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San Joaquin Valley Economic Indicator in Healthy Growth Range: Interest Rate Hike Will Hurt One-Third

July survey results at a glance:

- Leading economic indicator falls to level pointing to healthy growth for next 3 to 6 months.
- Almost one-third judge that a September Federal Reserve rate hike would have a negative impact on their company's business.
- Wholesale inflationary pressures fall for the month.
- Healthy job gains for the month as manufacturers and wholesale firms add jobs.
- Average weekly wages flat from the same time last year as the unemployment rate declines to its lowest level in seven years.



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FRESNO, CA-For the twentieth consecutive month, the San Joaquin Valley Business Conditions Index rose above the 50.0 growth neutral threshold. The index, a leading economic indicator from a survey of individuals making company purchasing decisions for firms in the counties of Fresno, Kings, Madera, and Tulare, fell, but continues to point to positive growth for the next 3 to 6 months. The index is produced using the same methodology as that of the national Institute for Supply Management (www.ism.ws).

Overall Index: The July index fell to a healthy 57.1 from June's 58.3. July's reading is in a range indicating positive and healthy growth into the fourth quarter of this year. An index greater than 50.0 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.

“According to our survey results over the last several months, economic growth will improve over the next 3 to 6 months. Both durable goods and non-durable goods manufacturers in the area continue to expand at a

healthy pace. Wholesale trade firms are experiencing solid growth,” said Ernie Goss, Ph.D., research faculty with the Craig School of Business at California State University, Fresno.

Employment: After slumping below growth neutral in October of 2013, the regional hiring gauge has moved above the 50.0 threshold each month since. The employment index fell to a solid 54.8 from 62.6 in June. “Manufacturing firms, including food processors, and wholesale businesses are adding employment while construction firms reported no growth for the month. As a result of solid job gains, the region’s unemployment rate now stands at its lowest level in seven years,” reported Goss.

This month, business leaders and supply managers were asked how a September 2015 Federal Reserve rate hike would affect their firm. “Almost one-third, or 31.3 percent expect negative impacts from a rate increase, while the remaining 68.7 percent expect little or no affects from an interest rate hike in September,” said Goss.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, fell to 56.8 from 60.2 in June. “Just as in other regional surveys and the national survey, the San Joaquin Valley inflationary gauge has remained in a range indicating only modest inflationary pressures at the wholesale level,” said Goss.

Business Confidence: Looking ahead six months, economic optimism, captured by the business confidence index, advanced to 57.1 from June’s 54.1. “Even with improving national readings for housing, retail sales, hiring and a growing regional economy, drought continues to restrain business confidence in the region,” said Goss.

Inventories: Businesses increased inventories of raw materials and supplies for the month but at a slower pace than in June. The June inventory reading sank to 52.1 from last month’s 57.5.

Trade: The new export order index declined to 42.7 from 49.1 in June, and the import index increased to 52.2 from 49.8 in June. “The strong U.S. dollar, which makes U.S. goods less competitively priced abroad, is negatively affecting regional exports. On the other hand, the strong U.S. dollar and regional growth have boosted imports for businesses in the four county region,” said Goss.

Other components: Other components of the July Business Conditions Index were: new orders at 61.5, up from 56.2 in June; production or sales at 62.7, up from June’s 56.6; and delivery lead time at 54.3, down from 58.6 in June.

Table 1 details survey results for July 2014, last month and July 2015. August survey results will be released on the first business day of next month, September 1.

Table 1: Overall and component indices for last 2 months and one year ago (above 50.0 indicates expansion)			
	San Joaquin Valley		
	July 2014	June 2015	July 2015
Leading economic indicator	57.3	58.3	57.1
New orders	62.5	56.2	61.5
Production or sales	62.6	56.6	62.7
Employment	58.1	62.6	54.8
Inventories	47.5	57.5	52.1
Delivery lead time	56.1	58.6	54.3
Wholesale prices	70.2	60.2	56.8
Imports	49.3	49.8	52.2
Export orders	43.5	49.1	42.7
Business confidence	61.3	54.1	57.1

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