THE PURCHASING ECONOMY SURVEY REPORT May 2012

"A monthly survey of supply chain managers"

Welcome to our May report covering April survey results. Regional surveys of supply managers indicate that commodity-based economies are experiencing very strong growth while inflationary pressures are waning a bit. Unfortunately, European debt problems will dominate the news in the weeks and months ahead. Follow my comments at: www.twitter.com/erniegoss

Bailout of GM Costly for Taxpayer: "Too Big to Fail" Is Failure

In 2009 the Obama Administration awarded General Motors (GM) with a $50 billion bailout. It was argued by both the Bush and Obama Administrations that GM, with 202,000 employees in 157 countries, was "too big to fail." Not only did the bailout generate what we economists call "moral hazard," (investors taking on too much risk due to federal government backing), it also cost taxpayer billions. Emerging from bankruptcy in November 2010, GM stock was initially sold to investors (Initial Public Offer) at a price of $35. Last Friday the stock closed at a price of $22.36. Thus at this point in time, the U.S. taxpayer has sustained a loss of $18 billion. During this period that GM stock dropped by 36 percent, the overall stock market expanded by 18 percent. So not only is the federal government investing public money in private businesses, it is doing it poorly. GM shares have fallen to less than half the $53 price that the government needs to break even. Much of GM's difficulties can be traced to federal meddling and requiring GM to produce vehicles that Americans have shunned. For example since it went on sale, the GM hybrid, the Volt, at a sales price of $41,000 and a U.S. federal tax credit of $7,500, has cost U.S. citizens $250,000 for each unit sold according to the Mackinac Center for Public Policy. Thankfully GM temporarily suspended production of the Volt in March 2012. For the sake of GM and the U.S. taxpayer, the U.S. Treasury should sell its stake in GM and "get out of the auto industry." Ernie Goss.

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Expands: Price Pressures Plummet

SURVEY RESULTS AT A GLANCE

- Leading economic indicator stays in very healthy range.
- Exports remain important contributor to growth.
- Inflation cools significantly for the month.
- Input prices expected to expand by a low 2.1 percent for rest of 2012.
- More than one-third indicated that regulatory burdens were biggest obstacle to growth.

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, has increased for five straight months. Overall index: The index, which ranges between 0 and 100, climbed to 60.0 from 58.6 in March and 58.4 in February. Despite higher energy prices, manufacturers, especially those tied to international markets and agriculture expanded briskly for the month. Heavy manufacturing continues to be source of growth for the region with export oriented manufacturers leading the way.

This month supply managers were asked what federal action would most positively affect their company's growth. More than one-third, 36 percent, reported that a reduction in regulatory burdens would be the most beneficial to expanding sales and income. Another 26 indicated that a reduction in federal spending would be most supportive to growth for their industry while 15 percent said a corporate tax reduction would have the most positive impact on growth. No other factor garnered above single digit support.

Employment: For a fourth straight month, the employment index climbed above growth neutral. The hiring gauge increased to a strong 62.1 from March's 58.5. Employment growth in the region is accelerating. I expect the region to report the strongest employment growth since the recession ended in 2009 in the months. This is in stark contrast to most other regional and national surveys that point to slower growth ahead.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, plummeted to 67.8 from March's 76.5. Even as prices for certain inputs continue to grow at an unsustainable pace, this pullback in overall input prices is very good news. This month, we asked supply managers to project price hikes for the rest of 2012 for inputs that they buy. Supply managers anticipate a very modest 2.1 percent increase for the rest of the year. Approximately 38 percent of supply managers expect no increase or a price decline for inputs for the remainder of 2012. This downturn is certainly surprising to me potentially stemming from a national and global economic slowdown.

Confidence: Looking ahead six months, economic optimism, as captured by the April business confidence index, rose to a healthy 64.5 from March's 62.2. A dip in fuel prices and expanding regional growth more than offset concerns surrounding the nation's employment conditions. Inventories: The April inventory index declined to 56.7 from 58.9 in March though it was up from February's 54.2. In anticipation of production increases in the months ahead, supply managers have been growing their inventories at a steady pace in the past several months. I expect this to continue to be a source of growth for the next three to six months.

Trade: April's export numbers for the Mid-America region expanded to a solid 57.0 from 56.4 in March and 55.3 in February. At the same time, April imports slipped to 56.7 from March's 57.4. Exports continue to be one of the most important factors driving growth in the regional economy higher. Short of trading skirmishes or a strong dollar, I expect exports to remain healthy for most areas of the nine-state region. Other components: Other components of the April Business Conditions Index were new orders at 64.0, up from 60.8 in March; production or sales at 61.3, up from 60.4; and delivery at 56.1, up from 54.5 in March.

MID-AMERICA STATES

ARKANSAS

The overall index for Arkansas soared to 67.8 from 55.5 in February. Components of the index from the monthly survey of supply managers were new orders at 65.3, production or sales at 64.3, delivery lead time at 71.2, inventories at 56.9, and employment at 81.6. Non-durable goods manufacturers in the state continue to shed jobs. On the other hand, durable goods producers in the state, especially those dependent on sales abroad, are experiencing healthy growth. As the state's employment situation improves significantly in the months ahead, I expect the state's unemployment rate to drop by another one-half of one percentage point by the end of the final quarter of 2012.

IOWA

For the 28th straight month, Iowa's Business Conditions Index declined but remained above growth neutral. The index slipped to a strong 66.2 from March's 67.5. Components of the index for April were new orders at 69.0, production or sales at 65.7, delivery lead time at 55.7, employment at 70.9, and inventories at 69.8. Both durable and nondurable goods manufacturers in Iowa are adding jobs at a healthy pace. Manufacturers tied to agriculture and dependent on sales abroad are experiencing especially strong growth. As a result of this solid expansion, I expect Iowa's unemployment rate to move below 5 percent for the first time since 2008 by the middle of 2012.

KANSAS

The Kansas Business Conditions Index for April climbed to 56.4 from March's 55.3. Components of the index from April's survey of supply managers in the state were new orders at 53.3, production or sales at 63.1, delivery lead time at 53.5, employment at 57.8, and inventories at 54.3. Both nondurable and durable goods producers are benefiting from international sales. However, manufacturing in aerospace and food processing is experiencing flat to slightly negative growth in the state. In Kansas, we are seeing firms rely on new hiring rather than expanding the hours-worked for their current employees.

MINNESOTA

The April Minnesota Business Conditions Index was above growth neutral marking the 32nd 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, climbed to 61.0 from March's 56.7. Components of the index from the April were new orders at 71.1, production or sales at 69.5, delivery lead time at 55.2, inventories at 49.1, and employment at 60.2. As in past months, durable goods manufacturers, such as metal producers, are growing briskly even as nondurable producers detail no gains. In addition to upturns in hiring, manufacturers and non-manufacturers are increasing the hours that current employees are working.

MISSOURI

The April Missouri Business Conditions Index climbed above growth neutral for the month. The index, a leading economic indicator from a survey of supply managers, increased to a healthy 60.2 from 58.3 in March. Components of April's Business Conditions Index were new orders at 64.3, production or sales at 60.9, delivery lead time at 55.9, inventories at 59.2, and employment at 60.8. The state's construction sector continues to weigh on the Missouri economy. On the other hand, we are tracking solid upturns in Missouri's durable manufacturing sector such as metal producers. Nondurable producers are experiencing slight pullbacks in business activity with food processors reporting slow to no growth.

NEBRASKA

The April Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 18th consecutive month. The index advanced slightly to 53.5 from March's 53.0. Components of the index were new orders at 52.4, production or sales at 53.9, delivery lead time at 54.9, inventories at 52.0, and employment at 54.3. Firms in Nebraska are reporting much slower but positive growth with less new hiring and little change in the average hourly work week. On the other hand, durable goods manufacturers, such as metal producers, continue to expand in the state. Based on our survey results, I expect Nebraska's growth to slow but remain positive in the months ahead.

NORTH DAKOTA

The leading economic indicator for North Dakota slipped to a very healthy reading for April. The Business Conditions Index from a survey of supply managers in the state slipped to 62.7 from March's 63.0. Components of the overall index for April were new orders at 61.3, production or sales at 58.6, delivery lead time at 62.8, employment at 74.2, and inventories at 56.8. The gap between North Dakota's growth and that of the region and the nation continues to widen. Our surveys over the past several months indicate no change in that pattern as firms connected to agriculture and energy grow at very strong rates. Firms are not only adding to their payrolls, they are also increasing the hours worked for their current employees. I expect the average work week among manufacturers in North Dakota to exceed that of every state in the region and nation.

OKLAHOMA

The Business Conditions Index for Oklahoma rose to a very healthy 62.6 from 58.6 in March. Components of the leading economic indicator for April were new orders at 59.3, production or sales at 53.8, delivery lead time at 83.4, inventories at 54.0, and employment at 63.0. Second only to North Dakota, Oklahoma's growth continues uninterrupted and very positive. Our survey indicates no change to that growth in the months ahead. Despite healthy economic activity, firms in the state are not adding to the hourly work-week of current employees. Instead, firms are adding new workers. Durable goods producers especially those linked to energy and international markets, such as metal manufacturers, are experiencing solid growth.

SOUTH DAKOTA

The leading economic indicator for South Dakota rose to a healthy level for April. The Business Conditions Index from a survey of supply managers in the state dipped slightly to a still strong 63.2 from 64.4 in March. Components of the index for April were new orders at 66.2, production or sales at 72.2, delivery lead time at 47.6, inventories at 68.4, and employment at 61.8. Manufacturers in the state continue to expand employment and to increase the hours worked for current employees. Computer and electronic manufacturers in South Dakota are expanding via national and international sales

THE BULLISH NEWS

- Both our regional PMI (purchasing management index) and the national PMI stood above growth neutral for April and point to improving growth in the months ahead.
- After three straight weeks of elevated readings, first-time jobless claims fell by a much bigger-than-expected 27,000 last week to 365,000.
- Oil prices dropped to their lowest level in nearly six months to $98.49.

THE BEARISH NEWS

- U.S. home prices stumbled again in February, with the Case-Shiller making fresh cycle lows in its 10- and 20-city measures. Nine of the major metropolitan areas in the report were down again in February.
- The U.S. added only 115,000 jobs in April and the unemployment rate declined as a result of the unemployed leaving the labor force, termed discouraged workers. We need to see 250,000 + jobs to feel good..
- France elected Socialist Hollande as the new president. This is bad news for the Euro economy is likely to result in the downgrade of French debt in 2012 or 2013.
- The European Central Bank (ECB) has spent $1.31 trillion trying to suppress bond yields in the Eurozone. Despite this ECB buying, Spanish bond yields rose above 6 percent.
- U.S. GDP grew by an annualized 2.2 percent in the first quarter 2012. This is half what it should be coming out of a deep recession.

WHAT TO WATCH

- PMI's: On June 1 we release our regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Keep an eye on the inflation gauge which is trending downward. It is indicating a slowing global economy.

- Jobs: On Friday June 1, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for April. Another weak employment reading (less than 150,000 jobs added) will be bearish for equity markets and bullish for bond markets. On the other hand, a reduction of the unemployment rate below 8% would be a major plus, if it is not due to discouraged workers.

- Spanish bond yields:: If yields or rates approach 7 percent, this could drag U.S. growth lower as the value of the dollar rises and cuts into U.S. exports. Watch for another downgrade of Spanish debt by S&P or Moody's.

THE OUTLOOK

FROM GOSS:

- The value of the U.S. dollar is likely to strengthen in the weeks and months ahead as the instability of the Eurozone economy remains a fixture of concern. This will tend to put downward pressures on agriculture and energy commodity prices. It will also tend to hurt U.S. exporters.

- The Facebook IPO will be over-hyped and over purchased. This is a losing bet as long as Zuckerberg is CEO.

- The uncertainty surrounding the record tax increase slated for January 1, 2013 will continue to hurt U.S. economic growth.

- Greece will leave the Eurozone sometime in 2012 and re-adopt the Drachma as their currency.

OTHER FORCASTS:

- "About two-thirds of NABE Industry Survey panelists expect that real GDP will grow at a rate exceeding 2% between the fourth quarter of 2011 and the fourth quarter of 2012. Over 80% of respondents reported unchanged or rising sales and profit margins. The survey results also suggest greater stability in prices. Nearly all respondents expect that non-labor input prices will remain unchanged or rise by 5% or less. Over 70% of respondents reported that wages and salaries have remained unchanged. The share of respondents reporting unchanged prices charged (78%) is the highest share in recent surveys and almost all respondents expect either no change in prices or minor price increases by their companies of 5% or less. Materials costs rose for 31% of respondents and were unchanged for 59% of them, which suggests a continued trend toward greater stability in materials prices."

- The Conference Board: "We expect employment and economic activity to reaccelerate moderately in the second half of the year, with real growth picking up to around 2.5%. Underlying economic fundamentals are improving, albeit slowly. Compared to last year, consumer sentiment and spending are stronger this year, and housing is less of a drag on economic growth. Going forward, wage growth may become more critical than job growth. Sustained moderate job gains and any pickup in wages will put a floor beneath consumer sentiment and spending that could, in turn, fuel moderate employment gains in "core" services (which excludes health and education). Nevertheless, this remains a weak economy, and the job counts in March and April — which have come in at considerably below 200,000 per month — may perhaps continue right through the summer."

Goss Eggs (Recent Dumb Economic Moves)

- French voters elected Francois Hollande as their first Socialist president since 1995. This is likely to mean that the French government continues on its spending binge paying pension benefits that are borne by the nation's youth. Just as in the U.S., baby boomers continue to drain resources from the young via overly generous pensions and health care benefits. This "free lunch" will end before Hollande exits the presidency.

Supply Manager Reading Room

ISM's 2012 Salary Survey Examining ISM's seventh annual salary survey reveals that the average salary for supply management professionals is now US$102,218, a decline of 1.39 percent compared with 2010 ($103,664). However, it remains above the five-figure salary averages from 2009 and 2008. The median salary increased 3.45 percent from 2010 to $90,000, with the highest salary reported as $682,000. The percentage of supply management professionals earning $100,000 or more continued to climb, increasing from 38 percent to 41 percent in 2011 compared with 2010. The salary numbers reported are for the 2011 calendar year and include wages and any bonuses received. Respondents self-reported an average salary increase in 2011 of 6.7 percent — a healthy growth rate compared with 3.5 percent and 2.8 percent reported in 2010 and 2009, respectively. The self-reported average salary decrease was 10.13 percent. Of all respondents, 79 percent (compared with 66 percent in 2010) indicated their salaries increased, with 7 percent reporting salary declines in 2011 (compared with 6.6 percent and 20 percent of respondents in 2010 and 2009, respectively). How important is salary in job choice compared to other factors? Salary came in fifth place (51 percent) in importance when choosing a job. The leading factor was job satisfaction (66 percent), followed by benefits package (64 percent). While financial stability of the organization was the leading factor in 2010, it dropped to third place (63 percent) in the 2011 survey. This was followed by work/life balance (52 percent), wages (51 percent) and promotion (47 percent). Other factors rounding out the list included work location, organizational culture/work environment, bonuses, educational opportunities and organizational commitment to social responsibility programs.

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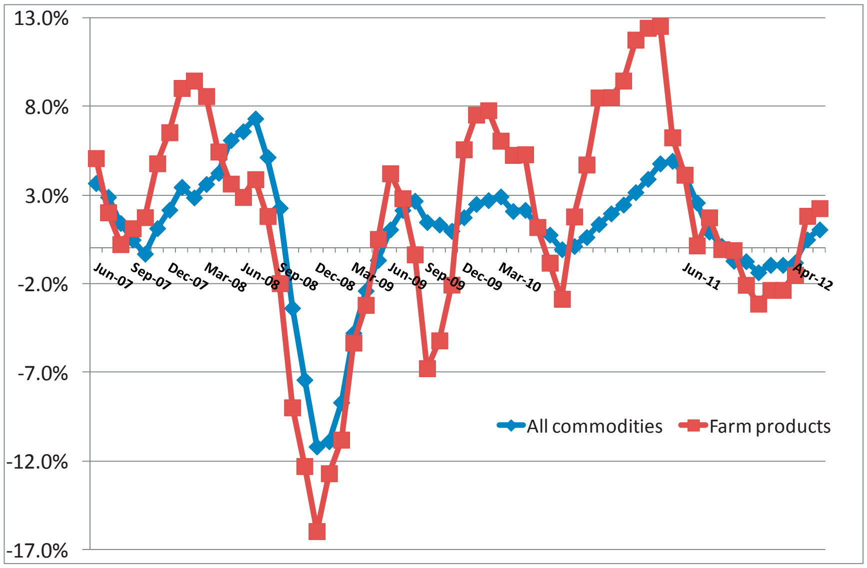
PRICE DATA

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

Price changes, 3 month moving average, 2007-2012



Price changes, 3 month moving average, 2007-2012