

## "A monthly survey of supply chain managers"

Welcome to our March report covering February survey results. The monthly survey of based survey of supply managers in nine Mid-America states points to improving growth with inflationary pressures rising slightly. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Affordable Care Act (ACA), Social Security and Medicare: Shifting Income from Young to Old

More than 25 percent of the U.S. population (including President Obama) was born between 1946 and 1964. U.S. society has made, and continues to make, economic promises to these baby boomers that must be ultimately shouldered by the nation's youth. Not only are the 25 percenters leaving the workforce at very high rates, (consuming instead of producing), they are draining the U.S. Treasury via higher Social Security (SS) benefits and greater Medicare spending. Over the past decade, SS outlays soared by 70 percent and Medicare expenditures rocketed by 135 percent, enlarging the nation's debt to \$16.5 trillion. This debt, which is the largest in the galaxy, and more than 100 percent of GDP, will ultimately be paid by the 60 percenters (those born after 1964) via higher taxes. Furthermore, the ACA is charging higher insurance rates for the young and healthy to subsidize the insurance coverage for citizens born before 1965 who tend to be less healthy. For example, Forbes estimates that a 27 year old male will sustain an insurance premium increase of 30% more than that faced by individuals over 64. The U.S. should take steps to reduce this mammoth wealth transfer from young to old by: (1) raising the SS retirement age 2 months per year until reaching 70 years of age; (2) increasing the Medicare eligibility age from 65 to 67; (3) cutting the yearly SS inflation adjustment; and (4) adjusting ACA premiums for age, or likely health care costs. By slowing the growth in SS and Medicare spending and by reducing ACA subsidies for older Americans, the U.S. would avoid the stagnation and looming tax burdens for the nation's youth. In 2012, 40 percent of U.S. males ages 18 to 31 lived with their parents. Federal spending policy should help junior exit the basement, not exile him/her permanently to the cellar. Ernie Goss.

#### Link to video:

<http://youtu.be/dXTNhZrFWGU>

### LAST MONTH'S SURVEY RESULTS

#### Extreme Weather Pushes Mid-America Index Lower: Inflation Highest in Two Year

#### SURVEY RESULTS AT A GLANCE:

- Leading economic indicator declines slightly but continues to point to growth for the next three to six months.
- Almost one-third of supply managers reported recent extreme weather had a negative impact on February sales.
- Inflationary pressures rise to highest level in two years.
- Approximately one in 10 firms expects positive sales impacts from the recently passed farm bill.

The Mid-America Business Conditions Index for February, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, points to positive growth in the next three to six months. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, dipped slightly to 57.4 from January's 57.7. This month supply managers were asked how much the February weather affected their company's business. Almost one-third, or 32.4 percent, indicated that recent extreme weather had a negative impact on company sales. Only 5.4 percent reported positive impacts with the remaining 62.2 percent indicating little or no impact. Despite negative fallout from severe weather, supply managers, especially those in durable and nondurable manufacturing, reported healthy business activity for the first two months of 2014.

**Employment:** After declining below growth neutral for December, the employment gauge has remained above the threshold for the second straight month, though it did decline in February. The employment index dipped slightly to a still solid 55.6 from 56.4 in January. Despite some weather-related job losses for the month, healthy gains were recorded for both manufacturing and value-added business services. Metal manufacturers continue to expand. Even though growth has slowed in the farm sector, agriculture-equipment manufacturers are experiencing healthy growth stemming from sales abroad. This month supply managers assessed how the recently passed farm bill would affect company sales. Approximately 10.9 percent expect positive impacts while 6.8 percent anticipate negative impacts. The remaining 82.3 percent expect little or no sales impacts from the recently passed farm bill.

**Wholesale Prices:** The prices-paid index, which tracks the cost of raw materials and supplies, increased to its highest level in almost two years. The wholesale inflation gauge expanded to 75.7 from 71.6 in January. After remaining weak for most of the last year, inflationary pressures at the wholesale level are once again expanding at a faster, but still modest, pace. While the Federal Reserve has announced that it intends to scale back its bond buying program, termed QE3, by another \$10 billion in March, I expect the Fed to begin scaling this program more aggressively in the months ahead as inflationary pressures rise at a somewhat faster pace.

**Confidence:** Looking six months ahead, economic optimism, as captured by the February business confidence index, declined to a strong 59.7 from January's 62.2. As in previous months, modest improvements in regional employment, moderate inflation and less D.C. political turmoil, supported supply managers' business outlook for the month. Inventories: The inventory index, which tracks the level of raw materials and supplies, expanded to 59.7 from January's 53.2. This is yet another signal that supply managers are more upbeat about the economy as they increased inventories in anticipation of expanding sales for their companies in the months ahead.

**Trade:** The new export orders index climbed to a 55.4 from 54.9 in January. The import index for February was unchanged from 52.4 in January. It is a very encouraging signal to track a fourth straight month of healthy new export orders. At the same time, firms in the region continued purchasing from abroad in expectations of upturns in company sales in the weeks and months ahead.

**Other components:** Other components of the February Business Conditions Index were new orders at 53.4, down from 58.5 in January; production or sales at 61.7, down from 64.7 in January; and delivery lead time at 56.8, up from January's 55.6.

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,

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Nebraska, North Dakota, Oklahoma and South Dakota.

The forecasting group's overall index, referred to as the Business Conditions Index, ranges between 0 and 100. An index greater than 50 indicates an expansionary economy over the course of the next three to six months. The Business Conditions Index is a mathematical average of indices for new orders, production or sales, employment, inventories and delivery lead time. This is the same methodology used by the National Institute for Supply Management, formerly the Purchasing Management Association, since 1931.

### MID-AMERICA STATES

#### ARKANSAS

The February overall index, or leading economic indicator, for Arkansas expanded to 55.1 from 53.6 in January. Components of the index from the monthly survey of supply managers were new orders at 67.1, production or sales at 48.6, delivery lead time at 50.1, inventories at 57.0, and employment at 51.8. Growth among business services firms more than offset pullbacks for non-durable goods manufacturers.

#### IOWA

Iowa's Business Conditions Index climbed to a regional high of 64.5 from January's 59.1. Components of the index from the monthly survey of supply managers were new orders at 66.5, production or sales at 69.3, delivery lead time at 64.7, employment at 60.2, and inventories at 61.9. Strong growth was recorded for metal manufacturers and food processors. Even as domestic sales of agriculture equipment have cooled, international sales of farm and earth moving equipment have boosted business activity of agriculture equipment manufacturers in the state. On the other hand, firms linked to vehicle manufacturing recorded pullbacks in business activity.

#### KANSAS

The Kansas Business Conditions Index for February dropped to a solid 55.1 from January's 58.3. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 49.1, production or sales at 67.3, delivery lead time at 49.8, employment at 52.0, and inventories at 60.6. Growth was recorded for machinery manufacturers and business services firms in the state. On the other hand, businesses tied to aircraft manufacturing reported pullbacks in business activity.

#### MINNESOTA

For 15 straight months, Minnesota's Business Conditions Index has remained above growth neutral. The index advanced to 64.1 from January's 57.7. Components of the index from the February survey were new orders at 63.3, production or sales at 68.3, delivery lead time at 62.4, inventories at 72.5, and employment at 54.0. Expansions for durable goods manufacturers, including medical equipment producers, more than offset pullbacks for food processors. As in past months, companies reported expanding output via the use of temporary employment.

#### MISSOURI

The February Business Conditions Index for Missouri grew to 53.6 from 53.2 for January. Components of the survey of supply managers in the state were new orders at 51.5, production or sales at 55.5, delivery lead time at 56.2, inventories at 51.7, and employment at 52.9. Durable goods producers, including metal manufacturers and motor vehicle manufacturers, boosted recent growth in the state. Business services firms are also experiencing upturns in business activity.

#### NEBRASKA

After declining below growth neutral for the last three straight months of 2013, Nebraska's overall index rose above 50.0 for the first two months of 2014. The index, a leading economic indicator from a survey of supply managers in the state expanded to 53.9 from January's 52.2. Components of the index for February were new orders at 55.6, production or sales at 57.8, delivery lead time at 47.1, inventories at 51.3, and employment at 57.7. Durable goods manufacturers, including metal manufacturers, detailed positive growth. Even as domestic sales of agriculture equipment have cooled, international sales of farm and earth moving equipment have boosted business activity of agriculture equipment manufacturers in the state. Food processors in the state are experiencing healthy growth.

#### NORTH DAKOTA

North Dakota's leading economic indicator rose to 57.6 from January's 56.5. Components of the overall index from the monthly survey of supply managers for February were new orders at 56.8, production or sales at 51.6, delivery lead time at 67.8, employment at 59.0, and inventories at 52.9. Advancing economic conditions among durable goods producers and business services firms more than offset somewhat weaker business conditions for food processors in the state.

#### OKLAHOMA

After slipping below growth neutral in the third quarter of 2013, Oklahoma's Business Conditions Index has been pointing toward growth for the first half of 2014. The overall index, a leading economic indicator, advanced to 58.9 from 54.7 for January. Components of the February survey of supply managers in the state were new orders at 75.1, production or sales at 60.9, delivery lead time at 49.2, inventories at 55.8, and employment at 53.4. Advancing economic conditions among durable goods producers, including machinery manufacturers, and business services firms more than offset somewhat weaker business conditions for food processors in the state.

#### SOUTH DAKOTA

After moving below growth neutral in November of 2012, South Dakota's leading economic indicator has been above growth neutral 50.0 each month since. The overall index from the monthly survey of supply managers expanded to 60.9 from January's 55.1. Components of the overall index for February were new orders at 59.4, production or sales at 67.3, delivery lead time at 50.6, inventories at 61.9, and employment at 65.1. Manufacturers in the state continue to add jobs and increase the hours worked for current employees. Wholesalers in the state are experiencing upturns in business activity.



### THE BULLISH NEWS

- For February, Creighton University's survey of supply managers and the national survey of supply managers point to improving but slow growth for the first half of 2014.
- Government spending declined for the final quarter of 2013.
- Housing prices continue to grow at very strong rates (13% year-over-year). While this is a very healthy signal, housing price growth in getting too far ahead of economic fundamentals.

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## THE BEARISH NEWS

- U.S. GDP growth for the final quarter of 2013 was revised to 2.4% from initial reading of 3.2%.
- Too low inflation, or disinflation, threatens the EuroZone economy. At 0.8% CPI growth, the EUZone must move for fundamental economic reforms that will encourage work and discourage non-work. Think Japan.

## WHAT TO WATCH

- **CPIs:** On April 15, the Bureau of Labor Statistics releases consumer price indices for March. A monthly increase of 0.2% or more will encourage the Fed to maintain and potentially reduce its \$10 billion monthly bond buying program. It will point to higher long-term interest rates. No change in short-term interest rate.
- **Gold Prices. Watch Daily:** Since January 1, 2014, gold prices have risen by more than 10%. If inflationary pressures continue to advance and global risks mount, gold will become an even better bet.
- **Jobs:** On Friday April 4, the U.S. Bureau of Labor Statistics (BLS) will release employment report for March. Strong job additions (above 200,000) will result in long term interest rates rising more quickly.

## THE OUTLOOK

### FROM GOSS:

- The Chinese to continue to weaken their currency in order to bolster waning growth by stimulating exports. This is going to produce a lot of harsh rhetoric from DC politicians.
- Mortgage rates to continue to move higher, albeit at a slow pace.
- Inflationary pressures to rise in the months ahead but to a still modest pace or approximately 2.2% annually.

### OTHER REPORTS:

- The Obama Administration is forecasting 2014 economic growth to come in the highest since 2005 when GDP growth was 3.3%. We have now officially entered the "era of lower expectations." At this time in the business cycle, GDP growth should be 4%-5%.
- The Congressional Budget Office estimated that the Affordable Care Act will incentivize 2.5 million Americans to leave the workforce since working will reduce their health insurance premiums.

## Goss Eggs (Recent Dumb Economic Moves)

- Congress learned nothing from Hurricane Sandy. The National Flood Insurance Program is \$24 billion underwater due to undercharging high risk homeowners for flood insurance. Instead of raising premiums on risky homes built by the "rich" on the nation's coasts, Senator Landreiu of Louisiana proposes to cap premium increases to the point that taxpayers will pick up the tab for losses connected to this risky building activity.

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

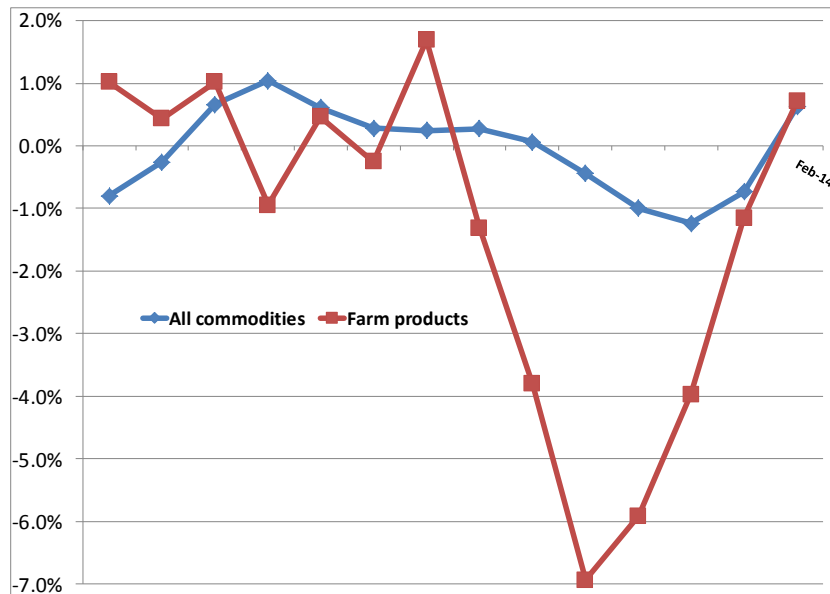
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## PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2014  
 FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, Jan. 2013 - February 2014



Price changes, 3 month moving average, Jan. 2013 - Feb. 2014

