



A. Gary Anderson Center for Economic Research

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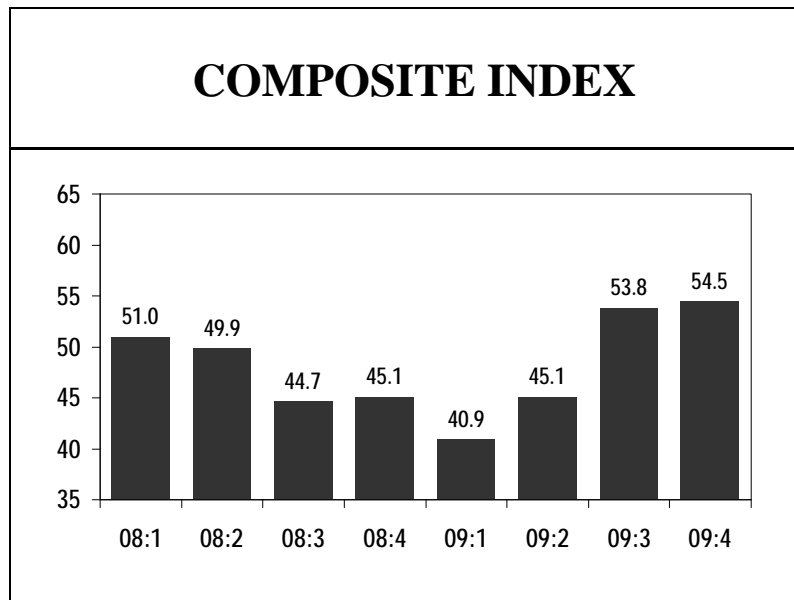
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CALIFORNIA MANUFACTURING CHURNS ALONG

ORANGE, CA — A quarterly survey of California purchasing managers indicates continued slow growth in the manufacturing sector in the fourth quarter of 2009. An index value over 50 shows expansion. This marks the second consecutive quarterly reading above 50 for the Composite Index. Production and new orders are both projected to increase in the fourth quarter, but employment and inventories of purchased materials are expected to decline at a faster rate compared to the third quarter. Commodity prices are projected to increase at a higher pace, and more so in the high-tech industries than other industries. The non-durable goods industries and the high-tech industries are projected to grow in the fourth quarter but no growth is anticipated for the durable goods industries other than high-tech.

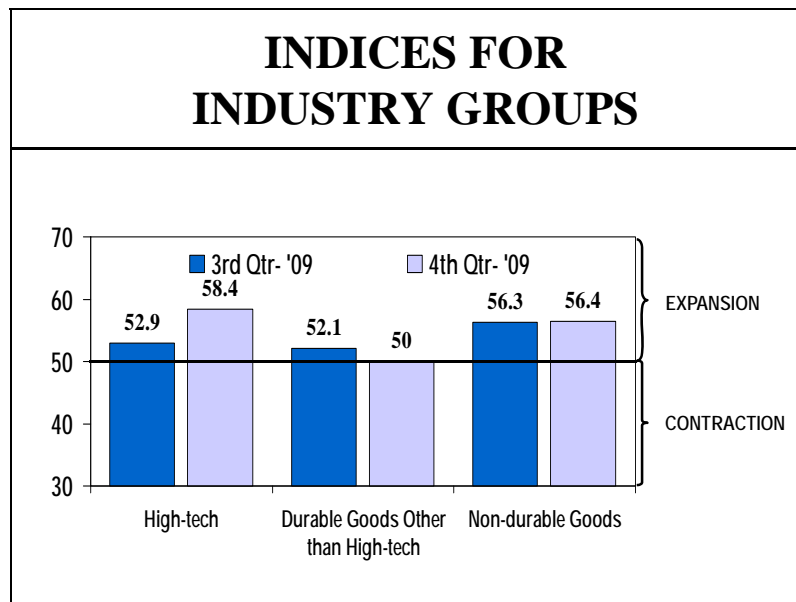


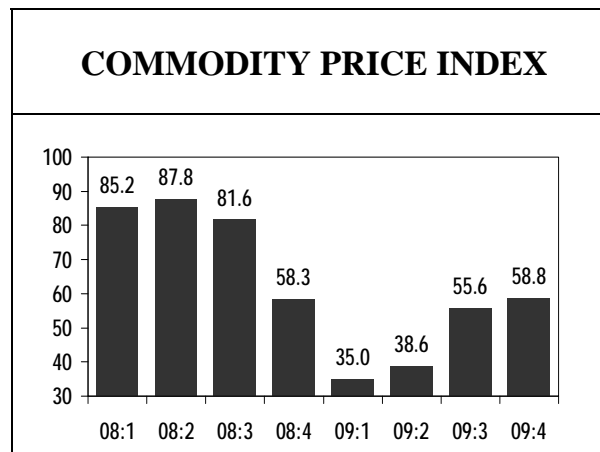
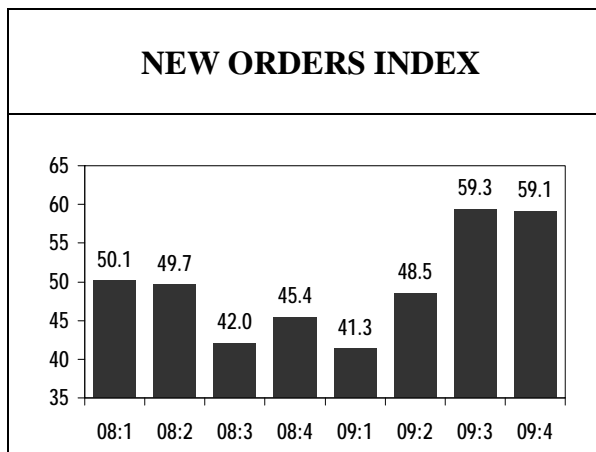
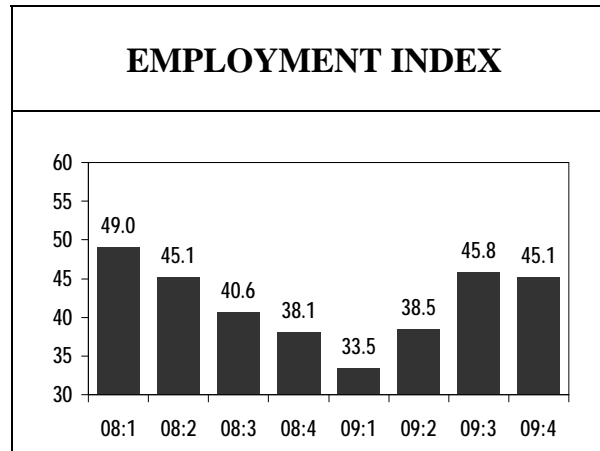
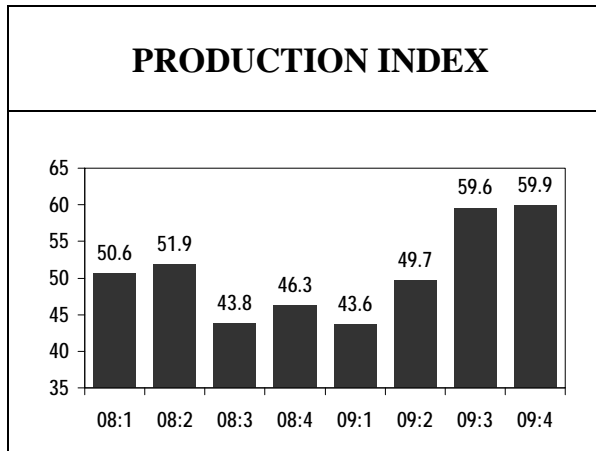
Performance by industry group

The high-tech industries will show the highest growth in the third quarter of 2009 compared to the other industry groups. The index is expected to increase from 52.9 to 58.4. Production and new orders are expected to increase at a faster rate, and fortunately no decline in employment is expected. Commodity prices are expected to rise as the index reaches the highest level since the third quarter of 2008. Inventories of purchased materials are expected to decrease faster than in the third quarter.

The index for the durable goods industries other than high-tech is expected to decrease from 52.1 in the third quarter to 50.0 in the fourth quarter, indicating no change for the quarter. A minimal increase is expected in production and new orders, while inventories of purchased materials and employment are expected to decrease. Commodity prices facing this industry group are expected to rise sharply as the index reaches 60.4.

The index for the non-durable goods industries is expected to remain at about the same level, barely increasing from 56.3 in the third quarter of 2009 to 56.4 in the fourth quarter, showing expansion. Production and new orders are expected to grow, while inventories of purchased materials and employment are expected to decrease. Commodity prices facing this industry group are expected to show only a minimal increase. Supplier deliveries are expected to be the slowest since the fourth quarter of 2005.





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 Fourth 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 (except commodity prices). 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 59.6 in the third quarter of 2009 to 59.9 in the fourth quarter, indicating that production will increase at practically the same rate as in the third quarter. Production is expected to increase most rapidly in the following industries: Food; Paper; Printing & Related Support Activities; Chemicals; Primary Metals; Machinery; Miscellaneous; and Computer & Electronic Products. Production is expected to decrease most rapidly in the following industries: Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Transportation Equipment; and Aerospace Products & Parts.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2009	36.5	39.6	23.9	12.6	59.9
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

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials is expected to decrease from 50.3 in the third quarter of 2009 to 43.5 in the fourth quarter, indicating that manufacturers will lower their inventory levels in the fourth quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Food; Paper; Printing & Related Support Activities; Chemicals; Primary Metals; Machinery; Miscellaneous; and Computer & Electronic Products. Inventories of purchased materials are expected to increase most rapidly in the following industries: Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Transportation Equipment; and Aerospace Products & Parts.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2009	18.9	46.4	34.7	-15.8	43.5
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

Commodity Prices: The seasonally unadjusted index for commodity prices is expected to increase from 55.6 in the third quarter of 2009 to 58.8 in the fourth quarter, indicating that commodity prices will increase in the fourth quarter at a faster rate compared to the third quarter. Commodity prices are expected to increase most rapidly in the following industries: Plastics & Rubber Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Miscellaneous; Computer & Electronic Products; and Aerospace Products & Parts. Commodity prices are expected to fall most rapidly in the following industries: Apparel; and Wood Products.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
4 th Quarter of 2009	30.6	56.3	13.0	17.6	58.8
3 rd 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

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 46.2 in the third quarter of 2009 to 56.6 in the fourth quarter, indicating that supplier deliveries will be slower in the fourth quarter. Supplier deliveries are expected to be slowest in the following industries: Food; Chemicals; Plastics & Rubber Products; Machinery; Electrical Equipment, Appliance & Components; and Computer & Electronic Products. Supplier deliveries are expected to be fastest in the following industries: Transportation Equipment; and Aerospace Products & Parts.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
4 th Quarter of 2009	21.2	69.0	9.8	11.4	56.6
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

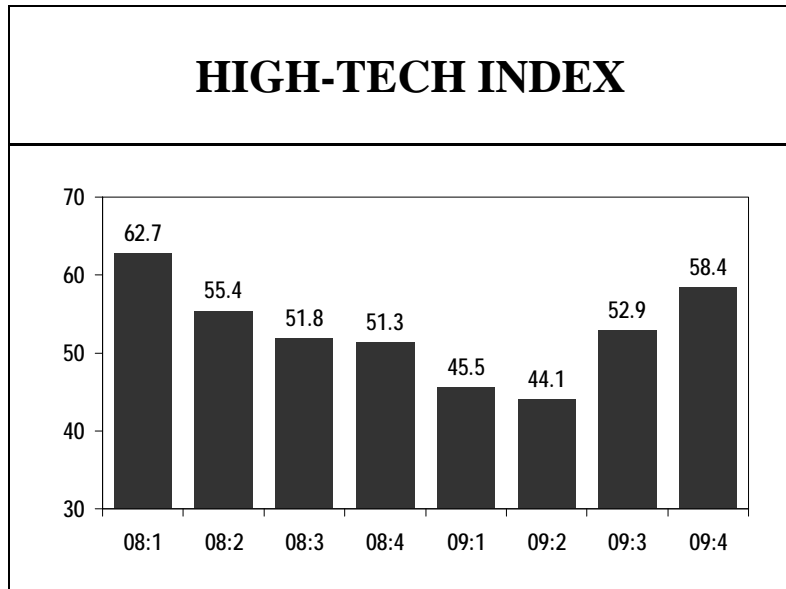
New Orders: The seasonally adjusted index for new orders is expected to decrease slightly from 59.3 in the third quarter of 2009 to 59.1 in the fourth quarter, indicating that new orders will continue to increase in the fourth quarter. New orders are expected to increase most rapidly in the following industries: Food; Apparel; Printing & Related Support Activities; Chemicals; Machinery; Miscellaneous; and Computer & Electronic Products. New orders are expected to decrease most rapidly in the following industries: Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Fabricated Metal Products; and Transportation Equipment.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2009	37.8	33.4	28.8	9.1	59.1
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

Employment: The seasonally adjusted index for employment is expected to decrease from 45.8 in the third quarter of 2009 to 45.1 in the fourth quarter, indicating that employment in manufacturing will continue to decline in the fourth quarter. Employment is expected to increase most rapidly in the following industries: Paper; Miscellaneous; and Computer & Electronic Products. Employment is expected to decline most rapidly in the following industries: Chemicals; Plastics & Rubber Products; Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; and Aerospace Products & Parts.

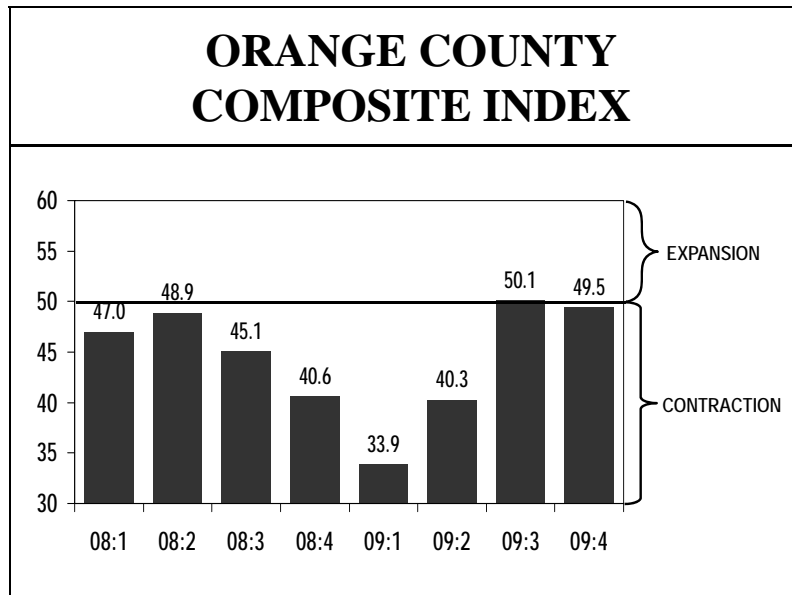
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
4 th Quarter of 2009	11.7	64.0	24.3	-12.6	45.1
3 rd Quarter of 2009	12.3	67.5	20.2	-7.9	45.8
2 nd Quarter of 2009	10.4	59.6	30.1	-19.7	38.5
1 st Quarter of 2009	8.9	47.9	43.2	-34.3	33.5

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 348,500 employees, amounting to 26.5% of total manufacturing employment in the state. The high-tech index is expected to increase from 52.1 in the third quarter of 2009 to 58.4 in the fourth quarter, indicating that the high-tech industries will show growth in the fourth quarter of the year. The production index will reach a level of 64.6, the highest reading since the fourth quarter of 2007. Production and new orders are expected to increase at a substantial rate in the fourth quarter. The commodity price index facing the high-tech industries is expected to increase from 55.5 to 66.1 indicating a faster increase in commodity prices in the fourth quarter. Inventories of purchased materials are expected to decrease faster than the third quarter.



Orange County's Manufacturing Survey

The Composite Index for Orange County is expected to decrease from 50.1 in the third quarter of 2009 to 49.5 in the fourth quarter according to a survey of purchasing managers. This indicates that the manufacturing sector of Orange County is expected to show a minimal contraction in the fourth quarter, after being stable in the third quarter.



The seasonally adjusted index for production is expected to increase from 55.8 in the third quarter of 2009 to 57.0 in the fourth quarter, indicating that production will continue to increase in the fourth quarter of this year. The seasonally adjusted index for new orders is expected to decrease from 57.2 in the third quarter to 50.1 in the fourth quarter, indicating that new orders will remain unchanged in the fourth quarter. The employment index is also expected to decrease from 41.0 in the third quarter to 38.1 in the fourth quarter, indicating continuous decline in employment in the county with no relief to those who are searching for a job.

The high-tech industries index is expected to register 46.2, showing a moderate contraction in the high-tech industries. This is mostly due to the low performance of the Aerospace Products & Parts industry, as well as low employment in that industry and in the Computers & Electronic Products industries. The index for the durable goods industries other than high-tech is expected to register 48.3 indicating minimal contraction in that group of industries in the fourth quarter. The index for the non-durable goods industries is expected to register 53.6 indicating 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