes in your shifts due to the new California curfew (10 PM to 5 AM) just imposed by the governor?" 97% of our respondents stated "no" they will not have to make any changes due to the new curfew hours. The other respondents stated that it "may" be necessary." We must note that since the survey was conducted, there is talk of new stay-at-home orders being imposed in LA County, thus shift changes may need to be made in the Inland Empire if that order is imposed widely.

The second question asked: "Once a vaccine is widely available, do you plan to return to the "old ways of doing business," or is your company in its "new normal?" A plurality (45%) stated that they "never really had to change much during COVID." A quarter (24%) stated that they would return to "the old ways", and another 24% stated they were uncertain. Only 7% stated they will remain in the "new normal".

Those who said they "never had to change much during COVID" explained:

- "Most employees have their own space!"
- "Other than wearing masks and sanitizing, we are still doing business face to face with customers when needed. Our business is lucky to be very email and phone heavy anyway, so other than the sanitation measures, everything else stayed very similar to how it always was."
- "The only thing that changed was that our office staff (all of two employees) worked more from home almost exclusively, this will probably go to back to a hybrid style like we had before. Otherwise the rest of our employee's hours and location have remained the same."
- "We are a small shop with 6 employees, and not much contact with the general public."
- "We are doing essential work, and although we had to close for a week in early August, we are mostly doing the same as we did before, with added precautions such as mask wearing, leaving bay doors open for more ventilation, etc. We have health and safety virtual meetings once a week (they used to be in person

meetings), and most of them are addressing what we have to do to protect our staff and families from COVID-19."

- "We are essential, and we wear masks but that's about it."
- "We did not have to change too much from how we were doing business. A few people do work from home. But once a vaccine is available and can be given, I will have everyone return to the office as before."
- "We have done groups and implemented social distancing, required PPE for production and office employees but this has not really affected our efficiency of operations. From COVID-19 we have seen some efficiencies occur in the office environment when it comes to flexible hours and work from home policies, which we will probably continue after COVID-19 protocols are no longer needed or as severe."
- "We kept our shifts the same."

Those who planned to go back to the "old ways" commented:

- "Likely adjust some but proceed into a new normal that is pretty close to old normal."
- "The vaccine will not change things. It is a virus and will need to have immunity developed to fully "recover" from this issue and get back to normal."

Those who anticipated keeping the "new normal" said:

- "All the systems are now in place there is no reason to mothball them. When the pandemic is over, we will modify practices but not completely get rid of our current COVID protocol. Good practice for future events."
- "We feel that a healthy business requires that we maintain the increased protective equipment and social distancing as required. We may ease up on overall spacing during lunch, etc."

Other comments included:

- "I expect the situation to return to normal by the end of 2021. The measures we have put in place, especially the split shifts, may or may not be hurting production efficiency. Example we have multiple lunch breaks to avoid close contact."
- "We are a production facility. Our project managers have the ability to work from home and we might just do that."
- "We have 3,000 sq. ft. space per employee. It is easy for us to social distance. We use masks when we are closer. Maybe we do not have to use masks after vaccine!!"
- "We need more orders. We can't keep going with the same employees and the same hours unless business picks up!"
- "Well we really haven't talked about the "what if's." I personally think we will go with the new normal. Once the vaccine is closer in sight, I'm sure we will have meetings on this though."
- "Will probably slip back into old ways as time goes by and people feel safer."

**In summary**, for the third month in a row, the PMI registered above 50, reflecting a new trend of growth in the manufacturing sector and the overall economy. The stock market has been strong, responding to news about a roll-out of the much-anticipated vaccine and a transition of power. Consumer confidence is up in California (but down nationwide). The unemployment rate has eased a bit.

That's the good news. But is it time to rejoice? Not just yet. COVID case rates have doubled in the Inland Empire since the end of October, and it is expected to get even worse since many people flouted the "no travel and no gathering" recommendations for the Thanksgiving holiday. Further, unemployment programs are slated to end on December 31, so consumers will have less money to spend on the products our manufacturers are making. Consumer hoarding behavior is once again surging as people stock up on shelf-stable meals and cleaning supplies. 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.

***FOR QUESTIONS OR FURTHER INFORMATION, CONTACT:***

Dr. Barbara Sirotnik  
Director, Institute of Applied Research  
(909) 537-5729

Soua Vang  
Interim Economic Development Director  
San Bernardino County Economic Development Department  
(909) 387-4385

Rob Moran  
Economic Development Manager,  
Riverside County Economic Development Agency  
(951) 955-6673

Dr. Lawrence Rose  
Dean, Jack H. Brown College of Business and Public Administration  
CSUSB  
(909) 537-3703