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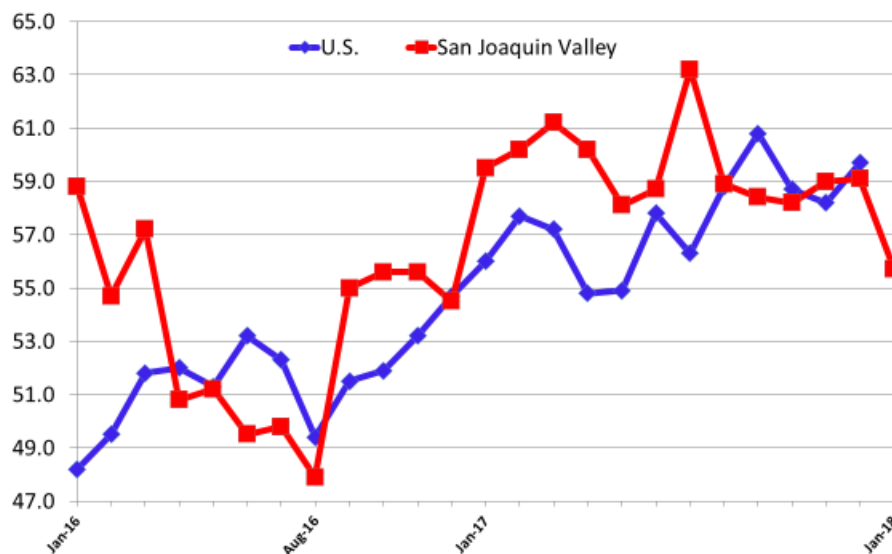
Goss video economic summary: <https://youtu.be/gjl0xJi0Seo>

San Joaquin Valley Indicator Begins Year on Healthy Note: Rising Inflationary Pressures and Strong Business Confidence

January survey results at a glance:

- Leading economic indicator above growth neutral for 17th straight month.
- Over the past year, the region has added jobs at almost twice the pace of the nation.
- Inflation gauge indicates that price pressures are mounting in the region. More than one-fourth of businesses indicated that rising input prices was the greatest 2018 challenge.
- More than one third of businesses reported that purchasing inputs from abroad was either essential or very important.
- Business confidence index remained very strong.

PMIs for U.S. & San Joaquin Valley, Jan. 2016 – Jan. 2018



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FRESNO, CA-The San Joaquin Valley Business Conditions Index advanced into a range pointing to healthy growth in the next 3 to 6 months. The index, a leading economic indicator from a survey of individuals making company purchasing decisions for firms in the counties of Fresno, Kings, Madera, and Tulare. The index is produced using the same methodology as that of the national Institute for Supply Management (www.ism.ws).

Overall Index: From December's very strong 59.1, the region's Business Conditions Index fell to a solid 55.7. 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 the accompanying table.

"This is the 17th straight month that the overall index has moved above growth neutral. For a fourth consecutive month, the survey tracked weakness among non-durable goods producers, except for food processors. However, gains for durable goods manufacturers more than offset weakness among non-durable goods producers. As in recent months, construction, wholesale trade, food processing activity in the San Joaquin Valley continued to expand at a healthy pace. I expect this pace to remain strong for the next 3 to 6 months," said Ernie Goss, Ph.D., research faculty with the Craig School of Business at Fresno State University.

This month survey respondents were asked to identify the greatest economic challenge facing their companies' profitability for 2018. Approximately 27.3 percent named rising prices for inputs as the biggest threat, while almost one in five, or 18.2 percent, indicated that finding and hiring qualified workers represented the biggest threat to 2018 profitability.

Employment: For the first time since December 2016, the employment gauge sank below growth neutral. The January index slumped to 45.0 from December's solid 53.6. "Over the past 12 months, the San Joaquin region has experienced strong job growth at 2.7 percent, or almost double that of the U.S. I think January's weak reading will not be repeated in the months ahead. I expect the region to add jobs at a pace above that of the nation in quarter one of 2018," reported Goss.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, dipped to a robust 80.6 from 83.3 in December, indicating elevated inflationary pressures at the wholesale level. "I expect inflationary pressures at both the consumer and wholesale level to rise in the months ahead. Moreover, I expect the Federal Reserve to raise short-term interest rates at their March 15 meetings by one quarter of one percentage point (25 basis points)," said Goss.

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Business Confidence: Looking ahead six months, economic optimism, as captured by the business confidence index, dipped to a still robust 69.1 from December's 70.1. "Healthy profit growth, still low interest rates, and the recently passed tax reform package maintained the business confidence at a very healthy reading," reported Goss.

Inventories: In another show of economic confidence, the inventory index remained above growth neutral for January. The January inventory fell to a healthy 58.8 from December's even stronger 62.6.

Trade: The new export orders index increased to a weak 35.0 from December's, while the import index fell to 64.0 from 69.7 in December.

More than one-third, or 36.4 percent reported that buying from abroad was either essential or very important to their firm's business success for 2018.

Other components: Other components of the January Business Conditions Index were: new orders at 51.0, down from 52.0 in December; production or sales at 61.0, down from 61.9 in December; and delivery lead time at 62.7 down from last month's 65.4.

Table 1 details survey results for January 2017, last month, and January 2018. February's survey results will be released on the first business day of March.

| Table 1: Overall and component indices for last 2 months and one year ago (above 50.0 indicates expansion) | | | |
|--|--------------------|---------------|--------------|
| | San Joaquin Valley | | |
| | January 2017 | December 2017 | January 2018 |
| Leading economic indicator | 59.5 | 59.1 | 55.7 |
| New orders | 62.1 | 52.0 | 51.0 |
| Production or sales | 65.9 | 61.9 | 61.0 |
| Employment | 53.3 | 53.6 | 45.0 |
| Inventories | 65.1 | 62.6 | 58.8 |
| Delivery lead time | 50.9 | 65.5 | 62.7 |
| Wholesale prices | 60.4 | 83.3 | 80.6 |
| Imports | 56.7 | 69.7 | 64.0 |
| Export orders | 54.0 | 30.0 | 35.0 |
| Business confidence | 70.6 | 70.1 | 69.1 |

Craig School of Business: <http://www.fresnostate.edu/craig/ubc/sjvs.html>

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