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Uptick in the Manufacturing Sector

Anderson Center for Economic Research

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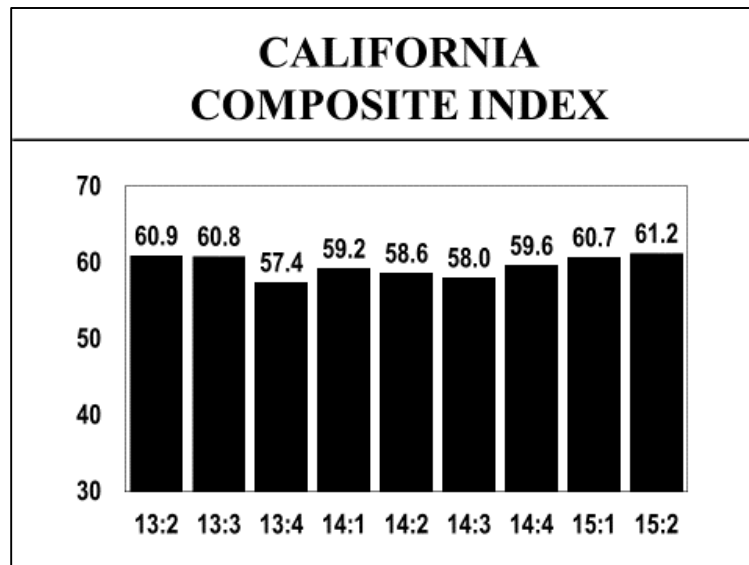
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UPTICK IN THE MANUFACTURING SECTOR

ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to grow at a slightly faster pace in the second quarter of 2015 compared to the first quarter. The California Composite Index, measuring overall manufacturing activity, increased from 60.7 in the first quarter of 2015 to 61.2 in the second quarter, indicating a higher growth rate. Production and employment are expected to grow at a slower pace compared to the first quarter, but new orders and prices are expected to increase at a slightly faster pace.



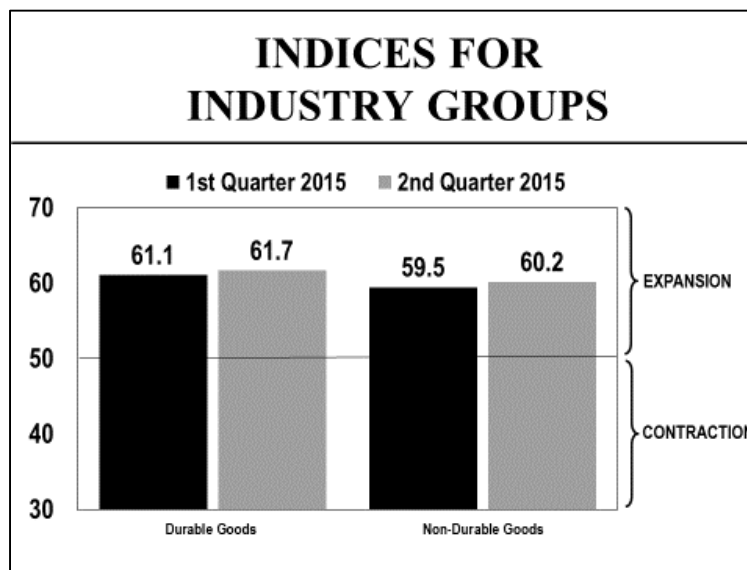
California Manufacturing at a Glance

Composite Index	61.2	Growing at a higher rate
Production	66.8	Growing at a lower rate
Inventories of purchased materials	57.0	Growing at a lower rate
Commodity prices	58.2	Growing at a higher rate
Supplier deliveries	49.3	Faster
New orders	64.7	Growing at a higher rate
Employment	58.6	Growing at a lower rate

Performance by Industry Group

The index for the **non-durable goods industries** registered 60.2 in the second quarter compared to 59.5 in the first quarter, indicating a higher growth rate. Production is expected to grow at a lower rate compared to the first quarter, while new orders and employment are expected to grow at a higher rate.

The index for the **durable goods industries** registered 61.7 in the second quarter compared to 61.1 in the first quarter, indicating a higher growth rate. Production and new orders are expected to grow at a higher rate compared to the first quarter, while employment is expected to grow at a lower rate.



Comments by Purchasing Managers

West Coast port closures were more disruptive than anticipated. We are still feeling the effects and out of stocks. (Food.)

Residential construction rebound is fueling sales. (Wood Products.)

To repeat my previous comments: the success of the plastic processing/manufacturing industry in North America depends on how the raw material cartel operates. For the moment polyethylene prices here are close those in Asia, as they should be given that the feed stock (natural gas) prices are significantly lower here. As long as there is parity manufacturing here will prosper. If the resin manufacturers (a few global oil and chemical companies) decide to use their monopolistic powers to extract higher prices from US processors than they do from Asian, the industry here will return to the position it was for about 15 years before the last year or two when survival was the best that could be expected. (Paper.)

Costs are rising this quarter - looking at bulk purchases to offset or lower cost increases. - Developing new service sales opportunities to expand and continue to be a "one stop shop" for our clients. - Running leaner with regard to employees. Looking to incentivize and reward to maximize the highest output per employee. - Overall seeing a positive year but we do have to continue to obtain more sales and cut costs to capitalize on our goals. (Printing & Related Support Activities.)

Business good. Small incremental improvements in sales. (Chemicals.)

Supplier deliveries from overseas, hopefully will return back to normal, once the situation at the LA and Long Beach harbors is resolved. (Plastic & Rubber Products.)

With the cheaper fuel cost we will be able to move more product utilizing trucks vice rail in the next 2 qtrs. Rail prices have increased while over land freight has decreased. (Nonmetallic Mineral Products.)

We are in construction, and are optimistic about the next 3+ years. (Primary Metals.)

Incoming requests for quotations are increasing due to some competitors closing their shops. Stay lean and survive! (Fabricated Metal Products.)

The falling oil prices and uncertainty in the oil patch has killed our business. We haven't had a crane order from the energy sector for over 8 months. (Machinery.)

Demand for commercial product is flat to slowly declining, while demand for defense related products is steady. The strong dollar is significantly decreasing the imported cost for materials, but slowly eroding exports as customers request significant price concessions to compensate. In the long term, the strong dollar will hurt our export business as foreign competition becomes less costly in comparison. (Computer & Electronic Products.)

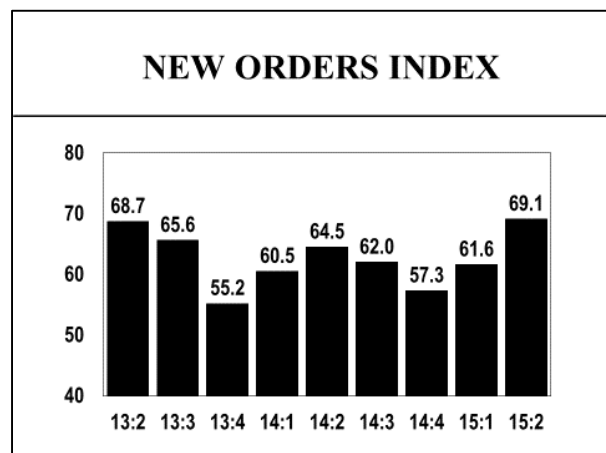
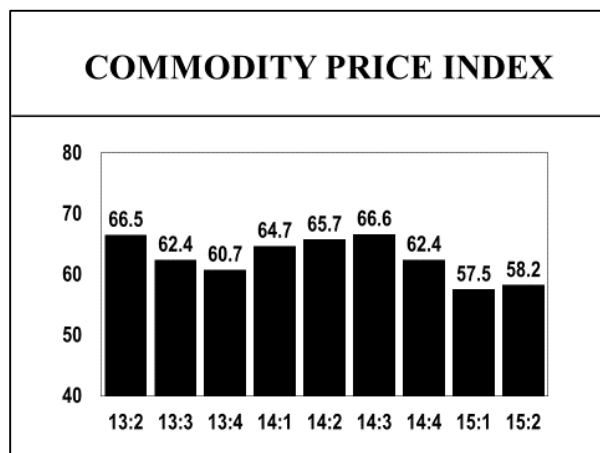
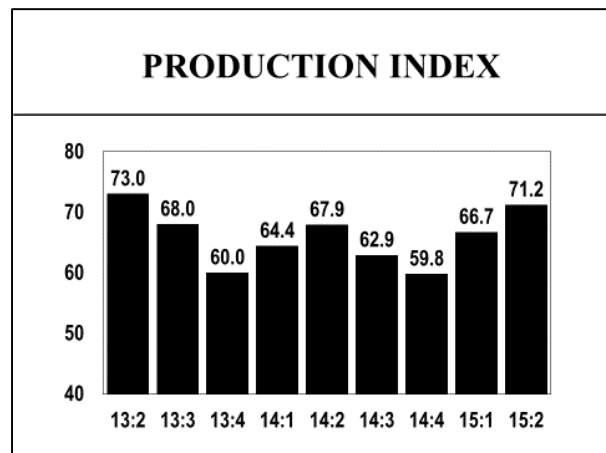
Production holds lifting; strong dollar means price increases and any attrition in employment not being backfilled. (Electrical Equipment, Appliance & Components.)

Working to move jobs to Mexico, better lead time, transportation time and same time zone. (Transportation Equipment.)

We see a lot of pent-up demand and strong quote activity but orders are still sitting on the sidelines without commitment. (Furniture & Related Products.)

Production of all new GE Engines is picking up. We are expecting a small gradual growth till late 2017. (Miscellaneous.)

We have had an increase in orders and the trend looks like it will continue at least for the following months. We have had to hire (and still need to hire) new people to increase or available production hours. (Aerospace Products & Parts.)



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 Second 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 67.4 in the first quarter to 66.8 in the second quarter, indicating that production is expected to increase at a lower rate in the second quarter. This is the twenty fourth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food; Apparel; 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; Miscellaneous. No industry reported an expected decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 nd Quarter of 2015	52.6	37.3	10.1	42.5	66.8
1 st Quarter of 2015	45.8	41.7	12.5	33.4	67.4
4 th Quarter of 2014	38.7	42.3	19.1	19.6	64.6
3 rd Quarter of 2014	41.6	42.8	15.7	25.9	61.5

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials is expected to decrease from 58.3 in the first quarter to 57.0 in the second quarter, indicating that inventories are expected to increase at a lower rate in the second quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Food; 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 inventories of purchased materials

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 nd Quarter of 2015	36.9	45.1	18.0	18.9	57.0
1 st Quarter of 2015	35.3	44.7	20.0	15.3	58.3
4 th Quarter of 2014	29.9	43.5	26.6	3.3	55.4
3 rd Quarter of 2014	33.3	47.8	18.8	14.5	55.1

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 57.5 in the first quarter to 58.2 in the second quarter, indicating that commodity prices are expected to increase at a faster rate in the second quarter. Commodity prices are expected to increase most rapidly in the following industries: Textile Mill Products; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; and Furniture & Related Products. The Food industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
2 nd Quarter of 2015	27.8	60.7	11.5	16.4	58.2
1 st Quarter of 2015	28.6	57.6	13.7	14.9	57.5
4 th Quarter of 2014	33.1	58.5	8.4	24.7	62.4
3 rd Quarter of 2014	40.5	52.2	7.3	33.3	66.6

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 50.9 in the first quarter to 49.3 in the second quarter, indicating that supplier deliveries are expected to be mildly faster in the second quarter. Supplier deliveries are expected to be slowest in the following industries: Food; and Plastics & Rubber Products. Supplier deliveries are expected to be fastest in the following industries: Food; Apparel; Wood Products; Computer & Electronic Products; and Transportation Equipment.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
2 nd Quarter of 2015	14.8	69.1	16.1	-1.3	49.3
1 st Quarter of 2015	15.9	69.0	15.1	0.8	50.9
4 th Quarter of 2014	17.6	71.4	11.1	6.5	52.5
3 rd Quarter of 2014	12.4	74.1	13.5	-1.1	49.8

New Orders: The seasonally adjusted index for new orders is expected to increase from 62.0 in the first quarter to 64.7 in the second quarter, indicating that new orders are expected to increase at a higher rate in the second quarter. New orders are expected to increase most rapidly in the following industries: Food; Textile Mill Products; 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
2 nd Quarter of 2015	49.3	39.7	11.0	38.3	64.7
1 st Quarter of 2015	44.7	33.8	21.5	23.2	62.0
4 th Quarter of 2014	41.0	32.6	26.4	14.5	61.5
3 rd Quarter of 2014	41.8	40.4	17.8	24.1	61.3

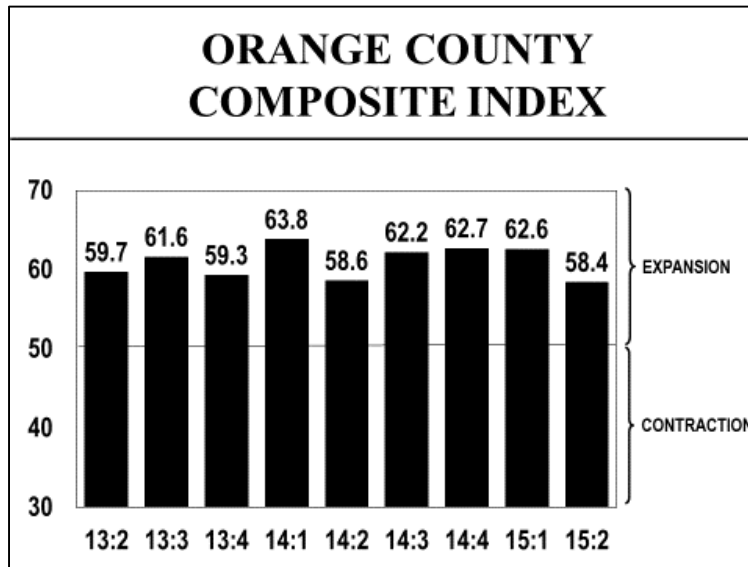
Employment: The seasonally adjusted index for employment is expected to decrease from 59.0 in the first quarter to 58.6 in the second quarter, indicating that employment in manufacturing is expected to grow but at a slightly lower rate compared to the first quarter. Employment is expected to increase most rapidly in the following industries: Textile Mill Products; Paper; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. No industry reported an expected decrease in employment

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 nd Quarter of 2015	30.2	60.2	9.6	20.6	58.6
1 st Quarter of 2015	26.6	64.3	9.0	17.6	59.0
4 th Quarter of 2014	27.1	59.4	13.4	13.7	59.8
3 rd Quarter of 2014	28.1	57.3	14.6	13.5	55.3

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 335,300 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 increased from 43.4% in the first quarter to 50.2% in the second quarter, indicating that the rate of growth in production in these industries will increase in the second quarter. Unfortunately the percent of purchasing managers reporting higher expected employment in these industries decreased from 23.7% in the first quarter to 17.7% in the second quarter, indicating that the rate of growth in employment in the Computer & Electronic Products industry is expected to decrease in the second quarter.

Orange County's Manufacturing Survey

The manufacturing sector's Orange County Composite Index decreased from 62.6 in the first quarter to 58.4 in the second quarter, indicating that the county's manufacturing economy is expected to grow at a lower rate in the second quarter. This is the first time since the second quarter of 2013 that the California Composite Index is above Orange County's.



The seasonally adjusted index for production decreased from 64.9 in the first quarter to 59.5 in the second quarter, indicating that production is expected to grow at a lower rate in the second 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 64.0 in the first quarter to 62.4 in the second quarter indicating that new orders are expected to grow at a lower rate in the second quarter. Similar to California, the employment index decreased from 61.2 to 57.8, indicating lower employment growth in the second quarter.

The index for the **non-durable goods industries** decreased from 64.7 in the first quarter to 63.7 in the second quarter indicating that growth in these industries is expected to be lower in the second quarter. The index for the **durable goods industries** decreased from 61.0 to 56.5 indicating that the durable goods industries are expected to grow at a lower rate in the second quarter. Growth in employment in the non-durable goods industries is expected to be higher in the second quarter, while that in the durable goods industries is expected to be lower.

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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JANUARY	▸ Economic Forecast Conferences for the Inland Empire ▸ California Purchasing Managers Survey
FEBRUARY	▸ California Leading Employment Indicator
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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
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DECEMBER	▸ Economic Forecast Conference for the U.S., California and Orange County ▸ California Consumer Sentiment Survey