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Manufacturing Takes A Leap

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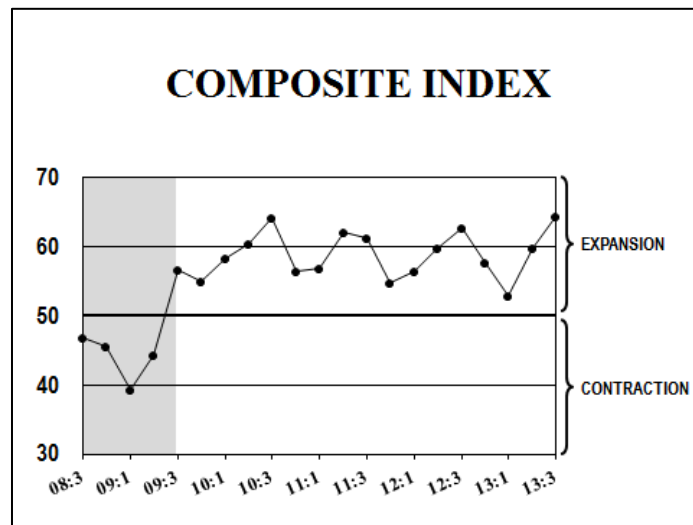
A. Gary Anderson Center for Economic Research

For Release:
July 2, 2013

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MANUFACTURING TAKES A LEAP

ORANGE, CA — After taking a leap up in the second quarter, the manufacturing sector is expected to take another leap in the third quarter according to a survey of purchasing managers in the manufacturing sector in California. The Composite Index, measuring overall manufacturing activity, increased from 59.8 in the second quarter to 64.4 in the third quarter, the highest level it has achieved since the fourth quarter of 2005. Production, new orders and employment are all expected to grow at a much higher rate in the third quarter. The purchasing managers also reported that although commodity prices will rise, the percentage increase will decline for the second consecutive quarter.

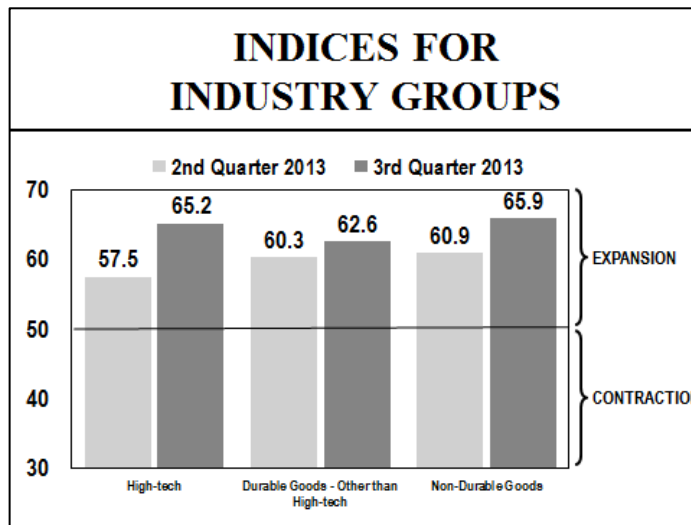


Performance by Industry Group

The index for the **high-tech industries** increased from 57.5 in the second quarter to 65.2 in the third quarter, indicating that the growth rate in the high-tech industries is expected to be higher in the third quarter. A higher growth rate is expected in production, inventories of purchased materials, new orders, and employment. Commodity prices are expected to increase at about the same rate as in the second quarter.

The index for the **durable goods industries other than high-tech** increased from 60.3 in the second quarter to 62.6 in the third quarter, indicating a higher growth rate in the third quarter. A higher growth rate is expected in production, new orders, and employment. Supplier deliveries are expected to get faster.

The index for the **non-durable goods industries** increased from 60.9 in the second quarter to 65.9 in the third quarter, indicating a higher growth rate in the third quarter. Similar to the other two industry groups, a higher growth rate is expected in production, inventories of purchased materials, new orders, and employment. Commodity prices are expected to rise at a lower rate in the third quarter.



Comments by the Purchasing Managers

New business is hard to find but current customers are doing better. Pressure from upper management to hold inventory tight is easing. (Food.)

Installing additional production capabilities. (Beverage & Tobacco.)

We are optimistic but very cautious about the current upswing in business. (Wood Products.)

Expecting growth to continue throughout 2013, staffing up with skilled labor in anticipation. (Textile Mills.)

As mills that make paper continue to be shut down, I do anticipate another price increase in paper by the end of the year. (Paper.)

Demand continues to be soft with little or no growth forecast for the balance of the year. Supplier consolidation continues forcing higher costs for us and reduced service and options. Service from large national suppliers continues to degrade while locals are forced to join or quit. Have decided to keep employment levels below 50 employees for the time-being due to additional regulations under national health care acts. (Printing & Related Support Activities.)

Building trends are up, therefore, our business is expected to grow. (Furniture & Related Products.)

I see manufacturing increasing through Q 3 and Q 4 in response to higher costs of shipping and labor in markets such as China and South East Asia. As a result of increased efficiencies I project more work done locally. (Fabricated Metal Products.)

Sequestration has resulted in some cancelled orders. If this continues I do expect a major downturn in all defense and manufacturing related industries. Employment for next quarter was marked as same, but that might change. Especially with the constant increases in workers comp. insurance. (Computer & Electronic Products.)

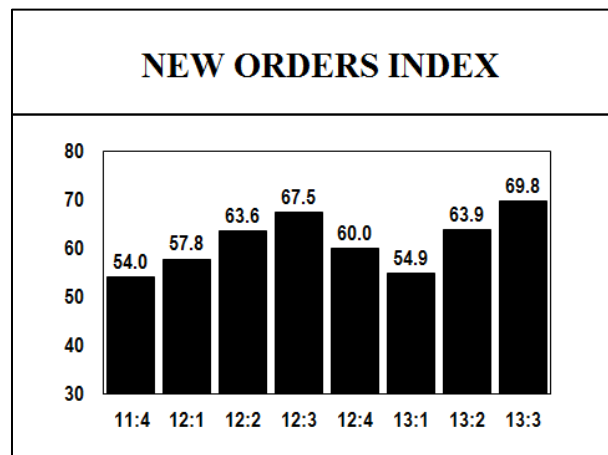
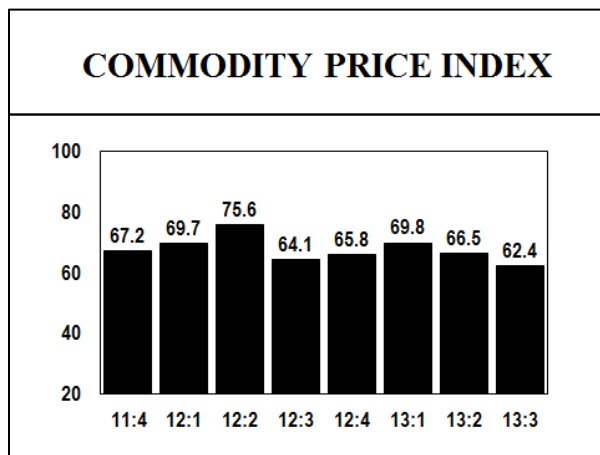
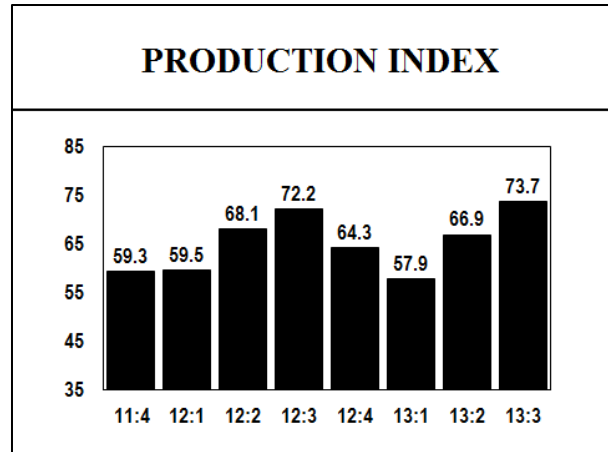
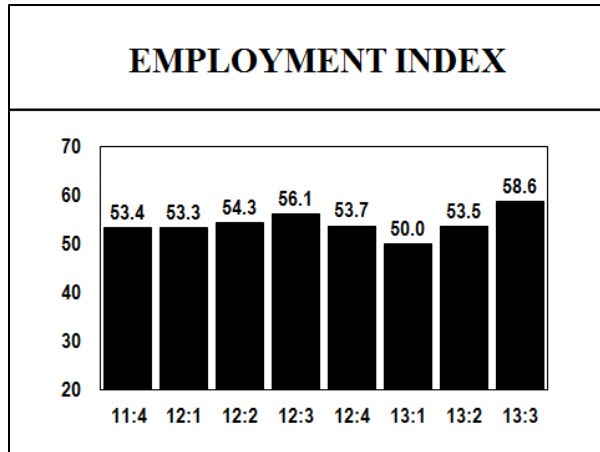
Overall Business environment is improving with caution, real caution however. Thank you. (Electrical Equipment, Appliance & Components.)

Prices of our inputs seem to have stabilized. Price Increase letters have declined compared to the last 6 months. (Transportation Equipment.)

Good level of planes purchased from Airbus and Boeing should help drive sales dollars in next quarter. (Aerospace Products & Parts.)

Major cost increase is in corrugate for the current year. Will affect our corrugate purchases by 7-8%. Plastic resin prices and fuel costs are still a major concern. Need to get re-established with consistent pricing and costs. (Chemicals.)

Production is increasing, with inventories at the right levels. Prices decreasing. New orders will come in. As a result employment will increase. (Plastics & Rubber 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 Third 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 66.9 in the second quarter to 73.7 in the third quarter, indicating that production is expected to increase at a faster rate in the third quarter. This is the seventeenth consecutive quarter that the production index has been above 50. This also is the highest level the index has reached since the fourth quarter of 2005. Production is expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Wood Products; Nonmetallic Mineral Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Furniture & Related Products; Miscellaneous; Food; Beverage & Tobacco; 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
3 rd Quarter of 2013	47.8	40.2	11.9	35.9	73.7
2 nd Quarter of 2013	54.3	37.4	8.3	46.0	66.9
1 st Quarter of 2013	39.0	44.0	17.0	21.9	57.9
4 th Quarter of 2012	38.9	41.6	19.5	19.3	64.3

Inventories of Purchased Materials: The seasonally unadjusted index for inventories of purchased materials is expected to decrease slightly from 60.9 in the second quarter to 59.6 in the third quarter, indicating that manufacturers are expected to be holding more inventories in the third 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; Machinery; Furniture & Related Products; Miscellaneous; Food; Leather & Allied Products; Paper; and Chemicals. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Textile Mill Products; and Printing & Related Support Activities.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2013	36.3	46.6	17.1	19.2	59.6
2 nd Quarter of 2013	36.7	48.4	14.9	21.8	60.9
1 st Quarter of 2013	25.8	48.6	25.6	0.2	50.1
4 th Quarter of 2012	25.4	46.9	27.7	-2.2	48.9

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to decrease from 66.5 in the second quarter to 62.4 in the third quarter, indicating that commodity prices are expected to increase at a slower rate in the third 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; Electrical Equipment, Appliance & Components; Furniture & Related Products; Food; Paper; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. The Textile Mill Products industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2013	32.8	59.1	8.1	24.7	62.4
2 nd Quarter of 2013	38.6	55.8	5.6	32.9	66.5
1 st Quarter of 2013	45.8	48.0	6.2	39.6	69.8
4 th Quarter of 2012	39.3	53.1	7.6	31.7	65.8

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 47.8 in the second quarter to 49.0 in the third quarter, indicating that supplier deliveries are expected to be marginally faster in the third quarter. Supplier deliveries are expected to be fastest in the following industries: Aerospace Products & Parts; Nonmetallic Mineral Products; Fabricated Metal Products; Electrical Equipment, Appliance & Components; and Transportation Equipment. No industry reported expected slower supplier deliveries.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 rd Quarter of 2013	11.2	76.9	11.9	-0.8	49.0
2 nd Quarter of 2013	9.8	78.8	11.4	-1.6	47.8
1 st Quarter of 2013	7.8	77.4	14.7	-6.9	46.2
4 th Quarter of 2012	11.2	79.2	9.6	1.6	53.5

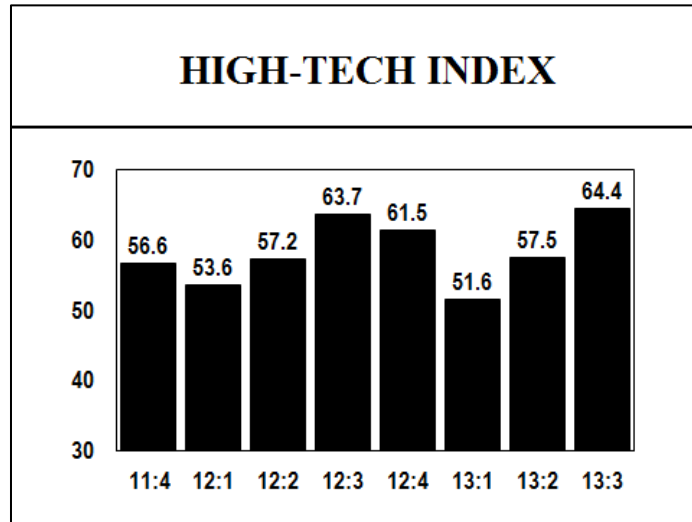
New Orders: The seasonally adjusted index for new orders is expected to increase from 63.9 in the second quarter to 69.8 in the third quarter, indicating that new orders are expected to increase at a faster pace in the third quarter. New orders are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Miscellaneous; Food; Beverage & Tobacco; Leather & Allied Products; Paper; Chemicals; and Plastics & Rubber Products. No industry reported an expected decrease in new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2013	47.2	36.8	16.0	31.2	69.8
2 nd Quarter of 2013	50.1	37.2	12.7	37.4	63.9
1 st Quarter of 2013	38.2	39.1	22.7	15.5	54.9
4 th Quarter of 2012	37.1	37.4	25.6	11.5	60.0

Employment The seasonally adjusted index for employment is expected to increase from 53.5 in the second quarter to 58.6 in the third quarter, indicating that employment in manufacturing is expected to increase in the third quarter. This is the highest value for the index since the third quarter of 2010. Employment 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; Furniture & Related Products; Miscellaneous; Food; beverage & Tobacco; Paper; and Chemicals. The Textile Mill Products industry reported an expected decrease in employment.

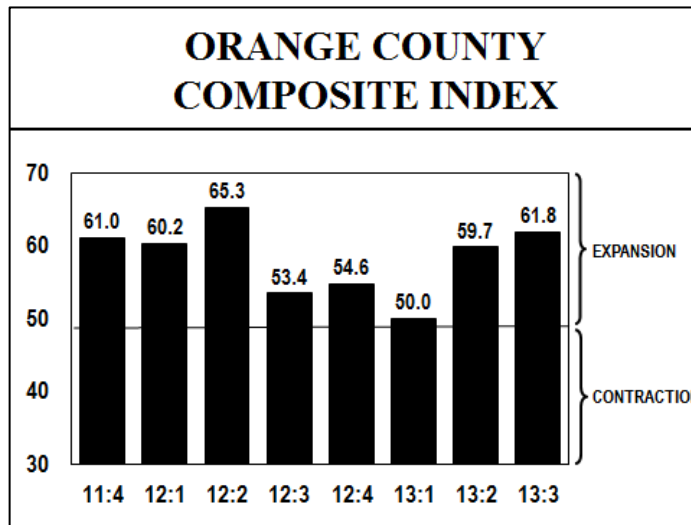
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2013	26.1	63.5	10.5	15.7	58.6
2 nd Quarter of 2013	23.4	66.6	10.0	13.5	53.5
1 st Quarter of 2013	15.2	69.2	15.6	-0.4	50.0
4 th Quarter of 2012	18.8	64.6	16.6	2.2	53.7

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 340,200 employees, amounting to 27.3% of total manufacturing employment in the state. The high-tech index increased from 57.5 in the second quarter to 65.2 in the third quarter, indicating that the high-tech industries are expected to show a substantially higher growth rate in the third quarter. The production index increased from 67.9 to 74.0 indicating a higher growth rate in production. The index for new orders jumped from 55.7 to 69.9 indicating much higher growth in new orders as well. The new orders index reached the highest value since the first quarter of 2008.



Orange County's Manufacturing Survey

The Composite Index for Orange County increased from 59.7 in the second quarter to 61.8 in the third quarter, indicating that the county manufacturing economy is expected to grow at a higher rate in the third quarter. With a California Composite index reading of 64.4, the California manufacturing economy is expected to grow at a higher rate compared to Orange County's.



The seasonally adjusted index for production increased from 63.7 in the second quarter to 70.1 in the third quarter, indicating that production is expected to grow in the third quarter at a higher rate compared to the second quarter. This is the seventeenth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders increased from 64.2 to 64.6 indicating that new orders will increase at the same rate as in the second quarter. The commodity price index decreased from 65.4 to 57.5 indicating that commodity prices are expected to rise at a slower rate compared to the second quarter. This matches the marginally slower supplier deliveries which index stood at 53.3.

The index for the **high-tech industries** decreased from 56.9 to 53.7 indicating very slow growth in the high-tech industries. On the other hand, the indices for the **durable goods industries other than high-tech** and the **non-durable goods industries** increased to 63.2 and 68.6 respectively indicating continued higher growth in these industries in the third quarter. The index for the non-durable goods industries reached the highest value in many years.

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 and
 Orange County
 † 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