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## **Manufacturing Sector Gaining Strength**

Anderson Center for Economic Research

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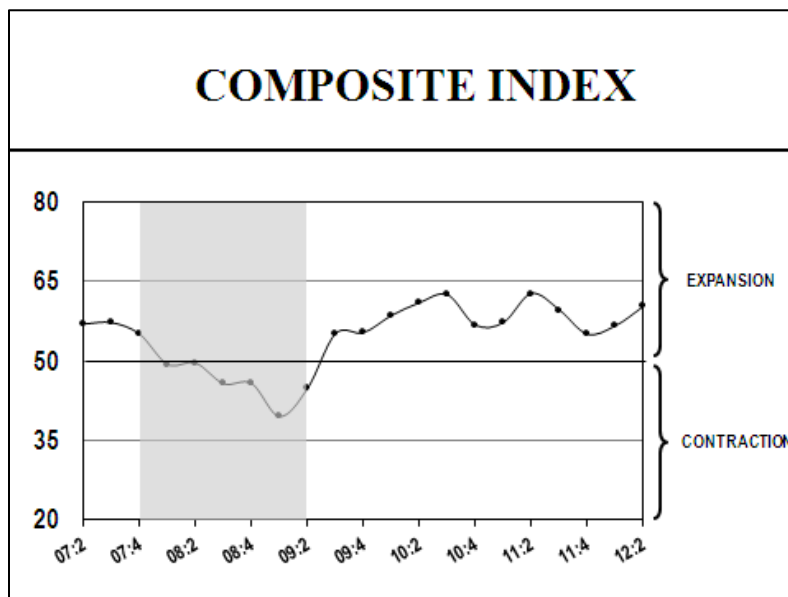
**A. Gary Anderson Center for Economic Research**

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**MANUFACTURING SECTOR  
GAINING STRENGTH**

ORANGE, CA — Manufacturing purchasing managers in California expect a pick-up in the manufacturing sector’s growth rate in the second quarter compared to the first quarter of 2012. The Composite Index, measuring overall manufacturing activity, increased from 56.6 in the first quarter of 2012 to 60.3 in the second quarter. All three industry groups - high-tech, durable goods other than high-tech, and non-durable goods - show higher expected growth rate. The purchasing managers also reported a substantial increase in commodity prices.

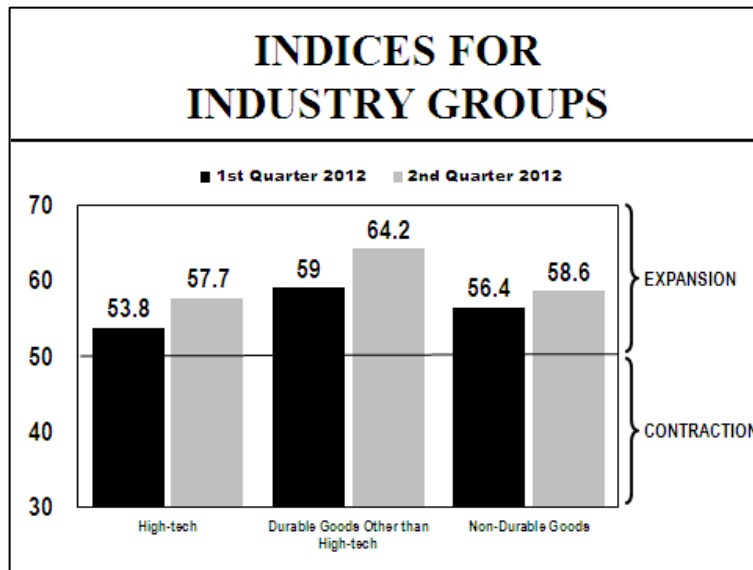


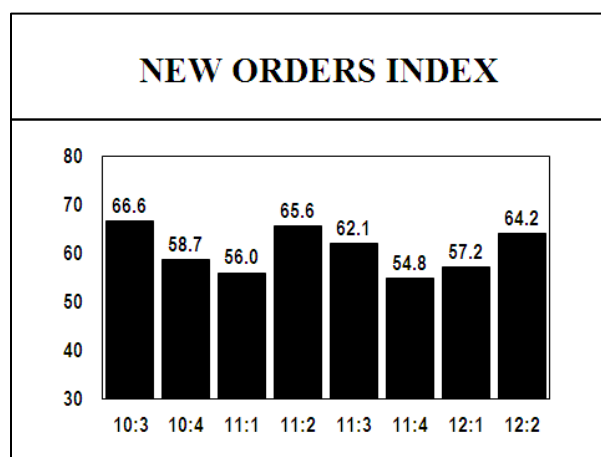
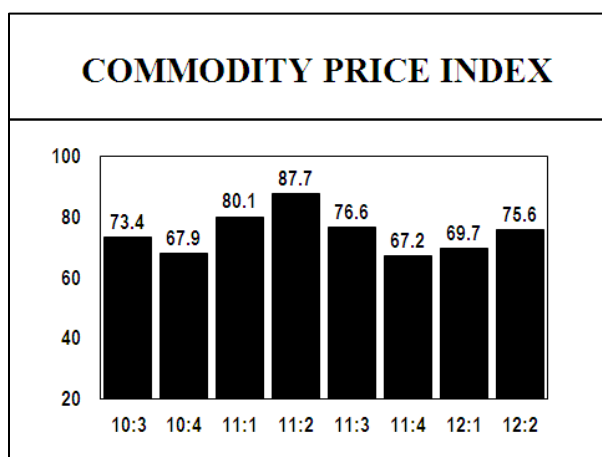
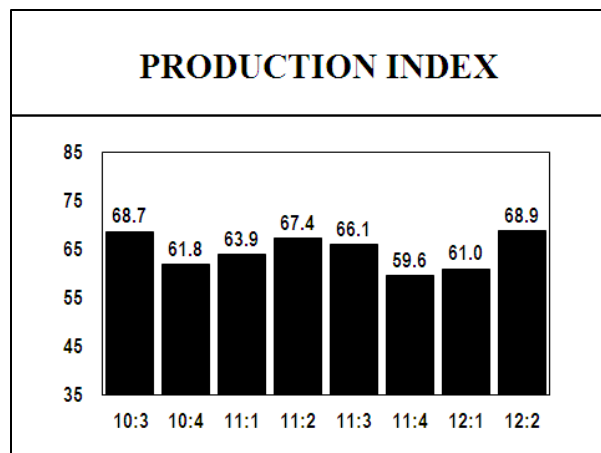
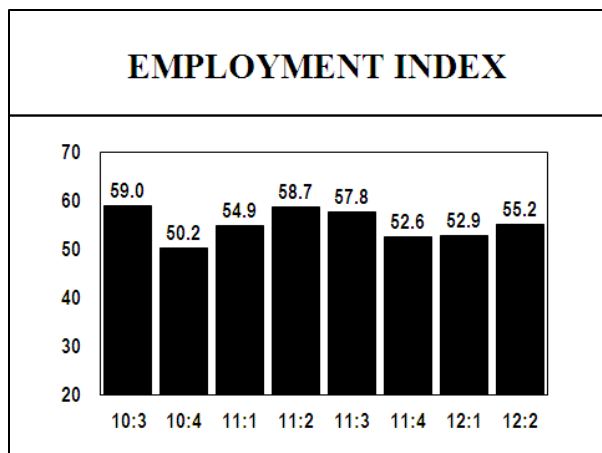
### Performance by Industry Group

The index for the **high-tech industries** increased from 53.8 in the first quarter of 2012 to 57.7 in the second quarter, indicating that the growth rate in the high-tech industries is expected to be higher in the second quarter. Production, new orders and employment are all expected to grow at a higher rate in the second quarter.

The index for the **durable goods industries other than high-tech** increased from 59.0 in the first quarter of 2012 to 64.2 in the second quarter, indicating a higher growth rate in the second quarter. Production, new orders and employment are all expected to grow at a higher rate in the second quarter. Commodity prices are also expected to increase at a higher rate.

The index for the **non-durable goods industries** increased from 56.4 in the first quarter of 2012 to 58.6 in the second quarter, indicating a modestly higher growth rate in the second quarter. Production, new orders and employment are all expected to grow at a higher rate in the second quarter. Commodity prices are expected to increase at a much higher rate in the second quarter, significantly higher than what is expected in the other two industry groups.





### 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 Second 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 is expected to increase from 61.0 in the first quarter to 68.9 in the second quarter, indicating that production is expected to increase at a higher rate in the second quarter. This is the twelfth 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; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; Miscellaneous; Food; Textile Mill Products; Apparel; Paper; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. No industry reported an expected decrease in production.

<b>Production</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
2 <sup>nd</sup> Quarter of 2012	54.9	38.9	6.3	48.6	68.9
1 <sup>st</sup> Quarter of 2012	41.9	41.5	16.6	25.3	61.0
4 <sup>th</sup> Quarter of 2011	35.1	40.0	24.9	10.2	59.6
3 <sup>rd</sup> Quarter of 2011	43.2	42.6	14.2	29.1	66.1

**Inventories of Purchased Materials:** The seasonally unadjusted index for inventories of purchased materials barely changed - decreasing from 55.0 in the first quarter to 54.9 in the second quarter - indicating that manufacturers are expected to increase their inventories in the second quarter at the same rate as in the first quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Transportation Equipment; and Plastics & Rubber Products. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Food; and Apparel.

<b>Inventories of Purchased Materials</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
2 <sup>nd</sup> Quarter of 2012	31.6	46.5	21.9	9.8	54.9
1 <sup>st</sup> Quarter of 2012	30.9	48.2	20.9	10.0	55.0
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

**Commodity Prices:** The seasonally unadjusted index for commodity prices increased from 69.7 in the first quarter to 75.6 in the second quarter, indicating that commodity prices are expected to increase at a faster rate in the second quarter of this year. Commodity prices are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; Miscellaneous; Food; Apparel; Paper; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. No industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
2 <sup>nd</sup> Quarter of 2012	56.0	39.2	4.9	51.1	75.6
1 <sup>st</sup> Quarter of 2012	46.8	45.8	7.4	39.4	69.7
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

**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 decreased from 54.1 in the first quarter to 48.4 in the second quarter, indicating that supplier deliveries are expected to be moderately faster in the first quarter. Supplier deliveries are expected to be slowest in the following industries: Computer & Electronic Products; and Machinery. Supplier deliveries are expected to be fastest in the following industries: Fabricated Metal Products; Food; and Apparel.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
2 <sup>nd</sup> Quarter of 2012	13.8	72.1	14.1	-0.2	48.4
1 <sup>st</sup> Quarter of 2012	15.0	77.5	7.5	7.6	54.1
4 <sup>th</sup> Quarter of 2011	15.7	74.5	9.8	5.9	56.0
3 <sup>rd</sup> Quarter of 2011	17.1	73.8	9.2	8.0	52.5

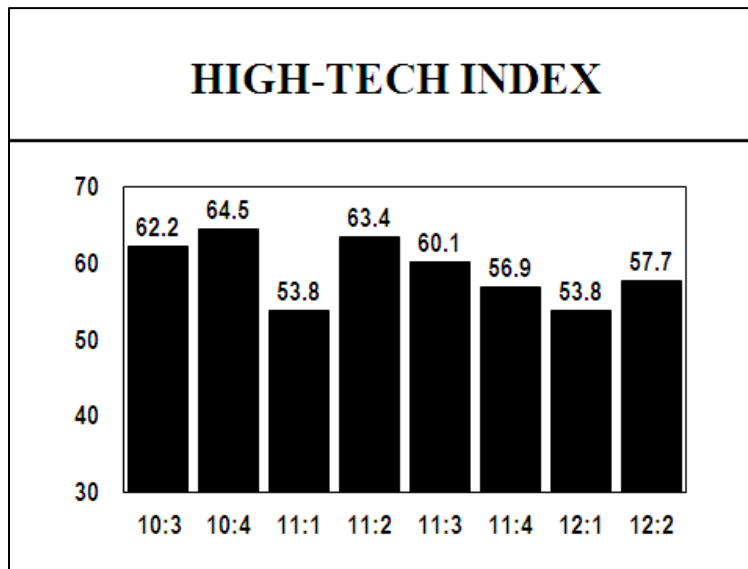
**New Orders:** The seasonally adjusted index for new orders increased from 57.2 in the first quarter to 64.2 in the second quarter, indicating that new orders are expected to increase at a much faster rate in the second quarter. New orders are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Transportation Equipment; Furniture & Related Products; Miscellaneous; Apparel; Paper; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. No industry reported an expected decrease in new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 <sup>nd</sup> Quarter of 2012	47.8	41.2	11.0	36.9	64.2
1 <sup>st</sup> Quarter of 2012	43.1	35.5	21.4	21.7	57.2
4 <sup>th</sup> Quarter of 2011	32.0	36.2	31.8	0.3	54.8
3 <sup>rd</sup> Quarter of 2011	37.9	44.1	18.0	19.9	62.1

**Employment:** The seasonally adjusted index for employment increased from 52.9 in the first quarter to 55.2 in the second quarter, indicating that employment in manufacturing is expected to improve in the second quarter. Employment is expected to increase most rapidly in the following industries: Aerospace Products & Parts; Primary Metals; Fabricated Metal Products; Machinery; Furniture & Related Products; Miscellaneous; Chemicals; and Plastics & Rubber Products. No industry reported an expected decrease in employment.

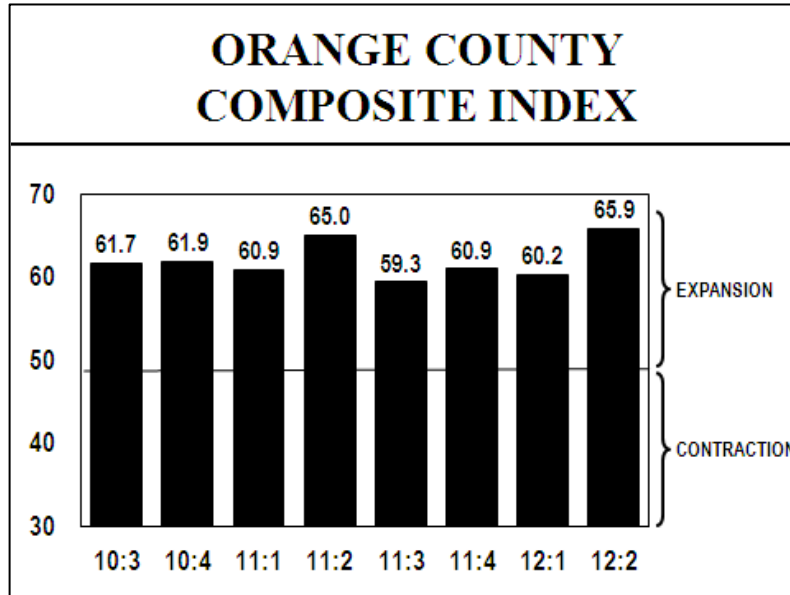
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 <sup>nd</sup> Quarter of 2012	23.4	68.3	8.4	15.0	55.2
1 <sup>st</sup> Quarter of 2012	21.1	64.0	15.0	6.1	52.9
4 <sup>th</sup> Quarter of 2011	19.6	62.5	17.9	1.7	52.6
3 <sup>rd</sup> Quarter of 2011	26.5	61.3	12.2	14.3	57.8

**High-Tech Industries:** The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 346,600 employees, amounting to 27.9% of total manufacturing employment in the state. The high-tech index increased from 53.8 in the first quarter to 57.7 in the second quarter, indicating that the high-tech industries are expected to grow at a higher rate in the second quarter. The production index increased from 58.4 in the first quarter to 68.4 in the second quarter, indicating that production is expected to grow at a substantially higher rate in the second quarter. The index for new orders increased from 55.5 to 57.8 indicating that new orders are expected to grow at a higher rate in the second quarter, although the rate of increase is not as high as that of production. The commodity price index facing the high-tech industries decreased in the second quarter to 68.9 indicating that commodity prices are expected to increase at a lower rate in the second quarter compared to the first quarter.



## Orange County's Manufacturing Survey

The Composite Index for Orange County increased from 60.2 in the first quarter to 65.9 in the second quarter, indicating that the county manufacturing economy is expected to grow at higher rate in the second quarter compared to the first quarter of 2012.



The seasonally adjusted index for production increased from 64.7 in the first quarter to 73.2 in the second quarter, indicating that production is expected to grow in the second quarter at a substantially higher rate compared to the first quarter. This is the twelfth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders increased from 60.0 to 73.6 indicating that, like production, new orders are expected to grow at a substantially higher rate in the second quarter. The index for commodity prices increased from 64.4 in the first quarter to 74.7 in the second quarter indicating that commodity prices are expected to increase at a much higher rate in the second quarter.

The index for the **high-tech industries** increased from 60.3 in the first quarter to 66.3 in the second quarter, indicating higher growth in the second quarter. The index for the **durable goods industries other than high-tech** increased from 61.5 to 69.0, indicating higher growth for these industries. The index for the **non-durable goods industries** increased from 56.6 to 63.8, indicating also higher growth for these industries. The commodity price index in the high-tech industries decreased slightly, while those of the other two industry groups increased. This indicates that commodity prices for the durable goods industries other than high-tech and for the non-durable goods industries are expected to increase at a higher rate in the second quarter.



## 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.

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- JANUARY**      † Economic Forecast Conferences for the Inland Empire  
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- 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 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