

“A monthly survey of supply chain managers”

Welcome to our February report covering January survey results. Our surveys point to expansions (albeit slow) for both the Mid-America and Mountain States regions over the next 3 to 6 months. Follow my comments at: www.twitter.com/erniegoss

95% of Bush Tax Cuts Made Permanent: More Loopholes Added But Little Debt Reduction

For years, Democrats and some Republicans have argued that a substantial portion of today’s mammoth debt of \$16.3 trillion should be pinned on the Bush-tax cuts of 2001 and 2003. Yet in January of this year, these same policymakers made 95 percent of these cuts permanent. The proponents of this action contend that it will bring fairness to the tax code and reduce the budget deficit. It fails miserably on both counts. First, the tax rate hikes on those making more than \$400,000 will only reduce the federal debt by less than 8 percent over the next decade. Second, the Obama Administration argued that the higher rate on the “rich” would insure that they pay 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. Unfortunately, millionaires continue to thwart the original intent of the AMT and will likewise sidestep the Obama tax hike with the burden falling on thousandaires some time in the near future. Furthermore, despite adding tax loopholes in the recently passed tax bill for Hollywood moviemakers, NASCAR track owners, and Puerto Rican rum producers, President Obama is now calling for the elimination of certain tax deductions for high income individuals. Only tax preparers at H&R Block can appreciate the onerous tax code that the administration continues to litter with subsidies and tax favors for preferred groups. Ernie Goss

Link to video:

<http://www.youtube.com/watch?v=BdcZjMTp3IA>

LAST MONTH’S SURVEY RESULTS

Mid-America Economy Lackluster for January:
New Export Orders Tumble

SURVEY RESULTS AT A GLANCE

- For only the second time in the past five months, the leading economic indicator climbed above growth neutral.
- Declines in new export orders helped push the employment gauge into negative territory.
- Supply managers anticipate a 1.6 percent raise in wage rates for 2013.
- Supply managers expect wholesale prices to expand by 3 percent in the next six months or 6 percent on an annualized basis.

For only the second time in the past five months, the monthly Mid-America Business Conditions Index, a leading

economic indicator for a nine-state region, rose above growth neutral. The index continues to point to slow growth for the region in the next three to six months, but still no recession. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, increased to a tepid 53.2 for January, up from 50.7 in December.

Much like the national economy, the regional economy’s manufacturing sector moved sideways to slightly down with firms dependent on sales abroad reporting pullbacks in orders. On the other hand, growth among durable-goods producers, especially manufacturers linked to automobile production, was a definite plus for January.

Employment: The region’s employment gauge once again fell below growth neutral. However, the index inched higher to 48.9 for January from December’s 48.0. Recent surveys point to overall job growth hovering close to zero with slight negative manufacturing job growth. This lack of job growth translated into supply managers expecting only a 1.6 percent wage increase for 2013.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, advanced to 71.8 from December’s 63.5 and November’s 64.4. Never in the Federal Reserve’s 100 year existence has it been this aggressive in terms of ultra low interest rates and in expanding the nation’s money supply. However, this policy has yet to ignite inflationary pressures, or significant job growth. Even so, our wholesale inflation gauge points to rising inflationary pressures. The bond yields on U.S. Treasury bonds has begun to rise as investors require higher interest rates to cover an increase in expected inflation.

This month supply managers were asked how much they expected prices for inputs they purchase to increase in the next six months. On average an annualized six percent growth in wholesale prices is expected. This increase is only up slightly from July of 2012 when we asked this same question.

Confidence: Looking ahead six months, economic optimism, as captured by the January business confidence index, rose to 56.6 from 50.0 in December. Improvements in the housing and automobile sectors along with avoiding falling off the ‘fiscal cliff’ pushed the economic outlook higher.

Inventories: Regional inventory levels increased for the month. The January inventory index climbed to 55.0 from 51.5 in December. After reducing inventories for five straight months, supply managers have now expanded inventory levels for December and January. This has been an important factor pushing the overall index higher and is consistent with rising business confidence.

Trade: New export orders remain very weak for the region. The new export orders index slumped to 45.3 from December’s tepid 50.0. Once again, imports were soft with a reading of 50.7 for January up from 48.7 in December. Global economic weakness pushed new export orders lower while the lack of any significant regional growth restrained imports.

Other components: Other components of the January Business Conditions Index were new orders at 52.3, up from 46.4 in December; production or sales at 53.9, up from December’s 48.0; and delivery lead time at 56.1, up from 53.5 in December.

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 January overall index for Arkansas rose to 52.3 from December’s 47.7. Components of the index from the monthly survey of supply managers were new orders at 55.7, production

“A monthly survey of supply chain managers”

or sales at 48.0, delivery lead time at 50.0, inventories at 50.0, and employment at 48.8. Weakness and job losses were recorded for the state’s nondurable goods producers while durable goods manufacturers recorded upturns in sales, jobs and production for the month. Based on surveys over the past several months, overall economic growth for Arkansas for the first half of 2013 will be slight, but positive.

IOWA

For a second straight month, Iowa’s Business Conditions Index increased. The overall index from a survey of supply managers in the state climbed to 59.8, a regional high, from December’s 53.8. Iowa’s leading economic indicator has now moved above growth neutral for 37 straight months. Components of the index for January were new orders at 66.7, production or sales at 63.1, delivery lead time at 58.2, employment at 56.9, and inventories at 53.9. Both durable and nondurable goods manufacturers experienced healthy growth for the month. While food processing has been a challenging industry for much of the region, Iowa’s food manufacturers reported job gains and production growth for the month.

KANSAS

The Kansas Business Conditions Index for January expanded to a frail 48.3 from 46.6. Components of the leading economic indicator from the monthly survey of supply managers for January were new orders at 44.4, production or sales at 42.3, delivery lead time at 50.9, employment at 50.5, and inventories at 53.4. Except for Iowa, Kansas depends more heavily on exports than any other state in the region. Additionally, Kansas’s exports tend to more volatile than that of the other eight states. As a result, the pullback in exports and new export orders had more of a negative effect on the Kansas economy than on the other eight states. I expect the Kansas economy to grow only slightly for the first half of 2013 with only minimal job gains for the overall economy with relatively minor job losses for the state’s manufacturing sector.

MINNESOTA

For a second straight month, Minnesota’s Business Conditions Index moved above growth neutral. The index from a monthly survey of supply managers in the state declined to 52.6 from 57.2 in December. Components of the index from the January survey were new orders at 45.1, production or sales at 51.0, delivery lead time at 62.5, inventories at 52.7, and employment at 51.7. January pullbacks were recorded for nondurable goods manufacturers, including food producers. Excluding medical equipment manufacturers, growth among durable goods producers, especially metal manufacturers, more than offset nondurable weakness.

MISSOURI

The January Business Conditions Index for Missouri advanced to 51.2 from December’s 46.8. Components of the survey of supply managers in the state were new orders at 48.4, production or sales at 50.1, delivery lead time at 54.5, inventories at 47.7, and employment at 56.0. While the U.S. vehicle manufacturing industry has expanded at a healthy pace, that has not been the case for Missouri. Automobile producers and firms linked to vehicle manufacturing are not growing at the national pace. On the other hand, metal manufacturing firms are reporting healthy upturns in business conditions.

NEBRASKA

For only the second time in the past five months, the state’s leading economic indicator advanced above growth neutral. The Business Conditions Index, from a survey of supply managers, increased to 50.5 from 48.4 in December. Components of the index for January were new orders at 50.4, production or sales at 47.0, delivery lead time at 53.2, inventories at 55.6, and

employment at 46.4. Downturns in business conditions for durable goods producers, especially those tied to international markets, restrained the state’s January readings. Nebraska’s metal manufacturing firms, contrary to their counterparts in the rest of the region, detailed pullbacks in economic activity for January.

NORTH DAKOTA

For a second straight month, North Dakota’s leading economic indicator is pointing to softer economic growth in the next three to six months. The index expanded to 53.8 from December’s 50.9. Components of the overall index for January were new orders at 49.2, production or sales at 64.0, delivery lead time at 50.9, employment at 55.6, and inventories at 49.2. We are again tracking softer business activity for manufacturing firms in the state. Even though I expect positive growth for the state for the first half of 2013, I expect that expansion to be much weaker than what was experienced for the same period in 2012.

OKLAHOMA

The Business Conditions Index for Oklahoma expanded for January. The leading economic indicator from a monthly survey of supply managers grew to 53.8 from 52.1 in December. Components of the January survey of supply managers in the state were new orders at 53.4, production or sales at 46.8, delivery lead time at 48.0, inventories at 67.8, and employment at 52.9. Oklahoma, much like North Dakota has benefited from an expanding energy sector. Like North Dakota that growth has softened. I expect growth for the first half of 2013 to be positive but well down from that experienced for the same period in 2012.

SOUTH DAKOTA

For a second straight month, South Dakota’s leading economic indicator from a survey of supply managers rose above the 50.0 threshold to 53.5 from 51.9 in December. Components of the index for January were new orders at 55.8, production or sales at 60.3, delivery lead time at 48.1, inventories at 44.7, and employment at 58.4. Even though manufacturing activity in the state has picked up, pullbacks in economic activity for technology services firms and energy linked companies restrained growth for the state’s economy for January. However, growth will continue to be positive for the first half of 2013 for the state with job growth positive but tepid.



THE BULLISH NEWS

- Nonfarm payroll employment rose by 157,000 in January and December and November additions were revised upward.
- The S&P/Case-Shiller Home Price Indices for November, showed home prices rose 4.5% to 5.5% in the 12 months ending in November 2012.
- Both the national and Creighton purchasing management indices (PMI) for January increased and were above growth neutral 50.0.



THE BEARISH NEWS

- U.S Q4 gross domestic product dropped by 1/10 of one percent.
- Social security taxes rose by 2% for all workers on January 1, 2013.
- U.S. retail and food services sales for December rose by

“A monthly survey of supply chain managers”

only 0.5% from November’s level reflecting a mediocre holiday buying season.

WHAT TO WATCH

- **PMI’s:** On March 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI. A large decline would be very bearish for the economy.
- **Retail sales:** Around the middle of each month the U.S. Census Bureau releases its retail sales data for the previous month. Monthly growth of more than 0.5% is a very positive economic signal.
- **Jobs:** On Friday March 8, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for February. Keep an eye on the unemployment rate. An increase to 8% will be somewhat bearish.

THE OUTLOOK

FROM GOSS:

- I still expect more European economic “flair ups.” Greece, Spain and Italy have yet to solve their fundamental economic problem (making economic promises that cannot be fulfilled).
- China will expand its purchases of U.S. businesses and other non-financial assets in 2013. These purchases will be supported by China’s reduced buying of U.S. Treasury bonds. This will tend to increase U.S. interest rates with the Yuan to dollar ratio changing little despite increasing pressure from the U.S. Congress and White House.

OTHER FORECASTS:

- National Association of Business Economics. “NABE panelists are somewhat more optimistic about the economic growth outlook for the year ahead at the beginning of 2013 than they were three months ago. A full 50% now expect real GDP to grow between 2% and 4% in the current year. That is up from 36% that held this view in the previous survey. The share of panelists forecasting a sluggish or negative performance for real GDP in 2013 dropped to 50% from 65% in October.”

Goss Eggs (Recent Dumb Economic Moves)

- Members of Congress and the Administration have spent years blaming the so-called Bush tax cuts for the escalating federal debt, currently totaling \$16.3 trillion. In January 2013, these same individuals heralded the permanent extension of 95% of the cuts as a component of deficit reduction and economic stimulation.

Survey results for February will be released on the month’s first business day, March 1.

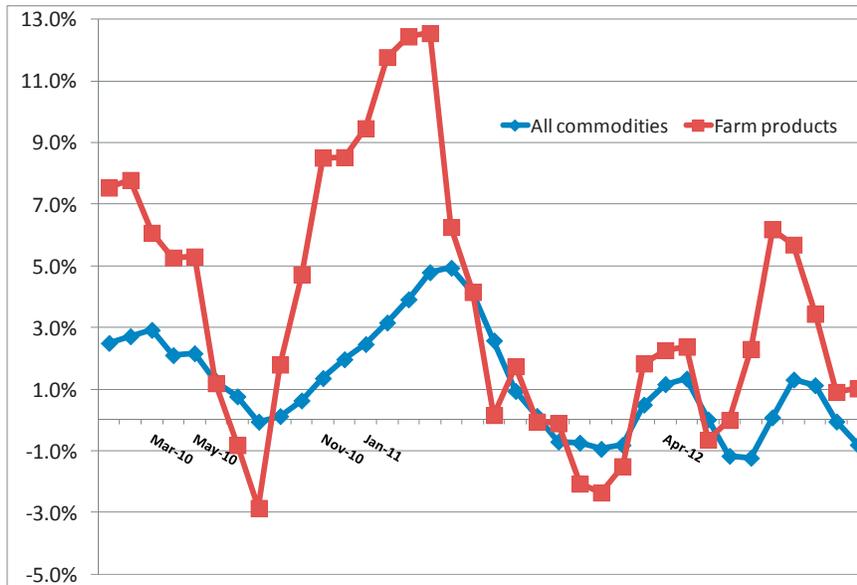
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PRICE DATA

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

Price changes, 3 month moving average, 2010-2013



Price changes, 3 month moving average, 2010-2013

