"A monthly survey of supply chain managers"

Welcome to our March report covering February survey results. According to Supply Managers the economy may be moving into a more sustained and positive recovery, but with rising inflationary pressures. Follow my daily comments at: www.twitter.com/erniegoss

GREEK FINANCIAL FOIBLES HIT MAINSTREET

The 6,200 miles between Athens, Greece and Sioux Falls, South Dakota failed to prevent recent Greek bond problems from clipping growth in this Mid-American community as well as in other agricultu-rally based areas. But how did this seemingly remote event affect businesses, farms and workers in the nation's breadbasket? First, investors, fearing Greek bond defaults, bailed out of the Hellenic nation's sovereign debt funds selling Greek bonds and buying "safe haven" U.S. Treasuries. In order to buy U.S. Treasury bonds, investors converted their Euros to dollars driving up the value of the dollar relative to the Euro from $1.51 to $1.35 within two short months. This means that the price of an Omaha hotel room for Europeans rose from 66 Euros to 74 Euros per night. During this same time period, the price of a bushel of South Dakota corn, measured in dollars, plunged by 14 percent. That is, U.S. produced goods, such as corn, became less price competitive while European produced goods declined in terms of U.S. prices. Likewise, this safe haven buying of U.S. Treasuries drove U.S. interest rates lower and Greek rates higher. However, this situation to be reversed in the months ahead due to Greece's implementation of corrective taxing and spending policies designed to cut their deficit. At the same time, U.S. policymakers continue to ignore rising budget deficits and mounting debt that would make even Dionysus blush. Ultimately, U.S. citizens face the trifecta of higher taxes, inflation and interest rates unless federal overspending is halted. Ernie Goss

LAST MONTH'S SURVEY RESULTS

MID-AMERICA ECONOMIC INDICATOR SOARS TO HIGHEST LEVEL SINCE APRIL 2007

SURVEY RESULTS AT A GLANCE

- Leading economic indicator climbs to highest level in almost 3 years.
- For first time since July 2007, we recorded job gains for two straight months.
- Almost 30 percent of supply mangers expect prices to increase by more than 5 percent in the next six months. Less than 2 percent expect prices to decline.
- Inventories expanded for the first time in September 2008.

The February Business Conditions Index for the Mid-America region, a leading economic indicator from a survey of supply managers in a nine-state area, rose for a third straight month pointing to improv-ing economic growth in the months ahead. The index expanded to 61.0 from 54.7 in January and 50.3 in December. An index of 50.0 is considered growth neutral for the leading economic indicator. Readings over the past several months indicate that the regional economic rebound that is underway will pick up steam in the months ahead. Even so, I am concerned that the economic problems in Europe, which are pushing the value of the dollar higher, will negatively influence regional growth. This part of the nation depends heavily on agriculture which likewise suffers from a "too strong" dollar. However, the likelihood of the regional economy dipping back into recessionary territory has diminished significantly according to our surveys of supply managers. While I expect the overall regional economy to expand in the months ahead, I continue to expect job growth to be subdued especially for rural areas of the nine-state region. For a second straight month, the regional employment index rose above growth neutral. The Feb-ruary job reading of 56.1 was up from December's 51.7. For February, 23 percent of supply managers reported job gains for their firms while only 11 percent indicated that their firms reduced employment. This is the first time that we have recorded two straight months of employment indices above growth neutral since July 2007. Despite this upturn, the regional labor market remains fragile with any upturn in hiring susceptible to national and global economic slumps.

MID-AMERICAN STATES

ARKANSAS

The state's Business Conditions Index for February, based on a survey of supply managers, climbed to 52.1 from January's regional low 46.7. Components of the overall index for February were new orders at 43.3, production or sales at 61.8, delivery lead time at 61.3, inventories at 39.6, and employment at 54.5. Over the past year, Arkansas has lost 14,000 manufacturing jobs, or more than 8.3 percent of its manufacturing job base. More than three fourths of the producer job losses were in durable goods manufacturing. Based on our surveys, I expect no more manufacturing job losses and only modest overall job losses for the state in the second quarter of 2010.

IOWA

For the fifth time in the past seven months, Iowa's Business Conditions Index rose above growth neutral. The index, a leading economic indicator from a survey of supply managers, jumped to 58.2 from January's 52.1. Components of the overall index for February were new orders at 65.3, production or sales at 64.3, delivery lead time at 60.4, employment at 53.2, and inventories at 47.9. Over the past year, Iowa has lost more than 17,000 manufacturing jobs, or more than 8.0 percent of its manufacturing job base. Almost 90 percent of the producer job losses were in durable goods manufacturing. Based on our surveys, I expect no more manufacturing job losses, and minimal overall job gains for the state in the second quarter of 2010.

KANSAS

The leading economic indicator for Kansas from a survey of supply managers in the state advanced for a fourth consecutive month. The February Business Conditions Index rose to a tepid 50.8 from 47.4 in January. Components of the overall index for February were new orders at 54.3, production, or sales, at 53.8, delivery lead time at 55.1, employment at 34.8, and inventories at 56.7. Over the past year, Kansas has lost almost 25,000 manufacturing jobs, or more than 12.0 percent of its manufacturing job base. Almost 95 percent of the producer job losses were in durable goods manufacturing. For the second quarter of 2010, based on our surveys, I expect minimal manufacturing job losses, and only modest overall job losses for the state.

MINNESOTA

The state's leading economic indicator, based on a survey of supply managers, advanced for February. The Business Conditions Index climbed to 57.4 from January's 51.4. This was the seventh 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 February were new orders at 68.8, production, or sales, at 61.8, delivery lead time at 56.9, inventories at 44.5, and employment at 54.8. Over the past year, Minnesota has lost almost 30,000 manufacturing jobs, or more than 8.5 percent of its manufacturing job base. Almost 90 percent of the producer job losses were among durable goods manufacturers. For the second quarter of 2010 based on our surveys, I expect minimal manufacturing job gains and very modest overall job gains.

MISSOURI
For a eighth consecutive month, Missouri's Business Conditions Index was above growth neutral. The index from a survey of supply managers in the state, climbed to 55.5 from January's 52.2. Components of the overall index from the February survey were new orders at 57.3, production, or sales, at 58.4, delivery lead time at 53.9, inventories at 57.8, and employment at 50.3. Over the past year, Missouri has lost more than 18,000 manufacturing jobs, or almost 5.7 percent of its manufacturing job base. Almost three fourths of the producer job losses were among durable goods manufacturers. For the second quarter of 2010 based on our surveys, I expect minimal manufacturing job gains and very modest overall job gains for the state.

NEBRASKA
For a sixth consecutive month Nebraska's Business Conditions Index, a leading economic indicator, expanded above growth neutral. The February reading, based on a survey of supply managers, climbed to 58.8 from 54.2 in January. Components of the overall index for February were new orders at 62.8, production, or sales, at 60.0, delivery lead time at 60.4, inventories at 48.6, and employment at 61.1. Over the past year, Nebraska has lost more than 8,000 manufacturing jobs, or almost 9.0 percent of its manufacturing job base. Almost 63.0 percent of the producer job losses were among durable goods manufacturers. For the second quarter of 2010 based on our surveys, I expect minimal manufacturing job gains and very modest overall job gains for the state.

NORTH DAKOTA
For the third time in the past four months, North Dakota's leading economic indicator moved below growth neutral 50.0. The February reading, based on a survey of supply managers in the state, sank to 48.3 from January's 50.5. Components of the overall index for February were new orders at 36.9, production, or sales, at 60.0, delivery lead time at 50.7, employment at 42.2, and inventories at 53.1. Over the past year, North Dakota has lost 2,300 manufacturing jobs, or almost 7.0 percent of its manufacturing job base. Almost 95 percent of the producer job losses were among durable goods manufacturers. For the second quarter of 2010 based on our surveys, I expect minimal manufacturing job losses and very modest overall job losses.

OKLAHOMA
For a second straight month, Oklahoma's leading economic indicator from a monthly survey of supply managers climbed above growth neutral. The Business Conditions Index, slipped to 52.3 from January's 54.5. Components of February's overall reading were new orders at 49.9, production, or sales, at 62.2, delivery lead time at 63.2, inventories at 47.8, and employment at 38.2. Over the past year, Oklahoma has lost almost 15,000 manufacturing jobs, or almost 8.0 percent of its manufacturing job base. Almost 94 percent of the producer job losses were among durable goods manufacturers. For the second quarter of 2010 based on our surveys, I expect minimal manufacturing job gains and very modest overall job gains for the state.

SOUTH DAKOTA
The state's leading economic indicator from a monthly survey of supply managers in the state rose to 61.4 from January's 54.4. Components of the overall index for February were new orders at 73.2, production, or sales, at 68.5, delivery lead time at 56.7, inventories at 58.3, and employment at 50.1. Over the past year, South Dakota has lost almost 10,000 manufacturing jobs, or more than 21.0 percent of its manufacturing job base. For the second quarter of 2010 based on our surveys, I expect minimal manufacturing job gains and very modest overall job gains for the state.

THE BULLISH NEWS

- For February, the nation lost only 36,000 jobs and the unemployment rate remained level at 9.7%. Even so, the unemployment rate rose in 30 states for January.
- The Energy Information Administration said crude inventories grew last week by 1.4 million barrels to 343 million barrels. Analysts expected a build of 2.1 million barrels. This put downward pressures on oil. Yet oil prices stood at a high of $81.50 per barrel.
- U.S. mortgage applications nudged higher last week, reflecting increased demand for home pur-chase loans even as interest rates moved higher.
- National Association of Realtors' Pending Home Sales Index, which shows that pending sales are 12.3% higher than they were a year ago.
- The Mortgage Banking Association's National Delinquency Survey found that late payments on these loans fell to a seasonally adjusted rate of 9.47% of all mortgage loans during the final three months of last year. That's down from 9.64% at the end of the third quarter. But it was still well above the 7.88% level from the fourth quarter in 2008.
- Both the national and our regional PMIs are at their highest level in more than 3 years pointing to improving growth in the months ahead.

THE BEARISH NEWS

- The U.S. government ran up the largest monthly deficit in history in February totaling $220.9 billion, or 14% higher than the previous record set in February of last year.
- The number of consumers delinquent on their mortgages but current on their credit cards rose to 6.6% in the third quarter of 2009 from 4.3% in the first quarter of 2008.
- Some 30 million Americans, or 19.8%t of the work force, say they aren't working their full potential because they are either unemployed or working part time but wanting full-time jobs, according to Gallup.
- Home prices in 20 major U.S. cities fell a not seasonally adjusted 0.2% in December compared with November, according to the Case-Shiller home price index. Prices were down 3.1% in the past year. A quarterly index covering the entire nation showed home prices fell 1.1% in the fourth quarter compared with the third. National home prices were down 2.5% in the past year.

WATCH OUT FOR

- Keep an eye of the bond funds of Greece, Portugal and Spain. The potential for default is driving the Euro down against the dollar. This will make U.S. farm products and manufactured goods less competitive in Europe.

- On April 2nd the U.S. BLS will release the employment report for March. I expect it to show job gains for the first time in more than 2 years. This and the accompanying unemployment rate will be very, very important in terms of shaping consumer and business confidence (www.bls.gov)

- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims above 460,000 will be bearish. (www.dol.gov)

- On March 18th the Bureau of Economic Analysis releases its estimated trade numbers for the final quarter of 2009. In the current anti-trade environment in D.C., an even larger trade deficit than anticipated could be damages to the economy. A quarterly trade deficit of more than $150 billion would not be good (www.bea.gov)

- The best and most up-to-date economic indicator to watch is the yield on 10-year U.S. Treasury bonds. The yield incorporates the inflation outlook, financial risk assessments and buying/selling of Treasury bonds. I expect yields to increase by 0.4% in the next 3 months (http://finance.yahoo.com)

THE OUTLOOK: I expect

FROM GOSS:

- The U.S. economy to show job gains for March 2010 as the government hires Census workers.

- Long term interest rates to increase by 0.8% in the next 6 months.

- The dollar to weaken by 10% - 15% against the Euro by the end of 2010.

NATIONAL ASSOCIATION OF BUSINESS ECONOMICS FORECASTS:

- The economic recovery to remain firmly on track.

- Real GDP growth of 3.1% is projected over the four quarters of 2010. That pace is also expected for 2011, comparing favorably with the panel's 2.7% assessment of the economy's underlying trend.

- Specifically, bank lending is expected to become less restrictive over the course of 2010, as bank earnings and economic conditions improve, according to 70% of respondents. Thirty percent, al-ternatively, believe conditions will remain restrictive due to regulatory guidance, capital pressures and a general climate of risk aversion.

OTHER FORECASTS:

- OPEC said world oil demand should grow by 900,000 barrels per day this year, an upward revision from last month's forecast. OPEC said its forecast depends on a sustained global economic rebound, particularly in the U.S.

- Federal Reserve Chairman Ben Bernanke told lawmakers Thursday that the central bank is looking into the use by Goldman Sachs and other Wall Street firms of high-risk financial instruments to make bets that Greece would default on its debt.

SUPPLY MANAGERS READING ROOM

"Does morality explain opportunism in marketing channel negotiations? Subtitle: The moderating role of trust," International Journal of Retail & Distribution Management 37, no. 2 (2009): p. 142-160 Retailers are increasingly forced to enter negotiations with new suppliers and have less time to develop trusting relationships prior to awarding sourcing contract. Such supplier negotiations are often guided by self-interest-seeking behavior. However, not all exchange partners behave opportunistically when given the opportunity and little is known about how and when opportunism actually occurs. This research seeks to develop a multidimensional perspective of exchange partners' Machiavellianism that reveals different types of opportunistic motivations in exchange relationships and to extend knowledge of socialization as a safeguard by investigating the efficacy of signaling trustworthiness as a means of reducing the risk of opportunistic behavior in exchanges with partners with different moral standards about opportunism. The data consist of a sample of 259 purchasing professionals who are members of the Institute of Supply Chain Management and report on their negotiation behavior. Moderated regression analysis is used to analyze the research model. The results show that opportunistic behavior originates from a multidimensional set of moral convictions held by an exchange partner. Interestingly, signaling a trusting relationship only reduces opportunistic behavior that is due to deceit, but is not effective against cynicism or flattery. To date, retail managers have addressed potential partner opportunism by designing contractual agreements or by implementing structural and social safeguards. Little is known about how these approaches address partner-specific causes of opportunism. The study demonstrates the extent to which trust, a popular socialization mechanism in retailing, moderates the degree to which an exchange partner's moral conviction leads to opportunism.

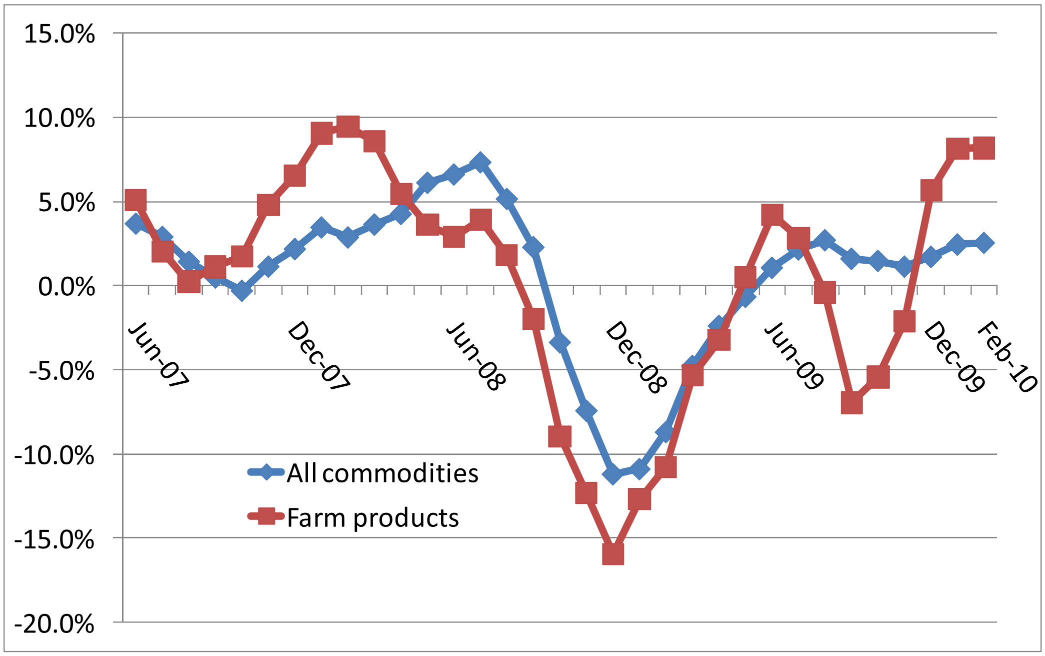
ASK ERNIE

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 2007-2010
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2010



Price changes, 3 month moving average, 2007-2010