THE PURCHASING ECONOMY SURVEY REPORT April 2012

"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

California, Illinois or Spain: Who Will Default First?

Just one month ago, Greece defaulted on its debt as the size of the Hellenic nation's sovereign debt obligations rose to more than 170 percent of 2011 gross domestic product (GDP). With the U.S. debt climbing to more than 90 percent of GDP in 2012, Standard and Poor's downgraded U.S. debt last year. But contrary to the case of our European brethren of Portugal, Italy, Greece and Spain, often referred to as the PIGS, investors actually unloaded debt of the PIGS and bought more tainted U.S. debt. It has been said that the U.S. debt won the "ugly" contest. U.S. debt is ugly, European debt is even uglier. So why is U.S. debt less ugly? The fact is no European nation can print more money (Euros) in order to repay debt with depreciated currency. The European Central Bank controls the Euro value and has said emphatically "no" to this indirect rescue which also has the added impact of stimulating exports. On the other side of the Atlantic, the U.S. Federal Reserve (Fed) can, and has, turned on the printing presses reducing the value of the dollar and diminishing the burden of the U.S.'s inflation adjusted debt. Investors understand this and expect the Fed to continue this dollar depreciation "program." In summary, investors recognize that debt obligations are significantly more burdensome to governments that have no control over their money supply. States like California and Illinois with pension obligations of $240 billion and $139 billion, respectively, are the Yankee version of Greece. Unless they secede from the U.S. and adopt their own currency, they will tax their citizens more heavily, default on their bonds, renegotiate the pension obligations, or seek a federal solution (bailout). Just as Germany and France bailed out the PIGS, Iowa, Kansas, Nebraska, North Dakota and South Dakota, with relatively small future pension obligations, will likely bail out their more profligate spending neighbors in the years ahead. Ernie Goss.

LAST MONTH'S SURVEY RESULTS

Exports Push Mid-America Leading Economic Indicator Higher: Skilled Labor Shortages in Parts of Region

SURVEY RESULTS AT A GLANCE

- Rising exports raised the region's leading economic indicator.
- New hiring was strong for the month.
- Inflation gauge signals excessive wholesale inflation in the months ahead.
- Shortages of skilled manufacturing workers reported for many parts of region.
- Approximately 72 percent of firms report fuel suppliers adding fuel surcharges.

The monthly Business Conditions Index for the nine-state, Mid-America region indicates growing strength in the regional economy. The index, a leading economic indicator from a monthly survey of supply managers, has increased for five straight months. Overall index: The index, which ranges between 0 and 100, climbed to 58.6 from 58.4 in February. Only a significant upturn in oil prices or a catastrophe such as last year's Japanese Tsunami will derail this expansion. Thus far, higher gasoline and fuel prices have failed to slow growth in the region. Firms with close ties to agriculture and energy as well as businesses selling internationally continue to lead the regional economy.

This month we asked supply managers how their suppliers were dealing with higher fuel prices. Almost three of four, or 72 percent, indicated that suppliers were adding fuel surcharges to the cost of supplies while 16 percent of suppliers absorbed the added costs. The remaining 12 percent incorporated elevated fuel costs into the purchase price.

Employment: For a third straight month, the employment index climbed above growth neutral. The hiring gauge increased to a strong 58.5 from February's healthy 57.5. Employment growth in the region is accelerating with reports of labor shortages for skilled manufacturing workers. Recent surveys indicate that employment growth will approach an annualized rate of 1.5 percent in the second quarter of 2012. Given that the regional annual average job growth prior to the recession was 1.1 percent, this expected growth is very healthy.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, rose to 76.5 from February's already inflationary 74.7. While much of the growth has been driven by higher energy prices, supply managers report rapidly increasing prices for a broad range of supplies they purchase. Supply managers reported sharp increases in food, chemicals and metal products for the month. While the expanding economy has been an important factor pushing prices higher, the Federal Reserve's (Fed) easy money policy has been a big contributor to increases in our inflation gauge. I expect the Fed to begin raising rates well before their announced date of 2014. In my judgment, the Fed's pro-growth stance poses significant inflation risks.

Confidence: Looking ahead six months, economic optimism, as captured by the March business confidence index, rose to a healthy 62.2 from 61.0 in February. Lower unemployment rates and an expanding national economy more than offset concerns surrounding higher energy and fuel prices. Inventories: The March inventory index climbed to 58.9 from February's 54.2. Healthy inventory growth signals that supply managers expect production expansions in the months ahead and is consistent with the strong business confidence reading for the month. This will be an important component of growth for the first half of 2012.

Trade: March's export numbers for the Mid-America region expanded to a solid 56.4 from February's 55.3. At the same time, March imports advanced to 57.4 from 56.6 in February. The export of manufactured goods, particularly those connected to agriculture, has been a very important contributor to regional growth. At the same time, the regional economic expansion has boosted imports by regional companies.

Other components: Other components of the March Business Conditions Index were new orders at 60.8, up from 58.4 in February; production or sales at 60.4, down from 60.9; and delivery at 54.5, down from February's 56.4.

MID-AMERICA STATES

ARKANSAS

The overall index for Arkansas soared to 67.8 from 55.5 in February. Components of the index from the monthly survey of supply managers were new orders at 65.3, production or sales at 64.3, delivery lead time at 71.2, inventories at 56.9, and employment at 81.6. Non-durable goods manufacturers in the state continue to shed jobs. On the other hand, durable goods producers in the state, especially those dependent on sales abroad, are experiencing healthy growth. As the state's employment situation improves significantly in the months ahead, I expect the state's unemployment rate to drop by another one-half of one percentage point by the end of the final quarter of 2012.

IOWA

For the 27th straight month, Iowa's Business Conditions Index remained above growth neutral. The index, from a survey of supply managers, climbed to a strong 67.5 from 66.5 in February. Components of the index for March were new orders at 75.5, production or sales at 69.0, delivery lead time at 55.2, employment at 66.8, and inventories at 70.9. Both durable and non-durable goods manufacturers in the state are adding jobs at a healthy pace. Manufacturers tied to agriculture and dependent on sales abroad are experiencing especially strong growth. As a result of this solid expansion, I expect Iowa's unemployment rate to move below five percent for the first time since 2008 by the middle of 2012.

KANSAS

The Kansas Business Conditions Index for March climbed to 55.3 from 53.7 in February. Components of the index from March's survey of supply managers in the state were new orders at 56.5, production or sales at 51.2, delivery lead time at 57.1, employment at 53.1, and inventories at 58.7. Growth among durable goods producers, especially those dependent on exports, continues to boost state growth. The state's large telecommunications sector remains an area of concern while food producers in the state continue to shed jobs, albeit at a slow pace. However by the middle of 2012 as a result of the state's improving employment situation, I expect the state's unemployment rate to drop below six percent for the first time since 2008.

MINNESOTA

The March Minnesota Business Conditions Index was above growth neutral for the 31st consecutive month. The index slipped to a still healthy 56.7 from 58.3 in February. Components of the index from the March survey of supply managers were new orders at 54.7, production or sales at 62.0, delivery lead time at 56.2, inventories at 51.9, and employment at 58.8. Manufacturers in the state are experiencing very healthy growth with exports leading the way. Durable goods producers in the state are outperforming non-durable goods manufacturers in the state with firms tied to agriculture continuing to report expanding economic conditions. The state's unemployment rate will continue to decline in the months ahead moving below six percent for the first time since 2008 by the end of the third quarter of this year.

MISSOURI

The March Missouri Business Conditions Index climbed above growth neutral for the month. The index, a leading economic indicator from a survey of supply managers, increased to 58.3 from February's 53.8. Components of March's Business Conditions Index were new orders at 62.5, production or sales at 59.8, delivery lead time at 56.7, inventories at 53.7, and employment at 59.1. Firms tied to vehicle manufacturing in the state continue to report pullbacks. However, this negative has been more than offset by non-vehicle durable goods manufacturers' improving economic conditions. As in the rest of the region, companies tied to exports are reporting very healthy growth. As a result of a slowly improving state economy, I expect the state's unemployment rate to move below seven percent for the first time since 2008 by the end of the third quarter of 2012.

NEBRASKA

The March Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 17th consecutive month. However, the index, a leading economic indicator from a survey of supply managers, sank to 53.0 from 56.2 in February. Components of the index were new orders at 52.7, production or sales at 51.2, delivery lead time at 52.1, inventories at 54.0, and employment at 54.8. Heavy manufacturers in the state tied to exports are experiencing very healthy growth. In addition, firms tied to agriculture continue to expand sales and employment. As a result of expanding economic conditions, I expect the state's unemployment rate to dip slightly below four percent in the months ahead.

NORTH DAKOTA

The leading economic indicator for North Dakota bounced higher for March. The Business Conditions Index from a survey of supply managers in the state climbed to 63.0 from 61.0 in February. Components of the overall index for March were new orders at 72.7, production or sales at 67.2, delivery lead time at 63.2, employment at 60.8, and inventories at 51.0. The triple forces of agriculture, energy and exports have pushed employment to record high levels. Our surveys indicate that this growth will continue for the next three to six months with firms tied to exports adding to the state's good economic fortunes.

OKLAHOMA

The Business Conditions Index for Oklahoma, a leading economic indicator from a survey of supply managers in the state, rose to a strong 58.6 from February's 56.9. Components of the leading economic indicator for March were new orders at 56.6, production or sales at 57.5, delivery lead time at 66.9, inventories at 52.9, and employment at 59.4. Firms tied to exports and energy are driving the state economy at a very healthy pace. More than in any other state in the region, Oklahoma manufacturers are reporting shortages of skilled labor. Except for food producers in the state, durable and non-durable goods manufacturers are going at a brisk pace. I expect the state unemployment rate to dip by another one-half of a percentage point by the end of the third quarter of this year.

SOUTH DAKOTA

The leading economic indicator for South Dakota rose to a healthy level for March. The Business Conditions Index climbed to 64.4 from 58.9 in February. Components of the index for March were new orders at 62.3, production or sales at 74.3, delivery lead time at 45.1, inventories at 76.8, and employment at 63.6. Manufacturers, especially those linked to agriculture and to exports, are experiencing very healthy growth. As a result of expanding economic conditions in the state, I expect the state's unemployment rate to decline by another one-half of one percentage point by the end of the third quarter of this year.

THE BULLISH NEWS

- Both our regional PMI (purchasing management index) and the national PMI stood above growth neutral for March and point to improving growth in the months ahead.
- The number of U.S. jobs waiting to be filled totaled 3.5 million in February.
- First time claims for unemployment insurance hit four-year low last week.
- Natural gas prices dropped to their lowest level in more than 10 years. This is very good news for heavy manufacturing users.

THE BEARISH NEWS

- March's U.S. jobs report showed job gains of a very weak 120,000. Likewise the nation's unemployment rate declined to 8.2% due to discouraged, unemployed workers leaving the workforce.
- The Case-Shiller home price index dropped 0.8% in January and was 3.8% lower than January 2011.a record high $295.5 billion..

- Gasoline prices continue to grow and slow growth for the U.S. economy. Prices last week were $3.92 per gallon, below 2011's high of $3.99 and July 2008's record high $4.11.

WHAT TO WATCH

- PMI's: On May 1 we release our regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Increases from March readings will be very bullish for the U.S. and regional economies.

- Jobs: On Friday May 4, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for April. Another weak employment reading (less than 150,000 jobs added) will be bearish for equity markets and bullish for bond markets. On the other hand, a reduction of the unemployment rate below 8% would be a major plus.

- The CPI: On April 13 and May 15, the BLS will release the consumer price index for March and April. Annualized growth in the core CPI above 2.8 percent will begin to frighten the Federal Reserve.

THE OUTLOOK

FROM GOSS:

- Our surveys point to higher inflation than that predicted by the Federal Reserve. I expect core CPI to advance by an annualized 3% rate by the end of 2012. This is well above the Fed's comfort zone.

- As a result of rising inflationary pressures, I expect the Fed to begin raising short term interest rates no later than the first quarter of 2013.

- Gridlock in Washington will mean that U.S. taxpayers will get hit with a record tax increase on January 1, 2013. However a new president or a Democrat controlled Senate would remedy this after January 20, 2013.

OTHER FORCASTS:

- "The NABE Outlook Panel of 45 forecasters continues to predict moderate real GDP growth through 2012. Economists expect the economy to grow 2.4 percent in 2012, with GDP growth slightly stronger in the second half of the year than in the first. Employment growth brightens. Panelists increased their anticipated average monthly job change to 170,000 in 2012, which would result in an average annual unemployment rate of 8.3 percent. NABE forecasters expect stronger job growth in 2013 with the unemployment rate falling an additional half percentage point to 7.8 percent. Consumer spending to remain subdued. Even with higher employment forecasts, real consumer spending is forecast to increase only 2.1 percent this year and 2.3 percent in 2013. This rate remains below the historical norm of 2.8 percent and is consistent with a positive but below-trend recovery. Light vehicle sales are anticipated to grow at a solid pace of 14 million units this year and 14.6 million units in 2013, up from 12.7 million units in 2011.

- The Conference Board: "Economic forecasters, the average American consumer, even investors are all turning less cautious, less nervous, and beginning to believe that the economy is finally gaining some traction. That underlying strength is reflected in the latest readings from The Conference Board's Leading Economic Index®, Consumer Confidence Index®, Measure of CEO ConfidenceTM, and Employment Trends IndexTM. There are at least four specific reasons why the economy is strengthening. First, more new jobs are beginning to open up in the manufacturing and service sectors, even in construction, (though a little more slowly in March). Second, partly related to the first, the housing market is finally poised to show some improvement. Third, also related to the first two, state and local government cutbacks have slowed. Finally, the threat from problems associated with ongoing financial and fiscal distress in Europe seems to have eased a little since December, though tension is rising due to Spain's recent announcement that its deficit would exceed previous targets."

Goss Eggs (Recent Dumb Economic Moves)

- The Commerce Department said last week that it would impose tariffs on solar panels imported from China after concluding that the Chinese government provided illegal export subsidies to manufacturers. On May 17, the Commerce Department will release a second decision that could place even steeper tariffs on some Chinese-made solar products. These "taxes" on imports punish U.S. consumers and risk a trade war with China.

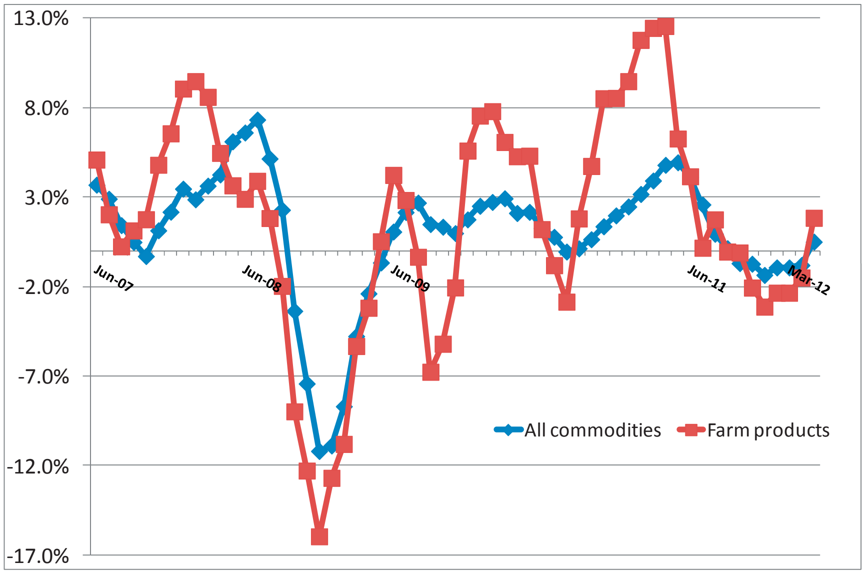
Supply Manager Reading Room

"How to Build a High-Impact Indirect Sourcing Organization," Derek Everitt, March/April, eSide Supply Management. A global sourcing director looks back on what worked best for his own team when the cost savings pressure was on. When launching a new supply management organization, the most often-asked question is: Where do we start? This was the burning question we faced in 2007 at Terex, a global manufacturer of construction and industrial equipment with global sales (at the time) of US$9 billion. The company was organized in five global segments, each containing several business units. A new corporate supply management organization was being formed, and the pressure was on our team to show results. Global indirect spend was my responsibility. Terex defines indirect spend as all purchases of goods and services that aren't on the bill of materials of the products it manufactures and sells. Some examples include office supplies, MRO, energy, travel, contingent labor and employee benefits. The process of ensuring we met the management team's expectations broke down into four basic steps. (continued: http://www.ism.ws/pubs/eside/esidearticle.cfm?ItemNumber=22354

PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2012
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2012



Price changes, 3 month moving average, 2007-2012