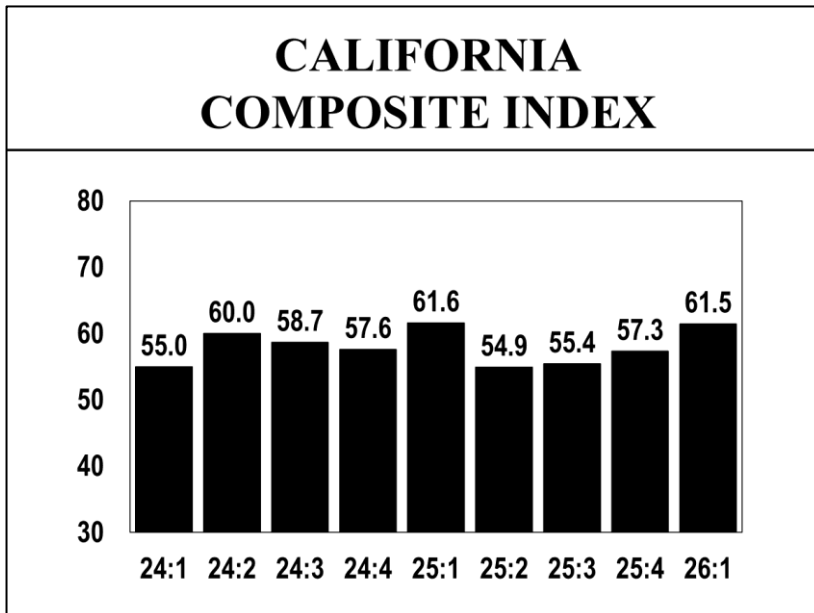


## PRESS RELEASE

### HIGHER GROWTH RATE IN THE CALIFORNIA MANUFACTURING SECTOR IN THE FIRST QUARTER OF 2026

ORANGE, CA — Based on a survey of purchasing managers, the California Composite Index, measuring overall manufacturing activity in the state, increased from 57.3 in the fourth quarter of 2025 to 61.5 in the first quarter of 2026, indicating that the manufacturing sector is expected to grow at a higher rate in the first quarter. “Although tariffs remain a major issue facing purchasing managers, a few managers see tariffs as being stable at this time. More purchasing managers are optimistic about the manufacturing sector and expect higher production levels in 2026 compared to 2025. The defense industry is benefitting from the increased orders from the Department of Defense. Some suppliers are lowering their prices in order to recapture customers that were lost during the tariff wars. Several purchasing managers commented on the excessive California regulations and how that is adding to their costs and making it more difficult for them to compete with other U.S. manufacturers and international manufacturers. Skilled employees are still difficult to find,” said Dr. Raymond Sfeir, director of the purchasing managers’ survey. Production, new orders, and inventories of purchased materials are expected to grow at a higher rate in the first quarter. The high-tech sector is expected to grow at a higher rate than the other manufacturing sectors.



## California Manufacturing at a Glance

Composite Index	61.5	Increasing at a higher rate
Production	68.7	Increasing at a higher rate
Inventories of purchased materials	60.2	Increasing at a higher rate
Commodity prices	76.1	Rising at a lower rate
Supplier deliveries	56.5	Slowing at a higher rate
New orders	65.4	Increasing at a higher rate
Employment	51.2	Increasing at a lower rate

## Performance by Industry Group

The index for the **non-durable goods industries** decreased in the first quarter of 2026, indicating an expected lower growth rate. The production index decreased from 69.5 to 65.8, indicating that production will increase at a lower rate. The employment index dipped below 50, indicating that employment is expected to shrink in the first quarter.

The **high-tech industries** include the following: Computer & Electronic Products, and Aerospace Products & Parts. The high-tech industries currently employ about 314,900 employees, amounting to 25.9% of total manufacturing employment in the state. Employment is still below what it was last year at the same time. The index for the high-tech industries increased from 58.8 in the fourth quarter of 2025 to 67.3 in the first quarter of 2026, indicating a higher growth rate in the first quarter. Production, new orders, inventories of purchased materials and employment are also expected to grow at a higher rate in the fourth quarter. The supplier deliveries index increased from 58.1 to 62.3, indicating that supplier deliveries will slow at a higher rate in the first quarter. Prices will rise at a higher rate.

The index for the **durable goods industries other than high-tech** increased from 53.5 in the fourth quarter of 2025 to 60.3 in the first quarter of 2026, indicating that the growth rate in these industries will be higher in the first quarter. Production, inventories of purchased materials and new orders are expected to grow at a higher rate. Supplier deliveries are expected to be slightly slower in the first quarter compared to the end of 2025.

## Comments by the Purchasing Managers

Regulations, especially in the State of California, make it much harder and more expensive to compete. Higher cost of doing business is a challenge. (Food)

Business remains tough. But on the positive side having stable tariff rates for goods shipped from China is a huge help. Waiting for the SCOTUS ruling to see if we may need to file for refunds on the high tariffs we paid. (Textile Mill Products)

Entertainment industry slowdown is affecting our overall business outlook for the coming quarter. (Apparel)

We peak in this quarter. We are expecting a better 2026. (Paper)

Rising costs across all product categories continue to affect overall purchasing strategies. In an effort to manage these increases, we are often required to negotiate more aggressively with our suppliers, which compresses margins throughout the supply chain. Despite these efforts, customers are still experiencing higher pricing as cost pressures persist and continue to increase. (Printing & Related Support Activities)

Have not been able to capture lost margin due to cost increases and inability to pass those increases along to our larger customers. Pushing hard to grow and starting to see some success, but now need to focus on keeping costs down. (Chemicals)

Supplier deliveries are slower due to freight shipping companies. Production might be slightly higher but most likely the same. Higher inventories are due to contracts in place. (Plastics & Rubber Products)

Building material supply projects will remain flat in Q1 2026, showing no significant change from Q4 2025. Industry sentiment would indicate cautious optimism for a moderate uptick in demand by mid to late 2026, contingent on stabilization in the broader economic conditions. High interest rates: Continuing to suppress new construction activity and remodel investment. Tariff uncertainty: Contributes to price concerns with hesitancy in purchasing commitments. (Wood Products)

Supply prices on many items I purchase have doubled since 2021. (Primary Metals)

It continues to be very difficult to find able bodied employees willing to work in the manufacturing industry. A reduced labor force will affect our ability to meet increased demand when it returns. (Fabricated Metal Products)

There has been a lot of "churn" because of tariffs, some suppliers are now reducing prices to capture back business they lost in the confusion. So now it is starting to settle back into growth. All areas, bookings, shipments and employment have been growing. (Machinery)

We are experiencing sharply increasing demand out of the Defense and Tech sectors. Our expectation is that our automotive customers will be on a downward trending demand curve for the foreseeable future. (Computer & Electronic Products)

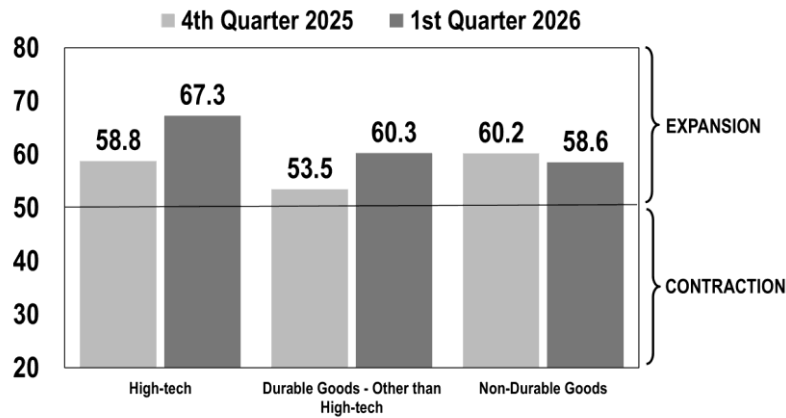
Tariffs are having a negative impact on our industry. No long-term commitments as tariffs can change in a millisecond. (Electrical Equipment, Appliance & Components)

We are still seeing slowness in the market for new purchases due to tariffs. (Transportation Equipment)

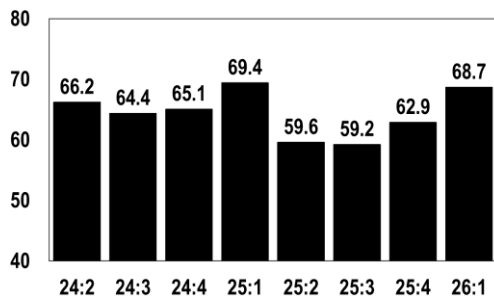
With the upcoming Chinese New Year we are having to purchase material now to keep us going through April. Which would mean that in the first quarter typically we do not purchase that much as we have to over-stock to cover us through time. This has been the same to many of our vendors as well. Also, with the upcoming pressure of anti-dumping duties on plywood going to 183%, it has much of the industry on edge and the mills not producing. (Furniture & Related Products)

We have stabilization in cost of goods since tariffs were first applied. But we have lost one of our larger customers, who have informed us they will be purchasing from overseas beginning the first quarter of 2026. This will lower our overall purchasing of material starting the first quarter of 2026 and going forward. (Miscellaneous)

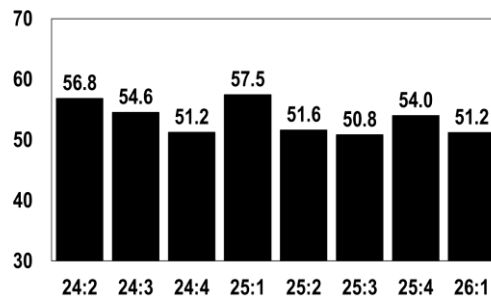
## INDICES FOR INDUSTRY GROUPS



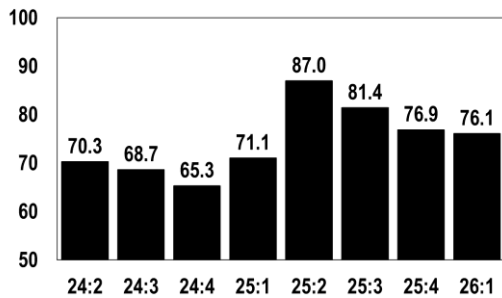
### PRODUCTION INDEX



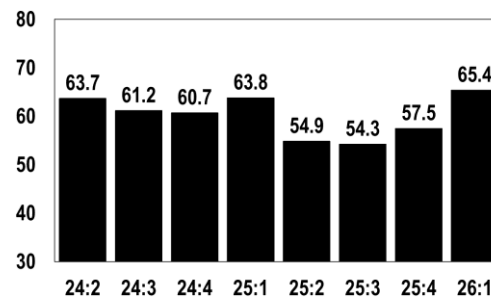
### EMPLOYMENT INDEX



### 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 2026

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 in 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 62.9 in the fourth quarter of 2025 to 68.7 in the first quarter of 2026, indicating that production is expected to increase at a higher rate in the first quarter. This is the twenty third consecutive quarter that the production index has been above 50. Production is expected to increase most rapidly in the following industries: Food, Textile Mill Products; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment (other than Aerospace Products & Parts); and Aerospace Products & Parts. The Miscellaneous industry reported an expected decrease in production.

Production	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 <sup>st</sup> Quarter of 2026	48.5	37.7	13.8	34.6	68.7
4 <sup>th</sup> Quarter of 2025	38.7	40.4	20.8	17.9	62.9
3 <sup>rd</sup> Quarter of 2025	40.5	40.8	18.8	21.7	59.2
2 <sup>nd</sup> Quarter of 2025	44.0	38.4	17.6	26.4	59.6

**Inventories of Purchased Materials:** The seasonally adjusted index for inventories of purchased materials is expected to increase from 55.8 in the fourth quarter of 2025 to 60.2 in the first quarter of 2026, indicating that inventories of purchased materials are expected to increase at a higher rate in the first quarter. Inventories of purchased materials are expected to increase most rapidly in the following industries: Food; Petroleum & Coal Products; Chemicals; Nonmetallic Mineral Products; Primary Metals; Fabricated Metal Products; Machinery; Computer & Electronic Products; Electrical Equipment, Appliance & Components; Transportation Equipment (other than Aerospace Products & Parts); and Furniture & Related Products. Inventories of purchased materials are expected to decrease most rapidly in the following industries: Paper; 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 2026	38.1	42.9	19.1	19.0	60.2
4 <sup>th</sup> Quarter of 2025	27.5	50.1	22.5	5.0	55.8
3 <sup>rd</sup> Quarter of 2025	28.1	51.7	20.2	7.9	52.3
2 <sup>nd</sup> Quarter of 2025	32.7	46.2	21.0	11.7	53.5

**Commodity Prices:** The seasonally unadjusted index for commodity prices is expected to decrease from 76.9 in the fourth quarter of 2025 to 76.1 in the first quarter of 2026, indicating that commodity prices are expected to rise at a lower rate in the first quarter of this year. Commodity prices are expected to increase most rapidly in the following industries: Food; Apparel; Paper; Printing & Related Support Activities; Chemicals; Plastics & Rubber Products; 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 2026	56.4	39.4	4.2	52.3	76.1
4 <sup>th</sup> Quarter of 2025	58.3	37.2	4.5	53.7	76.9
3 <sup>rd</sup> Quarter of 2025	65.6	31.6	2.8	62.9	81.4
2 <sup>nd</sup> Quarter of 2025	75.2	23.5	1.2	74.0	87.0

**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 55.2 in the fourth quarter of 2025 to 56.5 in the first quarter of 2026, indicating that supplier deliveries are expected to slow down at a higher rate in the first quarter. Supplier deliveries are expected to be slowest in the following industries: Food; Printing & Related Support Activities; Plastics & Rubber Products; Primary Metals; Fabricated Metal Products; Computer & Electronic Products; Aerospace Products & Parts; and Miscellaneous. The Electrical Equipment, Appliance & Components industry reported an expectation of faster 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 2026	19.5	72.9	7.6	11.8	56.5
4 <sup>th</sup> Quarter of 2025	20.4	70.5	9.1	11.3	55.2
3 <sup>rd</sup> Quarter of 2025	25.7	65.3	8.9	16.8	58.6
2 <sup>nd</sup> Quarter of 2025	12.7	77.3	10.0	2.7	51.1

**New Orders:** The seasonally adjusted index for new orders is expected to increase from 57.5 in the fourth quarter of 2025 to 65.4 in the first quarter of 2026, indicating that new orders are expected to increase at a higher rate in the first quarter. New orders are expected to increase most rapidly in the following industries: Food; Petroleum & Coal Products; Chemicals; Plastics & Rubber Products; 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; and Furniture & Related Products. No industry reported an expected decrease in new orders.

New Orders	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 <sup>st</sup> Quarter of 2026	46.9	36.0	17.0	29.9	65.4
4 <sup>th</sup> Quarter of 2025	31.9	44.0	24.1	7.8	57.5
3 <sup>rd</sup> Quarter of 2025	34.5	41.3	24.1	10.4	54.3
2 <sup>nd</sup> Quarter of 2025	37.6	40.7	21.7	15.9	54.9

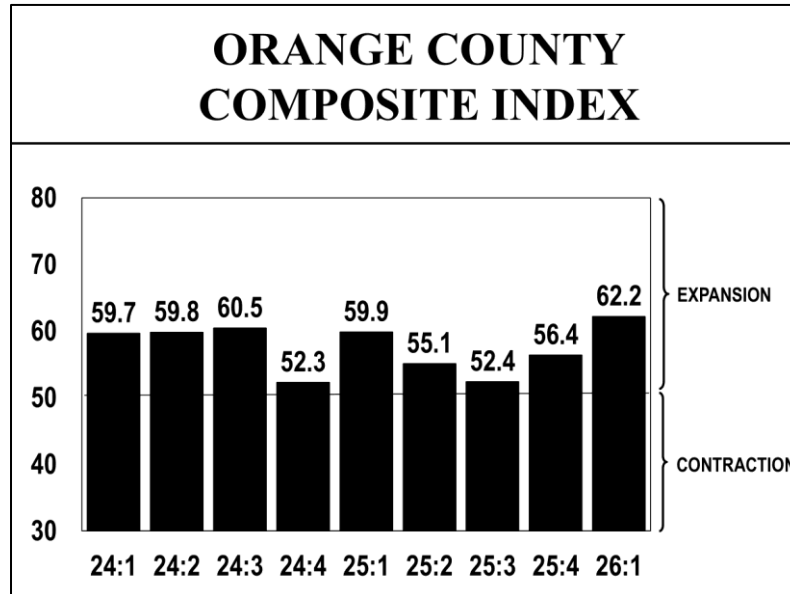
**Employment:** The seasonally adjusted index for employment is expected to decrease from 54.0 in the fourth quarter of 2025 to 51.2 in the first quarter of 2026, indicating that employment in manufacturing is expected to grow at a low rate in the first quarter. Employment is expected to increase most rapidly in the following industries: Chemicals; Wood Products; Nonmetallic Mineral Products; Fabricated Metal Products; Computer & Electronic Products; Electrical Equipment, Appliance & Components; and Furniture & Related Products. Employment is expected to decrease most rapidly in the following industries: Food; Apparel; Paper; Plastics & Rubber Products; Transportation Equipment (other than Aerospace Products & Parts); and Miscellaneous.

Employment	% Higher	% Same	% Lower	Net	Seasonally Adjusted Index
1 <sup>st</sup> Quarter of 2026	17.7	65.7	16.7	1.0	51.2
4 <sup>th</sup> Quarter of 2025	23.4	58.1	18.5	4.9	54.0
3 <sup>rd</sup> Quarter of 2025	21.0	62.1	16.8	4.2	50.8
2 <sup>nd</sup> Quarter of 2025	20.4	64.5	15.1	5.3	51.6



## Orange County's Manufacturing Survey

The Orange County manufacturing sector's Composite Index increased from 56.4 in the fourth quarter of 2025 to 62.2 in the first quarter of 2026, indicating that the county's manufacturing economy is expected to grow at a higher rate in the first quarter of this year.



The seasonally adjusted index for production increased substantially from 58.3 in the fourth quarter to 69.6 in the first quarter, indicating that production is expected to increase at a higher rate in the first quarter. The indices for inventories of purchased materials, new orders and employment increased in the first quarter, indicating higher growth. Unlike California as a whole, the commodity price index increased, indicating that commodity prices are expected to rise at a higher rate in the first quarter.

Similar to California, the index for the **non-durable goods industries** decreased, indicating that these industries are expected to grow at a lower rate in the first quarter. The indices for production, inventories of purchased materials, new orders and employment also decreased, indicating that they will all grow at a lower rate in the first quarter.

The index for the **high-tech industries** increased substantially from 59.9 to 70.5, indicating that these industries are expected to expand at a higher rate. The index for production leaped from 61.4 to 81.4, and the index for new orders leaped from 57.3 to 77.5, indicating that production and new orders are expected to grow at a higher rate in the first quarter.

The index for the **durable goods industries other than high-tech** increased from 49.1 to 58.0 indicating that, unlike the fourth quarter of 2025, these industries are expected to grow in the first quarter of 2026. Production, inventories of purchased materials and new orders are expected to grow, while supplier deliveries are expected to be faster.

## **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>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>                             |