"A monthly survey of supply chain managers"

Welcome to our September report covering August survey results. Our surveys indicate rising inflationary pressures with a slowing economy for Mid-America. Full steam ahead for Mountain States. Follow my comments at: www.twitter.com/erniegoss

U.S. Has Too Many Consumers & Not Enough Producers

The U.S. economic recession ended in July of 2009, but you wouldn't know it from the statistics. In July of 2009, there were 504 workers for every 1,000 Americans. Three years later in July 2012, there were only 494 workers for every 1,000 in population. Thus since the recession ended, approximately 93,000 workers per month left the labor market while slightly more than 38,000 workers per month found jobs. Post recession statistics also show 291,000 per month were added to the food stamp rolls, and 12,000 per month began receiving social security disability pay. With more than 300,000 baby boomers reaching retirement age each month, the question becomes, who will pay the cost of government, including benefits such as social security, Medicare, food stamps, and disability income? As it presently stands, it will certainly not come from income tax payers since almost 50 percent of workers currently pay no income taxes. With the current U.S. federal debt exceeding $16 trillion, or $120,000 per worker, the idea that the "rich" can pay while the middle and low income groups escape is not credible. In addition to putting the brakes on federal spending growth, what is needed is a plan that reduces rates, eliminates exemptions (so called loopholes) and broadens the number of Americans paying income taxes. The U.S. has too many individuals in the economic wagon with too few pushing that wagon (and it's getting worse.) Ernie Goss.

Link to video:
http://www.youtube.com/watch?v=e2v5HyF4YhE

LAST MONTH'S SURVEY RESULTS

Mid-America Indicators Remain Below Growth Neutral:
Inflation Gauge Soars

SURVEY RESULTS AT A GLANCE

- For the first time since July 2009, the leading economic indicator fell below growth neutral for two straight months.
- Inflation gauge soars for the month.
- New export orders below 50.0 for August and July.
- The impact of the drought on prices increases for the month.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, moved below growth neutral for a second straight month, signaling much slower growth in the months ahead. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, rose to a weak 49.7 from 48.7 in July. Supply managers report that drought conditions, U.S. economic uncertainty and slowing global demand are restraining growth. However, the index would have to drop into the low 40s before I would anticipate a return to recessionary economic conditions. While current farm income has yet to be negatively and significantly reduced, businesses that sell to the agriculture sector are experiencing pullbacks in economic activity.

This month supply managers were asked how the drought was impacting the costs of inputs purchased. Approximately 26 percent reported that the drought had contributed significantly to increasing costs for their purchased raw materials and supplies. This is up from 19 percent in July.

Employment: The economic slowdown is pushing the regional employment index lower. The index sank below growth neutral to a weak 49.5, down from July's tepid 51.1 and June's much stronger 61.8. Government employment data for July indicate that regional job growth, while still positive, has plunged from the pace recorded earlier in the year. Our surveys for July and August point to regional job growth that will range between slightly negative to nil in the next several months.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, unexpectedly soared to 65.2 from July's 51.1. Furthermore over the next six months, supply managers expect the costs of inputs that they purchase to rise by 2.8 percent. This is higher than July's 2.1 percent. Thus both current and future expected price growth are heading higher. This is the first indication that the recent period of very benign inflation may be ending.

Confidence: Looking ahead six months, economic optimism, as captured by the August business confidence index, climbed slightly to a weak 44.3 from July's 38.0. Supply managers, much like the entire business sector, remain very pessimistic regarding future economic conditions. The drought, the fiscal cliff, the elections, and European economic turmoil are all weighing on economic confidence.

Inventories: Regional inventory levels continued to decline, but at a slower rate with the August inventory index increasing to 47.3 from 45.7 in July. This is another signal of economic pessimism as supply managers cut the inventory levels for July and August in anticipation of slower production and/or sales in the months ahead.

Trade: New export orders once again declined for the month but at a slower pace than for July. The new export orders index advanced to 48.3 for August from July's 45.2. At the same time, August imports expanded for the month with an index of 51.4, up from July's reading of 46.5. Weaker global growth and the rising value of the dollar making U.S. goods less competitive abroad pushed the export reading lower. At the same time, slower regional growth has been restraining the import reading to only slightly above growth neutral.

Other components: Other components of the August Business Conditions Index were new orders at 46.1, up from 44.0 in July; production or sales at 49.5, higher than July's 46.7; and delivery lead time at 56.2, up from 55.9 in July.

MID-AMERICA STATES

ARKANSAS

The overall index, or leading economic indicator, for Arkansas slipped to 51.2 from 52.4 in July. Components of the index from the monthly survey of supply managers for August were new orders at 40.3, production or sales at 55.9, delivery lead time at 50.7, inventories at 51.0, and employment at 58.0. Our surveys over the past several months show a state economy that is likely to continue to expand, but at a pace that will create few jobs, leaving the unemployment rate little changed from its current level. I expect Arkansas to end the year with employment down by approximately 40,000, or 3.5 percent, from its pre-recession level. Nondurable goods manufacturers in the state continue to shed jobs.

IOWA

Iowa's July Business Conditions Index declined to 57.1 from July's 62.1. The overall index for the state from a survey of supply managers has remained above growth neutral for the last 32 months. Components of the index for August were new orders at 65.0, production or sales at 56.2, delivery lead time at 55.2, employment at 56.4, and inventories at 52.6. While the full impact of the drought has yet to weigh heavily on Iowa's economy, I expect that to change in the months ahead as businesses linked to agriculture experience a downturn in sales. I expect Iowa to end the year still down almost 32,000 jobs, or 2.1 percent, from its pre-recession level.

KANSAS

The Kansas Business Conditions Index for August advanced to 48.0 from July's 47.8. Components of the index from the August survey of supply managers in the state were new orders at 40.9, production or sales at 48.3, delivery lead time at 53.5, employment at 47.4, and inventories at 52.0. Kansas experienced healthy growth for the first half of 2012. Even so the state's employment level is still down by more than 35,000 from its pre-recession level. Recent surveys point to slow to no job growth in the months ahead for the Kansas economy.

MINNESOTA

After almost three years of expansion, the Minnesota Business Conditions Index remained below growth neutral for a second straight month. The index, based on a survey of supply managers in the state, increased to a still weak 49.7 from 45.6 in July. Components of the index from the August survey were new orders at 41.5, production or sales at 47.0, delivery lead time at 60.8, inventories at 47.3, and employment at 51.7. Minnesota's economic and job growth were strong for the first half of 2012. Despite solid gains the state is still down approximately 60,000 jobs, or 2.2 percent, from its pre-recession level. Losses in nondurable goods manufacturing is weighing on the state economy with little job growth expected for the Minnesota economy in the next three to six months.

MISSOURI

The August Missouri Business Conditions Index rose to 53.9 from July's 50.2. Components of the survey of supply managers in the state were new orders at 51.0, production or sales at 55.3, delivery lead time at 56.5, inventories at 49.3, and employment at 57.3. Despite very healthy job gains for the first half of 2012, Missouri's employment level is down by more than 105,000, or 3.8 percent. Surveys over the past few months point to less than stellar but positive gains for the next three to six months. Durable goods producers are out-performing nondurable goods manufacturers.

NEBRASKA

After rising above growth neutral for 22 straight months, Nebraska's leading economic indicator has now moved below 50.0 for two consecutive months. The August Business Conditions Index for August declined to 47.8 from July's 48.3 and a much higher 54.5 in June. Components of the index for August were new orders at 42.6, production or sales at 45.8, delivery lead time at 52.9, inventories at 50.0, and employment at 47.9. Nebraska experienced healthy growth for the first half of 2012 with the state's current employment level down by only 6,300, or 0.7 percent, from its pre-recession level. However, our recent surveys point to no job gains for the next three to six months.

NORTH DAKOTA

The leading economic indicator for North Dakota declined to a still healthy reading for August. The Business Conditions Index from the survey of supply managers advanced to a regional high of 57.4 from July's 56.5. Components of the overall index for August were new orders at 66.9, production or sales at 62.0, delivery lead time at 61.8, employment at 54.6, and inventories at 41.8. North Dakota is one of a very few U.S. states with current employment levels above pre-recession levels. Current employment is more than 58,000, or 16 percent, above its pre-recession level. Our surveys point to continuing growth for North Dakota, but at a slower pace.

OKLAHOMA

The Business Conditions Index for Oklahoma advanced for August. The leading economic indicator advanced to 53.6 from July's 52.7. Components of the August survey of supply managers in the state were new orders at 56.3, production or sales at 52.3, delivery lead time at 56.3, inventories at 49.4, and employment at 53.6. Durable and nondurable goods manufacturers in the state, especially those linked to energy, continue to experience healthy growth. Oklahoma's employment level is more than 8,000, or 0.5 percent, above its pre-recession level. I expect the state to continue to add jobs in the next three to six months, but at a slower pace than that experienced in the first half of 2012.

SOUTH DAKOTA

Once again, the leading economic indicator for South Dakota declined below growth neutral. The Business Conditions Index from a survey of supply managers in the state expanded to a still weak 47.2 for August from July's 46. Components of the index for August were new orders at 45.8, production or sales at 51.4, delivery lead time at 49.9, inventories at 40.7, and employment at 48.2. South Dakota's employment level has now bounced above its pre-recession level. However, recent surveys point to slow to no job gains for the next three to six months.

THE BULLISH NEWS

- According to the Case-Shiller home price index for June, U.S. home prices (year over year) increased for the first time since September 2010.
- August same-store sales rose 3.6% at retailers tracked by Thomson Reuters I/B/E/S, trumping forecasts for a 2%.
- National and our Mid-America regional PMI remain in the weak zone (but still not in the recession zone).

THE BEARISH NEWS

- The September U.S. jobs report was "lousy" with only 96,000 jobs created. Furthermore, June and July gains were revised down. We need more than 200,000 jobs additions per month to get back on track.
- The U.S. unemployment rate trimmed down from 8.3% to 8.1% but it was because 400,000 unemployed got discouraged and quit looking for a job and were thus not counted as unemployed.
- The U.S. debt surpassed $16 trillion or about 100% of GDP. Ultimately, this will push long term interest rates higher but no one knows when.

WHAT TO WATCH

- PMI's: On Oct. 1, Creighton's releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. If these indices take a significant dive to less than 45.0, the likelihood of a 2013 recession balloons.
- Jobs: On Friday Oct. 5, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for September. Another weak jobs report (less than 100,000) will signal that the U.S. economy needs help.

- Consumer Price Index: On Oct. 16, the U.S. BLS releases its CPI for September. A significant uptick in inflation would be very bearish for bond prices. A monthly increase of more than 0.3% would concern the Fed and most economists.

THE OUTLOOK

FROM GOSS:

- Unfortunately, recent weak job data pushed the Federal Reserve to mistakenly launch QE3 (quantitative easing or long-term bond buying) intended to bring long-term interest rates lower. Do any economists think the economy is slowing down due to too high interest rates? Watch for the stock market bounce to fade like that picture of Alan Greenspan on your wall.

- Do not think for a moment that the ECB has solved Europe's problems. Just like the U.S., they have simply pushed the day of reckoning to 2013.

- Housing prices, but not new construction, will continue to progress at an improving rate in the months ahead. Inventories are dropping swiftly.

OTHER FORCASTS:

- American Institute of CPSs (Sept. 2012): CPA business executives are becoming more pessimistic about the outlook for the U.S. economy. "The third-quarter Economic Outlook Survey, which polled 1,365 CPAs with executive leadership and senior management positions such as CFOs and controllers in U.S. companies in August, revealed growing pessimism for the second consecutive quarter. The hiring outlook at the survey respondents' companies also dimmed as senior-level CPAs took a more muted perspective on their own companies' prospects. Senior-level CPAs' perception of the prospects for their own companies fell to a 12-month low, resulting in a more bearish view on hiring."

- Supply Manager Reading Room- Is Your Supply Chain Intelligent Enough? In today's constantly changing environment, it's evident that companies need access to key data and metrics to meet customer demands, grow and stand out from their competitors. And perhaps this holds true even more so for businesses directly involved with their supply chain processes—those that are geared to obtain competitive intelligence; maintain contractual compliance; connect buyers with suppliers; generate sales leads; and conduct market research, all to help grow their businesses and maintain efficiencies. http://www.sdcexec.com/article/10769888/is-your-supply-chain-intelligent-enough?utm_source=SDCE+Newsletter&utm_medium=email&utm_campaign=SDCE120830002

Goss Eggs
(Recent Dumb Economic Moves)

- Last week the Federal Reserve (Fed) launched QE3 (quantitative easing 3). I liken this mortgage-backed securities buying program to getting that third hit of caffeine with your morning coffee. The first cup (QE1) has an impact, the second less of an effect (QE2), and the third (QE3) is a non-event. QE3 may boost farm commodity prices and stocks temporarily but will have NO impact on the overall economy. The Fed should have taken no action.

Survey results for September will be released Oct. 1.

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PRICE DATA

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