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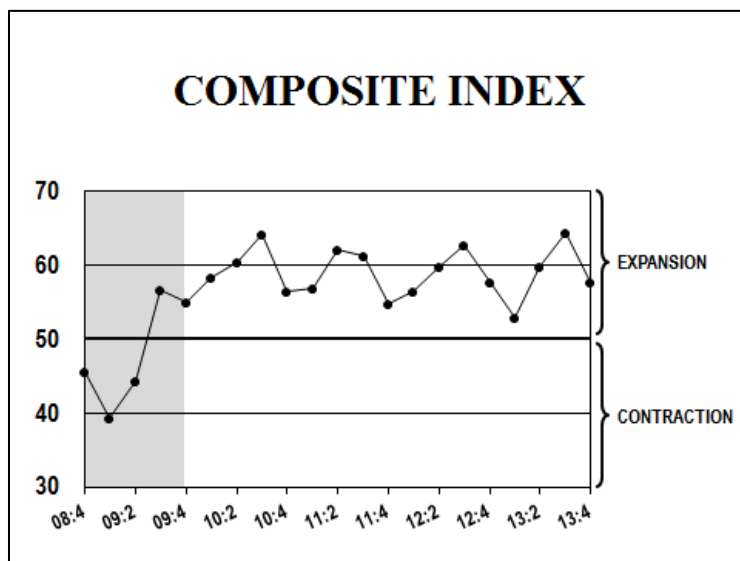
A. Gary Anderson Center for Economic Research

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SLOWER GROWTH PREDICTED IN MANUFACTURING

ORANGE, CA — Following sharp increases in the second and third quarters, the California manufacturing sector is expected to take a breather in the fourth quarter according to a survey of manufacturing purchasing managers. The Composite Index, measuring overall manufacturing activity, decreased from 64.4 in the third quarter to 57.8 in the fourth quarter, indicating slower growth in the manufacturing sector. Production and new orders are all expected to grow albeit at a lower rate in the fourth quarter compared to the third quarter. The purchasing managers also reported that employment will continue to grow at a slow pace in the fourth quarter.

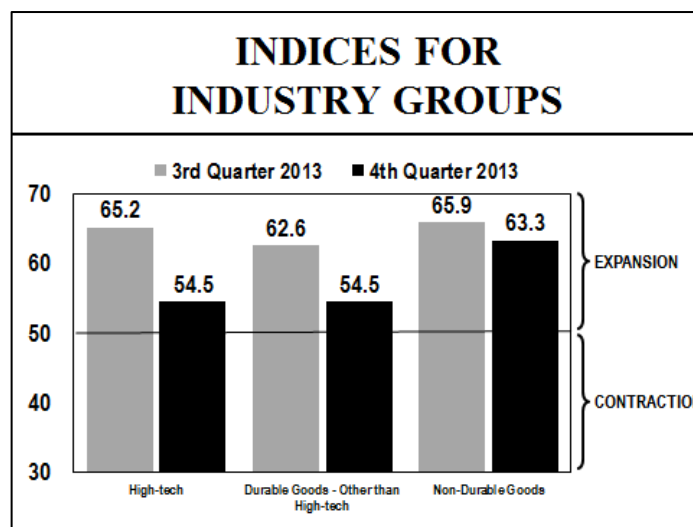


Performance by Industry Group

The index for the **high-tech industries** decreased from 65.2 in the third quarter to 54.5 in the fourth quarter, indicating that growth in the high-tech industries is expected to be slower in the fourth quarter than in the third quarter. A weaker growth is expected in production, inventories of purchased materials, new orders, commodity prices, and employment. Supplier deliveries are expected to get faster in the fourth quarter.

Similarly, the index for the **durable goods industries other than high-tech** decreased from 62.6 in the third quarter to 54.5 in the fourth quarter, showing slower growth in the coming quarter. Slower growth is expected in production, new orders, commodity prices, and employment. The speed of supplier deliveries is not expected to change in the fourth quarter compared to the third quarter.

The index for the **non-durable goods industries** showed the smallest decrease of the three industry groups. The index decreased from 65.9 in the third quarter to 63.3 in the fourth quarter, indicating that these industries will experience slower growth in the fourth quarter. Similar to the other two industry groups, a lower growth rate is expected in production, inventories of purchased materials, new orders, commodity prices, and employment. Supplier deliveries are expected to be slower in the fourth quarter.



Comments by the Purchasing Managers

“Production backlog continues to erode as manufacturing attempts to keep a leveled output. While this supports current procurement requirements, unless backlog starts to increase, procurement and employment will be impacted negatively.” (Computer & Electronic Products.)

“Commercial Aircraft structure orders remain on the increase, combined with ramped up quantities, fuels increase in hiring. Forecast strong for 5-year period going forward. Military Procurement (aircraft structures) slowly declining, thus reducing workforce.” (Aerospace Products & Parts.)

“Even though business level going upward, we likely will add technology and automation rather than employees.” (Fabricated Metal Products.)

“Current production plans have been increased over the past few months. We've started to increase our purchased quantities to meet the increases in production.” (Machinery.)

“Sequestering has not had the impact we thought it might. Customers (aerospace and defense) are not planning well and they are expecting their suppliers to provide quick service with less lead-time and price reductions. We are implementing a SIOP program to help with our service and pricing.” (Electrical Equipment, Appliance & Components.)

“The homeowner side of the business has picked up after a couple of years slump. Developer sales continue to keep the company going.” (Nonmetallic Mineral Products.)

“We have not seen much growth in the last few months... but we have definitely felt our business hold steady and start to grow again.” (Furniture & Related Products.)

“Frozen Fruit prices continue to climb higher due to weather issues that are impacting crops across the world. There should continue to be an uptrend in costs through the end of the year in Frozen Fruit and continuing into the 1st half of next year until the summer crops start coming in and another chance for mother nature to impact the fruit crops positively or negatively!” (Food.)

“It appears that the housing market is moving along and will drive our business to seek for those jobs so we can have the opportunity to increase orders and production for the next quarter.” (Wood Products.)

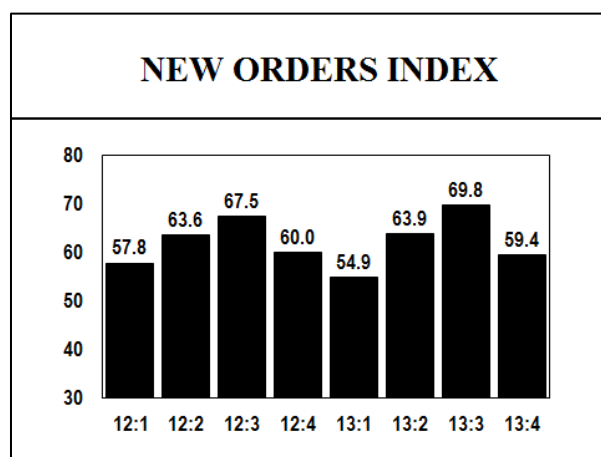
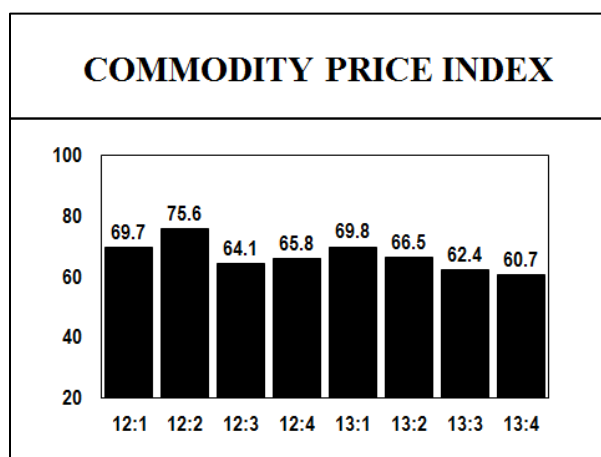
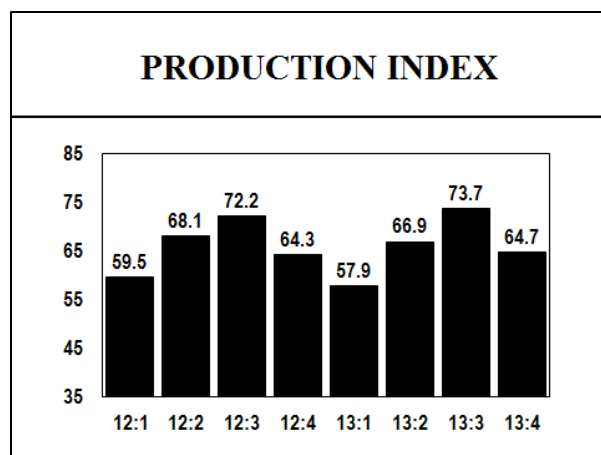
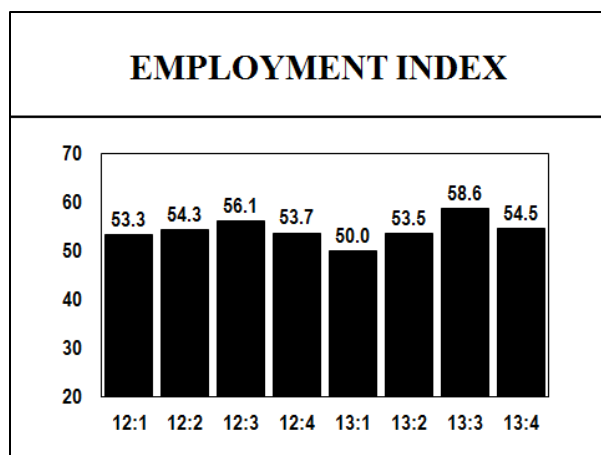
“In our composite textile industry, there is plenty of raw material supply, so the supply chain can handle an increase in raw material requirements.” (Textile Mills.)

“We are seasonal, coming off busiest quarter. We will be increasing FG inventory as we build to next spring.” (Paper.)

“The continued closure of paper making mills in the United States and Canada will drive up paper prices and the continued merger of paper merchants will not help either.” (Printing & Related Support Activities.)

“Overall word on the street in our industry is business is steady, no sign of any significant upward turnaround.” (Chemicals.)

“While the economy has improved, some rubber sectors continue to be slow. Production is stable and with commodities, deliveries, employment and inventories in place, new orders are the missing ingredient. Only need is new orders.” (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 Fourth 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 decrease from 73.7 in the third quarter to 64.7 in the fourth quarter, indicating that production is expected to increase at a lower rate in the fourth quarter. This is the eighteenth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Computer & Electronic Products; Primary Metals; Furniture & Related Products; Miscellaneous; Food; Textile Mill Products; Leather & Allied Products; Paper; Printing & Related Support Activities; and Chemicals. No industry reported an expected decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2013	40.5	39.1	20.4	20.1	64.7
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

Inventories of Purchased Materials: The seasonally unadjusted index for inventories of purchased materials is expected to decrease from 59.6 in the third quarter to 51.8 in the fourth quarter, indicating that manufacturers are expected to hold marginally more inventories in the fourth quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Food; Textile Mill Products; and Printing & Related Support Activities. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliance & Components; and Transportation Equipment.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Index
4 th Quarter of 2013	27.5	48.6	23.9	3.6	51.8
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

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to decrease from 62.4 in the third quarter to 60.7 in the fourth quarter, indicating that commodity prices are expected to increase at a lower rate in the fourth quarter. 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; 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 2013	27.9	65.8	6.4	21.5	60.7
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

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 49.0 in the third quarter to 51.7 in the fourth quarter, indicating that supplier deliveries are expected to be slightly slower in the fourth quarter. Supplier deliveries are expected to be slowest in the following industries: Miscellaneous; and Food. Supplier deliveries are expected to be fastest in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Primary Metals; Fabricated Metal Products; and Electrical Equipment, Appliance & Components.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
4 th Quarter of 2013	10.7	76.9	12.4	-1.7	51.7
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

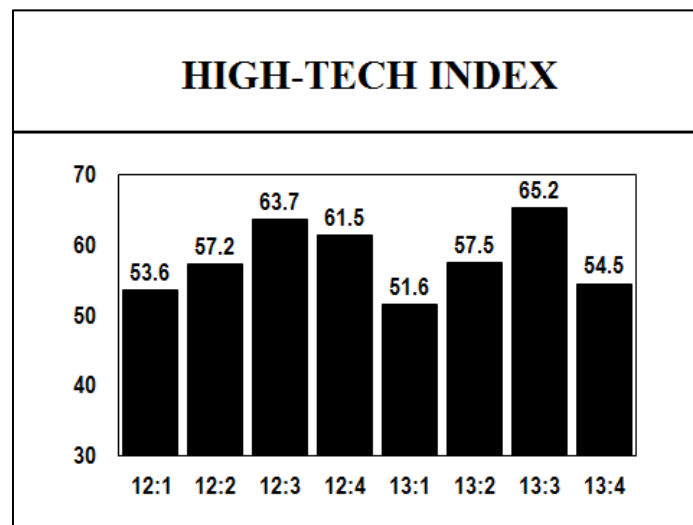
New Orders: The seasonally adjusted index for new orders is expected to decrease from 69.8 in the third quarter to 59.4 in the fourth quarter, indicating that new orders are expected to increase at a slower pace in the fourth quarter. New orders are expected to increase most rapidly in the following industries: Aerospace Products & Parts; Machinery; Furniture & Related Products; Miscellaneous; Food; Beverage & Tobacco; Leather & Allied Products; Paper; and Printing & Related Support Activities. New orders are expected to decrease most rapidly in the following industries: Nonmetallic Mineral Products; and Fabricated Metal Products.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2013	39.1	32.3	28.7	10.4	59.4
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

Employment The seasonally adjusted index for employment is expected to decrease from 58.6 in the third quarter to 54.5 in the fourth quarter, indicating that employment in manufacturing is expected to pick up slightly in the fourth quarter. Employment is expected to increase most rapidly in the following industries: Fabricated Metal Products; Furniture & Related Products; Miscellaneous; Food; and Textile Mill Products. Employment is expected to decrease most rapidly in the following industries: Primary Metals; Printing & Related Support Activities; and Plastics & Rubber Products.

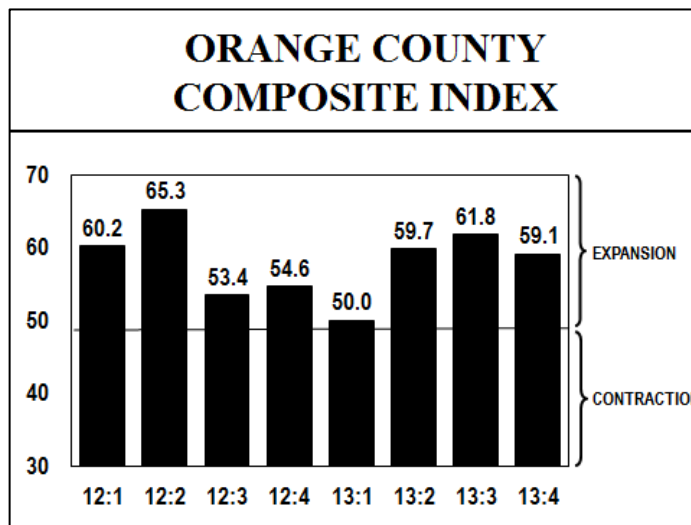
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2013	22.2	59.5	18.4	3.8	54.5
3 rd Quarter of 2013	26.1	63.5	10.5	15.7	58.6
2 nd Quarter of 2013	23.4	66.6	10.0	13.5	53.5
1 st Quarter of 2013	15.2	69.2	15.6	-0.4	50.0

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 342,400 employees, amounting to 26.9% of total manufacturing employment in the state. The high-tech index decreased from 65.2 in the third quarter to 54.5 in the fourth quarter, indicating that the high-tech industries are expected to grow at a substantially lower growth rate in the fourth quarter. The production index decreased from 74.0 to 63.6 indicating a lower growth rate in production. The index for new orders decreased precipitously from 69.9 to 52.6 indicating much slower growth in new orders. The supplier deliveries index decreased from 50.3 to 44.9 indicating faster deliveries in the fourth quarter.



Orange County's Manufacturing Survey

The Composite Index for Orange County decreased from 61.8 in the third quarter to 59.1 in the fourth quarter, indicating that the county manufacturing economy is expected to grow at a lower rate in the fourth quarter. With a California Composite index reading of 57.8, the California manufacturing economy is expected to grow at a lower rate compared to Orange County's.



The seasonally adjusted index for production decreased from 70.1 in the third quarter to 64.8 in the fourth quarter, indicating that production is expected to grow in the fourth quarter at a lower rate compared to the third quarter. This is the eighteenth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders decreased from 64.6 to 60.6 indicating that new orders will increase at lower rate compared to the third quarter. In contrast to California, the index for inventories of purchased materials increased from 54.9 to 58.5 indicating that manufacturers will hold a larger quantity of inventories.

The index for the **high-tech industries** decreased from 53.7 to 50.4 indicating marginal growth in the high-tech industries. The production index decreased from 66.9 to 49.6 indicating a potential marginal decrease in production. The index for the **durable goods industries other than high-tech** decreased from 63.2 to 56.8 indicating slower growth in these industries. The index for the **non-durable goods industries** increased from 68.6 to 69.2 indicating continued higher growth in these industries in the fourth 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.

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