

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 October 2020

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

THE PMI ROLLER COASTER CONTINUES ANOTHER MONTH

CONTEXT FOR THIS REPORT: As of the writing of this report, the world has seen nearly 47 million COVID-19 cases and the death toll has reached 1,205,188. The US leads the world in COVID deaths (236,471). California is #2 in case count (936,843), just behind Texas. And it is only behind New York and Texas in terms of the statewide total death count (18,614).

Drilling down to the county level: Riverside County has returned to the purple risk level (“widespread”) from the red level (“substantial”). It has 68,176 confirmed cases and 1,319 total deaths. San Bernardino County remains in the purple risk level, with 65,207 confirmed cases and 1,076 total deaths.

(<https://www.worldometers.info/coronavirus/country/us/>)

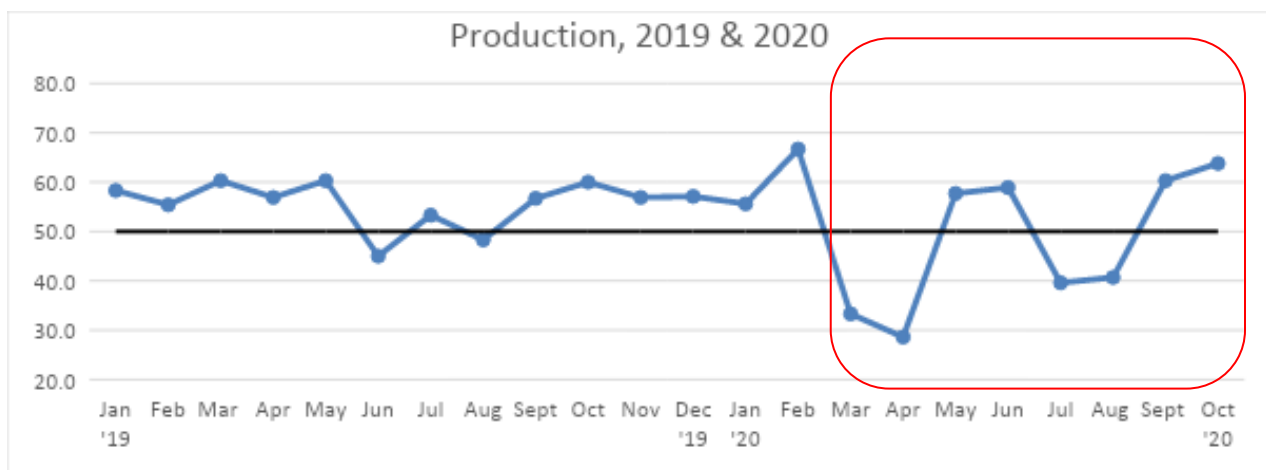
In both counties, many businesses remain closed or are only open with modifications. It is in this context that we write this report based on the data from our monthly survey of manufacturing firms in the Inland Empire.

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 61.0, a huge jump from last month’s 53.4. This is the second month above the 50 baseline after two months of dismal figures.”

“Since March there has been a repeating pattern of 2 months of contraction in the manufacturing sector followed by 2 months of increase (probably a “bounce back” from the incredibly low numbers registered the months before). For example, March and April showed contraction (43.3 and 41.8, respectively) followed by two months of above-50

figures (56.9 in May and 55.7 in June) which normally would be an indication that the manufacturing sector is expanding. July and August dipped back down to 42.9 and 47.0, respectively, and the September and October 2020 figures jumped back above 50 (53.4 and 61.0, respectively). This cycle obviously reflects an economy trying to get back on stable footing. But as we always note, it takes **three** months above 50 to establish a new trend of growth, so it will take one more month of positive figures before we can definitively state that the Inland Empire manufacturing sector and economy have returned to growth mode.”

“All of the major components of the PMI index showed strength this month. Production registered 63.8 (a significant increase from last month’s 60.3 – see the graph below), and New Orders showed a similar increase, climbing from 62.1 to 69.0 this month.”



“Inventory of *raw materials* increased from 46.6 last month to 53.4 this month, showing an increasing level of raw, MRO (Maintenance, Repair, Operating), intermediates, etc. compared with the previous month. It appears that the companies need more materials as input to the new orders they’ve received and new orders they anticipate receiving. This month, 72% of all companies reported that the level of *finished goods* has remained the same as the previous month, meaning that their production of finished goods is “staying even” with sales. Only 17% of respondents said their inventory of finished goods has actually declined, meaning that their products are selling faster than new products are manufactured and placed into inventory.”

“Our Employment Index increased sharply from 44.8 last month to 62.1 this month. The Supplier Deliveries Index (56.9) showed continued slowing of deliveries (indicating that suppliers are getting busier). And the Commodity Prices Index remained above 50 (65.5), indicating that cost pressures continue to be an issue for some companies in the Inland Empire.”

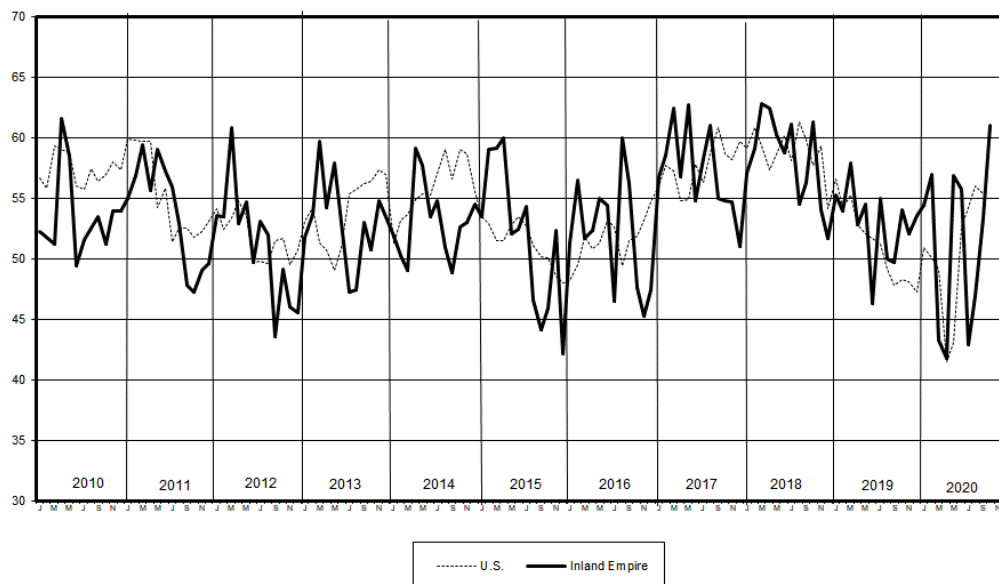
“Although the PMI figures show some improvement in the manufacturing sector and overall economy, level of optimism about the outlook for the coming quarter is mixed.

On the positive side, over a third (36%) believe that the economy will become even stronger in the coming quarter (up from 20% last month). But 29% (up from last month's 20%) think the economy will be *weaker* over the next few months. The rest (37%) believe that the economy will remain about the same (where the "same" reflects a struggling economy).

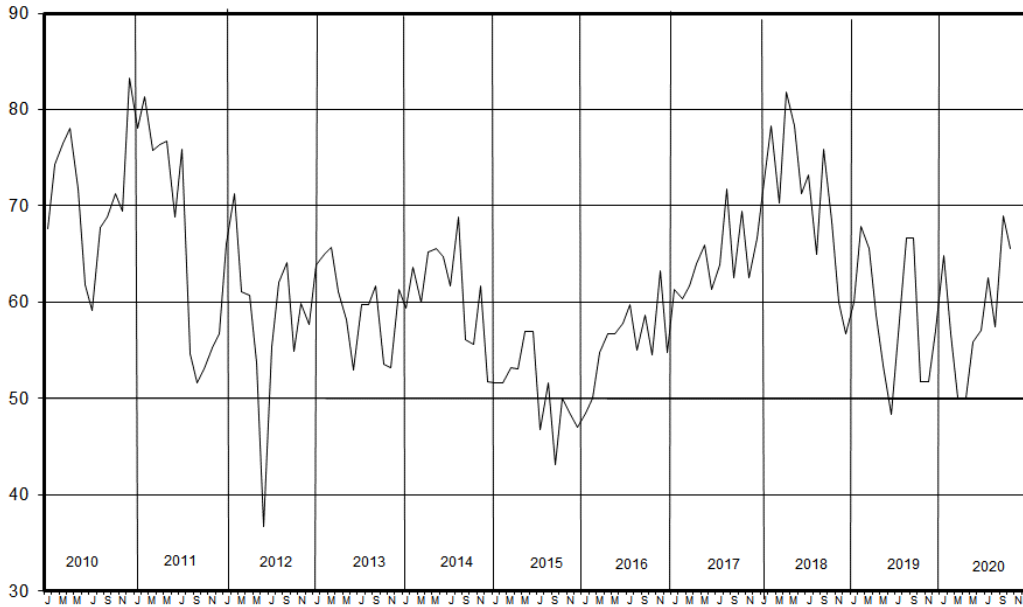
Following is a summary of highlights from this month's report:

October 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	53.4	61.0	Growing	Faster	2
Commodity Prices	69.0	65.5	Increasing	Slower	16
Production	60.3	63.8	Growing	Faster	2
New Orders	62.1	69.0	Growing	Faster	2
Inventory	46.6	53.4	Increasing	From Decreasing	1
Employment	44.8	62.1	Growing	From Contracting	1
Supplier Deliveries	53.4	56.9	Slowing	Faster	13
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	20%	36%			
% Same	60%	37%			
% Weaker	20%	29%			

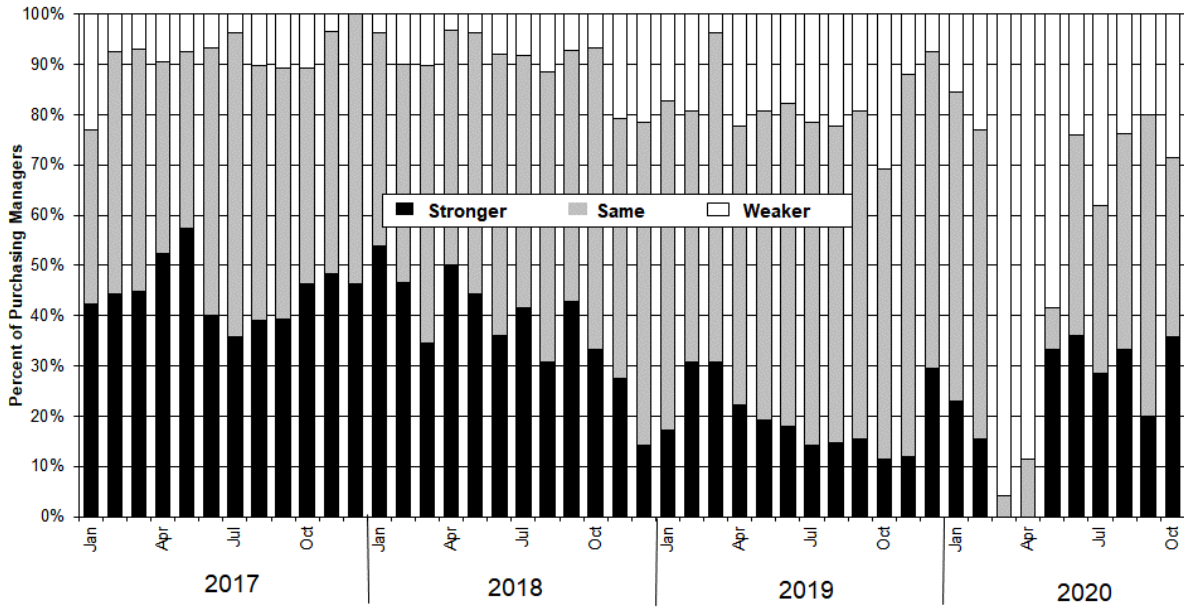
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 10/2019 THROUGH 10/2020

	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Weaker	19	31	12	7	15	23	96	89	58	24	38	24	20	29
Same	65	58	76	63	62	62	4	11	9	40	33	43	60	37
Stronger	16	11	12	30	23	15	0	0	33	36	29	33	20	36

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. Many of the comments can be summarized as: “variability” and “unsettled.”

- "Everyone is waiting to see the results of the election."
- "No real change."
- "Until the election results are resolved we are in a very unsettled business climate."
- "Volume of business varies weekly. We are unable to predict what next week will have in store for us."

Positive comments included:

- "Better."
- "Business continues to be very consistent with a positive uptick this month."
- "I would say that many of our customers sound a little more upbeat heading into the end of the year. Numerous customers in recent weeks have mentioned how jobs quoted pre-COVID are now starting to come around."

Negative and/or mixed/cautionary comments included:

- "Our busy season is over so purchasing will be less."
- "Things were good last month, but I am seeing a little slow down."
- "Overall sales were down for the month of October."
- "Still slow. We are working with half-staff, with everyone showing up two days a week rather than the usual 4 days."
- "Temp Labor has become scarce."
- "Packaging materials (cardboard boxes) have gone up in price and lead times are longer."
- "As I mentioned last month, we had a major competitor go out of business (completely closed up and sold off equipment). That has turned out to be very good news for us and the few others that remain in our industry."

Each month we ask respondents a special question regarding the effect of COVID-19 on their business operations. This month we asked: “In your opinion, are the harms of business lockdowns worse than the virus itself?” It is a question that is asked by some

decision-makers as they navigate the process of trying to get business reopened. Nearly two-thirds (65.5%) believe that the economic hardship caused by businesses being forced to close is worse than the health effects of the virus. It is especially difficult when businesses are given the green-light to reopen and then are forced to close again when the virus surges (as was the case in Spring and again recently in Riverside County as it returned to the more restrictive “purple coronavirus tier”). Another 13.8% of the respondents felt that business lockdowns are NOT worse than the virus itself (apparently subscribing to the belief that dealing with the pandemic and the economic fallout must occur at the same time). The rest (20.7%) either had no opinion or said they didn’t know.

In summary, the PMI registered above 50 for the second month in a row, but it’s not time to rejoice just yet. Since the pandemic hit in March, we have seen a cyclic pattern of two months above 50 followed by two months below 50. If this pattern continues, next month will show a steep decline below 50 again.

Is that decline likely? We think so. The virus is surging in Europe and the U.S., the government stimulus has run out, and stocks are showing an amazing amount of volatility. Consumer hoarding behavior is once again surging as people stock up on shelf-stable meals in anticipation of civil unrest in the aftermath of the election. None of these factors leads to an evaluation that the region’s economy is in recovery.

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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