THE PURCHASING ECONOMY SURVEY REPORT July 2011

"A monthly survey of supply chain managers"

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

Are Economic Policymakers Out of Ammunition? NO

Beginning in March 2008 with the bailout of Bear Stearns, the U.S. government and Federal Reserve (Fed) have injected trillions of dollars into the economy with few visible signs of success. The Bush stimulus package of $170 billion and the Obama stimulus package of $787 billion failed to put a dent in the nation's joblessness. On top of direct infusions, the Fed has held short term interest rates at record low 0% to 0.25% and injected $775 billion into the economy via QE1 and QE2 since December 2008 with minimal observable impacts. Since passage of the Bush stimulus package, the U.S. unemployment rate has risen from 5.1% to 9.1% and the economy shed almost 7,000,000 jobs. Since enactment of the Obama stimulus program, the U.S. unemployment rate jumped from 8.6% to 9.2% and another 1.8 million Americans joined the ranks of the unemployed. So are policymakers out of weapons? No! There is one significant action that can and should be taken that would not only ignite the economy, it involve no taxpayer cost--in fact it would raise revenues. Currently U.S. corporations have over $1 trillion in earnings parked abroad. Encouraging these corporations to bring this revenue to the U.S. by lowering the corporate tax rate from 35% to 10% would add $100 billion to corporate tax collections and another $42 billion in dividend taxes from investors. In addition to the $142 billion in federal tax collections, corporations and individuals will spend and/or invest the net revenues. According to my estimates, this will generate more than $800 billion in corporate investment and $32 billion in investor spending if corporate stock buybacks are disallowed. This will produce U.S. jobs at the same time it fattens both federal and state tax coffers. Absent this action, corporations will continue to invest these funds outside the U.S. creating non-U.S. jobs. Ernie Goss

LAST MONTH'S SURVEY RESULTS

Weather Related Supply Disruptions Push Mid-America Leading Indicator Lower: Confidence Plummets

SURVEY RESULTS AT A GLANCE

- Leading economic indicator drops for third time in past four months.
- Approximately one-fourth of supply managers reported weather related supply disruptions for the month.
- Business confidence tumbles for June.
- Inflation gauge cools a bit.

For the third time in the past four months, the Business Conditions Index, a leading economic indicator for the nine-state Mid-America region, fell. The index from a monthly survey of supply managers is clearly pointing to positive but slowing growth for the next three to six months. Overall index: The index, a leading economic indicator that ranges between 0 and 100, plummeted to 54.9 from May's 60.2. While this is the 19th consecutive month that the index has been above growth neutral 50.0, the index is clearly trending downward. Higher energy prices, and supply disruptions related to the Japanese tsunami and to Mid-America floods are clearly slowing growth in the economy and cooling rapid commodity price growth. One supply manager reflected a lot of the sentiment for the month saying, "As an agribusiness throughout the Midwest, our production at several locations has been curtailed, some to the point of closing operations."

Employment: For the 18th straight month, the regional employment index remained above growth neutral as the June job reading declined to 53.6 from 58.1 in June. This month 21.3 percent of firms reported reductions in employment. This compares to 14.1 percent of firms that indicated pullbacks in our May survey. Year over year job growth in the region has declined by two tenths of one percent over the past three months. Based on our survey, I expect an equivalent decline in the next three months. This will mean that job growth will be roughly one-third of what the region experienced in the last half of the decade of the 1990s.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, fell to a still inflationary 74.3 from 84.9 in May and April's record high 94.0. Slowing growth and an uptick in the value of the dollar helped to bring our inflation gauge down for the month. The U.S. dollar has ceased its downward movement. For the month of June, the U.S. dollar sank by 1.3 percent against the world's major currencies. With the end of the Fed's QE2 program effective July 1, we should see even more short term strengthening in the value of the U.S. dollar. This will tend to put downward pressure on inflation, especially for commodity prices. However, I remain a long-term bear on the value of the dollar. I expect the dollar to continue to weaken in the final quarter for 2012 due to the Fed's low interest rate policies, large U.S. trade deficits and Chinese Yuan strengthening against the dollar. Thus, I expect inflation at the consumer level to remain a problem for the remainder of 2012.

Confidence: Looking ahead six months, economic optimism, as captured by the June business confidence index, tumbled to 52.3 from May's 60.4 and April's 57.5. Energy prices combined with uncertainty surrounding the national economy and U.S. debt situation served to puncture business confidence for the month. Inventories: This month we asked supply managers how supply deliveries to their firm had been affected by the floods and/or other weather related issues. More than one-fourth, or 26 percent, indicated that supply deliveries had been negatively affected. However, only four percent of firms reported that they had cut back on operations due to the floods and other weather related issues. In terms of inventories, for the 16th time in the past 17 months, supply managers in the nine-state region expanded inventory levels. However, the expansion was down significantly for the month with an index of 51.0, plummeting from May's 58.9. One supply manager reported that his company "was stockpiling inventory just a bit, so that when customers in flooded areas call, we can support them with immediate service."

Trade: A somewhat weaker global economic outlook combined with a somewhat stronger dollar negatively affected the region's export reading with a June new orders index of 54.9, down from 60.1 in May and imports stood at 55.0. Other components: Other components of the June Business Conditions Index were new orders at 55.9, down from 59.6 in May; production or sales at 53.8, down from 60.9; and delivery lead time at 60.1, down from 63.6 in May.

MID-AMERICA STATES

ARKANSAS

For a second straight month, Arkansas' leading economic indicator from Creighton's monthly survey of supply managers declined. The index for June stood at a healthy 60.2 but down from 64.0 in May and April's regional high of 74.7. Components of the index for June were new orders at 54.9, production or sales at 59.2, delivery lead time at 60.1, inventories at 61.8, and employment at 60.1. Since bottoming out in February 2010, the Arkansas economy has added more than 25,000 jobs for a 2.2 percent gain. Based on our surveys, I expect the state to continue to add jobs but at a somewhat slower pace with an employment increase of more than 8,000, or 0.7 percent, for the rest of 2011.

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IOWA

The state's Business Conditions Index remained above growth neutral for the 18th straight month, . Even so, the index sank to a healthy 61.4, down from 65.6 in May and 69.7 in April. Components of the index for June were new orders at 59.1, production or sales at 60.1, delivery lead time at 67.3, employment at 59.1, and inventories at 60.4. Since bottoming out in December 2009, the Iowa economy has added more than 22,000 jobs for a 1.5 percent gain. Based on our surveys, I expect the state to continue to add jobs with an employment increase of more than 23,000, or 1.6 percent, for the rest of 2011.

KANSAS

The Business Conditions Index for Kansas slumped to 52.7 from 59.2 in May. It was the tenth time in the past 11 months that the leading economic indicator from Creighton's monthly survey for Kansas was above growth neutral. Components of the index for June were new orders at 49.5, production or sales at 52.2, delivery lead time at 67.7, employment at 44.4, and inventories at 49.2. Since bottoming out in September 2010, the Kansas economy has added almost 6,000 jobs for a 0.4 percent gain. Based on our surveys, I expect the state to continue to add jobs at this same slow pace with an employment increase of approximately 5,000, or 0.4 percent, for the rest of 2011.

MINNESOTA

The state's leading economic indicator from the monthly survey of supply managers was above growth neutral for the 23rd straight month at 54.8 but down significantly from 63.2 in May. Components of the index for June were new orders at 53.6, production or sales at 53.8, delivery lead time at 60.9, inventories at 52.8, and employment at 52.9. Since bottoming out in September 2009, the Minnesota economy has added almost 28,000 jobs for a 1.1 percent gain. Based on our surveys, I expect the state to continue to add jobs but at a slower pace with an employment increase of approximately 12,000, or 0.5 percent, for the rest of 2011.

MISSOURI

The Missouri Business Conditions Index from a monthly survey of supply managers in the state declined to 54.5 from 57.4 in May. The index continues to point to positive but slowing growth in the months ahead. Components of the Business Conditions Index for June were new orders at 55.1, production or sales at 52.0, delivery lead time at 63.9, inventories at 53.4, and employment at 48.0. One supply manager reported that, Flooding impact is just starting to reach St. Joseph to Kansas City area so it's bound to become a greater inconvenience as it does. Bigger long term concern is the impact to corn and other crops for feeds. Since bottoming out in December 2010, the Missouri economy has added almost 18,000 jobs for a 0.7 percent gain. Based on our surveys, I expect the state to continue to add jobs but at a somewhat faster pace with an employment increase of approximately 25,000, or 0.9 percent, for the rest of 2011.

NEBRASKA

The state's Business Conditions Index moved above growth neutral 50.0 for the eighth straight month. The index from a survey of supply managers dipped to a still solid 56.0 from May's 57.7. Components of the index for June were new orders at 60.7, production or sales at 58.4, delivery lead time at 55.0, inventories at 50.1, and employment at 55.9. Since bottoming out in February 2010, the Nebraska economy has added almost 24,000 jobs for a 2.6 percent gain. Based on our surveys, I expect the state to continue to add jobs but at a somewhat faster pace with an employment increase of roughly 20,000, or 2.1 percent, for the rest of 2011.

NORTH DAKOTA

As a result of weather related supply disruptions, the leading economic indicator from Creighton's monthly survey of supply managers for North Dakota sank below growth neutral. The Business Conditions Index decreased to 44.4 from 58.0 in May. Components of the index for June were new orders at 37.0, production or sales at 32.4, delivery lead time at 61.1, employment at 38.0, and inventories at 53.7. North Dakota is one of only two states that lost no jobs during the national recession. Since the beginning of the recession, North Dakota has added more than 27,000 jobs for a 7.5 percent increase. Our monthly surveys indicate that this pace of job growth will be somewhat slower pace for the rest of 2011 with approximately 10,000 jobs added for a 2.6 percent gain.

OKLAHOMA

For the 18th straight month, Oklahoma's leading economic indicator remained above growth neutral. The Business Conditions Index from a monthly survey of supply managers in the state dropped to 54.7 from 68.2 in May. Components of the index for June were new orders at 49.8, production or sales at 61.5, delivery lead time at 56.7, inventories at 47.4, and employment at 57.9. Since bottoming out in February 2010, the Oklahoma economy has added more than 38,000 jobs for a 2.5 percent gain. Based on our surveys, I expect the state to continue to add jobs but at a somewhat faster pace with an employment increase of approximately 33,000, or 2.2 percent, for the rest of 2011.

SOUTH DAKOTA

South Dakota's leading economic indicator once again rose above growth neutral for the month. The Business Conditions Index from a monthly survey of supply managers dipped to 60.7 from May's 63.1. Components of the index for June were new orders at 54.5, production or sales at 69.1, delivery lead time at 51.0, inventories at 59.9, and employment at 69.0. Since bottoming out in February 2010, the South Dakota economy has added more than 4,000 jobs for a 1.1 percent gain. Based on our surveys, I expect the state to continue to add jobs but at a somewhat slower pace with an employment increase of approximately 1,000, or 0.2 percent, for the rest of 2011.

THE BULLISH NEWS

- Profits of U.S. companies from current production increased $48.7 billion in the first quarter, compared with an increase of $38.2 billion in the fourth quarter.
- April exports were $2.2 billion more than March exports of $173.4 billion. April imports were $1.0 billion less than March imports of $220.2 billion.

THE BEARISH NEWS

- For June the nation added only 18,000 jobs and the unemployment rate rose to 9.2%.
- The Conference Board's "help wanted online jobs" dropped by 99,700 in June.
- The Conference Board's consumer confidence sank by 3.2 points for June.
- U.S. retail and food services sales for May were $387.1 billion, a decrease of 0.2% from the previous month, but 7.7% above May 2010.
- The U.S. trade deficit at a 3-year high at $50.2 billion.

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WHAT TO WATCH

- Consumer Price Index (CPI): The U.S. Bureau of Labor Statistics releases the CPI on July 15. Growth in the core (excludes energy and food) of 0.3% or above will be bearish for bonds with prices dropping and in-terest rates rising.

- Jobs: On Friday August 5, the U.S. BLS releases its employment report for July. Another increase in the unemployment rate and less than 100,000 jobs created will be bullish for bond prices and negative for stocks pushing interest rates lower.

- Gross Domestic Product (GDP): Quarter II, GDP will be released on July 29 by the U.S. Bureau of Eco-nomic Analysis. Annualized growth of less than 1% will be very bearish for stocks and bullish for bonds.

THE OUTLOOK

FROM GOSS:

- I expect the nation's unemployment rate to continue to rise, albeit slowly, for the next couple of months, before it stabilizes and moves below 9.0% by the end of the year

- Annualized GDP growth for the second half of 2012 will be less than 1.5%.

- U.S. debt ceiling will be raised before August 2

CONFERENCE BOARD:

- When will the housing market turn around? "The short answer is sooner rather than later. The single biggest factor in why housing remains so weak is the number of foreclosures. The labor market has been so weak (with the exception of a few months in the first half of 2011) that some families without a paycheck struggle to make mortgage payments. A number of these families have lost or will lose their homes. Others are buying these houses at foreclosure auctions, which results in further declines in home prices, as well as an extremely slow pace of building new homes. http://www.conference-board.org/press/pressdetail.cfm?pressid=4229

NATIONAL ASSOCIATION OF BUSINESS ECONOMICS:

- The NABE outlook panel revised its growth projections for 2011 downward but maintained its forecast for moderate economic growth through 2012. Real gross domestic product (GDP) is expected to advance 2.8 percent in 2011 (year over year), down from the panel's February prediction of 3.3 percent. The downward revision largely reflects weaker-than-expected growth in the first quarter of 2011. The panel expects growth in 2012 to edge up to 3.2 percent (year over year), slightly lower than its February projection of 3.4 percent. At this pace, the economy will grow somewhat above most estimates of the economy's long-run growth potential. Panelists expect the impact of the Japanese earthquake and tsunami to have only modest effects on the U.S. economy, subtracting just .15 percentage points from growth in the second quarter of 2011 and adding .1 percentage point to growth in the second half of 2011.

Goss Eggs (Recent Dumb Economic Moves)

- Last week the European Central Bank (ECB), raised short term interest rates from 1.25% to 1.50%. This action will have two negative impacts. 1) It will strengthen the Euro making European goods less competitive abroad. 2) It raises Greece's borrowing costs increasing the likelihood of a debt default for the Greece.

Goss Gold (Recent Good Economic Moves)

- Obama's call for Congressional approval of the South Korea, Panama and Columbia trade pacts. Although the President should forget about trade adjustments for union workers .

SUPPLY MANAGER READING ROOM

"Tracing Through the Supply Chain," Inside Supply Management, Vol. 2, (6), p. 36. A business is notified that it must initiate a recall of one of its products due to safety concerns — the type of news that sends a shiver down the collective spine of any organization. As the company responds swiftly to contain and correct the situation, finding the source of the problem rests squarely on the shoulders of the supply management organization, which begins to trace the product through its supply chain to find the weak link. http://www.ism.ws/pubs/ISMMag/ismarticle.cfm?ItemNumber=21628

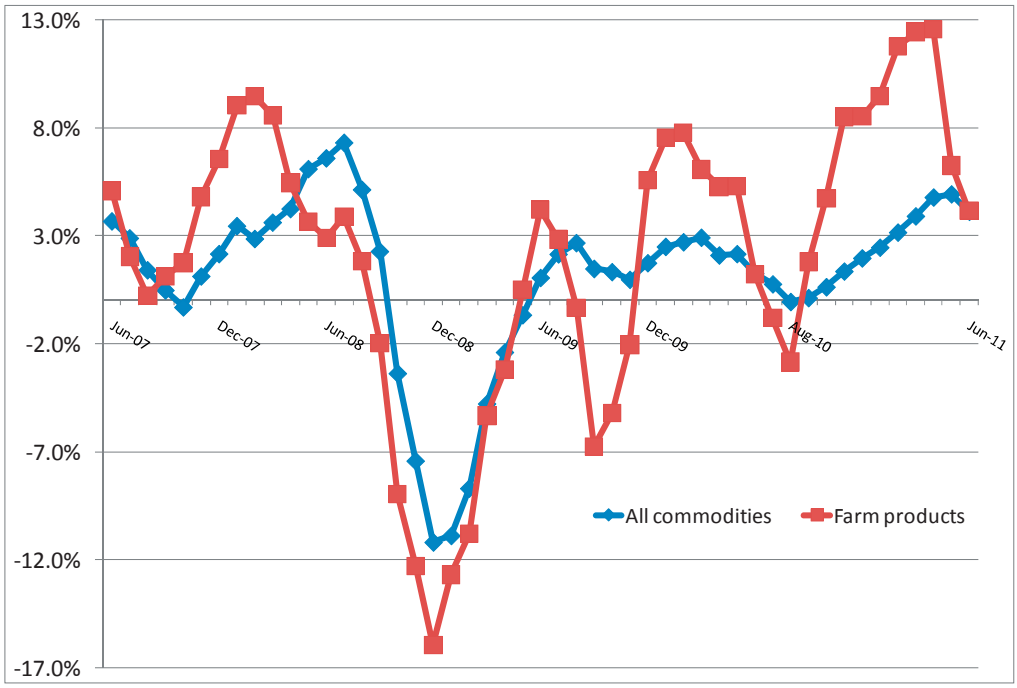
SUPPLY MANAGER CAREERS

Two positions: IT Contracts Managers/Staff Contracts Specialist. DST Systems, Kansas City, MO. At DST we seek individuals pursuing challenging careers in a variety of professional occupational areas, including information systems and technology, customer service/call center operations, finance, accounting, administration, client management, and business analysis/consulting. We encourage our associates to develop original, creative solutions to meet the challenges of our internal operations and our large client base. We are currently seeking motivated individuals to join our Contract Administration team. Associates in Contract Administration are responsible for understanding DST's business needs (present and future). They may negotiate contractual provisions to reflect business requirements that meet company needs and maximize revenue, flexibility and potential, while minimizing exposure and liability. Associates may negotiate, structure, draft, and manage contractual documents that establish the terms and conditions of the business relationships and pricing with vendors, customers and/or partners. Associates manage executed agreements to control costs/increase revenue, ensure compliance, maintain service levels and aggregate expenditures enterprise-wide. Associates may lead or participate in vendor selection. Associates provide accurate, detailed, and timely information with regards to business, legal, financial, and technical requirements to assist management in making informed business decisions. If you are interested, please visit our website at www.dstsystems.com and apply directly to the position. We currently have two positions available; IT Contracts Manager (10277BR), Staff Contracts Specialist (10445BR). EOE.

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