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Rebound in the Manufacturing Sector

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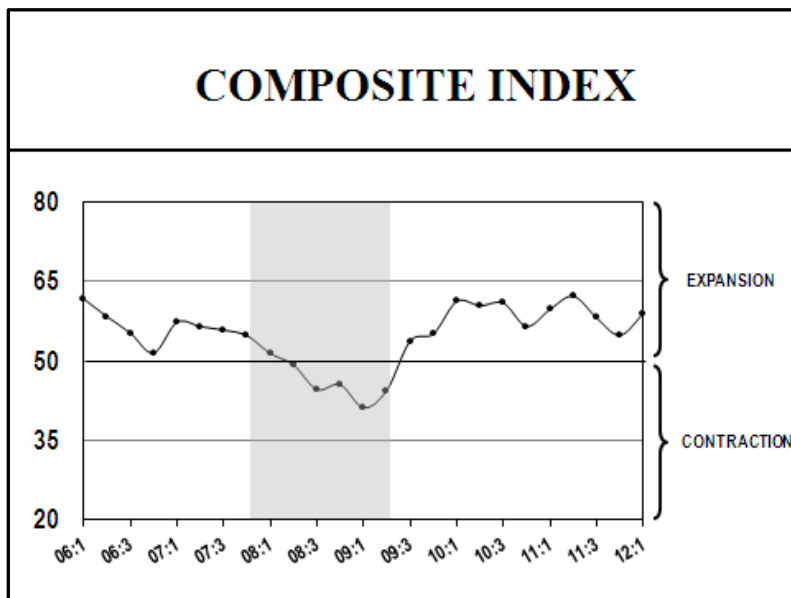
A. Gary Anderson Center for Economic Research

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REBOUND IN THE MANUFACTURING SECTOR

ORANGE, CA —After two consecutive declines, the latest survey of purchasing managers in California indicates an uptick in the first quarter of 2012. The Composite Index increased from 54.8 in the fourth quarter of 2011 to 58.9 in the first quarter of 2012. The rebound is due mainly to a substantial improvement in the durable goods industries other than high-tech. This improvement follows a poor performance in this industry group in the fourth quarter of 2011. The purchasing managers also reported an increase in inventories of purchased materials after the decline that occurred in the fourth quarter of 2011, pointing to an anticipated future increase in production.

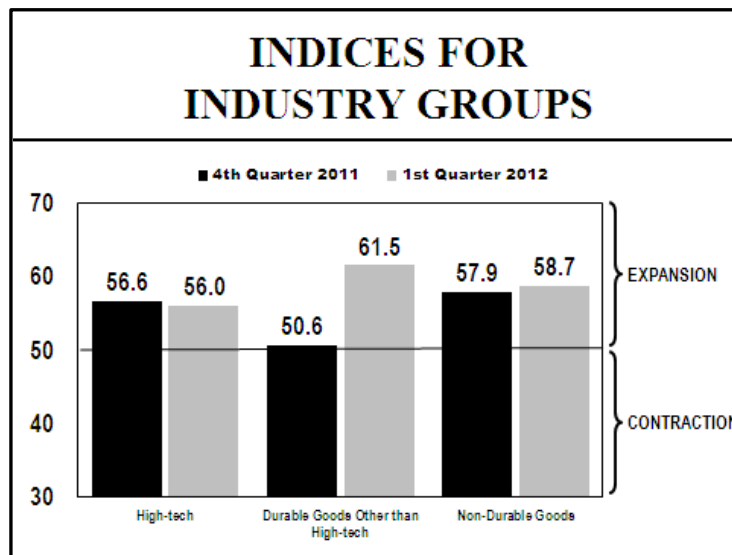


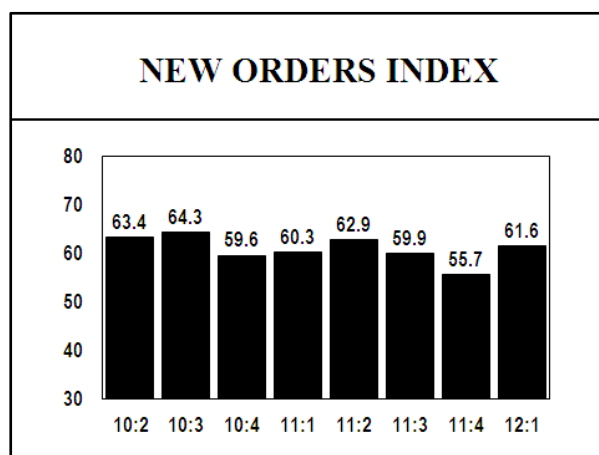
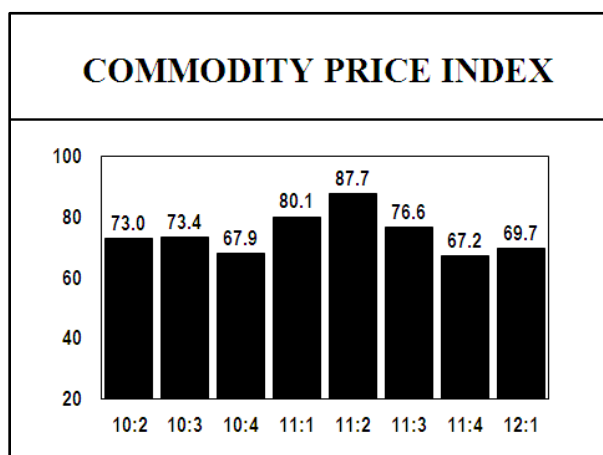
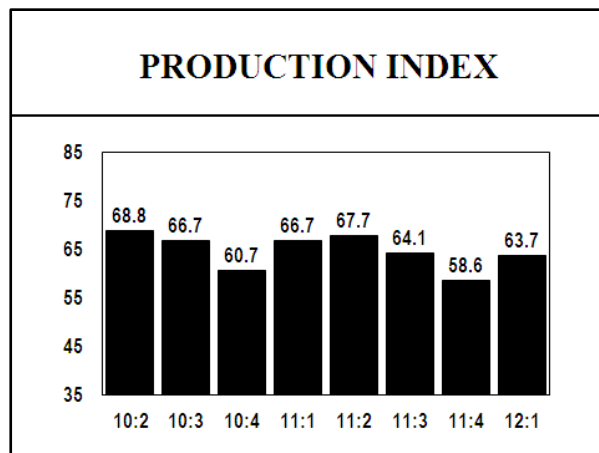
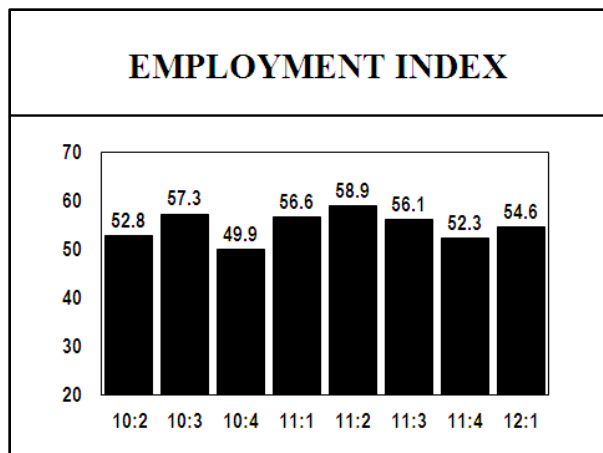
Performance by Industry Group

The index for the **high-tech industries** decreased minimally from 61.5 in the fourth quarter of 2011 to 61.0 in the first quarter of 2012, indicating that the growth rate in the high-tech industries will remain the same as in the fourth quarter of 2011. Production, new orders and employment are all expected to grow at the same rate as the fourth quarter of 2011

The index for the **durable goods industries other than high-tech** increased substantially from 50.6 in the fourth quarter of 2011 to 61.5 in the first quarter of 2012, indicating a much higher growth rate in the first quarter of 2012. Production, inventories of purchased materials, new orders and employment are all expected to grow at a much higher rate in the first quarter of 2012. On the other hand, commodity prices are expected to grow at a slightly higher rate.

The index for the **non-durable goods industries** increased from 57.9 in the fourth quarter of 2011 to 58.7 in the first quarter of 2012, indicating slightly higher growth in the first quarter of 2012. Growth rates in production and new orders are expected to be slightly higher, while employment growth is expected to be lower.





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 First Quarter of 2012**

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 increased from 58.6 in the fourth quarter of 2011 to 63.7 in the first quarter of 2012, indicating that production is expected to increase at a faster rate in the first quarter. This is the eleventh consecutive quarter in which production has been above 50. Production is expected to increase most rapidly in the following industries: Aerospace Products & Parts; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Transportation Equipment; Furniture & Related Products; Food; Apparel; Chemicals; and Plastics & Rubber Products. The Electrical Equipment, Appliance & Components industry reported a decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 st Quarter of 2012	41.9	41.5	16.6	25.3	63.7
4 th Quarter of 2011	35.1	40.0	24.9	10.2	58.6
3 rd Quarter of 2011	43.2	42.6	14.2	29.1	64.1
2 nd Quarter of 2011	52.7	40.1	7.2	45.5	67.7

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials increased from 47.6 in the fourth quarter of 2011 to 53.9 in the first quarter of 2012, indicating that manufacturers are expected to hold more inventories in the first quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Aerospace Products & Parts; Primary Metals; Fabricated Metal Products; Machinery; Transportation Equipment; Furniture & Related Products; and Chemicals. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Electrical Equipment, Appliance & Components; and Paper.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 st Quarter of 2012	30.9	48.2	20.9	10.0	53.9
4 th Quarter of 2011	24.6	43.7	31.7	-7.1	47.6
3 rd Quarter of 2011	29.5	42.9	27.7	1.8	50.6
2 nd Quarter of 2011	38.5	45.4	16.1	22.4	61.2

Commodity Prices: The seasonally unadjusted index for commodity prices increased from 67.2 in the fourth quarter of 2011 to 69.7 in the first quarter of 2012, indicating that commodity prices are expected to increase at a slightly faster rate in the first quarter of this year. Commodity prices are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Furniture & Related Products; Food; Apparel; Paper; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. No industry reported a decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
1 st Quarter of 2012	46.8	45.8	7.4	39.4	69.7
4 th Quarter of 2011	42.1	50.3	7.6	34.4	67.2
3 rd Quarter of 2011	57.5	38.1	4.4	53.1	76.6
2 nd Quarter of 2011	76.7	22.0	1.3	75.3	87.7

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 barely changed from 54.6 in the fourth quarter of 2011 to 54.9 in the first quarter of 2012, indicating that supplies will be delivered at the same speed as in the fourth quarter of 2011. Supplier deliveries are expected to be slowest in the following industries: Fabricated Metal Products; Machinery; Furniture & Related Products; Food; Textile Mill Products; and Apparel. The Miscellaneous industry reported faster supplier deliveries

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
1 st Quarter of 2012	15.0	77.5	7.5	7.6	54.9
4 th Quarter of 2011	15.7	74.5	9.8	5.9	54.6
3 rd Quarter of 2011	17.1	73.8	9.2	8.0	52.1
2 nd Quarter of 2011	22.0	70.8	7.3	14.7	56.6

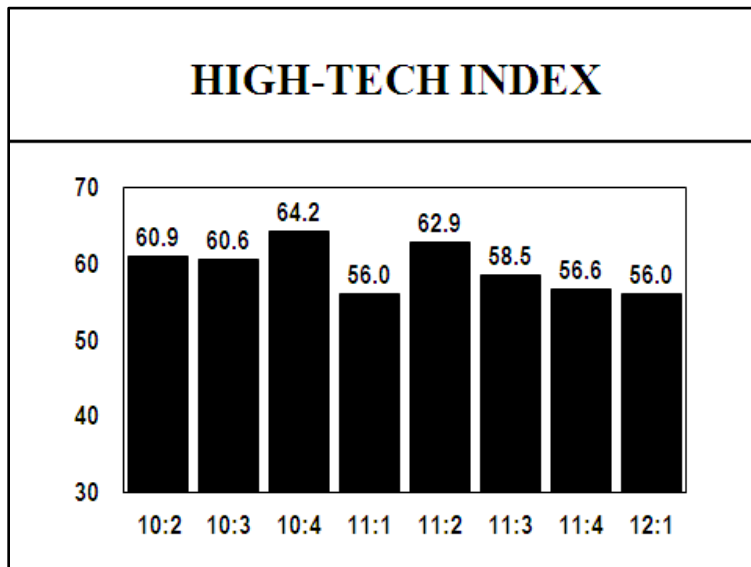
New Orders: The seasonally adjusted index for new orders increased from 55.7 in the fourth quarter of 2011 to 61.6 in the first quarter of 2012, indicating that new orders are expected to increase at a faster rate in the first quarter. New orders are expected to increase most rapidly in the following industries: Computer & Electronic Products; Fabricated Metal Products; Machinery; Transportation Equipment; Furniture & Related Products; Food; Apparel; Paper; Chemicals; and Plastics & Rubber Products. The Printing & Related Support Activities industry reported a decrease in new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 st Quarter of 2012	43.1	35.5	21.4	21.7	61.6
4 th Quarter of 2011	32.0	36.2	31.8	0.3	55.7
3 rd Quarter of 2011	37.9	44.1	18.0	19.9	59.9
2 nd Quarter of 2011	52.6	34.8	12.7	39.9	62.9

Employment: The seasonally adjusted index for employment increased from 52.3 in the fourth quarter of 2011 to 54.6 in the first quarter of 2012, indicating that employment in manufacturing is expected to improve in the first quarter of 2012. Employment is expected to increase most rapidly in the following industries: Machinery; Fabricated Metal Products; Transportation Equipment; Furniture & Related Products; Miscellaneous; Textile Mill Products; and Paper. The Leather & Allied Products industry reported a decrease in employment.

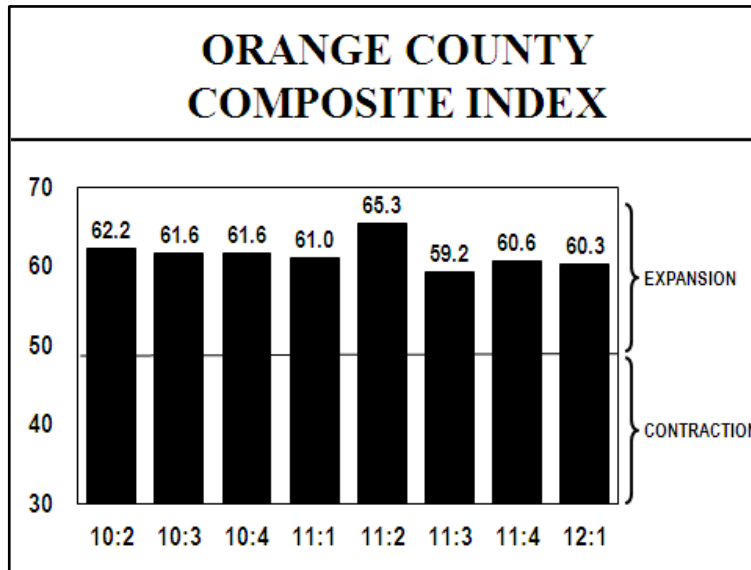
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 st Quarter of 2012	21.1	64.0	15.0	6.1	54.6
4 th Quarter of 2011	19.6	62.5	17.9	1.7	52.3
3 rd Quarter of 2011	26.5	61.3	12.2	14.3	56.1
2 nd Quarter of 2011	30.9	60.6	8.5	22.3	58.9

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 350,700 employees, amounting to 28.2% of total manufacturing employment in the state. The high-tech index decreased from 56.6 in the fourth quarter of 2011 to 56.0 in the first quarter of 2012, indicating that the high-tech industries are expected to grow at a slightly slower rate in the first quarter of 2012. The production index decreased from 61.5 in the fourth quarter of 2011 to 61.0 in the first quarter of 2012, indicating that production is expected to grow at a slightly lower rate in the first quarter. The index for new orders increased from 59.3 to 59.7 indicating that new orders are expected to grow at a slightly higher rate. The commodity price index facing the high-tech industries increased in the first quarter to 73.3 indicating that commodity prices are expected to rise at a slightly higher rate in the first quarter of 2012.



Orange County's Manufacturing Survey

The Composite Index for Orange County was virtually unchanged from 60.6 in the fourth quarter of 2011 to 60.3 in the first quarter of 2012, indicating that the county manufacturing economy is expected to grow at the same rate in the first quarter of 2012 compared to the fourth quarter of 2011.



The seasonally adjusted index for production increased from 64.6 in the fourth quarter of 2011 to 65.1 in the first quarter of 2012, indicating that production is expected to grow in the first quarter of 2012 at a slightly higher rate compared to the fourth quarter of 2011. This is the eleventh consecutive quarter that the production index has been above 50. The new orders index decreased from 64.5 to 60.3 indicating that new orders are expected to grow at a slower rate in the first quarter. The seasonally adjusted index for inventories of purchased materials decreased from 60.0 in the fourth quarter of 2011 to 55.9 in the first quarter of 2012 indicating that inventories are expected to grow at a slower rate.

The index for the **high-tech industries** decreased from 66.5 in the fourth quarter of 2011 to 59.5 in the first quarter of 2012, indicating slower growth in the first quarter of 2012. The index for the **durable goods industries other than high-tech** increased from 60.1 to 61.6, indicating higher growth for these industries. The index for the **non-durable goods industries** increased from 55.5 to 56.8, indicating also higher 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