

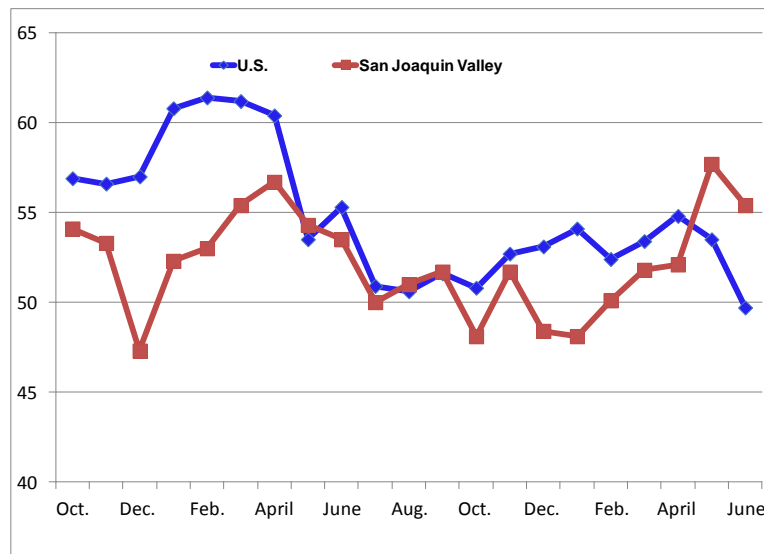
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San Joaquin Valley Leading Economic Indicator Slips: End of Bush Tax Cuts Threatens

June survey results at a glance:

- Leading economic indicator declines to healthy level.
- More than one fourth see end of Bush tax cuts as biggest business threat.
- Wholesale inflation cools again.
- Business confidence remains weak.

PMIs for U.S. & San Joaquin Valley, 2010-12



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Fresno, CA –For the first time since January of this year, the San Joaquin Valley Business Conditions Index declined. However, the index remained above growth neutral 50.0

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for the for the fifth 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 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).

Overall Index: The index, produced by Ernie Goss Ph.D., Research Associate with the Craig School of Business at California State University, Fresno, slid to a solid 55.4 from May's stronger 57.7. 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. "We continue to trace a slowly improving economy. As in the past several months, companies linked to agriculture and international markets are experiencing significantly improving business activity," said Goss.

This month supply managers were asked the biggest negative hurdle facing their firm in the next year. The largest share, 27 percent, indicated that the end of the so-called Bush tax cuts at year's end posed the biggest threat to their company's 2013 business. Another 13 percent reported that the implementation of healthcare reform was the number one negative factor ahead for their company. One fourth responded that continuing difficulties in the housing sector represented the biggest problem for their business in 2013. Approximately 22 percent indicated that the European economic turmoil represented the largest economic headwind for their company. The remaining 13 percent reported that the lack of wage growth was the biggest economic obstacles for their company in 2013..

Employment: The hiring gauge dipped to 55.4 from May's 57.9. This is only the fifth time in the past ten months that the employment index has risen growth neutral. "However, we are tracking a job market across most industries in the area, even construction. I expect this growth to continue but at a somewhat slower pace for the second half of 2012. For the first five months of 2012, the Valley expanded jobs by 2.3 percent compared to no gain for the same period in 2011," said Goss.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, sank to 50.5 from May's 56.0 and April's even stronger 62.0. "Slower economic growth, European economic turmoil, and a stronger dollar are all contributing to declining inflationary pressures. "The degree to which inflationary pressures have cooled has surprised me. This is an important signal and indicates that the Federal Reserve (Fed) can become more aggressive in its stimulation of the U.S. economy without any significant inflation fears. However given current short and long term interest rates, there is little the Fed can do to push

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growth higher especially with the national elections ahead. The last thing the Fed wishes to do is enter the political fray by abruptly changing policy,” said Goss.

Inventories: Businesses expanded inventories for the month. The June inventory reading advanced to 60.4 from 53.1 in May. “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, advanced to a weak 49.5 from 46.8 in May. “While survey respondents are more optimistic about their own company's prospects, they remain fairly pessimistic regarding the overall economy,” reported Goss.

Trade: For June, firms experienced much stronger growth in new export orders with a June reading of 67.7, well up from 53.5 in May. At the same time the area’s import index expanded to 54.4 from 53.9 in May. “Contrary to what we are seeing at the national level, orders from abroad continue to grow at a healthy pace. They have been an important factors driving growth in the regional economy higher. However, I expect slower global economic growth and gains in the value of the dollar to slow growth in new export orders in the months for the area,” said Goss.

Other components: Other components of the June Business Conditions Index were new orders at 51.7, down from 58.2 in May; production or sales at 52.3, down from 59.0; and delivery lead time at 57.6, off May's reading of 60.2.

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

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Table 1: Overall and component indices for last 2 months and one year ago (above 50.0 indicates expansion)			
	San Joaquin Valley		
	June 2011	May 2012	June 2012
Leading economic indicator	53.5	57.7	55.4
New orders	54.4	58.2	51.8
Production or sales	53.7	59.0	52.3
Employment	51.9	57.9	55.0
Inventories	51.3	53.1	60.4
Delivery lead time	56.4	60.2	57.6
Wholesale prices	80.1	56.0	50.5
Imports	58.5	53.9	54.4
Export orders	59.2	53.5	67.7
Business confidence	44.6	46.8	49.5

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

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