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

Who Is Responsible for the Debt Downgrade?

Many pundits and politicians blame the Tea Party for Standard & Poor's recent downgrade of U.S. debt. Whether one agrees or disagrees with the policy prescriptions of the Tea Party, placing blame for the downgrade is clearly wrong. Without Tea Party intervention, Congress would have merely raised the debt ceiling with no spending restraints or revenue enhancements as they have ten times since 2001. By insisting on spending cuts, the Tea Party simply made U.S. debt somewhat more attractive to investors and thwarted and even larger downgrade. As a result of the economic downturn beginning in the final quarter of 2007, federal spending has grown by 30.0 percent while federal tax receipts have slumped by 5.4 percent thus leaving the nation with an annual budget deficit of $1.3 trillion for next fiscal year and a federal debt that is growing at an unsustainable pace. Cuts from the baseline in "discretionary" spending reached in the latest debt ceiling compromise will not put a dent in the problem. To successfully reduce the debt burden of the federal government, we must as a society accept real cuts to larger non-discretionary spending programs such as Medicare and Social Security, allow the Bush tax cuts to expire for all workers at the end of 2012, not just the so-called wealthy (there are just too few affluent), and experience vastly higher economic growth. Short of these outcomes, more and more of the national income will be transferred to baby-boomers from younger workers who will be saddled with the mounting U.S. debt. Ernie Goss.

LAST MONTH'S SURVEY RESULTS

Uncertainty and Slow Growth Push Leading Indicator Down: Confidence Plummets

SURVEY RESULTS AT A GLANCE

- Leading economic indicator falls for fourth time in past five months.
- Expected wage gains continue to decline for businesses in the region.
- Business confidence tumbles below growth neutral.
- Inflation still in pipeline but expected price gains decline.

For the fourth time in the past five months, the Business Conditions Index for the nine-state Mid-America region fell. The index, a leading economic indicator from a monthly survey of supply managers, points to slowing regional growth for the next three to six months. Overall index: The index which ranges between 0 and 100, slumped to 54.1 from June's 54.9. While this is the 20th consecutive month that the index has been above growth neutral 50.0, it continues to trend downward signaling even slower growth ahead. Higher energy prices, uncertainty surrounding the national economy and a weak housing sector are restraining business expansion in the Mid-America region. One supply manager reflected a lot of the sentiment for the month saying, "We have exceeded sales forecasts every month (this year) until June. I expect forecasts for the rest of the year to be down somewhat." Employment: For the 19th straight month, the regional employment index remained above growth neutral though the July job reading declined to 53.1 from 53.6 in June. This is the second straight month that the employment gauge has declined. This month, we asked supply managers how much of a pay raise they anticipate for the next year. On average supply managers expect an increase of only 1.7 percent. This is less than the two percentage point gain reported in November of last year. Not only is job growth weak, wage gains are coming down.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, dipped to a still inflationary 70.9 from June's 74.3, but well down from April's record high 94.0. As economic growth has slowed, so have inflationary pressures. Supply managers were also asked how much they expected the prices they pay for products and services to increase over the next six months. Approximately 24 percent of respondents anticipate growth of more than 6 percent over the next half year. Overall, an annualized upturn of 6.8 percent is expected. This is down from 9.6 percent in May of this year when we asked the same question. Clearly, inflation expectations remain high, but are declining among supply managers. Confidence: Looking ahead six months, economic optimism, as captured by the July business confidence index, dipped to 49.5 from June's 52.3. This is the first time since February 2009 that our confidence gauge has dipped below growth neutral. Elevated energy prices combined with uncertainty surrounding the U.S. debt situation remain important factors restraining business confidence.

Inventories: Since January 2010, supply managers in the nine-state region have increased inventory levels 17 of 19 months. This has been an important source of regional growth. Trade: A somewhat weaker global economic outlook combined with a somewhat stronger dollar negatively affected the region's export reading with a July new orders index of 52.4, down from 54.9 in June. Imports sank from 55.3 in June to 51.3 in July. Supported by a 10 percent decline in the U.S. dollar since February 2010, exports have underpinned regional growth. I expect this support to wane somewhat in the months ahead. Other components: Other components of the July Business Conditions Index were new orders at 50.5, down from 55.9 in June; production or sales at 52.6, down from 53.8; and delivery lead time at 58.4, down from 60.1 in June.

MID-AMERICA STATES

ARKANSAS

For a third straight month, Arkansas' leading economic indicator from Creighton's monthly survey of supply managers declined. The index for July slumped to 51.8 from June's much healthier 60.2. Components of the index for July were new orders at 44.1, production or sales at 46.3, delivery lead time at 65.9, inventories at 47.6, and employment at 55.0. Over the past three months, new entrants to the state's work force have pushed the unemployment rate up by 0.4 percent even as employment has expanded. Survey results point to slower job growth and a flat unemployment rate over the next three months.

IOWA

Iowa's Business Conditions Index remained above growth neutral for the 19th straight month. The index from a survey of supply managers advanced to a regional high of 62.6 from June's 61.4. Components of the index for July were new orders at 60.8, production or sales at 64.8, delivery lead time at 65.9, employment at 54.6, and inventories at 64.6. Over the past three months, declines in Iowa's work force and employment growth have pushed the state's unemployment rate down by 0.1 percent. Survey results point to improving job growth and a slight decline in the unemployment rate over the next three months.

KANSAS

The Business Conditions Index, a leading economic indicator for Kansas, expanded to 54.7 from June's 52.7. It was the 11th time in the past 12 months that the leading economic was above growth neutral. Components of the index for July were new orders at 45.6, production or sales at 59.4, delivery lead time at 58.9, employment at 51.5, and inventories at 57.9. Over the past three months, employment growth and workers leaving the work force have pushed the state's unemployment rate down by 0.2 percent. Recent survey results point to slow job growth and little or no change in the state's unemployment rate over the next three months.

MINNESOTA

Minnesota's leading economic indicator from the monthly survey of supply managers was above growth neutral for the 24th straight month at 57.5, up from 54.8 in June. Components of the index for July were new orders at 57.6, production or sales at 55.7, delivery lead time at 57.4, inventories at 59.7, and employment at 57.2. Over the past three months, despite new entrants to the work force, healthy employment growth has stabilized the state's unemployment rate. Recent survey results point to positive job growth and a slight decline in Minnesota's unemployment rate for the next three months.

MISSOURI

The Missouri Business Conditions Index from a monthly survey of supply managers sank to 51.9 from 54.5 in June. The index, a leading economic indicator, continues to point to much slower growth in the months ahead. Components of the Business Conditions Index for July were new orders at 51.1, production or sales at 48.0, delivery lead time at 61.3, inventories at 51.0, and employment at 48.3. Over the past three months, growth in durable and nondurable manufacturing has pushed the state's unemployment rate down by 0.3 percent. Based on recent survey results, Missouri should continue to add jobs at a somewhat slower pace as the unemployment rate stabilizes at its current rate over the next three months.

NEBRASKA

The Business Conditions Index for Nebraska moved above growth neutral 50.0 for the ninth straight month. The index, a leading economic indicator from a survey of supply managers climbed to 57.1 from 56.0 in June. Components of the index for July were new orders at 57.7, production or sales at 59.6, delivery lead time at 56.5, inventories at 55.0, and employment at 56.2. Over the past three months, despite new entrants to the work force, healthy employment growth in the state has pushed the unemployment rate down by 0.1 percent. Recent survey results point to solid job growth in Nebraska and a flat unemployment rate for the next three months.

NORTH DAKOTA

North Dakota's leading economic indicator from Creighton's monthly survey of supply managers rose briskly for the month. The Business Conditions Index climbed to 55.1 from 44.4 in June. Components of the index for July were new orders at 51.0, production or sales at 46.2, delivery lead time at 61.8, employment at 56.5, and inventories at 60.2. Despite a pullback in June, our survey results continue to indicate solid job growth in the state for the next three to six months. Strong job growth over the past three months pushed the state's unemployment rate down by 0.4 percent. I expect North Dakota to continue to add jobs at a somewhat slower pace with the unemployment rate stabilizing at its current level for the next three to six months.

OKLAHOMA

Oklahoma's Business Conditions Index from a monthly survey of supply managers in the state advanced to 61.9 from 54.7 in June. Components of the index for July were new orders at 57.4, production or sales at 59.8, delivery lead time at 78.4, inventories at 55.7, and employment at 58.9. Over the past three months, despite new entrants to the work force, healthy employment growth in the state has pushed the unemployment rate down by 0.8 percent. Recent survey results point to solid job growth and a flat unemployment rate for the next three months for Oklahoma.

SOUTH DAKOTA

South Dakota's leading economic indicator once again rose above growth neutral. The Business Conditions Index from a monthly survey of supply managers dipped to 57.0 from June's 60.7. Components of the index for July were new orders at 52.2, production or sales at 63.7, delivery lead time at 50.5, inventories at 55.0, and employment at 63.7. Over the past three months, healthy employment growth in the state has pushed South Dakota's unemployment rate down by 0.1 percent. Recent survey results point to positive but slow job growth and a flat unemployment rate for the next three months.

THE BULLISH NEWS

- Over the last few weeks, first time claims for unemployment insurance have hovered around 400,000 which is not good but it is better than earlier in the year
- Nonfarm payrolls rose by 117,000 last month as private-sector employers added 154,000 jobs. The unemployment rate dropped to 9.1% last month from 9.2% in June.
- The Conference Board Consumer Confidence Index®, which had declined in June, improved slightly in July. The Index now stands at 59.5, up from 57.6 in June. The Present Situation Index decreased to 35.7 from 36.6. The Expectations Index rose to 75.4 from 71.6 last month

THE BEARISH NEWS

- Almost14 million Americans were unemployed in July. The jobs report Friday showed 44.4% of unemployed Americans, or 6.2 million people, were out of work for more than six months.
- Creighton's PMI and the national PMI both declined for July pointing to much slower growth in the months ahead.
- The U.S. trade gap widened sharply in May to its highest level in nearly three years as surging oil prices helped push imports to a near record and exports fell slightly from April's all-time high.
- With the additional $238 billion the Treasury immediately borrowed when the debt ceiling was raised on August 2, total current debt now exceeds 2010 gross domestic product (GDP) for the entire United States.
- U.S. inflation adjusted gross domestic product in the US increased at an annual rate of 1.3% in the second quarter of 2011 and 0.7% in the first quarter. This is not good. We should be experiencing growth in excess of 4%.

WHAT TO WATCH

- The Mid-America PMI from Creighton and the National PMIs from the Institute for Supply Management will be released on September 1. Indices below 50.0 for both or either will be the first and most significant factor yet that the U.S. economy is dipping back into a recession. Indices above 50.0 will be bullish for stocks.
- Jobs: On Friday September 2, the U.S. BLS releases its employment report for July. An increase in the

unemployment rate and less than 80,000 jobs created will be bullish very for bond prices and negative for stocks pushing interest rates lower.

- Retail Sales: On Sept. 14, the U.S. Census Bureau will release estimated retail sales for August. A monthly decline from the previous month will be a very important indicators that the U.S. economy is moving back into recessionary territory

THE OUTLOOK

FROM GOSS:

- I expect the Federal Reserve to launch QE3 in the coming months. This will prevent long-term interest rates from rising appreciably even with higher inflation

- While I still think the U.S. economy will avoid another recession, growth will be less that 1.0% (annualized) and overall job growth will be around 0.5%. We need job growth three or four times this pace to bring unemployment rate lowers

- Home foreclosures will continue to pull housing prices lower

OTHER FORCASTS:

- Goldman Sachs downgraded its forecast for U.S. growth Friday, saying there is now a one-in-three chance the U.S. will lapse back into recession; U.S. unemployment also will edge up to 9.25% by the end of 2012; Real gross domestic product will grow by 2% to 2.5% growth through 2012; Their forecast for annual average GDP growth has fallen to 1.7% in 2011 (from 1.8%) and to 2.1% in 2012 (from 3%).

- The Conference Board: A Choppy and Frustratingly Slow Expansion. The recent state of weaker economic data is not a big surprise, but downside risks predominate, all of which is in line with our forecast. The fire power of the current economic expansion should remain anemic. Economic growth in Q2 does not look to be much better than the disappointingly sub-2% advance in Q1. Prospects for the second half of the year are moderately better, with growth for the year now likely to register a paltry 2.2% growth rate. The Conference Board Leading Economic Index® (LEI) for the United States declined in April; however, the risk of another recession looks to be very low at this point, but the same recipes to stimulate the economy are less available and less likely to work in the future. The U.S. consumer remains downbeat in large part due to the soft labor market, weak income gains, and high food and energy prices. Absent a sharp improvement in employment creation, consumers are likely to remain reticent and in turn that restrains the overall economy

Goss Eggs
(Recent Dumb Economic Moves)

- Fannie Mae Tenant-in-Place Rental Policy. To help minimize disruption, eligible renters who want to stay in a home that has been foreclosed can sign a month-to-month lease if the property is owned by Fannie Mae. The policy, which applies to properties owned by Fannie Mae, will help bring stability to communities affected by high foreclosure rates. Eligible renters will be offered a new month-to-month lease with Fannie Mae and Fannie Mae will manage the properties through a real estate broker or a property management company. Renters may also be eligible for financial assistance if they desire to relocate. Policies like this are at the heart of the lack of a rebound in the housing market. Investors will abandon the housing market.

SUPPLY MANAGER READING ROOM

"Supply Chain Manager Job Outlook and Other Characteristics," Direct, or coordinate production, purchasing, warehousing, distribution, or financial forecasting services and activities to limit costs and improve accuracy, customer service and safety. Examine existing procedures and opportunities for streamlining activities to meet product distribution needs. Direct the movement, storage, and processing of inventory. See: 1) 5 states with highest salaries for supply managers, 2) Education and training requirements for supply chain managers, 3) Required work experience for supply chain managers, 4) Top schools for supply chain managers, 5) Personality traits common among supply chain managers, see at: http://www.secondleap.com/jobs/60-Supply-Chain-Manager-education-requirement-job-outlook-salary

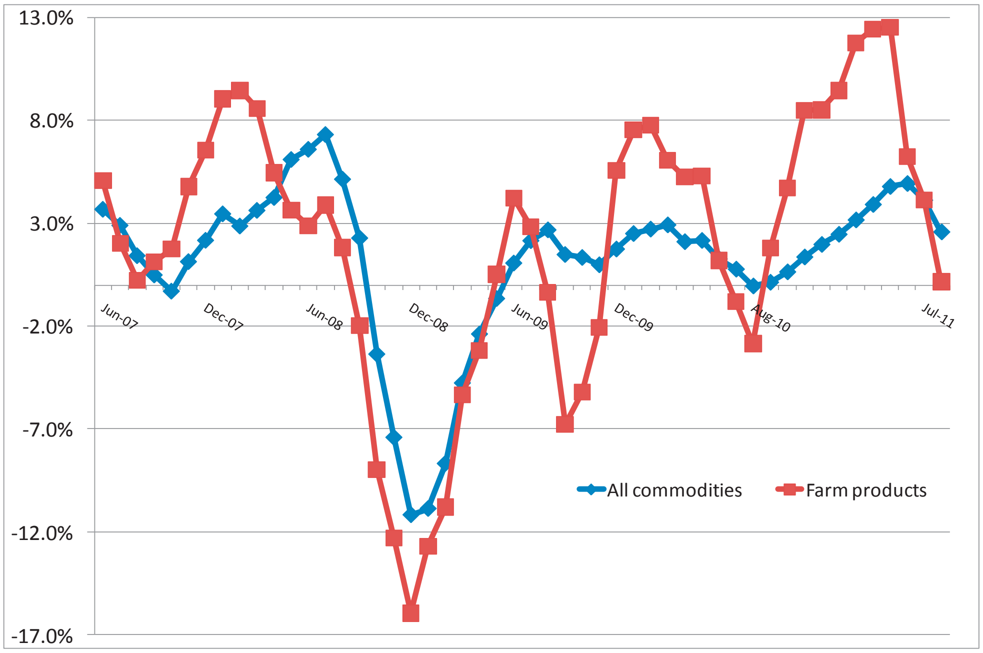
ASK ERNIE

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

ALL COMMODITIES/FARM PRODUCTS 2007-2011
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2011



Price changes, 3 month moving average, 2007-2011