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## **Manufacturing Sector Plods Along**

Anderson Center for Economic Research

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## A. Gary Anderson Center for Economic Research

**For Release:**

July 8, 2016

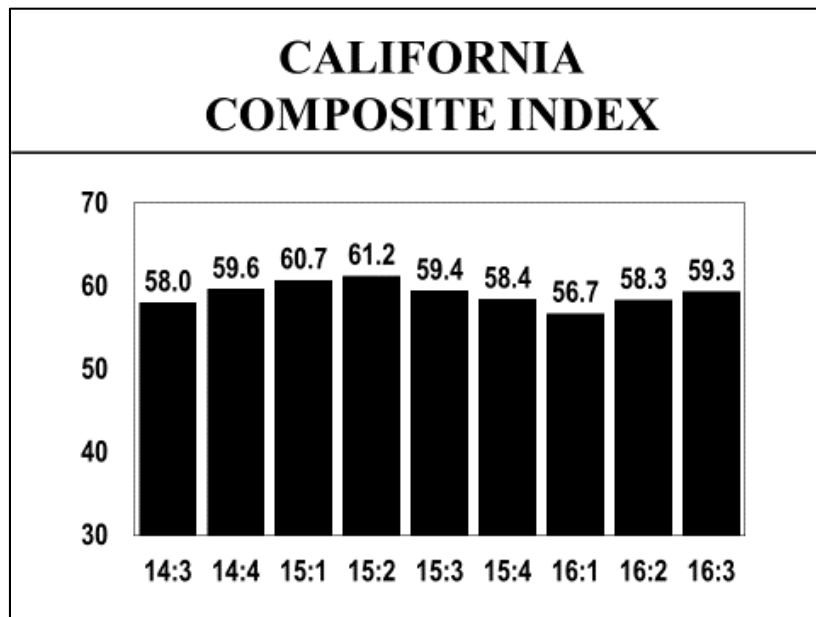
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## MANUFACTURING SECTOR PLODS ALONG

ORANGE, CA — According to a survey of purchasing managers, the California manufacturing economy is expected to grow at a slightly faster pace in the third quarter of 2016 compared to the second quarter. The California Composite Index, measuring overall manufacturing activity, increased from 58.3 in the second quarter to 59.3 in the third quarter, fueled by gains in new orders. New orders gained 3.1 points and employment gained 3 points. Supplier deliveries became faster consistent with a decline in the commodity price index.



### California Manufacturing at a Glance

Composite Index	59.3	Growing at a faster rate
Production	64.7	Growing at a slower rate
Inventories of purchased materials	54.3	Growing at a faster rate
Commodity prices	58.1	Growing at a slower rate
Supplier deliveries	47.6	Faster
New orders	63.7	Growing at a faster rate
Employment	56.2	Growing at a faster rate

### Performance by Industry Group

The index for the **non-durable goods industries** registered 61.5 in the third quarter of 2016 compared to 59.0 in the second quarter, indicating a higher growth rate. Production is increasing at a slower rate, while new orders gained 6.1 points, hence increasing at a faster rate. Employment gained 4.7 points, indicating faster growth. The supplier deliveries index registered 47.6 indicating faster deliveries.

The index for the **durable goods industries** registered 58.0 in the third quarter of 2016 compared to 57.9 in the second quarter, indicating growth at the same rate. Production, inventories of purchased materials and new orders are expected to grow at roughly the same rate as the second quarter. But employment is expected to grow at a faster rate compared to the second quarter. Supplier deliveries are expected to be faster in the third quarter compared to the second quarter.

### Comments by the Purchasing Managers

Taking advantage of the availability of lower acquisition costs for manufacturing equipment to expand operations. (Food)

Backlog is decreasing. (Textile Mill Products)

There was a major dip in orders from the retail front this quarter, which wasn't anticipated. Custom, more high-end sales spiked however. (Wood Products)

Feeling the effects of the seasonal slowdown in the printing and mailing industry. Paper did increase with the effect coming in July. (Paper)

Looking forward to the fall Presidential Election and the additional print it will drive this year. (Printing & Related Support Activities)

More and more late deliveries from suppliers. Suspect they are keeping lower and lower inventories. We are seeing more excuses that "it hasn't come in yet" or "still in customs hold". (Chemicals)

With delivery time, logistics and quality, the Mexico option is very appealing for 2017-2018. With access to Mexico much easier than China, we will be making sure we are there with partners for 2-3 years minimum. We are seeing a lot more requests for Made in America, our only option to capture this growth is automation as manual labor is expensive and not consistent. The California minimum wage jumps we will see in next 18 months really have us planning how to spend the dollars best for the future of the business and growth. (Plastics & Rubber Products)

Prices for plate and tubing have seen upward pressure since first of the month due to tariff sanctions on import materials. It is yet to be seen how this affects beams, angles and other rolled products. (Primary Metals)

Overall we are expecting the same level of business activity as current quarter. Possibility of delayed shipments from Shanghai due to G20 conference in September and closure of some factories for clean air. No verifications yet. (Fabricated Metal Products)

Milk prices are expected to be low for the rest of the year causing equipment purchases by dairies to be down all over the world affecting our international sales as well. (Machinery)

Our production rates are increasing, primarily for subassemblies for medical and biotech applications. (Computer & Electronic Products)

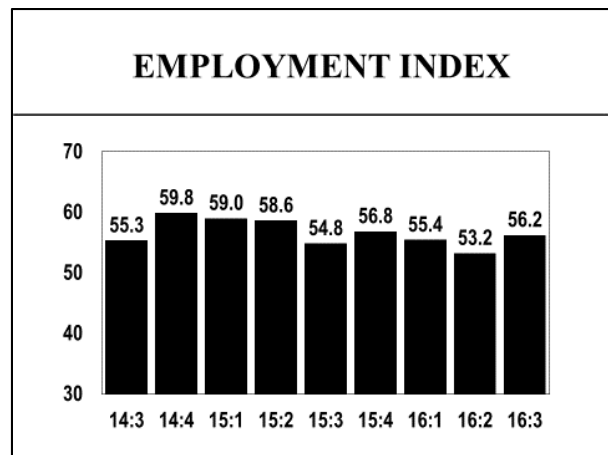
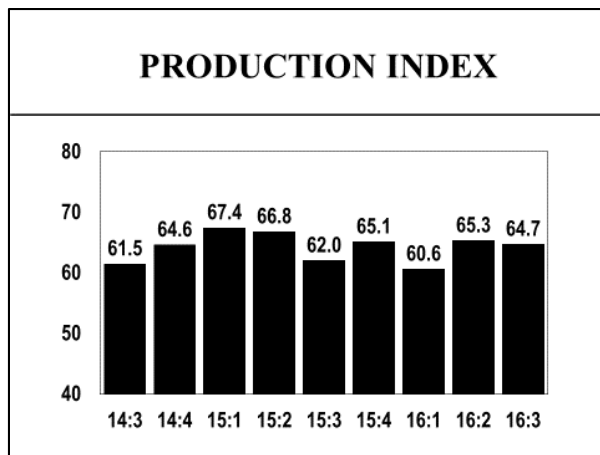
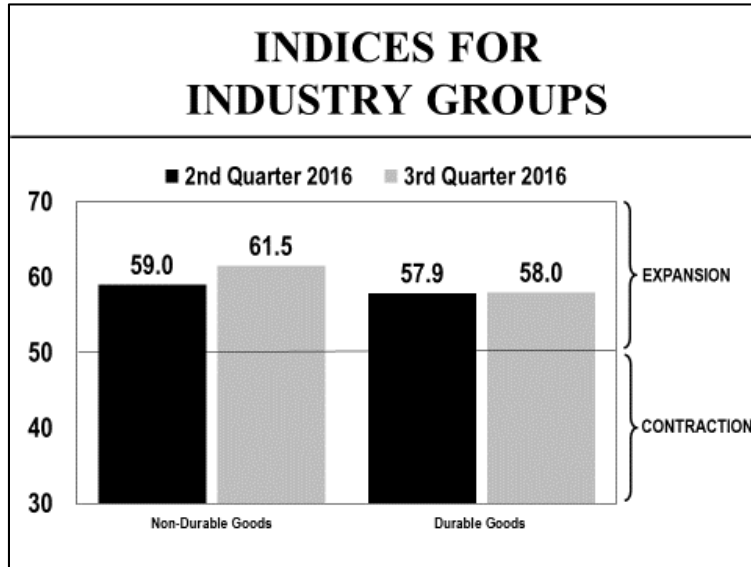
Electronics market continues to be a challenge. Customers want lower prices and compare us to China while labor costs are going up. Small business are getting squeezed from every angle from health care, labor cost and finding good employees who want to work. (Electrical Equipment, Appliance & Components)

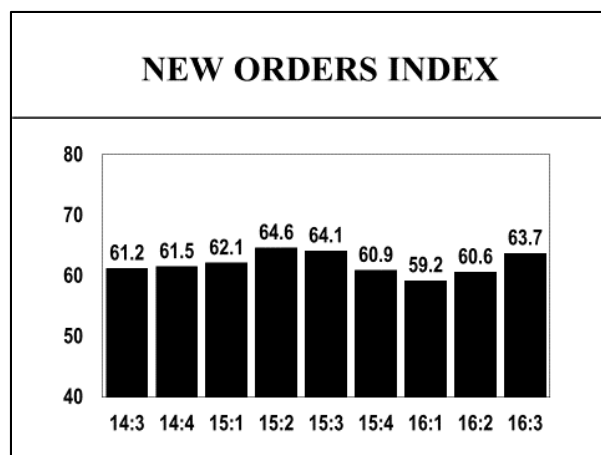
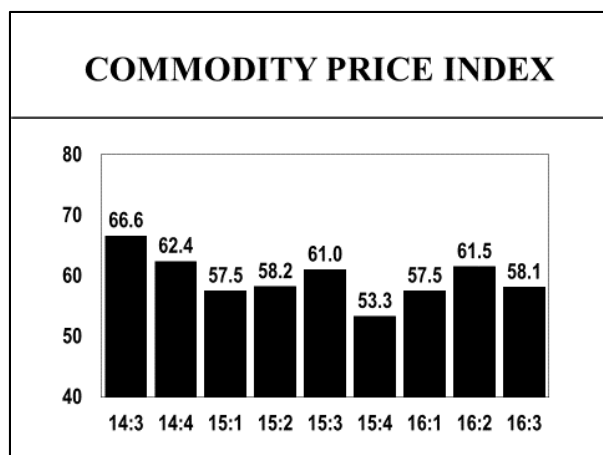
The only negative.....Anti dumping suits within the Steel Industry.....It will circle 180 to bite the U.S. (Transportation Equipment)

Brexit election results adding to the USA pre-election jitters for November is keeping some of our commercial clients on the sidelines. (Furniture & Related Products)

The political climate in our nation is toxic. It's going to a vicious election season so I think that business will continue to tip toe through the next year until things settle down, saving as much money as possible and taking a wait and see approach without too much investment in additional employees or extra purchases. The 4th quarter is always one of our busiest quarters so I believe it will be a busy quarter for us once again, maybe not as good as last year but it should be above our average quarter. (Miscellaneous)

Aerospace sector: / Commercial Aircraft - Long term production in California plant will decrease in the future due to manufactured parts being transferred to offshore divisions (China / Mexico) / Military - production will remain stable through 2018. (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 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 decrease from 65.3 in the second quarter to 64.7 in the third quarter, indicating that production is expected to increase at a slower rate in the third quarter. This is the twenty ninth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food; Leather & Allied Products; 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; and Miscellaneous. 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>
3rd Quarter of 2016	47.2	37.5	15.3	32.0	64.7
2 <sup>nd</sup> Quarter of 2016	49.6	40.3	10.1	39.6	65.3
1 <sup>st</sup> Quarter of 2016	39.5	41.2	19.4	20.1	60.6
4 <sup>th</sup> Quarter of 2015	40.8	38.8	20.4	20.4	65.1

**Inventories of Purchased Materials:** The seasonally adjusted index for inventories of purchased materials is expected to increase from 53.7 in the second quarter to 54.3 in the third quarter, indicating that inventories are expected to increase at a higher rate in the third quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Food; Paper; Printing & Related Support Activities; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Furniture & Related Products; and Miscellaneous. The Apparel industry has 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>Seasonally Adjusted Index</b>
3 <sup>rd</sup> Quarter of 2016	33.7	45.5	20.7	13.0	54.3
2 <sup>nd</sup> Quarter of 2016	36.1	40.0	24.0	12.1	53.7
1 <sup>st</sup> Quarter of 2016	28.5	42.8	28.8	-0.3	50.4
4 <sup>th</sup> Quarter of 2015	30.4	41.7	27.8	2.6	55.2

**Commodity Prices:** The seasonally unadjusted index for commodity prices is expected to decrease from 61.5 in the second quarter to 58.1 in the third quarter, indicating that commodity prices are expected to rise at a slower rate in the third quarter of this year. Commodity prices are expected to increase most rapidly in the following industries: Food; Paper; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Transportation Equipment; and Miscellaneous. No industry reported an expected decrease in commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3 <sup>rd</sup> Quarter of 2016	24.8	66.4	8.7	16.1	58.1
2 <sup>nd</sup> Quarter of 2016	31.3	60.4	8.3	23.0	61.5
1 <sup>st</sup> Quarter of 2016	27.2	60.6	12.2	15.0	57.5
4 <sup>th</sup> Quarter of 2015	20.8	65.1	14.1	6.6	53.3

**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 50.5 in the second quarter to 47.6 in the third quarter, indicating that supplier deliveries are expected to be faster in the third quarter. Supplier deliveries are expected to be fastest in the following industries: Food; Primary Metals; Fabricated Metal Products; Machinery; and Transportation Equipment. No industry reported an expectation of slower supplier deliveries.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 <sup>rd</sup> Quarter of 2016	9.7	75.4	14.9	-5.2	47.6
2 <sup>nd</sup> Quarter of 2016	12.0	76.8	11.2	0.8	50.5
1 <sup>st</sup> Quarter of 2016	14.5	72.4	13.0	1.5	51.3
4 <sup>th</sup> Quarter of 2015	10.5	78.1	11.4	-0.9	48.8

**New Orders:** The seasonally adjusted index for new orders is expected to increase from 60.6 in the second quarter to 63.7 in the third quarter, indicating that new orders are expected to increase at a higher rate in the third quarter. New orders are expected to increase most rapidly in the following industries: Food; Textile Mill Products; Leather & Allied Products; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; 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
3 <sup>rd</sup> Quarter of 2016	46.5	36.1	17.5	29.0	63.7
2 <sup>nd</sup> Quarter of 2016	47.1	35.5	17.4	29.6	60.6
1 <sup>st</sup> Quarter of 2016	37.6	42.1	20.3	17.4	59.2
4 <sup>th</sup> Quarter of 2015	39.1	35.3	25.6	13.4	60.9



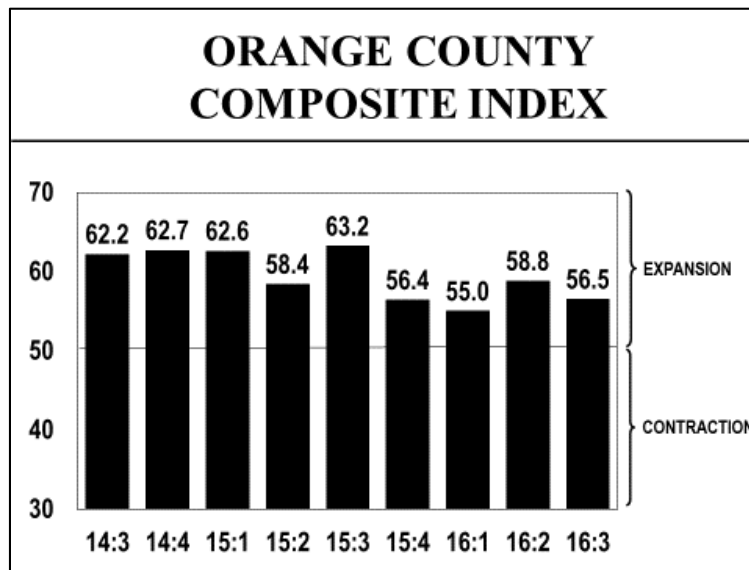
**Employment:** The seasonally adjusted index for employment is expected to increase from 53.2 in the second quarter to 56.2 in the third quarter, indicating that employment in manufacturing is expected to improve in the third quarter. Employment is expected to increase most rapidly in the following industries: Food; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment; and Miscellaneous. No industry reported an expected decrease in employment.

<b>Employment</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
3 <sup>rd</sup> Quarter of 2016	28.1	58.6	13.2	14.9	56.2
2 <sup>nd</sup> Quarter of 2016	23.8	61.8	14.4	9.5	53.2
1 <sup>st</sup> Quarter of 2016	25.0	60.6	14.4	10.6	55.4
4 <sup>th</sup> Quarter of 2015	23.8	60.7	15.5	8.2	56.8

**High-Tech Industries:** The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 339,100 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 52.7% in the second quarter to 53.4% in the third quarter. Additionally the percent of purchasing managers reporting higher expected employment in these industries increased from 19.3% in the second quarter to 30.4% in the third quarter which is a good omen for employment in this industry.

## Orange County's Manufacturing Survey

The Orange County manufacturing sector's Composite Index decreased from 58.8 in the second quarter of 2016 to 56.5 in the third quarter, indicating that the county's manufacturing economy is expected to grow at a slower rate in the third quarter. The Orange County's index is now below California's index.



The seasonally adjusted index for production decreased from 64.0 in the second to 59.8 in the third quarter, indicating that production is expected to grow at a slower rate in the third quarter. This is the twenty ninth consecutive quarter that the production index has been above 50. The seasonally adjusted index for new orders decreased from 63.1 in the second quarter to 61.4 in the third quarter, indicating that new orders are expected to grow at a slower rate in the third quarter. Unlike California, the employment index decreased from 54.2 in the second quarter to 53.2 in the third quarter, indicating slower employment growth in the second quarter. The index for inventories of purchased materials remained virtually the same indicating that inventories will grow slightly in the third quarter.

The index for the **non-durable goods industries** decreased precipitously from 60.5 in the second quarter to 50.1 in the third quarter, indicating that there will no growth in these industries in the third quarter. Production, new orders and employment fared worse in the third quarter compared to the second quarter. The index for the **durable goods industries** increased slightly from 58.2 in the second quarter to 58.8 in the third quarter, indicating that the durable goods industries are expected to grow at a higher rate in the third quarter. Production, inventories of purchased materials and employment in the durable goods industries are all expected to grow in the third quarter.

## **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**

<b>JANUARY</b>	▸ Economic Forecast Conferences for the Inland Empire ▸ California Purchasing Managers Survey
<b>FEBRUARY</b>	▸ California Leading Employment Indicator
<b>MARCH</b>	▸ California Consumer Sentiment Survey
<b>APRIL</b>	▸ California Purchasing Managers Survey
<b>MAY</b>	▸ California Leading Employment Indicator
<b>JUNE</b>	▸ California Consumer Sentiment Survey ▸ Economic Forecast Update Conference for the U.S., California and Orange County
<b>JULY</b>	▸ California Purchasing Managers Survey
<b>AUGUST</b>	▸ California Leading Employment Indicator
<b>SEPTEMBER</b>	▸ California Consumer Sentiment Survey
<b>OCTOBER</b>	▸ California Purchasing Managers Survey
<b>NOVEMBER</b>	▸ California Leading Employment Indicator
<b>DECEMBER</b>	▸ Economic Forecast Conference for the U.S., California and Orange County ▸ California Consumer Sentiment Survey