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Manufacturing Growth Rebounds

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A. Gary Anderson Center for Economic Research

For Release:

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Contact:

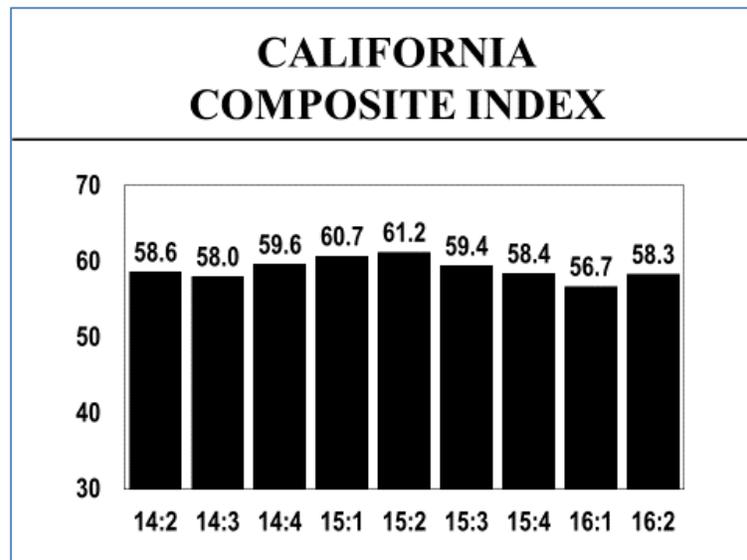
Raymond Sfeir

Professor of Economics and Research Fellow

(714) 997-6693

MANUFACTURING GROWTH REBOUNDS

ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to grow at a faster pace in the second quarter of 2016 compared to the first quarter. The California Composite Index, measuring overall manufacturing activity, increased from 56.7 in the first quarter to 58.3 in the second quarter, indicating expansion but at a faster pace. This increase in the growth rate follows three consecutive quarterly slowdowns in the growth rate of the manufacturing sector. Production and new orders are expected to grow at a higher growth rate compared to the first quarter, while employment is expected to increase at a lower rate. Commodity prices are expected to reach the highest rate of increase since the fourth quarter of 2014.



California Manufacturing at a Glance

Composite Index	58.3	Growing at a higher rate
Production	65.3	Growing at a higher rate
Inventories of purchased materials	53.7	Growing at a higher rate
Commodity prices	61.5	Growing at a higher rate
Supplier deliveries	50.5	No change
New orders	60.6	Growing at a higher rate
Employment	53.2	Growing at a lower rate

Performance by Industry Group

The index for the **non-durable goods industries** registered 59.0 in the second quarter of 2016 compared to 56.9 in the first quarter, indicating a higher growth rate. Production, inventories of purchased materials and new orders are expected to grow at a higher rate, while employment is expected to grow at a lower rate. Commodity prices are expected to be higher.

The index for the **durable goods industries** registered 57.9 in the second quarter of 2016 compared to 56.5 in the first quarter, indicating a higher growth rate. Production and inventories of purchased materials are expected to grow at a higher rate, but employment is expected to grow at a lower rate compared to the first quarter. Commodity prices are expected to be higher.

Comments by the Purchasing Managers

Spring usually sees increased activity in food service and retail for us, the second quarter is second busiest for us typically. (Food)

Because of the social unrest we are seeing nationally we are experiencing a dramatic increase in the demand for our wooden nightsticks and riot batons on all levels, federal, state and local agencies. (Wood Products)

Paper, which is our largest raw material, just had an increase of about 6%. That will impact overall pricing. Demand remains stable coming into what is seasonally typically a slower quarter. Expect demand to remain stable into June. (Paper)

Ballot printing for the primaries result in higher numbers in all of the above mentioned areas (compared to last quarter). (Printing & Related Support Activities)

Well we are very busy because our business growth is just double compared to last year. We are going to buy a lot of raw materials and packaging for the different customers. Our business is going really well at the international level; we are going to have new distributors in other countries like UAE, UK and Italy. Our Purchasing department will have double the work-load pretty soon. I hope everything will be good and smooth in the future. (Chemicals)

Fairly static with anticipated seasonal increases in demand in the second quarter, with remnant raw materials to consume in the quarter. (Plastics & Rubber Products)

Expect more orders and greater volumes as winter fades. Demand remains strong in both new housing starts and expanding infrastructure projects in the greater San Francisco Bay Area. Enjoying increased efficiencies and market growth. (Nonmetallic Mineral Products)

All areas of construction that we are involved in seem to be steady for the foreseeable future. (Primary Metals)

After a declining December 2015 and January 2016 in business orders, things have really exploded in the Aerospace industry for both new and replacement parts for aircraft and missile systems. (Fabricated Metal Products)

Oil downturn is going to put us out of business. (Machinery)

Things are picking up considerably from the fourth quarter of 2015. Order volume will be at a record this month, March, with a heavy order backlog for the second quarter of 2016. (Computer & Electronic Products)

New forecast shows lower sales for the next two quarters, too late to impact inventory much in the coming quarter, so inventory will increase. Had head count reduction last quarter in anticipation. Costs should be flat. (Electrical Equipment, Appliance & Components)

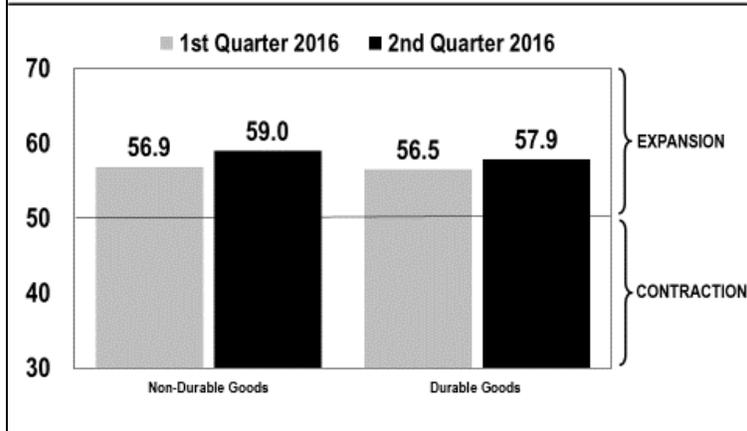
Overseas pressure causing margin challenges affecting the corporation, which is creating pressure to control cost and headcount. (Transportation Equipment)

Uncertainty over the global economy and upcoming elections are delaying purchase orders on some projects. (Furniture & Related Products)

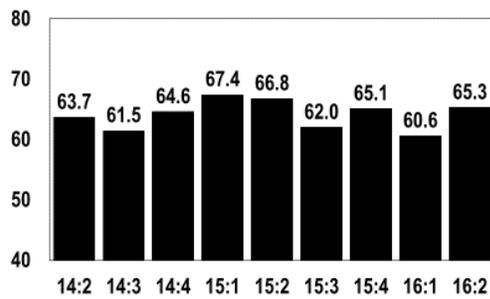
Economy seems to be slowing slightly as concerns over our national debt, many global security issues, the poor political climate of the 2016 election, increasing government regulations and increasing costs of goods purchased. This has our company on a cautious path where we are running very lean and spending money only where it's absolutely necessary... We are proceeding as if the economy will be trending downward for the 2nd-4th quarters, 2016. (Miscellaneous)

Aerospace, Defense and Commercial industry for turbine engines is expected to return to growth in 2016 with total sector revenues estimated to grow at 3.0 percent. In turn we are ramping up our hiring in order to keep up with this expected growth. (Aerospace Products & Parts)

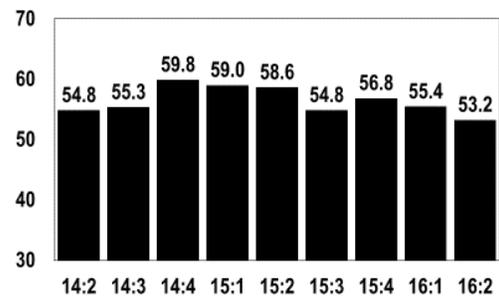
INDICES FOR INDUSTRY GROUPS

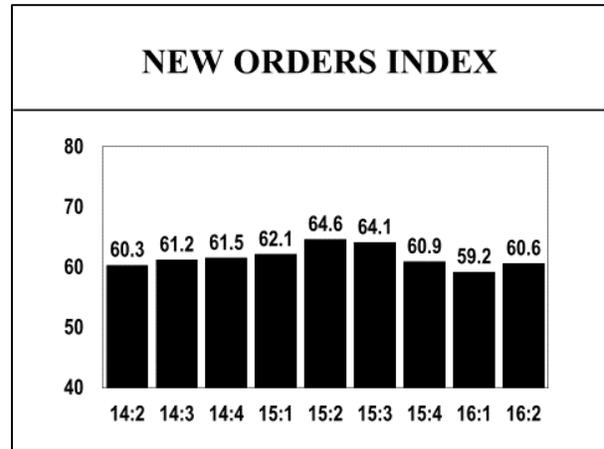
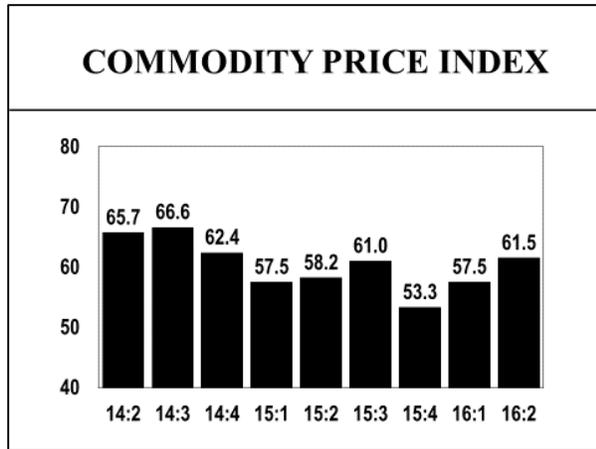


PRODUCTION INDEX



EMPLOYMENT 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 Second Quarter of 2016**

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 60.6 in the first quarter to 65.3 in the second quarter, indicating that production is expected to increase at a higher rate in the second quarter. This is the twenty eighth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food; Beverage & Tobacco; Textile Mill Products; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Transportation Equipment; and Miscellaneous. No industry reported an expected decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 nd Quarter of 2016	49.6	40.3	10.1	39.6	65.3
1 st Quarter of 2016	39.5	41.2	19.4	20.1	60.6
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	62.2

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials is expected to increase from 50.4 in the first quarter to 53.7 in the second quarter, indicating that inventories are expected to increase at a higher rate in the second quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Textile Mill Products; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Computer & Electronic Products; Electrical Equipment, Appliance & Components; and Miscellaneous. The Beverage & Tobacco 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 2016	36.1	40.0	24.0	12.1	53.7
1 st Quarter of 2016	28.5	42.8	28.8	-0.3	50.4
4 th Quarter of 2015	30.4	41.7	27.8	2.6	55.2
3 rd Quarter of 2015	34.7	49.3	16.0	18.7	57.1

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 57.5 in the first quarter to 61.5 in the second quarter, indicating that commodity prices are expected to rise at a higher rate in the second 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; Primary Metals; Fabricated Metal Products; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; and Miscellaneous. No industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
2 nd Quarter of 2016	31.3	60.4	8.3	23.0	61.5
1 st Quarter of 2016	27.2	60.6	12.2	15.0	57.5
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

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 51.3 in the first quarter to 50.5 in the second quarter, indicating that supplier deliveries are expected to be at the same speed as in the first quarter. Supplier deliveries are expected to be slowest in the following industries: Printing & Related Support Activities; Nonmetallic Mineral Products; Electrical Equipment, Appliance & Components; and Transportation Equipment. The Plastics industry reported an expectation of faster supplier deliveries.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
2 nd Quarter of 2016	12.0	76.8	11.2	0.8	50.5
1 st Quarter of 2016	14.5	72.4	13.0	1.5	51.3
4 th Quarter of 2015	10.5	78.1	11.4	-0.9	48.8
3 rd Quarter of 2015	15.8	72.3	11.9	4.0	52.2

New Orders: The seasonally adjusted index for new orders is expected to increase from 59.2 in the first quarter to 60.6 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; Beverage & Tobacco; Textile Mill Products; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Transportation Equipment; and Miscellaneous. No industry reported an expected decrease in new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 nd Quarter of 2016	47.1	35.5	17.4	29.6	60.6
1 st Quarter of 2016	37.6	42.1	20.3	17.4	59.2
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	64.1

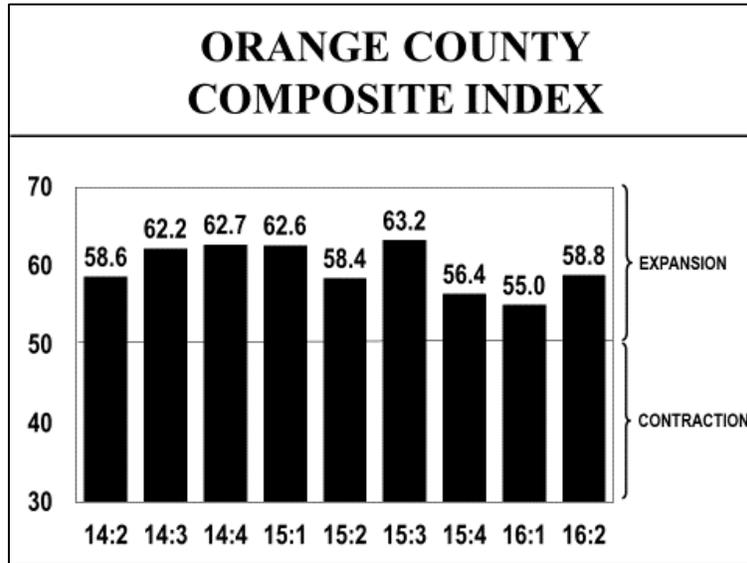
Employment: The seasonally adjusted index for employment is expected to decrease from 55.4 in the first quarter to 53.2 in the second quarter, indicating that employment in manufacturing is expected to grow at a slower pace in the second quarter. Employment is expected to increase most rapidly in the following industries: Food; Apparel; Plastics & Rubber Products; Nonmetallic Mineral Products; Transportation Equipment; and Miscellaneous. No industry reported an expected decrease in employment.

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
2 nd Quarter of 2016	23.8	61.8	14.4	9.5	53.2
1 st Quarter of 2016	25.0	60.6	14.4	10.6	55.4
4 th Quarter of 2015	23.8	60.7	15.5	8.2	56.8
3 rd Quarter of 2015	26.8	58.4	14.8	12.0	54.8

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 343,000 employees, amounting to 26.9% of total manufacturing employment in the state. The percent of purchasing managers in the Computer & Electronic Products industry reporting higher expected production increased from 31.1% in the first quarter of 2016 to 52.7% in the second quarter. Additionally the percent of purchasing managers reporting higher expected employment in these industries decreased from 26.0% in the first quarter to 19.3% in the second quarter.

Orange County's Manufacturing Survey

The Orange County manufacturing sector's Composite Index increased from 55.0 in the first quarter of 2016 to 58.8 in the second quarter, indicating that the county's manufacturing economy is expected to grow at a higher rate in the second quarter. The Orange County's index is now slightly above California's index.



The seasonally adjusted index for production increased from 59.5 in the first quarter to 64.0 in the second quarter, indicating that production is expected to grow at a higher rate in the second quarter. This is the twenty eighth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders increased from 57.0 in the first quarter to 63.1 in the second quarter, indicating that new orders are expected to grow at a higher rate in the second quarter. Unlike California, the employment index also increased from 52.5 in the first quarter to 54.2 in the second quarter, indicating higher employment growth in the second quarter. The index for inventories of purchased materials increased from 48.5 in the first quarter to 52.6 in the second quarter indicating an increase in the level of inventories held by firms.

The index for the **non-durable goods industries** increased from 54.5 in the first quarter to 60.5 in the second quarter, indicating that the growth rate in these industries is expected to be higher in the second quarter. The index for the **durable goods industries** also increased from 55.2 in the first quarter to 58.2 in the second quarter, indicating that the durable goods industries are expected to grow at a higher rate in the second quarter. Production, new orders and employment are all expected to grow at a higher rate in the second quarter for both the non-durable goods industries and the durable goods industries.

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