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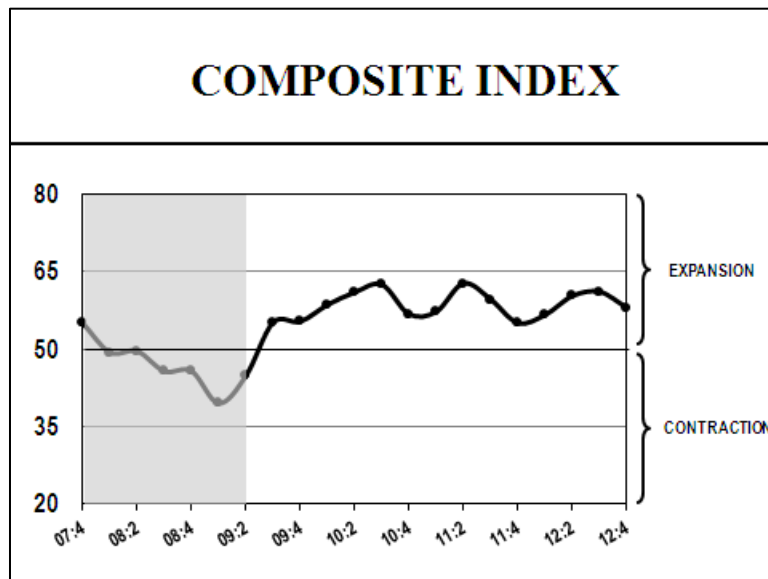
A. Gary Anderson Center for Economic Research

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**GROWTH PATH IS SLOWING
IN THE MANUFACTURING SECTOR**

ORANGE, CA — The California survey of manufacturing purchasing managers indicates that the manufacturing sector is expected to show growth in the fourth quarter of 2012. The Composite Index, measuring overall manufacturing activity, decreased from 61.1 in the third quarter to 58.0 in the fourth quarter. Although an index value over 50 suggests expansion in the sector, the decline in the index however shows that the growth rate in the fourth quarter will be lower than that of the third quarter. The durable goods industries other than high-tech and the non-durable goods industries show lower growth rates in the fourth quarter. The purchasing managers also reported that commodity prices are expected to increase at a slightly higher rate compared to the third quarter.

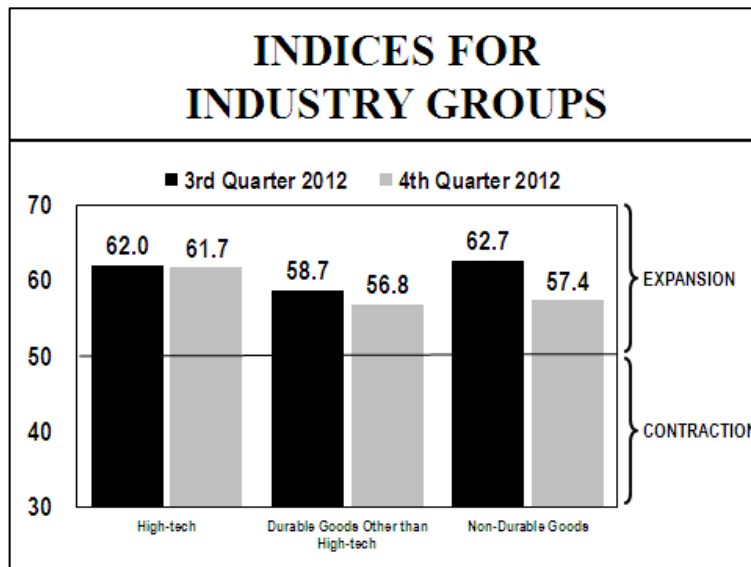


Performance by Industry Group

The index for the **high-tech industries** decreased marginally from 62.0 in the third quarter of 2012 to 61.7 in the fourth quarter, indicating that the growth rate in the high-tech industries is expected to be the same in the fourth quarter as it was in the third quarter. Production, new orders and inventories of purchased materials are all expected to grow at a lower rate in the fourth quarter. Employment on the other hand will grow at a higher rate.

The index for the **durable goods industries other than high-tech** decreased from 58.7 in the third quarter of 2012 to 56.8 in the fourth quarter, indicating a lower growth rate in the fourth quarter. Production, new orders, inventories of purchased materials and employment are all expected to grow at a slower rate in the fourth quarter.

The index for the **non-durable goods industries** decreased from 62.7 in the third quarter of 2012 to 57.4 in the fourth quarter, indicating a slower growth rate in the fourth quarter. Production, new orders, inventories of purchased materials and employment are all expected to grow at a lower rate in the fourth quarter. Commodity prices for this industry group are expected to increase at a much faster rate in the fourth quarter, and in addition they will be higher than those of the other two industry groups.



Comments by the Purchasing Managers

“Our business is food and tied to the price of corn at some point, so we’re still on very shaky ground and will be until livestock foodstuff is more stable.” (Food)

“Raw material prices in China are lower and we do not see any pressure that prices will rise in the next quarter.” (Textile Mill Products)

“Although business has been up for most of the year we have seen a dramatic slowdown in orders especially from local, state and federal agencies.” (Wood Products)

“The polyethylene business is at a crossroads. Either the global resin cartel will be able to continue to control prices at a level about 15% above Asian prices or the low prices of natural gas, which make North America the second lowest cost producer in the world after Saudi, will result in a breaking of the ranks and North American resin prices becoming more directly related to production costs.”
(Chemicals)

“I feel like Sisyphus pushing the rock up the hill. We make forward progress but there is always something to push us back down again. Commodity prices are rising but we cannot adjust our pricing each time to compensate.” (Printing & Related Support Activities)

“Housing market decline still a long ways from recovering which affects our business dramatically.”
(Nonmetallic Mineral Products)

“I believe it is going to be a slow one for orders as people wait to see how the elections turn out. Other than government spending, private spending will slow, in my opinion, until a cleared picture of the economic climate is resolved.” (Primary Metals)

“Higher taxes and regulations on small to medium businesses are hampering growth and employment.” (Fabricated Metal Products)

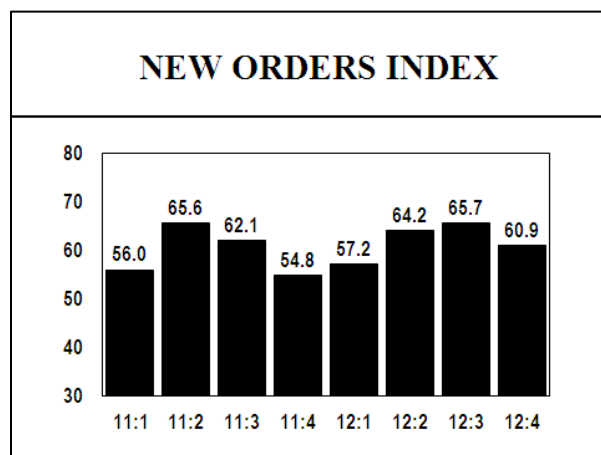
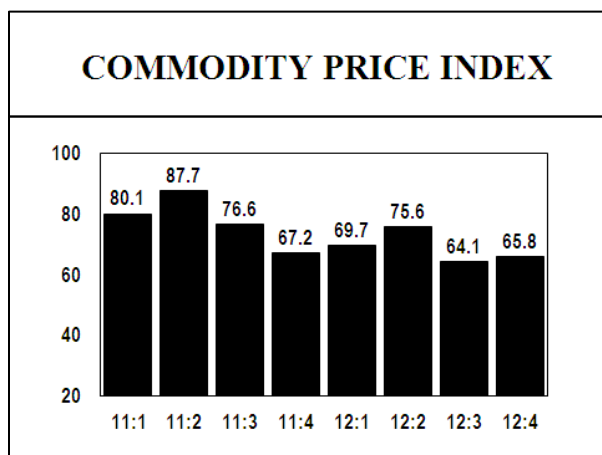
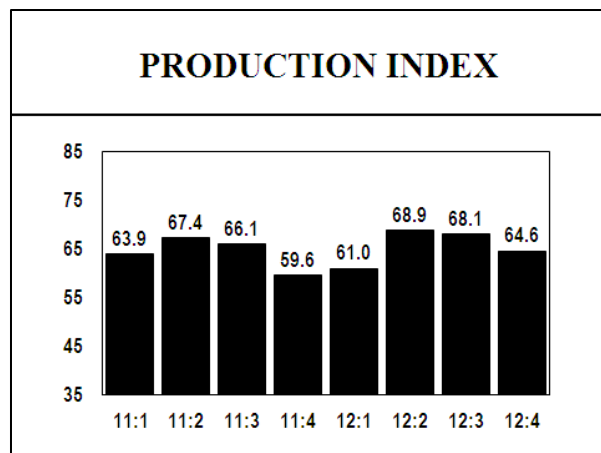
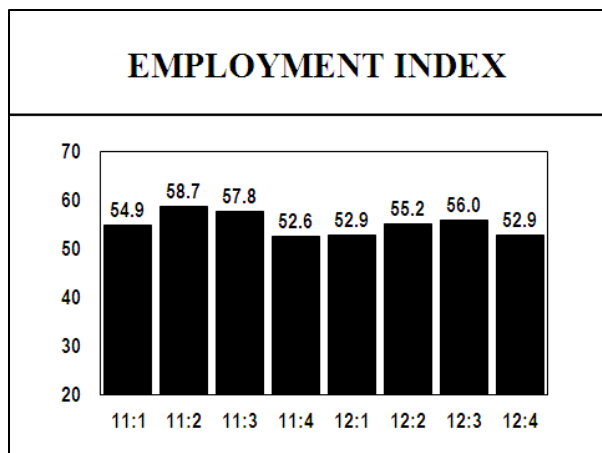
“Commodity prices are increasing (stainless steel and electrical components) starting in 4Q2012. Our company will be increasing the price of our items we sell beginning next year, 2013 (10%).”
(Machinery)

“Uncertainty regarding government defense spending is causing a more extended bottom to our cyclical electronic business.” (Computer & Electronic Products)

“We are restricting our investments in equipment, inventory and hiring until after the election, and likely on a long-term basis if Obamacare is not repealed.” (Electrical Equipment, Appliance & Components)

“We are in the upholstery industry and find that what is delaying us the most with production is the fabric mills who will only produce when the order is large enough. They no longer carry stock so there is a constant backorder on fabrics which in turn takes us longer to complete orders.” (Furniture & Related Products)

“The federal government’s inability to pass a budget has dampened military sales. Contractors are not willing to commit.” (Aerospace Products & Parts)



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 and inventories of purchased materials, 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 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 decrease from 68.1 in the third quarter to 64.6 in the fourth quarter, indicating that production is expected to increase at a slower rate in the fourth quarter. This is the fourteenth 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; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Furniture & Related Products; Miscellaneous; Food; Textile Mill Products; Paper; and Printing & Related Support Activities. Production is expected to decrease most rapidly in the following industries: Wood Products; Transportation Equipment; and Chemicals.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2012	38.9	41.6	19.5	19.3	64.6
3 rd Quarter of 2012	46.5	40.0	13.5	33.1	68.1
2 nd Quarter of 2012	54.9	38.9	6.3	48.6	68.9
1 st Quarter of 2012	41.9	41.5	16.6	25.3	61.0

Inventories of Purchased Materials: The seasonally unadjusted index for inventories of purchased materials is expected to decrease substantially from 57.5 in the third quarter to 48.9 in the fourth quarter, indicating that manufacturers are expected to be holding less inventories in the fourth quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Aerospace Products & Parts; Machinery; Furniture & Related Products; Miscellaneous; Food; Textile Mill Products; and Printing & Related Support Activities. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Computer & Electronic Products; Wood Products; Primary Metals; Electrical Equipment, Appliance & Components; Transportation Equipment; and Chemicals.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Index
4 th Quarter of 2012	25.4	46.9	27.7	-2.2	48.9
3 rd Quarter of 2012	33.8	47.4	18.8	14.9	57.5
2 nd Quarter of 2012	31.6	46.5	21.9	9.8	54.9
1 st Quarter of 2012	30.9	48.2	20.9	10.0	55.0

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 64.1 in the third quarter to 65.8 in the fourth quarter, indicating that commodity prices are expected to increase at a faster rate in the fourth 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; Furniture & Related Products; Miscellaneous; Food; Textile Mill Products; 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
4 th Quarter of 2012	39.3	53.1	7.6	31.7	65.8
3 rd Quarter of 2012	39.7	48.7	11.5	28.2	64.1
2 nd Quarter of 2012	56.0	39.2	4.9	51.1	75.6
1 st Quarter of 2012	46.8	45.8	7.4	39.4	69.7

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 is expected to increase from 49.6 in the third quarter to 53.8 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; Wood Products; Transportation Equipment; Miscellaneous; and Printing & Related Support Activities. Supplier deliveries are expected to be fastest in the following industries: Fabricated Metal Products; Transportation Equipment; and Textile Mill Products.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
4 th Quarter of 2012	11.2	79.2	9.6	1.6	53.8
3 rd Quarter of 2012	12.8	76.4	10.8	2.0	49.6
2 nd Quarter of 2012	13.8	72.1	14.1	-0.2	48.4
1 st Quarter of 2012	15.0	77.5	7.5	7.6	54.1

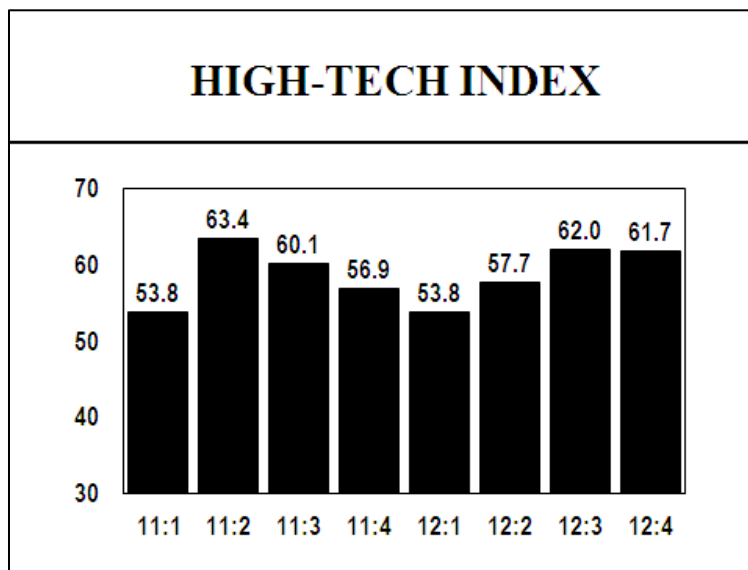
New Orders: The seasonally adjusted index for new orders is expected to decrease from 65.7 in the third quarter to 60.9 in the fourth quarter, indicating that new orders are expected to increase at a slower rate in the fourth quarter. New orders are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Primary Metals; Fabricated Metal Products; Furniture & Related Products; Miscellaneous; Food; Paper; and Printing & Related Support Activities. New orders are expected to decrease most rapidly in the following industries: Wood Products; Electrical Equipment, Appliance & Components; Transportation Equipment; and Chemicals.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2012	37.1	37.4	25.6	11.5	60.9
3 rd Quarter of 2012	44.4	38.2	17.4	26.9	65.7
2 nd Quarter of 2012	47.8	41.2	11.0	36.9	64.2
1 st Quarter of 2012	43.1	35.5	21.4	21.7	57.2

Employment: The seasonally adjusted index for employment is expected to decrease from 56.0 in the third quarter to 52.9 in the fourth quarter, indicating that employment in manufacturing is expected to be only slightly better than the third quarter. Employment is expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Fabricated Metal Products; Furniture & Related Products; Miscellaneous; and Printing & Related Support Activities. Employment is expected to decrease most rapidly in the following industries: Wood Products; Nonmetallic Mineral Products; Transportation Equipment; Apparel; Leather & Allied Products; and Plastics & Rubber Products.

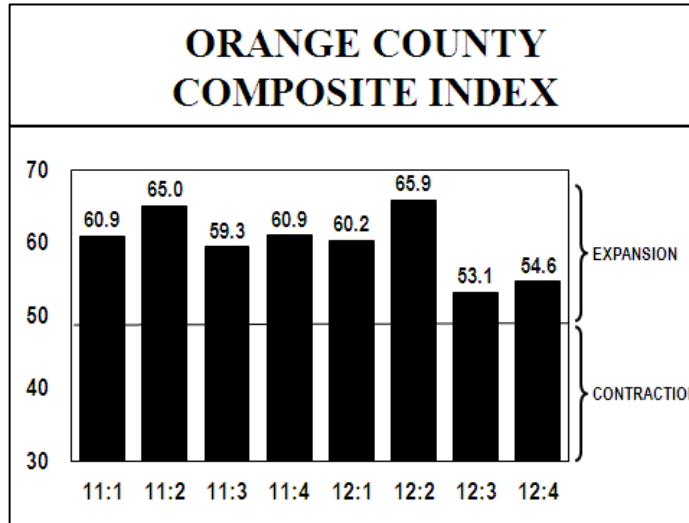
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2012	18.8	64.6	16.6	2.2	52.9
3 rd Quarter of 2012	23.8	63.2	13.0	10.8	56.0
2 nd Quarter of 2012	23.4	68.3	8.4	15.0	55.2
1 st Quarter of 2012	21.1	64.0	15.0	6.1	52.9

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 344,300 employees, amounting to 27.33% of total manufacturing employment in the state. The high-tech index decreased marginally from 62.0 in the third quarter to 61.7 in the fourth quarter, indicating that the high-tech industries are expected to grow at the same rate as in the fourth quarter. The production and new orders indices decreased in the fourth quarter indicating expected slower growth in both variables. Fortunately the employment index increased indicating more hiring in the fourth quarter. The index for inventories of purchased materials decreased substantially from 61.2 in the third quarter to 50.5 in the fourth quarter indicating that inventories will not grow in the fourth quarter. The commodity price index facing the high-tech industries decreased in the fourth quarter from 68.0 to 63.5 indicating that commodity prices are expected to increase at a slower rate compared to the third quarter.



Orange County's Manufacturing Survey

The Composite Index for Orange County increased from 53.1 in the third quarter to 54.6 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.



The seasonally adjusted index for production increased from 54.6 in the third quarter to 56.5 in the fourth quarter, indicating that production is expected to grow in the fourth quarter at a higher rate compared to the third quarter. This is the fourteenth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders also increased from 54.8 to 55.8 indicating that, like production, new orders are expected to grow at a higher rate in the fourth quarter. The index for inventories of purchased materials increased from 46.3 in the third quarter to 50.3 in the fourth quarter indicating that inventories will no longer decrease in the fourth quarter and will stay at the third quarter's level.

The indices for the **high-tech industries** and the **non-durable goods industries** increased in the fourth quarter indicating that the two industry groups are expected to grow at a higher rate in the fourth quarter. The index for the **durable goods industries other than high-tech** decreased from 52.7 to 50.3 indicating that there will be no growth in this industry group in the fourth 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.

ANNUAL SCHEDULE OF CONFERENCES AND PRESS RELEASES

- JANUARY** † Economic Forecast Conferences for 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 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
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