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Manufacturing Sector Improves Further

Anderson Center for Economic Research

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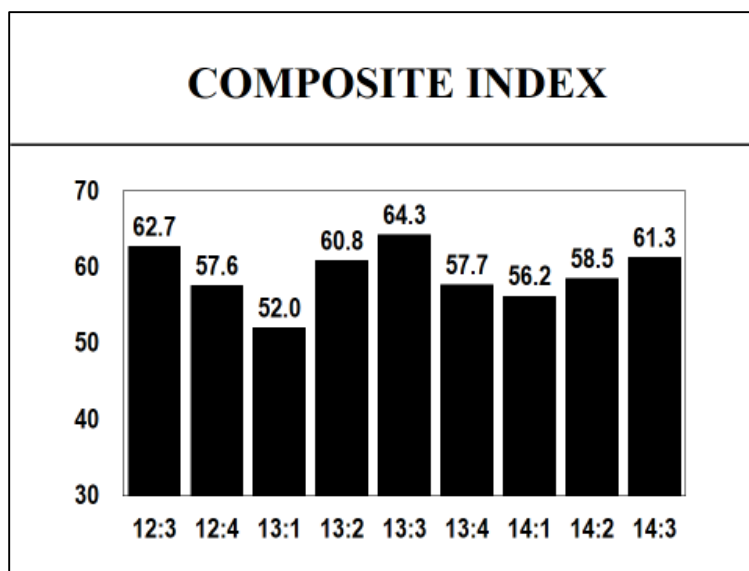
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MANUFACTURING SECTOR IMPROVES FURTHER

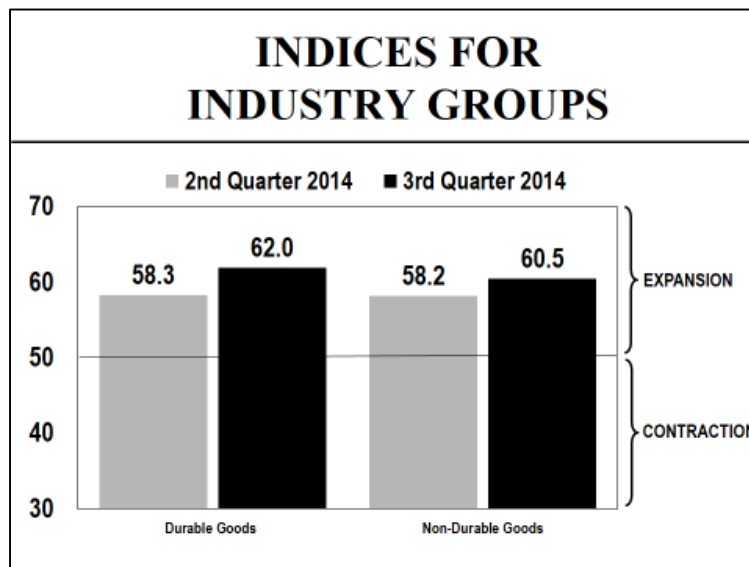
ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to grow further in the third quarter of 2014. The Composite Index, measuring overall manufacturing activity, increased from 58.5 in the second quarter of 2014 to 61.3 in the third quarter, indicating a higher growth rate. Production, new orders and employment are expected to grow at a higher rate compared to the second quarter. The purchasing managers also expect commodity prices to increase at a faster rate in the third quarter compared to the second quarter. In fact, the commodity price index reading of 66.6 is the highest since the first quarter of 2013.



Performance by Industry Group

The index for the **non-durable goods industries** registered 60.5 in the third quarter compared to 58.2 in the second quarter, indicating a higher growth rate for this industry group. Production is expected to grow at nearly the same rate as in the second quarter, while new orders are expected to grow faster. Employment is also expected to improve slightly compared to the second quarter.

The index for the **durable goods industries** registered 62.0 in the third quarter compared to a reading of 58.3 in the second quarter, indicating a higher growth rate. Similarly, the production index increased from 64.3 in the second quarter to 69.1 in the third quarter. The new orders index increased from 60.6 to 67.5 indicating a substantial increase in new orders in the third quarter. The employment index registering 60.5 suggests that hiring is expected to improve in the third quarter.



Comments by Purchasing Managers

We have a seasonal business and 3rd quarter is typically slower. (Food.)

Factory has had to downsize- expected to close by end of year. (Textile Mills.)

We are slowly recovering from the economy downturn and things are looking stronger in the coming month. (Apparel.)

Raw material/paperboard cost increases implemented April, May & July 2014. (Paper.)

For the printing sector, the continued merger of suppliers seems to have temporarily driven up the price for rolls of paper. Seems to be an artificial price inflation based upon supply and demand numbers. (Printing & Related Support Activities.)

Looking to see plastic bottles etc, to show price reduction due to resin decrease especially HDPE. (Chemicals.)

This third quarter expected performance is probably the hardest prediction yet for our company. We simply do not know which way the economy is headed. What the government tells us and what is reality seem to be two different concepts. (Plastics & Rubber Products.)

With the increase in infrastructure projects in CA, OR and Washington the availability of cement is now becoming tight. All available cement plants in CA & AZ are now running 24/7 to meet the requirements and with the increase in federal regulations on road freight haulers we will begin to see a significant impact on availability in the third and fourth quarter of 2014. (Nonmetallic Mineral Products.)

We are losing our main customer due to the fact they are moving production to Mexico, We cannot compete mainly because of labor cost. (Fabricated Metal Products.)

Price of Nickel is rising causing the cost of stainless to increase. (Machinery.)

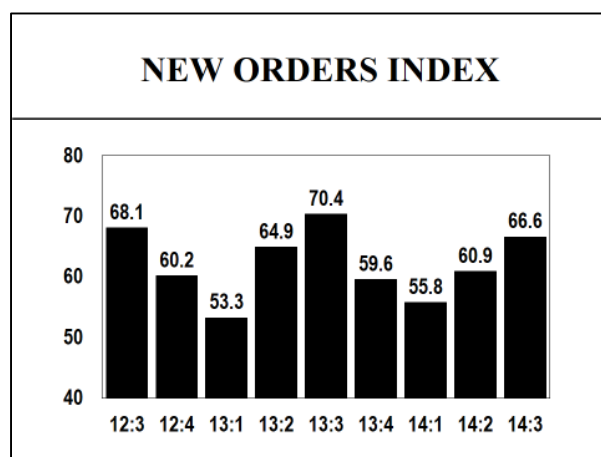
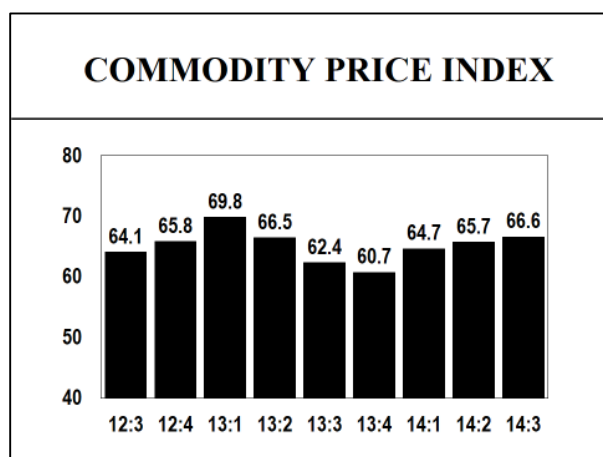
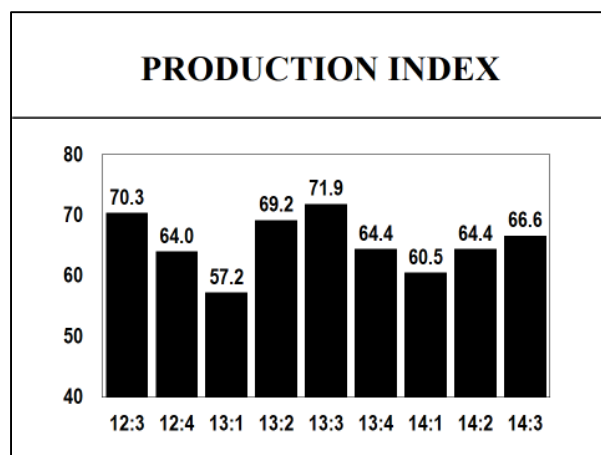
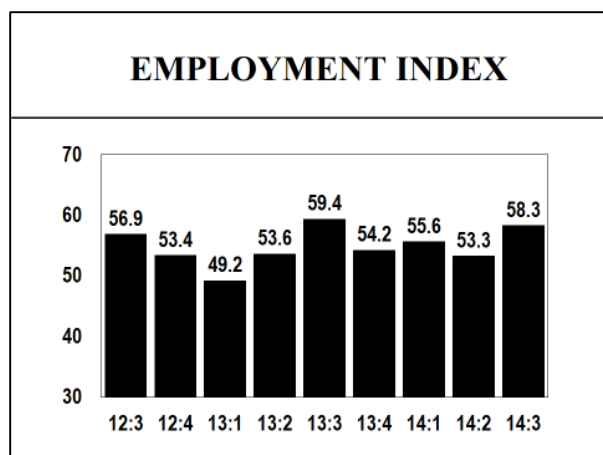
Most of our sales are to international customers. In Europe, business tends to slow down in the summer months, and we expect a weaker quarter because of this. (Computer & Electronic Products.)

A large military contract was awarded and the industry expects the work to hit within the next month. This added to the increase in the commercial side of military gear is going to drive up our production and in turn, our purchasing of raw materials. (Aerospace Products & Parts.)

Our company is just below the 50 employee threshold for Obamacare compliance and a number of other CA regulatory issues, and will not attempt to grow our business if it would require hiring more than one additional employee. (Electrical Equipment, Appliance & Components.)

Worried about the international longshore and warehouse union negotiations, bringing more material (inventory) from LCC suppliers. (Transportation Equipment.)

Pent up demand seems to be fueling this expected activity. (Furniture & Related 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 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 increase from 64.4 in the second quarter to 66.6 in the third quarter, indicating that production is expected to increase at a faster rate in the third quarter. This is the twenty second consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food; Leather & Allied Products; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. The Textile Mill Products industry reported an expected decrease in production

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2014	41.6	42.8	15.7	25.9	66.6
2 nd Quarter of 2014	50.6	34.7	14.7	35.9	64.4
1 st Quarter of 2014	46.2	36.5	17.3	28.9	60.5
4 th Quarter of 2013	40.5	39.1	20.4	20.1	64.4

Inventories of Purchased Materials: The seasonally unadjusted index for inventories of purchased materials is expected to decrease from 58.8 in the second quarter to 57.2 in the third quarter, indicating that inventories of purchased materials are expected to grow at a slightly lower rate in the third quarter compared to the second quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Food; Wood Products; Nonmetallic Mineral Products; Primary Metals; Electrical Equipment, Appliance & Components; Transportation Equipment; and Furniture & Related Products. No industry reported an expected decrease in inventories of purchased materials.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2014	33.3	47.8	18.8	14.5	57.2
2 nd Quarter of 2014	38.4	40.8	20.8	17.6	58.8
1 st Quarter of 2014	34.6	43.4	22.1	12.5	56.3
4 th Quarter of 2013	27.5	48.6	23.9	3.6	51.8

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 65.7 in the second quarter to 66.6 in the third quarter, indicating that commodity prices are expected to increase at a faster rate in the third quarter. Commodity prices are expected to increase most rapidly in the following industries: Food; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Transportation Equipment; and Furniture & Related Products. No industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2014	40.5	52.2	7.3	33.3	66.6
2 nd Quarter of 2014	36.6	58.2	5.2	31.4	65.7
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

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 50.5 in the second quarter to 48.9 in the third quarter, indicating that supplier deliveries are expected to be faster in the third quarter. Supplier deliveries are expected to be fastest in the following industries: Nonmetallic Mineral Products; Computer & Electronic Products; and Transportation Equipment. The Plastics & Rubber Products industry expected slower deliveries in the third quarter.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 rd Quarter of 2014	12.4	74.1	13.5	-1.1	48.9
2 nd Quarter of 2014	13.6	75.8	10.6	2.9	50.5
1 st Quarter of 2014	14.5	73.4	12.1	2.4	50.7
4 th Quarter of 2013	10.7	76.9	12.4	-1.7	51.2

New Orders: The seasonally adjusted index for new orders is expected to increase from 60.9 in the second quarter to 66.6 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: Food; Leather & Allied Products; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous; No industry reported an expected decrease in new orders

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2014	41.8	40.4	17.8	24.1	66.6
2 nd Quarter of 2014	48.2	32.5	19.3	28.9	60.9
1 st Quarter of 2014	44.7	31.6	23.7	21.0	55.8
4 th Quarter of 2013	39.1	32.3	28.7	10.4	59.4

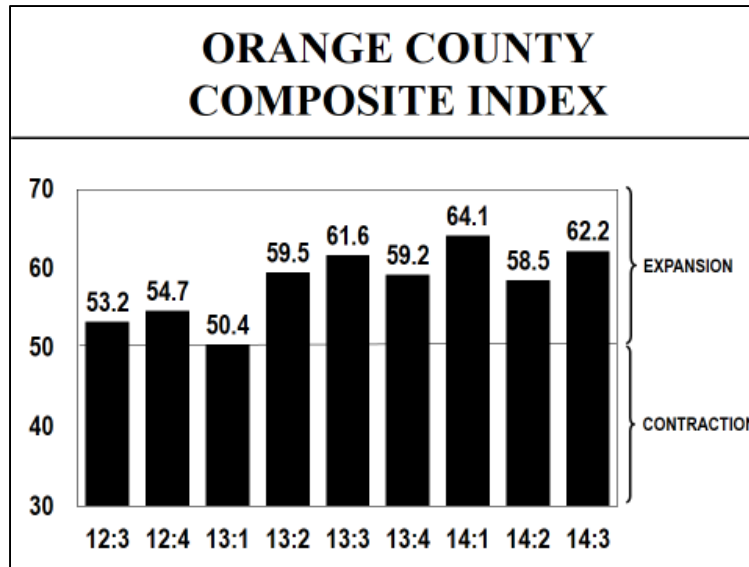
Employment The seasonally adjusted index for employment is expected to increase from 53.3 in the second quarter to 58.3 in the third quarter, indicating that employment in manufacturing is expected to improve in the third quarter. Employment is expected to increase most rapidly in the following industries: Food; Chemicals; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Transportation Equipment; and Furniture & Related Products. The Miscellaneous industry reported an expected decrease in employment.

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2014	28.1	57.3	14.6	13.5	58.3
2 nd Quarter of 2014	24.1	64.5	11.4	12.7	53.3
1 st Quarter of 2014	27.5	57.4	15.0	12.5	55.6
4 th Quarter of 2013	22.2	59.5	18.4	3.8	54.2

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 331,800 employees, amounting to 26.8% of total manufacturing employment in the state. The percent of purchasing managers in the Computer & Electronic Products industry reporting higher expected production decreased from 41.6% of respondents in the second quarter to 38.4% in the third quarter, indicating that production growth in the industry will slow down in the third quarter. On the other hand the percent of purchasing managers reporting higher expected employment increased from 13.5% of respondents in the second quarter to 25.3% in the third quarter, indicating that employment growth in the Computer & Electronic Products industry will be higher in the third quarter.

Orange County's Manufacturing Survey

Reversing the downward movement of last quarter, the Composite Index for Orange County increased from 58.5 in the second quarter to 62.2 in the third quarter, indicating that the county manufacturing economy is expected to grow at a faster rate in the third quarter of this year. With a California Composite index reading of 61.3, the Orange County manufacturing economy is expected to grow at the slightly higher rate of growth compared to California's.



The seasonally adjusted index for production increased from 62.1 in the second quarter to 66.9 in the third quarter, indicating that production is expected to grow at a faster rate in the third quarter compared to the second quarter. This is the twenty second consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders increased from 62.7 in the second quarter to 65.5 in the third quarter indicating that new orders are expected to grow at a faster rate in the third quarter compared to the second quarter. Similarly, the employment index also increased from 55.1 to 60.2, indicating much improved employment conditions in the third quarter.

The index for the **non-durable goods industries** increased from 62.9 in the second quarter to 64.9 in the third quarter indicating that growth in these industries will be higher in the third quarter. Similarly, the index for the **durable goods industries** increased from 56.8 to 61.3 indicating that the durable goods industries are expected to continue to grow in the third quarter. Employment in both industry groups is expected to be better in the third 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	▸ 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
DECEMBER	▸ Economic Forecast Conference for the U.S., California and Orange County ▸ California Consumer Sentiment Survey