"A monthly survey of supply chain managers"

Welcome to our June report covering May survey results. Regional and national surveys of supply managers indicate that economic growth is slowing and inflationary pressures are cooling dramatically. Unfortunately, European debt problems will dominate the news in the weeks and months ahead. Follow my comments at: www.twitter.com/erniegoss

June 2012 Economic Newsletter

Which President Best for Job Market, 1948-2012

Americans place a president's impact on the job market as one of the most important factors governing the chief executive's successful tenure. Since 1948 the U.S. labor market has added jobs at its highest pace in 1978 during the Carter Administration, and suffered its worst job creation during the first year of the Obama Administration.

In terms of reductions in the nation's jobless rate, the U.S. experienced its best year in 1951, the fourth year of the Truman presidency and its worst year in 1979, the third year of the Carter Administration.

Overall, the job creation and unemployment reduction rankings of the presidents from top to bottom from 1948 to 2012 are listed in the accompanying table. In each case, the president is judged from the time of taking office until leaving office, or the latest month of employment data for President Obama. Ernie Goss.

Rank			
Overall	Jobs	Unemployment	President
1	2	2	Johnson
2	5	1	Clinton
3	1	6	Carter
4	4	3	Reagan
5	6	4	Kennedy
6	7	5	Truman
7	3	10	Nixon
8	9	9	Ford
9	10	8	Bush Sr.
10	12	7	Obama
11	8	12	Eisenhower
12	11	11	Bush Jr.

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Declines: Inflationary Pressures Sink

SURVEY RESULTS AT A GLANCE

- Leading economic indicator falls to a still healthy level.
- Inflation gauge falls to lowest level since recession ended in June 2009.
- Approximately 22 percent report negative economic fallout from Europe's problems.
- New export orders decline but remain healthy.

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, declined for May. **Overall index:** The index, which ranges between 0 and 100, fell to 57.6 from April's 60.0. The businesses that we survey continue to benefit from healthy farm income and exports. As a result, our survey indicates growth for the next three to six months for the region. However, it is clear that this growth is softening as a result of the stronger dollar. Europe's economic problems are spilling over into the region via weaker commodity prices generated by the advancing U.S. dollar. Recent gains in the dollar have made U.S. goods less competitively priced abroad.

This month supply managers were asked the impact of European economic problems on their firm. Approximately 22 percent reported negative fallout from Europe's problems. Although exports to Europe are relatively small for most firms in the region, the impacts via the strengthening of the dollar are considerable. On a positive note, as the Euro has weakened, so have the prices of supplies from Europe. As a result, 5 percent of the survey reported positive impacts from Europe's difficulties.

Employment: For a fifth straight month, the employment index climbed above growth neutral. The hiring gauge dipped to a still healthy 61.2 from 62.1 in April. For the first five months of 2012, employment growth in the region has accelerated. I expect the region to continue to add jobs in the months ahead. However, the regional growth is likely to move lower as the global and U.S. economies weaken.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, plummeted to 59.9 from 67.8 in April. This is the lowest reading for our inflation gauge since the recession ended in June 2009. Slower economic growth and a stronger dollar are both slowing the growth in prices for input across the board. I expect the problems in Europe and waning inflationary pressures to push the Federal Reserve to take additional actions in the months ahead. This month, we asked supply managers to project price hikes for the next six months for inputs that they buy. Supply managers anticipate that prices will grow by 2.0 percent for the next six months. Approximately 14 percent of supply managers expect price declines for inputs over this same period of time.

Confidence: Looking ahead six months, economic optimism, as captured by the May business confidence index, slumped to 55.8 from April's robust 64.5. The downturn in U.S. economic growth and Europe's economic problems are definitely negatively influencing business confidence in the region.

Inventories: The May inventory index declined to 55.3 from 56.7 in April. This is another signal of softening growth as supply managers slow the growth in inventory accumulation in anticipation of production pullbacks in the months ahead.

Trade: May's export reading for the Mid-America region dipped to 55.1 from April's 57.0. At the same time, May imports expanded to 57.1 from 56.7 in April. Exports continue to be one of the most important factors driving growth in the regional economy higher. However, gains in the value of the dollar will slow growth in new export orders in the months for the nine-state region.

Other components: Other components of the May Business Conditions Index were new orders at 57.2 from 64.0 in April; production or sales at 61.9, up from 61.3; and delivery lead time at 52.7, down from 56.1 in April.

MID-AMERICA STATES

ARKANSAS

The overall index, or leading economic indicator, for Arkansas dipped to 59.4 from April's 67.9. Components of the index from the monthly survey of supply managers were new orders at 47.6, production or sales at 72.3, delivery lead time at 55.3, inventories at 58.0, and employment at 64.2. Non-durable goods producers in the state are lagging their durable goods counterparts. Exports have spurred growth in the heavy manufacturing sector of the state while construction activity continues on a negative growth path. Manufacturers in the state have expanded the number of hours their current employees are working.

IOWA

For the 29th straight month, Iowa's Business Conditions Index remained above growth neutral. The index from a survey of supply managers in the state rose to a very healthy 67.1 from April's 66.2. Components of the index for May were new orders at 69.5, production or sales at 70.4, delivery lead time at 52.9, employment at 70.5, and inventories at 72.4. Both durable and nondurable goods manufacturers in Iowa are benefiting from exports and healthy expansions in farm income. Iowa's food producers are experiencing solid growth even as their regional counterparts detail slow to no growth. Not only are manufacturers in the state adding new workers, they are also increasing the number of work-hours for their current employees.

KANSAS

The Kansas Business Conditions Index for May declined to 50.8 from April's 56.4. Components of the index from May's survey of supply managers in the state were new orders at 52.2, production or sales at 44.0, delivery lead time at 58.0, employment at 53.9, and inventories at 45.9. Except for food producers both non-durable and durable goods producers detailed expansions for May. Not only are manufacturers in the state adding new workers, they are also increasing the number of work-hours for their current employees.

MINNESOTA

The May Minnesota Business Conditions Index was above growth neutral marking the 33rd consecutive month that the state's leading economic indicator was above growth neutral. The index, based on a survey of supply managers in the state, slipped to 60.2 from April's 61.0. Components of the index from the May survey were new orders at 62.6, production or sales at 63.9, delivery lead time at 56.4, inventories at 53.4, and employment at 64.7. Durable goods producers in the state, particularly those tied to international markets, are experiencing very healthy growth. On the other hand, non-durable goods producers, such as food producers, are experiencing less favorable economic conditions. Not only are durable manufacturers in the state adding new workers, they are also increasing the number of work-hours for their current employees.

MISSOURI

The May Missouri Business Conditions Index climbed above growth neutral for the month. The index, a leading economic indicator from a survey of supply managers, slipped to 59.1 from April's 60.2. Components of May's Business Conditions Index were new orders at 62.8, production or sales at 62.7, delivery lead time at 51.3, inventories at 60.1, and employment at 58.6. Durable goods producers in the state, particularly those tied to international markets, are experienced very healthy growth. On the other hand, non-durable goods producers, such as food producers, are experiencing less favorable economic conditions. Not only are durable manufacturers in the state adding new workers, they are also increasing the number of work-hours for their current employees.

NEBRASKA

The May Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 19th consecutive month. The index advanced slightly to 53.6 from 53.5 in April. Components of the index were new orders at 54.5, production or sales at 55.0, delivery lead time at 52.4, inventories at 51.0, and employment at 55.3. Nebraska's non-durable goods producers, including food manufacturers, experienced a slow May. On the other hand, durable goods manufacturers, especially those tied to international markets and agriculture, continue to expand at a solid pace. Manufacturers in the state have not increased the hours worked by their current employees to any significant extent.

NORTH DAKOTA

The leading economic indicator for North Dakota expanded to a very healthy reading for May. The Business Conditions Index from a survey of supply managers in the state climbed to 63.5 from April's 62.7. Components of the overall index for May were new orders at 72.3, production or sales at 66.8, delivery lead time at 56.4, employment at 74.6, and inventories at 47.1. Energy, agriculture and international sales continue to boost the North Dakota economy to record employment levels. Both durable and non-durable goods producers in the state are adding to their payrolls at a brisk pace in addition to expanding the hours worked by their current employees.

OKLAHOMA

The Business Conditions Index for Oklahoma slumped to a still healthy 58.7 from April's 62.6. Components of the leading economic indicator for May were new orders at 58.0, production or sales at 54.1, delivery lead time at 67.3, inventories at 53.1, and employment at 60.9. Durable goods manufacturers in the state, especially those tied to energy and international markets, are growing at a very healthy pace. Firms in the state are adding to their payrolls via new workers rather than expanding the hours worked by their current work force. The rising value of the dollar will soften Oklahoma's growth as it pushes energy commodity prices down.

SOUTH DAKOTA

The leading economic indicator for South Dakota stood at healthy level for May. The Business Conditions Index from a survey of supply managers in the state dipped slightly to a still strong 62.4 from 63.2 in April. Components of the index for May were new orders at 58.1, production or sales at 69.4, delivery lead time at 48.8, inventories at 75.9, and employment at 60.1. Manufacturers in the state continue to experience very healthy growth. As a result, they continue to expand employment and to increase the hours worked by current employees.

THE BULLISH NEWS

- Both our regional PMI (purchasing management index) and the national PMI stood above growth neutral for May. However, both readings are moving lower. Next month's releases will be very important.
- Creighton's monthly wholesale inflation gauge declined to its lowest level since the recession. On the minus side, the cooling economy is responsible for the downturn.
- The U.S. dollar has been increasing in value which would normally be a positive indicator. However, the dollar is simply winning the "ugly contest." Investors are shedding their currencies for dollars in order to buy U.S. debt. Imagine that, a nation with a $16 trillion debt (the U.S.) is viewed the best place to park your money.

THE BEARISH NEWS

- U.S. home prices fell in March, ending the first quarter at the lowest levels since the housing crisis began in mid-2006, according to Standard & Poor's Case-Shiller home-price indexes.
- The U.S. is currently running an annual trade deficit of $600 billion. This is a significant drag on the U.S. economy as Americans buy from abroad instead of spending at-home.
- The U.S. labor market created only 69,000 jobs in May and the unemployment rate rose to 8.2%. We need to see consistent job gains of 225,000 to 275,000 before we can say that this recovery is "for real."
- U.S. GDP grew at an annualized pace of 1.9 percent in QI, 2012. We should be recording growth in the range of 3%-5% range.

WHAT TO WATCH

- PMI's: On July 2 Creighton's releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. These are the first releases for July and significant declines (below 50.0) for either or both will be very bearish signals.

- Jobs: On Friday June 6, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for June. Another weak employment reading (less than 150,000 jobs added) will be bearish for equity markets and bullish for bond markets. Also an increase in the unemployment rate will be further evidence that growth is slowing, and quite dramatically.

- European bond yields: Yields or rates approach and or exceed 7 percent for Spanish or Italian bonds will foreshadow slower growth in the U.S. as a result of a stronger dollar. A strong U.S. dollar makes U.S. goods, especially agriculture and manufactured goods, less competitively priced abroad.

THE OUTLOOK

FROM GOSS:

- I am a bit more bearish than most government economists. I expect annualized GDP growth below 1.5% for the second and third quarters of 2012. This is too slow to create the number of jobs that the U.S. needs to reduce the unemployment rate by any meaningful amount.

- I expect the very healthy past growth for the farm economy to slump in the months ahead. Recent boosts in the value of the dollar and cooling global economic growth are hurting U.S. agriculture sales abroad.

- Both long term and short term interest rates will remain near current record lows as long as Europe's economic problems remain unsolved (which I expect).

OTHER FORCASTS:

- "Economists responding to the latest NABE Outlook Survey expect moderate growth in the near-term with improvement coming in the post-election year," said NABE Outlook Survey Chair Shawn DuBravac, chief economist at the Consumer Electronics Association. "While several forecasts have weakened slightly, there are also some signs of improvement. Expectations for housing, vehicle sales, employment, and industrial production all improved in the current survey. However, expectations for overall economic growth as measured by inflation-adjusted gross domestic product, business investment, and consumer spending remain below historical norms." The NABE Outlook panel of 54 forecasters maintain modest expectations for inflation-adjusted (real) gross domestic product (GDP) growth through 2013. The outlook for employment growth continues to brighten. In the current survey, panelists raised their anticipated average monthly job change for 2012 to 188,000 (nonfarm payrolls), up from the 170,000 anticipated in the previous survey. Consumer spending improves. Panelists currently believe that consumer spending will increase marginally—by 2.2 percent—this year and by 2.5 percent in 2013.

- The Congressional Budget Office (June 2012): "Under current law, the federal budget deficit will fall dramatically between 2012 and 2013 owing to scheduled increases in taxes and, to a lesser extent, scheduled reductions in spending—a development that some observers have referred to as a "fiscal cliff. CBO projects a $1.1 trillion federal budget deficit for fiscal year 2012 if current laws remain unchanged. Measured as a share of the nation's output (gross domestic product, or GDP), that shortfall of 7.0 percent is nearly 2 percentage points below the deficit recorded in 2011, but still higher than any deficit between 1947 and 2008. Over the next few years, projected deficits in CBO's baseline decline markedly, dropping to under $200 billion and averaging 1.5 percent of GDP over the 2013–2022 period."

Goss Eggs
(Recent Dumb Economic Moves)

- Economist Paul Krugman's continuing rant against so-called austerity measures by European nations is making less and less sense. Look no further than Germany, with their austerity/restructuring programs of 2004-2007 (Hartz concept), and Greece with its "spending for prosperity" to understand the bankruptcy of Krugman's economic positions.

Supply Manager Reading Room

"As Europe's economy struggles, supply managers in the U.S. take steps to mitigate supply chain risk," June 2012, Inside Supply Management® Vol. 23, No. 5, page 26. In today's interconnected business world, if one part of the world sneezes, the rest of the world can catch a cold. The financial crisis gripping Europe, particularly in the eurozone countries, is the sneeze that is causing the United States to worry about its already fragile financial health. The effects of the continuing downturn in Europe are particularly worrisome to supply management professionals in the U.S. because of the potential risk economic uncertainty poses to their supply chains. Business professionals are not in crisis mode, but many express concerns about the ripple effect Europe's economic troubles are having throughout the world. And U.S. businesses have reasons to be worried. The European Union (EU) is a top U.S. trading partner — the U.S. exports about US$400 billion annually to Europe and owns about $1 trillion of direct investments there, according to the Brookings Institution. A shrinking European economy could cause the U.S. economy to slip just as it's slowly regaining its footing.

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PRICE DATA

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

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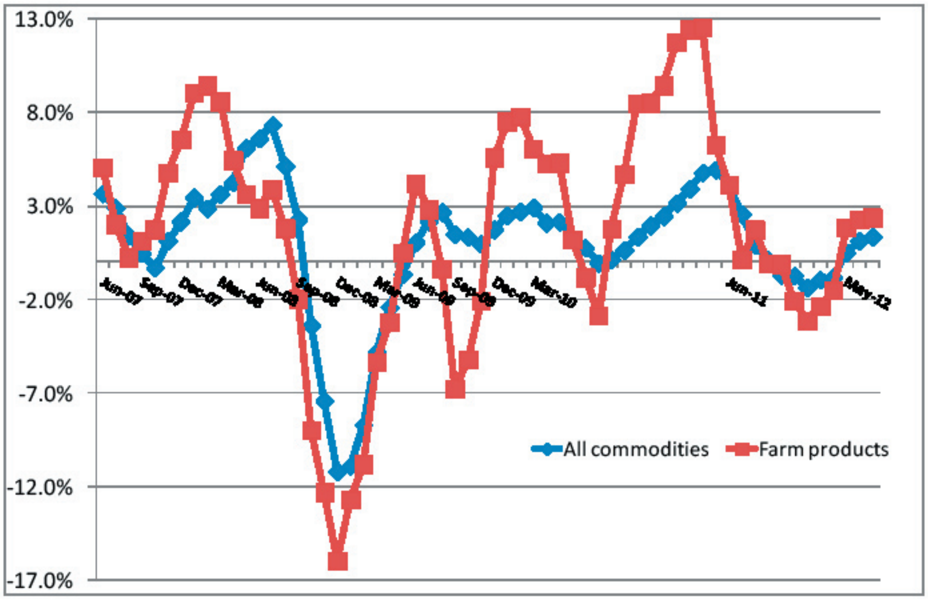

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