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San Joaquin Valley Leading Economic Indicator Moves Lower: Expect Weak New Hiring for First Half 2011

December survey results at a glance:

- Leading economic indicator for the area moved below growth neutral.
- Less than one-fourth of firms expect net new hiring in first half of 2011.
- Price gauge indicates significant inflation in the pipeline.
- New export orders plummet.

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Fresno, CA – For the first time since initiating the survey in September of last year, the San Joaquin Valley Business Conditions Index sank below growth neutral. The survey from individuals making company purchasing decisions in firms in the counties of Fresno, Madera, Kings and Tulare indicates that growth for the first half of 2011 will be weak. 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).

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 47.3 from November's 53.3. 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 overall index has been trending downward since inception of the survey. Given the lack of historical data, we cannot determine the degree to which seasonal factors are weighing on the index. However even with this caveat, I expect economic

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growth to be somewhat muted for the first half of 2011 for the region. Companies continue to expand production and sales without significant new hiring by relying on productivity gains and increases in the average hourly work week of current employees,” Goss said today.

Employment. “The hiring gauge expanded slightly to a frail 51.2 from 50.1 in November. Our survey and government surveys are indicating little growth in new hiring in the San Joaquin Valley. “This month we asked about hiring expectations for the first half of 2011. Only 23 percent expect new hiring in the first six months of 2011 while 25 percent anticipate more layoffs. The remaining 52 percent expect no change in employment levels for the first half of 2011. I am more optimistic than our survey panel. I expect current strong new orders to translate into improving job growth for the first six months of 2011,” said Goss.

Inflation. The prices-paid index, which tracks the cost of raw materials and supplies, slipped to a still inflationary reading of 60.5 from 65.2 in November. “While rapid growth in the area’s inflation gauge has yet to show up in consumer prices, I forecast that to change significantly in 2011. This increase at the producer level will bolster consumer prices well above the Federal Reserve’s target rate of 2.0 percent sometime in 2011. Likewise, I expect long term interest rate to grow rapidly in the first half of 2011 to compensate investors for rising inflation,” said Goss.

Business Confidence. Looking ahead six months, economic optimism, captured by the December business confidence index, expanded for a second straight month to 64.4 from November’s 54.8 and October’s weak 46.3.

Trade. Trade numbers for December were surprisingly very negative. The December new export orders reading slumped to 21.4 from November’s 50.6 and 53.8 in October. The area’s import index sank to 29.4 from 51.8 in November. “Given the importance of exports to the area economy, the December downturn is a concern. With a weak dollar making U.S. goods cheaper abroad and an expanding global economy, I expected to record improving new export orders,” said Goss.

Inventories. The inventory index, which tracks the change in the inventory of raw materials and supplies, plunged to 36.4 from 51.4 in November. “This downturn may be the result of seasonal factors. Even so, we still need to see upturns in consumer

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spending, business investment and/or exports will have to support any sustained growth. Since a significant share of economic growth for 2010 was driven by inventory buildups, downturns in planned inventory levels could threaten 2011 growth,” said Goss.

Other components: Other components of the December Business Conditions Index were new orders at 55.7, down from November’s 56.3; production or sales at 52.3, down from 53.5; and delivery lead time at 40.9, down from 55.1 in November.

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. January survey results will be released on the first business day of next month, Feb. 1.

	San Joaquin Valley		
	October 2010	November 2010	December 2010
Leading Economic Indicator	54.1	53.3	47.3
New Orders	56.9	56.3	55.7
Production or Sales	55.6	53.5	52.3
Employment	50.2	50.1	51.2
Inventories	54.3	51.4	36.4
Delivery Lead Time	53.6	55.1	40.9
Prices Paid	64.2	65.2	60.5
Imports	49.0	51.8	29.6
Exports	53.8	50.6	21.4
Business Confidence	46.3	54.8	64.4

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