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### Manufacturing Growth Slows

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A. Gary Anderson Center for Economic Research

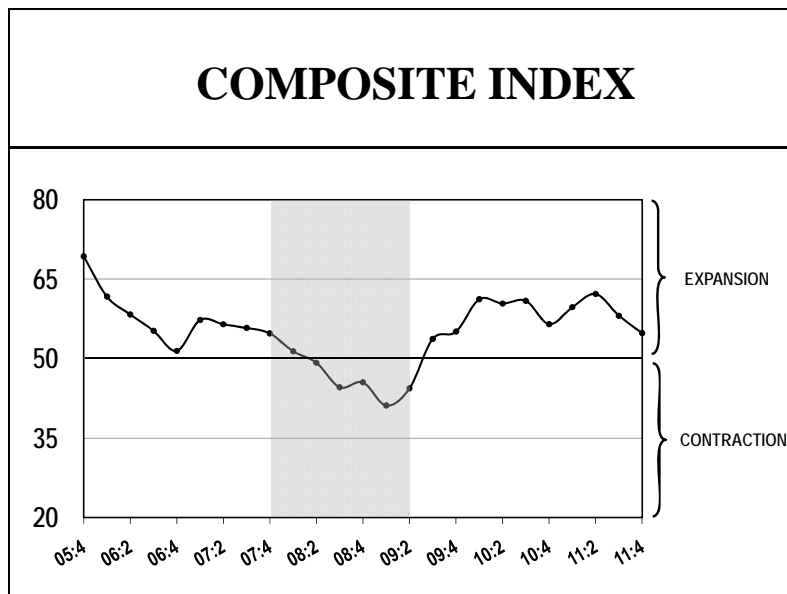
**For Release:**  
October 6, 2011

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## MANUFACTURING GROWTH SLOWS

ORANGE, CA — After dropping 4 points in the third quarter, the Composite Index declines in the fourth quarter to its lowest level since the third quarter of 2009. Additionally, the commodity price index is now 20 points below what it was in the second quarter of 2011, and inventories of purchased materials are shrinking for the first time since the fourth quarter of 2010

The Composite Index decreased from 58.1 to 54.8 indicating that the purchasing managers are expecting slower growth in manufacturing in the fourth quarter. The slower growth is due mostly to the durable goods industries other than high-tech.

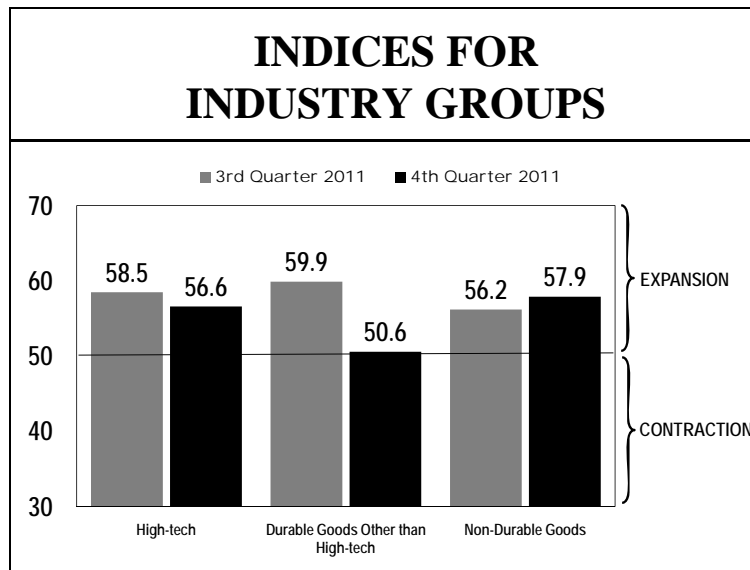


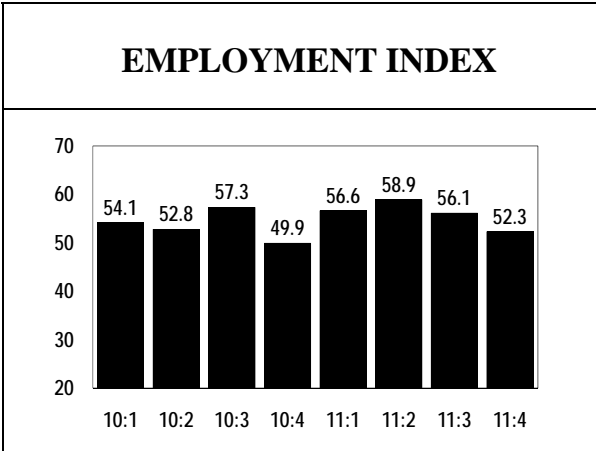
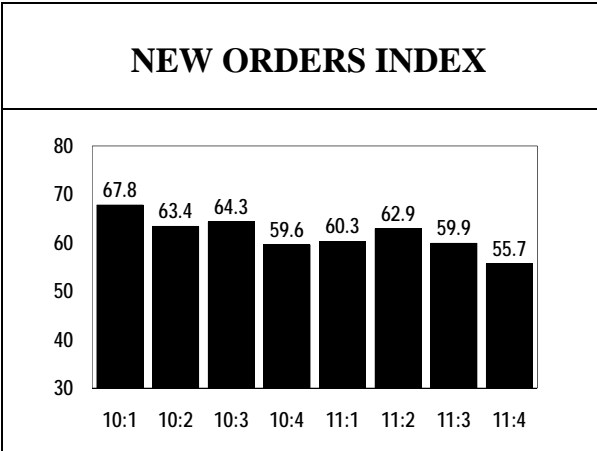
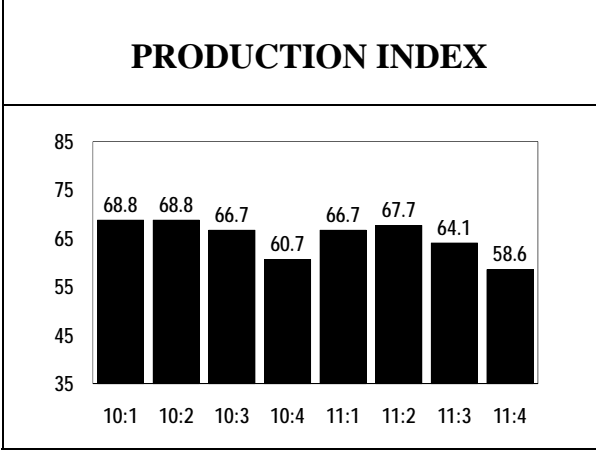
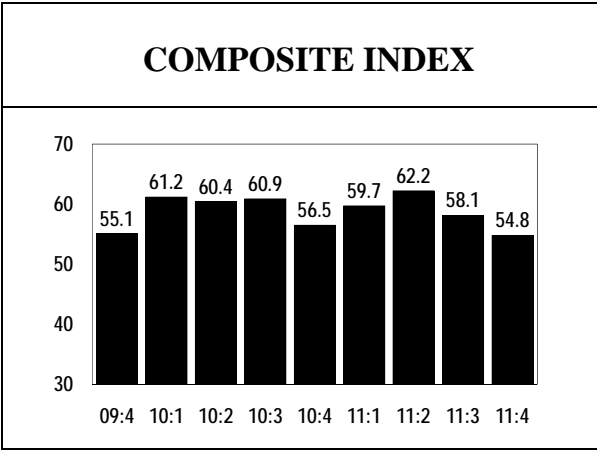
### Performance by industry group

The index for the **high-tech industries** decreased from 58.5 in the third quarter to 56.6 in the fourth quarter, indicating lower expected growth in this industry group in the fourth quarter. Production is expected to grow at a marginally lower rate compared to the third quarter. The index for inventories of purchased materials dropped below 50, indicating a marginal decrease in inventories in the fourth quarter. The employment index decreased substantially from 60.4 to 51.9 indicating a marginal increase in employment in the fourth quarter.

The index for the **durable goods industries other than high-tech** decreased substantially from 59.9 in the third quarter to 50.6 in the fourth quarter, indicating much slower growth. Production is expected to grow at a much lower rate compared to the third quarter. New orders are expected to remain flat. More ominous for this industry group, inventories of purchased materials and employment are both expected to decrease in the fourth quarter.

The index for the **non-durable goods industries** increased from 56.2 to 57.9 indicating slightly higher growth in the fourth quarter. Growth in new orders and employment is expected to be higher in the fourth quarter. Production is expected to grow at a lower rate and inventories of purchased materials are expected to shrink. Similar to the other two industry groups, the increase in commodity prices is slower, as the commodity price index decreased from 82.8 in the third quarter to 64.8 in the fourth quarter.





**Background and methodology**

The Institute for Supply Management (ISM) conducts a monthly national survey of purchasing managers and publishes the survey results in its *Report on Business*. Such a survey is not available for the state of California. Given the size of our state, and the major role its manufacturing sector plays in the national economy, the A. Gary Anderson Center for Economic Research at Chapman University launched a quarterly survey of California purchasing managers starting in the third quarter of 2002. Similar to the ISM survey, our survey tracks changes in production, employment, new orders, inventories of purchased materials, commodity prices and supplier deliveries. Except for commodity prices, a seasonally adjusted index is computed for each variable.

In order to have one single indicator for the performance of the state manufacturing sector, the Anderson Center has developed a Composite Index that is a weighted average of the underlying indices. A value of 50 for the Composite Index shows a general expansion of the manufacturing economy of the state and a value below 50 shows a decline. The industries are classified according to the North American Industry Classification System (NAICS).

## Detailed Results of the Survey of California Purchasing Managers' Expectations for the Fourth Quarter of 2011

In its attempt to present you with a better delivery of the survey results, the A. Gary Anderson Center for Economic Research has calculated an index for every variable in the survey. The "% Better," is added to half of the "% Same," after which a seasonal factor is used to get a seasonally adjusted index for each variable (except commodity prices). A value over 50 for an index indicates growth and a value below 50 indicates a decline. Each industry in the manufacturing sector is represented in the survey based on its employment share of total manufacturing employment in the state.

**Production:** The seasonally adjusted index for production decreased from 64.1 in the third quarter to 58.6 in the fourth quarter, indicating that production is expected to increase at a slower rate in the fourth quarter. This is the tenth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Fabricated Metal Products; Food; Printing & Related Support Activities; and Chemicals. Production is expected to decrease most rapidly in the following industries: Wood Products; Nonmetallic Mineral Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; and Paper.

<b>Production</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
4 <sup>th</sup> Quarter of 2011	35.1	40.0	24.9	10.2	58.6
3 <sup>rd</sup> Quarter of 2011	43.2	42.6	14.2	29.1	64.1
2 <sup>nd</sup> Quarter of 2011	52.7	40.1	7.2	45.5	67.7
1 <sup>st</sup> Quarter of 2011	44.6	42.1	13.3	31.3	66.7

**Inventories of Purchased Materials:** The seasonally adjusted index for inventories of purchased materials decreased from 50.6 in the third quarter to 47.6 in the fourth quarter, indicating that manufacturers are expected to be holding less inventories in the fourth quarter. This decrease in inventories follows an increase in the last three quarters. Inventories of purchased materials are expected to increase most rapidly in the following industries: Fabricated Metal Products; and Leather & Allied Products. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Computer & Electronic Products; Wood Products; Nonmetallic Mineral Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; Miscellaneous; Paper; Chemicals; and Plastics & Rubber Products.

<b>Inventories of Purchased Materials</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
4 <sup>th</sup> Quarter of 2011	24.6	43.7	31.7	-7.1	47.6
3 <sup>rd</sup> Quarter of 2011	29.5	42.9	27.7	1.8	50.6
2 <sup>nd</sup> Quarter of 2011	38.5	45.4	16.1	22.4	61.2
1 <sup>st</sup> Quarter of 2011	32.6	46.7	20.7	11.9	54.8

**Commodity Prices:** The seasonally unadjusted index for commodity prices decreased from 76.6 in the third quarter to 67.2 in the fourth quarter, indicating that commodity prices are expected to increase at a slower rate in the fourth quarter. Commodity prices are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Nonmetallic Mineral Products; Fabricated Metal Products; Machinery; Transportation Equipment; Furniture & Related Products; Food; Textile Mill Products; Paper; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. The Apparel industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
4 <sup>th</sup> Quarter of 2011	42.1	50.3	7.6	34.4	67.2
3 <sup>rd</sup> Quarter of 2011	57.5	38.1	4.4	53.1	76.6
2 <sup>nd</sup> Quarter of 2011	76.7	22.0	1.3	75.3	87.7
1 <sup>st</sup> Quarter of 2011	63.3	33.5	3.2	60.2	80.1

**Supplier Deliveries:** For this variable, an index value over 50 indicates slower deliveries, and an index value under 50 indicates faster deliveries. The seasonally adjusted index for supplier deliveries is expected to increase from 52.1 in the third quarter to 54.6 in the fourth quarter, indicating that supplier deliveries are expected to be slower in the fourth quarter. Supplier deliveries are expected to be slowest in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Nonmetallic Mineral Products; Machinery; Chemicals; and Plastics & Rubber Products. No industry reported faster deliveries.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
4 <sup>th</sup> Quarter of 2011	15.7	74.5	9.8	5.9	54.6
3 <sup>rd</sup> Quarter of 2011	17.1	73.8	9.2	8.0	52.1
2 <sup>nd</sup> Quarter of 2011	22.0	70.8	7.3	14.7	56.6
1 <sup>st</sup> Quarter of 2011	16.2	73.5	10.3	5.8	54.0

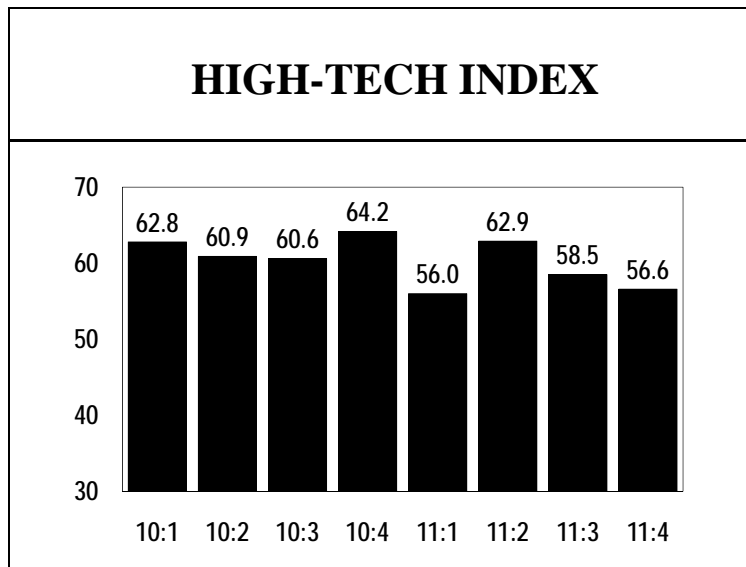
**New Orders:** The seasonally adjusted index for new orders decreased from 59.9 in the third quarter to 55.7 in the fourth quarter, indicating that new orders are expected to increase at a slower pace in the fourth quarter. New orders are expected to increase most rapidly in the following industries: Fabricated Metal Products; Food; Paper; Printing & Related Support Activities; and Chemicals. New orders are expected to decrease most rapidly in the following industries: Wood Products; Nonmetallic Mineral Products; Machinery; Transportation Equipment; Food; and Textile Mill Products.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 <sup>th</sup> Quarter of 2011	32.0	36.2	31.8	0.3	55.7
3 <sup>rd</sup> Quarter of 2011	37.9	44.1	18.0	19.9	59.9
2 <sup>nd</sup> Quarter of 2011	52.6	34.8	12.7	39.9	62.9
1 <sup>st</sup> Quarter of 2011	39.3	40.6	20.1	19.2	60.3

**Employment:** The seasonally adjusted index for employment decreased from 56.1 in the third quarter to 52.3 in the fourth quarter, indicating that employment in manufacturing is expected to barely improve in the fourth quarter. Employment is expected to increase most rapidly in the following industries: Aerospace Products & Parts; Primary Metals; Fabricated Metal Products; Food; Printing & Related Support Activities; and Chemicals. Employment is expected to decrease most rapidly in the following industries: Wood Products; Nonmetallic Mineral Products; Machinery; Transportation Equipment; Miscellaneous; and Food. .

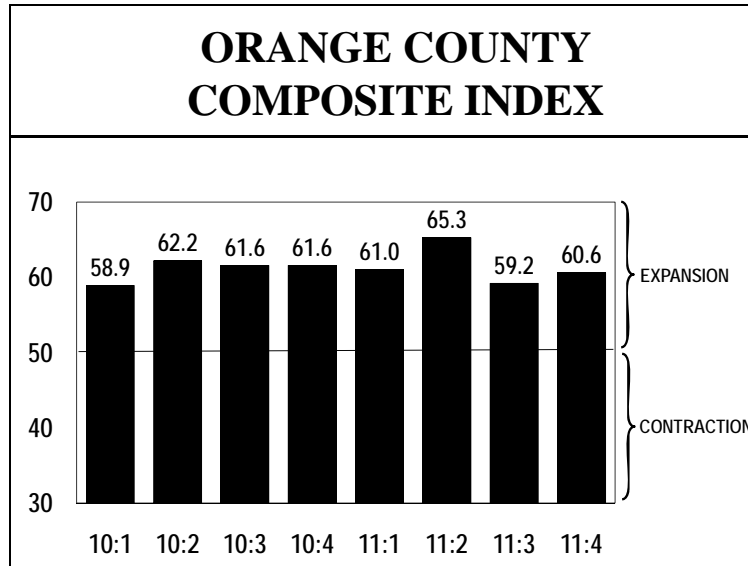
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 <sup>th</sup> Quarter of 2011	19.6	62.5	17.9	1.7	52.3
3 <sup>rd</sup> Quarter of 2011	26.5	61.3	12.2	14.3	56.1
2 <sup>nd</sup> Quarter of 2011	30.9	60.6	8.5	22.3	58.9
1 <sup>st</sup> Quarter of 2011	21.9	66.2	11.9	10.1	56.6

**High-Tech Industries:** The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 353,800 employees, amounting to 27.7% of total manufacturing employment in the state. The high-tech index decreased from 58.5 in the third quarter to 56.6 in the fourth quarter, indicating that the high-tech industries are expected to grow at a slower rate in the fourth quarter. The production index decreased slightly from 62.1 in the third quarter to 61.5 in the fourth quarter, indicating that production is expected to grow at a slightly lower rate in the fourth quarter. The index for new orders also decreased from 63.8 to 59.3 indicating that new orders are expected to grow at a slower rate as well. For the second consecutive quarter, inventories of purchased materials are expected to shrink, with the index reaching a reading of 49.2. The commodity price index facing the high-tech industries decreased further in the fourth quarter to 72.8 indicating that commodity prices are expected to rise at a slower rate compared to the third quarter.



## Orange County's Manufacturing Survey

The Composite Index for Orange County increased from 59.2 in the third quarter to 60.6 in the fourth quarter, indicating that the county manufacturing economy is expected to grow at a slightly higher rate in the fourth quarter compared to the third quarter. This is a departure from the California manufacturing sector, where the Composite Index has decreased from 58.1 to 54.8.



The seasonally adjusted index for production decreased from 67.1 in the third quarter to 64.6 in the fourth quarter, indicating that production is expected to continue to grow in the fourth quarter but at a slower rate compared to the third quarter. This is the tenth consecutive quarter that the production index has been above 50. The new orders index increased from 61.0 to 64.5 indicating that new orders are expected to grow at a faster rate in the fourth quarter. The seasonally adjusted index for inventories of purchased materials increased from 53.9 to 60.0 indicating that inventories are expected to grow faster. This is the opposite of what is happening in California where inventories are expected to shrink in the fourth quarter. As is the case in California, commodity prices are expected to increase but at a slower rate.

Similar to California, the **high-tech industries** index decreased from 68.8 in the third quarter to 66.5 in the fourth quarter, indicating slower growth in the fourth quarter. The index for the **durable goods industries other than high-tech** increased surprisingly from 55.2 to 60.1, indicating higher growth for these industries. The index for the **non-durable goods industries** decreased from 56.3 to 55.5, indicating slower growth for these industries.



## ABOUT THE ANDERSON CENTER FOR ECONOMIC RESEARCH

The A. Gary Anderson Center for Economic Research (ACER) was established in 1979 to provide data, facilities and support in order to encourage the faculty and students at Chapman University to engage in economic and business research of high quality, and to disseminate the results of this research to the community.

### ANNUAL SCHEDULE OF CONFERENCES AND PRESS RELEASES

- JANUARY**      † Economic Forecast Conferences for Los Angeles County and the Inland Empire  
                 † California Purchasing Managers Survey
  
- FEBRUARY**    † California Leading Employment Indicator
  
- MARCH**       † California Consumer Sentiment Survey
  
- APRIL**       † California Purchasing Managers Survey
  
- MAY**       † California Leading Employment Indicator
  
- JUNE**       † Economic Forecast Update Conference for the U.S., California, Orange and Los Angeles counties, and the Inland Empire  
                 † California Consumer Sentiment Survey
  
- JULY**       † California Purchasing Managers Survey
  
- AUGUST**      † California Leading Employment Indicator
  
- SEPTEMBER**   † California Consumer Sentiment Survey
  
- OCTOBER**     † California Purchasing Managers Survey
  
- NOVEMBER**   † California Leading Employment Indicator
  
- DECEMBER**   † Economic Forecast Conference for the U.S., California and Orange County  
                 † California Consumer Sentiment Survey