The San Joaquin Valley Business Conditions Index advanced into a range pointing to healthy growth in the next three to six months. The index is a leading economic indicator from a survey of individuals making company purchasing decisions for firms in the counties of Fresno, Kings, Madera, and Tulare. It is produced using the same methodology as that of the National Institute for Supply Management (www.ism.ws).

**KEY POINTS**

- Leading economic indicator rises to healthy level from November’s stout reading, signaling healthy growth ahead.
- Wholesale price gauge indicates elevated and climbing inflationary pressures.
- Only 14.3 percent of respondents think the abolition of the North American Free Trade Agreement would have a negative impact of their company’s profitability.
- In terms of the greatest challenge to company profitability over the next five years, rising regulatory costs named by 28.6 percent was the top issue identified.
Overall Index

From November’s strong 59.0, the region’s Business Conditions Index inched higher to 59.1. Since bottoming out in August 2016, the index has moved into a range indicating healthy economic growth ahead. An index greater than 50.0 indicates an expansionary economy over the course of the next three to six months. Survey results for the last two months, and one-year ago are listed in Table 1.

“This is the sixteenth straight month that the overall index has moved above growth neutral. For a third consecutive month, the survey tracked weakness among non-durable goods producers. As in recent months, construction and wholesale trade activity in the San Joaquin Valley continued to expand at a healthy pace,” said Ernie Goss, PhD, research associate with the Craig School of Business at California State University, Fresno.

This month survey respondents were asked to identify the greatest economic challenge facing their companies’ profitability over the next five years. Approximately 28.6 percent, named rising regulatory costs as the biggest threat, while more than one in five, or 21.4 percent indicated slow or negative economic growth as the largest challenge to their businesses over the next five years.

Employment

After moving below growth neutral for December 2016, the employment gauge has climbed above the threshold every month since. The December index advanced to a solid 53.6 from November’s 50.1. “Over the past 12 months, the San Joaquin region has experienced STRONG JOB GROWTH at 1.6 percent.

TOP IDENTIFIED GREATEST CHALLENGE to company profitability is rising regulatory costs.

Over the past 12 months, the San Joaquin region has experienced STRONG JOB GROWTH at 1.6 percent.

Employment

After moving below growth neutral for December 2016, the employment gauge has climbed above the threshold every month since. The December index advanced to a solid 53.6 from November’s 50.1. “Over the past 12 months, the San Joaquin region has experienced strong job growth at 1.6 percent, which is significantly above the nation’s 1.4 percent gain for the same period of time,” reported Goss.
Wholesale Prices
The prices-paid index, which tracks the cost of purchased raw materials and supplies, soared to 83.3 from 75.0 in November, indicating elevated and rising inflationary pressures at the wholesale level. “I expect inflationary pressures at both the consumer and wholesale level to rise in the months ahead. Even though both our regional wholesale inflation index and the U.S. inflation gauge are elevated, I expect the Federal Reserve to forgo a short-term interest rate hike at the next meeting of their rate setting committee on February 1. However, I do expect a 0.25 percent rate increase at the March 15 meetings,” said Goss.

Business Confidence
Looking ahead six months, economic optimism, as captured by the business confidence index, expanded to a very strong 70.1 from November’s healthy 61.6. “Healthy profit growth, still low interest rates, and the recently passed tax reform package pushed business confidence to a very robust reading,” reported Goss.

Inventories
In another show of economic confidence, the inventory index remained above growth neutral for December. The December inventory was unchanged from November’s very healthy 62.6.

Trade
The new export orders index was unchanged from November’s 30.0, while the import index rose to 69.7 from 64.3 in November.

Only 14.3 percent of respondents expect an abolition of the North American Free Trade Agreement (NAFTA) to negatively affect their company. “It is surprising to measure little concern regarding the abolition of NAFTA,” reported Goss.

Other Components
Other components of the December Business Conditions Index were: new orders at 52.0, up from 50.0 in November; production or sales at 61.9, down from November’s 66.7; and delivery lead time at 65.4, down slightly from last month’s 65.5.

Table 1 details survey results for December 2016, November 2017, and December 2017. January’s survey results will be released on the first business day of February.

| Table 1 Overall and component indices for last 2 months and one year ago (above 50.0 indicates expansion) |
|---------------------------------|------------------|------------------|
|                                 | December 2016    | November 2017    | December 2017    |
| Leading economic indicator     | 54.5             | 59.0             | 59.1             |
| New orders                     | 54.9             | 50.0             | 52.0             |
| Production or sales            | 54.9             | 66.7             | 61.9             |
| Employment                     | 49.0             | 50.1             | 53.6             |
| Inventories                    | 62.0             | 62.6             | 62.6             |
| Delivery lead time             | 51.8             | 65.5             | 65.5             |
| Wholesale prices               | 54.2             | 75.0             | 83.3             |
| Imports                        | 49.1             | 64.3             | 69.7             |
| Export orders                  | 50.8             | 30.0             | 30.0             |
| Business confidence            | 64.4             | 61.6             | 70.1             |

References
Craig School of Business: www.fresnostate.edu/craig/ubc/sjvs.html
Goss video: San Joaquin Valley Business Conditions Index, December 2017
Follow Goss: Twitter at http://twitter.com/erniegoss or www.gossandassociates.com
Blog: http://economictrends.blogspot.com