



A. Gary Anderson Center for Economic Research

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Contact:

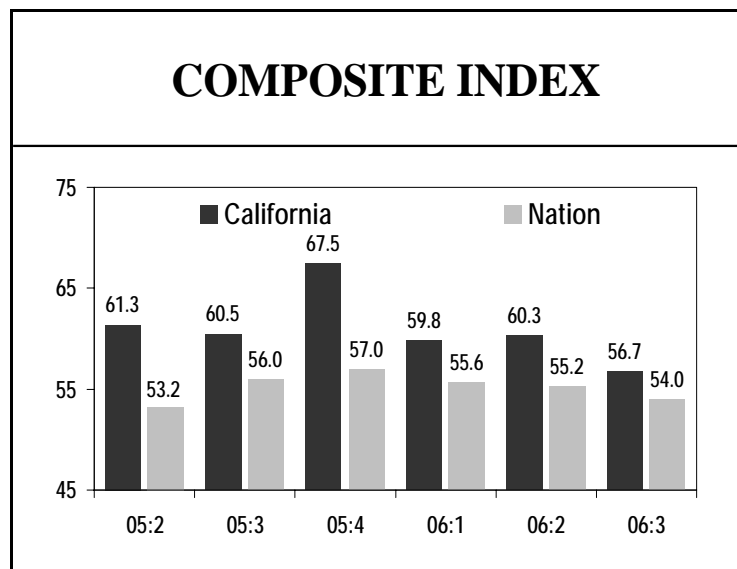
Raymond Sfeir

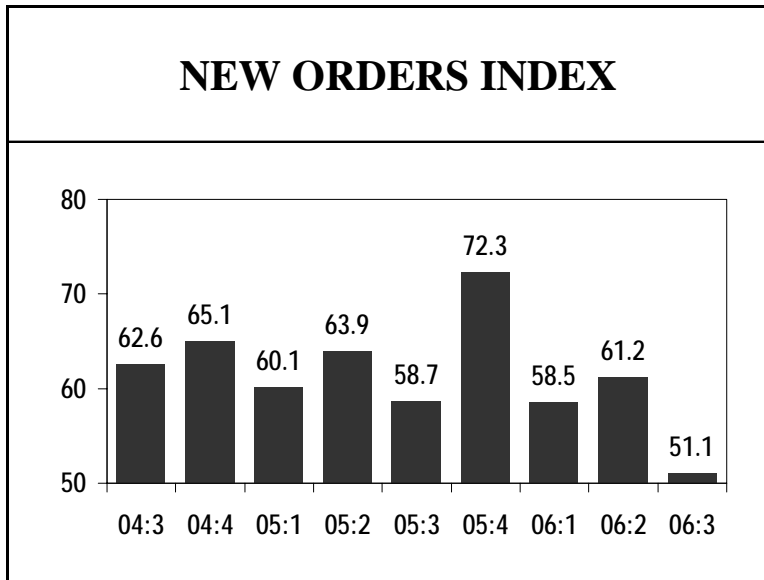
Professor of Economics and Research Fellow

(714) 997-6693

NEW ORDERS IN MANUFACTURING SLOWED IN THE THIRD QUARTER

ORANGE, CA — New orders in the manufacturing sector of California barely increased in the third quarter of 2006 according to a survey of purchasing managers in California. This substantial slowdown led to slower growth in the manufacturing sector and is expected to continue to have a negative impact in the fourth quarter of this year. The California manufacturing index decreased from 60.3 in the second quarter of 2006 to 56.7 in the third quarter, while the national index decreased from 55.2 to 54.0. A reading over 50 indicates expansion. This marks the thirteenth consecutive quarter of growth and the ninth consecutive quarter that California’s manufacturing sector has outperformed the nation’s.





Performance by industry group

All three manufacturing industry groups – high-tech, durable goods other than high-tech, and non-durable goods – grew in the third quarter of 2006, with the high-tech industries outperforming the other two groups for the second consecutive quarter. The high-tech index decreased from 66.1 in the second quarter of 2006 to 65.4 in the third quarter. The performance of the durable goods industries other than high-tech was again the weakest of the three industry groups. For the first time since the third quarter of 2002, orders in the durable goods industries other than high-tech decreased in the third quarter compared to the second quarter. Commodity prices in the non-durable goods industries were reported to have increased substantially compared to the second quarter.

Growth rate of the underlying variables

Production, commodity prices and inventories of purchased materials grew in the third quarter of 2006. Orders barely increased compared to the first quarter putting a drag on the manufacturing sector as a whole. The supplier deliveries index decreased from 58.0 to 53.6 indicating that deliveries slowed minimally in the third quarter. The employment index increased from 57.8 to 59.3 indicating a brighter outlook for jobs in the manufacturing sector.

Production was reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Plastics & Rubber Products; Nonmetallic Mineral Products; Fabricated Metal Products; Computer & Electronic Products; and Aerospace Products & Parts. New orders were reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Non-Metallic Mineral Products; Miscellaneous Manufacturing; and Computer & Electronic Products. New orders were reported to have decreased most rapidly in the following industries: Apparel; Wood Products; Primary Metals; Fabricated Metal Products; Machinery; and Transportation Equipment. Employment was reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Plastics & Rubber Products; Non-Metallic Mineral Products; Fabricated Metal Products; Miscellaneous Manufacturing; Computer & Electronic Products; and Aerospace

Products & Parts. Commodity prices were reported to have increased most rapidly in the following industries: Food; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Fabricated Metal Products; Machinery; Furniture & Related Products; Computer & Electronic Products; and Aerospace Products & Parts.

Performance of the national manufacturing sector

At the national level, the Purchasing Managers Index, published by the Institute of Supply Management, decreased from a monthly average of 55.2 in the second quarter of 2006 to 54.0 in the third quarter, indicating that the manufacturing economy grew at a slower rate in the third quarter of this year. The production index decreased from July to August and again in September. The employment index dipped below 50 in September indicating a minor decrease in employment. New orders grew at the same rate in September as they did in August. The commodity price index decreased from July to August and again in September indicating that commodity prices grew at a slower rate at the end of the third quarter. The supplier deliveries index decreased from 55.0 in August to 54.1 in September indicating slower deliveries. 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 2006

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 64.8 in the second quarter of 2006 to 63.6 in the third quarter, indicating that production grew in the third quarter at a slightly slower rate when compared to the second quarter. Production was reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Plastics & Rubber Products; Non-Metallic Mineral Products; Fabricated Metal Products; Computer & Electronic Products; and Aerospace Products & Parts. The Wood Products and Machinery industries reported a decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2006	48.5	27.1	24.4	24.1	63.6
2 nd Quarter of 2006	48.9	34.8	16.2	32.7	64.8
1 st Quarter of 2006	50.5	27.7	21.8	28.8	63.0
4 th Quarter of 2005	53.8	30.2	16.0	37.7	70.3

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials increased from 54.8 in the second quarter of 2006 to 55.3 in the third quarter, indicating that inventories grew in the third quarter at a slightly faster rate when compared to the second quarter. Inventories of purchased materials were reported to have increased most rapidly in the following industries: Food; Paper; Plastics & Rubber Products; Non-Metallic Mineral Products; Primary Metals; and Aerospace Products & Parts. The Apparel and Machinery industries reported a decrease in inventories of purchased materials.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2006	35.9	38.2	26.0	9.9	55.3
2 nd Quarter of 2006	36.9	36.9	26.3	10.6	54.8
1 st Quarter of 2006	41.1	28.7	30.2	11.0	53.8
4 th Quarter of 2005	38.8	36.8	24.4	14.4	59.2

Commodity Prices: The seasonally unadjusted index for commodity prices decreased from 80.1 in the second quarter of 2006 to 77.3 in the third quarter, indicating that commodity prices rose in the third quarter at a slower rate when compared to the second quarter. Commodity prices were reported to have increased most rapidly in the following industries: Food; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Fabricated Metal Products; Machinery; Furniture & Related Products; Computer & Electronic Products; and Aerospace Products & Parts. No industry reported lower commodity prices.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2006	64.4	25.8	9.8	54.5	77.3
2 nd Quarter of 2006	67.6	25.0	7.4	60.2	80.1
1 st Quarter of 2006	64.1	23.8	12.1	52.1	76.0
4 th Quarter of 2005	66.1	32.8	1.0	65.1	82.5

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 decreased from 58.0 in the second quarter to 53.6 in the third quarter, indicating that supplier deliveries slowed in the third quarter of 2006. The Machinery and Transportation Equipment industries reported slower supplier deliveries. The Fabricated Metals industry reported faster supplier deliveries. The closeness of the index to a value of 50 is an indication of a slowing in demand hence a slower rate of growth in manufacturing as a whole.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 rd Quarter of 2006	17.9	72.3	9.8	8.1	53.6
2 nd Quarter of 2006	25.4	66.5	8.2	17.2	58.0
1 st Quarter of 2006	23.3	68.5	8.2	15.0	57.9
4 th Quarter of 2005	35.1	60.5	4.5	30.6	66.1

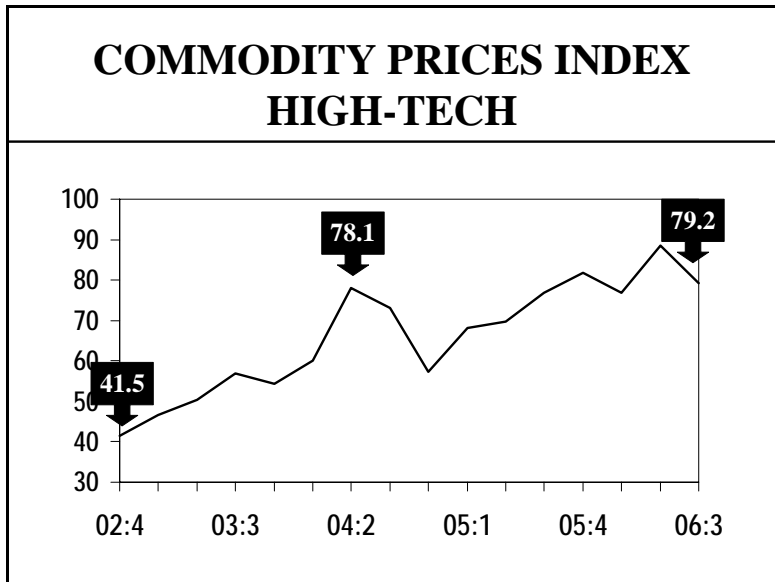
New Orders: The seasonally adjusted index for new orders decreased substantially from 61.2 in the second quarter of 2006 to 51.1 in the third quarter, indicating that new orders barely increased in the third quarter compared to the second quarter. New orders were reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Non-Metallic Mineral Products; Miscellaneous Manufacturing; and Computer & Electronic Products. New orders were reported to have decreased most rapidly in the following industries: Apparel; Wood Products; Primary Metals; Fabricated Metal Products; Machinery; and Transportation Equipment. This slowdown in new orders does not bode well for the manufacturing sector in the fourth quarter of this year.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2006	38.8	23.2	37.9	0.9	51.1
2 nd Quarter of 2006	47.7	31.1	21.2	26.6	61.2
1 st Quarter of 2006	47.6	25.1	27.4	20.2	58.5
4 th Quarter of 2005	55.5	26.9	17.7	37.8	72.3

Employment: The seasonally adjusted index for employment increased from 57.8 in the second quarter of 2006 to 59.3 in the third quarter, indicating an increase in employment in the third quarter when compared to the second quarter. Employment was reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Plastics & Rubber Products; Non-Metallic Mineral Products; Fabricated Metal Products; Miscellaneous Manufacturing; Computer & Electronic Products; and Aerospace Products & Parts. The Wood Products industry reported a decrease in employment.

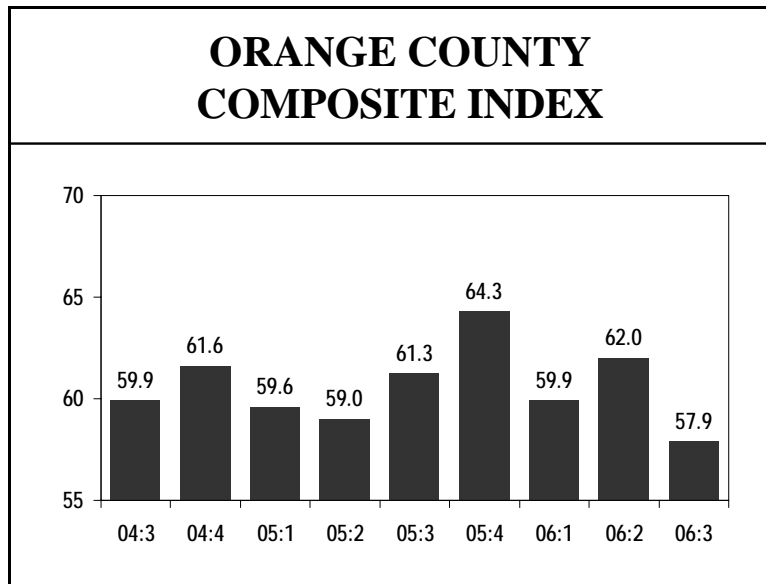
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2006	35.9	44.6	19.5	16.3	59.3
2 nd Quarter of 2006	35.1	50.6	14.3	20.8	57.8
1 st Quarter of 2006	41.9	41.1	17.0	24.9	62.1
4 th Quarter of 2005	34.2	51.4	14.4	19.8	61.8

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 392,000 employees, amounting to 25.6% of total manufacturing employment in the state. The high-tech index decreased slightly from 66.1 in the second quarter of 2006 to 65.4 in the third quarter, indicating that the high-tech industries grew almost as fast as in the second quarter. Production increased at a faster rate in the third quarter, but new orders increased at a slower rate as the index decreased from 71.1 to 60.5. The index for commodity prices moderated a little as it decreased from 88.5 in the second quarter of 2006 to 79.2 in the third quarter, indicating that commodity prices in the high-tech industries increased at a slower rate in the third quarter.



Orange County's Manufacturing Survey

The Composite Index for Orange County computed through the results of the purchasing managers survey, decreased from 62.0 in the second quarter of 2006 to 57.9 in the third quarter, indicating that the manufacturing sector of Orange County grew at a slower rate in the third quarter of this year. For the third consecutive quarter the Orange County manufacturing sector has outperformed California's.



The seasonally adjusted index for production decreased from 67.2 in the second quarter of 2006 to 58.8 in the third quarter, indicating that production grew at a slower rate in the third quarter. Production was reported to have increased most rapidly in the following industries: Apparel; Paper; Fabricated Metal Products; and Aerospace Products & Parts. The Food industry reported lower production. The seasonally adjusted index for new orders decreased from 58.0 in the second quarter of 2006 to 55.0 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: Apparel; Paper; Printing & Related Support Activities; Fabricated Metal Products; Electrical Equipment, Appliance, & Components; and Aerospace Products & Parts. The Furniture & Related Products and the Computer & Electronic Products industries reported lower new orders. The seasonally adjusted index for commodity prices in the high-tech industries decreased from a very high 92.9 in the second quarter to 77.1 in the third quarter, indicating a continued increase in the prices of commodities used in the high-tech industries albeit at a slower rate compared to the second quarter. Commodity prices for the county's manufacturing sector as a whole also increased 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:

- 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