
10-7-2015

Another Downtick in the Manufacturing Sector

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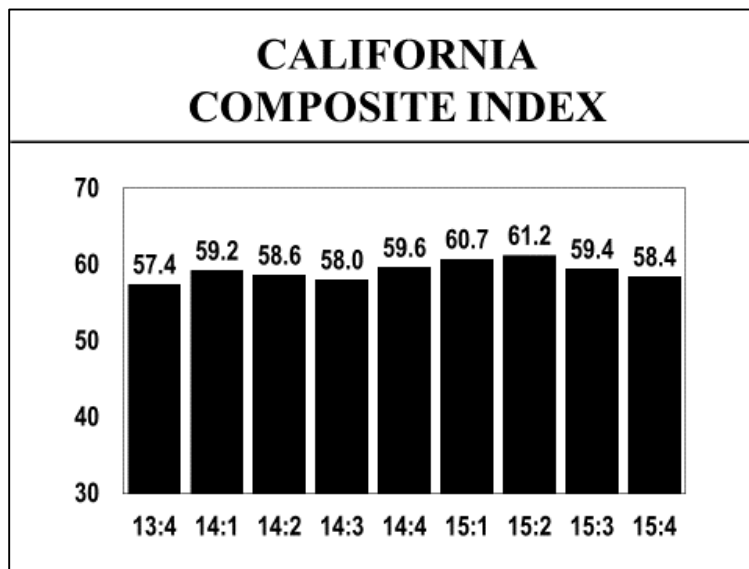
A. Gary Anderson Center for Economic Research

For Release:
October 7, 2015

Contact:
Raymond Sfeir
Professor of Economics and Research Fellow
(714) 997-6693

ANOTHER 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 fourth quarter of 2015 compared to the third quarter. The California Composite Index, measuring overall manufacturing activity, decreased from 59.4 in the third quarter to 58.4 in the fourth quarter, indicating a lower growth rate. Production and employment are however expected to grow at a faster pace compared to the third quarter, while new orders and prices are expected to increase at a slower pace. The lower growth rate of the Chinese and Canadian economies, California’s major trading partners, along with the high value of the dollar are dampening the exports of manufactured goods produced in California.



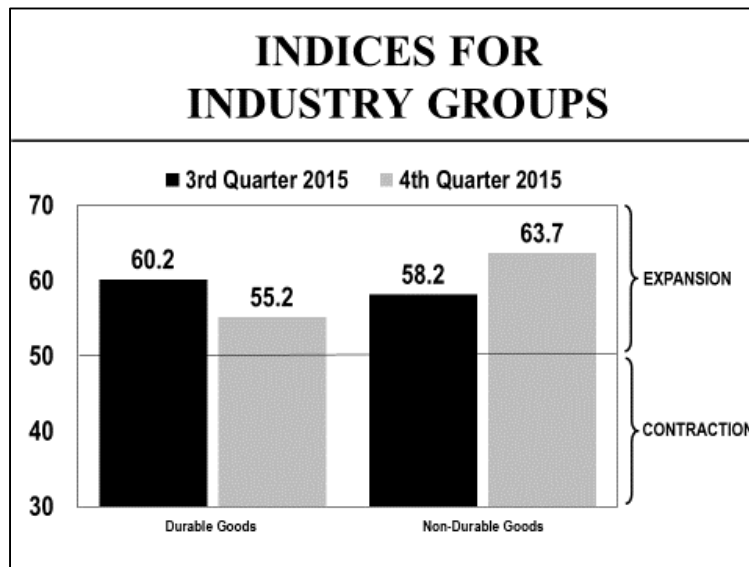
California Manufacturing at a Glance

Composite Index	58.4	Growing at a lower rate
Production	65.1	Growing at a higher rate
Inventories of purchased materials	55.0	Growing at the lower rate
Commodity prices	53.3	Growing at a lower rate
Supplier deliveries	48.9	Faster
New orders	60.9	Growing at a lower rate
Employment	57.0	Growing at a higher rate

Performance by Industry Group

The index for the **non-durable goods industries** registered 63.7 in the fourth quarter compared to 58.2 in the third quarter, indicating a higher growth rate. Production, inventories of purchased materials, new orders and employment are expected to grow at a higher rate compared to the third quarter, while commodity prices are expected to be barely higher.

The index for the **durable goods industries** registered 55.2 in the fourth quarter compared to 60.2 in the third quarter, indicating a lower growth rate. Production, new orders and employment are all expected to grow at a lower rate compared to the third quarter.



Comments by Purchasing Managers

This is our seasonal high quarter and market conditions indicate it will be a strong 4th quarter. Demand will be higher than supply this year. (Food)

Due to higher material and labor costs we will be raising process coming January 2016. (Textile Mill Products)

Affected by seasonality of our products and retail has been a poor performer, but expected to get better. I believe they will have made the required adjustments for the change in the consumer buying habits – on line! (Apparel)

Home improvement sector slowly gaining ground. (Wood Products)

Strong dollar is suppressing our sales to Canada. Further strengthening will exacerbate the problem. (Paper)

Demand continues to be weak with a slight improvement and growth is proving difficult to achieve without increasing sales through acquisitions. Industry-wide consolidation for both suppliers and competitors continues to increase raw material costs while at the same time forcing sales price reductions in order to compete. Reducing our costs through automation is proving to be one of the few ways to keep profits acceptable, which doesn't bode well for employees down the road. (Printing & Related Support Activities)

Hard to hire qualified purchasing staff. (Chemicals)

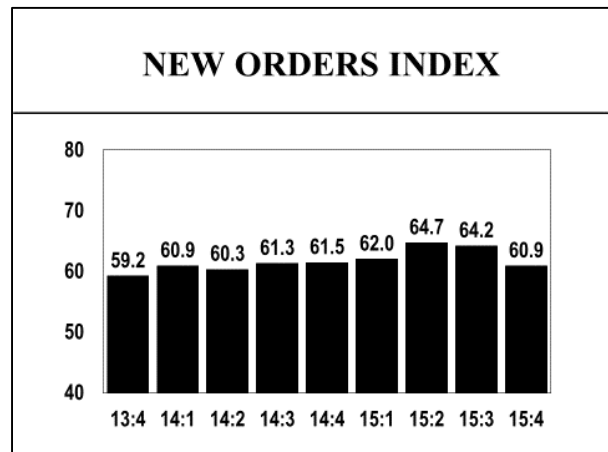
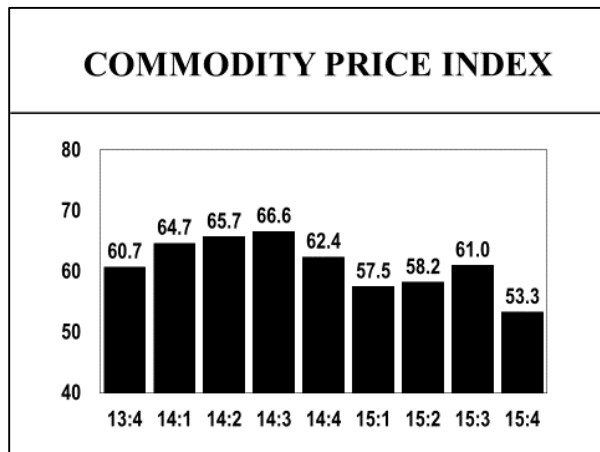
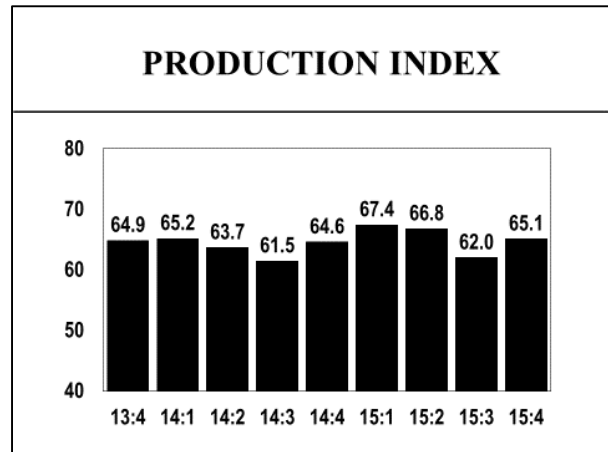
Slower 3rd and 4th quarters are predicted. Continued increase material costs and 'tightened' inventories. (Plastics & Rubber products)

Low oil pricing has taken its toll on our industry. New orders and production levels will remain the same as this quarter (as the downturn has leveled off), however our oilfield industrial business is off by nearly 45% compared to last year. We are taking measures to diversify, but that will not happen overnight. (Fabricated Metal Products)

We are putting all employees on hourly INCLUDING MANGERIAL STAFF effective Oct. 1, freezing all hiring, and when someone leaves we are not replacing them. We will all be on work share. 30% reduction in actual hours worked per week. (Machinery)

We see a generally favorable environment for the next 18 months. (Computer & Electronic Products)

Laminated Shim is one of many companies in the aerospace industry. The industry continues to be strong, as well as having very promising projections for the next decades. Some of the reasons are that many of the airplanes currently in use, are close to living their useful life, and therefore, being replaced by airplanes that are being built to the latest advanced technologies, better fuel mileage, as well a better flying experience. Aerospace does not stop with commercial airplanes, we work with space programs such as satellites, rocket boosters, and more. Defense programs are also part of the aerospace makeup, where we support our people in all of the armed forces such as Army, Navy, Air Force and more. All of the above have very strict engineering requirements. Purchasing is an essential department in meeting all of these customer requirements as well as meeting new demands. (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 Fourth 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 increase from 62.0 in the third quarter to 65.1 in the fourth quarter, indicating that production is expected to increase at a higher rate in the fourth quarter. This is the twenty sixth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food; Textile Mill Products; Leather & Allied Products; Printing & Related Support Activities; Chemicals; Nonmetallic Mineral Products; Fabricated Metal Products; Machinery; Computer & Electronic Products; Furniture & Related Products; and Miscellaneous. The Wood Products industry reported an expected decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2015	40.8	38.8	20.4	20.4	65.1
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

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials is expected to decrease from 57.1 in the third quarter to 55.0 in the fourth quarter, indicating that inventories are expected to increase at a lower rate in the fourth quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Food; Textile Mill Products; Nonmetallic Mineral Products; Computer & Electronic Products; and Furniture & Related Products. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Plastics & Rubber Products; Wood Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; and Miscellaneous.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2015	30.4	41.7	27.8	2.6	55.0
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

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to decrease from 61.0 in the third quarter to 53.3 in the fourth quarter, indicating that commodity prices are expected to rise at a lower rate in the fourth quarter of this year. Commodity prices are expected to increase most rapidly in the following industries: Paper; Printing & Related Support Activities; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. Commodity prices are expected to decrease most rapidly in the following industries: Apparel; Primary Metals; and Machinery.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
4 th Quarter of 2015	20.8	65.1	14.1	6.6	53.3
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

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 52.3 in the third quarter to 48.9 in the fourth quarter, indicating that supplier deliveries are expected to be faster in the fourth quarter. Supplier deliveries are expected to be slowest in the following industries: Plastics & Rubber Products; Machinery; and Miscellaneous. Supplier deliveries are expected to be fastest in the following industries: Wood Products; Nonmetallic Mineral Products; Primary Metals; and Fabricated Metal Products.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
4 th Quarter of 2015	10.5	78.1	11.4	-0.9	48.9
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

New Orders: The seasonally adjusted index for new orders is expected to decrease from 64.2 in the third quarter to 60.9 in the fourth quarter, indicating that new orders are expected to increase at a lower rate in the fourth quarter. New orders are expected to increase most rapidly in the following industries: Food; Paper; Printing & Related Support Activities; Chemicals; Nonmetallic Mineral Products; Machinery; Computer & Electronic Products; and Furniture & Related Products. New orders are expected to decrease most rapidly in the following industries: Apparel; Plastics & Rubber Products; Wood Products; Electrical Equipment, Appliance & Components; and Transportation Equipment.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2015	39.1	35.3	25.6	13.4	60.9
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

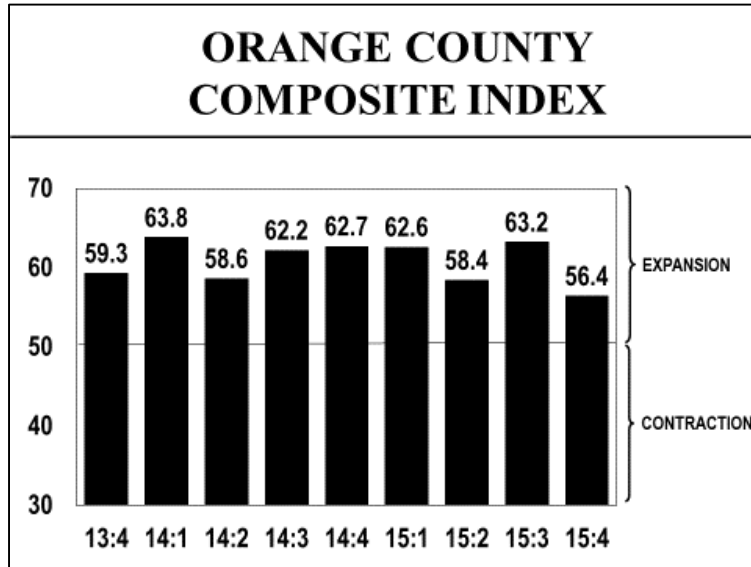
Employment: The seasonally adjusted index for employment is expected to increase from 54.5 in the third quarter to 57.0 in the fourth quarter, indicating that employment in manufacturing is expected to improve in the fourth quarter. Employment is expected to increase most rapidly in the following industries: Food; Chemicals; Nonmetallic Mineral Products; Computer & Electronic Products; and Furniture & Related Products. Employment is expected to decrease most rapidly in the following industries: Wood Products; Fabricated Metal Products; Transportation Equipment; and Miscellaneous.

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2015	23.8	60.7	15.5	8.2	57.0
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

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 334,400 employees, amounting to 25.9% of total manufacturing employment in the state. The percent of purchasing managers in the Computer & Electronic Products industry reporting higher expected production decreased from 51.2% in the third quarter to 43.9% in the fourth quarter. Additionally the percent of purchasing managers reporting higher expected employment in these industries decreased from 21.8% in the third quarter to 15.6% in the fourth quarter. Both results indicate a worse environment for the industry in the fourth quarter compared to the third quarter.

Orange County's Manufacturing Survey

The manufacturing sector's Orange County Composite Index decreased from 63.2 in the third quarter to 56.4 in the fourth quarter, indicating that the county's manufacturing economy is expected to grow at a lower rate in the fourth quarter. The Orange County's index is now below California's index.



The seasonally adjusted index for production decreased from 65.7 in the third quarter to 61.4 in the fourth quarter, indicating that production is expected to grow at a lower rate in the fourth quarter. This is the twenty sixth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders decreased substantially from 69.1 in the third quarter to 59.5 in the fourth quarter indicating that new orders are expected to grow at a much lower rate in the fourth quarter. The employment index also decreased from 61.0 in the third quarter to 54.0 in the fourth quarter, indicating lower employment growth in the fourth quarter. The index for inventories of purchased materials also decreased substantially in the fourth quarter to a level that indicates no change in inventories.

The index for the **non-durable goods industries** increased from 63.3 in the third quarter to 64.0 in the fourth quarter indicating that the growth rate in these industries is expected to be slightly higher in the fourth quarter compared to the third quarter. The index for the **durable goods industries** decreased substantially from 63.1 in the third quarter to 53.6 in the fourth quarter indicating that the durable goods industries are expected to grow at a much lower rate in the fourth quarter. Growth in employment in the non-durable goods industries is expected to be higher in the fourth quarter, while that in the durable goods industries is expected to be substantially 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.

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