



Survey of Business Conditions

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KEY POINTS

- A leading economic indicator, the Purchasing Managers' Index, fell in October 2018, but remains above growth neutral for the 26th straight month and points to positive growth for the first half of 2019.
- The four counties studied reflect strong job growth for 2017 and 2018.
- Business confidence remains strong.
- On average, San Joaquin Valley businesses expect a 4.4% increase in the prices they will pay for inputs and supplies over the next year.
- Almost one-fourth of businesses report tariffs and trade skirmishes have made it more difficult to purchase from other countries.

Purchasing Managers' Index

The Purchasing Managers' Index (PMI) for Fresno, Kings, Madera, and Tulare counties is a strong indicator of the San Joaquin Valley's overall business conditions. This index is produced using the methodology of the National Institute for Supply Management and measures five components: new orders, production or factory output, inventory levels,

October 2018 marks the 26th straight month the overall index has remained above growth neutral.

THE PERCENTAGE INCREASE IN EMPLOYMENT for the region has been greater than that of the U.S. for the past 2 years.



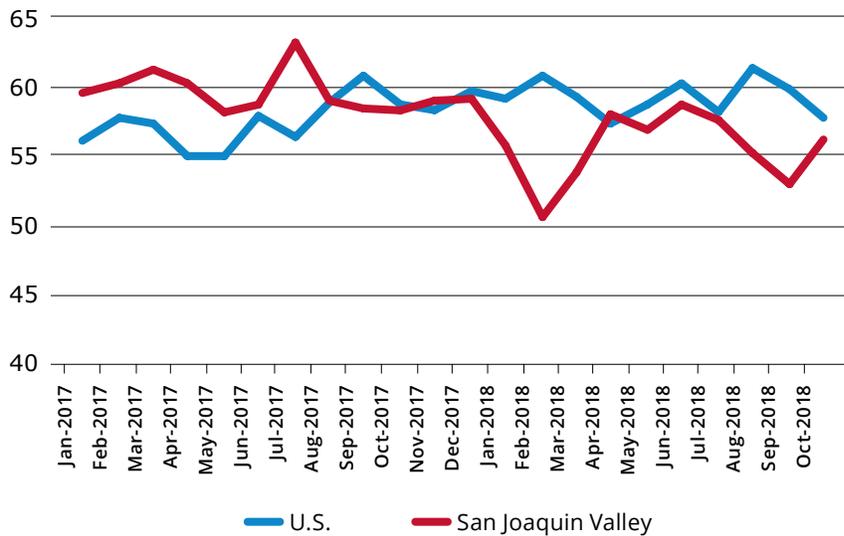
speed of supplier deliveries, and employment. Those surveyed, individuals from the four counties who make their company's purchasing decisions, indicate whether they believe conditions for each component are stable, deteriorating, or improving. An aggregate index is then calculated. Indices greater than 50 indicate an expansionary economy over the course of the next three to six months.

As Figure 1 indicates, for all of 2017 and 2018, the PMI has remained above growth neutral, 50.0, and continues to point to positive growth for the first half of 2019. October 2018 marks the 26th straight month the overall index has remained above growth neutral. From September's weaker 52.9, the region's Index advanced to a solid 56.1 for October. Survey results for the last two months, and one year ago, are listed in Table 1 on the following page.

PMI Components

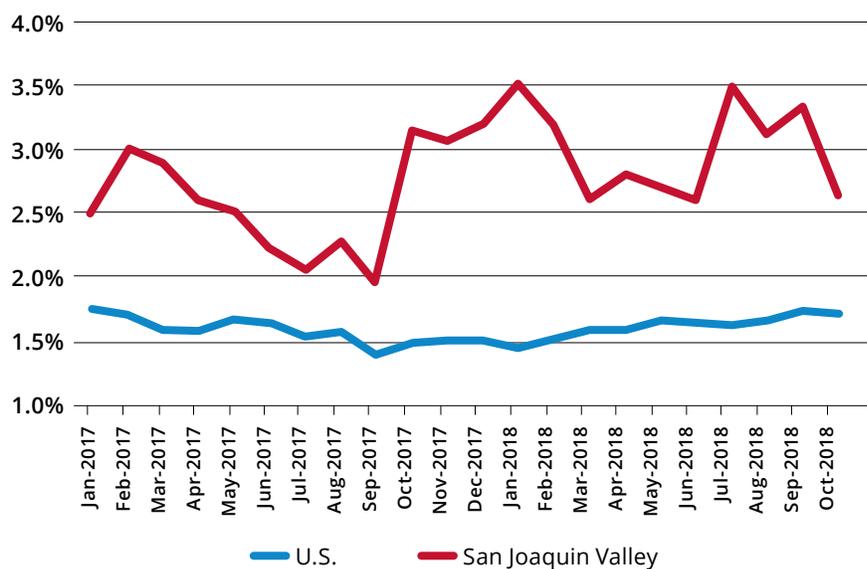
Employment: Figure 2 compares job growth in the four counties of the San Joaquin Valley with the U.S. as a whole. The year-to-year percentage changes for each month for the U.S. and the San Joaquin Valley reflect the four-counties' strong job growth

Figure 1
Purchasing Managers' Indices for the U.S. and Four-County Region



Data Sources: Craig School of Business and Institute for Supply Management

Figure 2
Year-over-Year Percent Change in Employment by Month for the U.S. and Four-County Region



Data Sources: Craig School of Business and Institute for Supply Management

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The region is expected to continue to add jobs, but at a somewhat slower pace for the first half of 2019.

for 2017 and 2018. Since October of 2017, the change for the San Joaquin Valley for each month is above 2.5%, well above the nation's 1.4% to 1.7% expansion over the same period. The employment component moved higher to 56.9 in October from 52.5 in September.

The number of unemployed workers in the region has declined by 41,000 over the past seven years; but despite rapid job growth, the region's unemployment rate is approximately two percentage points above the national jobless rate. The region is expected to continue to add jobs, but at a somewhat slower pace for the first half of 2019.

Inventory Levels: The inventory component rose for October 2018. The index, which reflects the growth or decline in supplies of raw materials and other inputs, increased to 56.5 from 50.6 in September.

Table 1
PMI Aggregate and Component Indices and Other Indices
(above 50.0 indicates expansion)

	Four-County Region of the San Joaquin Valley		
	October 2017	September 2018	October 2018
Aggregate PMI Index	58.2	52.9	56.1
PMI Index Components:			
New Orders	59.0	52.0	53.5
Production or Sales	66.3	53.2	59.1
Employment	53.8	52.5	56.9
Inventories	59.5	50.6	56.5
Delivery Lead Time	52.3	56.2	54.4
Wholesale Prices	73.1	68.5	64.3
Trade:			
Imports	52.2	40.6	45.3
Export Orders	51.0	43.1	46.6
Business Confidence	66.5	62.8	62.1

Other PMI Components: New orders at 53.5 for October 2018 are up from 52.0 in September; production or sales at 59.1 is up from September's 53.2. Both durable and non-durable goods manufacturing reported solid gains for the month, and delivery lead time at 54.4, is down from the previous month's 56.2.

Though business confidence declined slightly since 2017, IT REMAINS STRONG.



Other Economic Indicators

Other indicators of economic conditions include wholesale prices, trade, and business confidence. Like the PMI components, these indicators are based on the four counties of Fresno, Kings, Madera, and Tulare.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, fell to 64.3 in October from September's 68.5, indicating modest inflationary pressures at the wholesale level. Both the San Joaquin Valley's wholesale inflation index and the U.S.'s inflation gauge are elevated.

On average, San Joaquin Valley businesses in the four counties expect to experience a 4.4% increase in the prices they pay for inputs and supplies over the next year. Rising tariffs and trade restrictions will continue to boost wholesale and consumer inflation growth above the Federal Reserve's target. This trend has already begun to push consumer inflation higher. It is estimated by the author that the Federal Reserve's interest-rate setting committee will raise short-term rates by another one-quarter of one percentage point (25 basis points) in 2019. Almost half, or 46.0%, of those surveyed for the prices-paid index expect additional rate hikes to negatively impact their firm's profitability in 2019.

Trade: The new export orders index climbed to a weak 46.6 from September's 43.1, while the imports index increased to 45.3 from 40.6 in September. Almost one-fourth, or 24.0%, of businesses report that tariffs and trade skirmishes have made it more difficult to purchase from other countries.

Business Confidence: Looking ahead six months, economic optimism, as captured by the business confidence index, slipped to a strong 62.1 from September's 62.8. Healthy profit growth, still-attractive interest rates, and lower taxes continue to support business confidence.

Summary

Over the past two years, the San Joaquin Valley economy, as tracked by the monthly survey of businesses in the four-county region, has expanded at a very healthy pace. The monthly survey and related government data indicate that the regional economy has advanced at a very solid pace.

Recent survey results point to continuing positive, but slowing, growth for 2019. The aggregate PMI and its components (with the exception of employment) were lower in October 2018 than October 2017; however, all remained above growth neutral. Rising interest rates and tariffs, a slowing global economy, and shortages of qualified workers for regional job openings will restrain 2019 growth below levels achieved in 2018. Aided by the relatively larger pool of unemployed workers to draw from, economic growth in the region will continue to outpace that of the national economy for the first half of 2019.

References

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

National Institute for Supply Management

Bureau of Labor Statistics

One-fourth of
businesses report
**TARIFFS ARE
IMPACTING
PURCHASING.**



*Recent survey
results point
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for 2019.*