

7-7-2015

Downtick in the Manufacturing Sector

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A. Gary Anderson Center for Economic Research

For Release:

July 7, 2015

Contact:

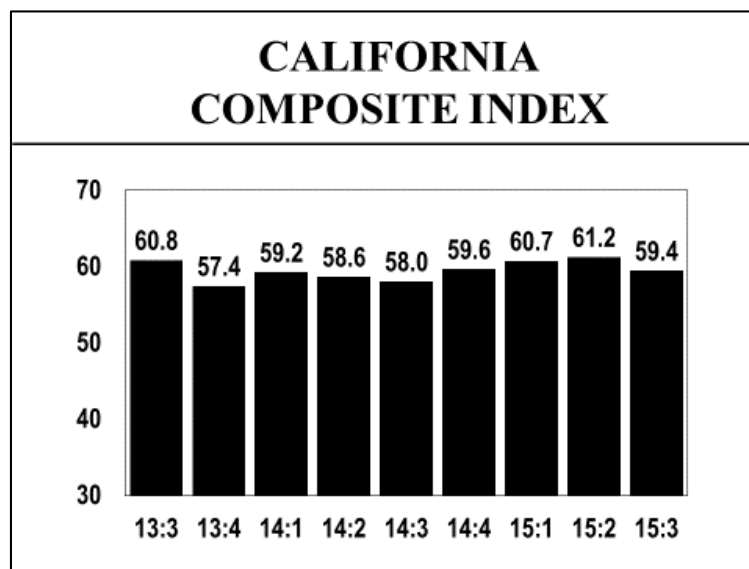
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DOWNTICK IN THE MANUFACTURING SECTOR

ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to grow at a slower pace in the third quarter of 2015 compared to the second quarter. The California Composite Index, measuring overall manufacturing activity, decreased from 61.2 in the second quarter to 59.4 in the third quarter, indicating a lower growth rate. Production, new orders and employment are expected to grow at a slower pace compared to the second quarter, but prices are expected to increase at a faster pace. The high value of the dollar is believed to play a major role in slowing down California's merchandise exports, thereby negatively affecting the manufacturing sector.



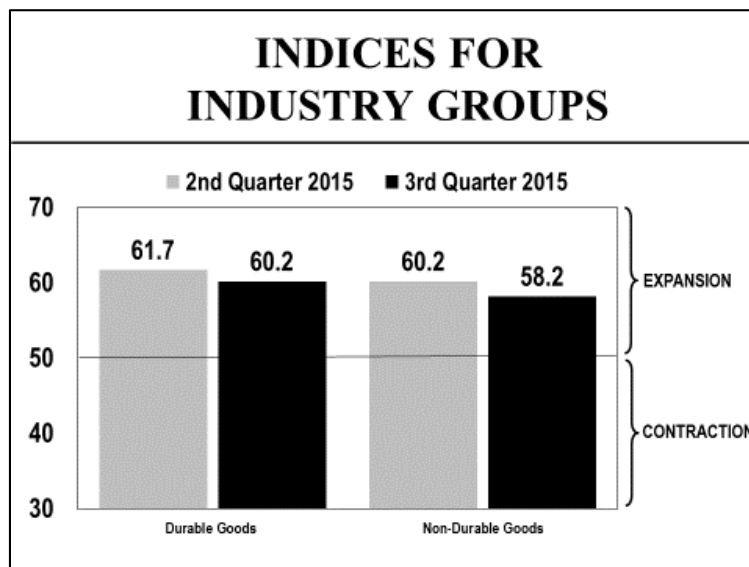
California Manufacturing at a Glance

Composite Index	59.4	Growing at a lower rate
Production	62.0	Growing at a lower rate
Inventories of purchased materials	57.1	Growing at the same rate
Commodity prices	58.2	Growing at a higher rate
Supplier deliveries	49.3	Slower
New orders	64.7	Growing at a lower rate
Employment	58.6	Growing at a lower rate

Performance by Industry Group

The index for the **non-durable goods industries** registered 59.4 in the third quarter compared to 61.2 in the second quarter, indicating a lower growth rate. Production and employment are expected to grow at a lower rate compared to the second quarter, while new orders are expected to grow at a higher rate.

The index for the **durable goods industries** registered 60.2 in the third quarter compared to 61.7 in the second quarter, indicating a lower growth rate. Production, new orders and employment are all expected to grow at a lower rate compared to the second quarter.



Comments by Purchasing Managers

Heading into our historically slowest quarter, commodity prices are reaching record levels due to avian influenza issues in Midwest and California. (Food.)

This quarter has been a little slow in booking orders, but little by little we're picking up. (Textile Mill Products.)

I am continuing to seek ways to automate and mechanize in an attempt to maintain or reduce my constantly increasing mandated labor costs! (Wood Products.)

For the printing industry, the number of paper mills making paper continues to be reduced due to consolidation through M&A, the end result will be fewer choices of web rolls as the mills discontinue product lines and also consolidate their offerings - possible price increases likely to raw materials in the 3rd or 4th quarter. (Printing & Related Support Activities.)

Continued to be constrained by plant capacity limitations at our California production plant. Expect to expand capacity during 2016. (Chemicals.)

This is the start of our busy season, so we will maximize production. This will lead to an increase in the purchase of raw materials that will last until the end of summer. (Plastics & Rubber Products.)

Outlook is very positive based on current activity in the housing market! (Nonmetallic Mineral Products.)

We are seeing an increase in domestic demand while our European demand will fall-off due to the annual August "holiday" that shuts down many of our customers. (Primary Metals.)

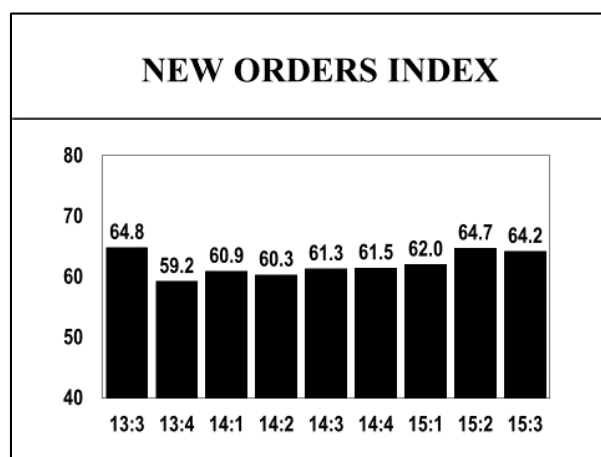
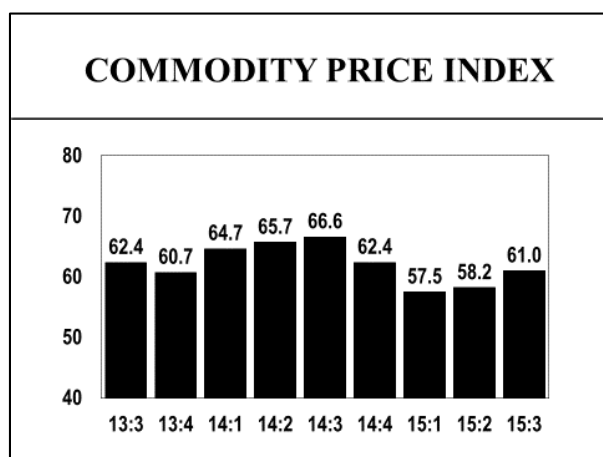
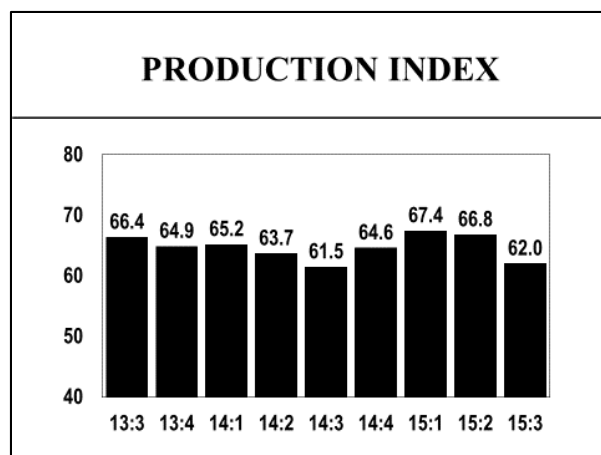
Major oil companies constitute the majority of our customer base. With oil prices being what they are, we are anticipating a bleak business outlook through the remainder of 2015. (Fabricated Metal Products.)

Water shortage having effects on sales of swimming pool equipment in California. (Machinery.)

Chinese anti-corruption efforts are affecting the supply chain, compounded by considerable inventories at all levels in the supply chain. Business forecast is declining to flat for the remainder of the year. Current material orders will cause a mid-term increase in raw material inventories. Recovery is expected in 1st quarter of 2016. (Computer & Electronic Products.)

We've seen some price increases from suppliers the past few quarters. We're not sure if that's going to continue. We're cautiously optimistic about sales. (Furniture & Related Products.)

Commercial/Civil aircraft production: Increased monthly build rates will increase over the next 5 years. Additional 150 employees will be hired this year to support this production ramp up. Suppliers are having difficulty supporting required materials within required timeframe. Additional orders for passenger jets at the Paris Airshow for Boeing /Airbus aircraft on the increase. Military Aircraft: Orders continue to be received for replacement of flight surfaces for legacy aircraft (F-15, F-16). Outlook looks strong through 4th Qtr. 2017. (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 Third 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 66.8 in the second quarter to 62.0 in the third quarter, indicating that production is expected to increase at a lower rate in the third quarter. This is the twenty fifth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food; Paper; Printing & Related Support Activities; Chemicals; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. The Apparel industry reported an expected decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2015	43.2	40.7	16.2	27.0	62.0
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

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials is expected to barely increase from 57.0 in the second quarter to 57.1 in the third quarter, indicating that inventories of purchased materials are expected to practically increase at the same rate in the third quarter as in 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; Fabricated Metal Products; Computer & Electronic Products; Transportation Equipment; Furniture & Related Products; and Miscellaneous. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Apparel; Paper; and Printing & Related Support Activities.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2015	34.7	49.3	16.0	18.7	57.1
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

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 58.2 in the second quarter to 61.0 in the third quarter, indicating that commodity prices are expected to rise at a higher rate in the third quarter. Commodity prices are expected to increase most rapidly in the following industries: Food; Textile Mill Products; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. The Fabricated Metal Products industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2015	29.6	62.8	7.6	22.0	61.0
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

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 49.3 in the second quarter to 52.3 in the third quarter, indicating that supplier deliveries are expected to be slower in the third quarter. Supplier deliveries are expected to be slowest in the following industries: Food; Paper; Chemicals; Plastics & Rubber Products; Transportation Equipment; and Miscellaneous. Supplier deliveries are expected to be fastest in the following industries: Apparel; Printing & Related Support Activities; Fabricated Metal Products; and Computer & Electronic Products.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 rd Quarter of 2015	15.8	72.3	11.9	4.0	52.3
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

New Orders: The seasonally adjusted index for new orders is expected to decrease from 64.7 in the second quarter to 64.2 in the third quarter, indicating that new orders are expected to increase at a lower rate in the third quarter. New orders are expected to increase most rapidly in the following industries: Food; Paper; Chemicals; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. New orders are expected to decrease most rapidly in the following industries: Printing & Related Support Activities; and Machinery.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2015	47.2	35.4	17.4	29.9	64.2
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

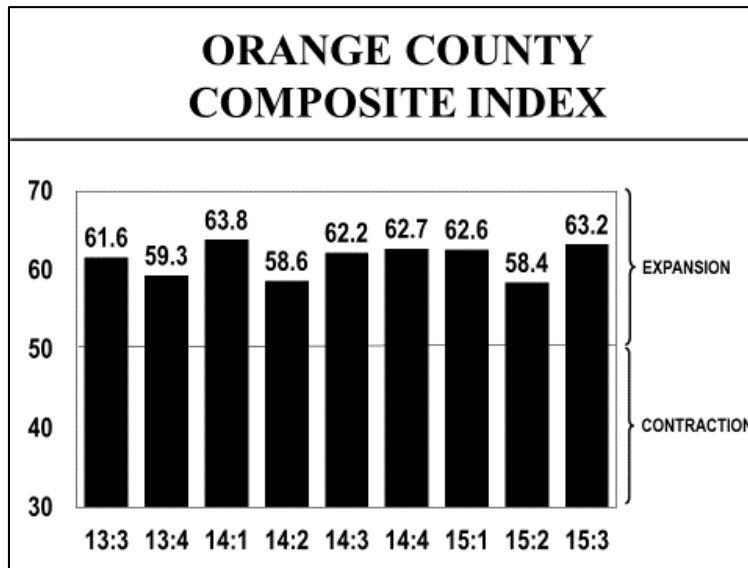
Employment: The seasonally adjusted index for employment is expected to decrease from 58.6 in the second quarter to 54.5 in the third quarter, indicating that employment in manufacturing is expected to increase at a lower rate in the third quarter. Employment is expected to increase most rapidly in the following industries: Food; Petroleum & Coal Products; Wood Products; Nonmetallic Mineral Products; Fabricated Metal Products; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. The Machinery industry reported an expected decrease in employment.

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2015	26.8	58.4	14.8	12.0	54.5
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

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 336,400 employees, amounting to 26.5% of total manufacturing employment in the state. The percent of purchasing managers in the Computer & Electronic Products industry reporting higher expected production increased from 50.2% in the second quarter to 51.2% in the third quarter, indicating that the rate of growth in production in these industries will increase in the third quarter. Additionally the percent of purchasing managers reporting higher expected employment in these industries increased from 17.7% in the second quarter to 21.8% in the third quarter, indicating that the rate of growth in employment in the Computer & Electronic Products industry is expected to increase in the third quarter.

Orange County's Manufacturing Survey

The manufacturing sector's Orange County Composite Index increased from 58.4 in the second quarter to 63.2 in the third quarter, indicating that the county's manufacturing economy is expected to grow at a higher rate in the third quarter. The Orange County's index is back above that of California.



The seasonally adjusted index for production jumped from 59.5 in the second quarter to 65.7 in the third quarter, indicating that production is expected to grow at a much higher rate in the third quarter. This is the twenty fifth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders also jumped from 62.4 in the second quarter to 69.1 in the third quarter indicating that new orders are expected to grow at a much higher rate in the third quarter. The employment index also increased from 57.8 in the second quarter to 61.0 in the third quarter, indicating higher employment growth in the third quarter. Unlike California, the index for inventories of purchased materials increased substantially in the third quarter.

The index for the **non-durable goods industries** decreased from 63.7 in the second quarter to 63.3 in the third quarter indicating that the growth rate in these industries is expected to be slightly lower in the third quarter compared to the second quarter. The index for the **durable goods industries** leaped from 56.6 in the second quarter to 65.0 in the third quarter indicating that the durable goods industries are expected to grow at a much higher rate in the third quarter. Growth in employment in the non-durable goods industries is expected to be lower in the third 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
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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
NOVEMBER	▸ California Leading Employment Indicator
DECEMBER	▸ Economic Forecast Conference for the U.S., California and Orange County ▸ California Consumer Sentiment Survey