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## **San Joaquin Valley Leading Economic Indicator Points Expansion: Inflationary Pressures Soaring**

### **February survey results at a glance:**

- Leading economic indicator for the area remains above growth neutral.
- New export orders surprisingly weak.
- Businesses report solid new hiring for the month.

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Fresno, CA – For the fifth time in the past six 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 indicates weak but positive growth for the first half of 2011. 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 53.0 from 52.4 in January. 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 continues to strengthen, albeit at a slow pace. Since the national recession ended in July 2009, the region has continued to struggle. Our survey results, while clearly weaker than the national ISM survey outcome, indicate that growth for the first half of 2011 will be healthier than that for the same period in 2010,” Goss said today.

**Employment:** “The hiring gauge plunged to 56.4 from January’s 61.3 but was up from December’s frail 51.2. Compared to pre-recession levels, the region’s employment level is down by almost nine percent. Even since the recession ended in 2009, the region has lost another 2.1 percent of its job base. However, the region’s manufacturing sector’s employment level has remained unchanged since the end of the recession. Based on our survey results, I expect the region to add jobs at an annualized rate between one-half of one percent and one percent over the next six months,” said Goss.

**Inflation:** The prices-paid index, which tracks the cost of raw materials and supplies, rose to an inflationary 81.8 from January’s 72.7. “Since we began the survey in the final quarter of 2010, we have recorded increases in wholesale prices at what I judge as unsustainable paces,” Goss said.

This month supply managers were asked how much they expected prices of products they buy to increase in the next six months. Approximately two-thirds of the supply managers expect these prices to grow by more than 6 percent over the next six months. Overall, supply managers anticipate prices to grow by 5.9 percent over the next six months, or approximately 11.7 percent on an annualized basis. “Our surveys show no signs that this pace will slow in the coming months. I expect long-term interest rates to grow rapidly in the second half of 2011 to compensate lenders for rising inflation,” said Goss.

**Business Confidence:** Looking ahead six months, economic optimism, captured by the February business confidence index, dipped to a still strong 67.6 from 73.8 in January. “It is clear that oil prices bouncing around \$100 per barrel contributed to February’s slippage. Nonetheless, business owners and managers making purchasing decision remain confident about future economic conditions even though unemployment rates remain well above historical averages for the region,” stated Goss.

**Trade:** New export orders for February were surprisingly weak. The February new export orders reading slumped to 49.9 from January’s tepid 52.9. The area’s import index dipped to 67.2 from January’s 67.7. “Given the importance of exports to the area economy, the lack of a strong export reading is a concern. With a weak dollar

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making U.S. goods cheaper abroad and an expanding global economy, I expected new export orders for the area to rebound to much higher levels,” said Goss.

**Inventories:** The inventory index, which tracks the change in the inventory of raw materials and supplies, climbed to 51.8 from 45.0 in January. “A significant share of economic growth for 2010 was driven by inventory buildups. However, at this point in time, it is difficult to determine if February’s upturn in inventories was planned or unplanned,” said Goss.

**Other components:** Other components of the February Business Conditions Index were new orders at 51.9, down from 55.1 in January; production or sales at 55.8, down from 60.3; and delivery lead time at 49.1, up from 40.6 in January.

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

	San Joaquin Valley		
	December 2010	January 2011	February 2011
Leading economic indicator	47.3	52.4	53.0
New Orders	55.7	55.1	51.9
Production or sales	52.3	60.3	55.8
Employment	51.2	61.3	56.4
Inventories	36.4	45.0	51.8
Delivery Lead Time	40.9	40.6	49.1
Prices Paid	60.5	72.7	81.8
Imports	29.6	67.7	67.2
Export orders	21.4	52.9	49.9
Business Confidence	64.4	73.8	67.6

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