



A. Gary Anderson Center for Economic Research

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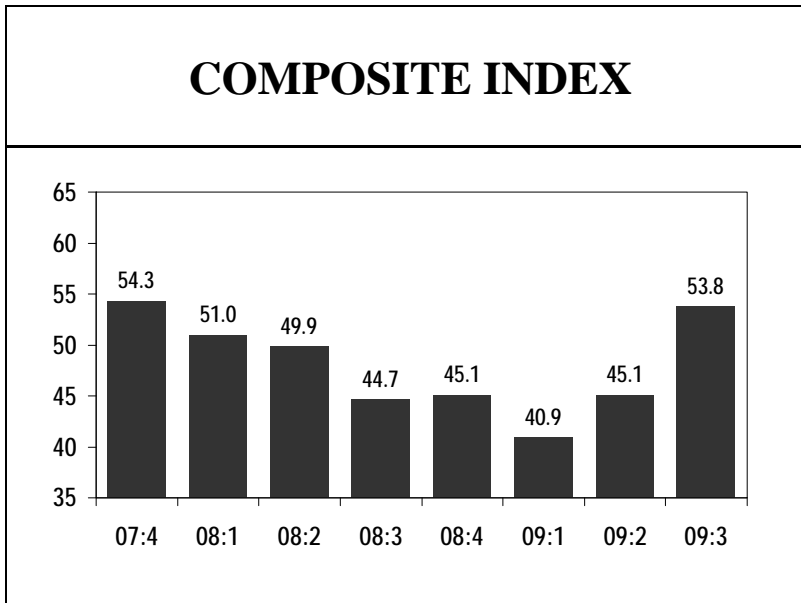
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CALIFORNIA MANUFACTURING BOTTOMS OUT

ORANGE, CA — A quarterly survey of California purchasing managers points to a moderate rebound in the manufacturing sector in the third quarter of 2009. An index value over 50 shows expansion. Hence the reading of 53.3 for the third quarter is the first time since the first quarter of 2008 that the index is above 50. Production and new orders are both projected to increase in the third quarter, but employment is projected to continue to decline albeit at the slower pace compared to previous quarters. Commodity prices are projected to increase after a decline in the last two quarters. All three industry groups - the non-durable goods industries, the high-tech industries and the durable goods industries other than high-tech – are projected to expand moderately in the third quarter.

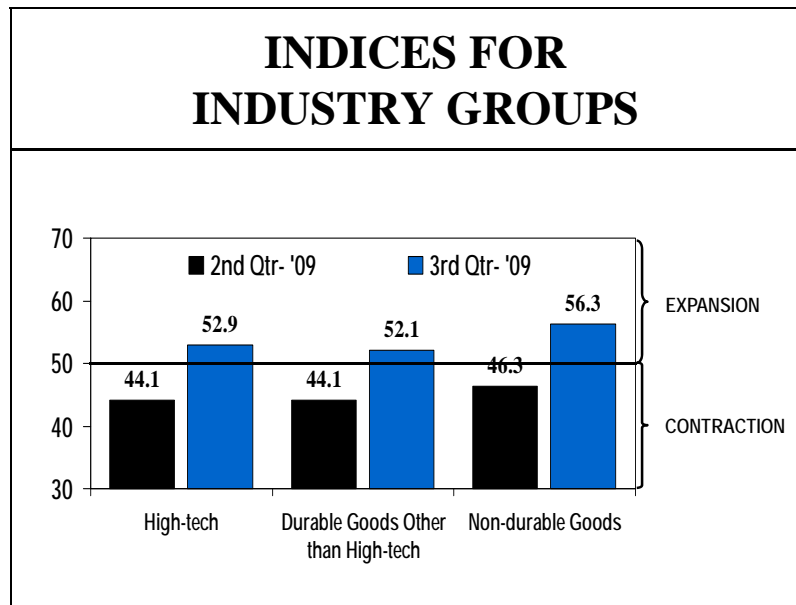


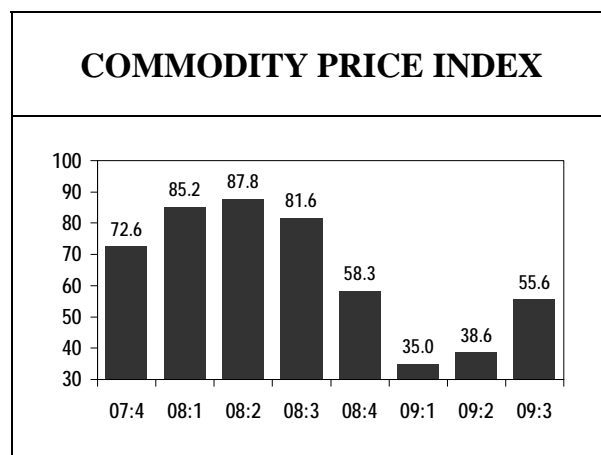
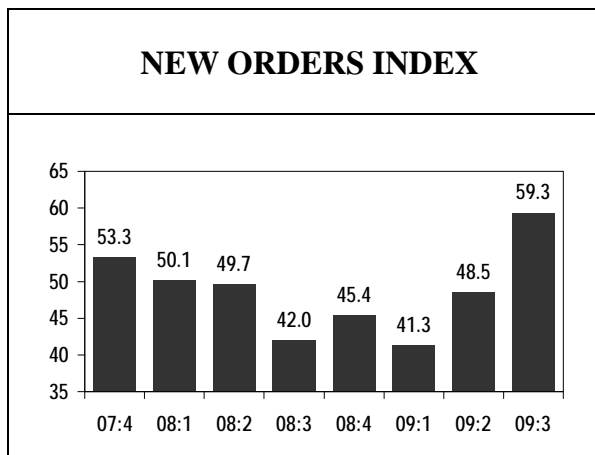
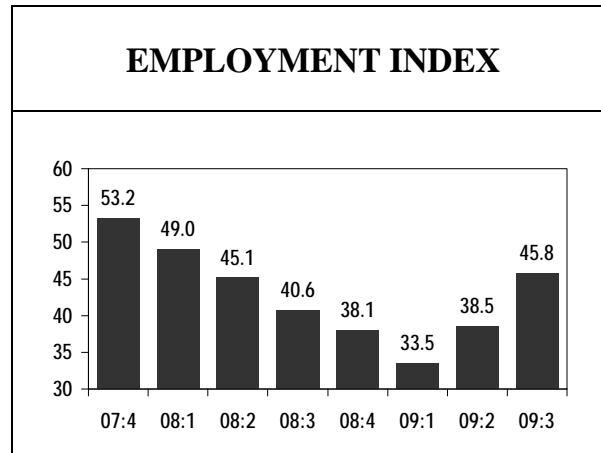
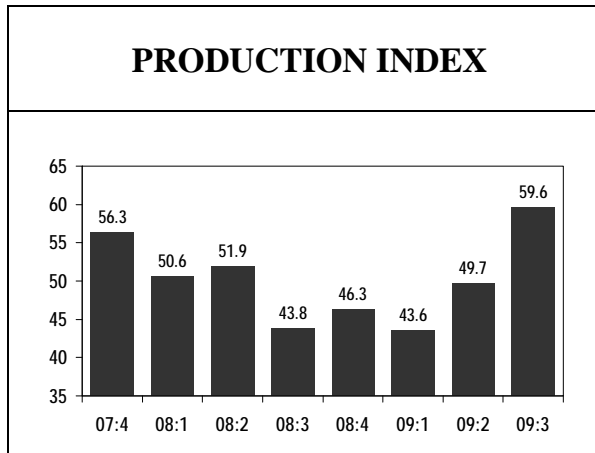
Performance by industry group

The index for the non-durable goods industries is expected to increase from 46.3 in the second quarter of 2009 to 56.3 in the third quarter, showing expansion. Production and new orders will show a sizable increase, while employment will stop hemorrhaging. Commodity prices facing this industry group are expected to increase. Inventories of purchased materials are expected to increase after a decline in the last five consecutive quarters.

The index for the durable goods industries other than high-tech is expected to increase from 44.1 in the second quarter to 52.1 in the third quarter, indicating slight growth. Production and new orders will increase and employment will decline. Commodity prices facing this industry group are expected to remain stable after a decrease in the last two quarters. Inventories of purchased materials are expected to decrease for the fifth consecutive quarter.

The high-tech industries will also show moderate growth in the third quarter of 2009. Production and orders will show a sizable increase, but employment will continue to decline for the third consecutive quarter. Commodity prices will increase but at a lower rate compared to those facing the non-durable goods industries. Inventories of purchased materials are expected to decrease only slightly.





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, 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 2009**

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. A value over 50 for an index indicates growth and a value below 50 indicates a decline. 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 49.7 in the second quarter of 2009 to 59.6 in the third quarter, indicating that production will increase by a sizable amount in the third quarter. Production is expected to increase most rapidly in the following industries: Food; Chemicals; Plastics & Rubber Products; Wood Products; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliance & Components; Miscellaneous; and Computer & Electronic Products. The Machinery industry reported an expected slight decrease in production in the third quarter.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2009	39.6	42.8	17.7	21.9	59.6
2 nd Quarter of 2009	33.9	38.1	28.0	5.8	49.7
1 st Quarter of 2009	22.7	39.3	38.0	-15.3	43.6
4 th Quarter of 2008	25.7	35.8	38.5	-12.8	46.3

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials is expected to increase from 39.5 in the second quarter of 2009 to 50.3 in the third quarter, indicating that manufacturers will keep the same level of inventories in the third quarter as they did in the second quarter. The Paper industry reported an expected increase in inventories. The Printing & Related Support Activities industry reported an expected decrease in inventories.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2009	25.8	48.8	25.5	0.3	50.3
2 nd Quarter of 2009	18.7	42.5	38.8	-20.1	39.5
1 st Quarter of 2009	17.8	37.9	44.3	-26.5	36.0
4 th Quarter of 2008	25.5	35.9	38.7	-13.2	44.8

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 38.6 in the second quarter of 2009 to 55.6 in the third quarter, indicating that commodity prices will actually increase in the third quarter after falling in the first half of this year. Commodity prices are expected to increase most rapidly in the following industries: Food; Plastics & Rubber Products; Primary Metals; and Computer & Electronic Products. Commodity prices are expected to fall most rapidly in the following industries: Fabricated Metal Products; and Miscellaneous.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3rd Quarter of 2009	27.1	57.1	15.9	11.2	55.6
2 nd Quarter of 2009	16.3	44.7	39.0	-22.7	38.6
1 st Quarter of 2009	18.4	33.3	48.3	-29.9	35.0
4 th Quarter of 2008	44.0	28.7	27.3	16.6	58.3

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 increase from 42.8 in the second quarter of 2009 to 46.2 in the third quarter, indicating that supplier deliveries will be slightly faster in the second quarter. No expectation of significant slower supplier deliveries in the third quarter is reported by the respondents. The fastest supplier deliveries are expected in the following industries: Miscellaneous; and Computer & Electronic Products.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 rd Quarter of 2009	10.0	74.5	15.5	-5.4	46.2
2 nd Quarter of 2009	9.6	67.6	22.8	-13.1	42.8
1 st Quarter of 2009	13.2	68.9	18.0	-4.8	48.7
4 th Quarter of 2008	17.1	68.2	14.7	2.4	52.1

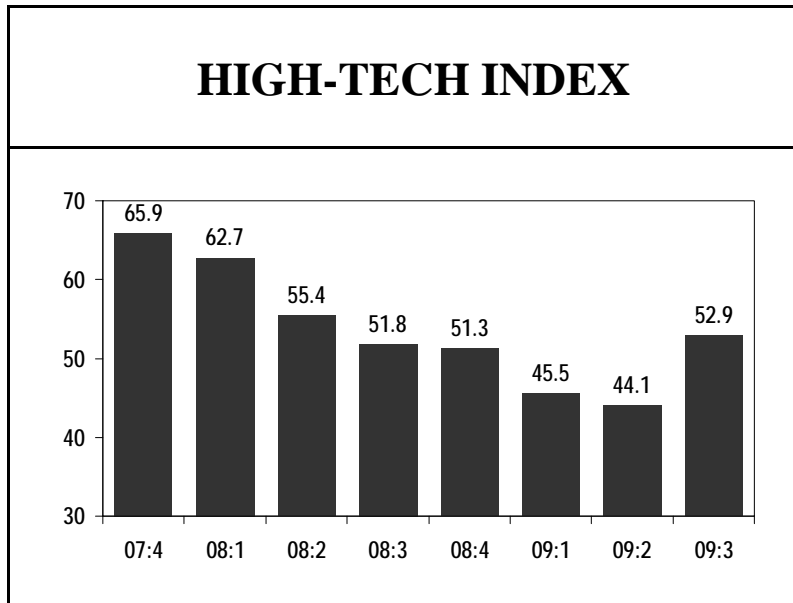
New Orders: The seasonally adjusted index for new orders is expected to increase from 48.5 in the second quarter of 2009 to 59.3 in the third quarter, indicating that new orders will increase in the third quarter compared to the second quarter. New orders are expected to increase most rapidly in the following industries: Food; Plastics & Rubber Products; Wood Products; Primary Metals; Furniture & Related Products; Miscellaneous; and Computer & Electronic Products. No industry reported an expectation of lower new orders for the third quarter.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2009	40.1	38.0	22.0	18.1	59.3
2 nd Quarter of 2009	33.9	35.5	30.6	3.3	48.5
1 st Quarter of 2009	27.0	29.9	43.1	-16.0	41.3
4 th Quarter of 2008	27.1	29.6	43.3	-16.2	45.4

Employment: The seasonally adjusted index for employment is expected to increase from 38.5 in the second quarter of 2009 to 45.8 in the third quarter, indicating that employment in manufacturing will continue to decline but at a slower rate compared to the second quarter. Employment is expected to decline most rapidly in the following industries: Printing & Related Support Activities; Machinery; Electrical Equipment, Appliance & Components; Miscellaneous; and Computer & Electronic Products. No industry reported an expected increase in employment for the third quarter.

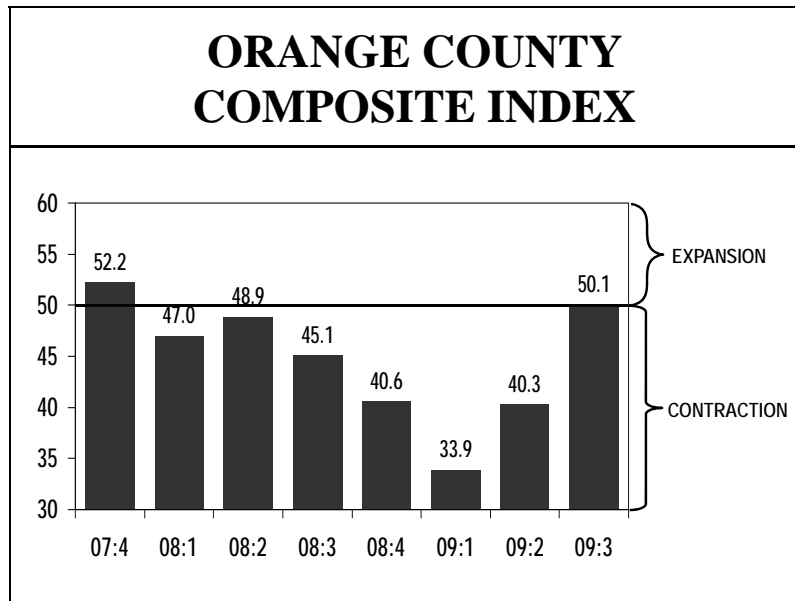
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2009	12.3	67.5	20.2	-7.9	45.8
2 nd Quarter of 2009	10.4	59.6	30.1	-19.7	38.5
1 st Quarter of 2009	8.9	47.9	43.2	-34.3	33.5
4 th Quarter of 2008	12.6	48.5	38.9	-26.3	38.1

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 353,000 employees, amounting to 26.9% of total manufacturing employment in the state. The high-tech index is expected to increase from 44.1 in the second quarter of 2009 to 52.9 in the third quarter, indicating that the high-tech industries will show a slight growth in the third quarter of the year. Production and new orders are expected to increase at a sizable rate in the third quarter. The commodity price index facing the high-tech industries is expected to increase to 55.5 indicating an increase in prices after a decline in the first half of the year.



Orange County's Manufacturing Survey

The Composite Index for Orange County is expected to increase from 40.3 in the second quarter of 2009 to 50.1 in the third quarter according to a survey of purchasing managers. This indicates that the manufacturing sector of Orange County is expected to stabilize in the third quarter, ending the contraction that took place in the last six quarters.



The seasonally adjusted index for production is expected to increase from 43.4 in the second quarter of 2009 to 55.8 in the third quarter, indicating that production will increase in the third quarter compared to the second quarter of this year. The seasonally adjusted index for new orders is expected to increase from 40.4 in the second quarter of 2009 to 57.2 in the third quarter, indicating that new orders will increase in the third quarter. The employment index is expected to increase also from 34.3 in the second quarter of 2009 to 41.0 in the third quarter, indicating continuous decline in employment in the county.

The high-tech industries index is expected to register 51.5, showing a slight expansion in the high-tech industries. The index for the durable goods industries other than high-tech is expected to register 48.9 indicating a mild contraction is expected in the third quarter. The index for the non-durable goods industries is expected to register 52.1 indicated a mild expansion. Overall, the performance of the manufacturing sector in Orange County is expected to remain below that of California.

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 Los Angeles County and 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** † Economic Forecast Update Conference for the U.S., California, Orange and Los Angeles counties, and the Inland Empire
 † California Consumer Sentiment Survey

- 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