THE PURCHASING ECONOMY SURVEY REPORT October 2011

"A monthly survey of supply chain managers"

Welcome to our October report covering September survey results.

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The Impact of the Buffett Tax: Adding Jobs at H&R Block?

As part of its 2011 Jobs Bill, the Obama Administration has proposed the "Buffett" tax to snare millionaires that are not paying what President Obama calls their "fair share." White House Communications Director Dan Pfeiffer reported in a tweet that the tax would "act as a kind of AMT." Let's hope not!! In 1969 the Minimum Tax was passed to be rebranded in 1982 as the Alternative Minimum Tax (AMT). The original goal was to hook 155 high-income households that paid no federal income taxes. Currently more than half of AMT tax collections come from taxpayers making between $150,000 and $200,000 and it is estimated that by 2015 over 50 million Americans will pay the AMT. As expected, millionaires thwart the original intent of the AMT by hiring tax experts that insure that they avoid the punitive tax. They will likewise sidestep the Buffett tax with the burden falling on thousandaires. What should instead be done? The U.S. Congress and Obama Administration should immediately undertake fundamental tax reform that eliminates tax loopholes and deductions that are contrary to economic growth. This action would then allow overall tax rates to be lowered for all. Here is an example of a tax loophole that should be eliminated. In 2010, a taxpayer could buy an energy efficient diesel SUV that is used in his/her business and receive a tax credit of $1,800. So far, so good. However, if the SUV weighs more than 6,000 pounds, the taxpayer could take an additional tax deduction of up to $25,000. Only tax preparers at H&R Block can appreciate the onerous tax code that encourages both energy efficiency and gas guzzling. Adding the Buffett tax will serve only to add more tax goodies such as this for those able to hire astute tax attorneys and accountants. Ernie Goss

LAST MONTH'S SURVEY RESULTS

For Second Straight Month Mid-America Firms Reduce Employment: Supply Managers Expect Sharp Upturn in Layoffs

SURVEY RESULTS AT A GLANCE

- After three straight months of declines regional leading economic indicator up slightly
- Employment gauge falls below growth neutral for second straight month
- Business confidence tumbles to lowest level since February 2009
- Approximately 29 percent of firms anticipate layoffs in the next six months, up sharply from December 2010.

For only the second time in the past six months, the Business Conditions Index for the nine-state Mid-America region increased. The index, a leading economic indicator from a monthly survey of supply managers, continues to point to positive, but anemic growth for the region for the next three to six months. Overall index: The index, which ranges between 0 and 100, rose slightly for September to 52.2 from 52.0 in August. While this is the 22nd consecutive month that the index has been above growth neutral 50.0, industries and firms in the region linked to the domestic economy are experiencing pullbacks in overall economic activity. On the other hand, growth among firms tied to agriculture and international markets has more than offset this weakness. Putting it together, I expect the region to continue to expand at an anemic pace with little potential for a recession in this region for the near term. Employment: For a second straight month, the employment index moved below growth neutral. The September reading was up but still frail at 49.6 from September's 49.0. Almost 22 percent of survey companies reported net job reductions for September.

This month we asked survey participants about employment prospects for their firm. Approximately 29 percent expect layoffs for their firm in the next six months. This is much higher than the 7 percent that reported likely layoffs in December 2010. Clearly the job outlook has deteriorated even in this part of the country.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, dipped to 66.3 from September's inflationary 71.0. As regional growth has waned, so have inflationary pressures at the wholesale level. Asked about future price increases, supply managers anticipate input prices growing at an annualized 4.5 percent pace in the next six months. With the current Federal Reserve policy remaining very stimulative, I expect inflation to climb significantly above the Fed's target. As one supply manager reported, "It is good to see commodity prices coming down, but unfortunately the bad news is the economy appears to be moving in the same direction."

Confidence: Looking ahead six months, economic optimism, as captured by the September business confidence index, plummeted to 40.5, the lowest reading since February 2009 and down from 43.4 in August. It is clear that the economic uncertainty engulfing Europe and the U.S. have dampened the economic outlook of supply managers in the region. Even though the regional economy continues to grow, albeit at a weak pace, supply managers remain concerned about the likely impact of a U.S. recession.

Inventories: Since January 2010, supply managers in the nine-state region have increased inventory levels 19 out of 21 months. This has been an important source of regional growth. Unfortunately, September's upturn to 55.0 from August's 50.5 is likely unintended and due to pullbacks in sales and production. Trade: Despite a stronger U.S. dollar making imported goods cheaper, firms reduced imports with a September index of 45.5, down from August's 46.6. The stronger dollar, making U.S. goods less price competitive, and economic weakness among trading partners pushed new export orders to 48.8, down slightly from 54.8. Given the importance of exports to regional growth, the September pullback is a real concern. Other components: Other components of the September Business Conditions Index were new orders at 49.6, down from 51.2 in August; production or sales at 50.4, down from 54.2; and delivery lead time at 56.4, up from 55.0 in August.

MID-AMERICA STATES

ARKANSAS

For the first time since April the leading economic indicator for Arkansas increased. The index for September climbed to 60.4 from 50.9 in August. Components of the index were new orders at 61.0, production or sales at 57.4, delivery lead time at 74.8, inventories at 57.7, and employment at 51.2. Despite an expanding state economy, our surveys indicate little growth in jobs. For example over the past year, Arkansas manufacturing firms have shed more than 5,000 jobs for a 3.2 percent loss. I expect a reversal in manufacturing job losses in the months ahead with overall job growth remaining very weak but positive.

IOWA

Iowa's Business Conditions Index remained above growth neutral for the 21st straight month. The index from a survey of supply managers slipped to 57.8 from last month's regional high of 59.3. Components of the index for September were new orders at 52.5, production or sales at 56.0, delivery lead time at 64.1, employment at 58.2, and inventories at 58.4. Over the past year, Iowa has added more than 5,000 manufacturing jobs with a large share of this gain tied to agriculture. Food producers in the state have also

been an important component of recent job growth. Surveys over the past several months point to solid growth for the rest of 2011.

KANSAS

The Business Conditions Index, a leading economic indicator for Kansas, inched higher but stood at a regional low of 43.8 from August's 43.6, also a regional low. The survey from supply managers in the state is pointing to pullbacks in the state's economy in the months ahead. Components of the index for September were new orders at 37.6, production or sales at 41.1, delivery lead time at 57.2, employment at 34.1, and inventories at 48.9. Over the past year, Kansas has added almost 2,000 manufacturing jobs. While transportation equipment producers in Kansas have lost jobs over the past 12 months, I expect this sector to add jobs in the months ahead even as state job growth turns slightly negative.

MINNESOTA

Minnesota's leading economic indicator from the monthly survey of supply managers was above growth neutral for the 26th straight month at 55.3, down from 56.3. Components of the index for September were new orders at 57.4, production or sales at 61.2, delivery lead time at 56.0, inventories at 54.1, and employment at 47.6. Over the past year, Minnesota's manufacturing sector has added more than 5,000 jobs. Even food processors in the state, after months of job losses, have begun to experience positive job growth. I expect manufacturing job growth to be positive, but weak, in the months ahead.

MISSOURI

The Missouri Business Conditions Index from a monthly survey of supply managers sank to 47.9 from 50.7 in August. The index, a leading economic indicator, points to economic weakness in the months ahead. Components of the Business Conditions Index for September were new orders at 45.1, production or sales at 44.1, delivery lead time at 54.6, inventories at 49.9, and employment at 45.9. Over the past year, Missouri's manufacturing sector has added almost 12,000 jobs. Transportation equipment manufacturers have been an important component of this growth. However, one supply manager in the automobile industry commented that firms had begun to reduce some Saturday production that had been scheduled. Based on our surveys over the past several months, Missouri will lose jobs in the months ahead, albeit at a slow pace.

NEBRASKA

The Business Conditions Index for Nebraska moved above growth neutral 50.0 for the 11th straight month. The index, a leading economic indicator from a survey of supply managers advanced to 57.4 from 56.8 in August. Components of the index for September were new orders at 55.5, production or sales at 59.1, delivery lead time at 55.4, inventories at 59.4, and employment at 57.7. Over the past year, durable goods manufacturers in Nebraska have added jobs as nondurable goods producers have reduced jobs. Most of this growth has been tied to agriculture and exports. Based on surveys over the past several months, the state is expected to continue to add jobs at a solid pace for the rest of 2011.

NORTH DAKOTA

North Dakota's leading economic indicator from Creighton's monthly survey of supply managers expanded for the month. The Business Conditions Index rose to 56.1 from August's 50.5. Components of the index for September were new orders at 58.6, production or sales at 53.5, delivery lead time at 52.3, employment at 57.6, and inventories at 48.4. There are a record number of North Dakotans working in the state today. The energy industry and agriculture sector in North Dakota are pushing overall job growth at a brisk pace. I expect the robust growth to slow somewhat in the months ahead but to remain very healthy.

OKLAHOMA

The Business Conditions Index for Oklahoma from a monthly survey of supply managers declined to a still healthy 54.1 from August's 56.8 and July's 61.9. Components of the index for September were new orders at 52.0, production or sales at 52.2, delivery lead time at 84.6, inventories at 47.4, and employment at 57.9. Manufacturers linked to energy, food and transportation have been important drivers of the state economy. As a result of these trends, Oklahoma has added more than 11,000 manufacturing jobs over the past year. Our surveys indicate that this positive trend will continue for the rest of 2011 with growth in manufacturing and nonmanufacturing.

SOUTH DAKOTA

South Dakota's leading economic indicator once again climbed above growth neutral. The Business Conditions Index from a monthly survey of supply managers advanced to 59.3 from Augusts'58.5. Components of the index for August were new orders at 60.6, production or sales at 65.9, delivery lead time at 50.1, inventories at 53.7, and employment at 65.9. Since bottoming out in July of 2010, manufacturing firms in the state have consistently added jobs. Manufacturers tied to international markets have had especially strong growth. Overall job growth for the rest of 2011 will be solid, but down somewhat from earlier in the year.

THE BULLISH NEWS

- Non-farm employment rose by 103,000 in September and the unemployment rate was unchanged at 9.1%.
- Rates on 30 year mortgages dipped below 4.0% to a record low 3.75% last week.
- The four-week average of first time claims for unemployment insurance decreased by 4,000 to 414,000 last week. Still too high but not recessionary.
- The Standard & Poor's/Case-Shiller index of 20 American cities, a key measure that is closely watched by economists, was up 0.9% for July compared to June, but down 4.1% from July 2010.

THE BEARISH NEWS

- The number of long-term unemployed (those with more than 27 weeks and over) was 6.2 million in September. They represent 44.6 percent of the unemployed
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WHAT TO WATCH

- GDP: On October 27, the Bureau of Economic Analysis will release its advance estimate for 3rd quarter GDP growth. Anything above 1.5% will be smiled upon by investors. I expect 1% - 1.5% growth. (www.bea.gov)

- PMI: The Mid-America PMI from Creighton and the National PMIs from the Institute for Supply Management will be released on Nov. 1 for October. Both indices have ticked upward. Increases for both will be very encouraging sign. (www.outlook-economic.com)

- Jobs: On Friday Nov. 4, the U.S. BLS releases its employment report for October. A gain of 100,000 – 150,000 will be met by a collective yawn by investors. Readings outside this range will be news worthy for investors and policymakers.

- On Oct. 14 and Nov. 15, the U.S. Census Bureau will release estimated retail sales for September and October, respectively. No growth or a decline in month to month sales will be very negative for markets and a signal the holiday buying season will be dismal.

THE OUTLOOK

FROM GOSS:

- Despite recent good news from Europe, the International Monetary Fund and the European Central Bank are only delaying the inevitable default of Greece on its debt

- I expect the housing market to bottom for most areas of the nation by the end of 2011. This does not mean growth, but it does mean an end to the rapid declines in housing prices

- I expect to hear more and more complaints about rapid price increases for a lot of what American are buying. The Fed continues to have its foot on the accelerator with the result of excessive inflation

OTHER FORCASTS:

- Conference Board: Kathy Bostjancic, Director of Macroeconomic Analysis expects "Modest Job Growth Confirms Sluggish Economy, But We May Escape Recession." After four straight months of very little job growth, conditions improved a little in September. While it may help us to just barely escape a recession call, the gain in jobs and incomes is likely too little to blunt consumer pessimism. The main problem is that demand is simply too weak to support more robust job growth (more than 125,000 jobs per month). Employers are not going to step up hiring unless demand picks up. But consumers are not going to spend more until employment strengthens. There is no help on the way from monetary or fiscal policy, at the federal, state, or local level. This all adds up to a labor market that will continue to struggle to deliver even modest gains this autumn or winter.

- The National Association for Business Economics Outlook panel revised its growth projections downward for both 2011 and 2012. Real gross domestic product (GDP) is expected to advance 1.7 percent in 2011 (year-over-year), down from the panel's May prediction of 2.8 percent. The downward revision reflects weaker-than-expected growth in the second quarter, as well as a weaker projection for growth in the second half of 2011. The panel anticipates growth in 2012 to edge up to 2.3 percent (year-over-year), a growth rate slower than the May projection of 3.2 percent. Panelists view these forecasts to be highly uncertain, with 86 percent of forecasters seeing "much more" or "somewhat more" uncertainty than usual.

Goss Eggs (Recent Dumb Economic Moves)

- The Obama Administration, by proposing adding more layers to the tax code via the Buffett tax, will only make the tax code more complex with tax lawyers and accountants being the biggest beneficiaries. We need tax reform that eliminates loopholes and deductions, not adds to them.

SUPPLY MANAGER READING ROOM

"Trends That Matter," Paul Novak, September 2009, Inside Supply Management, Vol. 20 (9), p.6. Each year at the May ISM Board meeting, the Board members take time to discuss what they see as emerging trends in our profession. This information is then combined with information we gather from other meetings, such as the annual CAPS Research North American Roundtable. We then use the information for a variety of purposes, including but not limited to articles here in the magazine, new educational offerings, possible inclusion as future CPSM® certification exam questions and subjects for research by CAPS. I thought you might like to know what some of these emerging trends are, especially now, when the economic downturn has some of us thinking and behaving as if the only current issue is survival. http://www.ism.ws/pubs/ISMMag/ismarticle.cfm?ItemNumber=19664

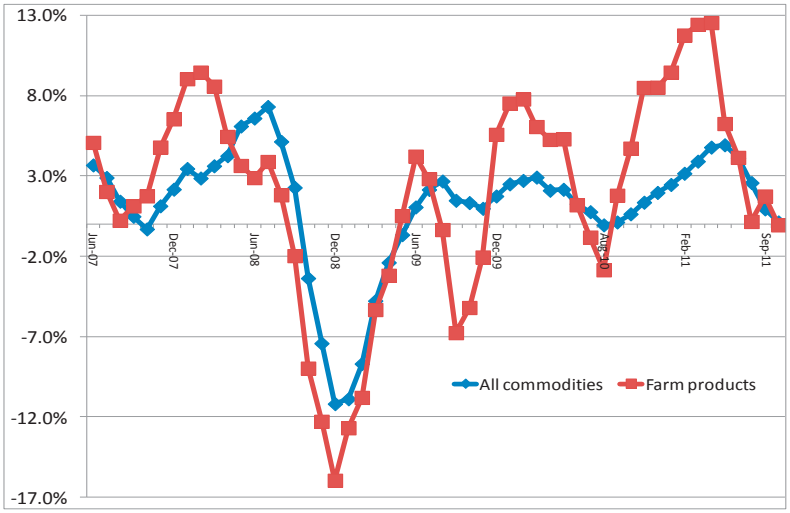
ASK ERNIE

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 2007-2011
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2011



Price changes, 3 month moving average, 2007-2011