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Manufacturing Growth is Ticking Down

Anderson Center for Economic Research

Chapman University

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Press Release

A. Gary Anderson Center for Economic Research

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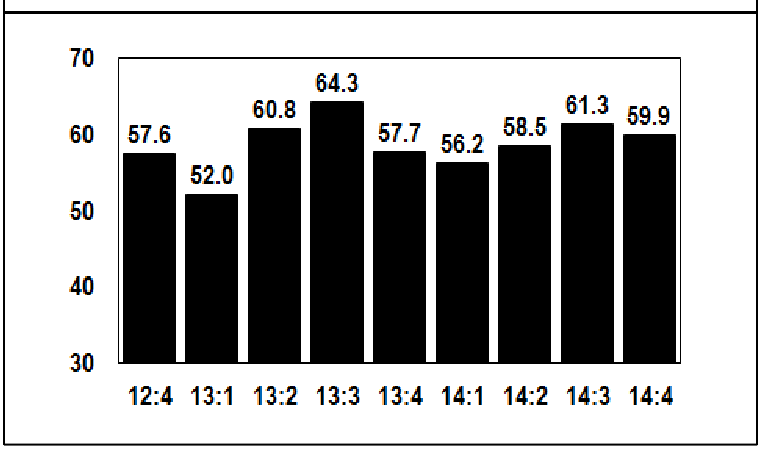
MANUFACTURING GROWTH IS TICKING DOWN

ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to grow at a slightly slower rate in the fourth quarter compared to the third quarter of 2014. The Composite Index, measuring overall manufacturing activity, decreased from 61.3 in the third quarter to 59.9 in the fourth quarter, indicating growth, albeit at a lower rate. Production and new orders are expected to grow at a slower pace compared to the third quarter. On the other hand, the purchasing managers are expecting employment to continue to improve in the fourth quarter as the index reached a higher level than the third quarter reading.

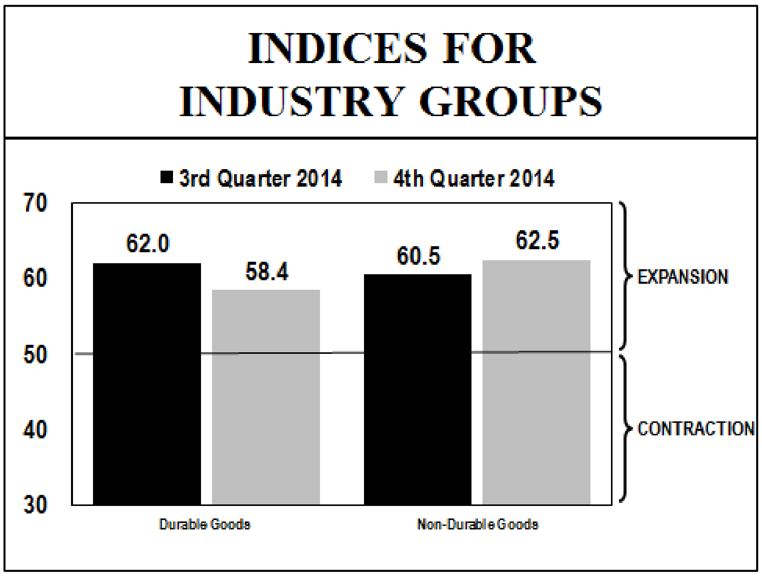
COMPOSITE INDEX



Performance by Industry Group

The index for the **non-durable goods industries** registered 62.5 in the fourth quarter compared to 60.5 in the third quarter, indicating a higher growth rate for this industry group. Production is expected to grow at a higher rate compared to the third quarter. Employment is also expected to improve as the index reaches the highest level since the third quarter of 2004.

The index for the **durable goods industries** registered 58.4 in the fourth quarter compared to a reading of 62.0 in the third quarter, indicating a lower growth rate. Production, new orders, commodity prices and employment are all expected to grow at a lower rate compared to the third quarter.



Comments by Purchasing Managers

The poultry sector is booming and prices should weaken into this quarter as the corn and soy crops are harvested at record levels. This should decrease the cost of feed for the protein sectors as a whole. However the beef heard is still at a record low and will not see any easing until at least 2017. The pork sector is recovering from the PEDv problem and prices should continue to decrease to normal levels. (Food)

In San Diego they are raising the minimum wage, although incremental this will have a domino effect. I only have two or three new employees at minimum but if they receive a raise all employee's expect a "raise" I currently offer healthcare insurance and retirement our healthcare went up 30% so more than likely I will have to just raise pay and drop benefits- I am assuming this is what they wanted anyway. It is getting almost impossible to have any manufacturing in CA- We will more than likely sell our business in the next 5 years... I suppose it would be advantageous to move it to Texas. (Textile Mill Products.)

We are currently planning for October/November production and it is significantly higher than what it has been this quarter. We are also hiring production floor employees. Following trends over the past few years, we will likely maintain this higher production level through the first quarter of 2015. (Apparel.)

We are certainly seeing an increase in quotations and an increase in orders over last year. Another good indicator for our market is when we begin to see Architects get busy. They are the canary in the mine for helping us prepare for the following year or two. Thankfully the architects we have worked with are all becoming busy! At last!!! (Wood Products.)

Some of this is seasonal slowdown. Also represents some business lost due to competition and increasing raw material costs. (Paper.)

Peak printing needs will push the 4th quarter higher - due to election printed materials needed in October. (Printing & Related Support Activities.)

Margins smaller due to higher fees from Los Angeles City government agencies. (Chemicals.)

Supply of commodity plastic resin is extremely tight. (Plastics & Rubber Products.)

Business booming this quarter. On both the custom and tract side. Waiting to see if it will stay in forward motion. (Nonmetallic Mineral Products.)

We currently have a solid backlog of work that will take us into the and thru the 4th Quarter. We will need additional workers but qualified welders and fitters are at a premium and are commanding higher wages than before. (Primary Metals.)

Business conditions are improving overall. Also generally means that expansion is impacted by a lack of qualified and available labor. (Fabricated Metal Products.)

Though this might be related to CA only. Workers comp this year has increased again though my "Experience mods " have decreased. This increase brings an increase of over 100% in the last 5 years. Medical insurance is up, Liability insurance based on decreased sales are up. My extremely negative view is based on the above increased costs. It might be hitting my industry now. Eventually, I will not be only company dealing with these issues. (Computer and Electronic Products.)

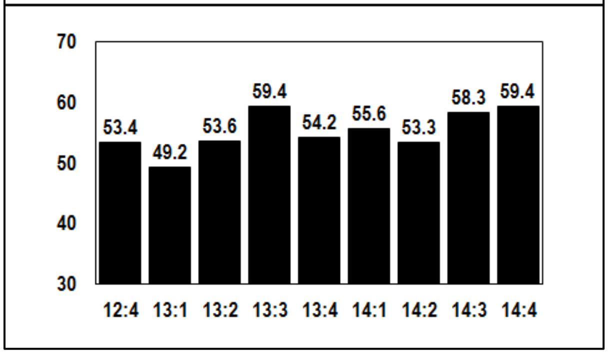
We have started a second shift for our production. (Electronic Equipment, Appliance & Components.)

Steel Industry is extremely volatile. Too many worldwide issues occurring resulting in negative economic stability. I thought 2015 could be a year to be counted on for a national upward trend. However; 2014 has not provided any significant window of visibility. Stand at the ready! (Transportation Equipment.)

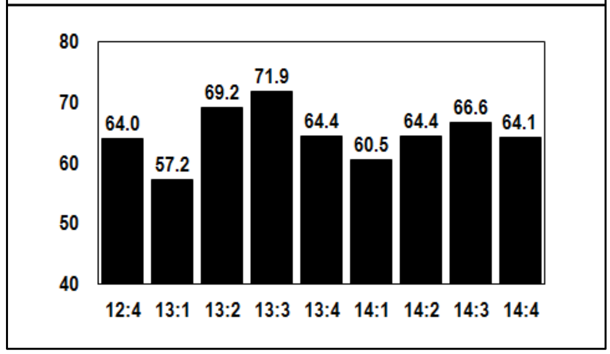
Our overall feedback from our customers is very good with increases coming in for almost all customer types (Aero, Medical, Commercial). (Aerospace Products & Parts.)

Hard work and high quality pay off in the long-run. Sales are expected to increase because 1. Quality is “unacceptable” from overseas, 2. Willingness of clients to pay more for U.S. production. (Furniture.)

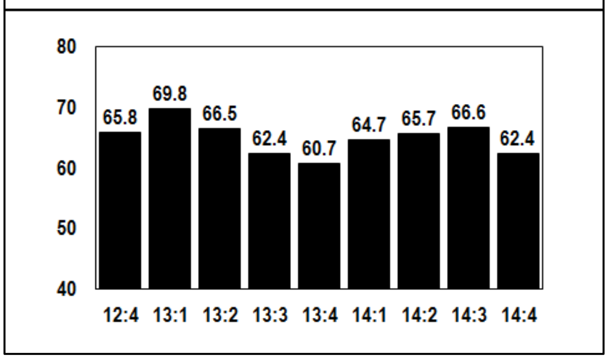
EMPLOYMENT INDEX



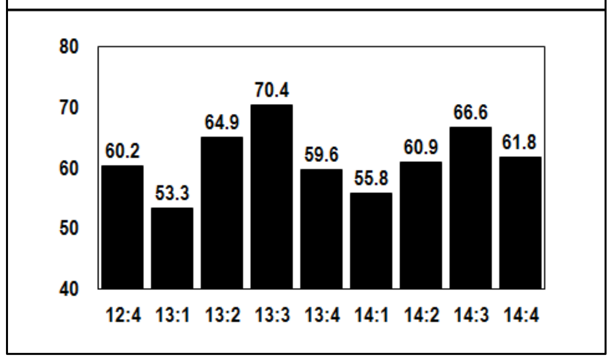
PRODUCTION INDEX



COMMODITY PRICE INDEX



NEW ORDERS INDEX



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 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 66.6 in the third quarter to 64.1 in the fourth quarter, indicating that production is expected to increase at a slower rate in the fourth quarter. This is the twenty third consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food; Apparel; Leather & Allied Products; Paper; Chemicals; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Transportation Equipment; Furniture & Related Products; and Miscellaneous. No industry reported an expected decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4th Quarter of 2014	38.7	42.3	19.1	19.6	64.1
3rd Quarter of 2014	41.6	42.8	15.7	25.9	66.6
2nd Quarter of 2014	50.6	34.7	14.7	35.9	64.4
1st Quarter of 2014	46.2	36.5	17.3	28.9	60.5

Inventories of Purchased Materials: The seasonally unadjusted index for inventories of purchased materials is expected to decrease from 57.2 in the third quarter to 51.6 in the fourth quarter, indicating that manufacturers are expected to be holding less inventories in the fourth quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Food; Apparel; Leather & Allied Products; Wood Products; Primary Metals; and Transportation Equipment. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Chemicals; Plastics & Rubber Products; Wood Products; Computer & Electronic Products; and Electrical Equipment, Appliance & Components.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Index
4th Quarter of 2014	29.9	43.5	26.6	3.3	51.6
3rd Quarter of 2014	33.3	47.8	18.8	14.5	57.2
2nd Quarter of 2014	38.4	40.8	20.8	17.6	58.8
1st Quarter of 2014	34.6	43.4	22.1	12.5	56.3

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to decrease from 66.6 in the third quarter to 62.4 in the fourth quarter, indicating that commodity prices are expected to increase at a slower rate in the fourth quarter of this year. Commodity prices are expected to increase most rapidly in the following industries: Food; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Transportation Equipment; Furniture & Related Products; and Miscellaneous. No industry reported an expected decrease in commodity prices

Commodity Prices	% Higher	% Same	% Lower	Net	Index
4th Quarter of 2014	33.1	58.5	8.4	24.7	62.4
3rd Quarter of 2014	40.5	52.2	7.3	33.3	66.6
2nd Quarter of 2014	36.6	58.2	5.2	31.4	65.7
1st Quarter of 2014	35.3	58.8	6.0	29.3	64.7

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 increase from 48.9 in the third quarter to 55.4 in the fourth quarter, indicating that supplier deliveries are expected to be slower in the fourth quarter. Supplier deliveries are expected to be slowest in the following industries: Textile Mill Products; Apparel; Leather &Allied Products; Paper; Plastics & Rubber Products; Fabricated Metal Products; and Furniture & Related Products. The Nonmetallic Mineral Products industry reported an expectation of faster supplier deliveries.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
4th Quarter of 2014	17.6	71.4	11.1	6.5	55.4
3rd Quarter of 2014	12.4	74.1	13.5	-1.1	48.9
2nd Quarter of 2014	13.6	75.8	10.6	2.9	50.5
1st Quarter of 2014	14.5	73.4	12.1	2.4	50.7

New Orders: The seasonally adjusted index for new orders is expected to decrease from 66.6 in the third quarter to 61.8 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: Food; Textile Mill Products; Apparel; Leather & Allied Products; Paper; Printing & Related Support Activities; Fabricated Metal Products; Machinery; Computer & Electronic Products; and Miscellaneous. The Wood Products industry reported an expected decrease in new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4th Quarter of 2014	41.0	32.6	26.4	14.5	61.8
3rd Quarter of 2014	41.8	40.4	17.8	24.1	66.6
2nd Quarter of 2014	48.2	32.5	19.3	28.9	60.9
1st Quarter of 2014	44.7	31.6	23.7	21.0	55.8

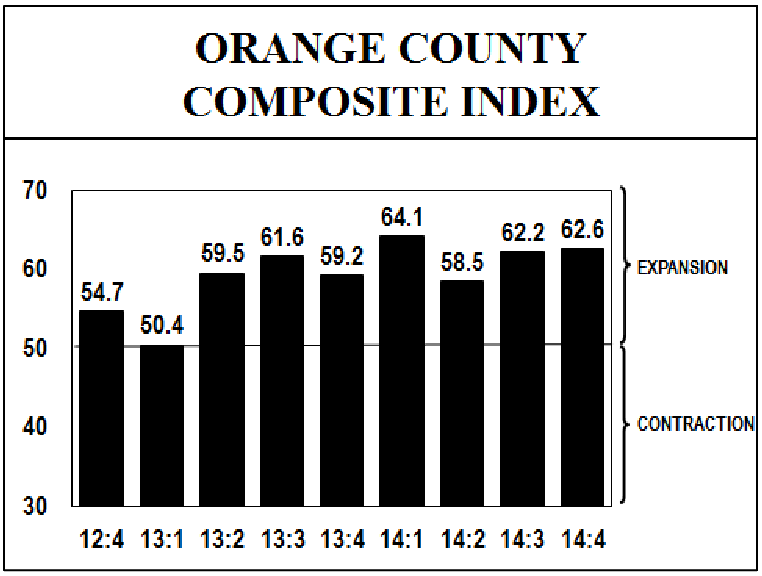
Employment The seasonally adjusted index for employment is expected to increase from 58.3 in the third quarter to 59.4 in the fourth quarter, indicating that employment in manufacturing is expected to improve further in the fourth quarter. Employment is expected to increase most rapidly in the following industries: Food; Apparel; Paper; Printing & Related Support Activities; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Transportation Equipment; and Furniture & Related Products. Employment is expected to decrease most rapidly in the following industries: Wood Products; and Electrical Equipment, Appliance & Components.

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4th Quarter of 2014	27.1	59.4	13.4	13.7	59.4
3rd Quarter of 2014	28.1	57.3	14.6	13.5	58.3
2nd Quarter of 2014	24.1	64.5	11.4	12.7	53.3
1st Quarter of 2014	27.5	57.4	15.0	12.5	55.6

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 333,100 employees, amounting to 26.6% of total manufacturing employment in the state. The percent of purchasing managers in the Computer & Electronic Products industry reporting higher expected production decreased from 38.4% of respondents in the third quarter to 26.7% in the fourth quarter, indicating that production growth in the industry will slow down in the fourth quarter. Similarly the percent of purchasing managers reporting higher expected employment decreased from 25.3% of respondents in the third quarter to 19.4% in the fourth quarter, indicating that employment growth in the Computer & Electronic Products industry will be slower in the fourth quarter.

Orange County's
Manufacturing Survey

The manufacturing sector's Composite Index for Orange County increased from 62.2 in the third quarter to 62.6 in the fourth quarter, indicating that the county's manufacturing economy is expected to grow at a minimally faster rate in the fourth quarter of this year. With a California Composite index reading of 59.9, the Orange County manufacturing economy is expected to grow at a higher rate of growth compared to California's.



The seasonally adjusted index for production increased from 66.9 in the third quarter to 68.8 in the fourth quarter, indicating that production is expected to grow at a faster rate in the fourth quarter compared to the third quarter. This is the twenty third consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders decreased from 65.5 in the third quarter to 64.8 in the fourth quarter indicating that new orders are expected to grow at a slower rate in the fourth quarter compared to the third quarter. Unlike California, the employment index decreased from 60.2 to 57.2, indicating slower growth in the fourth quarter.

The index for the **non-durable goods industries** decreased marginally from 64.9 in the third quarter to 64.7 in the fourth quarter indicating that growth in these industries is expected to be practically the same in the fourth quarter as it was in the third quarter. The index for the **durable goods industries** increased from 61.3 to 61.8 indicating that the durable goods industries are expected to grow slightly faster in the fourth quarter. Employment in the non-durable goods industries is expected to improve, while that in the durable goods industries is expected to take a step back.

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