"A monthly survey of supply chain managers"

Welcome to our January report covering December survey results. According to Supply Managers this economic recovery is frail and the likelihood of a return to recessionary conditions is rising. Follow my daily comments at: www.twitter.com/erniegoss

BAILING OUT FANNIE MAE FREDDIE MAC & THE FEDERAL DEBT

This past month the U.S. Congress once again opened the national piggy bank to the biggest of the big financial institutions. On December 24, the U.S. Treasury announced that it would provide an unlimited amount of assistance to Fannie Mae and Freddie Mac, the government supported enterprises that are the largest source of funds for U.S. home loans. According to the American Enterprise Institute, taxpayer losses will top $400 billion from this mis-guided policy http://tiny.cc/EvadC . Additionally, bailouts such as this raise the national debt, which now exceeds $13.1 trillion, to its highest level relative to the size of the economy, since 1946. Since 1946, the federal debt has grown 15 times faster than the overall economy and now approaches 90 percent of GDP. According to a recently completed study, http://www.kansascity.com/444/story/1675905.html advanced countries spending above the 90 percent threshold cut their average annual growth by about two percentage points lower than countries with public debt of less than 30 percent of GDP. Thus a continuation of the recent trend in bailouts and deficit spending will lower yearly economic growth. Furthermore, interest rates, including mortgage rates, will rise significantly over the next two years absent federal government spending restraint. Likewise, the Federal Reserve will have to push short term interest rates, such as the prime rate, higher to combat higher inflationary pressures resulting from out-of-control federal spending. To quote former First Lady, Nancy Reagan, "Just say no." Ernie Goss

LAST MONTH'S SURVEY RESULTS

REGIONAL ECONOMY ENDS DECADE ON SUBDUED NOTE: SLOW GROWTH AHEAD

SURVEY RESULTS AT A GLANCE

- Business conditions point to a frail recovery in 2010.
- For December only 11 percent of firms reported an increase in employment while 16 percent indi-cated their firms reduced jobs.
- Inventories declined for the 15th straight month with only 4 percent of supply managers indicating current levels are too low.
- Inflation in pipeline an issue for 2010.

The December Business Conditions Index for the Mid-America region, a leading economic indicator from a survey of supply managers in a nine-state area, inched above growth neutral. The index expanded to 50.3 from November's 47.5. An index of 50.0 is considered growth neutral. Readings over the past several months indicate that the regional economic recovery will likely remain weak and fragile. With the overall index hovering around growth neutral, it is clear to me that the current regional economic expan-sion will remain weak. The leading economic indicator coming out of this recession is much weaker than the index after the 2001 recession. Economic conditions remain much less healthy for rural areas of the nine-state region. The region ended the decade on a subdued note from a jobs perspective. The leading states and total job gains were North Dakota gaining 12.5 percent over the decade, South Dakota gaining 7.8 percent; Oklahoma gaining 6.0 percent; Nebraska gaining 4.4 percent; Arkansas gaining 1.8 percent; and Iowa gaining 0.5 percent. Lagging states over the decade were Minnesota losing 0.2 percent of its employment; Missouri losing 1.6 percent; and Kansas losing 0.7 percent. (Detailed information can be found at http://economictrends.blogspot.com) The regional employment index remained below growth neutral for the month. The December reading of 47.6 was up from November's 46.1. For December 11 percent of supply managers reported job losses while 16 percent indicated their firms reduced employ-ment. "While the overall job market has stabilized, the manufacturing sector continues to shed jobs. Over the past year, the Mid-America region has lost more than 154,000 manufacturing jobs, or more than 10 percent of its manufacturing base. Based on recent survey results, I expect the region to continue to lose manufacturing jobs even as the overall job market stabilizes.

MID-AMERICAN STATES

ARKANSAS

The Arkansas Business Conditions Index for December, based on a survey of supply managers, climbed to 39.4 from November's very weak 33.1. Components of the overall index for December were new orders at 28.1, production or sales at 27.3, delivery lead time at 60.1, inventories at 38.6, and employment at 42.9. Over the past decade, Arkansas lost almost 47,000, or 22.4 percent, of its manufacturing employment. Most losses were due to productivity growth of almost 20 percent over the decade. While I expect the state to grow overall jobs by 0.3 percent in the first half of 2010, manufacturing job growth will be nil as producers continue to grow output via productivity gains.

IOWA

For the first time since August, Iowa's Business Conditions Index slipped below growth neutral. The index, a leading economic indicator from a survey of supply managers, sank to 49.2 from November's 53.4. Components of the overall index for December were new orders at 54.3, production or sales at 55.9, delivery lead time at 54.5, employment at 39.8, and inventories at 41.5. Over the past decade, Iowa lost almost 45,000, or 18.0 percent, of its manufacturing employment. Most losses were due to productivity growth of almost 50 percent over the decade. While I expect Iowa to grow overall jobs by 0.2 percent in the first half of 2010, manufacturing job growth will be nil as producers continue to grow output via productivity gains.

KANSAS

The leading economic indicator for Kansas advanced from November's reading. The December Business Conditions Index rose to 44.8 from 42.1 in November. Components of the overall index for December were new orders at 47.4, production, or sales, at 40.0, delivery lead time at 45.6, employment at 42.4, and inventories at 51.7. Over the past decade, Kansas lost more than 40,000, or 19.9 percent, of its manufacturing employment. Most losses were due to productivity growth of more than 34 percent over the decade. I expect the state's employment level to remain flat for the first half of 2010, even as the state's manufacturing sector sheds jobs at a much slower pace.

MINNESOTA

Minnesota's leading economic indicator, based on a survey of supply managers, slipped for December. The Business Conditions Index sank to a still healthy 53.5 from 57.1 in November. This was the fifth straight month that the state's index has risen above growth neutral pointing to expanding economic conditions for the first half of 2010. Components of the overall index for December were new orders at 61.7, production, or sales, at 60.7, delivery lead time at

49.0, inventories at 43.7, and employment at 52.6. Over the past decade, Minnesota lost more than 100,000, or 25.6 percent, of its manufacturing employment. Most losses were due to productivity growth of more than 52 percent over the decade. While I expect the state to grow overall jobs by 0.4 percent in the first half of 2010, manufacturing job growth will be nil as producers grow output via productivity gains.

MISSOURI

For the sixth consecutive month, Missouri's Business Conditions Index was above growth neutral. Even so, the index slipped to 50.1 from November's 50.6. Components of the overall index from the December survey were new orders at 51.6, production, or sales, at 52.9, delivery lead time at 52.2, inventories at 45.3, and employment at 48.5. Over the past decade, Missouri lost almost 112,000, or 30 percent, of its manufacturing employment. Most losses were due to productivity growth of more than 28 percent over the decade. While I expect the state to grow overall jobs by 0.3 percent in the first half of 2010, manufacturing job growth will be nil as producers grow output via productivity gains.

NEBRASKA

For a fourth consecutive month Nebraska's Business Conditions Index, a leading economic indicator, remained above growth neutral. The December reading, based on a survey of supply managers, dipped slightly to 50.2 from November's 50.6. Components of the overall index for December were new orders at 52.7, production, or sales, at 49.8, delivery lead time at 56.7, inventories at 37.5, and employment at 54.2. Over the past decade, Nebraska lost almost 22,000, or 19.1 percent, of its manufacturing employment. Most losses were due to productivity growth of more than 48 percent over the decade. While I expect the state to grow overall jobs by 0.2 percent in the first half of 2010, manufacturing job growth will be nil as producers grow output via productivity gains.

NORTH DAKOTA

For a second consecutive month, North Dakota's leading economic indicator was below growth neutral. The December reading, based on a survey of supply managers in the state dipped to 44.3 from 48.4 in November. Components of the overall index for December were new orders at 30.7, production, or sales, at 48.4, delivery lead time at 53.0, employment at 43.8, and inventories at 45.8. Over the past decade, North Dakota added 700, or 3.0 percent, to its manufacturing employment. This gain was even more remarkable given that manufacturing productivity exceeded 52 percent for the decade. While I expect North Dakota to grow overall jobs by 0.1 percent in the first half of 2010, manufacturing job growth will be nil as producers grow output via productivity gains.

OKLAHOMA

For a fourth straight month, Oklahoma's leading economic indicator from a monthly survey of supply managers dropped below growth neutral. The Business Conditions Index, slipped to 43.0 from November's 49.4. Components of December's overall reading were new orders at 39.5, production, or sales, at 48.9, delivery lead time at 52.7, inventories at 41.1, and employment at 33.0. Over the past dec-ade, Oklahoma lost almost 46,000, or 25.8 percent, of its manufacturing employment. Most losses were due to productivity growth of almost 40 percent over the decade. While I expect the state to grow overall jobs by 0.2 percent in the first half of 2010, manufacturing job growth will be nil as producers grow out-put via productivity gains.

SOUTH DAKOTA

South Dakota's leading economic indicator sank below growth neutral for the month to 46.0 from 50.2 in November. Components of the overall index for December were new orders at 54.7, production, or sales, at 45.6, delivery lead time at 53.1, inventories at 33.1, and employment at 43.4. Over the past decade, South Dakota lost more than 7,000, or 17 percent, of its manufacturing employment. Most losses were due to productivity growth of more than 65 percent over the decade. While I expect the state's employment level to remain flat for the first half of 2010, manufacturers in the state will shed jobs for the first two quarters as productivity gains cut into employment levels.

THE BULLISH NEWS

- Inflation pressures at the wholesale level eased in December as a drop in energy prices offset a big jump in food costs.
- Oil prices tumbled Wednesday, weighed down by a drop in stock prices, a stronger dollar and signs that China's energy needs might not be as robust as predicted earlier.
- All but one of the 19 largest banks have raised the extra capital cushion regulators said they'd need to with-stand a deeper recession -- a sign of how much the financial system has improved since the crisis began.
- U.S. retail sales in November and December 2009 rose 1.7%, boosted by a post-Christmas surge that made up for sales lost from a massive East Coast winter storm.
- Consumer confidence rose for the second straight month as more Americans expect the nation's economy to improve in 2010.
- Mortgage rates declined this week after a month of gains, with the average rate on 30-year fixed-rate mortgages retreating closer to 5%, according to Freddie Mac's weekly survey of mortgage rates.
- A key gauge of the manufacturing sector from the Institute for Supply Management rose to 55.9 last month from 53.6 in November. Readings above 50.0 point to growth.
- Precious metal prices received a boost on blowout Chinese export data.. Exports rose 18% in December with copper imports popping 27%. The news lifted metals across the board. Gold for February delivery, the most actively traded contract, was surging $15.60 to $1,154.50 an ounce.

THE BEARISH NEWS

- Construction of new homes and apartments fell 4 percent in December to a sea-sonally adjusted annual rate of 557,000 from an upwardly revised 580,000 in No-vember.
- The US economy lost 85,000 jobs in December the same day new major layoffs were an-nounced by UPS and Lockheed Martin. Job losses in 2009 totaled more than 4.2 million. More than 15.3 million American workers are now officially unemployed. Since December 2007, upwards of 8 million jobs have been lost.
- The official jobless rate remained at 10% in December, but a broader measure of unem-ployment, which takes into account those who have fallen out of the workforce or are em-ployed part-time involuntarily, increased to 17.3%.

- Oil prices zoomed past $83 per barrel this week. According to AAA, oil prices are up 20% over last month. A gallon of regular has climbed more than 8 cents in the past week nationwide. That made it almost $1 a gallon more than it was a year ago.

- U.S. pending home sales index fell 16% in November.

WATCH OUT FOR

- On Jan. 29, the Bureau of Labor Statistics will release GDP growth data for QIV, 2009. Annual-ized growth below 1.5% will be bearish.

- The January PMI released Feb. 1st. This is the first economic indicator released for the month and will very, very, very important. A significant drop would be bearish. Another increase will be very bullish (www.outlook-economic.com and www.ism.ws).

- Monthly retail sales for January will be released on Feb.11th by U.S. Census Bureau (www.census.gov) . A monthly increase of more than 1.0% will be considered very healthy.

- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims below 425,000 will be bullish. (www.dol.gov).

THE OUTLOOK: I expect

FROM GOSS:

- The dollar to trend downward in 2010 but there will be lots of ups and downs along the way.

- The U.S. economy will begin adding jobs at a very slow pace in the first quarter of 2010.

- Annualized inflation will increase to 3.0% by the middle of 2010.

NATIONAL ASSOCIATION OF BUSINESS ECONOMICS FORECASTS:

- After declaring in October that the Great Recession of 2008-2009 was over, the NABE forecast panel is now boosting its expectations for growth.

- The household sector is still expected to lag behind the overall economy.

- The recovery will not remain "jobless" for long. With more than 7.3 million jobs lost since Decem-ber 2007, firms will begin adding jobs in the first half of 2010.

- The nascent housing recovery will be uninterrupted and will gather momentum.

OTHER FORECASTS:

- Futures on the Chicago Board of Trade show a 32 percent chance the U.S. central bank will raise its target rate for overnight bank loans by at least a quarter-percentage point by June, down from 51 percent odds a week earlier.

- Carl Lantz, fixed-income strategist at Credit Suisse in New York Longer-term Treasury yields should continue to push up through the first quarter to as high as 4% to 4.25% on inflation worries and on fears about how the market will respond once the Fed ceases buying mortgage securities.

- Herman Van Rompuy, the European Union's first full-time president, warned of a bleak economic outlook marked by industrial decay in the wake of the deepest recession since the Great Depression.

SUPPLY MANAGERS READING ROOM

"Federal Contracting for Food and Refreshments," Public Manager 37, no. 1 (Spring 2008): p. 72-76. Contracting professionals must ensure that the federal government receives the best value for the taxpayer dollar while following acquisition regulations during procurement and contract management. This article reflects on the legal regimen of the procurement of food and beverages, with emphasis on conferences. It also discusses the state of the meeting industry and how this can influence rates, as well as negotiation techniques to ensure fair and reasonable pricing. The Federal Travel Regulation defines light refreshments as coffee, tea, milk, juice, soft drinks, donuts, bagels, fruit, pretzels, cookies, chips, and muffins. Under the Government Employees Training Act, agen-cies are authorized to pay necessary expenses for training -- defined as directly related to the performance of offi-cial duties for the government. This article encourages young procurement professionals to be vigilant regarding contracts that include the purchase of food and light refreshments with hotels and resorts for the use of confe-rences.

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 2007-2009
FUELS & RELATED/METALS & METAL PRODUCTS