Welcome to our January report covering December survey results. Follow my daily comments at: www.twitter.com/erniegoss

Recessions Have Become More Burdensome for the Less Educated Wage Earner

Since 1970, the U.S. economy has suffered six recessions with an average length of 12.3 months. Compared to the other five economic downturns, the latest recession, which began in December 2007, was the longest at 19 months and the most severe with 7.2 million jobs lost, or almost three times the historical average. Furthermore, except for the recession of 2001, the job gains from the 2009-10 re-bound have been the weakest since 1970 with only 72,000 jobs added. Since 1970, there has been a clear pattern with more recent recoveries producing fewer jobs, higher unemployment rates, and less wage growth. What accounts for this? It has mostly to do with globalization and technology which have battered less educated workers. Once the recession begins, companies slash payrolls deeply, especially for the less educated, and when the upturn begins, they find that they can increase output much faster than they are required to increase payrolls. For example, unemployment rates for December 2010 were15.7% for those without a high school diploma, 9.8% for those with a high school diploma, and 4.6% for the college educated. Compared to every other post-1970 rebound, the 2009-10 recovery has generated profit and stock price growth exceeding any other, and produced the slowest pace of wage ex-pansion. Data show that globalization and technology have tilted the economic playing field toward capital and away from wages, at least for those less educated. The lesson is clear: don't drop out of school and risk becoming a Third World wage earner in a First World economy. Ernie Goss

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Rises for December: Healthy Growth with Higher Prices for 2011

SURVEY RESULTS AT A GLANCE

- Leading economic indicator points healthy growth for first half of 2011.
- New hiring still tepid with less than one-fourth expecting an upturn in hiring in next 6 months.
- Inflationary pressures remain high.
- Rapid inventory buildup reflects an improving economic outlook.

For a second month, the Business Conditions Index for the nine-state Mid-America region advanced. According to recent surveys of supply managers, the region will likely continue to grow at a healthy pace with rising inflationary pressures at the wholesale level in the first half of 2011. Overall index: The index, a leading economic indicator which ranges between 0 and 100, expanded to 57.5 from November's 55.9 and was well above October's 52.3. This is the 13th consecutive month that the index has risen above growth neutral. An index of 50.0 is considered growth neutral. Very healthy farm income and expanding trade are pushing growth higher for firms in the region. The overall index is a mathematical average of indices for new orders, production or sales, employment, inventories and delivery lead time. The regional economy ended the year on a high note as the weaker U.S. dollar and an expanding global economy stimulated business activity for firms with close ties to agriculture and energy commodities.

Employment: For a 12th straight month, the regional employment index remained above growth neutral. However, the December job reading slumped to a frail 51.1 from November's 53.0. For December, 21.1 percent of firms reported increases in hiring while 18.9 percent detailed pullbacks in company employment levels. This month firms were asked about their hiring expectations for the next six months. Only 24 percent expect an upturn in hiring while the remaining 76 percent anticipate layoffs or level employment for the first half of 2011. These expectations are somewhat less optimistic compared to March 2010 when 28 percent anticipated greater new hiring in the next six months. Despite this somewhat negative employment outlook, I expect the nine-state region to add almost 100,000 jobs for the first half of 2011, or a 1.2 percent annualized pace. This pace is a half percentage point above what I expect for the national economy.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, soared to an inflationary 81.1 from 64.7 in November and 69.9 in October. This was the 19th straight month that the region's inflation gauge climbed above growth neutral. While rapid growth in the supply managers' inflation gauge has yet to show up in consumer prices, I forecast that to change significantly in 2011. This increase at the producer level will bolster consumer prices well above the Federal Reserve's target rate of 2.0 percent sometime in 2011. Likewise, I expect long term interest rate to grow rapidly in the first half of 2011 to compensate investors for rising inflation.

Confidence: Looking ahead six months, economic optimism, as captured by the December business confidence index, rose to 69.9 from November's 67.8 and well up from September's 51.6. While the overall U.S. economy remains weak, as gauged by unemployment rates, individual firms in the Mid-America region are experiencing solid improvements in business conditions. This is translating into a strong economic outlook in terms of sales but without accompanying rapid job creation.

Inventories: For the 10th time in the past 11 months, supply managers in the nine-state region expanded inventory levels. The December inventory index climbed to 64.4 from November's 59.7. This time last year, supply managers were cutting inventories and the December 2009 inventory index was 39.2, well below the current level. A stronger sales outlook is pushing supply managers to add to inventories.

Trade: The December new export orders index advanced to 54.1 from 50.8 in November. The region's import reading slipped from November's 51.4 to 50.0 for December. The weaker U.S. dollar, making U.S. goods cheaper abroad and foreign goods more expensive in the U.S., is strengthening exports and shrinking imports. I expect this trend to continue for 2011 with the global economic rebound adding to the influence of the weaker dollar," said Goss.

Other components: Other components of the December Business Conditions Index were new orders at 58.2, up from November's 54.5; production or sales at 55.8, down from 56.8; and delivery lead time at 57.9, up from 55.6 in November. The 2010 Regional Economy: Job leaders (states exceeding nation in job growth) –Minnesota (2 percent growth), North Dakota (2 percent growth), South Dakota (1.7 percent growth), Arkansas, Iowa, and Oklahoma (1.5 percent growth), Nebraska (1.1 percent growth); Job laggards- (states lagging behind national average in job growth) – Kansas (0.6 percent growth), Missouri (0.5 percent loss).

MID-AMERICAN STATES

ARKANSAS

The leading economic indicator for Arkansas, declined to a still healthy level for the month. After two straight months of increases, the Arkansas Business Conditions Index dipped to 57.2 for December from November's 61.9. Components of the overall index for December were new orders at 58.8, production or sales at

66.7, delivery lead time at 52.1, inventories at 41.5 and employment at 52.8. In 2010, Arkansas recovered a large share of durable goods manufacturing jobs it lost from the recession. Based on our survey results, the state will continue to expand its manufacturing base, especially in durable goods for the first half of 2011. This growth will spill over into the state's new hiring with more than 8,000 jobs added (1.2 percent annualized growth) in the first half of 2011.

IOWA

For the 12th straight month, Iowa's Business Conditions Index climbed above growth neutral. The index, a leading economic indicator from a survey of supply managers, climbed to 56.8 from November's 54.7. Components of the overall index for December were new orders at 62.6, production or sales at 54.7, delivery lead time at 62.9, employment at 57.1, and inventories at 46.6. In 2010, Iowa recovered a large share of durable goods manufacturing jobs it lost from the recession. On the other hand, Iowa continued to shed nondurable goods manufacturing jobs, es-pecially food processing. Based on our survey results, the state will expand its manufacturing base, especially in durable goods for the first half of 2011. This growth will spill over into the Iowa's new hiring with more than 5,000 jobs added (0.6 percent annualized growth) in the first half of 2011.

KANSAS

For the first time since July, the leading economic indicator for Kansas sank below growth neutral. The December Business Conditions Index slumped to 48.4 from November's 50.8. Components of the overall index for December were new orders at 54.3, production or sales at 48,8, delivery lead time at 52.1, employment at 42.9, and inventories at 44.5. In 2010, Kansas failed to recover manufacturing jobs lost from the recession. Based on our survey results, the state's job growth will be nil for the first half of 2011. However a significant weakening in the value of the dollar, making Kansas exported goods more competitive abroad, would be an important stimulate to job growth.

MINNESOTA

For the 17th straight month Minnesota's leading economic indicator was above growth neutral. However, the Business Conditions Index for December sank to 52.0 from November's 56.2. Components of the overall index for December were new orders at 52.0, production or sales at 53.8, delivery lead time at 50.9, inventories at 55.7 and employment at 47.7. In 2010, Minnesota gained both durable and nondurable manufacturing jobs. However even with healthy economic growth for 2011, the state will not recover the manufacturing jobs lost since the recession began. Based on our survey results over the past several months, I expect Minnesota to add almost 23,000 total jobs (an annualized growth of 1.5 percent) in the first half of 2011.

MISSOURI

For the 18th straight month, Missouri's Business Conditions Index climbed above growth neutral. The index, based on a survey of supply managers, grew to 57.4 from 56.6 in November. Components of the overall index from the December survey were new orders at 55.6, production or sales at 58.0, delivery lead time at 61.4, inventories at 58.7 and employment at 53.2. Missouri continued to lose manufacturing jobs in 2010, albeit at a slow pace. Transportation equipment manufacturing and firms tied to this industry continue to expand output without increasing employment. Based on our survey results over the past several months, I expect job growth to be very modest for the first half of 2011 with gains of less than one-half of one percent (annualized).

NEBRASKA

Nebraska's Business Conditions Index, a leading economic indicator, climbed above growth neutral 50.0 for a second straight month. The index from a survey of supply managers rose to 56.4 from November's 52.1. Components of the overall index for December were new orders at 58.5, production or sales at 60.6, delivery lead time at 57.3, inventories at 53.5 and employment at 55.2. Manufacturing employment for Nebraska was essentially flat for 2010. As long as the U.S. dollar does not rise significantly over the coming months, I expect Nebraska to add both durable and nondurable goods jobs in the first half of 2011. Overall, the state economy will add approximately 6,000 jobs (an annualized pace of 1.1 percent) in the first half of 2011.

NORTH DAKOTA

The leading economic indicator for North Dakota remained above growth neutral. However, the overall Business Conditions Index, based on a survey of supply managers, dipped to a regional low of 51.3 from November's 52.2. Components of the overall index for December were new orders at 42.6, production or sales at 29.3, delivery lead time at 61.6, employment at 54.5, and inventories at 68.6. Vibrant energy and agriculture sectors boosted 2010 growth for the state. Even so, manufacturing employment in North Dakota was flat for the year. Based on surveys over the past several months, I expect robust job growth for the state for the first half of 2011 with an addition of more than 4,000 jobs (2.0 percent annualized growth).

OKLAHOMA

For the 12th straight month, Oklahoma's leading economic indicator remained above growth neutral. While the Business Conditions Index was down at 59.7 from November's 66.3, it was the highest reading for the region. Components of December's overall reading were new orders at 58.3, production or sales at 54.0, delivery lead time at 57.5, inventories at 76.4 and employment at 52.0. Oklahoma experienced very healthy 2010 growth. The state will continue to benefit from expansions tied to the energy sector. Surveys over the past several months point to the addition of more than 20,000 jobs (a 2.3 percent annualized growth) for the first half of 2011.

SOUTH DAKOTA

South Dakota's leading economic indicator continues to point to an expanding state economy in the months ahead. The overall Business Conditions Index declined slightly to 57.2 from November's 57.8. Components of the overall index for December were new orders at 59.8, production or sales at 62.0, delivery lead time at 41.3, inventories at 63.7 and employment at 59.4. Manufacturers increased employment and the average hours worked in 2010. Likewise growth tied to a very healthy farm sector boosted 2010 growth. Based on surveys over the past several months, I expect this growth to extend well into 2011 with the addition of almost 5,000 jobs (a 2.0 percent annualized pace) for the first half of the year.

THE BULLISH NEWS

- The national ISM index and our regional ISM index both rose for December pointing to positive growth in the months ahead.

- Americans increased the amount of money they borrowed in November, mostly to buy cars and attend col-lege. Households have been borrowing less and saving more since the recession began in December 2007. This has been a major factor holding back overall economic growth because it has dampened consumer spending

- Automakers reported December new U.S. light-vehicle sales on Tuesday that were the best monthly results of 2010

- A week ago, initial claims for unemployment benefits fell under 400,000 for the first time since July 2008.

- Retail sales rose for the sixth consecutive month in December, climbing 0.6% to $380 billion. For all of 2010, retail sales rose 6.7%.

THE BEARISH NEWS

- The U.S. jobless rate dropped to 9.4% in December from 9.8% in November. But the unemployment rate didn't go down only because some jobless people found work. It fell because some unemployed people gave up on finding a job.

- The U.S. employers added a net 103,000 jobs for December. We need to see 250,000+ before we can say that the labor market is improving. We have now recovered only about 1.1 million of the 8 million-plus jobs lost during the recession.

- Mortgage rates for U.S. loans climbed to a seven-month high, increasing borrowing costs for homebuyers in a sluggish real estate market. The average rates: 30-year fixed rose to 4.86% from 4.81% one week earlier; 15-year rate advanced to 4.2% from 4.17%.

- Home prices in October fell 0.8% from a year earlier, the largest year- over-year decline since December 2009, the S&P/Case-Shiller index of property values showed this week. According to Robert Shiller, "Op-timism is fading from the housing market,"

WHAT TO WATCH

- ISM Readings: On Feb. 1, the Institute for Supply Management and Creighton University release their economic reports for the nation and region, respectively, for the month of January. Another increase in the overall index will be very favorable for stocks. Also keep an eye on the employment reading.

- CPI: On Feb. 17, the BLS releases the consumer price index for January. A large increase in the inflation gauge will put downward pressures on bond prices and upward pressures on interest rates.

- Trade: On Feb. 11, the BEA releases trade numbers for December. A smaller deficit (less than $33 billion) combined with a large increase in exports (over $162 billion) will be bullish for stocks and bearish for bonds.

- Jobs: On Feb. 4, the U.S. BLS will release the employment report for January. Another negative report (new jobs less than 120,000) will be bearish for stock prices but push interest rates lower.

- Courts: If courts continue to intervene in the housing markets by slowing down and stopping mortgage foreclosures, the correction in the housing market will take a much, much longer time. Likewise, it will damage banks that played by the rules.

THE OUTLOOK

FROM GOSS:

- GDP growth for 2011 to be much stronger than most anticipate (3.75% - 4.0%)

- Long term interest rates to trend upward for 2011 with a lot of zigs and zags as the Federal Reserve intervenes with less and less success

- Overall inflation reflected in the Consumer Price Index will increase by as much as 2% in 2011

- Little improvement in the housing market until the courts take a "hands off" approach to defaults. Buyers will shun foreclosed properties as long as the courts are interfering.

NATIONAL ASSOCIATION FOR BUSINESS ECONOMICS (NABE) SURVEY:

- "NABE Outlook survey panelists made only modest revisions to their forecasts for the November report compared with their October projections for economic growth," said NABE President Richard Wobbekind, associate dean of the Leeds School of Business at the University of Colorado. "Projections for real GDP growth remain sub-par through the first quarter of 2011, but accelerate gradually through the forecast period. For next year as a whole, GDP growth is expected to be moderate. Factors restraining growth going forward include ongoing balance-sheet restructuring by consumers and businesses, and a diminished contribution to GDP growth from inventory restocking and government stimulus. Confidence in the expansion's durability is intact, but panelists remain concerned about high levels of federal debt, a continuing high level of unemployment, increased business regulation, and rising commodity prices."

Miriam Sjoblom:

- Morningstar's lead bond fund analyst, said interest rates could well rise, making this year "a turbulent one for bond investors." People who "own bond funds as part of a long-term asset-allocation scheme should still get the benefit of diversification relative to stocks that bonds offer," she said, "so I see no reason for them to throw that plan out the window."

Professor Robert Shiller:

- Co-creator of the S&P Case-Shiller Home Price Index: Using long term analysis, Shiller told CNBC on Friday that the S&P 500 may reach 1430 by the year 2020. This represents an annual growth of only 1.3%. From my vantage point, this is a wacky forecast.

Goss Eggs
(Recent Dumb Economic Moves)

- Weighing on the banks, the Massachusetts State Supreme Judicial Court upheld a decision that two forec-losures from U.S. Bancorp and Wells Fargo were invalid because the banks failed to show they held the mortgages at the time of the foreclosure. Court decisions based on emotion and sentimentality are going to delay the rebound of residential housing markets.

- In a deal hammered out by Illinois' Democratic leadership, the lame-duck legislature pushed through a 67% increase in the state income tax and a 45% increase in the corporate tax.

SUPPLY MANAGER READING ROOM

"The Exchange Rate: What's in It for Prices?" Business Review - Federal Reserve Bank of Philadelphia (Third Quarter 2009): p. 1-9. The movements in exchange rate have made buying all goods in the US relatively in-expensive compared with buying goods in Europe, even if these goods were produced in Europe. American firms are selling their products to Europe for more than they sell their products at home. These pricing policies imply that US consumers purchasing imports have been partially insulated from the effect of a weaker dollar. In this article, the authors present some evidence on the pass-through of the changes in the exchange rate to import prices in the US and abroad, and they discuss some reasons why changes in the exchange rate may not fully pass through to import prices. The extent of pass-through can be measured as the ratio of the change in the import price to the change in relative production costs. Firms exporting their goods to the US may also decide not to raise their prices following a depreciation of the dollar because doing so would have a negative impact on its future profits.

SUPPLY MANAGER CAREERS

Purchasing Agent OMRF, Oklahoma City, OK. OMRF (http://omrf.org) scientists are dedicated to understanding and developing more effective treatments for human disease, focusing on such critical research areas as heart disease, cancer, lupus and Alzheimer's disease. Do your part by reviewing requisitions and expediting deliveries. Confer with vendors to obtain product information, prices, availability and schedule. Send and review bid proposals and negotiate contracts. Troubleshoot and take corrective action. Estimate values, compare prices and specifications, award contracts, place and prepare purchase orders, verify invoices, and approve payments. Maintain procurement records. Requirements include a High school diploma/GED and 5 years of relevant experience or combination of education and experience. Prior filing, data entry, procurement processes and general office equipment experience necessary. Excellent customer service, communication, problem solving and negotiation skills as well as good computer skills (Microsoft Word, Excel and internet) are essential. Must be detail oriented with the ability to work independently and as a team player. Successful applicants will have experience with SciQuest or other procurement program and with pursuing, developing and maintaining small or disadvantaged business plans. Experience writing bid specifications and requests for proposals strongly desired. Typical work hours are Monday-Friday from 8:30am-5:00pm however schedule may vary slightly depending on work load. We offer attractive salaries and comprehensive benefits. To apply or for more information, please visit: https://jobs.omrf.org/applicants/Central?quickFind=50726.

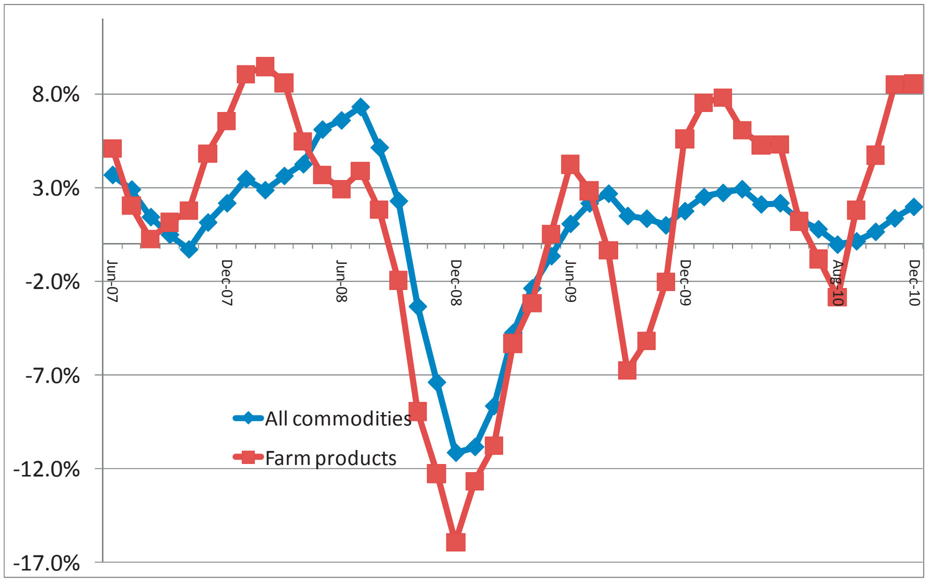
ASK ERNIE

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 2007-2010
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2007-2010



Price changes, 3 month moving average, 2007-2010