

“A monthly survey of supply chain managers”

Welcome to our March report covering February survey results. Our surveys point to slow economic growth with rising wholesale inflation for both the Mid-America and Mountain States regions over the next 3 to 6 months. Follow my comments at: www.twitter.com/erniegoss

Government Bailouts & the Economic Recovery: Never Has So Much Been Done to Achieve So Little

A year after the start of the recession, the Bush Administration launched a \$168 billion stimulus package in 2008 which was followed by the Obama 2009 stimulus package of \$787 billion. Meanwhile, the Federal government ran average yearly deficits (also a stimulus) of \$936 billion average for 2008 and 2009 (the Bush deficits), and \$1.15 trillion per year for the last four years of the Obama Administration. On top of stimulus spending, the federal government with taxpayer dollars bailed out AIG, Bank of America, Citigroup, GM, Chrysler, Fannie Mae, Freddie Mac. Simultaneously, the Federal Reserve reduced short term interest rates to practically zero percent, pushed long-term U.S. Treasury bond rates, adjusted for inflation--into negative territory--and bailed out non-banks such as Goldman Sachs and Morgan Stanley with ultra-low interest rate loans. As part of this effort, the Fed launched three bond buying programs labeled QE2 and QE3 thus far purchasing almost \$3 trillion in U.S. Treasury bonds. Rather than increasing borrowing and spending by consumers and businesses, these “cheap money” and over spending policies have pushed investors into riskier ventures including farmland and U.S. stocks and bonds. What did the U.S. economy get for it? Since the recovery began in 2009, annualized GDP growth has been 2.1%, significantly less than the historical average of 3.5%. The most recent growth number was a puny 0.1%, or almost back in recessionary territory. Moreover since the beginning of the recover, annual wage growth was less than one percent while the current unemployment rate is almost three percentage points over the rate before the recession began. Even the most interventionist economist would have to concede that, “Never has so much been done to achieve so little.” Ernie Goss.

Link to video:

<http://www.youtube.com/watch?v=UG4m-ISUXwM>

LAST MONTH'S SURVEY RESULTS

Mid-America Indicator Expands for February: One-Third Expect Negative Fallout from Sequestration

SURVEY RESULTS AT A GLANCE

- Leading economic indicator expands to its highest level since June of last year.
- Export orders remain weak.
- More than one-third of companies surveyed expect the federal spending sequestration to result in a reduction in unit sales for their company.
- Almost half of firms indicated they had expanded sustainable procurement of raw materials and supplies.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, dipped slightly for the month. The index is pointing to sluggish growth for the region in the next three to six months. **Overall**

index: The Business Conditions Index, which ranges between 0 and 100, decreased to a tepid 53.1 from 53.2 in January. Much like the national economy, the economic trajectory of the Mid-America region will remain on a sluggish course. Even though the housing sector is clearly getting back on its feet, manufacturing, especially manufacturing connected to global markets, continues to restrain overall growth for the region and nation.

Employment: After moving below growth neutral for January, the region's employment gauge climbed above 50.0 for February. Even so, the February reading stood at a weak 51.6, but was up from January's 48.9. Employment readings over the past several months are consistent with little to no job growth in the region in the next three to six months.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, advanced to 72.6 from 71.8 in January. The Federal Reserve Open Market Committee, which sets U.S. interest rate policy remains committed to their current aggressive ‘cheap’ money policy. While it has not sparked any significant inflationary pressures for U.S. consumers, this policy is boosting our wholesale inflation gauge and is pushing U.S. asset prices up at a pace that is causing disruptions in certain sectors of the economy such as agriculture.

Confidence: Looking ahead six months, economic optimism, as captured by the February business confidence index, sank to 50.6 from January's 56.6. This month we asked supply managers how the upcoming sequestration would affect their company's sales. More than one-third, or 35.1 percent, expect the cut in federal spending to result in a reduction in unit sales for their company. It is clear that this had a negative impact on supply manager's economic outlook this month. As reported by one supply manager, “Sequestration is a big question mark for us since we do a lot with first tier suppliers to the government.”

Inventories: Regional inventory levels increased for the month but at slower pace compared to January. The February inventory index declined to 52.2 from January's 55.0. Companies in our survey have now expanded inventory levels for three straight months. This inventory accumulation will add slightly to regional growth in the months ahead. Companies in the region continue to expand “sustainable” procurement policies. This month, almost half, or 47.6 percent, of firms indicated that they had expanded sustainable purchases of raw materials and supplies. On the other hand, 45.2 percent reported no change and 7.2 reported a reduction in sustainable buying.

Trade: New export orders remain weak for the region. The new export orders index increased to a frail 49.2 from January's 45.3. On the other hand, imports advanced to 53.7 from 50.7 for January. As our overall regional gauge moved above growth neutral for February, so did purchasing from abroad. On the other hand, economic weakness among the region's important trading partners weighed on exports.

Other components: Other components of the February Business Conditions Index were new orders at 55.0, up from 52.3 in January; production or sales at 55.5, up from 53.9; and delivery lead time at 51.1, down from 56.1 in January.

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 February overall index for Arkansas dipped to 51.1 from 52.3 in January. Components of the index from the February survey of supply managers were new orders at 44.5, production or sales at

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49.0, delivery lead time at 62.5, inventories at 50.0, and employment at 49.4. Over the past year, the state's unemployment rate has declined by seven tenths of one percentage point. However, a large part of this decline was the result of approximately 23,000 workers leaving the work force. Our surveys point to a continuation of this weak hiring market, especially for smaller manufacturers as they struggle with impending mandates from healthcare reform.

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 64.6, a regional high, from 59.8 in January. Iowa's leading economic indicator has now moved above growth neutral for 38 straight months. Components of the index for February were new orders at 70.7, production or sales at 71.1, delivery lead time at 58.4, employment at 62.5, and inventories at 60.3. For the first time since the economic recovery began in 2009, Iowa's unemployment rate has moved below 5 percent. Businesses in the state tied to energy and agriculture continue to experience healthy growth. Our surveys indicate that economic growth for Iowa will remain healthy for the next three to six months.

KANSAS

The Kansas Business Conditions Index for February expanded to 54.1 from January's 48.3. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 57.2, production or sales at 56.2, delivery lead time at 50.5, employment at 49.7, and inventories at 56.7. The state's unemployment rate has declined by a full percentage point over the past year. However during this same period of time, Kansas has lost more than 7,000 jobs and approximately 22,000 workers left the state's labor market. Our surveys over the past several months point to sluggish, but positive business and job growth for the next three to six months.

MINNESOTA

For a third 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 52.0 from 52.6 in January. Components of the index from the February survey were new orders at 44.8, production or sales at 50.5, delivery lead time at 56.2, inventories at 52.7, and employment at 51.7. Over the past year, Minnesota's unemployment rate has declined by approximately one-half of one percentage point. However, job growth has been sluggish over this same period of time. Our surveys over the past several months point to a continuation of this trend with very slow job growth. Minnesota firms depending heavily on exports have been negatively affected by slowing global economic pullbacks. On the positive side, firms linked to agriculture continue to experience healthy growth.

MISSOURI

The February Business Conditions Index for Missouri advanced to 52.1 from January's 51.2. Components of the survey of supply managers in the state were new orders at 51.8, production or sales at 50.9, delivery lead time at 53.8, inventories at 47.1, and employment at 57.0. Missouri's unemployment rate continues to move lower with the current jobless rate down a full three percentage points since the national economic recovery began in 2009. Heavy or durable goods manufacturers in the state, such as metal producers, continue to experience healthy growth while nondurable goods producers are encountering downturns in economic activity. Over the next three to six months, Missouri's economic growth will slow but remain positive according to our surveys.

NEBRASKA

For the second time in the past three months, Nebraska's leading economic indicator sank below growth neutral. The Business Conditions Index, from a survey of supply managers, tumbled to 48.7 from January's 50.5, but was up slightly from December's 48.4. Components of the index for February were new orders at 50.2, production or sales at 47.5, delivery lead time at 48.8, inventories at 52.8, and employment at 44.3. Contrary to other states in the region, Nebraska's unemployment rate has declined and the labor force has expanded since the national expansion began in 2009. However according to our surveys over the past several months this very positive trajectory is now ending with slow to no growth projected for the next three to six months.

NORTH DAKOTA

For a third straight month, North Dakota's leading economic indicator is pointing to softer but still positive economic growth in the next three to six months. The index expanded to 54.4 from January's 53.8. Components of the overall index for February were new orders at 62.1, production or sales at 69.5, delivery lead time at 50.4, employment at 52.8, and inventories at 37.1. As a result of very strong economic growth, North Dakota's labor force participation rate, the share of the population that is working or looking for work, is the highest in the nation and its unemployment rate is the lowest in the nation. Thus, companies in the state are having increasing difficulty recruiting additional workers even as their new orders continue to expand at a very healthy pace. As a result, labor shortages are the chief inhibitor to more robust growth in North Dakota in the months ahead.

OKLAHOMA

The Business Conditions Index for Oklahoma moved above growth neutral for February. The leading economic indicator from a monthly survey of supply managers dipped to 52.5 from 53.8 in January. Components of the February survey of supply managers in the state were new orders at 51.7, production or sales at 48.4, delivery lead time at 49.0, inventories at 62.4, and employment at 51.0. Since the recovery began in 2009 and contrary to the nation, Oklahoma's unemployment rate has declined by two percentage points and the state's labor force has expanded by almost 40,000 workers. Durable goods manufacturers such as metal product producers are reporting very healthy growth while nondurable manufacturers including food processors are detailing pullbacks in economic activity. Based on our survey results over the past several months, Oklahoma growth will continue on a positive, but slower pace.

SOUTH DAKOTA

For a third straight month, South Dakota's leading economic indicator from a survey of supply managers rose above the 50.0 threshold to 52.5 from January's 53.5 and December's 51.9. Components of the index for February were new orders at 47.9, production or sales at 55.2, delivery lead time at 49.1, inventories at 52.4, and employment at 49.2. Since the recession ended in 2009, South Dakota's unemployment rate has declined by almost one percentage point. Manufacturing growth has been an important factor contributing to the lower jobless rate. Recent surveys indicate that overall and manufacturing growth will continue to be positive but slower.



THE BULLISH NEWS

- Gasoline prices dropped this month as West Texas intermediate oil prices fell below \$90 per barrel.
- Nonfarm payroll employment rose by 236,000 in February and the unemployment rate dipped to 7.7% from 7.9%.

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- The S&P/Case-Shiller Home Price Indices for December, showed home prices rose 6.8% in the 12 months ending in December 2012.
- The Conference Board Consumer Confidence Index rebounded in February as the shock effect caused by the fiscal cliff uncertainty and payroll tax increase faded.
- Both the national and Creighton purchasing management indices (PMI) for February as in past months point to improving growth in the months ahead.



THE BEARISH NEWS

- Same store sales continue to run at about a 2.5% to 3.0%, year-over-year growth. This is not good.
- The US trade deficit widened to \$44.4 billion in January as exports dropped and oil imports rose.

WHAT TO WATCH

- PMI's: On April 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI. A large increase would be very bullish for the economy and “seal the deal” on higher long-term interest rates.
- Retail sales: Around the middle of each month the U.S. Census Bureau releases its retail sales data for the previous month. The consumer is still under water. Any significant weakness reported in April for the month of March will be blamed on the sequester and will receive major press coverage. We need to see monthly growth of 0.7%+ to continue bullish trend.
- Jobs: On Friday April 5, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for March. Another strong report will like March's will mean higher interest rates sooner.

THE OUTLOOK

FROM GOSS:

- The U.S. Department of Energy is considering 16 applications for terminals to export American natural gas to energy-hungry countries such as Japan. Approval of these applications will be a very important step to help insure long-run U.S. economic growth.
- I expect long-term interest rates to rise by as much as 1% by the end of the summer.
- Oil and gasoline prices will move significantly lower by the end of summer.
- I expect a pullback in U.S. stock prices soon. However, stocks remain a bargain even at their current levels (the healthiest horse in the glue factory).

OTHER FORECASTS:

- “International Trade Management in Supply Chain Program,” The International Trade Management in the Supply Chain Certificate program is designed to meet the needs of companies that do business in an international environment. The program includes key topics from areas such as compliance, the legal environment, risk management, security, and global operations. The program consists of a set of core courses and an applied project to complete the certificate requirements. This program uses an applied knowledge instructional approach to deliver the maximum value to students and employers.

Goss Eggs (Recent Dumb Economic Moves)

- Iowa Senator. Tom Harkin plans to reintroduce his transactions tax. It is expected to generate new taxes of \$350 billion over 10 years. The Iowa Democrat and other lawmakers announced recently that they're making a fresh run at a transaction tax on Wall Street trades. For every \$100 in trades, the tax would be three cents. This will be a “slippery slope” with the rate growing as Washington's spending needs expand. In the end, it will punish the financial sector and retirement accounts.

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

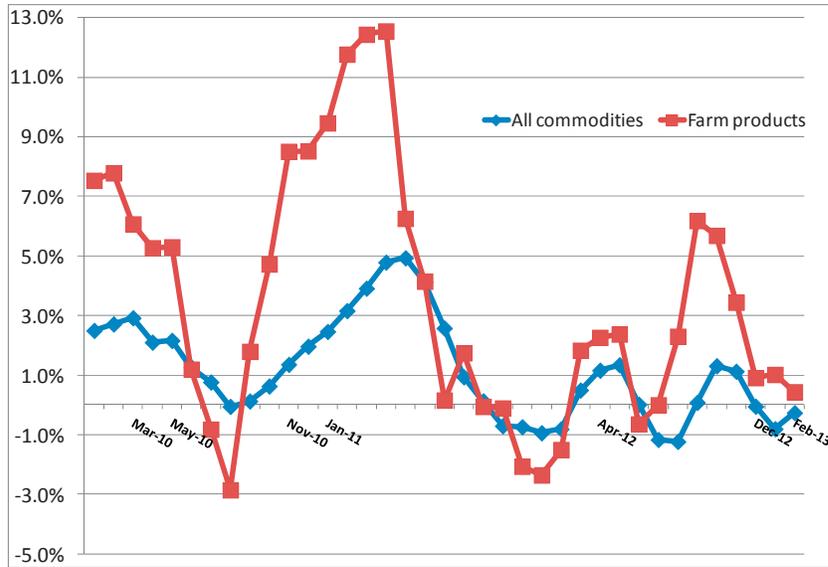
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PRICE DATA

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

