"A monthly survey of supply chain managers"

Welcome to our July report covering June survey results. Regional and national surveys of supply managers indicate that economic growth is slowing and inflationary pressures are their lowest since the recession. Follow my comments at: www.twitter.com/erniegoss

The 25%, Not the 1%, Are Strangling the U.S. Economy- Transferring Wealth from Young to Old

It's not the rich 1 percent that is siphoning U.S. economic resources. It is the 25 percent--the portion of the U.S. population born between 1946 and 1964 or, baby boomers like me. Not only are we 25 percenters leaving the workforce at very high rates, (consuming instead of producing), we are draining the U.S. Treasury via higher Social Security (SS) benefits and greater Medicare spending. Over the past decade, SS outlays soared by 69 percent and Medicare expenditures rocketed by 135 percent, enlarging the nation's debt to $16 trillion. This debt, which is the largest in the galaxy and 100 percent of GDP, will ultimately be paid for by the 60 percenters (those born after 1964). We need to take steps to reduce this wealth transfer from young to old by: (1) adding 2 months per year to the SS retirement age raising it from 67 to 70, (2) increasing the Medicare eligibility age 2 months per year raising it from 65 to 67 and, (3) cutting the yearly SS inflation adjustment by 1 percent. Taking these actions would save $360-$400 billion between 2012 and 2021. Additionally to reverse the aging of the nation's labor market, the U.S. should expand legal immigration allowing younger workers and their families to enter the U.S. Latest U.S. Census data show the median age is 38.3 for Whites, 35.3 for Asians and 27.4 for Hispanics. By increasing legal immigration and slowing the growth in SS and Medicare spending, the U.S. would avoid the stagnation and looming economic calamities threatening Japan and Europe as a result of their aging populations and expanding pensions/healthcare payments to baby boomers. Ernie Goss.

Link to video:
http://www.youtube.com/watch?v=JUUJsgBsW1Y

LAST MONTH'S SURVEY RESULTS

Drop in Export Pushes Mid-America Leading Economic Indicator Lower:
Inflationary Pressures Sink Again

SURVEY RESULTS AT A GLANCE

- Leading economic indicator falls for a second straight month.
- Inflation gauge slumps to levels existing during last recession.
- New export orders drop to lowest since August 2009.
- Almost one-fourth expect implementation of health care reform to have large negative impact on their firm.
- Only 8 percent expect a return to a recession in 2013.

The monthly Business Conditions Index for the nine-state, Mid-America region indicates regional economic growth is likely to weaken slightly in the next three to six months but remain positive. The index, a leading economic indicator from a monthly survey of supply managers, declined for a second straight month. **Overall index:** The index, which ranges between 0 and 100, fell to 57.2 from 57.6 in May and 60.0 in April. Since the end of the recession in 2009, the businesses that we survey have benefited from healthy farm income and exports. While agriculture income continues to grow but at positive but slower pace, global economic problems are pushing new export orders into negative territory. Europe's economic problems are spilling over into the region via weaker commodity prices generated by the advancing U.S. dollar. Recent gains in the dollar have made U.S. goods less competitively priced abroad.

This month supply managers were asked the biggest negative hurdle facing their firm in the next year. Approximately 24 percent reported that the implementation of healthcare reform was the number one negative factor ahead for their company. Another 36 percent indicated that the European economic turmoil represented the largest economic headwind for their company while 13 percent and 14 percent, reported that the housing market and slow wage growth, respectively, were the biggest economic obstacles for their company.

Employment: For a sixth straight month, the employment index climbed above growth neutral. The hiring gauge advanced to a healthy 61.8 from May's 61.2. The Mid-America region continues to outperform the U.S. in terms of job growth. While the region accounts for approximately 10 percent of the nation's employment, it has accounted for almost 15 percent of 2012 U.S. job additions. Based on our survey results, this regional advantage should continue for the near term or 3 to 6 months. Even so, job gains for the rest of 2012 for Mid-America will be down from that experienced in the first half of 2012.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, slumped to 51.1 from May's 59.9 and well down from April's 67.8 in April. "This is the lowest reading for our inflation gauge since May 2009, two months before the end of the recession. Slower economic growth, European economic turmoil, and a stronger dollar are all contributing to declining inflationary pressures. The degree to which inflationary pressures have cooled has surprised me. This is an important signal and indicates that the Federal Reserve (Fed) can become more aggressive in its stimulation of the U.S. economy without any significant inflation fears. However given current short and long term interest rates, there is little the Fed can do to push growth higher especially with the national elections ahead. The last thing the Fed wishes to do is enter the political fray by abruptly changing policy.

Confidence: Looking ahead six months, economic optimism, as captured by the June business confidence index, expanded to 56.7 from 55.8 in May. While the index was up for the month, it continues to be restrained by the downturn in U.S. economic growth and Europe's economic problems. In the June survey, supply managers were asked if the Obama Administration should initiate another economic stimulus program. Almost three fourths, or 72 percent, said absolutely not. Only 8 percent said yes with the remaining 20 percent unsure.

Inventories: The June inventory index declined to 53.9 from May's 55.3. This is another signal of softening growth as supply managers cut the growth in inventory accumulation in anticipation of slower production in the months ahead.

Trade: June's export reading for the Mid-America region plummeted to 48.4, lowest since August 2009 and down from May's much stronger 55.1. At the same time, June imports decreased to 51.5 from 57.1 in May. Given the importance of exports to regional growth over the past year, this pullback in exports is a significant problem if this trend continues. On the other hand, the stronger dollar and somewhat slower regional growth have pushed import growth lower. I expect weak trade numbers in the months ahead for the nine-state region.

Other components: Other components of the June Business Conditions Index were new orders at 57.3, up slightly from 57.2 in May; production or sales at 56.7, down from 61.9; and delivery lead time at 56.2, up from May's 52.7.

MID-AMERICA STATES

ARKANSAS
The overall index, or leading economic indicator, for Arkansas advanced to a healthy 59.7 from May's 59.4. Components of the index from the monthly survey of supply managers were new orders at 36.3, production or sales at 73.7, delivery lead time at 52.7, inventories at 54.0, and employment at 82.1. Arkansas' 2012 job growth has significantly exceeded that for the same period in 2011. As in past months, non-durable goods producers in the state are lagging their durable goods counterparts in terms of business activity and job growth.

IOWA
For the 30th straight month, Iowa's Business Conditions Index remained above growth neutral. The index from a survey of supply managers in the state rose to a very healthy 68.0 from May's 67.1. Components of the index for June were new orders at 73.7, production or sales at 47.0, delivery lead time at 57.0, employment at 76.9, and inventories at 64.0. Iowa's job additions for 2012 are more than double that for the same period in 2011. Both durable and nondurable goods manufacturers in Iowa are benefiting from exports and healthy expansions in farm income. Despite higher input prices, Iowa's food producers are experiencing solid growth in jobs and economic activity.

KANSAS
The Kansas Business Conditions Index for June expanded to a tepid 51.7 from 50.8 in May. Components of the index from June's survey of supply managers in the state were new orders at 63.6, production or sales at 47.0, delivery lead time at 54.0, employment at 45.0, and inventories at 48.0. Kansas job gains for 2012 are roughly equal to that for the same period of 2011. No other state in the nine-state region depends more heavily on exports than Kansas. Exports have been an important contributor to the solid expansions we have been tracking in both durable and non-durable goods sectors. Trade weakness will show up in the Kansas economy in the second half of 2012 with weaker but positive economic growth.

MINNESOTA
The June Minnesota Business Conditions Index was above growth neutral marking the 34th consecutive month that the state's leading economic indicator was above 50.0. The index, based on a survey of supply managers in the state, slipped to 58.6 from 60.2 in May. Components of the index from the June survey were new orders at 58.6, production or sales at 54.9, delivery lead time at 60.9, inventories at 53.6, and employment at 65.1. While 2012 job gains have been healthy, they are down slightly from the same period in 2011. Exports from the state's large durable goods sector have been a big plus for 2012 growth. On the other hand, the state's non-durable goods sector has experienced much softer 2012 business activity and exports are likely to contribute little to second half 2012 growth.

MISSOURI
The June Missouri Business Conditions Index climbed above growth neutral for the month. The index, a leading economic indicator from a survey of supply managers, for June was unchanged from May's 59.1. Components of June's Business Conditions Index were new orders at 62.0, production or sales at 61.2, delivery lead time at 53.2, inventories at 58.4, and employment at 60.8. Missouri's job additions for 2012 are almost quadruple that for the same period in 2011. Exports of durable goods manufacturers and expansions among companies tied to agriculture have been important contributors to 2012 growth. I expect both factors to wane in the months ahead with slower growth for the state for the remainder of 2012.

NEBRASKA
The June Business Conditions Index for Nebraska remained above growth neutral 50.0 for the 20th consecutive month. The index advanced slightly to 54.5 from 53.6 in May. Components of the index were new orders at 52.2, production or sales at 57.0, delivery lead time at 54.6, inventories at 54.1, and employment at 54.7. Nebraska's job additions for 2012 are almost five times that for the same period in 2011. Exports of durable goods manufacturers and expansions among companies tied to agriculture have been important contributors to 2012 growth. Survey results point to positive but weaker growth for the state for the rest of 2012 as exports slow and farm income retreats a bit.

NORTH DAKOTA
The leading economic indicator for North Dakota expanded to a very healthy reading for June. The Business Conditions Index from a survey of supply managers in the state dipped to a still very healthy 63.0 from May's 63.5. Components of the overall index for June were new orders at 67.4, production or sales at 64.7, delivery lead time at 47.0, employment at 68.5, and inventories at 67.3. Job growth in North Dakota has been consistently strong for 2010, 2011 and now 2012. Even so, 2012 growth is well above the same period for 2011. Durable goods firms tied to exports, agriculture and energy have experienced expanding business activity. A pullback in exports and slower agriculture growth will both push North Dakota growth lower for the rest of 2012. Nonetheless, it will remain healthy.

OKLAHOMA
The Business Conditions Index for Oklahoma slumped to 56.8 from 58.7 in May. Components of the leading economic indicator for June were new orders at 61.1, production or sales at 54.1, delivery lead time at 60.9, inventories at 51.0, and employment at 57.1. Oklahoma's job additions for 2012 are more than double that for the same period in 2011. Durable goods manufacturers in Oklahoma are benefiting from exports and healthy expansions in recent growth in energy income. Growth for the rest of 2012 will be positive but down from the first half of 2012 as exports weaken and energy gains soften.

SOUTH DAKOTA
The leading economic indicator for South Dakota was above growth neutral for June. The Business Conditions Index from a survey of supply managers in the state declined to 52.1 from May's much stronger 62.4. Components of the index for June were new orders at 45.7, production or sales at 51.4, delivery lead time at 49.4, inventories at 58.8, and employment at 55.1. While 2012 job growth has been positive for South Dakota, it is down from the same period for 2011. Very healthy manufacturing economic activity has offset by pullbacks in the state's financial sector. Likewise higher fuel prices have weakened the state's tourist sector.

THE BULLISH NEWS

- Over the past 12 months consumer prices increased by only 1.7 percent.
- Retreating oil prices probably kept a lid on the value of U.S. imports and inflation in May and June. Brent crude traded declined to $98.19 a barrel on July 6, down from a 2012 high of $126.22 on March 13.
- Initial claims for unemployment insurance dropped to lowest level since March 2008 in the week ended July 7.

THE BEARISH NEWS

- June jobs data indicate that the nation added only 80,000 jobs and the unemployment rate remained at an unacceptably high 8.2 percent.
- The S&P/Case-Shiller index of property values in 20 cities dropped 1.9% in April.
- The national ISM leading economic indicator dropped below growth neutral for the first time since the recession. This is a major, major negative signal.
- The yield (interest rate) on Spanish sovereign debt rose approximately 7 percent signaling continuing concerns about Spain's potential default.

WHAT TO WATCH

- PMI's: On August 1, Creighton's releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. These are the first releases for August another PMI below 50.0 will be very, very bearish for the U.S. economy.
- Jobs: On Friday August 3, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for July. Another weak employment reading (less than 80,000 jobs added) will be bearish for equity markets and the U.S. economy.
- U.S. GDP: On July 27, the U.S. Bureau of Economic Analysis releases its 2nd quarter GDP estimates. Annualized growth of less than one percent will get a very negative reception from investors and economists (including me).

THE OUTLOOK

FROM GOSS:

- I expect annualized GDP growth for the second quarter of 2012 to be less than one percent. This is dismal performance. At this point in the recover, it should be 3%-4% or above.
- If the "Bush" tax cuts expire on January 1, 2013 for every taxpayer, as currently in place, I expect the U.S. economy to move back into a recession in 2013.
- The U.S. trade deficit will shrink in the months ahead but for the wrong reasons—both imports and exports will shrink. The U.S. and global economies are slipping close to a recession.

OTHER FORCASTS:

- The Congressional Budget Office (June 2012): "Over the past few years, the federal government has been recording budget deficits that are the largest as a share of the economy since 1945. Consequently, the amount of federal debt held by the public has surged. By the end of this year, CBO projects that the federal debt will reach roughly 70 percent of gross domestic product (GDP), the highest percentage since shortly after World War II." Note: 70% does not include borrowing from Social Security Trust fund.
- Chief Economist, Conference Board (July 2012). "The slow labor market improvement reflected in this month's 80,000 increase in jobs once again confirms that the better payroll increases in the beginning of the year were another false start. The pullback marks the third straight disappointing year. Subdued demand has been the one consistent factor in this sluggish economic expansion. On top of moderately rising labor costs, companies' profit growth is also slowing. There is little hope of an acceleration in the pace of job growth any time soon. These conditions are likely to persist at least through the summer and possibly longer. This economy has no forward momentum and little help from monetary or fiscal policy. As if that were not enough, ill winds are blowing in from both a contracting Europe and slowing growth in emerging markets. Also, domestic lawmakers' inaction on the upcoming "fiscal cliff" creates uncertainty that is not conducive to hiring."

Goss Eggs (Recent Dumb Economic Moves)

- San Bernardino County, Calif. via eminent domain is proposing to seize mortgages and restructure them for underwater homeowners. This sounds like something out of an undergraduate economics class. Interestingly, the plan targets only the holders of those bundled, privately held securitized mortgages. (i.e. Fannie Mae and Freddie Mac loans will be exempt).

Survey results for July will be released August 1. Follow Goss on twitter at http://twitter.com/erniegoss For historical data and forecasts visit our website at: http://www2.creighton.edu/business/economicoutlook/

PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2012
FUELS & RELATED/METALS & METAL PRODUCTS