

For More Information Contact:
Ernie Goss Ph.D., 559-278-2352
University Business Center
Craig School of Business
California State University, Fresno

San Joaquin Valley Leading Economic Indicator Heads Higher: Business Confidence Plunges

October survey results at a glance:

- Leading economic indicator for the area climbed above growth neutral for second straight month.
- Survey participants reported a slight upturn in hiring for the month.
- Price gauge indicates significant inflation in the pipeline.
- One percent pay average raise is expected for 2011.
- Business confidence plunges.

For Immediate Release: Nov. 1, 2010

Fresno, CA – The San Joaquin Valley Business Conditions Survey indicates that the economic area that includes the counties of Fresno, Madera, Kings and Tulare will likely experience positive economic growth in the next three to six months. The index, a leading economic indicator for the area, is identical to that produced by 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, climbed to 54.1 from September's 53.0. An index greater than 50 indicates an expansionary economy over the course of the next three to six months. October and September results for the San Joaquin Valley are listed in the accompanying table.

"Our results are similar to the national survey outcomes which point to an economy that is growing, but at a subdued pace," Goss said today.

Employment: "The hiring gauge climbed to a tepid 50.2 from September's weak 44.0. Between December 2009 and May 2010, the area's employment level was

essentially flat. Since May of the year, the area has lost more than 3,000 jobs. Our survey points to positive but muted growth in the months ahead.”

“This month we asked survey participants how much of a pay raise they anticipated for 2011. The average raise expected was one percent with fully 54 percent expecting no change in their salary for 2011,” said Goss.

Inflation: The prices-paid index, which tracks the cost of raw materials and supplies, dipped slightly to an inflationary reading of 64.2 from 65.9 in September. “Based on our survey results, as well as other surveys of supply managers, I expect inflation to rise well above the Federal Reserve’s (Fed) target. Once the economy gets back on track, inflation and price bubbles will be a bigger problem than currently expected. Current massive purchases of inflation protected Treasury bonds indicate that investors also expect significant boosts in inflation. Unfortunately, this week the Fed will announce another round of quantitative easing which will push inflationary pressures even higher sometime in 2011,” said Goss.

Confidence: Looking ahead six months, economic optimism, captured by the October business confidence index, slumped to 46.3 from September’s 51.1. “High levels of unemployment, a weak housing sector and impending tax increases are weighing on economic optimism,” reported Goss.

Trade: Trade numbers for October mirror the slow growth economy. The October new export orders reading dipped slightly to 53.8 from September’s 53.9, while the import reading declined to 49.0 from October’s 52.7. “Exports will be an important component of the region’s expansion in the months ahead. We need to see improving exports orders in the coming months,” said Goss,

Inventories: The October inventory index which tracks the growth in the inventory of raw materials and supplies was 54.3, and down from 55.3 in September. “A significant share of economic growth for 2010 was driven by inventory buildups. This month we asked survey participants about their current inventory levels. Approximately 80 percent indicated that inventories of raw materials and supplies were about the right level. Only 12 percent reported that they were too low.”

“However, in terms of the inventory of finished goods, 30.8 percent reported that inventories were too low while 42.3 percent indicated that finished goods inventory

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levels were optimal. Thus based on our survey, we will likely record upturns in business activity in the near term as firms continue to increase production to restore finished goods inventories,” said Goss.

Other components: Other components of the October Business Conditions Index were new orders at 56.9, down from September’s 58.6; production or sales at 55.6, down from 57.3; and delivery lead time at 53.6, up from 50.0.

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 September and October. November survey results will be released on the first business day of next month, December 1.

	San Joaquin Valley	
	September 2010	October 2010
Leading economic indicator	53.0	54.1
New Orders	58.6	56.9
Production	57.3	55.6
Employment	44.0	50.2
Inventories	55.3	54.3
Delivery Lead Time	50.0	53.6
Prices Paid	65.9	64.2
Imports	52.7	49.0
Exports	53.9	53.8
Confidence	51.1	46.3

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