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San Joaquin Leading Business Indicator Points to Growth: Export and Agriculture the Key

January survey results at a glance:

- Leading economic indicator for the area bounces above growth neutral.
- Price gauge indicates significant inflation in the pipeline.
- New export orders bounces higher.
- Businesses report healthy new hiring for the month.

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Fresno, CA – For the fourth time in the past five months, the San Joaquin Valley Business Conditions Index climbed above growth neutral. The survey from individuals making company purchasing decisions in firms in the counties of Fresno, Madera, Kings and Tulare indicates weak but positive growth for the first half of 2011. The index, a leading economic indicator for the area, is produced using the same methodology as that of the national Institute for Supply Management (www.ism.ws).

Overall Index. The index, produced by Ernie Goss Ph.D., Research Associate with the Craig School of Business at California State University, Fresno, climbed to 52.4 from 47.3 in December. An index greater than 50 indicates an expansionary economy over the course of the next three to six months. Survey results for the last three months for the San Joaquin Valley are listed in the accompanying table.

“After trending downward since inception of the survey, the index moved higher for January. Due to the short life of the survey, we cannot, at this time, determine the degree to which the monthly changes are seasonal,” Goss said today.

Employment. “The hiring gauge soared to 61.3 from December’s frail 51.2. Given that employers in the region normally reduce employment for January, our survey

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results for the month were particularly encouraging. Food processors, an important industry for the area, continue to hold back on hiring. On the other hand, manufacturers with strong ties to international markets are hiring at an improving pace,” said Goss.

Inflation. The prices-paid index, which tracks the cost of raw materials and supplies, rose to an inflationary 72.7 from 60.5 in December. “Prices for most raw materials, commodities and supplies are increasing at an unsustainable pace. Over the last year, U.S. commodity prices have risen by 6.6 percent driven by a 12.4 percent upturn in fuel prices, a 9.7 percent gain in metal prices and an 18.0 percent increase in agriculture commodities. These increases at the producer level will bolster consumer prices well above the Federal Reserve’s target rate of 2.0 percent sometime in 2011. I expect long term interest rates to grow rapidly in the second half of 2011 to compensate investors for rising inflation. The Fed is currently keeping long-term interest rates artificially low with their bond buying program, termed quantitative easing (QE2),” said Goss.

Business Confidence. Looking ahead six months, economic optimism, captured by the January business confidence index, expanded for a third straight month to 73.8 from 64.4 in December and 54.8 in November. “Business leaders remain confident about future economic conditions even though unemployment rates remain well above state historical averages for most areas of the region. A significant portion of our survey was completed before recent turmoil in Egypt. However, it is clear that the Federal Reserve’s easy money policy which is generating record low interest rates is having a positive impact on survey participants’ economic outlook,” said Goss.

Trade. Trade numbers for January improved dramatically. The January new export orders reading rocketed to a still tepid 52.9 from December’s 21.4. The area’s import index bounced to 67.7 from 29.6 in December. “Given the importance of exports to the area economy, the sharp upturn for January is encouraging. With a weak dollar making U.S. goods cheaper abroad and an expanding global economy, I expect exports for the area to continue to grow well into 2011,” said Goss.

Inventories. The inventory index, which tracks the change in the inventory of raw materials and supplies, climbed to 45.0 from 36.4 in December but moved down from November’s 51.4. “A significant share of economic growth for 2010 was driven by

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inventory buildups. Thus weaker planned inventory levels that we have been recording over the past several months could weigh on 2011 growth,” said Goss.

Other components: Other components of the January Business Conditions Index were new orders at 55.1, down from December’s 55.7; production or sales at 60.3, up from 52.3 in December; and delivery lead time at 40.6, down slightly from 40.9 in December.

The Craig School of Business uses the same methodology as a national survey by the Institute for Supply Management, formerly the Purchasing Management Association, which has formally surveyed its membership since 1931 to gauge business conditions (www.ism.ws). The overall index, referred to as the Business Conditions Index, ranges between 0 and 100. The overall index is a mathematical average of indices for new orders, production or sales, employment, inventories and delivery lead time.

Table 1 details survey results for the last three months. February survey results will be released on the first business day of next month, March 1.

	San Joaquin Valley		
	November 2010	December 2010	January 2011
Leading economic indicator	53.3	47.3	52.4
New Orders	56.3	55.7	55.1
Production or sales	53.5	52.3	60.3
Employment	50.1	51.2	61.3
Inventories	51.4	36.4	45.0
Delivery Lead Time	55.1	40.9	40.6
Prices Paid	65.2	60.5	72.7
Imports	51.8	29.6	67.7
Exports	50.6	21.4	52.9
Business Confidence	54.8	64.4	73.8

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