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## San Joaquin Valley April Leading Economic Indicator Heads Higher: Inflation Gauge Soars

### April survey results at a glance:

- Leading economic indicator for the area rises for the fourth straight month.
- Higher commodity prices push wholesale inflation skyward.
- Approximately 40 percent of respondents reported that suppliers are adding transportation surcharges to deal with escalating energy costs.
- Supply managers expect prices for products and services they buy to increase at an annualized pace of 14.5 percent over the next six months.

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Fresno, CA – For the seventh time in the past eight 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 points to positive and improving growth for the next six months. 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](http://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 56.7 from 55.4 in March. 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 region’s leading economic indicator increased for the fourth straight month, benefiting from healthy exports and an expanding agriculture sector. Our survey

results, while still somewhat weaker than the national ISM survey outcome, point to improving economic conditions in the next three to six months,” Goss said today.

**Employment:** “The hiring gauge climbed to 56.6 from March’s 54.8. “Area employment hit its trough in July 2010. Since then, the area has regained approximately 3,000 jobs. Based on our survey results, the region should continue to add jobs at an improving pace in the months ahead. Despite significantly higher input costs, food processors in the area continue to see upturns in sales and employment,” reported Goss.

**Wholesale prices:** The prices-paid index, which tracks the cost of raw materials and supplies, soared to 85.6 from 84.2 in March. “Higher commodity prices, especially for energy products, pushed our inflation gauge to its highest level since we initiated the survey last year,” said Goss.

“We continue to record unacceptably high inflationary pressures at the wholesale level. Even though the Federal Reserve (Fed) indicated it would end its buying of long-term U.S. Treasury bonds, quantitative easing 2 (QE2), this summer, I expect the Fed’s record low short term interest rates to continue to weaken the dollar and push inflation above the Fed’s comfort zone,” said Goss.

“This month we asked survey participants how their suppliers were dealing with higher energy prices. Approximately 37 percent indicated that their vendors had raised prices permanently, 20 percent reported temporary price increases and 40 percent indicated that supplying firms had added transportation surcharges. The remaining 3 percent reported other supplier reactions.”

“We also asked survey participants how much they expected prices they pay for products and services to increase over the next six months. Approximately 57 percent anticipate growth of more than six percent over the next half year. Overall, an annualized upturn over 14.5 percent is expected. This is up from 5.6 percent in November of last year when we asked the same question,” said Goss.

**Business Confidence:** Looking ahead six months, economic optimism, captured by the April business confidence index, declined to a still strong 62.5 from 63.8 in March. “Despite higher commodity prices and elevated unemployment rates, firms remain upbeat in their economic outlook,” said Goss.

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**Trade:** New export orders for April were healthy. The April export orders reading climbed to 57.5 from March's 56.6. The area's import index climbed to 66.5 from 64.6 in March. "An expanding global economy continues to boost trade numbers. Aided by a cheap dollar making U.S. goods more competitively priced abroad, April's new export orders index stood at a healthy level. The cheap dollar and a global economic expansion combined to boost sales and new orders from abroad," said Goss.

**Inventories:** The inventory index, which tracks the change in the inventory of raw materials and supplies, climbed to 55.0 from March's 53.8. "Despite rapidly rising commodity prices, firms in the area continue to add to inventory levels in anticipation of improving sales," said Goss.

**Other components:** Other components of the April Business Conditions Index were new orders at 59.1, up from 56.3 in March; production or sales at 60.1, up from 59.3; and delivery lead time at 52.8 unchanged from March.

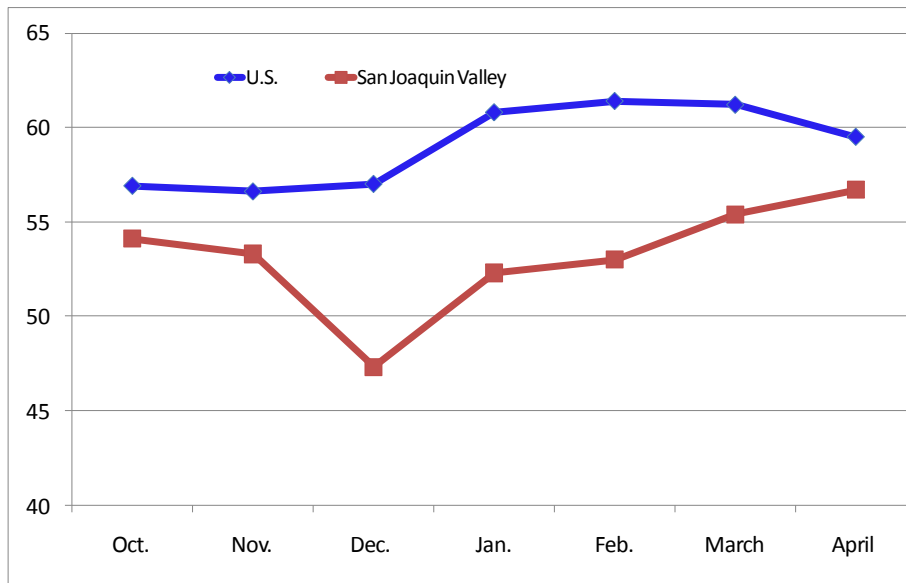
The Craig School of Business uses the same methodology as a national survey by the Institute for Supply Management, formerly the Purchasing Management Association, which has formally surveyed its membership since 1931 to gauge business conditions ([www.ism.ws](http://www.ism.ws)). The overall index, 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. May survey results will be released on the first business day of next month, June 1.

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	San Joaquin Valley		
	February 2011	March 2011	April 2011
Leading economic indicator	53.0	55.4	56.7
New orders	51.9	56.3	59.1
Production or sales	55.8	59.3	60.1
Employment	56.4	54.8	56.6
Inventories	51.8	53.8	55.0
Delivery lead time	49.1	52.8	52.8
Wholesale prices	81.8	84.2	85.6
Imports	67.2	64.6	66.5
Export orders	49.9	56.6	57.5
Business confidence	67.6	63.8	62.5

**Leading Economic Indicator (PMIs)-U.S. & San Joaquin Valley, 2010-11**



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