

"A monthly survey of supply chain managers"

Welcome to our August report covering July survey results. Just as Creighton's surveys of Mountain States and Mid-America supply managers began to show weaker growth ahead, the national ISM survey strengthened. I am concerned about the diverging survey results. It may have to do with weakness in energy and agriculture, two sectors that dominate our two regions. Follow my comments at: www.twitter.com/erniegoss

Give the Poor a Fish, or a Fishing Pole: Which Solution Works Best?

Pope Francis and President Obama find themselves in the unusual position of "agreement." Both have highlighted the need to assist the poor (although Obama uses the euphemism "middle class"). Everyone ranging from Bernie Madoff to Mother Teresa agree that economically aiding the poor is a worthy goal. Disagreements surface in the method, the impact, and the costs of such efforts. The two opposing camps could be labeled as "give them a fish" and "give them a fishing pole." The 50 U.S. states provide a laboratory to test which approach works best. States were categorized into quintiles according to the percentage of GDP to support the poor between 1990 and 1999. Financial support included: food stamps, social security income, unemployment compensation and other welfare support. The states were then ranked according to how they fared economically from 2000 to 2012.

The "give them a fish" states, or the ten states providing the most generous welfare benefits at 2.2% of GDP between 1990 and 1999 suffered the slowest GDP growth between 2000 and 2012 at 55.7 percent, had the highest 2013 unemployment rate at 7.7 percent, and had the greatest degree of income disparity with a 2010 Gini coefficient of .468. The quintile of states providing the least generous welfare benefits at only 0.95 percent of GDP between 1990 and 1999 experienced the top economic outcomes from 2000 to 2012 with GDP growth of 73.7 percent, had the lowest 2013 unemployment rate at 5.3 percent, and had the lowest degree of income inequality with a 2010 Gini coefficient of .440. The lowest welfare spending states included New Hampshire, Delaware, Nebraska, Nevada, Virginia, Wyoming, Colorado, South Dakota, Indiana, the District of Columbia, and Utah. The "give them a fish" or most generous welfare spending states were: California, New York, Rhode Island, West Virginia, Mississippi, Maine, Arkansas, Kentucky, Louisiana, and Alabama. For all 50 states and D.C. there was a strong negative relationship between 1990 and 1999 welfare spending and subsequent economic performance. This data provide at least superficial support for the hypothesis that overly generous welfare benefits serve neither the poor, nor the broader economy. Ernie Goss

Link to video:

<http://youtu.be/Y11BamdeSVc>

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Indicator Declines Again: Trade Picture Weakens

SURVEY RESULTS AT A GLANCE:

- Regional index declines for fourth straight month, but remains above growth neutral.
- The impact of the federal spending sequestration is rising, but remains modest.

- Inflationary pressures at the wholesale level decline for the fifth straight month.
- Nondurable goods manufacturers report pullbacks for the month.
- Export orders index moves lower for July.
- Companies indicated that new supply managers hired with a college degree and no experience received an average starting salary of \$46,000. The same new hire with 5 years of experience would receive a starting salary of \$60,000 according to the supply managers.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, declined for a fourth straight month. The index continues to point to positive, but slower economic growth for the region in the next three to six months.

Overall index: The Business Conditions Index, which ranges between 0 and 100, declined in July to a still solid 53.5 from June's 55.6. Our regional gauge, much like national measures, indicates that the economy will likely continue to expand and add jobs, but at a slow pace. Companies with ties to the U.S. farm economy and to international markets are reporting much softer business conditions. This will show up in the broader regional economy in the next three to six months.

Employment: After moving below growth neutral for January, the region's employment gauge has remained above 50.0 for the past six months. The July reading climbed to 55.3 from 53.7 in June. Nondurable goods manufacturers, especially those tied to agriculture and international markets are cutting employment in the region. On the other hand, durable goods producers and value-added nonmanufacturing firms continue to expand employment. Job growth for the second half of 2013 will be down from the same period for 2012 when it was a solid, annualized 1.7 percent.

This month supply managers were asked to report the starting salary for new supply manager hires with a college degree and no experience. On average a starting salary of \$46,000 was reported. The same new hire with 5 years of experience would receive a starting salary of \$60,000 according to the supply managers.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, sank for a fifth straight month to 58.0 from 58.4 in June. Wholesale inflationary pressures for the region have moved consistently lower. Weakness in the global economy and the upturn in the value of the dollar have restrained inflationary pressures at the wholesale level. This trend provides the Federal Reserve (Fed) with flexibility in terms of when they begin tapering their bond buying program (QE3). Even so, I expect the Fed to begin reducing their \$85 billion per month bond buying program at its Sept. 17-18 meetings.

Confidence: Looking ahead six months, economic optimism, as captured by the July business confidence index, advanced to 56.9 from June's 51.1. The rapidly improving housing sector and the U.S. equity (stock) market boosted supply managers' economic outlook for the month.

The federal spending sequestration is having very little impact on the outlook. The last five months, we have asked supply managers how the federal spending sequestration was affecting their company. In the July survey, approximately 67.7 percent of supply managers indicated that the cuts have had no impact on their company to date. This is down from 70.8 percent for June. Approximately 31.3 percent in July reported only modest impacts from sequestration. Only 1 percent of businesses reported significant impacts. Thus, impacts are rising but are still modest.

Inventories: Regional inventories continue to grow but at a slow pace as the July inventory index rose to 52.7 from 51.6 in

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June. In anticipation of slight positive sales growth, companies in our survey have now increased inventory levels for eight straight months. This inventory accumulation will contribute to regional growth in the months ahead. But declining readings are another indicator of positive, but slowing economic growth for the region.

Trade: New export orders reading is trending downward. The new export orders index dipped to 50.0 from 52.9 in June which was well down from May's 55.9. The import index expanded to 53.6 from June's 52.9. Economic pullbacks and slowdowns in Asia and Europe along with increases in the value of the U.S. dollar are having clear negative impacts on sales abroad. At the same time, continued slow but positive growth for regional firms boosted imports slightly for the month.

Other components: Other components of the July Business Conditions Index were new orders at 52.2, down from 57.0 in June; production or sales at 54.2, down from last month's 60.3; and delivery lead time at 53.3, down from 55.4 in June.

The Creighton Economic Forecasting Group has conducted the monthly survey of supply managers in nine states since 1994 to produce leading economic indicators of the Mid-America economy. States included in the survey are Arkansas, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota.

MID-AMERICA STATES

ARKANSAS

The July overall index for Arkansas expanded slightly to 52.9 from 52.6 in June. Components of the index from the survey of supply managers were new orders at 30.9, production or sales at 47.4, delivery lead time at 57.7, inventories at 58.3, and employment at 60.4. Arkansas's labor market has been the weakest in the region over the past year and the only state in the region to experience a decline in the number of workers in the labor force (the labor force is the sum of employed plus unemployed). Non-durable manufacturing firms reported job cuts while durable goods producers and non-manufacturing firms in the state added jobs.

IOWA

The Business Conditions Index for Iowa declined for a second straight month. The overall index from a survey of supply managers for July slipped to a very strong and regional high of 67.4 from June's 69.3. Components of the index for July were new orders at 72.9, production or sales at 71.4, delivery lead time at 59.2, employment at 67.1, and inventories at 66.2. Growth for the first half of 2013 is well above that for the same period in 2012 with the state's unemployment rate declining by the seven tenths of one percentage point which was more than any other state in the region. Durable and non-durable manufacturers are reporting very healthy expansions while non-manufacturing firms detail positive growth. Despite somewhat weaker growth for agriculture linked businesses, the Iowa economy will expand at a solid pace in the next 3 to 6 months.

KANSAS

The Kansas Business Conditions Index for July weakened slightly to 57.3 from 58.6 in July. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 76.8, production or sales at 65.0, delivery lead time at 43.8, employment at 61.2, and inventories at 39.6. Kansas food processing firms are experiencing healthy growth in sales and employment. Other non-durable goods producers and durable goods manufacturing firms, except for transportation equipment manufacturers, reported healthy expansions for July. Slower global economic growth is having a negative impact on firms selling abroad.

MINNESOTA

For an eighth straight month, Minnesota's Business Conditions Index moved above growth neutral. The index from a monthly survey of supply managers in the state fell to 54.0 from June's 56.2. Components of the index from the July survey were new orders at 50.9, production or sales at 54.6, delivery lead time at 55.7, inventories at 56.0, and employment at 52.8. Food processors and other non-durable goods producers reported weaker economic conditions for the month. Expansions among durable goods selling domestically more than offset softer orders and sales for heavy manufacturing firms selling abroad. As a result of the improving state economy, the Minnesota unemployment rate has declined by one-half of one percentage point over the past year even as the labor force grew by more than 20,000.

MISSOURI

The July Business Conditions Index for Missouri rose slightly to 55.7 from 54.7 in June. Components of the survey of supply managers in the state were new orders at 54.4, production or sales at 60.2, delivery lead time at 51.9, inventories at 53.3, and employment at 58.8. Durable goods manufacturers, as a result of healthy sales and new orders, are adding employees and increasing the average hours worked per week of current employees. Non-durable goods producers including food processing are experiencing slight pullbacks in economic activity.

NEBRASKA

Nebraska had the only overall index to move below growth neutral. The index, termed the Business Conditions Index from a survey of supply managers in the state sank to 49.1 from June's 51.1. Components of the index for July were new orders at 44.7, production or sales at 47.5, delivery lead time at 51.2, inventories at 50.6, and employment at 51.5. I think this decline will be temporary. I expect the index to move higher in the months ahead. However, growth for non-durable goods producers, durable goods manufacturers and non-manufacturing will be weaker for the second half of 2013 in comparison to the same period for 2012.

NORTH DAKOTA

The state's leading economic indicator sank for July. The overall index, termed the Business Conditions Index from a survey of supply managers in the state declined to 57.5 from 61.0 in June. Components of the overall index for July were new orders at 49.4, production or sales at 52.8, delivery lead time at 67.7, employment at 59.4, and inventories at 58.0. Even with the lower July reading, the state's economy continues to hit on all cylinders with durable and non-durable goods manufacturers experiencing healthy growth. While growth for the next 3 to 6 months will be healthy, it will be down from the same period for 2012.

OKLAHOMA

The Business Conditions Index for Oklahoma remained above growth neutral for July. The leading economic indicator from the monthly survey of supply managers tumbled to 52.3 from June's 59.6. Components of the July survey of supply managers in the state were new orders at 57.1, production or sales at 45.4, delivery lead time at 64.2, inventories at 55.3, and employment at 39.6. A pullback among non-durable goods producers including food processors combined with cutbacks for mining firms in the state were responsible for July's weaker reading. However, durable goods including metal manufacturers and machinery producers continue to report healthy growth. Economic growth for the rest of 2013 will be slower than for the same period of 2012 when employment expanded at an annual rate of 1.4 percent.

SOUTH DAKOTA

For an eighth straight month, South Dakota's leading economic

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indicator from a survey of supply managers rose above growth neutral 50.0. The overall index, termed the Business Conditions Index from a survey of supply managers, climbed to a strong 64.8 from 62.9 in June. Components of the index for July were new orders at 78.9, production or sales at 74.1, delivery lead time at 60.8, inventories at 51.0, and employment at 59.1. Manufacturers in the state continue to add to their payrolls and to expand the average hourly work week. Growth for the second half of 2013 will be higher than for the same period in 2012 when the state experienced annualized job growth below one percent.



THE BULLISH NEWS

- The Case-Shiller home price index advanced by one percent for May and was up by more than 12% over the past 12 months.
- The U.S. trade deficit shrank by 22% in June. There was a \$2 billion decline in oil imports. The U.S. is rapidly losing its heavy dependence on foreign oil.
- Both the non-manufacturing and manufacturing ISM numbers were up strongly for July.
- Retail sales continue to expand at a solid pace despite little growth in income.



THE BEARISH NEWS

- The U.S. economy added 162,000 jobs and the unemployment rate dipped to 7.4% in July. However, a large share of the jobs were part-time and the size of the labor market shrank due to more of the unemployed becoming discouraged and chose to sit at home and watch re-runs of Golden Girls instead of looking for a job.
- Annualized GDP growth for the second quarter of 2013 declined to 1.7%. It should be more than double this rate.
- Retail sales for July expanded by a measly 0.2%. We need to see 0.5%+.

WHAT TO WATCH

- Consumer Price Index (CPI): On Aug. 15 and Sept. 17, the U.S. Bureau of Labor Statistics releases the CPI. Annualized readings above 2.0% will push the Federal Reserve to begin reducing its QE3 stimulus program at its Sept. 17-18 meetings.
- Retail Sales: On Sept. 13, the U.S. Census Bureau releases its retail sales numbers for August. We will get a glimpse of consumer "back to school" shopping. Year over year sales growth of more than 5% will be another incentive for the Fed to begin allowing long-term interest rates to rise.
- Jobs: On Friday Sept. 6, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for August. A very positive report (jobs added over 200,000 and unemployment down) will be another factor encouraging the Fed to begin raising long term rates (i.e. reducing bond purchases) in September.

THE OUTLOOK

FROM GOSS:

- Over the next 6 months, I expect short term interest rates (less than 2 years) to remain at their current low levels while long term rates will continue to rise but by less than one-half of one percentage point.
- The President will win the budget battles with Congress in September. This will mean that the debt ceiling will be raised with only token resistance. Republicans cannot win this battle so they should not take it on.
- Watch for a temporary and potentially large pullback in stock prices in the months ahead.

OTHER FORECASTS:

- The Conference Board (August 2013): "U.S. economy looks poised to strengthen as private sector strength offsets fiscal drag." "The upside potential to our previous base case forecast that we pointed out to be a possibility in the past month appears to be unfolding. The U.S. private domestic sector of the economy continues to exhibit underlying strength and improved health following several years of major structural adjustments. This improved strength appears to be offsetting the fiscal drag from the spending sequester cuts. After a sluggish 1% growth performance in Q2, we forecast an acceleration in economic activity to 2.4% in Q3 and 2.7% in Q4 (vs. our previous forecasts of 1.7% and 2.5%, respectively in Q3 and Q4). The ongoing revival in the housing and automotive sector leads the rebound in the overall economy, but importantly we also anticipate increases in personal income and consumers' increasing comfort to borrow again to underpin firmer and more sustainable real consumer spending in the quarters ahead."

Goss Eggs (Recent Dumb Economic Moves)

- Last month the federal Financial Stability Oversight Council (FSOC) chaired by Treasury Secretary Jack Lew declared that GE Capital, the finance arm of GE and AIG are officially important, or Too Big to Fail (TBTF). The FSOC is also trying to designate Prudential and MetLife as TBTF. Treating insurers like banks will raise insurer costs to comply with regulations and also expand government into private enterprise (i.e. crony capitalism). When will politicians learn?

Survey results for July will be released on the first business day of the month Sept. 3.

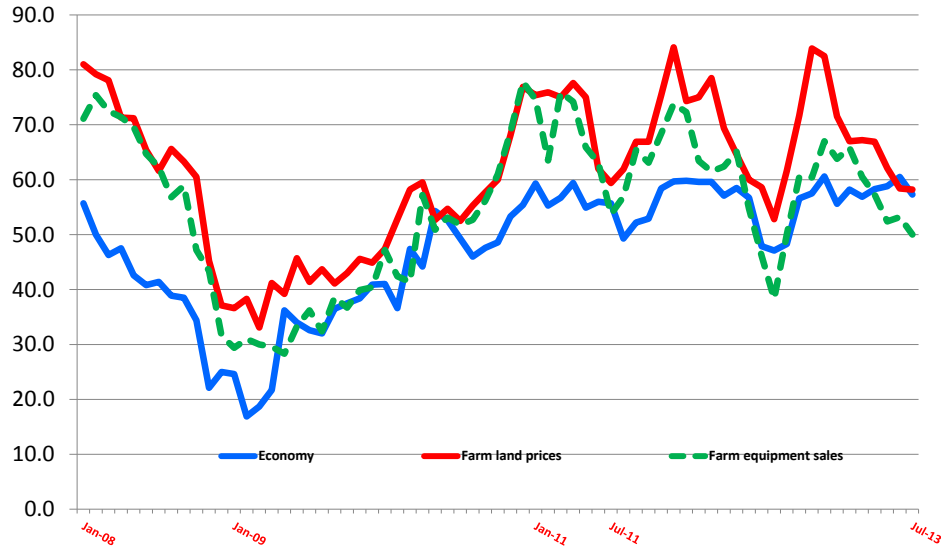
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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2013
 FUELS & RELATED/METALS & METAL PRODUCTS

Rural Mainstreet Economy Jan. '08 – July '13



Price changes, 3 month moving average, 2012- July 2013

