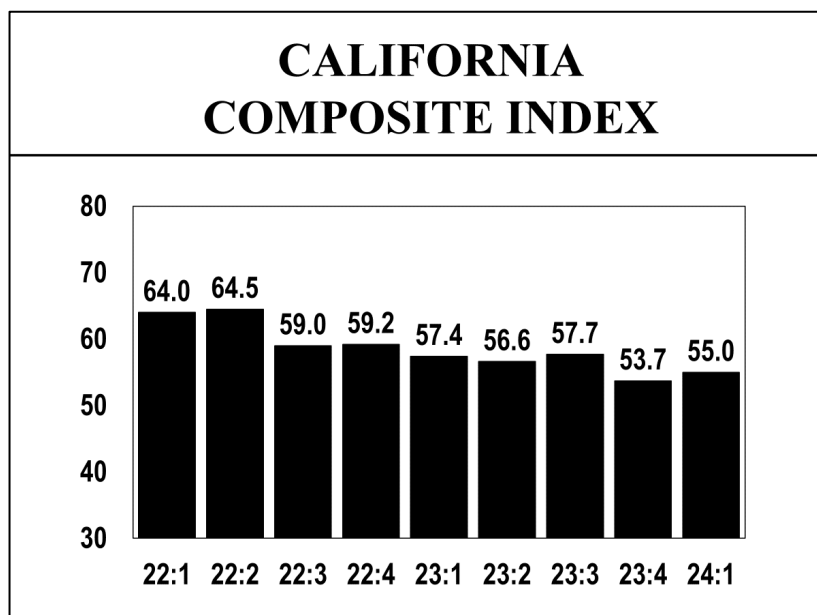


## PRESS RELEASE

# HIGHER GROWTH IN THE CALIFORNIA MANUFACTURING SECTOR TO START THE NEW YEAR

ORANGE, CA — Based on a survey of purchasing managers, the California Composite Index, measuring overall manufacturing activity in the state, increased from 53.7 in the fourth quarter of 2023 to 55.0 in the first quarter of 2024, indicating that the manufacturing sector is expected to grow at a higher rate in the first quarter of 2024. “Purchasing managers are upbeat about 2024. They see supply chain improvement, moderating raw materials price increases, and positive impact from expected lower interest rates. However, they are concerned about this election year, see shortages of some raw materials, and fret over California’s minimum wage increases,” said Dr. Raymond Sfeir, director of the purchasing managers’ survey. Production and new orders are expected to grow at a higher rate in the first quarter, while commodity prices are expected to rise at practically the same rate as at the end of 2023. The inventory of purchased materials is expected to decrease. The non-durable goods industries are expected to underperform the other manufacturing industries, while the durable goods industries other than high-tech will recuperate from the zero growth in the fourth quarter of 2023.



## California Manufacturing at a Glance

Composite Index	55.0	Increasing at a higher rate
Production	59.2	Increasing at the higher rate
Inventories of purchased materials	48.6	Decreasing
Commodity prices	66.8	Rising at a lower rate
Supplier deliveries	49.3	Faster
New orders	59.0	Increasing at a higher rate
Employment	51.5	Increasing at a lower rate

### Performance by Industry Group

The index for the **non-durable goods industries** decreased from 56.1 in the fourth quarter to 52.0 in the first quarter of 2024, indicating that these industries are expanding at a lower rate. Production is expected to grow at a lower rate as the index decreased from 58.0 to 54.7. Inventories of purchased materials are expected to decrease. Employment is expected to decrease as the index decreased from 55.1 to 46.1.

The **high-tech industries** include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 378,700 employees, amounting to 28.2% of total manufacturing employment in the state. The index for the high-tech industries increased from 55.9 in the fourth quarter to 56.7 in the first quarter, indicating a higher growth rate in the first quarter of 2024. Production and new orders are expected to grow at a higher rate. Employment is expected to grow at a lower rate. Inventories of purchased materials are expected to decrease as the index decreased from 53.5 to 48.8. Commodity prices are expected to rise at a lower rate as the index decreased from 78.4 to 62.9.

The index for the **durable goods industries other than high-tech** increased from 49.9 in the fourth quarter to 56.7 in the first quarter of 2024, indicating that these industries will grow in the first quarter of 2024. Production, new orders and employment are expected to grow at a higher rate. Supplier deliveries are expected to be faster for the third consecutive quarter.

### Comments by the Purchasing Managers

Everything has been increasing in price from our vendors and the employees minimum wage is suffering another increase. California government is really hurting small business with all these minimum wage increases. (Food)

The future sales look moderately optimistic. The inventory will be down, because of still high prices. (Wood Products)

Energy costs continue to affect operations, profitability, and supplier delivery times. Interest rates are impacting the pipeline and size of future orders. (Printing & Related Support Activities)

Employment remains the same however have been going to shortened weeks. Employees are not working a full 40-hour week. (Chemicals)

Manufacturing has had a hard landing, which will likely persist until after the Fed's second interest rate drop. Prices continue to rise on many goods and services, but passing these rising costs along has become almost impossible. Not very optimistic for H1 this year, but hopeful for a recovery in H2. (Plastics & Rubber Products)

We need to see a better first quarter. I tried to answer as realistically as possible, but it is hard to separate optimism from more realistic performance expectations at the moment. We are just about at our lowest operating level right now, so performance must and can only go up this quarter. (Nonmetallic Mineral Products)

Our customer base was expecting a better finish to 2023 but it has not materialized. UAW strike still has lingering effects. We have reduced our staff through the end of the year with anticipation of bringing them back mid- January if we see new orders to support the payroll. (Primary Metals)

Our company has had major growth this year and we expect more to come in the next year as well. (Fabricated Metal Products)

Suppliers are more comfortable passing along price increases now. We have seen an erosion of backlog and supplier deliveries are starting to normalize. Anticipating better sales going forward we are looking at onboarding strategically, both in sales and operations. (Machinery)

Supply chain issues have eased lately, and we will be reducing some safety stock that was built up during the last couple years due to supply chain issues. (Computer & Electronic Products)

Due to the lowering of interest rates, we expect a slight increase in activity towards the end of Q1 and into Q2. Winter weather patterns will play a role in this as well. (Electrical Equipment, Appliance & Components)

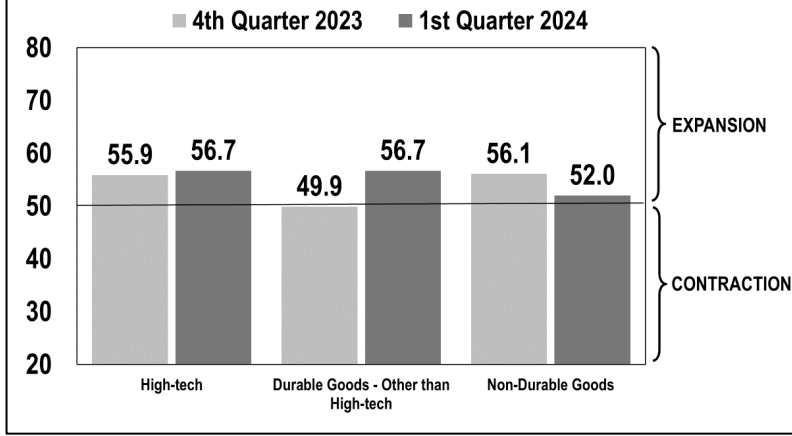
Our product highly depends on disposable income. We feel that low consumer confidence is affecting the market (recreational vehicles) that we sell into. (Transportation Equipment)

Freight costs are the biggest concern for our suppliers and our customers. Freight policies rank as a more important factor than product discounts with end user and retail customers and can motivate or handicap sales. (Furniture & Related Products)

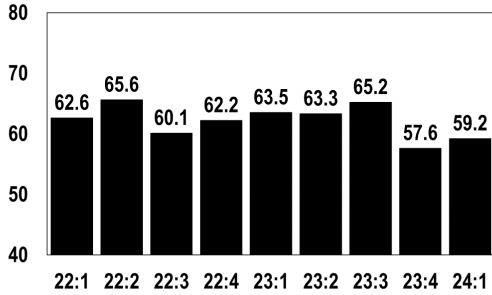
Seasonality forces our first quarter to slow down. We are looking for a banner year this year as inventories are reduced and retail campaigns, e-commerce and subscription sales shift up in the third quarter. (Miscellaneous)

Orders seem to be consistent and stable to slightly higher for the coming quarter (1st Q, 2024). (Aerospace Products & Parts)

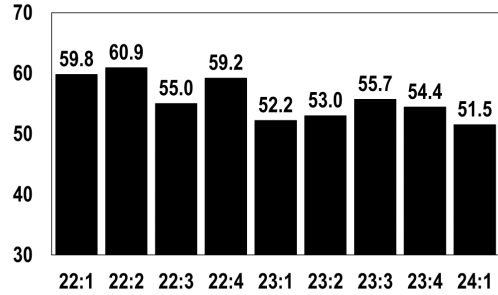
# INDICES FOR INDUSTRY GROUPS



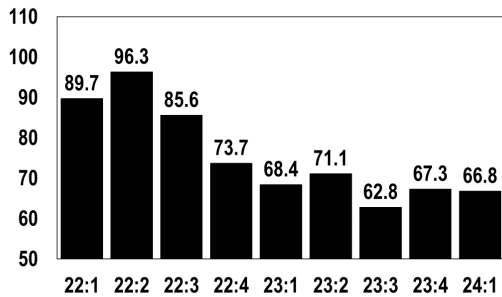
## PRODUCTION INDEX



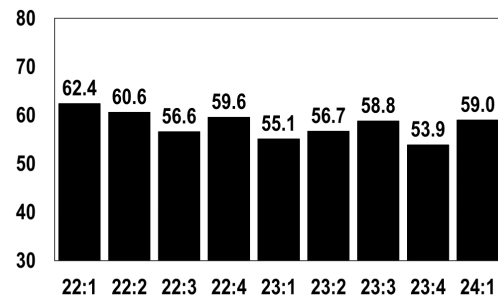
## EMPLOYMENT INDEX



## COMMODITY PRICE INDEX



## NEW ORDERS INDEX



## **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. A seasonally adjusted index is computed for each variable except for commodity prices for which no seasonal adjustment is made. Unlike the national survey that tracks the performance of the manufacturing sector in the previous month, the Anderson Center's survey asks the participants to evaluate the expected performance in the coming quarter.

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 First Quarter of 2024**

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. If for example the index increases from 55 to 59, we say that the growth rate is higher than the previous quarter because 59 is bigger than 55. If the index remains at 55, we say that the growth rate remains the same as the previous quarter. If the index decreases from 55 to 52, we say that we still have growth but that the growth rate is lower than the previous quarter because 52 is smaller than 55. 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 57.6 in the fourth quarter to 59.2 in the first quarter, indicating that production is expected to increase at a higher rate in the first quarter of 2024. This is the fifteenth consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Textile Mill Products; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Primary Metals; Computer & Electronic Products; Transportation Equipment (other than Aerospace Products & Parts); and Furniture & Related Products. The Food industry reported an expected decrease in production.

<b>Production</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
1 <sup>st</sup> Quarter of 2024	38.4	39.3	22.3	16.1	59.2
4 <sup>th</sup> Quarter of 2023	32.3	43.8	23.9	8.3	57.6
3 <sup>rd</sup> Quarter of 2023	46.3	41.0	12.6	33.7	65.2
2 <sup>nd</sup> Quarter of 2023	47.5	39.0	13.5	33.9	63.3

**Inventories of Purchased Materials:** The seasonally adjusted index for inventories of purchased materials is expected to decrease from 51.7 in the fourth quarter to 48.6 in the first quarter, indicating that inventories are expected to decrease in the first quarter of 2024. Inventories of purchased materials are expected to increase most rapidly in the following industries: Printing & Related Support Activities; Chemicals; Nonmetallic Mineral Products; Fabricated Metal Products; and Furniture & Related Products. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Food; Beverage & Tobacco; Plastics & Rubber Products; Wood Products; Computer & Electronic Products; Electrical Equipment, Appliance & Components; and Miscellaneous.

<b>Inventories of Purchased Materials</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
1 <sup>st</sup> Quarter of 2024	25.3	45.4	29.4	-4.1	48.6
4 <sup>th</sup> Quarter of 2023	25.4	46.7	27.9	-2.5	51.7
3 <sup>rd</sup> Quarter of 2023	31.5	45.0	23.5	8.0	52.3
2 <sup>nd</sup> Quarter of 2023	34.1	44.0	21.9	12.2	53.8

**Commodity Prices:** The seasonally unadjusted index for commodity prices is expected to decrease from 67.3 in the fourth quarter to 66.8 in the first quarter, indicating that commodity prices are expected to rise at a lower rate in the first quarter 2024. Commodity prices are expected to increase most rapidly in the following industries: Wood Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment (other than Aerospace Products & Parts); Aerospace Products & Parts; Furniture & Related Products; and Miscellaneous. No industry reported an expected decrease in commodity prices.

<b>Commodity Prices</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Index</b>
1 <sup>st</sup> Quarter of 2024	44.5	44.7	10.8	33.7	66.8
4 <sup>th</sup> Quarter of 2023	44.7	45.2	10.1	34.7	67.3
3 <sup>rd</sup> Quarter of 2023	37.4	50.9	11.7	25.6	62.8
2 <sup>nd</sup> Quarter of 2023	50.3	41.7	8.1	42.2	71.1

**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 decrease from 49.5 in the fourth quarter to 49.3 in the first quarter, indicating that supplier deliveries are expected to be slower in the first quarter of 2024. Supplier deliveries are expected to be fastest in the following industries: Wood Products; Primary Metals; Machinery; and Miscellaneous. No industry reported an expectation of slower supplier deliveries.

<b>Supplier Deliveries</b>	<b>% Slower</b>	<b>% Same</b>	<b>% Faster</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
1 <sup>st</sup> Quarter of 2024	14.6	68.3	17.1	-2.5	49.3
4 <sup>th</sup> Quarter of 2023	13.9	72.0	14.1	-0.2	49.5
3 <sup>rd</sup> Quarter of 2023	14.7	66.6	18.7	-3.9	48.3
2 <sup>nd</sup> Quarter of 2023	16.5	67.8	15.7	0.8	50.0

**New Orders:** The seasonally adjusted index for new orders is expected to increase from 53.9 in the fourth quarter to 59.0 in the first quarter, indicating that new orders are expected to increase at a higher rate in the first quarter of 2024. New orders are expected to increase most rapidly in the following industries: Printing & Related Support Activities; Chemicals; Primary Metals; Machinery; Computer & Electronic Products; Transportation Equipment (other than Aerospace Products & Parts); and Furniture & Related Products. The Wood Products industry reported an expected decrease in new orders.

<b>New Orders</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
1 <sup>st</sup> Quarter of 2024	38.0	40.8	21.2	16.8	59.0
4 <sup>th</sup> Quarter of 2023	29.6	42.3	28.1	1.4	53.9
3 <sup>rd</sup> Quarter of 2023	39.3	41.1	19.6	19.7	58.8
2 <sup>nd</sup> Quarter of 2023	38.6	42.6	18.8	19.8	56.7

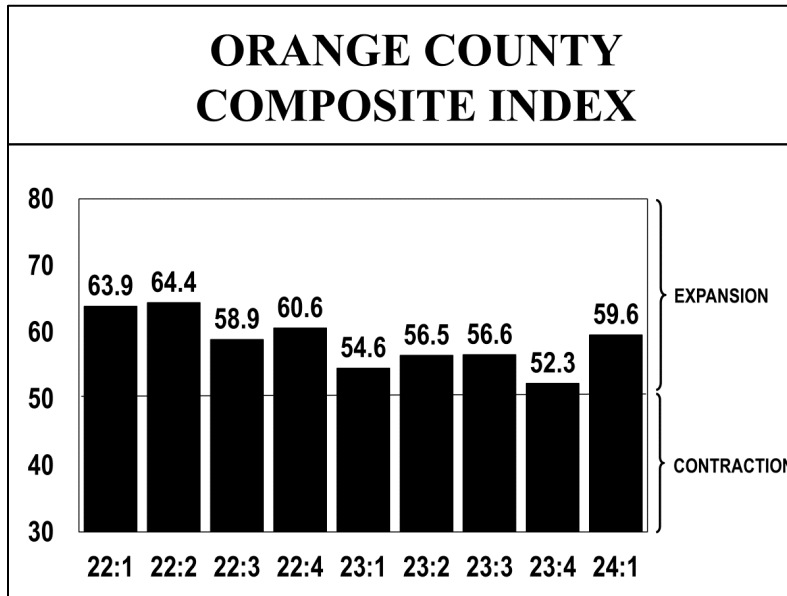
**Employment:** The seasonally adjusted index for employment is expected to decrease from 54.4 in the fourth quarter to 51.5 in the first quarter, indicating that employment in manufacturing is expected to increase at a lower rate in the first quarter of 2024. Employment is expected to increase most rapidly in the following industries: Nonmetallic Mineral Products; Machinery; Furniture & Related Products; and Miscellaneous. Employment is expected to decrease most rapidly in the following industries: Food; and Electrical Equipment, Appliance & Components.

<b>Employment</b>	<b>% Higher</b>	<b>% Same</b>	<b>% Lower</b>	<b>Net</b>	<b>Seasonally Adjusted Index</b>
1 <sup>st</sup> Quarter of 2024	19.2	63.5	17.2	2.0	51.5
4 <sup>th</sup> Quarter of 2023	19.5	66.2	14.3	5.3	54.4
3 <sup>rd</sup> Quarter of 2023	25.7	62.8	11.6	14.1	55.7
2 <sup>nd</sup> Quarter of 2023	22.3	63.5	14.2	8.0	53.0



## Orange County's Manufacturing Survey

The Orange County manufacturing sector's Composite Index increased from 52.3 in the fourth quarter to 59.6 in the first quarter, indicating that the county's manufacturing economy is expected to grow at a higher rate in the first quarter of 2024.



The seasonally adjusted index for production increased from 59.3 in the fourth quarter to 64.7 in the first quarter, indicating that production is expected to increase at a higher rate in the first quarter of 2024. The seasonally adjusted index for inventories of purchased materials increased from 49.8 to 52.6 indicating that inventories are expected to increase. Unlike California, commodity prices are expected to increase at a higher rate in the first quarter. Supplier deliveries are expected to be slower in the first quarter. The indices of new orders and employment increased substantially indicating a higher growth rate in the first quarter.

The index for the **non-durable goods industries** increased from 53.7 in the fourth quarter to 56.2 in the first quarter, indicating that these industries are expected to expand at a higher rate in the first quarter of 2024. The index for inventories of purchased materials increased but remains under 50, indicating that inventories of purchased materials are expected to decrease further in the first quarter. The index for the **high-tech industries** increased from 59.7 to 67.7, indicating that these industries are expected to expand at a higher rate. The index for production increased from 67.2 to 75.2 indicating that production will increase at a higher rate. Similarly, inventories of purchased materials will increase at a higher rate. The new orders index jumped from 55.5 to 72.6 indicating that new orders are expected to increase at a higher rate. The index for the **durable goods industries other than high-tech** increased from 47.8 to 58.1, indicating that the durable goods industries other than high-tech are expected to increase at a higher rate in the first quarter. Production, new orders and employment are all expected to grow at a higher rate, but inventories of purchased materials are expected to decline.

## **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**

- |                 |   |
|-----------------|---|
| <b>JANUARY</b>  | <ul style="list-style-type: none"><li>› Economic Forecast Conferences for the Inland Empire</li><li>› California Purchasing Managers Survey</li></ul> |
| <b>APRIL</b>    | <ul style="list-style-type: none"><li>› California Purchasing Managers Survey</li></ul>   |
| <b>JUNE</b>     | <ul style="list-style-type: none"><li>› Economic Forecast Update Conference for the U.S, California and Orange County</li></ul>                       |
| <b>JULY</b>     | <ul style="list-style-type: none"><li>› California Purchasing Managers Survey</li></ul>   |
| <b>OCTOBER</b>  | <ul style="list-style-type: none"><li>› California Purchasing Managers Survey</li></ul>   |
| <b>DECEMBER</b> | <ul style="list-style-type: none"><li>› Economic Forecast Conference for the U.S., California and Orange County</li></ul>                             |