THE PURCHASING ECONOMY SURVEY REPORT

January 2012

"A monthly survey of supply chain managers"

Welcome to our Januaryr report covering December survey results.

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Is the U.S. the Next Greece? No California Is!

A Greek, an Italian and a Spaniard spend the evening drinking in a London pub. Who pays the tab? Answer: the American. This satire adds a bit of humor to a disturbing trend whereby the U.S. taxpayer bails out not only "too big to fail" U.S. businesses but then bankrolls overspending European economies via the U.S. Federal Reserve (Fed). Gerald O'Driscoll, a former vice president and economic advisor at the Dallas Fed, and a current senior fellow at the Cato Institute recently argued that the Fed's temporary U.S. dollar liquidity swap arrangement with the European Central Bank (ECB) is "essentially a transfer of U.S. dollars to banks in Europe." Unlike the Fed, Eurozone national banks cannot mask or reduce debt problems by simply printing more currency. Only the Fed's counterpart, the European Central Bank, (ECB) can flood the market with more Euros to ease the debt burdens of the 17 nations. But the ECB's only mandate is to maintain price stability thereby precluding massive currency infusions. Instead, each of the 17 nations, much like U.S. states, can only shrink debt burdens by cutting spending, defaulting on sovereign debt, or raising taxes. Thus, the United States, with assistance from the Fed, is not on the path of Greece but California and Illinois are. The U.S. debt burden can and will be diminished by the Fed flooding the market with dollar purchases of U.S. Treasury bonds. This action, of course, adds to inflationary pressures in the U.S. along with pushing interest rates higher. However with the current U.S. debt at $15 trillion even this Fed action must be accompanied by higher federal taxes, federal reduced spending, or both. The day of U.S. debt reckoning is likely to come sooner rather than later, just as it has for the Eurozone. Ernie Goss.

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Flat for December: Business Confidence Soars

SURVEY RESULTS AT A GLANCE

- Leading economic indicator flat at growth neutral for December.
- Compared to 2011, approximately 54 percent of supply managers expect sales growth for 2012.
- Employment gauge falls below growth neutral for the fifth straight month.
- Business confidence index soars
- On average supply managers expect a 1.6 percent pay raise in 2012.

For the second time in the past three months, the Business Conditions Index for the nine-state, Mid-America region did not move above growth neutral 50.0. The index, a leading economic indicator from a monthly survey of supply managers, continues to point to slow to no growth for the region for the next three to six months. Overall index: The index, which ranges between 0 and 100, sank to 50.0 for December from 52.6 in November. While the reading is well above recessionary values for 2008 and early 2009, our surveys over the past several months indicate that slowdowns in the national and global economies are putting downward pressure on the regional economy.

This month supply managers were asked to project sales or business activity for 2012. One-third of the respondents anticipate no change from 2011 levels, 54.4 percent expect an improvement in 2012, while 12.3 percent project no change in sales for 2012 compared to 2011. For 2011 from high to low gross domestic product (GDP) growth, the ranking of the nine states was: 1) North Dakota, 2) Oklahoma, 3) Nebraska, 4) South Dakota, 5) Iowa, 6) Kansas, 7) Arkansas, 8) Minnesota, and 9) Missouri. For 2012 from high to low GDP growth, projected GDP growth of the nine states is: 1) North Dakota, 2) Oklahoma 3) Nebraska, 4) Minnesota, 5) Iowa, 6) South Dakota, 7) Kansas, 8) Arkansas, and 9) Missouri.

Employment: For a fifth straight month, the employment index remained below growth neutral and was unchanged from November's 49.5. Our surveys over the last five months indicate that job growth in the region has slowed significantly. Furthermore, I expect job additions for the first half of 2012 to be below the same period for 2011. However, there will be significant variation among the nine states. Reflecting the weak job market, supply managers were less than optimistic regarding pay increases for 2012 with an average boost in pay of 1.6 percent for the year. Almost one-third, or 30 percent, anticipates a pay cut or no change in pay for 2012.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, rose to 62.4 from November's 60.9. European debt problems and slower regional growth have pushed our inflation gauge lower. Over the past two months, due to investors flight out of European debt into U.S. debt, the value of the U.S. dollar has increased 5.3 percent. The upturn in the value of the dollar has helped push commodity prices and our inflation gauge lower.

Inventories: For the second time in the past three months, the regional inventory index dropped below growth neutral. The December reading slipped to 46.7 from November's 52.9 and October's 48.5. Since the end of the recession in 2009, inventory accumulation has been an important source of regional growth. December's decline was an important factor driving the overall reading lower.

Confidence: Looking ahead six months, economic optimism, as captured by the December business confidence index, soared to 59.2 from November's weak 49.1. Despite weaker readings among current business factors, supply managers were much more optimistic about future economic conditions. "It is clear that news reports of improving U.S. economic conditions is having a positive impact on the business outlook among supply manages even with the problems surrounding Europe.

Trade: December's export numbers for the Mid-America region were significantly improved from November's weaker values. New export orders rose to 56.3 from 52.1 in November. The December import index once again sank below growth neutral with a reading of 48.0, down from 49.5 in November. Economic weakness among firms in the region has meant that supply managers have reduced their purchases from abroad even with lower prices for imported goods.

Other components: Other components of the December Business Conditions Index were new orders at 52.3, up slightly from November's 52.0; production or sales at 48.4, down from 52.4; and delivery lead time at 53.3, lower than 56.5 in November.

MID-AMERICA STATES

ARKANSAS

Arkansas' leading economic indicator plummeted to a level pointing to slow growth in the months ahead. The December index from a survey of supply managers in the state fell to 52.0 from November's 63.0. Components of the index were new orders at 47.2, production or sales at 51.8, delivery lead time at 53.1, inventories at 55.1, and employment at 52.3. Manufacturers in the state, both durable and nondurable, have actually reduced employment at the same time that they have increased production. As a result of higher productivity and increases in the hours worked for current employees, manufacturing activity expanded significantly for 2011. I expect this rate of growth to weaken for the first half of 2012. Estimated 2011 growth: Jobs 0.6 percent, inflation adjusted GDP 2.0 percent. Projected 2012 growth: Jobs 0.3 percent, inflation adjusted GDP 1.6 percent.

IOWA

For the 24th straight month, Iowa's Business Conditions Index remained above growth neutral. The index, from a survey of supply managers, slipped to 56.3 from 57.7 in November. Components of the index were new orders at 65.3, production or sales at 53.9, delivery lead time at 55.8, employment at 56.6, and inventories at 50.2. Both durable and nondurable goods manufacturers reported strong business conditions for the month. Manufacturers in Iowa had a very good 2011 as they added to their payrolls. Food, processed, unprocessed and exported, was a big driver for the state's economy. While strength in the U.S. dollar and a weaker global economy will be a challenge, the state's economy will perform well for the first half of 2012. Estimated 2011 growth: Jobs 0.7 percent, inflation adjusted GDP 2.3 percent. Projected 2012 growth: Jobs 0.9 percent, inflation adjusted GDP 2.4 percent.

KANSAS

The Business Conditions Index, a leading economic indicator for Kansas, slipped to 50.1 from 50.9 in November. The survey is pointing to slow growth for the Kansas economy in the months ahead. Components of the index were new orders at 51.0, production or sales at 51.1, delivery lead time at 46.3, employment at 52.8, and inventories at 49.4. Both durable and nondurable goods manufacturers reported solid business conditions for the month and for most of 2011. However a stronger U.S. dollar and weaker global growth will slow growth for the state's economy for the first half of 2012. However that growth will still be positive. Estimated 2011 growth: Jobs 0.7 percent, inflation adjusted GDP 2.2 percent. Projected 2012 growth: Jobs 0.6 percent, inflation adjusted GDP 2.1 percent.

MINNESOTA

The Minnesota Business Conditions Index, a leading economic indicator, was above growth neutral for the 29th straight month at 56.9 and up from 54.7 in November. Components of the index for December were new orders at 57.7, production or sales at 64.1, delivery lead time at 63.0, inventories at 52.7, and employment at 46.9. Durable goods manufacturers, especially those dependent on exports and agriculture, continue to experience healthy growth as non-durable goods producers detailed pullbacks in recent months. Estimated 2011 growth: Jobs 0.4 percent, inflation adjusted GDP 1.9 percent. Projected 2012 growth: Jobs 1.2 percent, inflation adjusted GDP 2.8 percent.

MISSOURI

The December Missouri Business Conditions Index rose from November's weak reading but remained below growth neutral. The index, a leading economic indicator from a survey of supply managers, climbed to 49.0 from November's 47.3. Components of the Business Conditions Index were new orders at 47.6, production or sales at 50.1, delivery lead time at 55.5, inventories at 46.1, and employment at 45.6. Once again, durable goods manufacturers reported solid business conditions for the month. However, this growth was more than offset by economic pullbacks among nondurable producers and value-added service firms. Average hourly wage gains for Missouri manufacturers has significantly lagged that of manufacturers in other states in the region. Estimated 2011 growth: Jobs 0.1 percent, inflation adjusted GDP 0.9 percent. Projected 2012 growth: Jobs -0.7 percent, inflation adjusted GDP 0.1 percent.

NEBRASKA

The December Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 14th straight month. The index, a leading economic indicator from a survey of supply managers fell to 51.4 from 55.2 in November. Components of the index were new orders at 50.2, production or sales at 45.5, delivery lead time at 53.7, inventories at 53.1, and employment at 54.3. Both durable and non-durable manufacturers experienced a very positive month and year. Contrary to firms in other Mid-America states, Nebraska manufacturers expanded employment while holding average weekly work hours little changed. Estimated 2011 growth: Jobs 1.6 percent, inflation adjusted GDP 2.8 percent. Projected 2012 growth: Jobs 2.0 percent, inflation adjusted GDP 3.3 percent.

NORTH DAKOTA

The leading economic indicator for North Dakota remains healthy though it declined for December. The Business Conditions Index sank to 55.6 from November's 57.9. Components of the index for December were new orders at 56.3, production or sales at 54.5, delivery lead time at 55.6, employment at 53.4, and inventories at 58.1. Durable goods producers outperformed nondurable goods manufacturers for the month and for the year. Manufacturers increased employment, hours worked and wages significantly for 2011. I expect this to continue for 2012 but at a somewhat slower pace. Estimated 2011 growth: Jobs 4.5 percent, inflation adjusted GDP 6.8 percent. Projected 2012 growth: Jobs 3.4 percent, inflation adjusted GDP 5.7 percent.

OKLAHOMA

The Business Conditions Index for Oklahoma declined in December to 52.1 from November's 52.5. Components of the leading economic indicator for December were new orders at 52.3, production or sales at 52.1, delivery lead time at 54.8, inventories at 53.4, and employment at 51.0. Durable goods manufacturers expanded business for the month and year. Pullbacks were recorded for nondurable goods manufacturers. Estimated 2011 growth: Jobs 2.8 percent, inflation adjusted GDP 4.6 percent. Projected 2012 growth: Jobs 1.5 percent, inflation adjusted GDP 3.3 percent.

SOUTH DAKOTA

The state's leading economic indicator declined below growth neutral for December. The Business Conditions Index, from a monthly survey of supply managers, slumped to 47.7 from 50.3 in November. Components of the index for December were new orders at 47.2, production or sales at 41.2, delivery lead time at 44.6, inventories at 47.9, and employment at 57.4. Contrary to earlier in the year, manufacturing in the state tied to international markets and to agriculture and energy experienced pullbacks over the past few months. I expect this slower growth to extend into 2012. Estimated 2011 growth: Jobs 0.6 percent, inflation adjusted GDP 2.7 percent. Projected 2012 growth: Jobs 0.3 percent, inflation adjusted GDP 2.4 percent.

THE BULLISH NEWS

- First time claims for unemployment insurance declined to 352,000, their lowest level since the beginning of the recession.
- Non-farm payrolls for December 2011 grew by 200,000 and the unemployment rate ticked down to 8.5%, its lowest level since February 2009.
- The average hourly wage for December 2011 rose by 0.2%. Not that great but better than what we have been seeing.
- Construction spending in November reached a 17-month high of $807 billion at a seasonally adjusted annual rate,

up 1.2% from a downwardly revised October total and up 0.5% from the November 2010 level.

- The Conference Board Consumer Confidence Index®, which had improved in November, increased further in December. The Index now stands at 64.5 (1985=100), up from 55.2 in November.

THE BEARISH NEWS

- Latest data show that December retail sales grew by only 0.1% from November. If you subtract out motor vehicle sales, December retail sales declined from November levels.

- There was little change in the long-term unemployed. Of the country's 13.1 million unemployed, 42.5 percent or 5.6 million have been out of work for six months or longer. These millions of people risk being left behind as the rest of the economy moves forward.

- Over the last 12 months, the all items the Consumer Price Index increased 3.4%. This is significantly above the Federal Reserve target. Subtracting out food and energy, the so-called core CPI increased by 2.2%. This is still above the Fed target of 1.75% - 2.0%.

- The value of the U.S. dollar has risen by 5.3% against a basket of global currencies. This has made U.S. goods, especially agriculture and manufactured goods, less competitively priced abroad.

WHAT TO WATCH

- EuroZone: Keep a close eye on 1) interest rates or yields on Italian sovereign debt. Rates approaching 7.5% will signal rising risks of default.

- Jobs: On Friday Feb. 3, the U.S. BLS releases its employment report for January. Another gain of more than 200,000 jobs will be viewed very positively by investors. An increase of less than 100,000 will be a big negative.

- PMI: On February 1, the Institute for Supply management releases it purchasing management index (PMI) for January while Creighton University releases its PMI for the Mid-America, the Mountain States and the San Joaquin Valley for the previous month. Readings bouncing above 55.0 will be viewed very positively.

- 4th Qtr. GDP: On January 27, the Bureau of Economic Analysis will release its first preliminary estimate of Quarter 4, 2011 GDP. Annualized growth above 3.0% will be a very positive signal.

THE OUTLOOK

FROM GOSS:

- I expect growth in the nation's farming economy to slow somewhat in the first half of 2012 as the value of the U.S. dollar continues to rise pushing agricultural commodity prices lower. Also slower Asian economic growth will weigh on the U.S. farming sector.

- I am bearish on gold beyond the short-term. I do not know when gold prices will begin to retreat but I am certain that the risks are high. As long as Europe continues to limp along, investors will continue to seek the safe haven of gold. When that changes, watch out for a downdraft in gold prices

- Long run (3-5 years), I am bullish on natural gas. Prices will be boosted when the U.S. Department of Energy adds natural gas to its list of preferred alternatives to coal, fuel oil and oil. Also approving the export of natural gas would be a real win-win for the U.S. and for the industry.

OTHER FORCASTS:

- Ken Goldstein at The Conference Board expects U.S. economic growth to be sluggish—at best—for years to come. As for Wall Street returning to its former glories (not to mention tax-generating capabilities), he says NO!

- Experts are forecasting fourth-quarter earnings growth for S&P 500 companies to have sharply slowed, creeping up between just 7% and 8% from a year earlier, according to analysts at S&P Capital IQ, as well as rival earnings tracker Thomson Reuters.

- Conference Board: The U.S. economic data continue to outperform past months' expectations and paint a brighter picture of U.S. economic growth. We have seen the largest monthly rise in consumer confidence since April 2003 and a record start to the holiday shopping season. Consequently, the odds of recession plummeted to just 9% in November, versus a revised 28% in October. However, while the U.S. looks likely to avoid another recession in the near-term, the economy is not likely to sustain a 2%-plus growth path due to ongoing weakness in the labor and housing markets and the continuing cycle of debt deleveraging at the consumer and government level.

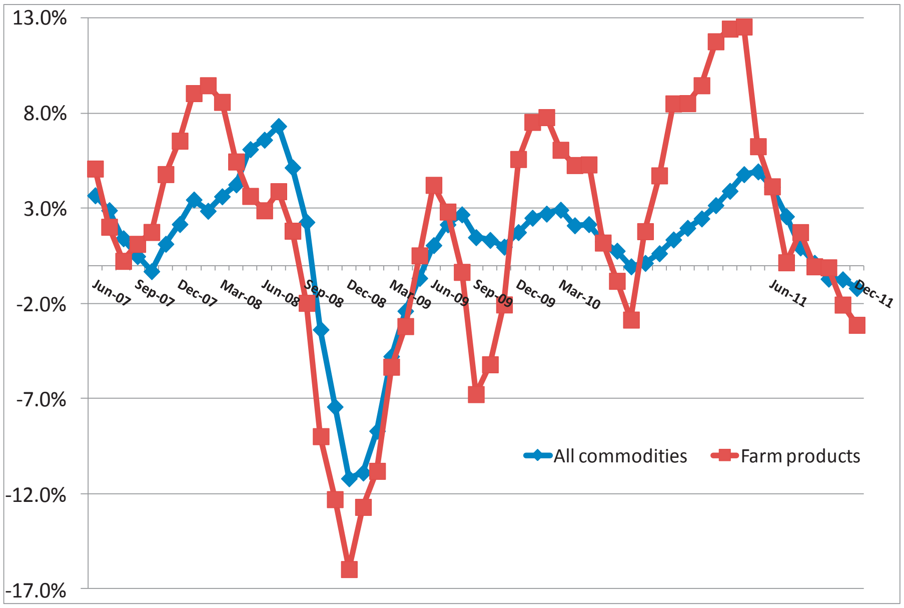
Goss Eggs (Recent Dumb Economic Moves)

- This month's choice was easy. Congressional passage and Presidential approval of a two month extension of the social security tax cut is both sad and foolhardy. It should have been extended for one year or nixed. How can businesses and individuals plan with such uncertainty?

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