

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 May 2020

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

LIGHT AT THE END OF THE TUNNEL? PMI IS UP!

CONTEXT FOR THIS REPORT: As of the writing of this report, the US has registered 1,836,322 Coronavirus cases and 106,174 deaths, with the state of New York being the hardest hit. California has logged 112,454 cases and 4,240 deaths. Riverside County has 7,492 confirmed cases (up from 4,031 last month) and 339 deaths, and San Bernardino County has 5,246 cases (up from 2,058 last month) and 204 deaths. (<https://www.worldometers.info/coronavirus/country/us/>).

The economy took an unprecedented blow when the Governor announced a mandatory stay-at-home order on March 19. 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.

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) soared to 56.9 from last month’s 41.8. Could this mean that we are seeing economic light at the end of the tunnel?”

“We must remind the reader that the methodology behind the PMI and its indices requires the respondents to compare this month’s activity with that of the previous month. Considering that the PMI registered record lows in April, it is not surprising to see somewhat of a rebound as Purchasing Managers compared May to the dismal activity in April.”

“With that in mind: The Production and New Orders indices (two of the five key indices in the PMI) were at record lows last month but sharply rebounded this month. Production increased to 57.7 (from 28.6 last month). New Orders increased to 50.0 from last month’s 28.6, which indicates that the orders in May were basically unchanged from the level of orders in April. The Employment Index jumped to 59.6 from a low of 28.6, with much of the increase in employment coming from companies that have transitioned to producing personal protective equipment or other COVID-related products or services.”

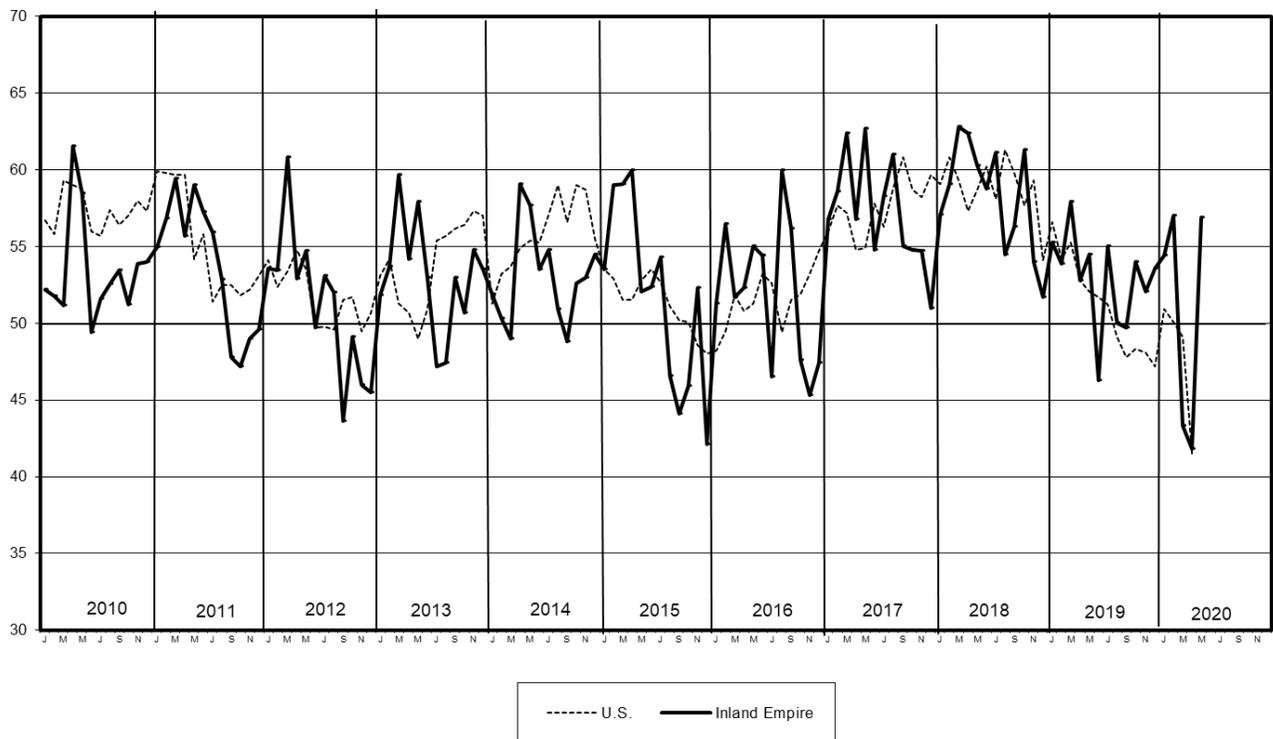
“Inventory of *raw materials* increased slightly from 48.2 to 50.0. It is interesting that 58% of companies indicated that the level of *finished goods* is the same as last month (meaning either that they are not selling their product at all, or else their production is “staying even” with sales). About a quarter of companies (27%) said their inventory of finished goods had declined (meaning products are selling!). The Supplier Deliveries Index (67.3) showed significant slowing of deliveries, however at a reduced rate from last month. Commodity Prices increased from 50.0 to 55.8.”

“Purchasing Managers’ confidence in the state of the economy has improved from April (which is reflected in the improving PMI figures), however the majority of respondents (58%) still believe that the economy will become weaker over the next three months. A third of Purchasing Managers (33%) stated the local economy will become stronger – a figure significantly more optimistic than last month when not a single Purchasing Manager predicted a strengthening of the local economy. The remaining 9% anticipate that the local economy will remain unchanged over the next few months (which would be a devastating situation considering the current high unemployment rate and rate of businesses in danger of closing their doors).

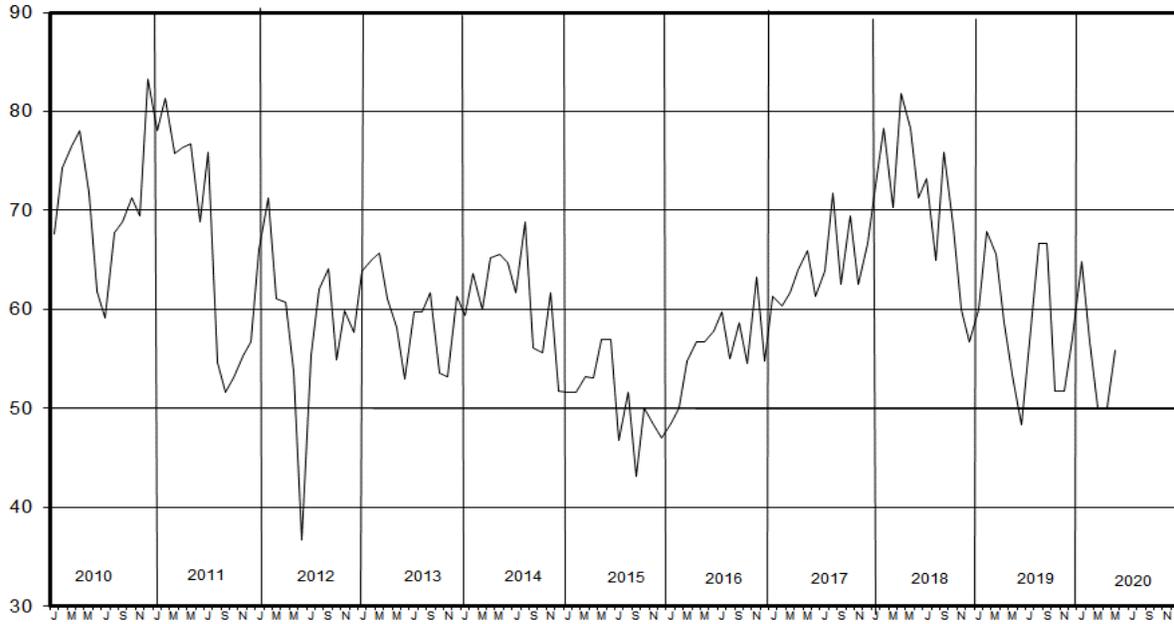
Following is a summary of highlights from this month’s report:

May 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	41.8	56.9	Growing	From Contracting	1
Commodity Prices	50.0	55.8	Increasing	From unchanged	11
Production	28.6	57.7	Growing	From Contracting	1
New Orders	28.6	50.0	Unchanged	From Contracting	1
Inventory	48.2	50.0	Unchanged	From Decreasing	1
Employment	28.6	59.6	Growing	From Contracting	1
Supplier Deliveries	75.0	67.3	Slowing	Slower	8
Purchasing Managers' Confidence in the State of the Local Economy					
% Stronger	0%	33%			
% Same	11%	9%			
% Weaker	89%	58%			

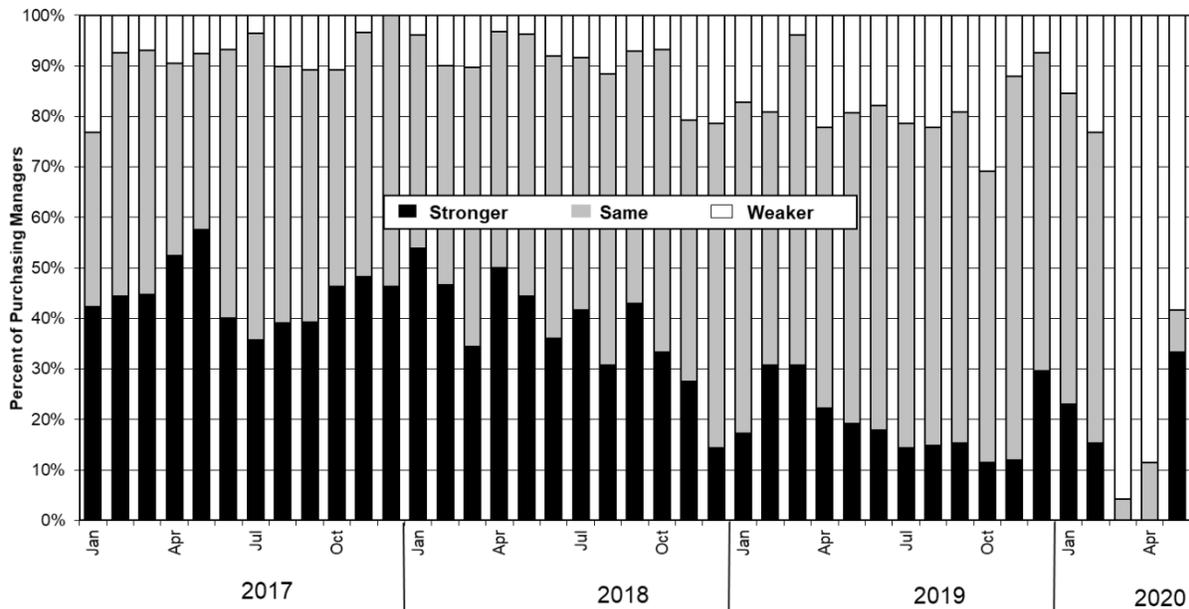
Purchasing Managers' Index



Commodity Prices



State of the Local Economy



STATE OF THE ECONOMY: DATA FROM 5/2019 THROUGH 5/2020

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

What Respondents are saying:

This month, very few respondents made comments (either positive or negative) regarding the business outlook for their company or industry, and the comments that were provided were an almost even mixture of positive and negative/cautionary statements. Positive comments included:

- "Business has been steady enough for us to keep the doors open."
- "Orders remain strong and look super to the end of the year."
- "Business has been strong. Orders are continuing to come in at an accelerated pace."
- "Just starting to ramp up from the covid-19 slow down."
- "We did receive our PPP funding as well as the EIDL Loan. That helped a lot and we do believe that if this lasts only a couple more months, we will come out of this okay."

Negative and/or mixed/cautionary comments included:

- "As an "essential" business and with the introduction of a new product to help with the pandemic, we have been very busy, but at the same time we see tremendous insecurity in the business community that serves to divide our body politic even more than it was before the pandemic. This compounds the problems created by the pandemic and threatens the access to a quick recovery."
- "Not sure what all can be said. We are just treading water waiting for the economy to return to some sort of normal. There are still enough industries working at full capacity that we see business staying "busy enough" to keep going and have some sort of hope that we will come out the other end stronger than before."
- "Business is at 20% of normal right now....."

- “This pandemic is killing my company! Orders are way down. We have work for May but not enough for June to keep everyone busy I fear.”
- “Very Slow.”
- “Exports are down. China is still slow, and Europe has slowed down even further. Latin America business for us is almost zero.”

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:

Over the past month, what changes have been made in your organization’s procedures and/or working conditions?

Most of the comments in response to this question indicate that manufacturing firms have already planned for (or have implemented) procedures to keep employees and customers safe. The adaptations include increased distancing between employees by splitting shifts and/or moving equipment; employees wearing face coverings and gloves, and washing hands frequently; increased sanitation procedures of the facility; required temperature checks of employees when they report to work; incentivizing employees to stay home when sick; and allowing employees to work from home when possible.

One respondent remarked: “Our response plan is updated as soon as updates are received from County or State governments.” Another noted that: “We have set up signs as well as blocks to avoid having people just easily stroll into our offices without reading warning signs. We also request and have masks on hand to give to customers when they enter.” One other commented that demand is beginning to spike now that businesses are reopening: “We haven’t changed much, we’ve been running this whole time at roughly 30% of capacity, so we’ve been cross training and cleaning so we didn’t lay anyone off. As of 2 weeks ago we are up on orders, like 200% or more. Everybody ordering and wanting product now. It has been challenging to keep up with demand.”

Has your company “repurposed” its equipment and/or employees during the pandemic to produce goods/services it doesn’t usually provide?

Only 15% stated that they have repurposed their equipment and/or employees to produce goods/services to aide in the pandemic.

New products/services included: plexiglass shields, acrylic face shields, generic and logo face masks, COVID safety signage, hand sanitizers, and a Patient Isolation Transportation Unit (PITU).

What was your approximate revenue change over the past few months due to the stay-at-home order that is now easing?

- 19%: revenue *increased*
- 23%: no significant change in revenue
- 4%: Loss of 10% or less in revenue
- 16%: Loss of 11% to 25%
- 23%: Loss of 26% to 50%
- 15%: Loss of 51% of revenue or more

Some firms are experiencing shortages in their supply chains. What shortages are you experiencing (if any)?

Only approximately half of the Purchasing Managers chose to respond to this question. Of those that responded, nearly half had not experienced any shortages at all (which was a surprise to one respondent). One person commented that he/she had not experienced any shortages, however “long time suppliers are not honoring net 30 terms anymore...they want payment before shipping.”

Comments regarding shortages included:

- "There are shortages and we have had to find multiple sources for most everything. It is taking a lot of the purchasing department time to get the deliveries in on time."
- “Anything COVID related. Plexiglas is the new toilet paper, months out for supply.”
- “Clear acrylic.”
- “Paper towels.”
- “The only thing we have had shortages on is being able to buy toilet paper for our plant.”
- “We have had to search for additional suppliers of cleaning supplies.”
- “We're concerned about the supply chain's ability to support PITU.”

What percent of your workers/employees have you laid off since the pandemic began?

65% stated they have not had to lay off staff (although comments referred to cutting hours and or shifting work responsibilities).

Now that businesses are beginning to reopen, what are your plans for re-hiring?

There were only a few comments in response to this question, and most referred to rehiring (bringing back employees) or increasing hours based on business “picking up” and employees feeling comfortable/safe to return to work:

- “As soon as our at-risk employees are comfortable coming back to the office, we will be hiring them back.”
- “Bringing back approximately 60 percent and rest will be laid off indefinitely.”
- “Bringing back temps as needed.”
- “Hire as business picks up.”
- “No need to re-hire, all employees have returned to normal working hours.”
- “We are an essential business and remained open. However, our orders are not coming in from Dept of Defense and related entities.”
- “We had one employee quit. Rest are working at 75% of normal. We will increase hours as new orders increase. I anticipate small increase in June. Our customers ordered more in late Feb, early March in anticipation of supply disruptions due to problems in China. Now that we are affected in US, they are working to reduce inventory to slow current sales.”

In summary, the Inland Empire is experiencing a great deal of economic pain, however recent statistics indicate that the Inland Empire is in better shape than many other regions in California and the nation. For example, the most recent unemployment data for the month of April (just released on May 22, 2020) shows that the **California** unemployment rate is 15.5%, up from 5.5% in March and 4.2% in April 2020. And those data were taken from the survey week including April 12, thus in reality the statewide rate for the full month of April and for May is undoubtedly higher. In contrast, the unemployment rate for the **Inland Empire** is only 14.6% -- a bad number, to be sure, but not quite as bad as one might have expected.

Uncertainty about the future is the name of the game. Some economists are predicting a “V” shaped recovery in which the economy will bounce back quickly once businesses are reopened. Others anticipate more of a “U” shape in which economic conditions will remain at a low point for a period of time until the pandemic has eased and consumer confidence rebounds. Still others predict a “Nike swoosh” recovery – a slow but steady recovery.

IAR tends to be conservative in its forecasts, and we believe that the latter situation will occur. IAR will continue to provide the most up-to-date data on business conditions that we can during this uncertain time.

NOTE: IAR has just launched a business reopening survey targeting businesses in the Inland Empire. The survey queries businesses regarding issues such as:

- How prepared are you to reopen their operations?

- Do you have the committed and trained staff ready to return to work?
- Do you have the money they need to operate with limited hours and social distancing requirements?
- Have you made changes in pricing or seen changes in revenue and costs?

Please help us promote the survey! Help us to track business conditions and provide information which can drive policy decisions at the Federal, State, and local levels. Just ask businesses to access the following link for our short (7 to 10 minutes) survey.

<https://bit.ly/2WZNjZt>

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