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

Do Right-to-Work States Economically Outperform Other States?

Several months ago, the International Association of Machinists (IAM) brought a complaint before the National Labor Relations Review Board (NLRB) against Boeing Aircraft contending that the builder of the 787 Dreamliner engaged in unfair labor practices by announcing that, due to past work stoppages in Washington state, Boeing had decided to produce their newest plane in South Carolina, a right-to-work state. That is, Boeing's South Carolina workers are not compelled to join a union and/or pay union dues as they are in Washington. The union petitioned the NLRB to close the $750 million South Carolina plant and force Boeing to manufacture the aircraft at their Washington facility. From a societal point-of-view, how would a decision in favor of the union likely affect U.S. economic growth? Comparing economic growth rates between the 22 right-to-work states and all other states would provide some insight into this matter. U.S. Bureau of Economic data show that between 1990 and 2010, right-to-work states experienced much higher median economic performance with 1) Employment growth of 25.9 percent for right-to-work states versus 7.9 percent for all other states. 2) Per capita income growth of 117.8 percent vs. 104.3 percent, 3) Population growth of, 29.0 percent vs. 23.6 percent, 4) Manufacturing employment growth of 84.0 percent vs.19.4 percent, 5) Manufacturing wage per worker growth of 108.7 percent vs. 96.1 percent. Thus on every economic dimension examined, right-to-work states experienced significantly greater economic performance than non-right-to-work states. While certainly not definitive, comparative economic growth rates indicate that an NLRB decision to force Boeing to move production from South Carolina to Washington would have, other factors unchanged, reduced overall U.S. economic growth. The NLRB last week dropped the complaint against Boeing after the company reached a settlement with the union that guaranteed the production of the older 737 aircraft in Washington. Ernie Goss.

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Rises: Slight Job Losses for Fourth Straight Month

SURVEY RESULTS AT A GLANCE

- Leading economic indicator rises above growth neutral.
- Approximately 30 percent of firms anticipate adding new employees in the first half of 2012.
- Employment gauge falls below growth neutral for the fourth straight month.
- Supply managers expect wholesale prices to rise by 3.7 percent over the next six months.
- Anticipated annualized wholesale-price growth has declined by 1.5 percentage points since February 2010.

After declining below growth neutral in October, the Business Conditions Index for the nine-state, Mid-America region moved above 50.0 for November. The index, a leading economic indicator from a monthly survey of supply managers, continues to point to slow growth for the region for the next three to six months and a small risk of a recession. Overall index: The index, which ranges between 0 and 100, climbed to 52.6 from 49.9 for October. November's reading is the 23rd time in the past 24 months that the index rose above growth neutral. Surveys over the past several months indicate that the slowdowns in the national and global economies are putting downward pressure on the regional economy. Employment: For a fourth straight month, the employment index remained below growth neutral, though the November reading inched higher to 49.5 from October's 49.0. Our surveys over the last four months indicate that job growth in the region has slowed significantly. Approximately 18 percent of survey companies reported net job reductions for November, the same as in October. This month firms were asked about their hiring expectations for the next six months. Only 30 percent expect to add workers while the remaining 70 percent anticipate layoffs or level employment for the first half of 2012. These expectations are somewhat more optimistic than December 2010, when 24 percent anticipated worker additions for the next six months. Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, rose to 60.9 from October's 56.0. As regional growth has waned, so have inflationary pressures at the wholesale level. Lower inflation in the pipeline gave the Federal Reserve room to take the coordinated monetary easing action it initiated yesterday with five other central banks.

This month supply managers were asked how much they expected prices of products they buy to increase in the next six months. Approximately 20 percent of the supply managers expect these prices to grow by more than 6 percent during the next six months. Overall, supply mangers anticipate prices to grow by 3.7 percent over the next six months or approximately 7.4 percent on an annualized basis. "Last February when we asked the same question, supply managers expected annualized price growth of 8.8 percent. Thus, anticipated wholesale price growth has declined by 1.5 percentage points since February," said Goss.

Inventories: After declining below growth neutral for October, supply managers in the nine-state region once again increased inventory levels for the month. November's inventory index climbed to 52.9 from October's 48.5.

Confidence: Looking ahead six months, economic optimism, as captured by the November business confidence index, sank to 49.1 from October's already weak 49.5. "Supply managers in our survey remain pessimistic about economic prospects for the first half of 2012. Economic uncertainty in Europe and a frail U.S. housing sector were identified as factors weighing on the economic outlook," said Goss.

Trade: Tepid regional growth has pushed Mid-America firms to pull back on their purchases from abroad. The November import index once again sank below growth neutral with a reading of 49.5, up slightly from October's 48.0. "Even with an upturn in new export orders to 52.1 from October's 50.0, weak global economic growth continues to restrain exports for firms in the region," said Goss.

Other components: Other components of the November Business Conditions Index were new orders at 52.0, up from October's 45.4; production or sales at 52.4, up from 48.5; and delivery lead time at 56.5, down from 57.9 in October.

MID-AMERICA STATES

ARKANSAS
For only the second time in the past seven months, the leading economic indicator for Arkansas advanced. The November index soared to 63.0 from 52.7 in October. Components of the index were new orders at 69.4, production or sales at 68.5, delivery lead time at 56.2, inventories at 60.3, and employment at 60.7. This month's upturn is very encouraging given the pullbacks identified by

durable and nondurable goods producers in previous months, but we will have to watch future readings for the state. Manufacturers have increased average weekly hours worked rather than adding to their payrolls. Since reaching its lowermost level in February 2010, Arkansas has added more than 22,000 jobs, but needs to tally another 36,000 jobs to reach pre-recession levels.

IOWA

The November Business Conditions Index for Iowa remained above growth neutral for the 23rd straight month. The index, from a survey of supply managers, rose to 57.7 from October's 55.4. Components of the index were new orders at 55.5, production or sales at 57.8, delivery lead time at 61.6, employment at 57.0, and inventories at 56.6. "Both durable and nondurable goods manufacturers reported strong business conditions for the month. Since bottoming out in December 2009, Iowa has added approximately 21,000 jobs. Even so, Iowa must add another 41,000 to reach pre-recession levels. Our survey results over the last several months point to strong growth with durable-goods producers and food processors leading the way.

KANSAS

The Business Conditions Index, a leading economic indicator for Kansas, rose to 50.9 from 47.9 in October. The survey from supply managers in the state is pointing to slow growth for the Kansas economy in the months ahead. Components of the index were new orders at 51.9, production or sales at 50.3, delivery lead time at 59.3, employment at 43.5, and inventories at 49.7. Both durable and nondurable goods manufacturers reported solid business conditions for the month. So far, manufacturers have relied more on increasing the length of the average workweek rather than adding to their payrolls. Since bottoming out in February 2011, Kansas has added more than 9,000 jobs. Even so, the state needs to add another 59,000 to reach pre-recession levels. Our survey results over the last several months point to weak, but positive growth in the months ahead, with durable goods producers leading the way.

MINNESOTA

The Minnesota Business Conditions Index, a leading economic indicator from a monthly survey of supply managers, was above growth neutral for the 28th straight month at 54.7 from October's 55.4. Components of the index for November were new orders at 51.7, production or sales at 51.0, delivery lead time at 59.3, inventories at 59.5, and employment at 52.1. Durable goods manufacturers reported solid business conditions for the month. So far, manufacturers have relied heavily on increasing the length of the average workweek limiting the growth in payrolls. Since reaching a bottoming out in September 2009, the state has added almost 53,000 jobs. Even so, Minnesota must add another 97,000 jobs to reach pre-recession levels. Our survey results over the last several months point to strong growth with durable goods producers leading the way.

MISSOURI

The November Missouri Business Conditions Index was unchanged from October at 47.3. The index, a leading economic indicator, points to economic weakness and job losses in the months ahead. Components of the Business Conditions Index were new orders at 45.3, production or sales at 47.1, delivery lead time at 54.6, inventories at 46.8, and employment at 42.8. Durable goods manufacturers reported solid business conditions for the month. However, this growth was more than offset by economic pullbacks among value-added service firms such as telecommunications. Since bottoming out in December 2010, Missouri has added almost 12,000 jobs. Even so, the state must add another 97,000 to reach pre-recession levels. Our survey results over the last several months point to economic weakness for the next 3 to 6 months outside of the durable goods sector.

NEBRASKA

The November Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 13th straight month. The index, a leading economic indicator from a survey of supply managers expanded to 55.2 from 54.3 in October. Components of the index were new orders at 52.6, production or sales at 55.0, delivery lead time at 57.4, inventories at 56.2, and employment at 54.6. Durable goods manufacturers and food processors reported solid business conditions for the month. In addition to adding jobs, manufacturers have increased the length of the average work week. Since bottoming out in January 2010, Nebraska has added almost 30,000 jobs. The state needs to add less than 1,000 jobs to reach pre-recession levels. Our survey results over the last several months point to strong growth with durable goods producers leading the way.

NORTH DAKOTA

The leading economic indicator for North Dakota expanded for November and was the second highest in the region. The Business Conditions Index rose to 57.9 from October's regional high 57.2. Components of the index for November were new orders at 62.6, production or sales at 59.0, delivery lead time at 61.2, employment at 56.9, and inventories at 49.6. Durable and nondurable manufacturers in the state continue to report very healthy business conditions. In addition, growth among firms linked to the energy sector has pushed the state to record employment levels. Firms tied to agriculture and energy will continue to push North Dakota's economy to record high levels of employment and robust economic growth in the next 3 to 6 months

OKLAHOMA

The Business Conditions Index for Oklahoma from a monthly survey of supply managers declined in November to 52.5 from October's 53.9. Components of the leading economic indicator for November were new orders at 55.5, production or sales at 49.3, delivery lead time at 59.6, inventories at 46.9, and employment at 57.0. Durable goods manufacturers reported solid business conditions for the month. In addition to adding to their payrolls, manufacturers in the state are increasing the length of the average workweek. Since bottoming out in February 2010, Oklahoma has added almost 57,000 jobs. The state needs to add just 5,000 jobs to reach pre-recession levels. Our survey results over the last several months point to strong growth with durable and nondurable goods producers leading the way.

SOUTH DAKOTA

South Dakota's leading economic indicator once again climbed above growth neutral in November. The Business Conditions Index, from a monthly survey of supply managers, slipped to 50.3 from October's 52.6. Components of the index for November were new orders at 52.6, production or sales at 49.0, delivery lead time at 47.5, inventories at 45.9, and employment at 56.5. Manufacturers reported solid business conditions for the month. In addition to increasing their employment levels, manufacturers in the state are increasing the length of the average workweek. Since bottoming out in February 2010, South Dakota has added approximately 7,000 jobs. The state needs to add just another 2,000 jobs to reach pre-recession levels. Our survey results over the last several months point to strong growth with durable and nondurable goods producers leading the way.

THE BULLISH NEWS

- Non-farm payrolls continued to trend upward with 120,000 jobs added for November and a jobless rate dipping from 9.0% to 8.6%. However, a portion of the decline in the unemployment rate was due to 315,000 individuals got discouraged and quite looking for a job. Discouraged workers are not counted as unemployed.

- Total retail spending between November 1st and December 2nd is up 15% over 2010 to $18.7 billion and Cyber Week spending also grew 15% to approximately $6 billion.
- Gasoline prices fell for the third straight month.
- West Texas Intermediate light sweet crude oil contract for January delivery fell 41 cents to $100.87. The downward move was caused by disappointing remarks made anonymously by a German official about what the markets should expect out of this weekend's summit of EU leaders, and a surprising 1.3 million barrel crude stockpile build, to 336.1 million last week.
- Boring, consistent dividend-paying stocks have held up comparatively well, and "vice" stocks — particularly tobacco and some alcoholic beverage stocks — have had a phenomenal year.

THE BEARISH NEWS

- Data through September 2011 show that nationally home prices did not register a significant change in the third quarter of 2011, with the U.S. National Home Price Index up by only 0.1% from its second quarter level. The national index posted an annual decline of 3.9%. Nationally, home prices are back to their first quarter of 2003 levels.
- The impending Greek default on its sovereign debt is increasing interest rates across the 17 nation Eurozone. It's also causing investors to seek the safe haven of U.S. bonds thus driving up the value of the U.S. dollar and pushing agriculture commodity prices down.
- Third quarter GDP was reduced from initial estimates of 2.5% to 2.0% (need 3.5% - 4.0%)
- The U.S. and our Mid-America PMIs remain in a range indicating weak growth ahead.

WHAT TO WATCH

- EuroZone: Keep a close eye on any announcements by the European Central Bank that they stand ready to backstop EuroZone sovereign debt. That is contrary to their charter, the ECB will deflate the value of Euro by lowering interest rates and boosting liquidity.
- Jobs: On Friday Jan. 6, the U.S. BLS releases its employment report for December. A gain of more than 150,000 jobs will be viewed very positively by investors.
- Retail sales: On Jan. 12, the U.S. Census Bureau will release advance retail sales for December. This will be a very important measure of the holiday buying season along with a gauge of U.S consumer confidence

THE OUTLOOK

FROM GOSS:

- Last week the European summit produced a temporary halt to the extreme uncertainty surrounding sovereign debt of the 17 nations Eurozone nations. However, I think ultimately Greece, and perhaps Italy, will default on their debt. Banks would be wise to use this time to unload their balance sheets of Eurozone sovereign bonds (even France's)
- I expect the EU problems to push gold prices higher in the second half of 2012 when it becomes evident that there will be no Greek austerity
- U.S. job growth to continue to be positive but weak in the months ahead.

OTHER FORCASTS:

- Conference Board: In the U.S., CEOs say government regulation is the most critical challenge they face, second to business growth. CEOs are viewing the growing degree of regulation as both an obstruction for growth and an incentive to force innovation and create opportunity. European CEOs cite cost optimization as the key issue, second to growth, amid generally slower emergence from the global recession and structural issues surrounding markets and labor. Among Asian CEOs, the most critical challenge they face is talent – attracting it, retaining it and rewarding it – in a time of rapid economic development and change.
- The National Association for Business Economics Nov. 2011 Survey Results: A 2.5 percent pace is expected during the fourth quarter of 2011, followed by a 2.4 percent growth rate in 2012, with GDP in the second half of 2012 slightly stronger than in the first half. The odds of a second recession are low. Only two of 42 forecasters predicted a decline in real GDP over the near term. As a group, the panelists saw a recession as the least likely scenario. Forecast confidence has improved, but remains low. The NABE Outlook panel expects employment will improve, albeit very slowly. Monthly job gains are expected to rise steadily over the forecast horizon, from an average of 100,000 during the fourth quarter of 2011 to 130,000 by the end of next year. The jobless rate will decline from 9.1 percent to 8.9 percent in 2012, but despite a majority view of modest labor market improvement, NABE economists still identified "excessive unemployment" as their single greatest concern going forward. Housing starts are expected to increase 10 percent in 2012. The economists participating in the survey expect housing starts to reach 600,000 units in 2011, just slightly above the 2010 total and a small upward revision from the September Outlook Survey forecast.

Goss Eggs (Recent Dumb Economic Moves)

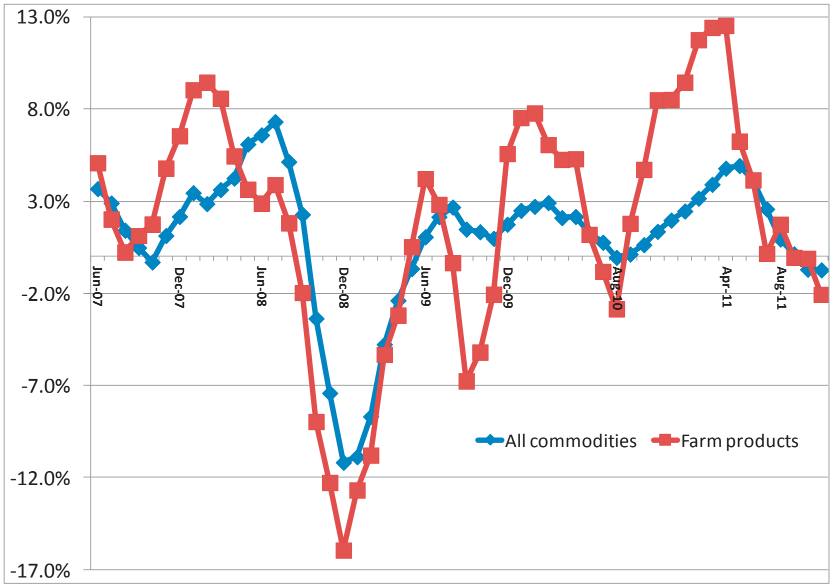
- Occupy protesters across the country are squatting in foreclosed homes and boarded-up properties, signaling a tactical shift for the movement against wealth inequality. These actions will only punish the poor and middle class as foreclosed properties remain unsold driving down the value of housing in these already wounded neighborhoods.

"A monthly survey of supply chain managers"

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