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Manufacturing Sector Holds Steady

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A. Gary Anderson Center for Economic Research

For Release:

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Contact:

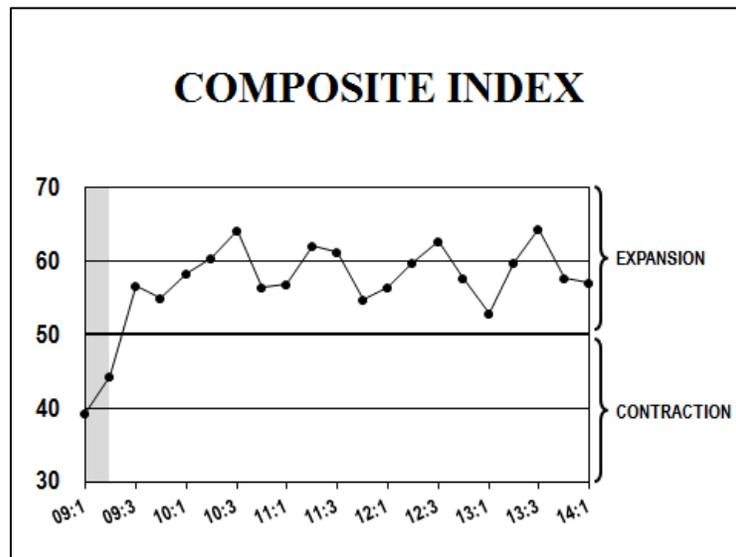
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MANUFACTURING SECTOR HOLDS STEADY

ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to show steady growth in the first quarter of 2014. The Composite Index, measuring overall manufacturing activity, decreased from 57.8 in the fourth quarter of 2013 to 57.1 in the first quarter of 2014, indicating a marginal decrease in the sector’s growth rate. Production and new orders are expected to grow at a slightly lower rate compared to the end of last year, while employment is expected to rise at a marginally higher rate. The purchasing managers also expect commodity prices to increase at a higher rate in the first quarter of 2014.

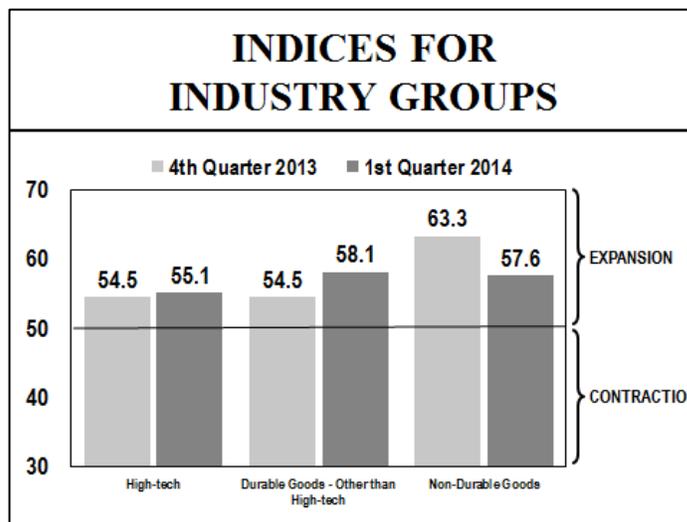


Performance by Industry Group

The index for the **high-tech industries** increased from 54.5 in the fourth quarter of 2013 to 55.1 in the first quarter of 2014, indicating that the growth rate in the high-tech industries is expected to be marginally higher in the first quarter of 2014. A steady growth rate is expected in new orders, but employment is expected to rise at a higher rate. Commodity prices are also expected to increase at a higher rate in the first quarter of 2014.

The index for the **durable goods industries other than high-tech** increased from 54.5 in the fourth quarter of 2013 to 58.1 in the first quarter of 2014, indicating a higher growth rate in the first quarter of 2014. A higher growth rate is expected in production, new orders, and employment. Inventories of purchased materials are expected to increase substantially in the first quarter of 2014.

The index for the **non-durable goods industries** decreased from 63.3 in the fourth quarter of 2013 to 57.6 in the first quarter of 2014, indicating a lower growth rate for this industry group. Production and new orders are expected to grow at a substantially lower rate in the first quarter of 2014. Similar to the other industry groups, commodity prices are expected to rise at a faster rate in the first quarter of 2014.



Comments by the Purchasing Managers

Our business is nearing the end of our seasonal high for the holidays and we expect to return to standard production output after the first of the year. Our holiday season was very positive as compared to last year however we are still skeptical moving forward. (Food.)

Raw material prices are moving up but the end user side has dug in their heels and not accepting increases. I think it will be harder to make a profit in 2014. (Printing & Related Support Activities.)

California plant remains running near capacity. Re-starting plant that we have in Texas in early 2014 in order to increase capacity. (Chemicals.)

As the construction industry improves, our product orders will follow. (Plastics & Rubber Products.)

New government medical insurance programs will inhibit growth of our and our suppliers' industry.
(Fabricated Metal Products.)

Oil & Gas remain strong. (Machinery.)

We are approaching pre 2008 numbers across the board, (sales, shipments, inventory levels). (Electrical Equipment, Appliance & Components.)

The Primes (Boeing, Moog, Parker, Abbott Labs, etc) are all moving to zero inventory and pushing their inventory requirements down to their suppliers. This is a very short-sighted view... (Aerospace Products & Parts.)

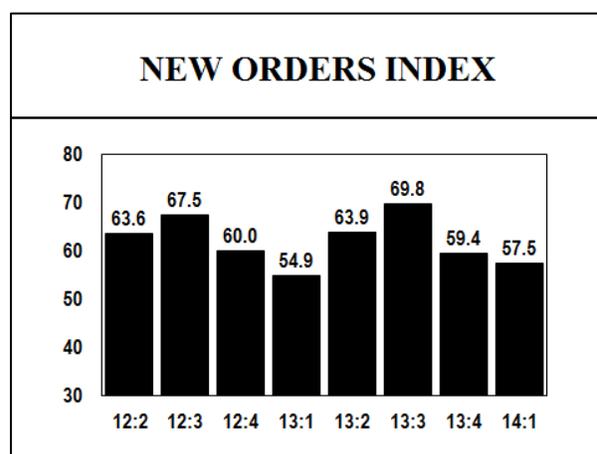
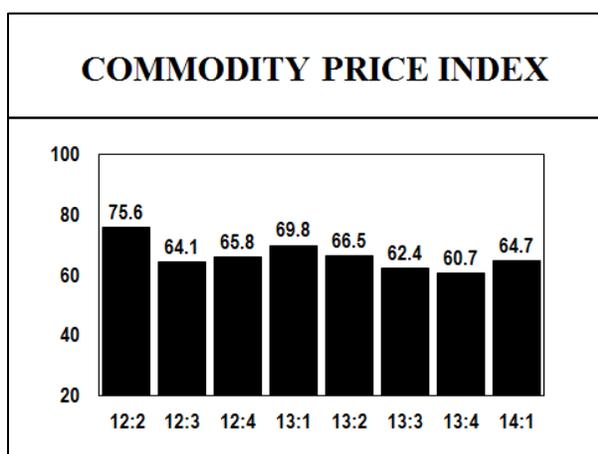
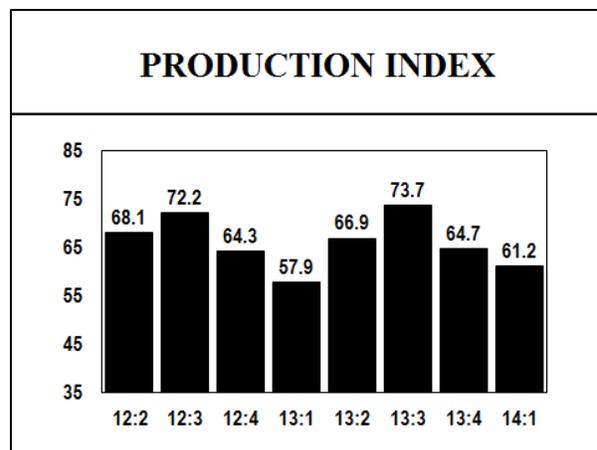
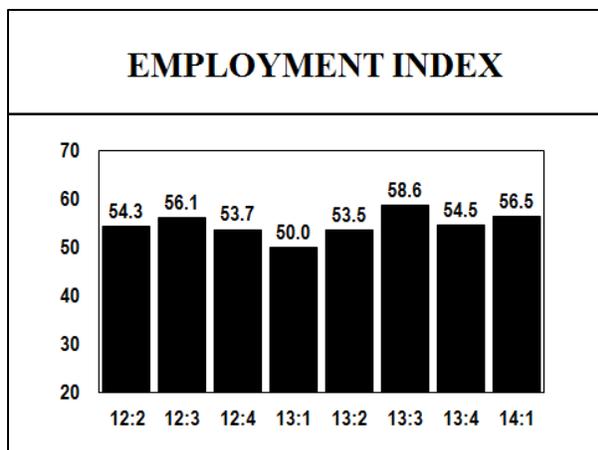
We are forecasting a stronger next quarter than last quarter and a stronger one on a year over year basis.
(Wood Products.)

Seasonal 1st quarter slowdown. Expect results to be stronger than 2013 1st quarter. Year over year small improvement. (Furniture & Related Products.)

Between oil related product price increases and Obamacare, I am seeing price increases on commodities...not happy. (Computer & Electronic Products.)

The next quarter is already booked and we are having to push jobs out into April & May. This should be one of the busiest quarters in some time for us. (Transportation Equipment.)

We've been hiring drivers to move more material, more mechanics to reduce service / repair time on vehicles. Structural and plate steel inventories are being increased to reduce multiple small quantity orders of steel. (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 First Quarter of 2014**

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 64.7 in the fourth quarter of 2013 to 61.2 in the first quarter of 2014, indicating that production is expected to increase at a slower rate in the first quarter of 2014. This is the nineteenth 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; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Miscellaneous; Food; 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
1 st Quarter of 2014	46.2	36.5	17.3	28.9	61.2
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

Inventories of Purchased Materials: The seasonally unadjusted index for inventories of purchased materials is expected to increase from 51.8 in the fourth quarter of 2013 to 56.3 in the first quarter of 2014, indicating that manufacturers are expected to be holding more inventories in the first quarter of 2014. Inventories of purchased materials are expected to increase most rapidly in the following industries: Computer & Electronic Products; Aerospace Products & Parts; Wood Products; Primary Metals; Machinery; Electrical Equipment, Appliance & Components; Miscellaneous; Apparel; Printing & Related Support Activities; 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
1 st Quarter of 2014	34.5	43.4	22.1	12.5	56.3
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

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 60.7 in the fourth quarter of 2013 to 64.7 in the first quarter of 2014, indicating that commodity prices are expected to increase at a faster rate in the first 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; Textile Mill Products; Paper; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. The Food industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
1 st Quarter of 2014	35.3	58.8	6.0	29.3	64.7
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

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 decrease from 51.7 in the fourth quarter of 2013 to 50.8 in the first quarter of 2014, indicating that supplier deliveries are expected to be barely slower in the first quarter of 2014. Supplier deliveries are expected to be slowest in the following industries: Primary Metals; Electrical Equipment, Appliance & Components; Food; and Apparel. Supplier deliveries are expected to be fastest in the following industries: Fabricated Metal Products; Transportation Equipment; and Furniture & Related Products.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
1 st Quarter of 2014	14.5	73.4	12.1	2.4	50.8
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

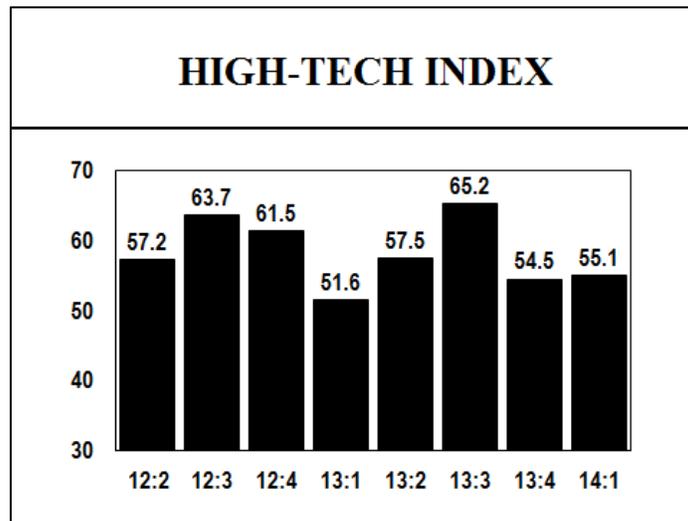
New Orders: The seasonally adjusted index for new orders is expected to decrease from 59.4 in the fourth quarter of 2013 to 57.5 in the first quarter of 2014, indicating that new orders are expected to increase at a slower pace in the first quarter of 2014. New orders are expected to increase most rapidly in the following industries: Aerospace Products & Parts; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Miscellaneous; 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
1 st Quarter of 2014	44.7	31.6	23.7	21.0	57.5
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

Employment The seasonally adjusted index for employment is expected to increase from 54.5 in the fourth quarter of 2013 to 56.5 in the first quarter of 2014, indicating that employment in manufacturing is expected to improve in the first quarter of 2014. Employment is 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; Printing & Related Support Activities; Chemicals; and Plastics & Rubber Products. The Food industry reported an expected decrease in employment.

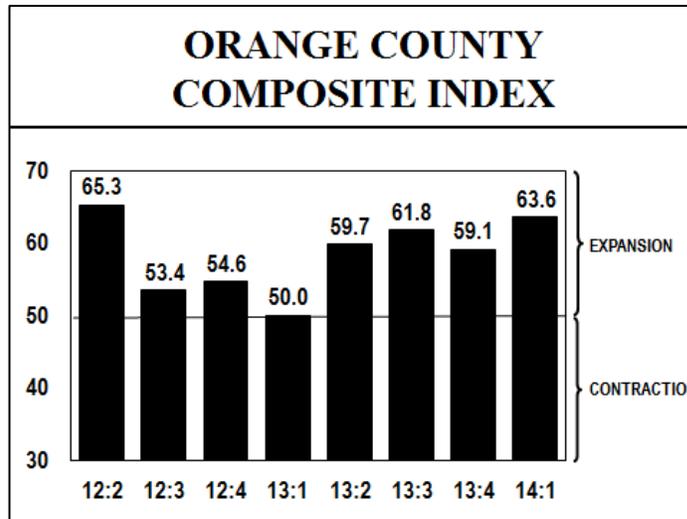
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 st Quarter of 2014	27.5	57.4	15.0	12.5	56.5
4 th Quarter of 2013	22.2	59.5	18.4	3.8	54.5
3 rd Quarter of 2013	26.1	63.5	10.5	15.7	58.6
2 nd Quarter of 2013	23.4	66.6	10.0	13.5	53.5

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 339,100 employees, amounting to 27% of total manufacturing employment in the state. The high-tech index increased from 54.5 in the fourth quarter of 2013 to 55.1 in the first quarter of 2014, indicating that the high-tech industries are expected to grow at a slightly higher rate in the first quarter of 2014 compared to the fourth quarter of 2013. The production index decreased from 63.6 to 60.6 indicating a lower growth rate in production. The index for employment increased from 53.2 in the fourth quarter of 2013 to 55.6 in the first quarter of 2014, indicating more hiring in the first quarter of this year.



Orange County's Manufacturing Survey

The Composite Index for Orange County increased from 59.1 in the fourth quarter of 2013 to 63.6 in the first quarter of 2014, indicating that the county manufacturing economy is expected to grow at a higher rate in the first quarter of this year. With a California Composite index reading of 57.1, the Orange County manufacturing economy is expected to grow at a higher rate compared to California's.



The seasonally adjusted index for production increased from 64.8 in the fourth quarter of 2013 to 68.3 in the first quarter of 2014, indicating that production is expected to grow in the first quarter at a higher rate compared to the end of last year. This is the nineteenth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders increased from 60.6 to 67.5 indicating that new orders will increase at the higher rate in the first quarter of this year. The commodity price index increased from 59.9 to 65.6 indicating that commodity prices are expected to increase at a substantially higher rate in the first quarter.

The index for the **high-tech industries** increased from 50.4 to 65.7 indicating solid growth in the high-tech industries in the first quarter of this year. The index for the **durable goods industries other than high-tech** also increased from 56.8 to 62.3 indicating a higher growth rate in this industry group. The index for the **non-durable goods industries** decreased from 69.2 to 64.3 indicating slower growth in these industries. Commodity prices in all industry groups are expected to increase faster in the first quarter of 2014.

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

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 ▶ 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** ▶ California Consumer Sentiment Survey
 ▶ Economic Forecast Update Conference for the U.S., California and
 Orange County

- 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
 ▶ Economic Forecast Conference for the U.S., California and
 Orange County

- DECEMBER** ▶ California Consumer Sentiment Survey