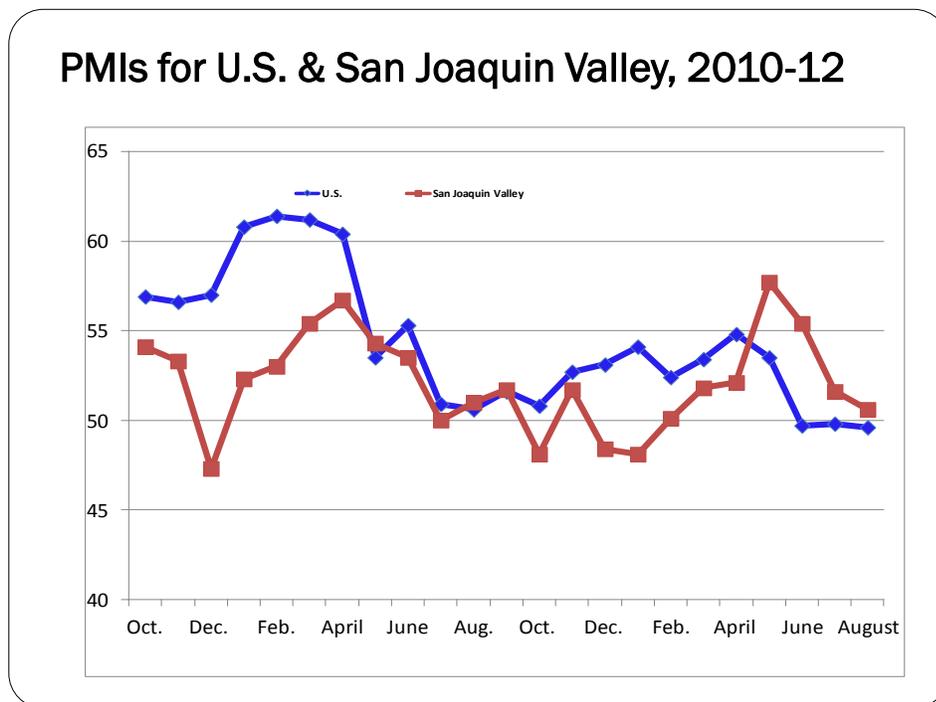


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## San Joaquin Valley Leading Economic Indicator Dips: Wholesale Inflation Advances

### August survey results at a glance:

- Leading economic indicator declines but remains above growth neutral.
- New export orders slump again.
- Business confidence remains very weak.



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Fresno, CA –For a third straight month, the San Joaquin Valley Business Conditions Index declined. However, the index remained above growth neutral 50.0 for the seventh straight month signaling slowly improving economic conditions for the area in the months ahead. The index is a leading economic indicator from a survey of individuals making company

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purchasing decisions in firms in the counties of Fresno, Madera, Kings and Tulare. The index 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, dipped to 50.6 from July's 51.6. An index greater than 50 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. "Much like the rest of the nation, the area is growing at a slow pace. Our survey results indicate that growth will remain positive but weak over the next three to six months. However, the national ISM index has now moved below growth neutral for three months in a row," said Goss.

**Employment:** The hiring gauge once again fell to below growth neutral with an August index of 48.6, down from July's 51.3 and June's much stronger 55.4. "The area has been adding construction jobs and manufacturing employment. Both durable and non-durable goods producers, except for food processors, are adding jobs at a slow but positive pace," said Goss.

**Wholesale Prices:** The prices-paid index, which tracks the cost of raw materials and supplies, expanded to 62.3 from July's 52.9. "This is the first indication that the recent period of very benign inflation may be ending. At the wholesale level, we are tracking growth at a very moderate pace. Furthermore over the next six months, survey participants expect the costs of inputs that they purchase to rise by 3.7 percent. This annualized rate of 7.4 percent is much too high for the Federal Reserve (Fed) to ignore any Fed action on inflation. With food prices pushed higher by the drought, further cheapening of the dollar by the Fed via QE3 (bond buying) would only serve to drive food and energy prices even higher with questionable positive outcomes," said Goss.

**Inventories:** Businesses expanded inventories for the month. The August inventory reading dropped to 54.0 from July's much stronger 60.4. "An inventory index above growth neutral is an indicator of an improving outlook by businesses. Businesses are adding to inventories in anticipation of growth in sales and production in the months ahead," reported Goss.

**Business Confidence:** Looking ahead six months, economic optimism, captured by the business confidence index, fell to a weak 38.8 from July's 39.5. "Survey participants, much like the entire business sector, remain very pessimistic regarding future economic conditions. The drought, the fiscal cliff, the elections, and European economic turmoil are all weighing on economic confidence," said Goss.

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**Trade:** New export orders once again declined for the month and at a faster pace than for July. The new export orders index sank to 34.8 from 44.6 in July. At the same time, August imports contracted for the month with an index of 47.1, down from 48.4 in July. “Weaker global growth and the rising value of the dollar making U.S. goods less competitive abroad pushed the export reading lower. At the same time, slower regional growth has been restraining the import reading to below growth neutral,” said Goss.

**Other components:** Other components of the August Business Conditions Index were new orders at 47.7, up from 43.4 in July; production or sales at 47.4, up from 42.8; and delivery lead time at 55.0 from 60.1 in July.

Table 1 details survey results for August 2011, July 2012, and August 2012. September survey results will be released on the first business day of next month, October 1.

Table 1: Overall and component indices for last 2 months and one year ago (above 50.0 indicates expansion)			
	San Joaquin Valley		
	August 2011	July 2012	August 2012
Leading economic indicator	51.0	51.6	50.6
New orders	53.5	43.4	47.7
Production or sales	51.3	42.8	47.4
Employment	44.2	51.3	48.6
Inventories	46.8	60.4	54.0
Delivery lead time	59.3	60.1	55.0
Wholesale prices	74.4	52.9	62.3
Imports	43.8	48.4	47.1
Export orders	36.3	44.6	34.8
Business confidence	40.4	39.5	38.8

Craig School of Business: <http://www.craig.csufresno.edu/>

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