"A monthly survey of supply chain managers"

Welcome to our April report covering March survey results. Follow my daily comments at: www.twitter.com/erniegoss

REDUCING THE U.S. DEFICIT AND THE BRA TAX

Sometime in the next decade, the accumulated debt of the U.S. federal government will total one year's worth of the nation's output of goods and services. This is a milestone that Greece and Great Britain are now ap-proaching with calamitous results. As I write this essay, these two European nations are experiencing capital out-flows, rising interest rates, and a ruinous growth in taxes stemming from profligate government spending. And here in the U.S., if all goes as planned, the cost of health care reform, and cap & trade energy taxes will push the nation into financial territory that is normally associated with bankrupt regimes in the southern hemisphere. This year alone, the federal government will add $1.6 trillion, about the size of the entire U.S. economy in 1975, to the accumulated debt. In an effort to stem the red ink, some in Congress have called for the implementation of a fed-eral value added tax (VAT) much like that paid by European citizens. A VAT is appealing in that it is easy to admi-nister and punishes consumption, not work. However, exempted products in the name of fairness become a real quagmire. For example, in Great Britain, bras, up to and including size 34B, are not subject to the VAT since it presumed that this is children's apparel. Of course the impact of this exemption would punish the breast implant industry, or worse yet, force more well endowed women into underwear more properly worn by devotees of the Marquis De Sade. For our sisters', daughters', wives' and mothers' sake, just say no to the VAT. Restraints on government spending are the answer, not new taxes. Ernie Goss

LAST MONTH'S SURVEY RESULTS

MID-AMERICA LEADING ECONOMIC INDICATOR UP AGAIN; POINTS TO JOB GROWTH IN MONTHS AHEAD

SURVEY RESULTS AT A GLANCE

- Leading economic indicator climbs to highest level since May 2006.
- Job gains recorded for the third straight month.
- Inflation gauge expands to highest level since July 2006.
- Only 11 percent of firms expect to lay off workers in next 6 months.

The March Business Conditions Index for the Mid-America region climbed for a fourth straight month, pointing to a growing economy in the months ahead, according to the March Business Conditions survey of supply manag-ers and business leaders in the nine-state region. The index advanced to 64.3, its highest level since May 2006, up from last month's 61.0. An index of 50.0 is considered growth neutral for the leading economic indicator. The region's manufacturing and value-added services sectors are experiencing very strong business activity. I expect this increase in activity to extend over to the rest of the regional economy in the months ahead. As indicated in earlier reports, I expect the region to record overall job growth for the first quarter of 2010. However, job additions for the first quarter will be muted as firms continue to take a cautious approach to hiring. For the next six months, 28 percent of the firms reported that they planned to add workers, while only 11 percent indicated that they expected layoffs. The remaining 61 percent expected no job additions for the next six months. For a third straight month, the regional employment index rose above growth neutral. The March job reading bounced from February's 56.1 to 57.9. For March, 28 percent of supply managers reported job gains for their firms, while only 12 percent indicated that their firms reduced employment. This is the first time that we have recorded three straight months of employment indices above growth neutral since July 2007. Despite this upturn, I expect unemployment rates for most states in the region to remain at elevated levels as firms remain overly cautious about hiring new workers.

MID-AMERICAN STATES

ARKANSAS

The Arkansas Business Conditions Index for March climbed to 57.3 from February's 52.1. Components of the overall index for March were new orders at 46.8, production or sales at 68.4, delivery lead time at 61.9, inventories at 51.1, and employment at 58.5. Based on our survey of supply managers in Arkansas over the past several months, I expect job gains for the second quarter of 2010. However, the increases will be very modest with unemployment rates remaining above 7 percent for the rest of 2010 as discouraged workers re-enter the work force.

IOWA

For the sixth time in the past eight months, Iowa's Business Conditions Index rose above growth neutral. The index, a leading economic indicator from a survey of supply managers, jumped to 63.5 from February's 58.2 and January's 52.1. Components of the overall index for March were new orders at 74.3, production or sales at 73.8, delivery lead time at 60.7, employment at 57.1, and inventories at 51.7. Based on our survey of supply managers in Iowa over the past several months, I expect manufacturing and overall job gains for the first and second quarters of 2010. However, the increases will be very modest with unemployment rates remaining above 6 percent for the rest of 2010, as discouraged workers re-enter the work force.

KANSAS

The leading economic indicator for Kansas from a survey of supply managers advanced for a fifth consecutive month. The March Business Conditions Index climbed to 54.1 from February's 50.8. Components of the overall index for March were new orders at 58.4, production, or sales, at 51.9, delivery lead time at 65.1, employment at 42.4, and inventories at 53.3. Based on our survey of supply managers in Kansas over the past several months, I expect job gains for the second quarter of 2010. However, the increases will be very modest with unemployment rates remaining above 6 percent for the rest of 2010 as discouraged workers re-enter the work force.

MINNESOTA

Minnesota's leading economic indicator, based on a survey of supply managers, was higher for March. The Business Conditions Index climbed to 62.5 from a "revised" 62.3 for February and 51.4 for January. This was the eighth straight month that Minnesota's index has risen above growth neutral, pointing to expanding economic conditions for the first half of 2010. Components of the overall index for March were new orders at 75.5, produc-tion, or sales, at 73.8, delivery lead time at 63.4, inventories at 43.9, and employment at 55.8. Based on our survey of supply managers in Minnesota over the past several months, I expect job gains for the first and second quarters of 2010. However, the increases will be somewhat modest with unemployment rates remaining above 7 percent for the rest of 2010 as discouraged workers re-enter the work force.

MISSOURI

For a ninth consecutive month, Missouri's Business Conditions Index was above growth neutral. The index from a survey of supply managers climbed to 58.8 from February's 55.5. Components of the overall index from the March survey were new orders at 62.4, production, or sales, at 62.9, delivery lead time at 54.5, inventories at 58.9, and employment at 51.4. Based on our survey of supply managers in Missouri over the past several months, I expect job gains for the first and second quarters of 2010. However, the increases will be modest with unemployment rates remaining above 8.5 percent for the rest of 2010 as discouraged workers re-enter the work force.

NEBRASKA

For a seventh consecutive month Nebraska's Business Conditions Index, a leading economic indicator, expanded above growth neutral. The March reading climbed to 63.3 from 58.8 in February and 54.2 in January. Components of the overall index for March were new orders at 68.4, production, or sales, at 67.5, delivery lead time at 61.7, inventories at 57.8, and employment at 61.1. Based on our survey of supply managers in Nebraska over the past several months, I expect job gains for the second quarter of 2010. However, the increase will be very modest with unemployment rates remaining above 4.5 percent for the rest of 2010 as discouraged workers re-enter the work force.

NORTH DAKOTA

North Dakota's leading economic indicator remained below growth neutral 50.0 for March. The March reading advanced to 49.3 from 48.3 in February. Components of the overall index for March were new orders at 35.1, production, or sales, at 55.0, delivery lead time at 50.4, employment at 54.4, and inventories at 51.6. Based on our survey of supply managers in North Dakota over the past several months, I expect job gains for the second quarter of 2010. However, the increase will be very modest with unemployment rates remaining above 4 percent for the rest of 2010.

OKLAHOMA

For a third straight month, Oklahoma's leading economic indicator from a monthly survey of supply managers climbed above growth neutral. The Business Conditions Index soared to 66.5 from February's tepid 52.3 and January's 54.5. Components of March's overall reading were new orders at 67.4, production, or sales, at 68.3, delivery lead time at 72.2, inventories at 58.4, and employment at 66.4. Based on our survey of supply managers in Oklahoma over the past several months, I expect job gains for the second quarter of 2010. However, the increase will be modest with unemployment rates remaining above 6.5 percent for the rest of 2010 as discouraged workers re-enter the work force.

SOUTH DAKOTA

South Dakota's leading economic indicator climbed to a regional high of 70.7 from February's 61.4 and January's 54.4. Components of the overall index for March were new orders at 86.6, production, or sales, at 79.3, delivery lead time at 53.3, inventories at 69.1, and employment at 65.1. Based on our survey of supply managers in South Dakota over the past several months, I expect job gains for the second quarter of 2010. However, the increase will be very modest with unemployment rates remaining above 4.5 percent for the rest of 2010 as discouraged workers re-enter the work force.

THE BULLISH NEWS

- The U.S. manufacturing sector expanded for an eighth straight month in March, boosted by stronger orders and production, the Institute for Supply Management reported Thursday. The ISM manufacturing diffusion index rose to 59.6% in March from 56.5% in February, the ISM said. It was the highest reading since July 2004.
- The economy added 162,000 jobs in March, the largest employment gain since May 2007.
- Activity in the service sector of the U.S. economy improved markedly in March, indicating that the recovery is broadening out, according to a survey of companies by the Institute for Supply Management. The ISM non-manufacturing index rose to 55.4% from 53.0% in February.
- The International Council of Shopping Centers said Tuesday that sales at chain stores jumped 2.1% for the week ended Apr. 3. Year-over-year sales, sales were up 4.7% last week, which is the strongest increase since Mar. 2007 when sales jumped 4.9% from the prior year period.
- Inventories held by wholesalers rose by a larger-than-expected amount in February while sales increased for the 11th consecutive month. The gains were an encouraging sign that stronger demand is prompting businesses to restock depleted shelves, a development that will help sustain the economic recovery.

THE BEARISH NEWS

- General Motors Co. lost $4.3 billion in the last half of 2009 as it struggled to emerge from bankruptcy protection, repay government loans and cope with a severe downturn in U.S. sales.
- Greece is seeking $5 billion to $10 billion from U.S. investors to help cover its May borrowing needs of about 10 billion Euros.
- Job openings in the U.S. fell in February for the first time in 3 months, a sign employers will be slow to expand staff even as firings subside. Openings decreased by 131,000 to 2.72 million, the Labor Department said last week. Fewer people were hired and the number of workers fired also decreased, the report also showed.
- In February more people had to take part-time jobs because of a lack of full-time opportunities and the average length of unemployment climbed to a record 31.2 weeks.

WATCH OUT FOR

- On May 7th the U.S. BLS will release the employment report for April. I expect it to show job gains for the first a second straight month. This and the accompanying unemployment rate will be very, very important in terms of shaping consumer and business confidence (www.bls.gov) and pushing interest rates higher.

- The advance estimate of first quarter GDP growth will be released on April 30 (www.bea.gov). This could underpin business confidence and set the stage for 2010 growth. I expect a very good number in the neighborhood of 3.5% (annualized).

- Keep an eye on the value of the Euro. Sharp declines relative to the dollar could hurt U.S. companies that do a significant amount of business in Europe. In that regard, the yield on the 10-year U.S. Treasury bond is the warning signal. European defaults lead to higher dollar and lower U.S. Treasury yields.

THE OUTLOOK: I expect

FROM GOSS:

- Even as the overall economy improves, housing problems (mortgage defaults, bank failures) to continue to weigh on the economy.

- Long term interest rates to increase by 0.9% in the next 6 months.

- I still expect the dollar to weaken by 10% - 15% against the Euro by the end of 2010. Good for ag commodity prices.

OTHER FORECASTS:

- For the first time in two years, more CEOs expect to be adding jobs than cutting jobs. A survey released Wednesday by the Business Roundtable, an association of CEOs of big U.S. companies, says 29% of chief executives expect to increase corporate payrolls over the next six months, while 21 percent predict that their work forces will shrink. Half see no change in jobs.

- Nearly half – 47%-- of the CEOs surveyed said they will increase capital spending in the next six months, up from 40% in the fourth quarter.

- Charles Plosser, president of the Philadelphia Fed, has asserted that inflation measures have been dis-torted by the crisis in the housing market. He has argued that the ballooning of the Fed's balance sheet to $2.3 trillion posed inflationary risks, and that the Fed should begin tightening the supply of credit sooner rather than later.

SUPPLY MANAGERS READING ROOM

"Voice of the Supply Chain: Norbert Ore," Supply Chain Management Review 13, no. 7 (Oct 2009): p. 10. Al-though Norbert Ore may lack the household-name status of the prime-time presenters on the major TV networks, his pronouncements are eagerly anticipated and avidly dissected each month by government and global business leaders when his committee releases its latest index of the health of the U.S. manufacturing sector. Ore is effectively the voice of the supply chain-at least in terms of how its economic status reflects the wellbeing of the economy as a whole. He heads the committee that compiles, writes and publishes the Institute for Supply Management's Report on Business, the monthly report that is widely recognized as a leading indicator of the U.S. economy. When not analyzing and pronouncing on the macro economy, Ore is often called upon to speak and write about core supply chain themes such as negotiation, contracts and strategic supply relationships. He's also a community service volunteer.

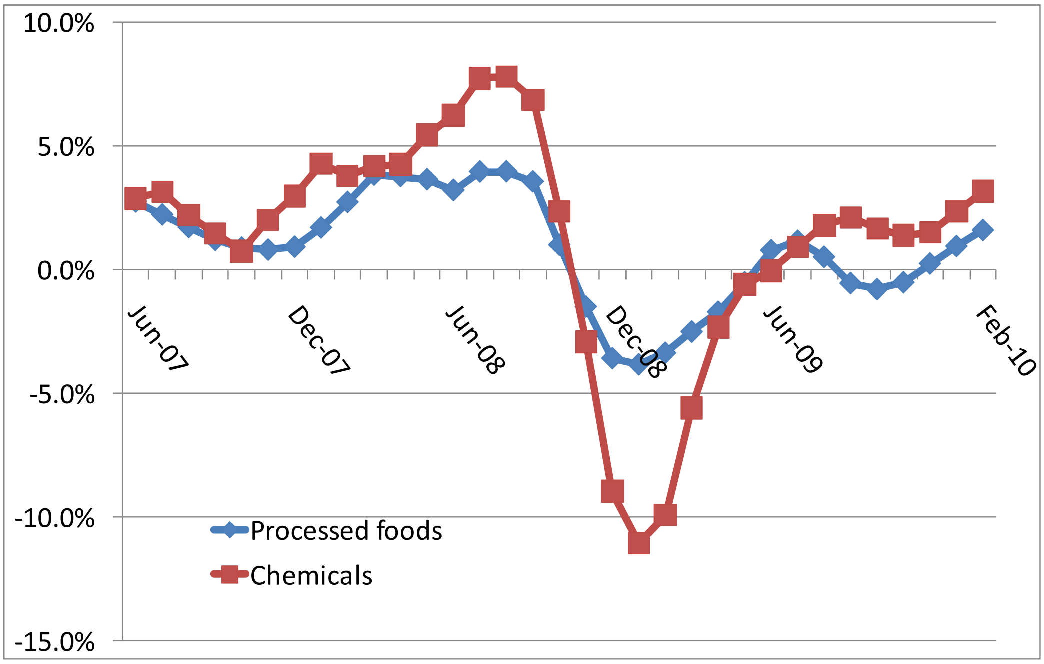
ASK ERNIE

If you have any questions about the survey or have any specific questions about the recent economic conditions, please write to Ernie at ernieg@creighton.edu.

PRICE DATA

PROCESSED FOODS/CHEMICALS 2007-2010
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2010



Price changes, 3 month moving average, 2007-2010