



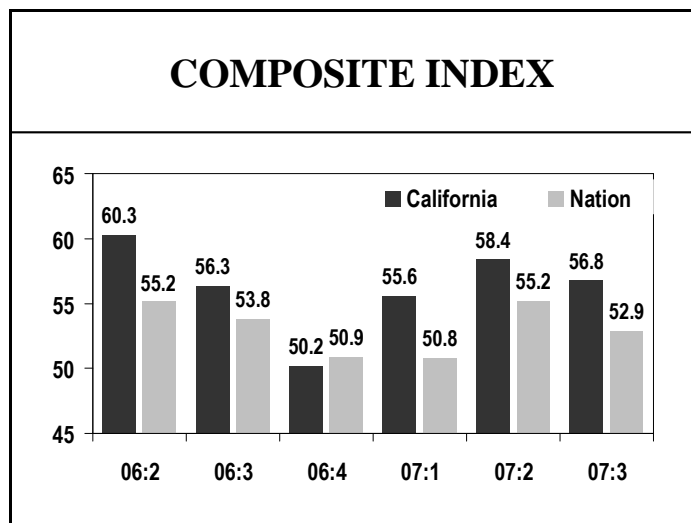
A. Gary Anderson Center for Economic Research

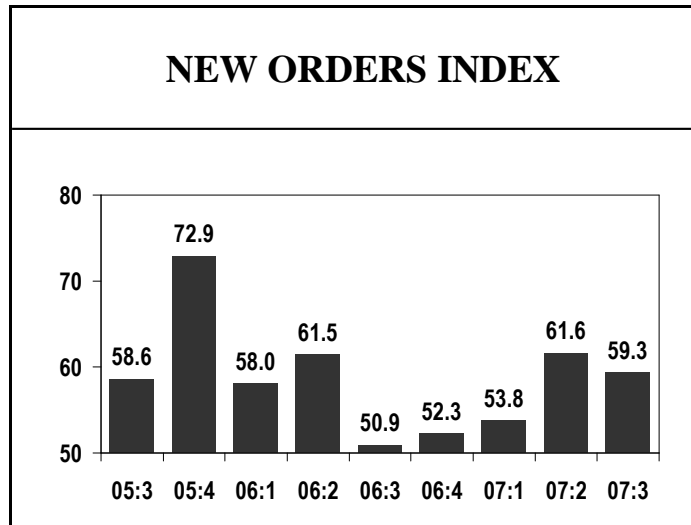
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MANUFACTURING GROWTH PERSISTS IN SPITE OF HOUSING CRISIS

ORANGE, CA — The purchasing managers in California reported that growth in the manufacturing sector persisted in the third quarter of 2007 in spite of difficulties in the housing market. The Composite Index decreased from 58.4 in the second quarter of 2007 to 56.8 in the third quarter. The decrease in the Composite Index is due to lower growth rates in the durable goods industries other than high-tech and in the non-durable goods industries. Although the production index decreased from 61.2 to 58.6 it still indicates an increase in production. The index for new orders decreased from 61.6 to 59.3 indicating growth in new orders albeit at a lower rate. The survey also indicated that there is moderation in commodity prices as the commodity price index decreased from 77.2 to 69.6. The national manufacturing index decreased from 55.2 to 52.9.





Performance by industry group

Unlike the second quarter of 2007, the two manufacturing industry groups, durable goods other than high-tech and non-durable goods, grew at a slower rate compared to the high-tech industry group. The indices for these two industries stood at 55.8 and 56.3 respectively. Production and new orders increased for these industries in the second quarter of 2007. The commodity price index in the non-durable goods industries increased from 78.4 to 81.0 indicating that prices in these industries increased at a much higher rate than the rest of the manufacturing industries. The high-tech industry group grew faster in the third quarter compared to the second quarter of 2007, with the production index recovering strongly from 51.7 to 64.2.

Growth rate of the underlying variables

Production, new orders and inventories of purchased materials were reported to have increased at a slower rate in the third quarter of 2007 compared to the second quarter. The commodity price index decreased from 77.2 to 69.6. The supplier deliveries index increased minimally from 54.0 to 54.9 indicating that supplier deliveries were barely slower than they were in the second quarter. The employment index remained virtually unchanged at 54.0. In their comments the purchasing managers have written about exports growth, the higher cost of doing business in California and its effect on relocating to other states or to foreign countries.

- Production was reported to have increased most rapidly in the following industries: Food; Paper; Wood Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Miscellaneous; Computer & Electronic Products; and Aerospace Products & Parts. No industry reported a decrease in production.
- New orders were reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Wood Products; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliance & Components; Furniture & Related Products; Computer & Electronic Products; and Aerospace Products & Parts. The Machinery industry reported lower new orders.

- Employment was reported to have increased most rapidly in the following industries: Food; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliance & Components; Furniture & Related Products; Miscellaneous; and Aerospace Products & Parts. The Computer & Electronic Products industry reported lower employment.
- Commodity prices were reported to have increased most rapidly in the following industries: Food; Apparel; Paper; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Furniture & Related Products; Computer & Electronic Products; and Aerospace Products & Parts. No industry reported lower commodity prices.

Performance of the national manufacturing sector

Nationally, the Purchasing Managers Index, published by the Institute for Supply Management, decreased from an average of 55.2 in the second quarter of 2007 to 52.9 in the third quarter, indicating that the manufacturing economy grew at a slower rate in the third quarter of the year. The production index decreased from 62.9 in the month of June to 53.3 in the month of September indicating that production grew at a slower rate in the month of September. Similar to production, the rate of growth in new orders decreased every month since June. The employment index showed very little change over the last few months standing at 51.7 in September. The commodity price index decreased from 63.0 in August to 59.0 in September indicating that commodity prices continued to increase in the month of June but at a slower rate. The supplier deliveries index increased from 49.7 in June to 51.9 in September indicating that supplier deliveries were barely slower towards the end of the third quarter. The performance of the national manufacturing sector was below that of California in the third quarter of 2007.

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 2007

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 61.2 in the second quarter of 2007 to 58.6 in the third quarter, indicating that production increased 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; Paper; Wood Products; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Miscellaneous; Computer & Electronic Products; and Aerospace Products & Parts. No industry reported a decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2007	41.5	33.7	24.8	16.7	58.6
2 nd Quarter of 2007	48.9	28.0	23.2	25.7	61.2
1 st Quarter of 2007	40.0	40.1	20.0	20.0	59.2
4 th Quarter of 2006	32.7	27.5	39.8	-7.1	48.2

Inventories of Purchased Materials: The seasonally adjusted index for inventories of purchased materials decreased from 56.4 in the second quarter of 2007 to 53.8 in the third quarter, indicating that inventories of purchased materials increased in the third quarter at a slower rate. Inventories of purchased materials were reported to have increased most rapidly in the following industries: Food; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliance & Components; and Computer & Electronic Products. Inventories of purchased materials were reported to have decreased most rapidly in the following industries: Apparel; Paper; and Plastics & Rubber Products.

Inventories of Purchased Materials	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2007	34.8	37.3	27.9	6.9	53.8
2 nd Quarter of 2007	38.3	36.6	25.2	13.1	56.4
1 st Quarter of 2007	33.8	40.7	25.3	8.4	52.4
4 th Quarter of 2006	32.5	32.4	35.2	-2.7	50.1

Commodity Prices: The seasonally unadjusted index for commodity prices decreased from 77.2 in the second quarter of 2007 to 69.6 in the third quarter, indicating that commodity prices rose in the third quarter at a slower rate compared to the second quarter. Commodity prices were reported to have increased most rapidly in the following industries: Food; Apparel; Paper; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Electrical Equipment, Appliance & Components; Furniture & Related Products; Computer & Electronic Products; and Aerospace Products & Parts. No industry reported lower commodity prices. In their comments the purchasing managers have explicitly written about higher prices for metal and for flour.

Commodity Prices	% Higher	% Same	% Lower	Net	Index
3 rd Quarter of 2007	47.5	44.3	8.2	39.3	69.6
2 nd Quarter of 2007	56.7	41.1	2.3	54.4	77.2
1 st Quarter of 2007	50.5	42.2	7.3	43.2	71.6
4 th Quarter of 2006	40.4	42.4	17.2	23.2	61.6

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 slightly from 54.0 in the second quarter of 2007 to 54.9 in the third quarter, indicating that supplier deliveries were minimally slower in the third quarter of this year. Supplier deliveries were reported to have slowed most rapidly in the following industries: Food; Printing & Related Support Activities; Furniture & Related Products; and Computer & Electronic Products. No industry reported faster supplier deliveries.

Supplier Deliveries	% Slower	% Same	% Faster	Net	Seasonally Adjusted Index
3 rd Quarter of 2007	19.8	71.4	8.8	11.0	54.9
2 nd Quarter of 2007	18.0	73.7	8.3	9.7	54.0
1 st Quarter of 2007	18.7	74.2	7.1	11.6	56.5
4 th Quarter of 2006	14.5	74.3	11.3	3.2	52.3

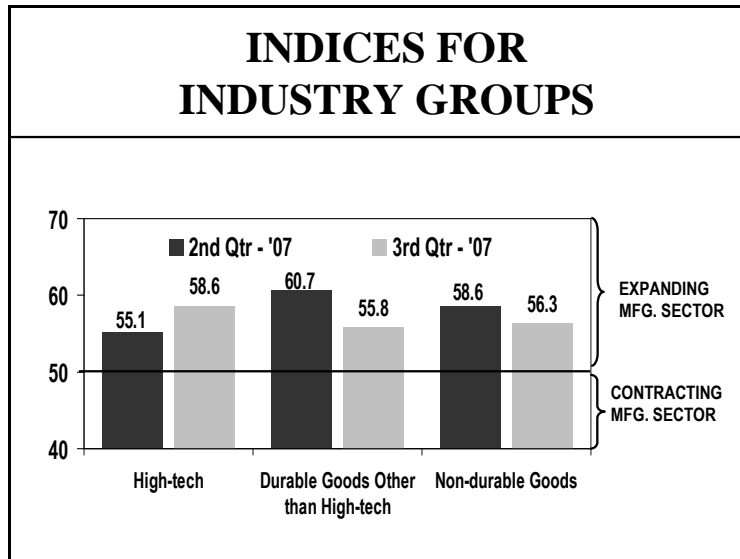
New Orders: The seasonally adjusted index for new orders decreased from 61.6 in the second quarter of 2007 to 59.3 in the third quarter, indicating that new orders increased at a slower rate in the third quarter of this year. New orders were reported to have increased most rapidly in the following industries: Food; Printing & Related Support Activities; Wood Products; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliance & Components; Furniture & Related Products; Computer & Electronic Products; and Aerospace Products & Parts. The Machinery industry reported lower new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2007	45.7	25.9	28.4	17.4	59.3
2 nd Quarter of 2007	52.6	21.7	25.7	26.8	61.6
1 st Quarter of 2007	41.2	28.9	29.9	11.4	53.8
4 th Quarter of 2006	34.9	29.0	36.2	-1.3	52.3

Employment: The seasonally adjusted index for employment decreased minimally from 54.5 in the second quarter of 2007 to 54.0 in the third quarter, indicating that very little increase in employment is taking place in the manufacturing sector. Employment was reported to have increased most rapidly in the following industries: Food; Primary Metals; Fabricated Metal Products; Electrical Equipment, Appliance & Components; Furniture & Related Products; Miscellaneous; and Aerospace Products & Parts. The Computer & Electronic Products industry reported lower employment.

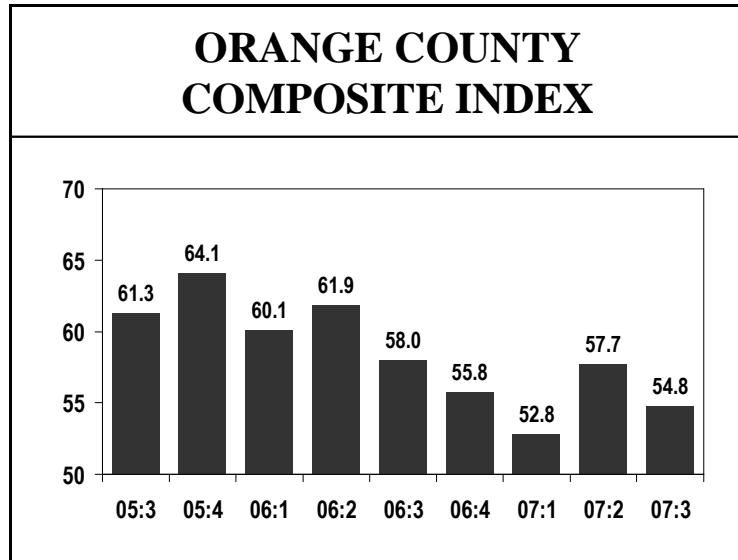
Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
3 rd Quarter of 2007	24.4	56.5	19.0	5.4	54.0
2 nd Quarter of 2007	32.5	48.9	18.6	13.9	54.5
1 st Quarter of 2007	28.4	53.0	18.7	9.7	54.6
4 th Quarter of 2006	23.7	46.8	29.5	-5.8	48.3

High-Tech Industries: The high-tech industries include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 395,000 employees, amounting to 26.09% of total manufacturing employment in the state. The high-tech index increased for the first time in a year from 55.1 in the second quarter of 2007 to 58.6 in the third quarter, indicating that the high-tech industries grew at a faster rate in the third quarter of this year. The growth rate in these industries was reported to be higher than the other two manufacturing industry groups in the state. Production increased substantially with an index equal to 64.2, and new orders also increased with an index equal to 62.5. The commodity price index dropped sharply from 82.6 to 62.0 indicating that commodity prices increased at a much slower rate in the third quarter compared to the second quarter of 2007.



Orange County's Manufacturing Survey

The Composite Index for Orange County decreased from 57.7 in the second quarter of 2007 to 54.8 in the third quarter according to a survey of purchasing managers. This indicates that the manufacturing sector of Orange County grew at a slower rate in the third quarter of this year. The performance of the manufacturing sector in Orange County was below that of California.



The seasonally adjusted index for production decreased from 59.7 in the second quarter of 2007 to 56.3 in the third quarter, indicating that production grew at a slower rate in the third quarter. In California the production index stood at 68.6. Production was reported to have increased most rapidly in the following industries: Printing & Related Support Activities; Furniture & Related Products; and Aerospace Products & Parts. Production was reported to have decreased most rapidly in the following industries: Plastics & Rubber Products; and Wood Products. The seasonally adjusted index for new orders decreased from 58.7 in the second quarter of 2007 to 55.7 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: Food; Printing & Related Support Activities; Computer & Electronic Products; and Aerospace Products & Parts. New orders were reported to have decreased most rapidly in the following industries: Plastics & Rubber Products; and Woods Products. The commodity price index decreased from 75.3 in the second quarter of 2007 to 71.1 in the third quarter, indicating that commodity prices increased in the third quarter but at a slower rate. The seasonally adjusted index for inventories of purchased materials decreased from 64.3 to 56.7 indicating that inventories of purchased materials increased at a slower rate 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:

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| 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 |