

4-5-2013

## **Solid Rebound In Manufacturing**

Anderson Center for Economic Research

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### **Recommended Citation**

Anderson Center for Economic Research, "Solid Rebound In Manufacturing" (2013). *Anderson Center Press Releases*. 27.

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### A. Gary Anderson Center for Economic Research

**For Release:**

April 5, 2013

**Contact:**

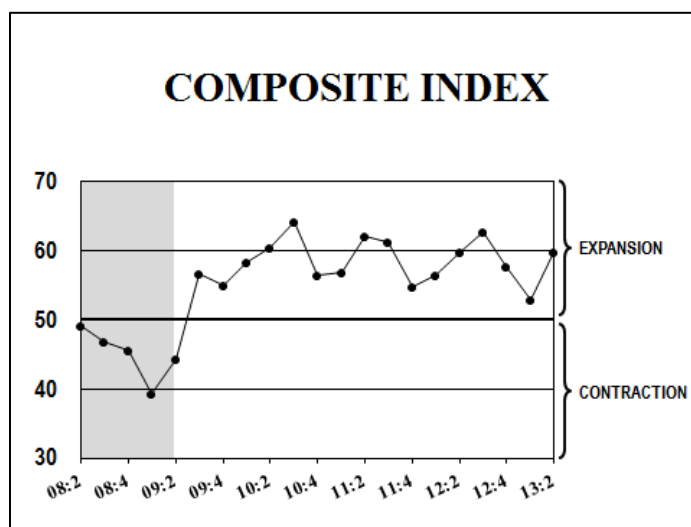
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## SOLID REBOUND IN MANUFACTURING

ORANGE, CA — Purchasing managers in the manufacturing sector in California expect a substantial pick-up in the sector's growth rate in the second quarter of 2013 compared to the first quarter. The Composite Index, measuring overall manufacturing activity, increased from 52.9 in the first quarter to 59.8 in the second quarter. Production, inventories of purchased materials and new orders are expected to grow at a much higher rate in the second quarter of 2013. Even the employment picture is rosier than the first quarter. The purchasing managers also reported that the durable goods industries and the non-durable goods industries are expected to grow at a higher rate than the high-tech industries.

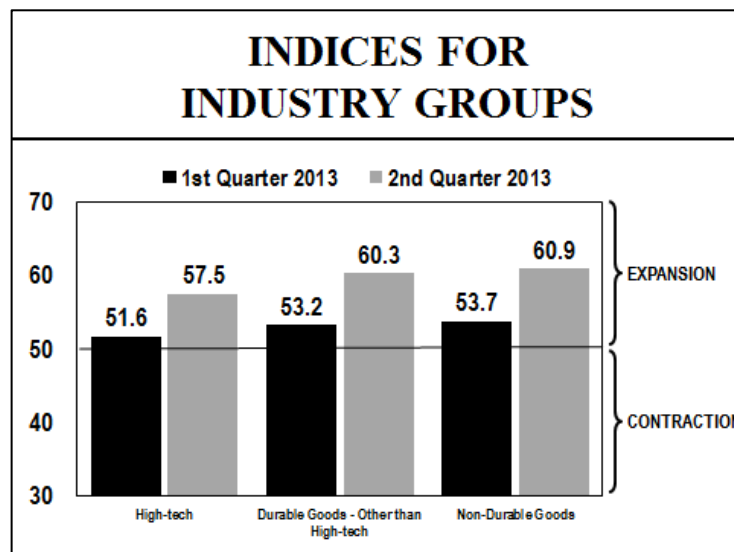


### Performance by Industry Group

The index for the **high-tech industries** increased from 51.6 in the first quarter of 2013 to 57.5 in the second quarter, indicating that the growth rate in the high-tech industries is expected to be higher in the second quarter. A higher growth rate is expected in production, inventories of purchased materials, and new orders. Commodity prices are expected to increase but at a lower rate compared to the first quarter.

The index for the **durable goods industries other than high-tech** increased from 53.2 in the first quarter of 2013 to 60.3 in the second quarter, indicating a substantially higher growth rate in the second quarter. Employment is expected to improve slightly in the second quarter, and supplier deliveries will not slow down. Production, inventories of purchased materials, and new orders are expected to grow at a much higher rate.

The index for the **non-durable goods industries** increased from 53.7 in the first quarter of 2013 to 60.9 in the second quarter, indicating a substantially higher growth rate in the second quarter. Similar to the other two industry groups, employment is expected to expand slightly in the second quarter. Production, inventories of purchased materials, and new orders are expected to grow at a much higher rate.



### Comments by the Purchasing Managers

Business condition is still very competitive. Future plans to continue purchasing from China due to cost efficiency which also creates poor quality issues. (Apparel.)

Our customer base across all industries that we service has been strong since last November and that pace continues. Metal prices are a bit softer, but we think will firm soon. We are well staffed for current business. (Primary Metals.)

We expect small growth through second quarter with steel prices slightly higher. (Fabricated Metal Products.)

We have been in a hiring frame for a while, but hiring people isn't as easy as it used to be. I interview several people for each opening who are really not interested in working. They want to be able to show they looked for work. We have even had three people we hired who never showed up to work! It's a different world out there. (Machinery.)

Fuel prices and taxes continue to be a drag on the economy and we see no relief in sight. (Transportation Equipment.)

Same as prior surveys - As a company operating just below the 50 employee threshold for many of the Obamacare regulations, we are actively NOT trying to grow our business in a way that would require hiring additional workers. California voters recently passed Prop 30, raising our effective marginal state income tax rate to 13.3%, in addition to the 1.5% corporate level tax on S-Corporations. We are currently evaluating our options for selling or relocating our business outside California, because we do not feel we can be viable over the long term unless we leave California. (Electrical Equipment, Appliance & Components.)

A lot of wait and see for effects of sequestration. While supplier prices may fall later this year after sequestration impacts take effect, I expect some increases for Q2. (Computer & Electronic Products.)

Aircraft orders from Boeing and Airbus are on the increase for aerostructure parts through 2013 and beyond. Also, on the military side, replacement aerostructure parts are also on the rise, contracts have been placed to cover 2013 through 2016. Orders support the USAF, South Korean AF, Saudi Royal AF and Israel AF for replacement wing structures. (Aerospace Products & Parts.)

Company has been purchased and will be relocating to Mexico. All will be out of a job in a few months or so. (Miscellaneous.)

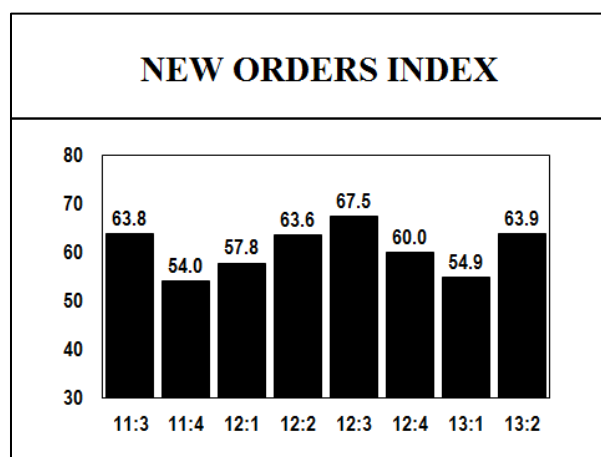
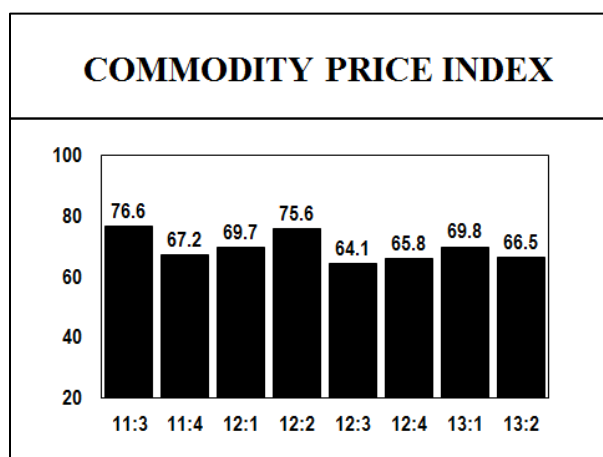
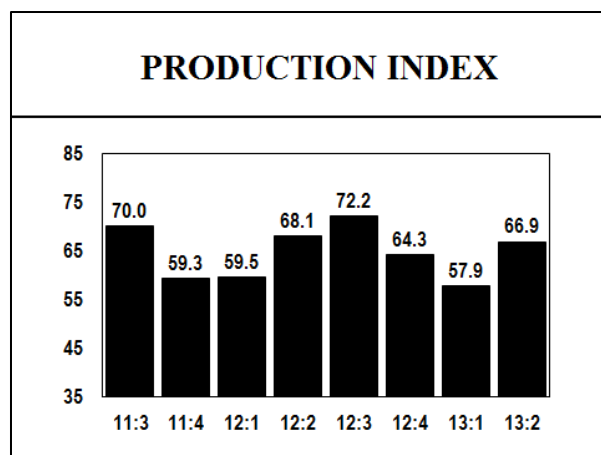
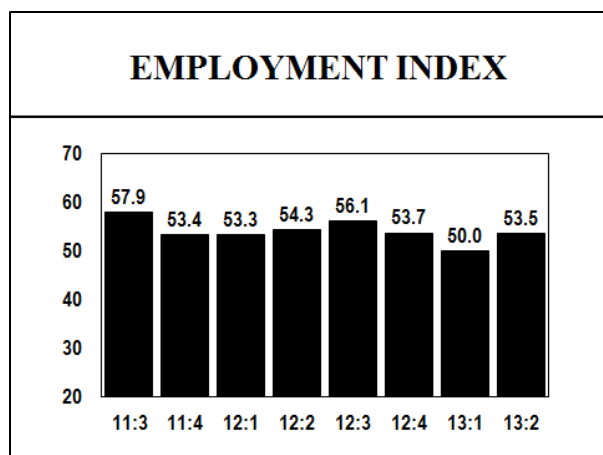
In General we have seen increases in sales of the frozen fruit sector as well increasing our market share by leveraging our buying ability to overcome higher commodity costs across the board in fruit costs, transportation, as well higher resin and paper pulp costs which all impact the retail market Sector which we participate in with our customers. The trend will be to reduce the total number of suppliers we purchase from in order to get the most value from our procurement volume. (Food.)

Increased inventory is because of an expected price increase Q2. (Printing & Related Support Activities.)

Spring is always good in our industry. The banks are starting to free up loan money. (Textile Mills.)

Some work is being outsourced to other companies within the USA. (Paper.)

Cautious optimism following the expected best first quarter since 2007 based on volume. Prices, therefore margins, have been slower to recover. RFQs and phone orders continue to increase as a mild winter ends. (Nonmetallic Mineral Products.)



## 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 Second Quarter of 2013

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. If for example the index increases from 55 to 59, we say that the growth rate is higher than the previous quarter because 59 is bigger than 55. If the index remains at 55, we say that the growth rate remains the same as the previous quarter. If the index decreases from 55 to 52, we say that we still have growth but that the growth rate is lower than the previous quarter because 52 is smaller than 55. 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 57.9 in the first quarter to 66.9 in the second quarter, indicating that production is expected to increase at a faster rate in the second quarter. This is the sixteenth 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; 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 production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 <sup>nd</sup> Quarter of 2013	54.3	37.4	8.3	46.0	66.9
1 <sup>st</sup> Quarter of 2013	39.0	44.0	17.0	21.9	57.9
4 <sup>th</sup> Quarter of 2012	38.9	41.6	19.5	19.3	64.3
3 <sup>rd</sup> Quarter of 2012	46.5	40.0	13.5	33.1	72.2

**Inventories of Purchased Materials:** The seasonally unadjusted index for inventories of purchased materials is expected to increase from 50.1 in the first quarter to 60.9 in the second quarter, indicating that manufacturers are expected to be holding much more inventories in the second quarter. Inventories of purchased materials 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; Transportation Equipment; Miscellaneous; Food; Paper; Chemicals; and Plastics & Rubber Products. The Furniture & Related Products industry reported an expected decrease in inventories of purchased materials.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Index
2 <sup>nd</sup> Quarter of 2013	36.7	48.4	14.9	21.8	60.9
1 <sup>st</sup> Quarter of 2013	25.8	48.6	25.6	0.2	50.1
4 <sup>th</sup> Quarter of 2012	25.4	46.9	27.7	-2.2	48.9
3 <sup>rd</sup> Quarter of 2012	33.8	47.4	18.8	14.9	57.5

**Commodity Prices:** The seasonally unadjusted index for commodity prices is expected to decrease from 69.8 in the first quarter to 66.5 in the second quarter, indicating that commodity prices are expected to increase at a slightly lower 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; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; Miscellaneous; Food; Textile Mill Products; 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 2013	38.6	55.8	5.6	32.9	66.5
1 <sup>st</sup> Quarter of 2013	45.8	48.0	6.2	39.6	69.8
4 <sup>th</sup> Quarter of 2012	39.3	53.1	7.6	31.7	65.8
3 <sup>rd</sup> Quarter of 2012	39.7	48.7	11.5	28.2	64.1

**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 46.2 in the first quarter to 47.8 in the second quarter, indicating that supplier deliveries are expected to be faster in the second quarter. Supplier deliveries are expected to be fastest in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Nonmetallic Mineral Products; Fabricated Metal Products; and Paper. The Transportation Equipment industry reported expected slower deliveries in the second quarter.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
2 <sup>nd</sup> Quarter of 2013	9.8	78.8	11.4	-1.6	47.8
1 <sup>st</sup> Quarter of 2013	7.8	77.4	14.7	-6.9	46.2
4 <sup>th</sup> Quarter of 2012	11.2	79.2	9.6	1.6	53.5
3 <sup>rd</sup> Quarter of 2012	12.8	76.4	10.8	2.0	50.4

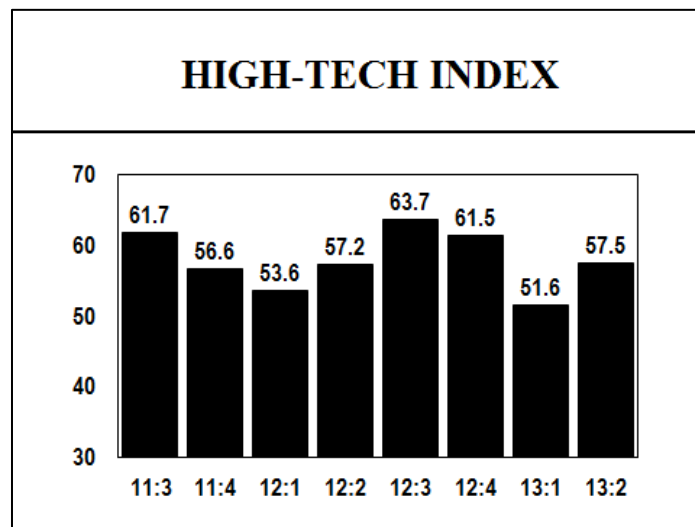
**New Orders:** The seasonally adjusted index for new orders is expected to increase from 54.9 in the first quarter to 63.9 in the second quarter, indicating that new orders are expected to increase at a much faster rate in the second quarter. New orders are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; 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 new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 <sup>nd</sup> Quarter of 2013	50.1	37.2	12.7	37.4	63.9
1 <sup>st</sup> Quarter of 2013	38.2	39.1	22.7	15.5	54.9
4 <sup>th</sup> Quarter of 2012	37.1	37.4	25.6	11.5	60.0
3 <sup>rd</sup> Quarter of 2012	44.4	38.2	17.4	26.9	67.5

**Employment:** The seasonally adjusted index for employment is expected to increase from 50.0 in the first quarter to 53.5 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: Computer & Electronic Products; Aerospace Products & Parts; Nonmetallic Mineral Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Food; Paper; Printing & Related Support Activities; 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 2013	23.4	66.6	10.0	13.5	53.5
1 <sup>st</sup> Quarter of 2013	15.2	69.2	15.6	-0.4	50.0
4 <sup>th</sup> Quarter of 2012	18.8	64.6	16.6	2.2	53.7
3 <sup>rd</sup> Quarter of 2012	23.8	63.2	13.0	10.8	56.1

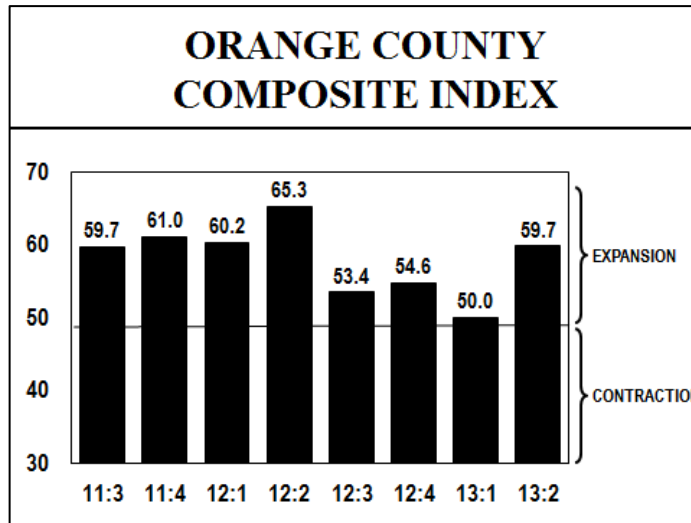
**High-Tech Industries:** The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 340,600 employees, amounting to 27.6% of total manufacturing employment in the state. The high-tech index increased from 51.6 in the first quarter to 57.5 in the second quarter, indicating that the high-tech industries are expected to show higher growth in the second quarter. The production index increased from 58.4 to 67.9 indicating a higher growth rate in production. The index for new orders increased more modestly from 53.8 to 55.7 indicating higher growth in new orders as well. The largest increase took place in inventories of purchased materials as the index increased from 48.2 to 63.1 indicating a higher level of inventories in the second quarter. The commodity price index decreased from 73.2 to 59.3 indicating that commodity prices are expected to increase at a slower rate in the second quarter compared to the first quarter. This goes hand in hand with a supplier deliveries index of 44.7 indicating faster deliveries.





## Orange County's Manufacturing Survey

The Composite Index for Orange County increased from 50.0 in the first quarter to 59.7 in the second quarter of 2013, indicating that the county manufacturing economy is expected to show higher growth in the second quarter. With the Composite indices standing at 59.8 and 59.7 respectively, the California and Orange County manufacturing sectors are expected to grow at the same rate in the second quarter of this year.



The seasonally adjusted index for production increased from 54.9 in the first quarter to 63.7 in the second quarter, indicating that production is expected to grow in the second quarter at a much higher rate compared to the first quarter. This is the sixteenth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders increased from 51.3 to 64.2 indicating that new orders will increase at a much higher rate in the second quarter. The index for inventories of purchased materials increased from 43.4 in the first quarter to 55.0 in the second quarter indicating that inventories will increase in the second quarter. The supplier deliveries index increased from 49.7 to 54.2 indicating that deliveries will slow down in the second quarter. The employment index increased from 45.7 to 54.7 indicating an increase in employment in the second quarter compared to the first quarter.

The index for the **high-tech industries** increased substantially from 43.3 to 56.9 indicating growth in the high-tech industries. Similarly the indices for the **durable goods industries other than high-tech** and the **non-durable goods industries** increased to 60.6 and 65.4 respectively indicating continued growth in these industries 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.

## **ANNUAL SCHEDULE OF CONFERENCES AND PRESS RELEASES**

<b>JANUARY</b>	▸ Economic Forecast Conferences for the Inland Empire ▸ California Purchasing Managers Survey
<b>FEBRUARY</b>	▸ California Leading Employment Indicator
<b>MARCH</b>	▸ California Consumer Sentiment Survey
<b>APRIL</b>	▸ California Purchasing Managers Survey
<b>MAY</b>	▸ California Leading Employment Indicator
<b>JUNE</b>	▸ Economic Forecast Update Conference for the U.S., California and Orange County ▸ California Consumer Sentiment Survey
<b>JULY</b>	▸ California Purchasing Managers Survey
<b>AUGUST</b>	▸ California Leading Employment Indicator
<b>SEPTEMBER</b>	▸ California Consumer Sentiment Survey
<b>OCTOBER</b>	▸ California Purchasing Managers Survey
<b>NOVEMBER</b>	▸ California Leading Employment Indicator
<b>DECEMBER</b>	▸ Economic Forecast Conference for the U.S., California and Orange County ▸ California Consumer Sentiment Survey