THE PURCHASING ECONOMY SURVEY REPORT November 2011

"A monthly survey of supply chain managers"

Welcome to our November report covering October survey results.

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America Doesn't Make Anything Anymore: Wrong! U.S. Manufacturing Stronger than Ever

In the mistaken belief that outsourcing is a major factor contributing to America's loss of manufacturing jobs, Congress continues to push bills that limit manufacturers' ability to expand abroad. Combined this with the hyperbolic "America Does Not Make Anything Anymore," and legislators feel compelled to offer bills restricting manufacturing firms' flexibility to expand geographically. This legislation not only breeds uncertainty, but chills U.S. economic growth. In 1948, the nation's gross domestic product (GDP) in manufacturing was $70.1 billion. By 2010, U.S. manufacturing GDP had expanded to $1.8 trillion for an annual growth of 5.3 percent. During this same period of time U.S. manufacturing lost nearly three million jobs. Thus between 1948 and 2010, each worker's productivity skyrocketed with GDP per worker expanding from approximately $5,000 to $145,000 over the 62 year period. If manufacturing GDP per worker had grown at the slower rate of the rest of the economy, U.S. manufacturing employment would have been 5.8 million higher in 2010. Thus, the real culprit explaining U.S. manufacturing employment declines has been soaring productivity driven by vastly improving technology and processes. As a result, critics that wish to blame out-sourcing for pullbacks in U.S. manufacturing employment should more properly turn their scorn to rising productivity which has generated ever improving living standards for Americans. Only Luddites and hyperbolic politicians would limit the freedom of manufacturers to choose the levels of capital, labor and outsourcing that are most appropriate for their firms. American manufacturing productivity growth, much like agriculture before it, has been a driver of higher U.S. living standards. Ernie Goss.

LAST MONTH'S SURVEY RESULTS

October Mid-America Leading Economic Indicator Drops Below Growth Neutral: Region Losses Jobs for Third Straight Month

SURVEY RESULTS AT A GLANCE

- Leading economic indicator drops below growth neutral for first time since November 2009.
- Employment gauge falls below growth neutral for third straight month.
- Supply managers expect holiday business activity to be up 1 percent from 2010.
- More than one in five supply managers expects a 2012 recession.

For the first time since November 2009, the Business Conditions Index for the nine-state, Mid-America region plunged below growth neutral. The index, a leading economic indicator from a monthly survey of supply managers, continues to point to anemic growth for the region for the next three to six months with an increasing risk of a recession. Overall index: The index, which ranges between 0 and 100, sank to 49.9 for October from September's 52.2. After holding above growth neutral 50.0 for 22 consecutive months, the index unexpectedly turned slightly negative for the month. One reading slightly below growth neutral does not signal a recession, but if the index continues to weaken in the months ahead, the likelihood of a return to recessionary economic conditions becomes a real possibility for 2012. It is evident that the weakness in the national economy has now hit the regional economy. Employment: For a third straight month, the employment index moved below growth neutral. The October reading slumped to 49.0 from 49.6 in September. States more dependent on agriculture and energy fared much better, in terms of job numbers, than states less reliant on these commodities. Approximately 18 percent of survey companies reported net job reductions for October.

This month, supply managers were asked if they expected the U.S. economy to move back into recessionary territory for 2012. Approximately 22 percent think a recession is likely while 26 percent judge a recession as unlikely. The remaining 52 percent assess a 50-50 chance of an economic recession in 2012. Almost one year ago when we asked this same question, only 7 percent expected a recession for 2011, while 36 percent thought a recession was unlikely. Clearly over the past year, recession expectations have risen among supply managers in the region.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, tumbled to 56.0 from September's 66.3. As regional growth has waned, so have inflationary pressures at the wholesale level. This is the lowest reading for our inflation gauge that we have recorded since June 2009, the last month of the recession. Lower inflation in the pipeline will give the Federal Reserve more flexibility to further stimulate the economy with another QE3 (Quantitative Easing).

Inventories: For only the third time in the past two years, supply managers in the nine-state region reduced inventory. Inventory restocking has been an important source of regional growth. October's inventory decline to 48.5 from September's 55.0 was another negative signal for the regional economy.

Confidence: Looking ahead six months, economic optimism as captured by the October business confidence index, rose to a still weak 49.5 from 40.5 in September. Supply managers' reduction in inventories, increase in recession expectations and weak confidence are solid indications of slower economic growth in the months ahead with rising recession probabilities.

Trade: Despite a stronger U.S. dollar making imported goods cheaper, imports remain below growth neutral 50 with an October index of 48.0, but up from 45.5 in September. The stronger dollar, making U.S. goods less price competitive, and economic weakness among trading partners restrained new export orders to growth neutral 50.0, slightly up from 48.8 in September. Given the importance of exports to regional growth, recent weakness in sales abroad is a real concern.

Other components: Other components of the October Business Conditions Index were new orders at 45.4, down from September's 49.6; production or sales at 48.5, down from 50.4; and delivery lead time at 57.9, up from 56.4 in September.

MID-AMERICA STATES

ARKANSAS

For the fifth time in the past six months, the leading economic indicator for Arkansas declined. The October index, from a survey of supply managers in the state, plunged to 52.7 from September's 60.4. Components of the index were new orders at 55.5, production or sales at 53.7, delivery lead time at 62.4, inventories at 53.9 and employment at 38.1. Rising agricultural prices have been a burden on the profitability and business conditions of the state's large food-processing industry. The recently passed trade pacts, once implemented, will be important sources of long-term Arkansas growth. However over the next three to six months, I expect Arkansas to continue to lose jobs, albeit at a very slow pace.

IOWA

The October Business Conditions Index for Iowa remained above growth neutral for the 22nd straight month. The index

from a survey of supply managers slipped to 55.4 from 57.8 in September. Components of the index were new orders at 54.8, production or sales at 53.0, delivery lead time at 60.6, employment at 57.7, and inventories at 50.6. Strong growth in agricultural machinery production is spilling over into other sectors such as metal product manufacturing. Based on our survey results over the past several months, Iowa will continue to add jobs, albeit at a slow pace, in the next 3 to 6 months.

KANSAS

The Business Conditions Index, a leading economic indicator for Kansas, rose to 47.9 in October from September's regional low of 43.8. The survey from supply managers in the state is pointing to job losses for the state's economy in the months ahead. Components of the index were new orders at 43.8, production or sales at 40.6, delivery lead time at 58.6, employment at 47.1, and inventories at 49.4. Growth among both durable and nondurable manufacturers in the state continues to slow with the state's large aeronautics manufacturing industry experiencing pullbacks in economic activity. U.S. and global economic weakness will continue to weigh on the Kansas economy with slight job losses in the next 3 to 6 months for the state.

MINNESOTA

The Minnesota Business Conditions Index, a leading economic indicator from a monthly survey of supply managers, was above growth neutral for the 27th straight month at 55.4, up slightly from 55.3 in September. Components of the index for October were new orders at 49.9, production or sales at 55.6, delivery lead time at 61.9, inventories at 55.6 and employment at 54.2. Growth among durable-goods producers is outpacing that of nondurable goods manufacturers. For example, higher agricultural commodity prices have reduced economic activity in the state's large food-processing sector while health care expansions have pushed medical equipment manufacturers in the state to higher growth and profitability. Growth will continue to be positive with jobs added at a slow pace over the next 3 to 6 months.

MISSOURI

The Missouri Business Conditions Index from a monthly survey of supply managers sank slightly in October to a regional low of 47.3 from September's regional low of 47.9. The index, a leading economic indicator, points to economic weakness and job losses in the months ahead. Components of the Business Conditions Index were new orders at 44.6, production or sales at 45.5, delivery lead time at 53.9, inventories at 47.6, and employment at 45.0. Weakness among nondurable manufacturers such as food processors, more than offset growth for durable- goods producers. Telecommunications and other technology connected businesses in the state continue to experience pullbacks in economic activity. Based on surveys over the past several months, I expect the state's unemployment rate to rise slightly over the course of the next three to six months.

NEBRASKA

The October Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 12th straight month. The index, a leading economic indicator from a survey of supply managers sank to 54.3 from 57.4 in September. Components of the index were new orders at 51.0, production or sales at 56.2, delivery lead time at 57.6, inventories at 54.7 and employment at 52.1. Both durable-and nondurable-goods producers in the state reported solid upturns in business activity. Agricultural equipment manufacturers are detailing healthy business activity. Strength in exports and agriculture will continue to push job growth into positive territory for the next 3 to 6 months.

NORTH DAKOTA

North Dakota's leading economic indicator from Creighton's monthly survey of supply managers expanded for October. The Business Conditions Index rose to a regional high of 57.2 from September's 56.1. Components of the index for October were new orders at 62.6, production or sales at 58.0, delivery lead time at 62.4, employment at 53.8 and inventories at 49.2. Growth in North Dakota continues to significantly outpace that of the nation and region. Rapid growth in the state's energy and agricultural sectors is spilling over into the rest of the state's economy. Only a significant upturn in the value of the U.S. dollar, which I do not expect, could derail this growth. A higher valued U.S. dollar would tend to push energy and farm commodity prices lower. Each month North Dakota adds to the previous month's record employment.

OKLAHOMA

The Business Conditions Index for Oklahoma from a monthly survey of supply managers declined in October to 53.9 from September's 54.1. Components of the leading economic indicators for October were new orders at 56.0, production or sales at 53.6, delivery lead time at 67.3, inventories at 45.7 and employment at 58.9. Over the past several months, only Oklahoma has matched North Dakota in terms of consistent economic growth and job gains. Only a significant upturn in the value of the dollar, which would push agricultural and energy prices down, could derail Oklahoma's expansion. Even so, growth will be modest for the next 3 to 6 months.

SOUTH DAKOTA

South Dakota's leading economic indicator once again was above growth neutral in October. The Business Conditions Index from a monthly survey of supply managers slumped to 52.6 from September's 59.3. Components of the index for September were new orders at 45.3, production or sales at 48.0, delivery lead time at 55.1, inventories at 51.9 and employment at a regional high of 63.0. Manufacturers tied to international markets, agriculture and energy continue to experience very positive growth. Over the past year, the growth in manufacturing jobs has exceeded 4.0 percent, well above the nation and the region. I expect positive but slow job growth for the overall state economy for the next three to six months.

THE BULLISH NEWS

- Non-farm payrolls continued to trend upward with 80,000 jobs added for October and a jobless rate dipping from 9.1% to 9.0%. The number of long-termed unemployed (those without a job for more than 27 weeks) declined by 366,000 in October.
- The output of goods and services (GDP) for the 3rd quarter of 2011 expanded at an annualized pace of 2.5 percent after growing by only 1.3 percent in the 2nd quarter of 2011.
- U.S. retail and food services sales for September were $395.5 billion, an increase of 1.1% from the previous month and 7.9% above September 2010.

THE BEARISH NEWS

- Citi analyst Josh Levin said 60% of homebuilders interviewed said that home sales in October were either flat or lower than in September.
- Consumers expect U.S. home prices to worsen over the next 12 months, making October the fifth straight month

of negative outlooks, according to a monthly survey from mortgage market enterprise Fannie Mae.

- Overall demand for durable goods fell 0.8%, but that was largely because of a huge decline in volatile commercial aircraft orders. Excluding transportation, orders rose 1.7%.

- Over the last 12 months, the Consumer Price Index increased by 3.9%. This is almost double the acceptable value.

WHAT TO WATCH

- PMI: The Mid-America PMI from Creighton and the National PMIs from the Institute for Supply Management will be released on Dec. 1 for November. Both indices are hovering around growth neutral 50.0. Any significant decline will be a very, very important negative economic signal. (www.outlook-economic.com)

- Jobs: On Friday Dec. 2, the U.S. BLS releases its employment report for November. A gain of more than 150,000 will be viewed very positively by investors

- Consumer Price Index (CPI): On Dec. 16, the U.S. Census Bureau will release the CPI for November. An increase of 0.3% for October will reduce bond prices and increase their yields (interest rates).

THE OUTLOOK

FROM GOSS:

- Despite a lot of negative data being released, I expect the U.S. economy to avoid a 2012 recession

- In Spring 2011, I bet Gray Allison of ICBA Securities in Memphis that the Fed would raise rates by the end of 2011. He said no. Obviously, I lost that bet and this is the pay off. Gray—you got it right

- I do not think the Fed will launch QE3. They are, thankfully, going to take little or no action in the months ahead. Thus, record low interest rates that borrowers are enjoying will continue with little or no change in the months ahead.

OTHER FORCASTS:

- Koski Research. A nationwide survey of U.S. homeowners completed in October found that more than half of respondents (58 percent) rank declines in housing market value as the biggest risk to their home, significantly higher than a fire (15 percent), tornado (9 percent) or hurricane (8 percent). Despite nearly universal agreement that it is a bad time to sell (85 percent) and a good time to buy (86 percent), almost one-quarter of U.S. homeowners (23 percent) are likely to sell their home in less than five years.

- Conference Board: 23% of business executives report scaling back on their companies' capital spending plans since January of this year, while 22% have increased spending, based on a supplementary question asked each year in the third quarter. Last year, 30% of respondents had increased their capital spending plans and 20% had made cuts. Among the reasons given for increasing capital investment plans, the most common was an increase in sales volume. A decline in sales volume was also the most common reason for decreasing spending plans. CEOs' optimism about the short-term outlook also deteriorated sharply. Currently, about 19% of business leaders anticipate an improvement in economic conditions over the next six months, down from 43% in the second quarter. Expectations for their own industries are also quite negative, with approximately 22% of CEOs expecting conditions to improve in the months ahead, down from 44% last quarter.

- The National Association for Business Economics Oct. 2011 Survey Results: The breadth of industry sales growth narrowed in October. Forty-nine percent of October survey respondents reported rising sales versus 13% reporting falling sales in the third quarter. Only the goods producing sector saw stronger breadth sales growth in the quarter, while the service sector had the fewest firms with sales increases and the most with declines. Expectations for economic growth in 2011 deteriorated sharply. A full 84% of NABE panelists now expect real GDP to advance at a pace of 2% or less from the fourth quarter of 2010 to the fourth quarter of 2011, up from only 23% in July. The European debt crisis has had a negative effect on firms' sales in 2011. One-fifth of the panel reported a decrease in sales to-date in 2011 due to developments in Europe. The negative impact appears likely to continue over the next six months, with nearly 30% expecting that the crisis will lead to a decrease in sales through the first quarter of 2012.

Goss Eggs (Recent Dumb Economic Moves)

- The U.S. State Department's delay in a decision on the extension of the Keystone XL oil pipeline through Nebraska until after the 2012 elections is a colossal mistake. This may make good political sense but a decision needs to be made now based on the benefits and costs of the project-not politics.

SUPPLY MANAGER READING ROOM

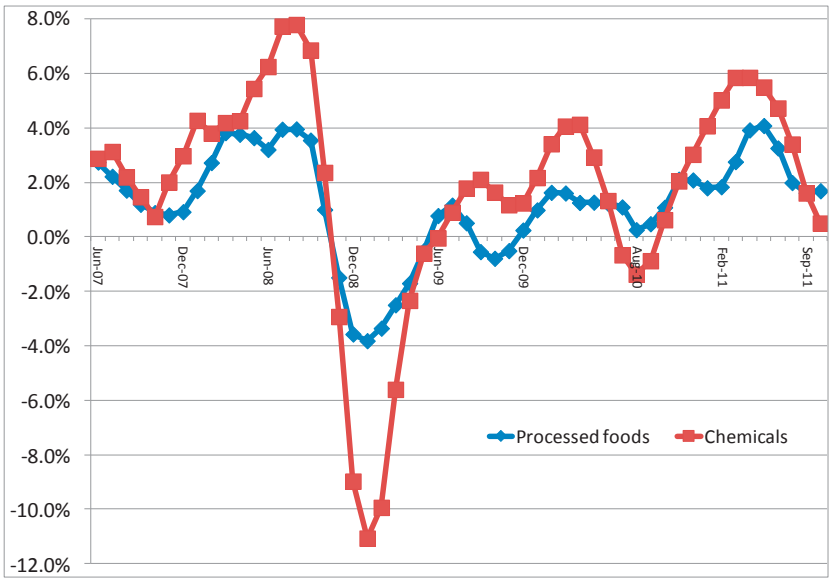
To achieve significant and successful transformation of supply management, companies need to assess how well they have implemented critical supply strategies. To assist in this effort, CAPS Research designed the Executive Assessment of Supply (EAS). This self-administered assessment lets companies determine the importance of various strategic strategies for their organization, the level of implementation and the results achieved. This report summarizes the results from these assessments based on responses from 119 supply organizations across 25 industries regarding 22 supply strategies and performance results. These results can help companies compare their strategic results with those achieved by other companies. Also companies can compare their recent results with the results of similar assessments completed in 2007 and 2009 to yield an even more comprehensive picture of implementation success and supply management performance. http://knowledge.capsresearch.org/

If you have any questions about the survey or have any specific questions about the recent economic conditions, please write to

PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2011
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2011



Price changes, 3 month moving average, 2007-2011