

## "A monthly survey of supply chain managers"

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### CASH FOR CALYPSO: THE NEXT AND ULTIMATE STIMULUS PROGRAM?

Over the past 18 months, the U.S. federal government, in an effort to stimulate the economy, has given us, "Cash for Clunkers," followed by "Cash for Appliances" and finally (?) "Cash for Caulking." Why not create the ultimate in stimulus programs and match the European Union's (EU) Calypso program. This ambitious program was intended to promote social tourism throughout the Continent. The Calypso program financially assists poor families, senior citizens and "youth," defined as people up to 30 years of age, take vacations. Armed with revenues from the Value Added Tax (VAT), devotees of this Social Tourism program argue that it represents "An Opportunity to Overcome the Crisis?" The nearly bankrupt Spanish government has already assisted more than 1,000,000 senior citizens don Speedos and bikinis, or better yet, lose their tan lines on a "nude" beach in equally financially strapped Greece. Using specious economic models, the Spanish claim they get back €1.70 for every Euro spent. With such extravagant returns, the Spanish should send some of their travel vouchers to sun deprived Mid-Westerners. We would certainly benefit from the vitamin D and think of the injections to the Spanish Treasury. In addition to creating a dubious economic program, the Europeans were ill-served by their marketing gurus. As you remember from your Edith Hamilton mythology primers, Calypso was a Greek sea goddess who was confined to the island of Ogygia for supporting her father during the War of the Titans. Europe's economic ideas should likewise be border bound. Borrowing Yuan from China makes a lot more sense than borrowing economic ideas from Europe. Wine YES—VAT—NO. Ernie Goss.

### LAST MONTH'S SURVEY RESULTS

#### MORE GROWTH AND INFLATION FOR MID-AMERICA: JOB GROWTH STRONGER FOR SECOND QUARTER

#### SURVEY RESULTS AT A GLANCE

- Leading economic indicator points to healthy growth in the months ahead.
- Job gains recorded for the fifth straight month; more to follow.
- Inflation gauge rises to troubling level.
- Inventory levels climb for third straight month.

The April Business Conditions Index for the Mid-America region climbed for a fifth straight month, pointing to a growing economy in the months ahead, according to the April Business Conditions survey of supply managers and business leaders in the nine-state region. The index slipped to a very healthy 61.7 from March's 64.3. An index of 50.0 is considered growth neutral for the leading economic indicator. This was the fifth straight month that the index has risen above growth neutral signaling an expanding regional economy in the months ahead. While the financial turmoil in Europe is a clear risk to the recovery, manufacturing and value-added services sectors in Mid-America are experiencing very strong business activity. This leading economic activity will continue to push overall economic growth for the nine-state region

higher through the third quarter of 2010. Government data show that the region added 25,000 jobs for the first quarter of 2010. I expect job additions for the second quarter of 2010 to be somewhat stronger than Quarter 1's annualized 0.8 percent. For a fourth straight month, the regional employment index rose above growth neutral. The April job reading climbed to 58.4 from March's 57.9. For April, 28.4 percent of supply managers reported job gains for their firms, while only 11.6 percent indicated that their firms reduced employment from March levels. "Despite improved hiring, I expect unemployment rates for most states in the region to remain at elevated levels as firms remain overly cautious about hiring new workers. There is just too much economic uncertainty right now for firms to hire more aggressively. Rebounding prices have accompanied the regional economic expansion. The prices-paid index, which tracks the cost of raw materials and supplies, moved above growth neutral for a 11th straight month to 81.2 from 80.5 in March. The prices-paid index has more than doubled over the past year, signaling rising price pressures at the producer level.

### MID-AMERICAN STATES

#### ARKANSAS

The state's leading economic indicator based on a survey of supply managers in the state continues to expand. The Arkansas Business Conditions Index for April climbed to 58.7 from March's 57.3 and February's 52.1. Components of the overall index for April were new orders at 53.3, production or sales at 64.2, delivery lead time at 65.9, inventories at 50.5, and employment at 59.2. In the first quarter of 2010, the state's unemployment rate rose slightly even as the state added more than 6,000 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to be unchanged with job gains exceeding 8,000. Both durable and non-durable manufacturing firms will add jobs, albeit at a slow pace.

#### IOWA

For the seventh time in the past nine months, Iowa's Business Conditions Index climbed above growth neutral. The index, a leading economic indicator from a survey of supply managers, bounced to regional high 70.5 from 63.5 in March and 58.2 in February. Components of the overall index for April were new orders at 80.9, production or sales at 80.7, delivery lead time at 61.6, employment at 66.1, and inventories at 63.4. In the first quarter of 2010, the state's unemployment rate rose slightly even as the state added more than 15,000 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to be unchanged with job gains exceeding 20,000. Both durable and non-durable manufacturing firms will add jobs for the quarter.

#### KANSAS

The leading economic indicator for Kansas from a survey of supply managers advanced for a sixth consecutive month. The April Business Conditions Index rose to 62.1 from March's 54.1 and February's 50.8. Components of the overall index for April were new orders at 73.0, production, or sales, at 63.4, delivery lead time at 76.3, employment at 63.4, and inventories at 51.7. In the first quarter of 2010, the state's unemployment rate remained flat as the state lost more than 4,000 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to rise slightly but with job gains exceeding 5,000. The state's large durable goods manufacturing firms will add jobs, albeit at a slow pace, for the quarter.

## "A monthly survey of supply chain managers"

MINNESOTA

The state's leading economic indicator, based on a survey of supply managers, continues to point to expanding economic conditions ahead. The Business Conditions Index dipped slightly to a still very healthy 62.4 from March's 62.5. This was the ninth straight month that Minnesota's index has risen above growth neutral. Components of the overall index for April were new orders at 73.4, production, or sales, at 67.2, delivery lead time at 62.5, inventories at 50.5, and employment at 58.3. In the first quarter of 2010, the state's unemployment rate rose slightly as the state added almost 14,000 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to remain flat as the state adds another 18,000 jobs. Both durable and non-durable manufacturing firms will add jobs, albeit at a slow pace for the second quarter.

MISSOURI

For a tenth straight month, Missouri's Business Conditions Index was above growth neutral. The index from a survey of supply managers slipped to 58.4 from 58.8 in March. Components of the overall index from the April survey were new orders at 62.4, production, or sales, at 62.7, delivery lead time at 56.4, inventories at 55.5, and employment at 55.0. In the first quarter of 2010, the state's unemployment rate climbed slightly as the state lost more than 6,000 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to remain flat with job gains of more than 10,000. The state's large durable goods manufacturing firms will cease job losses while non-durable manufacturing firms will add jobs for the quarter.

NEBRASKA

For an eighth consecutive month Nebraska's Business Conditions Index, a leading economic indicator, expanded above growth neutral. The April reading dipped to 62.8 from March's 63.3. Components of the overall index for April were new orders at 72.3, production, or sales, at 70.8, delivery lead time at 60.9, inventories at 53.9, and employment at 56.4. In the first quarter of 2010, the state's unemployment rate rose slightly even as the state added more than 1,500 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to remain flat as the state adds more than 3,000 jobs. The state's large durable goods manufacturers and transportation firms will be job leaders for the second quarter.

NORTH DAKOTA

The state's leading economic indicator once again moved above growth neutral. The index, based on a survey of supply managers in the state, rose to 52.6 from March's 49.3 and February's 48.3. Components of the overall index for April were new orders at 48.8, production, or sales, at 52.5, delivery lead time at 55.2, employment at 62.2, and inventories at 44.5. In the first quarter of 2010, the state's unemployment rate declined slightly as the state added fewer than 1,000 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to remain flat as the state adds more than 3,000 jobs.

OKLAHOMA

For a fourth straight month, Oklahoma's leading economic indicator from a monthly survey of supply managers climbed above growth neutral. The Business Conditions Index dipped to a still strong 59.7 from March's 66.5. Components of April's overall reading were new orders at 58.7, production, or sales, at 61.7, delivery lead time at 73.6, inventories at 41.7, and employment at 62.7. In the first quarter of 2010, the state's unemployment rate declined slightly as the state lost more than 2,000 jobs.

For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to remain flat as the state adds more than 10,000 jobs. The state's non-durable goods manufacturers will be the job leader in the state.

SOUTH DAKOTA

The state's leading economic indicator continues to point to solid growth in the months ahead. The index termed the Business Conditions Index based on a survey of supply managers in the state declined to 66.2 from March's regional high 70.7. Components of the overall index for April were new orders at 76.6, production, or sales, at 68.8, delivery lead time at 51.7, inventories at 63.7, and employment at 70.0. In the first quarter of 2010, the state's unemployment rate was flat as the state added fewer than 500 jobs. For the second quarter, based on surveys over the past several months, I expect the state's unemployment rate to remain flat as the state adds more than 3,000 jobs. The state's durable and non-durable manufacturers will increase hiring in the second quarter.

## THE BULLISH NEWS

- U.S. firms added 290,000 jobs for April up from a revised 230,000 jobs added in March. It was the largest number of jobs added to the labor force since March 2006. Manufacturing did exceptionally well but even construction added 14,000 jobs, the second straight month of gains after nearly three years of uninterrupted job losses in that battered sector. <http://www.bls.gov/news.release/empsit.nr0.htm>
- The manufacturing sector grew for the ninth consecutive month in April to 60.4, its fastest rate since June 2004, according to the Institute for Supply Management. Any score above 50 indicates growth in the manufacturing sector. <http://www.ism.ws/ISMReport/MfgROB.cfm?navItemNumber=12942>
- Home prices appear to be stabilizing as demand for higher-priced homes picks up and distressed properties, still a large part of the market, are no longer changing hands at the deeply discounted prices of a year ago. Overall, home prices declined 0.7% in the first quarter of 2010 to an average of \$166,100, the lowest first-quarter national median price since 2002. <http://tiny.cc/e34p5>
- Booming sales at home improvement and gardening stores lifted the retail industry in April (up 0.4%) the latest sign that consumers are coming out of their long hibernation. <http://tiny.cc/deca0>

## THE BEARISH NEWS

- The nation's unemployment rate rose to 9.9 percent for April. <http://tiny.cc/k38g1>
- Compensation costs for civilian workers increased an anemic 0.6% for Q1, 2010. Wages and salaries (which make up about 70% of compensation costs) increased 0.4% while benefits--increased 1.1%. <http://www.bls.gov/news.release/eci.nr0.htm>

## "A monthly survey of supply chain managers"

- The Producer Price Index rose 0.7% in March. This advance followed a 0.6% decline in February and a 1.4% in January (too much inflation). <http://www.bls.gov/news.release/ppi.nr0.htm>

## WATCH OUT FOR

- The key economic variable to watch now is the yield on the 10-year U.S. Treasury. <http://finance.yahoo.com/q?s=%5ETNX> Increases indicate rising global economic threats; U.S. Treasuries are a safe haven buy. When European risk plunge (whenever that is), we will see higher long-term U.S. interest rates (long term), a sharp drop in the value of the dollar and a pullback in gold prices.
- On June 4th the U.S. BLS will release the employment report for May. I expect it to show job gains for the first a third straight month. This and the accompanying unemployment rate will be very, very important in terms of shaping consumer and business confidence ([www.bls.gov](http://www.bls.gov)).
- Keep an eye on the Consumer Price Index (CPI) released on May 19 and June 17 ([www.bls.gov](http://www.bls.gov)). Monthly gains of more than 0.2% will push the Fed to raise rates sooner than later.

## THE OUTLOOK: I expect

## FROM GOSS:

- Assuming Europeans come forth with a coherent realistic plan to reduce sovereign debt: long term interest rates to increase by 1.0% in the next 6 month: the dollar to drop by 10% by the end of the year.
- China to begin allowing their currency the Yuan to rise in value. This is going to push U.S. inflation rates higher (a bit).
- Gold prices to continue increasing until European nations address their sovereign debt problems by announcing coherent and believable plans. The Euro is likely to continue its decline in the months ahead.

## OTHER FORECASTS:

- Paul Dales of Capital economics expects the current economic recovery to be sub-par because of high unemployment <http://tiny.cc/anqcl>
- According to the Conference Board, "The waning of the government stimulus, the ongoing instability in global markets and the dismal fiscal situation are likely to keep growth subdued going into 2011. In sum, there is more upward potential than thought before, but caution is still warranted." [http://www.conference-board.org/pdf\\_free/economics/2010\\_05\\_12.pdf](http://www.conference-board.org/pdf_free/economics/2010_05_12.pdf)
- The vast majority (73%) of National Association of Business Economics members reported the fiscal stimulus enacted in February 2009 has had no impact on employment to date. While 68% also believe a jobs bill, such as the one recently enacted into law, will have no impact on payrolls, 30% do believe it will boost payrolls moderately. <http://www.nabe.com/publib/indsum.html>

## SUPPLY MANAGERS READING ROOM

"Signs that your company may need a 4PL intervention," *Purchasing* 139, no. 2 (Feb 11, 2010): p. 16-18. In 2006, the senior management at Diebold established an aggressive set of cost savings goals as part of its Smart Business 200 program. And the company's supply chain organization was expected to contribute a significant portion to the \$200 million savings goal through consolidation, optimization and process improvements. "We knew the opportunity was there but we didn't have the scale of resources or the access to industry best practices" to meet those goals, says Paul Dougherty, strategic procurement manager in Diebold's global procurement organization. In short, he knew Diebold needed outside help and brought in a fourth-party logistics provider (4PL), Menlo Logistics, to do a full supply chain assessment. What were some of the signs that led Diebold to a 4PL model? Among the concerns Diebold had was its ability to obtain realtime, detailed visibility of its storage, distribution and inventory footprint.

## 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](mailto:ernieg@creighton.edu).