

1-13-2015

## Another Downtick for the Manufacturing Sector

Anderson Center for Economic Research

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### Recommended Citation

Anderson Center for Economic Research, "Another Downtick for the Manufacturing Sector" (2015).  
*Anderson Center Press Releases*. 52.  
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**A. Gary Anderson Center for Economic Research**

**For Release:**

January 13, 2015

**Contact:**

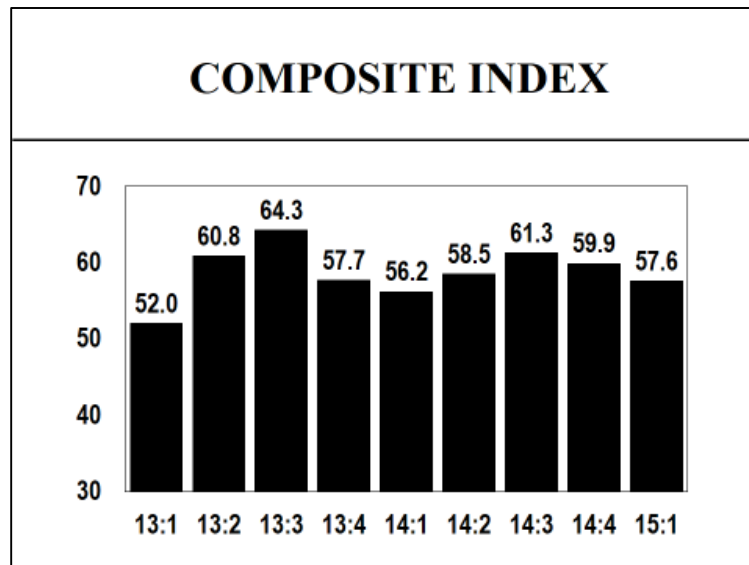
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## **ANOTHER DOWNTICK FOR THE MANUFACTURING SECTOR**

ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to grow at a slower pace in the first quarter of 2015 compared to the fourth quarter of 2014. The Composite Index, measuring overall manufacturing activity, decreased from 59.9 in the fourth quarter of 2014 to 57.6 in the first quarter of 2015, indicating growth, albeit at a lower rate. Production, new orders and employment are expected to grow at a slower pace compared to the last quarter. Even commodity prices are expected to rise at a significantly lower rate compared to the last quarter of 2014.



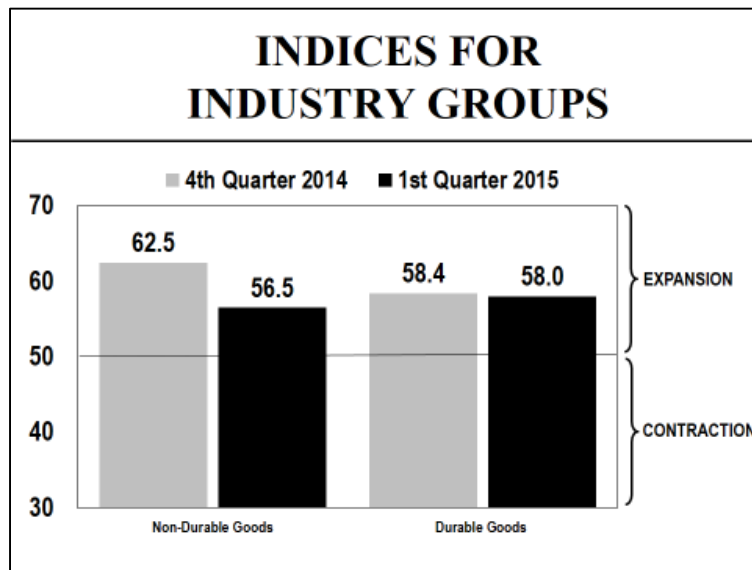
### California Manufacturing at a Glance

Composite Index	57.6	Growing at a lower rate
Production	62.5	Growing at a lower rate
Inventories of purchased materials	57.6	Growing at a higher rate
Commodity prices	57.5	Growing at a lower rate
Supplier deliveries	49.9	Virtually unchanged
New orders	56.8	Growing at a lower rate
Employment	58.1	Growing at a lower rate

### Performance by Industry Group

The index for the **non-durable goods industries** registered 56.5 in the first quarter of 2015 compared to 62.5 in the fourth quarter of 2014, indicating a lower growth rate. The current index level is the lowest since the first quarter of 2013. Production, new orders and employment are all expected to grow at a lower rate compared to the fourth quarter.

The index for the **durable goods industries** registered 58.0 in the first quarter of 2015 virtually unchanged from a reading of 58.4 in the fourth quarter of 2014. Production, new orders, and commodity prices are expected to grow at a lower rate compared to the fourth quarter. On the other hand, employment is expected to grow at a higher rate.



### Comments by Purchasing Managers

The West Coast ports are slowing down receiving our goods from overseas. (Food)

Costs continue to rise. Raw materials, ingredients, labor, insurance increases make profit margins difficult to attain. (Beverage & Tobacco)

We supply product to Department of Defense and their orders have been slower than usual. (Textile Mill Products)

I think next quarter economy and business will be better since the prices of commodities are lower, jobs are more plentiful and people are less cautious on spending and more relaxed. (Apparel)

Improving housing market is bolstering sales. (Wood Products)

Currently our biggest struggle is the Port of Los Angeles and not being able to pick-up containers in a timely manner. The work slowdown by the port is hurting business and creating a tremendous amount of lost sales. (Paper)

Continue to see an increase in roll stock inventory pricing for coated paper and do not see prices coming down for any petroleum based products or chemical as related to the printing industry. (Printing & Related Support Activities)

Price of crude oil will drive down petroleum based products slightly into the first two quarters of 2015. (Plastics & Rubber Products)

The impact that the CA. Cap & Trade fee on fuel that begins on 1 January 2015 is a major concern. It does not allow you to plan or budget for it as it is a moving target on a daily bases. That plus the current movement of the price of oil leads to indecision on risk management and future short-term investments / capital projects. (Nonmetallic Mineral Products)

We are a contractor for new construction and feel that the next 3 years will be strong growth. (Primary Metals)

In 2014 we increased international business and exported a great deal to Canada, Mexico, Ecuador, and Peru. We look to see increased export business with these same countries in 2015. New plants, such as KIA motors that is opening in Monterrey, Mexico, in 2015 will help with this increase. (Fabricated Metal Products)

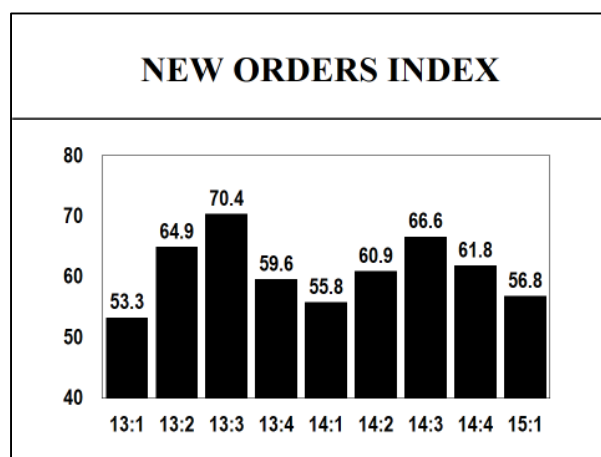
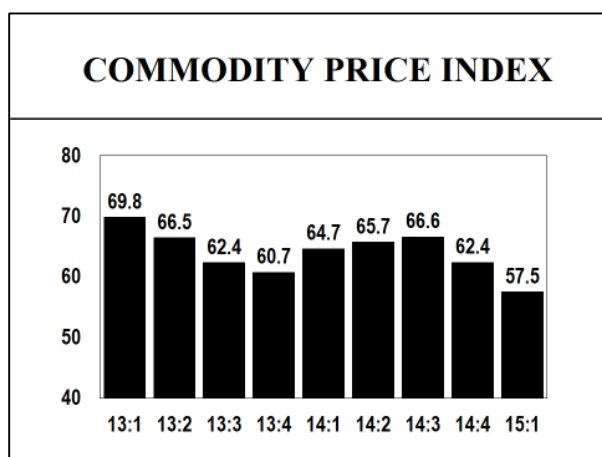
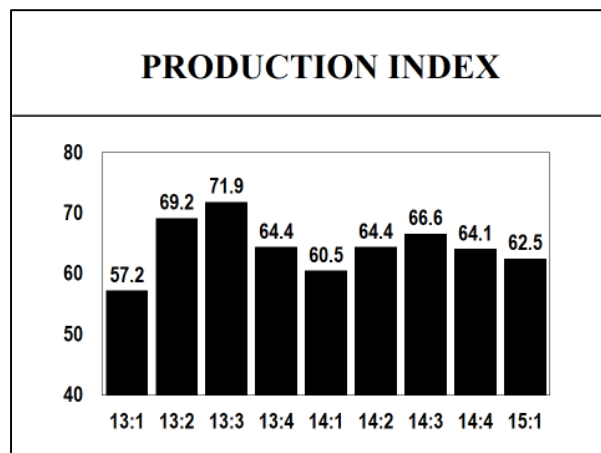
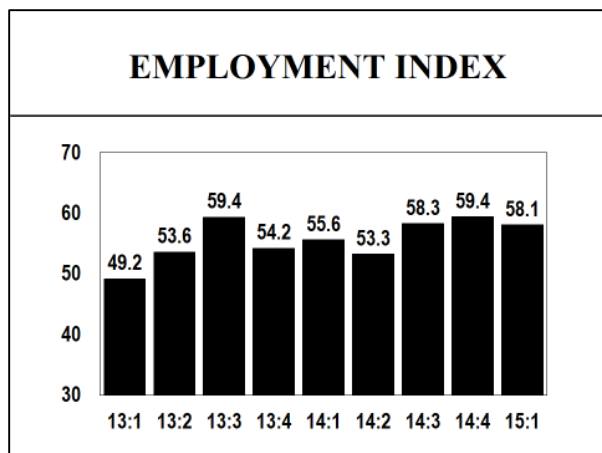
Housing segment still weak in the recovery area resulting in manufacturers supplying this segment still not investing in capital equipment. This keeps our recovery at bay! (Machinery)

Strong bookings this quarter will continue into next quarter. Production levels are increasing steadily, but hiring lags severely which will cause engineering and production issues in the longer term. In the short- term profits are strong. (Computer and Electronic Products)

Although rain-fall has been significant lately, the drought affecting the San Joaquin valley will cause our production levels to decrease in 2015 based on customer concern. (Transportation Equipment)

Secondary metal processing suppliers are struggling to maintain lead times, which are causing delays to OEM's. (Aerospace Products & Parts)

Same time last year we had a strong 3-month backlog of orders, this year, we have less than one-month. It is like no one came back from the Thanksgiving holiday. (Furniture)



## 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 2015**

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 64.1 in the fourth quarter of 2014 to 62.5 in the first quarter of 2015, indicating that production is expected to increase at a lower rate in the first quarter. Although some industries expect no growth in the first quarter, no industry reported an expected decrease in production.

<b>Production</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
1 <sup>st</sup> Quarter of 2015	45.8	41.7	12.5	33.4	62.5
4 <sup>th</sup> Quarter of 2014	38.7	42.3	19.1	19.6	64.1
3 <sup>rd</sup> Quarter of 2014	41.6	42.8	15.7	25.9	66.6
2 <sup>nd</sup> Quarter of 2014	50.6	34.7	14.7	35.9	64.4

**Inventories of Purchased Materials:** The seasonally unadjusted index for inventories of purchased materials is expected to increase from 51.6 in the fourth quarter of 2014 to 57.6 in the first quarter of 2015, indicating that manufacturers are expecting a higher rate of inventory holding in the first quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Chemicals; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Furniture & Related Products; and Miscellaneous. The Food industry reported an expected decrease in inventories of purchased materials.

<b>Inventories of Purchased Materials</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
1 <sup>st</sup> Quarter of 2015	35.3	44.7	20.0	15.3	57.6
4 <sup>th</sup> Quarter of 2014	29.9	43.5	26.6	3.3	51.6
3 <sup>rd</sup> Quarter of 2014	33.3	47.8	18.8	14.5	57.2
2 <sup>nd</sup> Quarter of 2014	38.4	40.8	20.8	17.6	58.8

**Commodity Prices:** The seasonally unadjusted index for commodity prices is expected to decrease from 62.4 in the fourth quarter of 2014 to 57.5 in the first quarter of 2015, indicating that commodity prices are expected to increase at a lower rate in the first quarter. 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; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. The Textile Mill Products industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
1 <sup>st</sup> Quarter of 2015	28.6	57.6	13.7	14.9	57.5
4 <sup>th</sup> Quarter of 2014	33.1	58.5	8.4	24.7	62.4
3 <sup>rd</sup> Quarter of 2014	40.5	52.2	7.3	33.3	66.6
2 <sup>nd</sup> Quarter of 2014	36.6	58.2	5.2	31.4	65.7

**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 55.4 in the fourth quarter of 2014 to 49.9 in the first quarter of 2015, indicating that supplier deliveries are expected to run at the same speed as the end of last year. Supplier deliveries are expected to be slowest in the following industries: Apparel; and Plastics & Rubber Products. Supplier deliveries are expected to be fastest in the following industries: Fabricated Metal Products; Machinery; and Furniture.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
1 <sup>st</sup> Quarter of 2015	15.9	69.0	15.1	0.8	49.9
4 <sup>th</sup> Quarter of 2014	17.6	71.4	11.1	6.5	55.4
3 <sup>rd</sup> Quarter of 2014	12.4	74.1	13.5	-1.1	48.9
2 <sup>nd</sup> Quarter of 2014	13.6	75.8	10.6	2.9	50.5

**New Orders:** The seasonally adjusted index for new orders is expected to decrease from 61.8 in the fourth quarter of 2014 to 56.8 in the first quarter of 2015, indicating that new orders are expected to increase at a slower pace in the first quarter. New orders are expected to increase most rapidly in the following industries: Apparel; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Transportation Equipment; Furniture & Related Products; and Miscellaneous. The Food industry reported an expected decrease in new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 <sup>st</sup> Quarter of 2015	44.7	33.8	21.5	23.2	56.8
4 <sup>th</sup> Quarter of 2014	41.0	32.6	26.4	14.5	61.8
3 <sup>rd</sup> Quarter of 2014	41.8	40.4	17.8	24.1	66.6
2 <sup>nd</sup> Quarter of 2014	48.2	32.5	19.3	28.9	60.9

**Employment:** The seasonally adjusted index for employment is expected to decrease from 59.4 in the fourth quarter of 2014 to 58.1 in the first quarter of 2015, indicating that employment in manufacturing is expected to grow at a lower rate in the first quarter. Employment is expected to increase most rapidly in the following industries: Textile Mill Products; 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. Employment is expected to decrease most rapidly in the following industries: Food; and Paper.

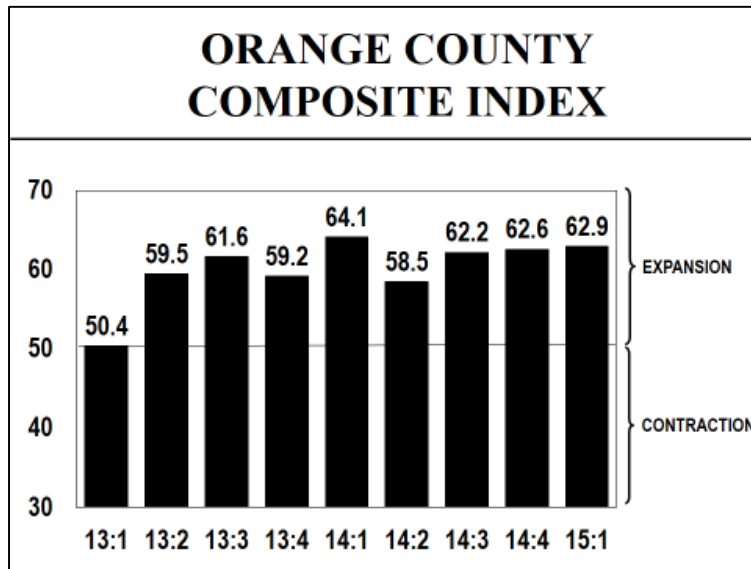
<b>Employment</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
1 <sup>st</sup> Quarter of 2015	26.6	64.3	9.0	17.6	58.1
4 <sup>th</sup> Quarter of 2014	27.1	59.4	13.4	13.7	59.4
3 <sup>rd</sup> Quarter of 2014	28.1	57.3	14.6	13.5	58.3
2 <sup>nd</sup> Quarter of 2014	24.1	64.5	11.4	12.7	53.3

**High-Tech Industries:** The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 333,800 employees, amounting to 26.7% of total manufacturing employment in the state. The percent of purchasing managers in the Computer & Electronic Products industry reporting higher expected production increased from 26.7% of respondents in the fourth quarter of 2014 to 43.4% in the fourth quarter of 2015, indicating that production growth in the industry will increase in the first quarter. Similarly the percent of purchasing managers reporting higher expected employment increased from 19.4% of respondents in the fourth quarter of 2014 to 23.7% in the first quarter of 2015, indicating that employment growth in the Computer & Electronic Products industry will increase in the first quarter.



## Orange County's Manufacturing Survey

The manufacturing sector's Composite Index for Orange County increased marginally from 62.6 in the fourth quarter of 2014 to 62.9 in the first quarter of 2015, indicating that the county's manufacturing economy is expected to grow at a minimally faster rate in the first quarter of 2015. With a California Composite index reading of 57.6, 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 decreased from 68.8 in the fourth quarter of 2014 to 65.1 in the first quarter of 2015, indicating that production is expected to grow at a lower rate in the first quarter. This is the twenty fourth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders decreased from 64.8 in the fourth quarter of 2014 to 64.3 in the first quarter of 2015 indicating that new orders are expected to grow at a lower rate in the first quarter. Unlike California, the employment index increased from 57.2 to 61.5, indicating higher employment growth in the first quarter.

The index for the **non-durable goods industries** increased marginally from 64.7 in the fourth quarter of 2014 to 65.0 in the first quarter of 2015 indicating that growth in these industries is expected to remain practically unchanged. The index for the **durable goods industries** decreased from 61.8 to 61.3 indicating that the durable goods industries are expected to grow at a lower rate in the first quarter. Growth in employment in the non-durable goods industries is expected to be lower in the first quarter, while that in the durable goods industries is expected to be higher.

## 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