THE PURCHASING ECONOMY SURVEY REPORT March 2012

"A monthly survey of supply chain managers"

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

Washington Gridlock Is Good: Reduces Spending Growth

In a 2011General Accounting Office study, the authors found unnecessary duplication in 81 areas of the federal government with, for example, 53 programs to assist entrepreneurs, 15 programs to support unmanned aircraft, and 55 programs to fund freight transportation projects. How much did unified government, whereby the Congress (both the House and Senate) and the White House are controlled by same party contribute to the redundancy of programs and excessive federal spending growth as generally believed? In 1943 in the middle of World War II, federal spending as a percent of the U.S. economy, or gross domestic product (GDP), was 26.5 percent. By 1948, the federal spending to GDP ratio had declined to a low of only 14.4 percent. However, the ratio soared to a post WWII high of 25.5 percent in 2010 when the Democrats controlled the Senate and White House and the Republicans ran the House, contrary to the hypothesis. Since 1943, divided government, or what is often termed gridlock, resulted in federal spending as a percent of GDP growing by 0.11 percentage points per year while having the same party dominating both Congress and the White House produced an expansion of 0.16 percentage points per year. Thus, gridlock did tend to restrain the growth in federal spending. Furthermore during this 69-year period (1943 to 2012), when Democrats controlled the House, Senate, and the White House (12 two-year Congressional periods), federal spending as a percent of GDP grew by an average of 0.16 percentage points per year. When Republicans controlled both House, Senate and the White House (3 two-year periods), federal spending as a percent of GDP expanded by a lower average of 0.10 percentage points per year. Since the end of WWII, the greatest expansion in federal spending as a percent of GDP occurred between 2008, when federal spending as a share of GDP was 21.8 percent, and 2010 when the percent advanced to 25.5 percent, or an annual growth of 1.7 percentage points per year. Ernie Goss.

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Points to Strong Growth: Inflation Gauge Soars for February

SURVEY RESULTS AT A GLANCE

- For a second straight month, the region's leading economic indicator rose to a healthy level.
- For a second straight month, net new hiring was strong.
- Inflation gauge signals excessive wholesale inflation in the months ahead.

The monthly Business Conditions Index for the nine-state, Mid-America region rose to a level consistent with healthy economic growth. The index, a leading economic indicator from a monthly survey of supply managers, points to improving growth for the region over the next three to six months. Overall index: The index, which ranges between 0 and 100, climbed to 58.4 from 55.9 in January. "Initially, economic growth was primarily limited to the agriculture and energy sectors and to firms linked to them. Our recent surveys indicate that this healthy growth has now spread to most industries, except for construction, across the region. Last month almost half of our survey respondents assessed rising energy prices as the greatest threat to growth prospects for their firm. This risk has risen to levels we have not seen since 2008. Any significant increase in energy prices could reduce the growth outlook for the region. However, at this time, energy prices are not having any significant negative impacts on current and anticipated growth for the region.

Employment: For a second straight month, the employment index climbed above growth neutral. The hiring gauge increased to a strong 57.5 from January's healthy 54.5. Employment growth over the past 12 months has been a bit over 1 percent. Based on our survey results, I expect that growth to accelerate to 1.5 percent (annualized) by the middle of 2012. Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, expanded to a robust 74.7 from January's already inflationary 67.8. Given the excessive inflationary pressures we are tracking in our survey and vigorous growth expected in the months ahead, I think the Federal Reserve will have to violate their pledge to keep short term interest rates at their current record lows until 2014. In my judgment, the Fed's pro-growth stance poses significant inflation risks even as it boosts growth for firms connected to agriculture and energy. Thus, I expect a Fed rate hike as early as the final quarter of 2012. Our regional gauge and most national measures of price pressures are too high for the Fed to be so aggressive in terms of low interest rates and high money supply growth. I attribute at least half of the increase in 2012 oil prices to declines in the value of the dollar precipitated by the easy money policy of the Fed.

Confidence: Looking ahead six months, economic optimism, as captured by the February business confidence index, slumped to a still healthy 61.0 from 67.2 in January. Higher oil and gasoline prices pushed regional business confidence lower. Despite higher energy and commodity prices, recent positive economic data on the national front have had clear and positive impacts on supply mangers' outlook. Inventories: The February inventory reading slipped to 54.2 from January's 55.3. Healthy inventory growth signals expected production expansions in the months ahead and is consistent with the strong business confidence reading for the month.

Trade: February's export numbers for the Mid-America region dipped a bit from January's healthy level declining to 55.3 from January's vigorous 60.4. At the same time, February imports slipped slightly to 56.6 from January's 56.7. Exports continue to be an important source of growth for the region. Additionally, an expanding regional economy has pushed firms to increase their purchases from abroad. Other components: Other components of the February Business Conditions Index were new orders at 58.4, up from 58.1 in January; production or sales at 60.9, up from 56.9; and delivery at 56.4 from January's 54.7.

MID-AMERICA STATES

ARKANSAS

The overall index for Arkansas slipped to a still solid 55.5 from January's 56.0. Components of the index were new orders at 55.5, production or sales at 53.5, delivery lead time at 67.4, inventories at 38.8, and employment at 63.2. Since the beginning of the recession, Arkansas has lost more than 33,000 manufacturing jobs, or 17.6 percent. Our surveys over the past several months indicate that manufacturers in the state will increase their hiring in the months ahead. However, I expect those manufacturers to continue to expand output with increases in productivity and expansions in the average hourly work week limiting job growth.

IOWA

For the 26th straight month, Iowa's Business Conditions Index remained above growth neutral. The index, from a survey of supply managers, climbed to a robust 66.5 from January's regional high 66.0. Components of the index for February were new orders at 76.0, production or sales at 67.9, delivery lead time at 55.3, employment at 63.6, and inventories at 69.5. Since the beginning of the recession, Iowa has lost almost 22,000, or 9.4 percent of its manufacturing jobs. Our surveys over the past several months indicate that manufacturers in the state will increase their hiring in the months ahead. However, this hiring will be limited somewhat by increases in productivity.

KANSAS

The Kansas Business Conditions Index for February rebounded to 53.7 from January's regional low of 47.0. Components of the index for February were new orders at 53.0, production or sales at 52.3, delivery lead time at 54.1, employment at 51.8, and inventories at 57.3. Since the beginning of the recession, Kansas has lost more than 23,000, or 12.5 percent of its manufacturing jobs. Our surveys over the past several months indicate that manufacturers in the state will increase hiring in the months ahead. However, this hiring will be limited somewhat by increases in productivity.

MINNESOTA

The February Minnesota Business Conditions Index was above growth neutral for the 30th straight month. The index expanded to 58.3 from January's 57.5. Components of the index for February were new orders at 63.8, production or sales at 65.7, delivery lead time at 54.0, inventories at 53.8, and employment at 53.9. Since the beginning of the recession, Minnesota has lost more than 42,000, or 9.4 percent of its manufacturing jobs. Our surveys over the past several months indicate that manufacturers in the state will increase hiring in the months ahead. While the pace of new hiring will be healthy, it will be limited somewhat by increases in productivity.

MISSOURI

The February Missouri Business Conditions Index climbed above growth neutral for February. The index, a leading economic indicator from a survey of supply managers, increased to 53.8 from January's tepid 51.0. Components of February's Business Conditions Index were new orders at 55.9, production or sales at 53.3, delivery lead time at 56.0, inventories at 49.8, and employment at 57.8. Since the beginning of the recession, Missouri has lost more than 45,000, or 15.2 percent of its manufacturing jobs. Our surveys over the past several months indicate that manufacturers in the state will increase hiring in the months ahead. The pace of new hiring will be healthy. However, this hiring will be limited somewhat by increases in productivity and expansions in average hours worked per week for current employees.

NEBRASKA

The February Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 16th straight month. The index, a leading economic indicator from a survey of supply managers, increased to 56.2 from 51.9 in January. Components of the index were new orders at 59.1, production or sales at 55.9, delivery lead time at 54.3, inventories at 54.0, and employment at 57.8. Since the beginning of the recession, Nebraska has lost approximately 7,000 or 6.8 percent of its manufacturing jobs. Our surveys over the past several months indicate that manufacturers in the state will increase hiring in the months ahead. While the pace of new hiring will be healthy, it will be limited somewhat by increases in productivity.

NORTH DAKOTA

The leading economic indicator for North Dakota bounced higher for February. The Business Conditions Index from a survey of supply managers in the state climbed to 61.0 from January's 60.3. Components of the overall index for February were new orders at 70.3, production or sales at 67.8, delivery lead time at 59.7, employment at 55.0, and inventories at 52.0. Even though the state has a higher level of employment today than before the recession, the state has lost 2,400, or 9.1 percent, of its manufacturing jobs. Our surveys over the past several months point to gains in manufacturing jobs in the months ahead even though productivity growth and increases in the average hourly work week will somewhat limit the new hiring.

OKLAHOMA

The Business Conditions Index for Oklahoma, a leading economic indicator from a survey of supply managers in the state, fell to a still healthy 56.9 from January's 58.3. Components of the leading economic indicator for February were new orders at 53.3, production or sales at 53.8, delivery lead time at 69.2, inventories at 53.5, and employment at 55.6. Since the beginning of the recession, Oklahoma has lost more than 14,000, or 9.3 percent of its manufacturing jobs. Our surveys over the past several months indicate that manufacturers in the state will increase hiring in the months ahead. While the pace of new hiring will be healthy, it will be limited somewhat by increases in productivity.

SOUTH DAKOTA

South Dakota's leading economic indicator rose to a healthy level for February. The Business Conditions Index rose to 58.9 from January's 52.8. Components of the index for February were new orders at 58.0, production or sales at 65.3, delivery lead time at 48.6, inventories at 62.0, and employment at 60.6. Since the beginning of the recession, South Dakota has lost almost 4,000, or 9.3 percent of its manufacturing jobs. Our surveys over the past several months indicate that manufacturers in the state will increase hiring in the months ahead. While the pace of new hiring will be healthy, it will be limited somewhat by increases in productivity.

THE BULLISH NEWS

- New claims for U.S. unemployment benefits fell last week to a four-year low, another sign that the country's labor market is strengthening.
- GDP growth for quarter IV of last year was revised upward to a meager 3.0 percent This is not good but it is better. We should be growing GDP at double this rate.
- In the week ended Feb. 25, first time claims for unemployment insurance declined to 351,000. This is almost back to pre-recession levels and is a very positive signal.
- Total nonfarm payroll employment rose by 227,000 in February, and the unemployment rate was unchanged at 8.3 percent. Not bad but still not good enough to get economy back to pre-recession levels anytime soon.

THE BEARISH NEWS

- Data through December 2011, released today by S&P Indices for its Case-Shiller1 Home Price Indices, the leading measure of U.S. home prices, showed that all three headline composites ended 2011 at new index lows.
- The nation's trade deficit widened slightly more than expected in December, as stronger economic growth lifted imports to the highest level in three and a half years. The report showed that the deficit with China rose last year to a record high $295.5 billion..
- The Consumer Price Index (CPI) increased 0.2% in January. Over the last 12 months, the all items index increased 2.9%. This is well above the Fed's target and is the result of the Fed's easy money policy.

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WHAT TO WATCH

- Retail sales: The U.S. Census Bureau releases retail sales for March on April 14. Another weak reading will point to a very slow start to 2012 and very bearish for stock.

- Jobs: On Friday April 6, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for March. Another decrease in the unemployment rate and job growth above 200,000 will be bearish for bond prices and positive for stocks pushing interest rates higher.

- The CPI: On April 13, the BLS will release the consumer price index for March. Annualized growth above 3.0 percent will begin to frighten the Federal Reserve.

THE OUTLOOK

FROM GOSS:

- Our surveys point to economic growth exceeding that of both the Conference Board and the National Association of Business Economics. I expect GDP growth to top 3.0% for 2012. However, the tax increase slated to go into effect on January 1, 2013 will push the U.S. economy to the brink of a recession in 2013. A lot will depend on the November 2012 elections in terms of the tax increase

- I think we will see another European debt default among the EU-17 by the end of 2013 (probably Portugal).

OTHER FORCASTS:

- National Association of Business Economics (NABE): "Economists responding to the latest NABE Outlook Survey are seeing strength in a number of economic measures and have subsequently increased their expectations for employment, housing starts, and business spending," said NABE President Gene Huang, chief economist at FedEx. "Despite increases in a number of forecasts, however, economists remain guarded on US economic growth, with the median forecast of respondents calling for inflation adjusted gross domestic product—real GDP—of 2.4% for the year in 2012. Respondents continue to expect consumer spending to grow below trend in 2012 and the federal deficit to increase before it eventually declines. Economists' expectations for export growth have also weakened over the last four months.

- The Conference Board: "The economic data continue to depict increasingly positive trends in the U.S. economy, amid weakening global economic activity. In particular the acceleration in employment gains and concomitant decline in the unemployment rate are key improvements, which lead to increases in personal income and lend support to consumer spending. However, we believe that the recent pace of 200,000 payroll job gains is likely to slow a bit to 160,000 – 180,000 in coming months. Moreover, even if employment advances do not slow, there is the risk that a trade-off between more jobs and weaker productivity gains will unfold. Such a trade-off would imply little change to overall GDP growth and explains in large part our continued cautious outlook as we expect real growth to stay at 2% on average in 2012. economists appears to have diminished slightly over the last several months."

Goss Eggs (Recent Dumb Economic Moves)

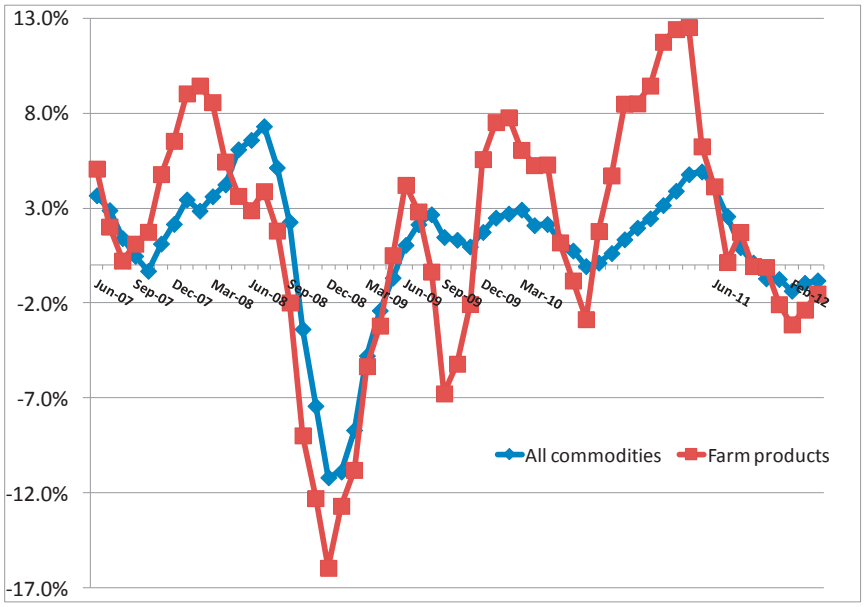
- President Obama's Housing Relief Plan for Service members and Veterans: (Note: I am a military veteran who is offended by this latest pandering). According to the Plan, major lenders will be providing significant relief to thousands of servicemembers and veterans. Under the agreement, they will: 1) conduct a review of every servicemember foreclosed upon since 2006. 2) Lending institutions will be required to provide those wrongly foreclosed upon with compensation equal to a minimum of lost equity, plus interest and $116,785. Of course improper foreclosure includes practically any bank clerical error. Almost all of these servicemembers had failed to make a payment for more than 12 months. When I was in the military, I was required to take personal responsibility for my actions or inactions; a concept that is being trampled on by the political class.

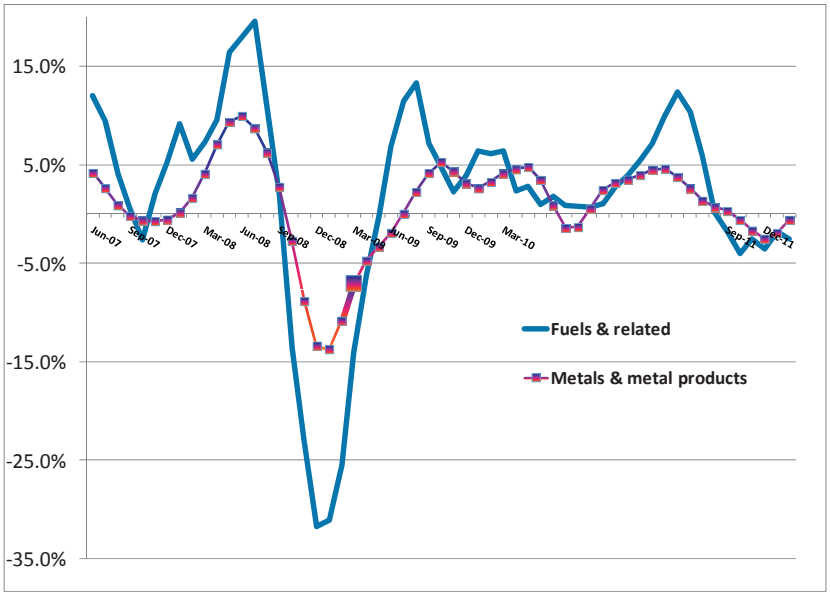
Supply Manager Reading Room

In In November 2011, the Institute for Supply Management™ (ISM) unveiled the Certified in Supply Management™ (CSM™). This new certification option allows a broad range of practitioners to demonstrate knowledge and expertise in supply management, regardless of whether they have a degree. What is the Certified Professional in Supply Management® (CPSM®) qualification? The Certified Professional in Supply Management® is the qualification that supply management professionals strive to earn. The CPSM® is recognized internationally and reflects the expanded knowledge, skills and abilities needed to be a successful supply management professional. What important dates do I need to remember? December 31, 2014 — Last day to postmark your C.P.M. Original/ Original Lifetime application. December 31, 2014 — Last day to register for the CPSM® Bridge Exam. December 31, 2015 — Last day to take the CPSM® Bridge Exam.

PRICE DATA

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





PRICE DATA

PROCESSED FOODS & CHEMICALS 2007-2012
TRANSPORTATION EQUIP & LUMBER PRODUCTS