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San Joaquin Valley Leading Economic Indicator Moves Lower: Business Confidence Surges

November survey results at a glance:

- Leading economic indicator for the area moved above growth neutral for a third straight month.
- Survey participants reported little to no new hiring for the month.
- Price gauge indicates significant inflation in the pipeline.
- Companies expect input prices to expand at an annual rate of 5.6 percent over the next 6 months.

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Fresno, CA – The San Joaquin Valley Business Conditions Survey indicates that the economic area that includes the counties of Fresno, Madera, Kings and Tulare will likely experience positive but somewhat weak economic growth in the next three to six months. The index, a leading economic indicator for the area, is identical to that produced by 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, dipped to 53.3 from 54.1 in October. 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.

“The growth we are tracking is not sufficient to bring down the area’s very high unemployment rate in the coming months. Companies are increasing production and sales by adding temporary workers, increasing the hourly work week for current employees, and boosting productivity growth,” Goss said today.

Employment: “The hiring gauge dipped slightly to a frail 50.1 from 50.2 in October. Our survey and government surveys are indicating little growth in new hiring in the San Joaquin Valley. The weak dollar, making U.S. agriculture and manufacturing goods more competitive abroad, is having a positive impact on firms in the area. However, firms in the area have grown their businesses by hiring temporary workers, increasing hours for current workers and growing output per worker. I do expect an upturn in hiring, though very modest, in the months ahead,” said Goss.

Inflation: The prices-paid index, which tracks the cost of raw materials and supplies, advanced to an inflationary reading of 65.2 from 64.2 in October. “This month we asked supply managers how much they expect prices on products they buy to change in the next six months. On an annualized basis, supply managers anticipate a 5.6 percent increase in prices. I expect this increase at the producer level to bolster consumer prices well above the Federal Reserve’s target rate of 2.0 percent sometime in 2011,” said Goss.

Business Confidence: Looking ahead six months, economic optimism, captured by the November business confidence index, expanded to 54.8 from October’s weak 46.3.

Trade: Trade numbers for November were surprisingly frail, but positive. The November new export orders reading dipped to 50.6 from 53.8 in October and 53.9 in September. The area’s import reading climbed to 51.8 from 49.0 in October. “This month we asked survey participants how their international buying had changed over the past three months. While 14.2 percent indicated an increase in international buying, an almost identical 14.3 percent reported a decrease in international purchasing over the past three months.”

“Farmers have stepped up their buying of equipment and inputs, which has bolstered growth among the manufacturers and sellers of farm equipment and trucks. Unless the debt problems of Portugal, Ireland and Spain spill over into the rest of the Euro Zone, I expect strong agricultural income to continue to drive the San Joaquin economy forward. However, any economic contagion that strikes Germany and France would weaken the Euro, strengthen the dollar and negatively impact U.S. and San Joaquin agriculture and energy commodity prices,” said Goss.

Inventories: The November inventory index, which tracks the growth in the inventory of raw materials and supplies, dipped to 51.4 from 54.3 in October. “A significant share of economic growth for 2010 was driven by inventory buildups. Upturns in consumer spending, business investment and/or exports will have to support any sustained growth in the area,” said Goss.

Other components: Other components of the November Business Conditions Index were new orders at 56.3, down slightly from 56.9 in October; production or sales at 53.5, down from 55.6; and delivery lead time at 55.1, up from 53.6 in October.

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. December survey results will be released on the first business day of next month, January 3.

	San Joaquin Valley		
	September 2010	October 2010	November 2011
Leading economic indicator	53.0	54.1	53.3
New Orders	58.6	56.9	56.3
Production or sales	57.3	55.6	53.5
Employment	44.0	50.2	50.1
Inventories	55.3	54.3	51.4
Delivery Lead Time	50.0	53.6	55.1
Prices Paid	65.9	64.2	65.2
Imports	52.7	49.0	51.8
Exports	53.9	53.8	50.6
Business Confidence	51.1	46.3	54.8

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