



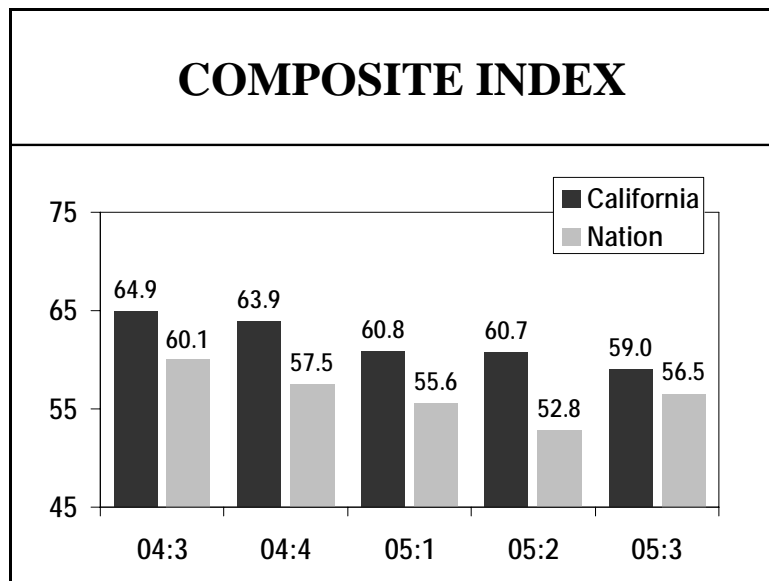
A. Gary Anderson Center for Economic Research

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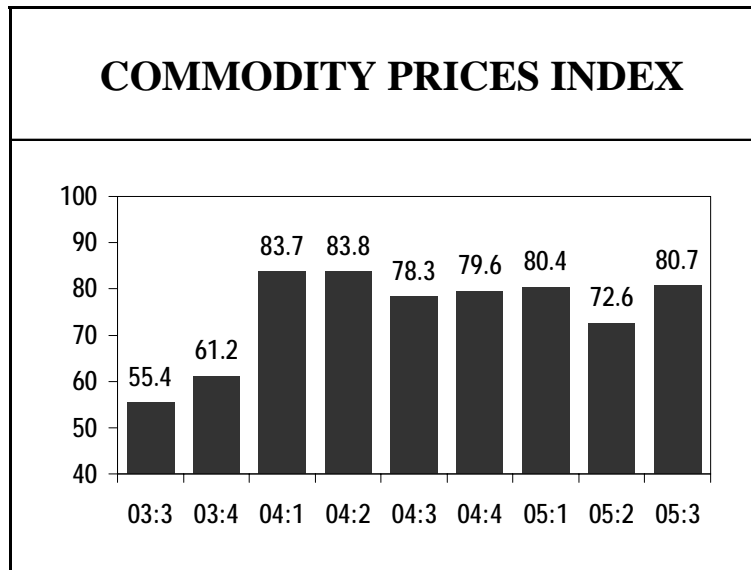
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CALIFORNIA'S MANUFACTURING SECTOR EXPANDS WITH HIGHER COMMODITY PRICES

ORANGE, CA — For the ninth consecutive quarter the purchasing managers in California reported growth in the manufacturing sector. This also marks the fifth consecutive quarter that California's manufacturing sector has outperformed the nation. At 59.0, the California manufacturing index is marginally below where it was in the second quarter of 2005. The commodity price index, however, increased substantially in the third quarter, reaching the highest level since the second quarter of 2004.



Although all three manufacturing industry groups grew in the third quarter of 2005, the lowest performance was in the high-tech group and the best performance was in the durable goods other than high-tech group. The indexes for the non-durable goods industries and the durable goods industries other than high-tech were slightly higher than the second quarter of 2005, while the index for the high-tech industries dropped substantially indicating that growth continued in the third quarter but at a much slower rate.



Production and new orders grew in the third quarter of 2005 at a lower rate compared to the second quarter. Production grew the fastest in the durable goods industries other than high-tech. New orders in the high-tech industries decreased for the first time since the second quarter of 2003. Commodity prices increased in all industry groups with the fastest increase taking place in the non-durable goods industries. Employment in the manufacturing sector as a whole showed only a marginal increase.

Production was reported to have increased most rapidly in the following industries: Food; Chemicals; Non-Metallic Mineral Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; and Aerospace Products & Parts. New orders were reported to have increased most rapidly in the following industries: Food; Non-Metallic Mineral Products; Fabricated Metal Products; and Machinery. Employment was reported to have increased most rapidly in the following industries: Non-Metallic Mineral Products; Fabricated Metal Products; and Aerospace Products & Parts. Commodity prices were reported to have increased most rapidly in the following industries: Food; Textile Mill Products; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products;

Non-Metallic Mineral Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Computer & Electronic Products; and Aerospace Products & Parts.

At the national level, the Purchasing Managers Index increased from a monthly average of 52.8 in the second quarter of 2005 to 56.5 in the third quarter, indicating that the manufacturing economy grew at a faster rate in the third quarter. This has put a stop to the decline in the performance of the manufacturing sector since the third quarter of 2003. Production and new orders continued to grow. The employment index recovered and was above the level of 50 in the months of July, August and September. The commodity price index registered 78.0 in September 2005 up from 62.5 in August, indicating that commodity prices increased substantially at the end of the third quarter. The supplier deliveries index registered 59.3 in September indicating that deliveries were much slower than in August. Once again the manufacturing sector in California outperformed the national manufacturing sector.

BACKGROUND AND METHODOLOGY

The Institute for Supply Management 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. The 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 Purchasing Managers of California for the Third Quarter of 2005

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 the total manufacturing economy of the state.

Production: The seasonally adjusted index for production decreased from 66.1 in the second quarter of 2005 to 63.5 in the third quarter, indicating that production grew in the third quarter at a slower rate compared to the second quarter. Production was reported to have increased most rapidly in the following industries: Food; Chemicals; Non-Metallic Mineral Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; and Aerospace Products & Parts. The Apparel industry reported lower production in the third quarter.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2005	45.7	30.7	23.5	22.2	63.5
2 nd Quarter of 2005	54.9	27.2	17.8	37.1	66.1
1 st Quarter of 2005	60.0	19.7	20.4	39.6	68.1
4 th Quarter of 2004	51.1	29.8	19.1	32.0	67.7

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials decreased from 59.0 in the second quarter of 2005 to 57.6 in the third quarter, indicating that inventories grew at a slower rate in the third quarter compared to the second quarter. Inventories of purchased materials were reported to have increased most rapidly in the following industries: Food; Non-Metallic Mineral Products; Fabricated Metal Products; and Machinery. Inventories of purchased materials were reported to have decreased most rapidly in the following industries: Apparel; and Wood Products.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2005	40.5	33.7	25.9	14.6	57.6
2 nd Quarter of 2005	37.5	44.3	18.3	19.2	59.0
1 st Quarter of 2005	45.8	28.9	25.5	20.3	58.7
4 th Quarter of 2004	37.7	43.5	18.8	18.9	61.4

Commodity Prices: The seasonally unadjusted index for commodity prices increased from 72.6 in the second quarter of 2005 to 80.7 in the third quarter, indicating that commodity prices rose in the third quarter at a much faster rate compared to the second quarter. Commodity prices were reported to have increased most rapidly in the following industries: Food; Textile Mill Products; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Non-Metallic Mineral Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Transportation Equipment; Computer & Electronic Products; and Aerospace Products & Parts. No industry reported lower commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2005	65.4	30.5	4.1	61.3	80.7
2 nd Quarter of 2005	56.6	31.9	11.4	45.2	72.6
1 st Quarter of 2005	66.7	27.4	5.9	60.8	80.4
4 th Quarter of 2004	66.8	25.5	7.7	59.1	79.6

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 increased from 56.9 in the second quarter to 60.5 in the third quarter, indicating that supplier deliveries slowed in the third quarter compared to the second quarter. Supplier deliveries were reported to have slowed most in the following industries: Fabricated Metal Products; Machinery; Transportation; Computer & Electronic Equipment; and Aerospace Products & Parts. No industry reported faster supplier deliveries.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 rd Quarter of 2005	27.4	67.3	5.3	22.1	60.5
2 nd Quarter of 2005	24.0	68.1	7.9	16.1	56.9
1 st Quarter of 2005	22.6	68.6	8.8	13.8	56.9
4 th Quarter of 2004	26.6	67.4	6.0	20.6	62.1

New Orders: The seasonally adjusted index for new orders decreased from 63.2 in the second quarter of 2005 to 57.7 in the third quarter, indicating that new orders increased in the third quarter at a slower rate compared to the second quarter. New orders were reported to have increased most rapidly in the following industries: Food; Non-Metallic Mineral Products; Fabricated Metal Products; and Machinery. New orders were reported to have decreased most rapidly in the following industries: Apparel; and Computer & Electronic Equipment.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2005	42.7	25.6	31.7	11.0	57.7
2 nd Quarter of 2005	55.7	20.9	23.4	32.3	63.2
1 st Quarter of 2005	49.8	23.8	28.4	21.4	59.5
4 th Quarter of 2004	46.0	32.0	22.0	24.0	64.8

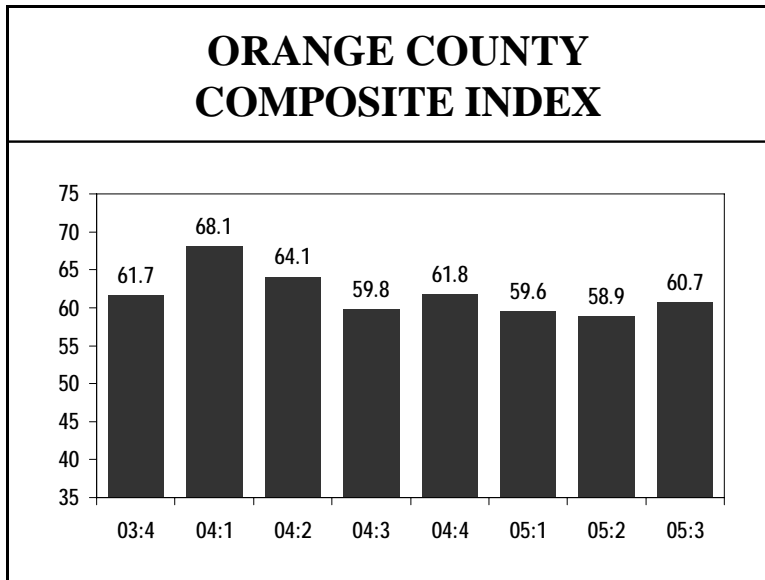
Employment: The seasonally adjusted index for employment increased from 54.0 in the second quarter of 2005 to 55.0 in the third quarter, indicating a marginal increase in employment in the third quarter. Employment was reported to have increased most rapidly in the following industries: Non-Metallic Mineral Products; Fabricated Metal Products; and Aerospace Products & Parts. The Apparel industry reported a decrease in employment.

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2005	24.3	59.4	16.3	8.0	55.0
2 nd Quarter of 2005	34.5	44.9	20.7	13.8	54.0
1 st Quarter of 2005	36.2	42.5	21.3	14.9	57.8
4 th Quarter of 2004	36.6	43.5	19.9	16.7	60.1

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 405,200 employees, amounting to 26.02% of total manufacturing employment in the state. The high-tech index decreased substantially from 62.1 in the second quarter of 2005 to 52.4 in the third quarter, indicating that the high-tech industries barely grew in the third quarter. The index for production continued its steep decline from 62.3 in the second quarter to 53.5 in the third quarter indicating that production grew at a much slower rate in the third quarter. The index for new orders decreased precipitously from 62.8 in the second quarter to 44.8 in the third quarter indicating that new orders decreased compared to the second quarter. This is the worst showing for new orders since the second quarter of 2003. The index for commodity prices for the high-tech industries registered 69.8, practically the same as in the second quarter, indicating continued increase in commodity prices for the high-tech industries. The employment index registered 53.2 indicating only moderate growth in employment.

Orange County's Manufacturing Survey

The Composite Index for Orange County increased from 58.9 in the second quarter of 2005 to 60.7 in the third quarter indicating that the manufacturing sector of Orange County grew at a slightly higher rate in the third quarter of the year.



The seasonally adjusted index for production remained practically at the same level indicating that production increased in the third quarter at the same rate as in the second quarter. Production was reported to have increased most rapidly in the following industries: Printing & Related Support Activities; Non-Metallic Mineral Products; Transportation Equipment; Furniture; and Computer & Electronic Products. The seasonally adjusted index for new orders decreased from 57.5 in the second quarter of 2005 to 56.1 in the third quarter, indicating that new orders grew at a slower rate in the third quarter. New orders were reported to have increased most rapidly in the following industries: Non-Metallic Mineral Products; Transportation Equipment; and Furniture. New orders were reported to have decreased most rapidly in the following industries: Machinery; and Electrical Equipment, Appliance & Components. The seasonally adjusted index for employment increased from 53.5 in the second quarter of 2005 to 60.7 in the third quarter indicating that employment grew at a faster rate in the third quarter compared to the second quarter. Employment was reported to have increased most rapidly in the following industries: Fabricated Metal Products; Transportation Equipment; Computer & Electronic Equipment; Furniture; and Aerospace Products & Parts.

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