THE PURCHASING ECONOMY SURVEY REPORT JUNE 2010

"A monthly survey of supply chain managers"

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

BERNANKE'S SWATTING AT THE DEFLATION WINDMILL

Of late, economists, policy makers and pundits have joined forces to denounce the common enemy of def-lation, or falling price levels. Leading the pack, the Federal Reserve (Fed), looking a lot like Don Quixote attacking animated windmills, stands ready to slay this imaginary deflation foe. Supporting the hand wringing and angst, Fed Chief Ben Bernanke points to a core consumer price index (CPI) that climbed at its slowest pace since 1966, or just under one percent over the past year. Unfortunately it is inflation and prices bubbles, in my judgment, that jeopardize U.S. economic progress, not deflation. Remember the CPI is the price gauge for a market basket of goods purchased by an average urban consumer. Much like the drunk with one hand in the refrigerator and the other in the fireplace, the temperature is on average "ok." That is, averages are masking price bubbles and troubling trends in certain areas. For example over the past year, education prices climbed by 4.8 percent, and medical costs expanded by 3.3 percent. Furthermore with the CPI overweighting housing, pullbacks in housing prices are producing a CPI that is not representative of this bubbling brew of inflationary pressures that once underway become very, very difficult to slow or halt. A second more sinister outcome is an asset bubble, or an extended period of time, in which assets are overvalued. That is, the mantra "buy low, sell high," has been replaced by "buy high-sell, higher." Under the guidance of Bernanke, the U.S. central bank has lowered the federal funds rate from 5.25 percent in June 2006 to the current level of 0 percent. This aggressive and record rate cutting has contributed to gold prices soaring by more than 98 percent and 10-year U.S. Treasury bond prices skyrocketing by approximately 42 percent since the rate cutting began. These and other bubbles will burst with very negative consequences unless the Fed begins immediately to increase interest rates. Ernie Goss

LAST MONTH'S SURVEY RESULTS

RURAL

SURVEY RESULTS AT A GLANCE

- Leading economic indicator climbs to highest level in almost 4 years.
- Largest job gains since June 2006.
- Almost 21 percent of respondents reported negative impacts for their firm from Europe's economic turmoil.
- Over 72 percent of the purchasers expect any new cap and trade law to increase prices.
- Purchasers report very healthy export orders and imports for the month.

The May Business Conditions Index for the Mid-America region advanced for a sixth straight month, point-ing to a growing economy in the months ahead, according to the May Business Conditions survey of supply man-agers in the nine-state region. The index expanded to 64.2 from April's very healthy 61.7. An index of 50.0 is con-sidered growth neutral for the leading economic indicator. This was the sixth straight month that the index has ris-en above growth neutral signaling a healthy economic recovery for the regional economy in the months ahead. The financial turmoil in Europe is a threat to the economic expansion underway. It has increased the value of the dollar, which has made U.S. manufactured goods and farm products less competitive abroad. The flight to the safety of U.S. Treasury bonds, if sustained, will have significant and negative impacts on agriculture income and on economic prospects for industries with linkages to agriculture. This month we asked supply managers how the European economic problems are affecting their firms. Almost 21 percent of respondents reported negative impacts for their firm from Europe's turmoil. The remaining 79 percent indicated little or no impacts to date. In my judgment, more negative impacts will surface if the dollar continues to appreciate against the Euro.

MID-AMERICAN STATES

ARKANSAS

Arkansas' leading economic indicator based on a survey of supply managers in the state continues to point to growth in the months ahead. The Arkansas Business Conditions Index for May slipped to a still healthy 56.8 from 58.7 in April. Components of the overall index for May were new orders at 57.9, production or sales at 63.4, delivery lead time at 64.2, inventories at 50.3, and employment at 48.4. Since the beginning of the recession, Arkansas has lost almost 50,000 jobs. Based on the latest state job data, I not expect the state to fully restore these jobs until September 2012.

IOWA

For the fifth straight month, Iowa's Business Conditions Index climbed above growth neutral. The index, a leading economic indicator from a survey of supply managers, slipped to a to regional high 70.3 from 70.5 in April. Components of the overall index for May were new orders at 81.1, production or sales at 81.0, delivery lead time at 68.3, employment at 67.4, and inventories at 53.6. Iowa's economy has begun adding jobs. Since the beginning of the recession, Iowa has lost more than 51,000 jobs. Based on the latest state job data and Iowa's recovery from the 2001 recession, I do not expect Iowa to fully restore these lost jobs until September 2012.

KANSAS

The leading economic indicator for Kansas from a survey of supply managers advanced for a seventh consecutive month. The May Business Conditions Index increased slightly to 62.3 from 62.1 in April. Components of the overall index for May were new orders at 67.7, production, or sales, at 63.0, delivery lead time at 69.4, employment at 54.3, and inventories at 57.1. Kansas's economy has begun adding jobs. Since the beginning of the recession, Kansas has lost more than 52,000 jobs. Based on the latest Kansas job data and the state's recovery from the 2001 recession, I not expect Kansas to fully restore these jobs until September 2012.

MINNESOTA

Minnesota's leading economic indicator, based on a survey of supply managers, continues to point to advancing economic conditions ahead. The Business Conditions Index rose to 64.1 from April's robust 62.4. This was the tenth straight month that Minnesota's index has risen above growth neutral. Components of the overall index for May were new orders at 70.6, production, or sales, at 69.3, delivery lead time at 63.4, inventories at 53.8, and employment at 63.1. Minnesota's economy has begun adding jobs. Since the beginning of the recession, Minnesota has lost more than 125,000 jobs. Based on the latest state job data and Minnesota's recovery from the 2001 recession, I not expect the state to fully restore these jobs until September 2013.

MISSOURI

For an 11th straight month, Missouri's Business Conditions Index climbed above growth neutral. The index from a survey of supply managers increased to 59.9 from 58.4 in April. Components of the overall index from the May survey were new orders at 64.1, production, or sales, at 65.8, delivery lead time at 57.9, inventories at 59.0, and employment at 52.5. Missouri's economy has begun adding jobs. Since the beginning of the recession, Missouri has lost almost 127,000 jobs. Based on the latest state job data and Missouri's recovery from the 2001 recession, I not expect the state to fully restore these jobs until October 2013.

NEBRASKA

For a ninth consecutive month Nebraska's Business Conditions Index, a leading economic indicator, expanded above growth neutral. The May reading from a survey of supply managers in the state expanded to 64.1 from April's 62.8. Components of the overall index for May were new orders at 78.2, production, or sales, at 74.7, delivery lead time at 57.8, inventories at 50.6, and employment at 59.2. Nebraska's economy has begun adding jobs. Since the beginning of the recession, Nebraska has lost more than 21,000 jobs. Based on the latest state job data and Nebraska's recovery from the 2001 recession, I not expect the state to fully restore these jobs until March 2012.

NORTH DAKOTA

North Dakota's leading economic indicator once again moved above growth neutral. The index, based on a survey of supply managers in the state, bounced to 59.2 from April's 52.6. Components of the overall index for May were new orders at 57.8, production, or sales, at 63.8, delivery lead time at 58.8, employment at 68.6, and inventories at 47.3. North Dakota's economy, much like the other states in the region, is currently adding jobs. North Dakota is the only state in the region that actually gained jobs with an addition of almost 8,000 jobs since the national recession began. I expect the state to continue to add jobs, especially among firms with ties to energy and natural resources.

OKLAHOMA

For a fifth straight month, Oklahoma's leading economic indicator from a monthly survey of supply managers climbed above growth neutral. The Business Conditions Index climbed to 59.8 from April's strong 59.7. Components of May's overall reading were new orders at 66.9, production, or sales, at 55.8, delivery lead time at 86.8, inventories at 45.9, and employment at 43.9. Oklahoma's economy has begun adding jobs. Since the begin-ning of the recession, Oklahoma has lost more than 52,000 jobs. Based on the latest state job data and Oklaho-ma's recovery from the 2001 recession, I do not expect the state to fully restore these jobs until October 2011.

SOUTH DAKOTA

South Dakota's leading economic indicator continues to point to healthy growth in the months ahead. The index, based on a survey of supply mangers in the state, expanded to 67.1 from 66.2 in April. Components of the overall index for May were new orders at 73.3, production, or sales, at 69.4, delivery lead time at 55.9, inventories at 66.9, and employment at 70.0. South Dakota's economy has begun adding jobs. Since the beginning of the recession, South Dakota has lost more than 6,000 jobs. Based on the latest state job data and South Dakota's recovery from the 2001 recession, I not expect the state to fully restore these jobs until February 2011.

THE BULLISH NEWS

- U.S. industrial output accelerated in May, marking its third straight consecutive gain.
- The Consumer Confidence Index, a rough measurement of how Americans are feeling about their wallets, has grown for the last three months.
- Economic activity in the manufacturing sector expanded in May for the 10th consecutive month, on the back of new orders and production. Inventories disappeared in 2009 and businesses -- especially in the tech industry -- are still ramping up orders and creating new jobs in manufacturing.
- Inventories held by wholesalers rose for a fourth straight month in April while sales rose for a 13th consecutive time. Both gains were encouraging signs for a sustained economic recovery.
- Both the national PMI and our regional PMIs are the strongest in more than four years.

THE BEARISH NEWS

- Sales at U.S. retailers unexpectedly fell in May for the first time since September, pulled down by a record slump in purchases of building materials and added to fears the economic recovery was losing some steam.
- Employers added 431,000 jobs in May but only 41,000 of those positions came from the private sector. The unemployment rate dropped but to a still-high 9.7%.
- Mortgage applications from purchases continued to fall last week by another 5.7%. They're down an amazing 43% since the credit expired at the end of April.
- In April, consumer credit fell for the 17th month in two years, the longest period of de-leveraging in 70 years.
- BP's stock dropped more that 10%, at one point hitting $29.77, the lowest level in 14 years. BP shares have now lost half their value since the April 20 rig explosion off the Louisiana coast. The spill has pulled the overall energy sector down.
- The current yield on 10-year U.S. Treasury bonds tells us just how scared investors are worldwide. Rather than taking a financial risk, investors are willing to earn a bit over 3 percent with the safety of U.S. Treasury bonds.

WATCH OUT FOR

- Next Thursday, pay close attention to the release of first time claims for unemployment insurance. Numbers above 450,000 will be viewed very negatively by equity investors (positively for bond investors). http://www.dol.gov/opa/media/press/eta/ui/current.htm

- On July 14, the U.S. Census Bureau releases retail sales for June. Over the next several months, we will be closely watching the consumer for hints of weakness. A monthly increase of less than 0.5% will be bearish. http://www.census.gov/retail/

- On July 2nd the U.S. BLS will release the employment report for June. This will be one of the most closely watched releases this year. I expect it to show very modest job gains. This will be greeted negatively. We need to record job gains above 150,000(www.bls.gov).

THE OUTLOOK: I expect

FROM GOSS:
- U.S. annualized economic growth slows from 3.5% in the first half of 2010 to 1.5% in the second half of 2010.

- Mortgage rates will rise by 1.25% by the end of the year.

- The U.S. unemployment rate will remain above 8.5% for the rest of 2010.

NATIONAL ASSOCIATION OF BUSINESS ECONOMICS MAY MEMBERSHIP SURVEY:
- Fifty-one percent believe that a Greek debt default will not occur, though some debt restructuring will be required. Twelve percent expect outright default within the next twelve months and 37 percent expect default after some short-term maneuvering only buys time.

- The jobless rate is forecast to steadily decline to 9.4 percent by yearend 2010 and 8.5 percent by year-end 2011, though it remains high by historical standards and is ranked by panelists as their second greatest "concern."

- The recession ended one year ago.

THE ORGANIZATION OF THE PETROLEUM EXPORTING COUNTRIES:
- World economic growth of 3.8%, up from the previous 3.5% forecast. The gain was driven mainly by improved performance in the Japanese economy.

SUPPLY MANAGERS READING ROOM

"Jabil Circuit uses Six-Sigma quality criteria to rate supplier performance," Purchasing 139, no. 1 (Jan 14, 2010). Both electronics OEMs and their electronics manufacturing services providers (EMS) periodically rate the performance of suppliers to make sure quality, delivery and technology requirements are met. However, scorecard-ing suppliers is often more challenging for EMS providers because they have many more suppliers than OEMs. EMS providers often use suppliers on the approved vendor lists (AVL) of their OEM customers. For instance, Jabil Circuit has about 14,000 suppliers overall, and about 7,000 "active" suppliers or suppliers that Jabil does business with regularly. Of those, there are about 3,000 strategic suppliers and of that about 150 that Jabil scorecards on a regular basis, usually quarterly. But cost is not the highest weighted criteria in evaluating supplier performance for Jabil. While cost is important, product quality is the highest rated criteria, accounting for 75% of a supplier's overall score. Jabil uses Six Sigma criteria to push suppliers to have zero defects.

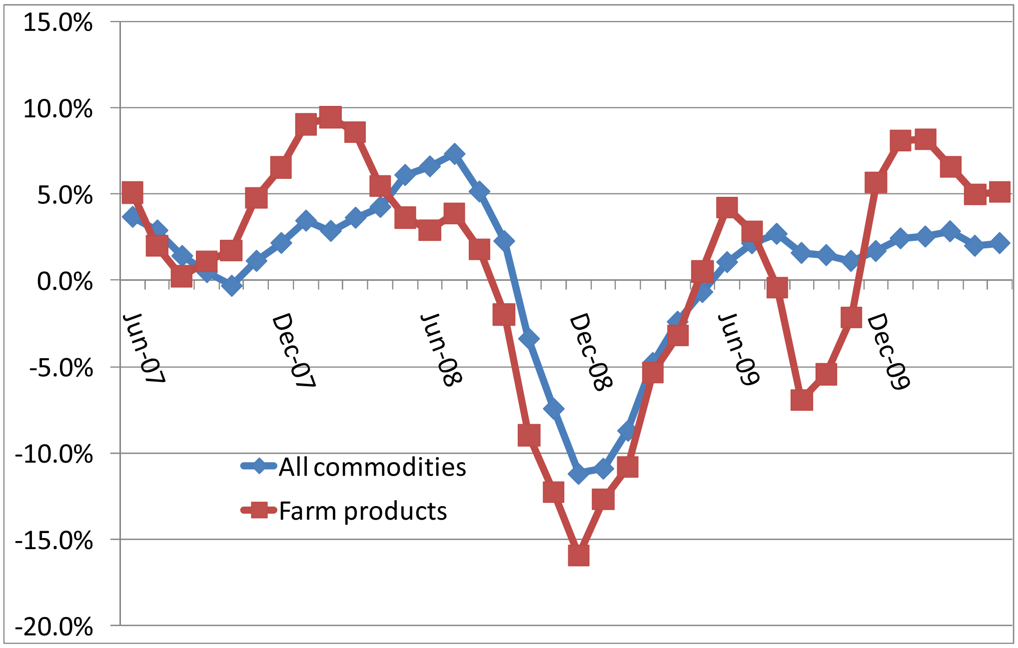
ASK ERNIE

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