Welcome to our September report covering August survey results.

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Economic Misery Index Rises to Highest Level Since 1984

Arthur Okun, economic advisor to President Lyndon Johnson created the misery index in the 1960s. One calculates the index by adding the unemployment rate to the inflation rate. It is assumed that both a higher rate of unemployment and elevated inflation produce economic pain and social costs for a country's citizens. Since the U.S. recession ended in 2009, America's misery index has expanded from 7.5 to its current level of 12.7. That is, a combination of rising inflation and more people out of work indicate a deterioration in economic performance and a rise in economic distress. In fact for August 2011, the U.S. misery index rose to its highest level since 1984's misery index of 12.7 when the nation's rate of unemployment was 7.8% and its inflation rate was 4.9%. Today's misery index matches that of 1984 with an unemployment rate of 9.1% and an rate rose to 3.6% producing a misery index of 12.7. But today's misery index falls well short of measuring the true misery of those seeking job opportunities. In August 2011, there were 14.0 million Americans out of work and looking for a job (the only individuals counted in the unemployment rate by the federal government). This number ignores the 8.8 million workers who were working part-time, but desired full-time work and the 2.6 million Americans that got so discouraged with job search that they left the labor force. Summing all U.S. workers not fully employed means that in August 2011, 16.5% of U.S. workers were seeking greater job opportunities with a resulting misery index of 20.1. Additionally, teenagers, with an August 2011 unemployment rate of 25.4 percent, are experiencing "misery" unmatched since the Great Depression. Little wonder that consumers remain cautious regarding the purchase of anything beyond the necessities of life. Ernie Goss.

LAST MONTH'S SURVEY RESULTS

Mid-America Firms Reduce Employment for August: Business Confidence Slumps to Recession Levels

SURVEY RESULTS AT A GLANCE

- Leading economic indicator falls for the fifth time in past six months.
- Employment gauge falls below growth neutral.
- Business confidence tumbles to levels experienced in recession.
- A weak regional economy pushed imports lower.

For the fifth time in the past six months, the Business Conditions Index for the nine-state Mid-America region fell. The index, a leading economic indicator from a monthly survey of supply managers, points to slowing regional growth for the next three to six months. Overall index: The index which ranges between 0 and 100, slumped to 52.0 from 54.1 in July. While this is the 21st consecutive month that the index has been above growth neutral 50.0, the reading for August was the lowest that we have recorded since December 2009 and clearly indicates that regional growth is waning with an increasing likelihood of a recession. However at this time, our gauge is signaling slow to no growth, not a recession. Despite healthy growth tied to agriculture, the Mid-America region is being negatively affected by pullbacks in business, consumer and local government spending. This month we asked supply managers what the expected sales growth was for their company for the rest of 2011. Approximately 22 percent expect a decline in business activity, 41.8 percent anticipate an upturn in sales and the remaining 36.2 percent expect no change in business activity for the rest of 2011. Employment: After 19 straight months of employment readings above growth neutral the gauge moved below 50.0 for August. The August reading sank to 49.0 from 53.1 in July. This is the third consecutive month that the employment gauge has declined indicating the regional labor market has lost most, if not all, of its steam. Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, rose slightly to an inflationary 71.0 from 70.9 in July. As economic growth has slowed, so have inflationary pressures. However, inflationary pressures at the wholesale level remain too high to ignore the likelihood of excessive inflationary pressures at the consumer level. With the current Federal Reserve policy remaining very simulative, I expect inflation to climb significantly above the Fed's target. Confidence: Looking ahead six months, economic optimism, as captured by the August business confidence index, plummeted to 43.4 from July's 49.5. The uncertainty surrounding federal government and Federal Reserve actions have dampened the economic outlook of supply managers in the region. Our confidence index has now moved to levels experienced during the last recession. This month survey participants were asked to recommend policy actions by the federal government to encourage growth. Approximately 43 percent recommended cutting spending and 34 percent endorsed reducing regulatory burdens. No other federal government action garnered more than single digit support from the supply managers.

Inventories: Since January 2010, supply managers in the nine-state region have increased inventory levels 18 out of 20 months. This has been an important source of regional growth. However, the rate of inventory buildup has declined significantly with an August reading of 50.5 which is down from July's 56.2. Trade: In the Mid-American region, export orders improved for August while firms pulled back on purchases from abroad. The August new export orders reading rose to 54.8 from July's 52.4. Imports slumped to 46.6, the lowest reading since June of 2009 and down from 51.3 in July. The relatively cheap U.S. dollar, making U.S. goods more competitively priced abroad, and a weak U.S. economy have aided exports and restrained imports. Other components: Other components of the August Business Conditions Index were new orders at 51.2, up from 50.5 in July; production or sales at 54.2, up from 52.6; and delivery lead time at 55.0, down from 58.4 in July.

MID-AMERICA STATES

ARKANSAS

For a fourth straight month, Arkansas' leading economic indicator from Creighton's monthly survey of supply managers declined. The index for August dipped to 50.9 from 51.8 in July. Components of the index for August were new orders at 47.0, production or sales at 39.8, delivery lead time at 74.6, inventories at 40.5, and employment at 52.5. Arkansas' unemployment rate continues to grow even as the economy expands. Our surveys over the past several months point to very modest advances in economic growth in the months ahead with the number of Arkansas workers unemployed and looking for work at their highest levels ever. Manufacturing firms continue to grow their sales via higher productivity with a resultant loss in jobs.

IOWA

Iowa's Business Conditions Index remained above growth neutral for the 20th straight month. The index from a survey of supply managers slipped to a regional high of 59.3 from 62.6 in July, also the highest reading in the nine-state region. Components of the index for August were new orders at 50.4, production or sales at 57.4, delivery lead time at 69.0, employment at 57.3, and inventories at 62.3. Iowa's economy continues to grow at a solid pace with the few negative signals. Both durable and nondurable manufacturing firms report very healthy business activity. Firms with close ties to agriculture,

for example agriculture equipment manufacturing, continue to grow with large spillovers into the rest of the state economy.

KANSAS

The Business Conditions Index, a leading economic indicator for Kansas, fell to a regional low of 43.6 from 54.7 in August. This is only the second time the past 13 months that the index from our survey of supply managers in the state moved below growth neutral. Components of the index for August were new orders at 35.3, production or sales at 42.2, delivery lead time at 54.4, employment at 38.3, and inventories at 47.7. With an economy that is dependent on the aircraft industry and trade, I normally expect to track more volatility in the Kansas survey results. We saw evidence of that volatility this month. Just as firms in and linked to the aircraft industries are experiencing pullbacks in economic activity, businesses linked to agriculture are being negatively affected by drought conditions in the state.

MINNESOTA

Minnesota's leading economic indicator from the monthly survey of supply managers was above growth neutral for the 25th straight month at 56.3, down from 57.5 in July. Components of the index for August were new orders at 57.7, production or sales at 58.2, delivery lead time at 58.7, inventories at 58.2, and employment at 48.6. Both durable and non-durable manufacturing firms in the state are making modest gains in business activity. Medical equipment producers and metal product manufacturers are experiencing very healthy growth even as growth slows somewhat.

MISSOURI

The Missouri Business Conditions Index from a monthly survey of supply managers sank to 50.7 from 51.9 in July. The index, a leading economic indicator, continues to point to much slower growth in the months ahead. Components of the Business Conditions Index for August were new orders at 50.5, production or sales at 49.8, delivery lead time at 55.6, inventories at 49.8, and employment at 47.7. Vehicle and other transportation linked firms are experiencing a pickup in economic activity just as metal product manufacturers are detailing pullbacks in business activity. Surveys over the past several months point to little economic growth in the months ahead with the unemployment rate declining slightly due to discouraged unemployed workers leaving the workforce.

NEBRASKA

The Business Conditions Index for Nebraska moved above growth neutral 50.0 for a 10th straight month. The index, a leading economic indicator from a survey of supply managers slipped to 56.8 from July's 57.1. Components of the index for August were new orders at 57.0, production or sales at 59.6, delivery lead time at 54.2, inventories at 56.6, and employment at 56.8. While drought conditions have damaged business activity of firms linked to agriculture in Kansas and Oklahoma, favorable weather conditions in Nebraska have aided businesses tied to the farm sector. Nondurable manufacturers, such as food producers, are experiencing healthy economic growth. Our recent surveys show no signals of economic weakness for the overall state economy.

NORTH DAKOTA

North Dakota's leading economic indicator from Creighton's monthly survey of supply managers declined for the month. The Business Conditions Index fell to 50.5 from 55.1 in July. Components of the index for August were new orders at 42.2, production or sales at 48.1, delivery lead time at 62.2, employment at 53.3, and inventories at 46.8. While our survey results have softened for North Dakota over the past several months, I expect the state's economy to continue to grow at a healthy pace. However, the pace of that growth is likely to be somewhat less for the rest of 2011 in comparison to the first half of 2011. Durable manufacturing growth will continue to outpace that of nondurable goods producers. Companies with ties to energy will continue to benefit from oil prices above $80 per barrel.

OKLAHOMA

The Business Conditions Index for Oklahoma from a monthly survey of supply managers declined to a still healthy 56.8 from July's 61.9. Components of the index for August were new orders at 56.7, production or sales at 51.4, delivery lead time at 69.2, inventories at 44.9, and employment at 61.7. Oil prices above $80 per barrel have had positive impacts on many of the firms that we survey each month. For example, durable goods manufacturers such as mining machinery manufacturing firms are experiencing very positive growth and growth prospects. Nondurable goods manufacturers such as food processors in the state, on the other hand, report being negatively affected by the higher energy prices.

SOUTH DAKOTA

South Dakota's leading economic indicator once again rose above 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 58.5 from July's 57.0. Components of the index for August were new orders at 61.1, production or sales at 71.9, delivery lead time at 50.3, inventories at 47.5, and employment at 61.8. Manufacturing firms in South Dakota continue to experience healthy growth and growth prospects according to our surveys and government data. This has spilled over into nonmanufacturing firms such as wholesalers and transportation firms.

THE BULLISH NEWS

- Creighton's surveys of supply managers in 12 states indicate that the Mountain States and Mid-America economies continue to expand but at a slower pace and significantly above the rest of the nation.
- The national PMI (Purchasing Management Index) for August stood at 50.9, or slightly above growth neutral.
- Due to the rush to buy "safe" U.S. Treasury bonds, U.S. mortgage rates fell to record low levels last week.

THE BEARISH NEWS

- The U.S. economy failed to add any net new jobs for August. For the month, the U.S. economy lost 17,000 government jobs but added 17,000 private jobs.
- The U.S. Postal Service is teetering on default and is unable to make a $5.5 billion payment to worker's retirement and health accounts
- The nation's misery index, the sum of the inflation rate and unemployment rate, rose to its highest level since 1984 when the index was 16.4.
- The average workweek for all employees edged down by 0.1 hour and average hourly earnings decreased by 3 cents to $23.09 in August.
- The Mortgage Bankers Association's mortgage applications index, which includes both refinancing and home purchase demand, dropped 4.9% in the week ending September 2

"A monthly survey of supply chain managers"

WHAT TO WATCH

- PMI: The Mid-America PMI from Creighton and the National PMIs from the Institute for Supply Management will be released on October 3. Both indices have been trending downward. Readings below growth neutral 50.0 will be very bearish indicating a rising likelihood of another recession.

- Jobs: On Friday October 7, the U.S. BLS releases its employment report for September. A net loss of jobs will be the first real evidence that the economy is in a recession. Job gains of more than 150,000 would be bullish for stocks and bearish for bonds.

- Retail Sales: On Oct. 14, the U.S. Census Bureau will release estimated retail sales for September, respectively. Growth has begun to fall (but it is still positive). A decline from the previous month will be very important indicators that the U.S. economy is moving back into recessionary territory.

THE OUTLOOK

FROM GOSS:

- I expect the Federal Reserve to launch a variant of QE3 in the coming months but it won't be called QE3

- Unfortunately we are going to see one or two of the Euro nations exit the Eurozone and adopt their own currency. Greece will be one of the two or three. Greece will not call its new currency the drachma but it will delay a Greek tragedy of Aristotelian proportion

- I continue to expect the U.S. economy is narrowly skirt a recession. However for housing and several other sectors, it continues to be a recession bordering on a depression

OTHER FORCASTS:

- Hay Group: 1) Although the vast majority of retailers - some 68% - plan on keeping holiday hiring at roughly the same level as last year, a quarter expect to trim hiring plans for seasonal workers, according to its annual hiring survey. 2) About 19 percent of retailers said they would hire more seasonal workers in distribution centers to support the increased volume of online orders. 3) As for promotions, the overwhelming majority said they are not planning to offer deeper discounts on Black Friday and Cyber Monday- two days commonly known for big sales.

- The National Association for Business Economics recently surveyed its members on a number of policy issues. Survey respondents split almost evenly on whether current fiscal policy at the time the survey was conducted was too stimulative, too restrictive, or just about right. At the same time, about half of survey respondents indicated they would prefer fiscal policy to be more restrictive over the next two years, while a large majority said it expects fiscal policy to be more restrictive. Most panelists believe that Congress should attempt to reduce the federal budget deficit through a combination of spending cuts and tax increases. More than half (56.1%) favor reducing the deficit only or mostly through spending cuts rather than only or mostly through tax increases (6.8%). The remaining 37.1% favor equal parts spending cuts and tax increases. Nearly 40 percent of survey respondents believe that containing health care costs in Medicare and Medicaid is likely to be the most successful aspect of a deficit-reduction plan. A comprehensive tax reform plan that raises slightly more revenue than the current tax system also received significant support, cited by a quarter of the survey panel.

Goss Eggs (Recent Dumb Economic Moves)

- Last week the Federal Housing Finance Authority brought suit against 17 of the nation's largest financial institutions claiming that they sold "too risky" mortgages to Fannie Mae and Freddie Mac. Such action ignores the fact that Fannie Mae and Freddie, were encouraging the expansion of loans to those of higher credit risks. This action will only delay the recovery in the housing sector as banks pullback even more on their mortgage lending.

SUPPLY MANAGER READING ROOM

"The Pre-Negotiation Planning Session: Your Key to Success," July/August 2011, eSide Supply Management Vol. 4, No. 4. Often overlooked, this meeting delivers improved negotiation results and reduced total negotiation cycle time, and ease of long-term supplier relationship management. Holding pre-negotiation planning sessions with suppliers is an often overlooked part of a negotiation. Far too many supply managers enter negotiations with high-expenditure or high-criticality suppliers without including this step, usually in an effort to save time. However, pre-negotiation planning sessions allow supply management professionals to be much better prepared and enjoy improved results. And, if used appropriately, they can reduce total negotiation cycle time. Holding pre-negotiation sessions — some might call them kick-off meetings — provides a forum for both parties to communicate their objectives. These can be held anywhere between one week to a month before negotiations, depending on the complexity of the negotiations and the amount of needed information to be gathered. There are three key outputs of the pre-negotiation planning session: 1. A relationship between the parties is established. 2Industry and supplier research data are collected and validated. 3. Expectations are set for the negotiation — for attendees, roles, contract terms and points of negotiation. http://www.ism.ws/pubs/eside/esidearticle.cfm?ItemNumber=21730

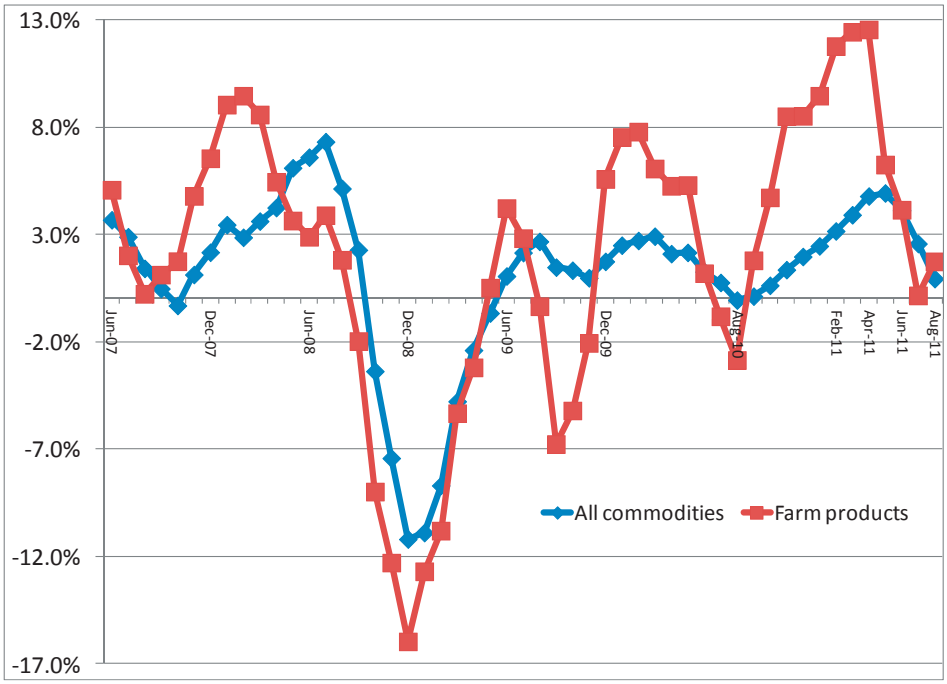
ASK ERNIE

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