

## **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 September 2020***

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

### **THE PMI ROLLER COASTER CONTINUES**

**CONTEXT FOR THIS REPORT:** As of the writing of this report, the world has seen 34,075,855 COVID-19 cases and the death toll has surpassed 1 million (1,016,331). The US accounts for 211,414 of those deaths (up from 187,736 deaths at the end of August when our last report was written). California has the dubious distinction of leading the nation in terms of case count (816,287), and is only behind New York, New Jersey, and Texas in terms of the statewide total death count (15,792).

Drilling down to the county level: Riverside County has moved from the purple county risk level (“widespread”) to the red level (“substantial”). It has 59,173 confirmed cases (up from 52,909 last month) and 1,216 deaths (up from 1,019 last month). Currently the county meets only one of the criteria to move to the “moderate” risk level.

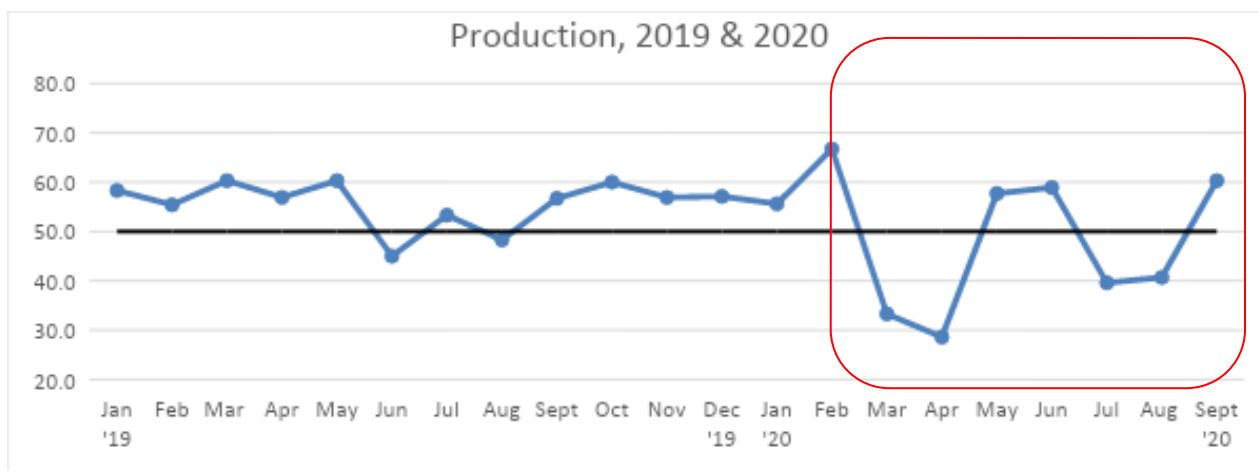
San Bernardino County has 55,203 confirmed cases (up from 47,642 last month) and 955 deaths (up from 716 last month). The county remains in the purple “widespread” risk level although it meets one criterion to move to the “substantial” level.  
(<https://www.worldometers.info/coronavirus/country/us/>)

Slowly but surely businesses are reopening, and some schools have gotten the “green light” to reopen. 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 53.4, an increase from last month’s 47.0. This is the first 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 this month jumped back over the 50 baseline. These month-to-month figures are obviously reflecting an economy growing in “fits and starts.” It will take two more months of above-50 PMI figures to definitively determine that the Inland Empire manufacturing sector and economy have returned to growth mode.”

“Two of the most critical components of the index (Production and New Orders) showed a sharp increase from last month and are now above 50. As noted in the graph below, production increased to 60.3 from 40.7 the previous month. New Orders showed a similar pattern, increasing from 46.3 to 62.1 this month.”



“Inventory of *raw materials* decreased slightly from 48.1 last month to 46.6 this month, showing a diminishing level of raw, MRO (Maintenance, Repair, Operating), intermediates, etc. compared with the previous month. This is consistent with the fact that production increased sharply (thus requiring companies to dip into their stores of raw materials). Similar to last month, about half of all companies reported that the level of *finished goods* is has remained the same as the previous month, meaning that their production of finished goods is “staying even” with sales. But about a third of respondents (35%) 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.”

“EDD figures showed that California jobless claims were up in the week ending September 19. Our Employment Index reflected similarly depressing news, remaining below 50 and showing only a slight increase from 42.6 last month to 44.8 this month.

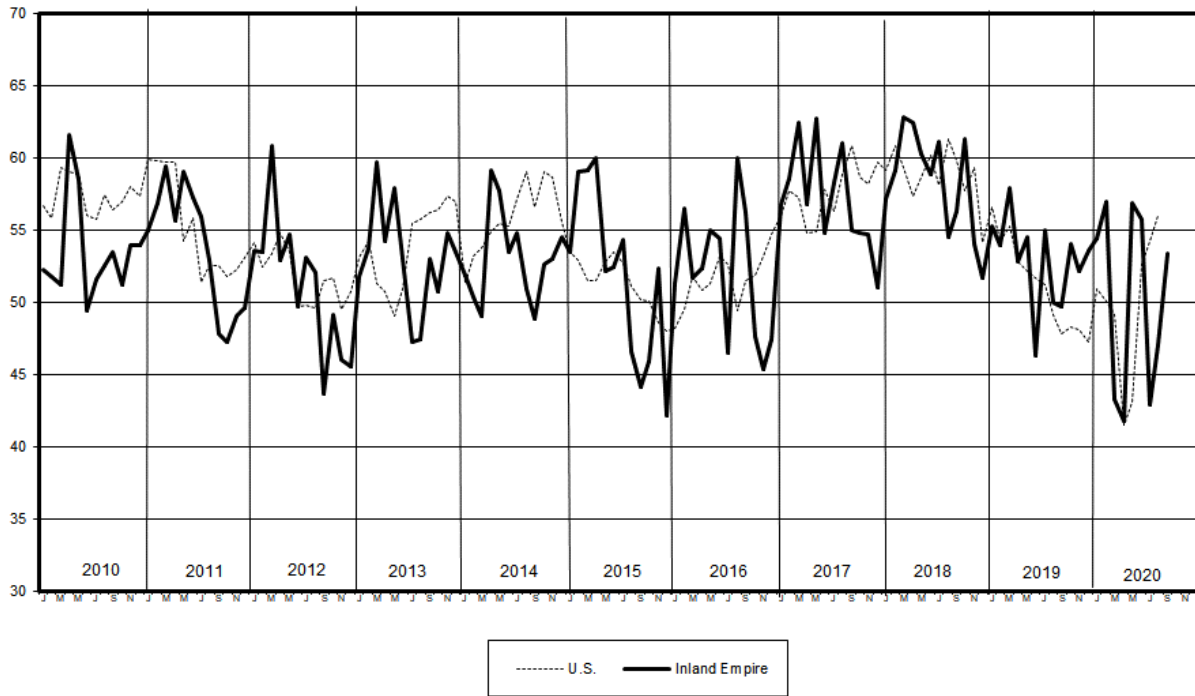
The Supplier Deliveries Index (53.4) showed continued slowing of deliveries. And the Commodity Prices Index remained above 50 (69.0), indicating that cost pressures continue to be an issue for companies in the Inland Empire.”

“Although the PMI figures show some improvement in the manufacturing sector and overall economy, some Purchasing Managers are still not optimistic about the outlook for the coming quarter. Only 20% believe that the economy will become even stronger in the coming quarter (down sharply from 33% last month) and an equal number (20%, down from last month’s 24%) think the economy will be weaker over the next few months. Most of the respondents (60%) believe that the economy will remain about the same (where the “same” reflects a struggling economy).

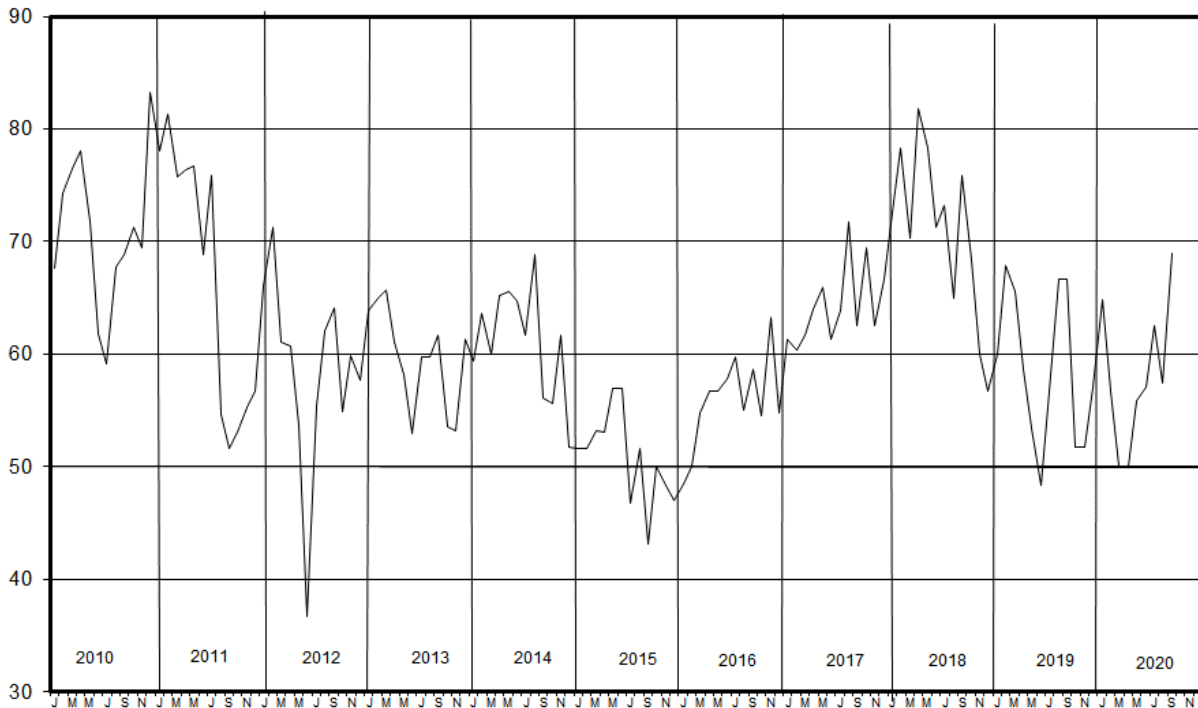
Following is a summary of highlights from this month’s report:

<b>September 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	47.0	53.4	Growing	From Contracting	1
Commodity Prices	57.4	69.0	Increasing	Faster	15
Production	40.7	60.3	Growing	From Contracting	1
New Orders	46.3	62.1	Growing	From Contracting	1
Inventory	48.1	46.6	Decreasing	Faster	3
Employment	42.6	44.8	Contracting	Slower	3
Supplier Deliveries	57.4	53.4	Slowing	Slower	12
<b>Purchasing Managers' Confidence in the State of the Local Economy</b>					
% Stronger	33%	20%			
% Same	43%	60%			
% Weaker	24%	20%			

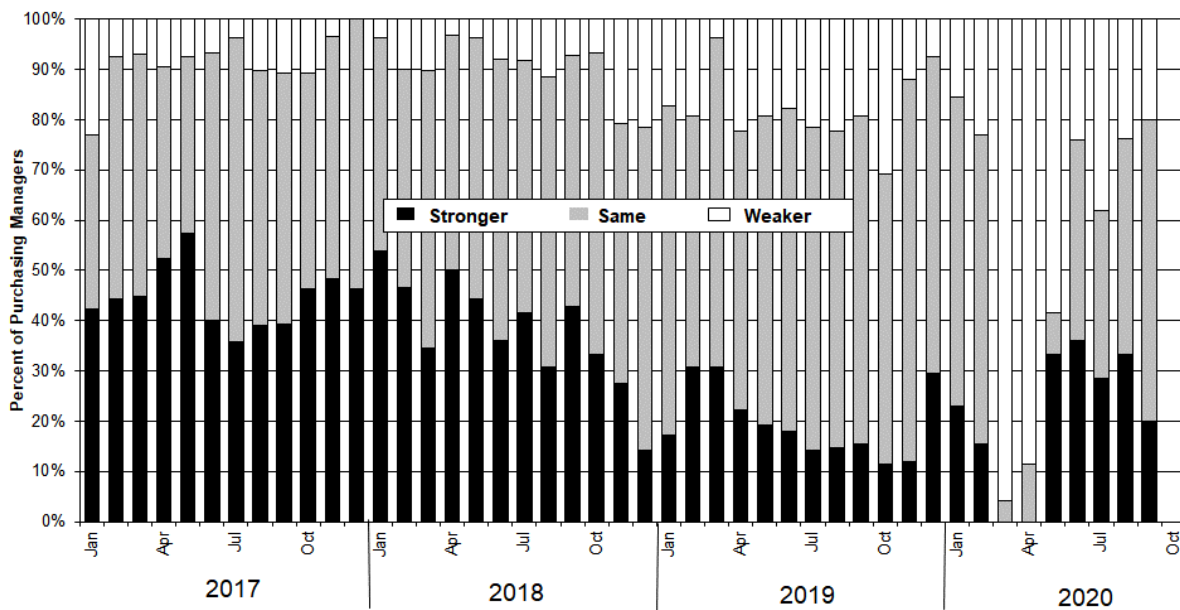
## Purchasing Managers' Index



## Commodity Prices



## State of the Local Economy



**STATE OF THE ECONOMY: DATA FROM 9/2019 THROUGH 9/2020**

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

### 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. Positive comments included:

- "Business continues to be very consistent with previous months."
- "Business is steady since late July."
- "Business is still going smoothly. Seeing new customers every day for new signs."
- "Same."
- "September is turning out to be good."
- "Exports are growing again."
- "Europe has picked up as they are back from their August holidays. Asia also seems to have picked up a little in the past 30 days."

Negative and/or mixed/cautionary comments included:

- "We are still only working 4 day a week. Orders are not coming in from the US government."
- "September's business was fairly lousy. The majority of our customers are saying that business is not picking up and payments are slowing down. The bright spot for our industry is that we had a major competitor in the mid-West shut down their business and liquidate their assets. We will see an immediate benefit from this. Of course, 65 people just lost their jobs in the mid-West."
- "Still very slow, half the business compared to last year. We are basically working half a shift. We had worked four days at ten hours for many years, now it's just two days a week."
- "Sales are slow but we are holding our own currently using a job share program."
- "For our company, August was the worst sales month in decades due to COVID-19. We had to close for one week to ensure we were safe, had some staff test positive, etc. Many orders that had been due in August will be delayed to this month and the rest of the year. Further, due to the orders on the books, we had a larger than normal purchasing requirement for raw materials, which impacted our bottom line because we don't work off of inventory for our major projects but purchase as required. Having said that we do show progress in meeting sales expectations through the end of the year, but with challenges."

**In summary**, the PMI has once again returned to growth mode (above 50), 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. So until we see two more months of figures reflecting growth of the manufacturing sector and the economy as a whole, we won't be confident about stating that the region's economy is in recovery.

Yes, consumer confidence is up which means consumers will soon be returning to "buying mode." And yes more and more businesses and schools are reopening. But on the downside, COVID-19 cases are rising among U.S. children and the much anticipated "second wave" has yet to happen. Based on our data, we don't see a return to growth mode until at least early 2021. Only when the health crisis is under control through effective treatments, rapid testing, and a readily available vaccine will life return to "normal."

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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