Welcome to our October report covering September survey results. Our surveys indicate rising inflationary pressures with a slowing economy for Mid-America but advancing conditions the Mountain States. Follow my comments at: www.twitter.com/erniegoss

U.S. Economic Competitiveness in Decline: Growing Size of Government at Fault

U.S. economic competiveness is in decline. Since 2009, the U.S. ranking has dropped from number 15 to 19 of the 144 nations evaluated by the Fraser Institute http://www.freetheworld.com/release.html. The primary factor damaging the U.S. ranking was the escalating size of the federal government with U.S. federal spending as a percent of the nation's gross domestic product (GDP) climbing from 21.8 percent in 2008 to 24.1 percent in 2012. Moreover, between 2008 and 2012, overall private employment declined by 2.5 percent while federal employment increased by 1.2 percent. As the size of the federal government rose, the national debt soared from $9.4 trillion in 2008 to $15.9 trillion in 2012, advancing by approximately 70 percent as the overall economy expanded by only 9 percent. As a result of the massive U.S. debt, Standard and Poor's downgraded U.S. bonds in 2011. But the U.S. Federal Reserve has delayed the "debtageddon" by buying U.S. debt and effectively turning on the dollar printing presses and risking rampant inflation in the years ahead. Moreover, global investors, afraid to invest in stocks, have put their funds in U.S. bonds driving rates lower even with downgrades and the cheaper dollar. However, with 300,000 baby boomer retiring each month pushing social security spending and Medicare outlays higher, there will be a day of reckoning for the U.S. taxpayer and bond investor, but no economist knows when that is. However, the sure signal is when bond investors begin abandoning (selling) U.S. debt. This action will send the yield on the 10-year U.S. Treasury bonds skyrocketing. How high could they go? Today's rate of 1.7 percent will surely bounce to something approaching Spain's current 7 percent. This will mean more and more federal tax collections will be devoted to the payment of interest. Ernie Goss.

Link to video: http://youtu.be/ga2mCLolbYM

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Inches Forward: Very Weak Fourth Quarter Ahead for Region

SURVEY RESULTS AT A GLANCE

- After two straight months of below growth neutral readings, the leading economic indicator moved above this threshold for the month.
- Lowest employment gauge in over three years, indicates job losses for September.
- Export orders index sink below growth neutral for third straight month.
- Indicators point to slight positive economic growth for the final quarter of 2012.

After two straight months below growth neutral the monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, inched above this threshold for September. Surveys over the past several months signal zero to slight positive economic growth for the region for the final quarter of 2012. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, rose to a weak 50.4 from 49.7 in August. Growth in the regional economy has definitely slowed. Surveys over the past several months point to flat to slight growth for the fourth quarter of this year. However, two states with significant dependence on energy, North Dakota and Oklahoma, will continue to expand at a solid pace in the final quarter of the year according to our survey results.

Employment: The economic slowdown is pushing the regional employment index lower. The index once again sank below growth neutral to a weak 46.1 from 49.5 in August. This is lowest job reading recorded since shortly after the recession ended in 2009. The manufacturing sector has been shedding jobs over the past several months. I expect the regional economy to lose both manufacturing and non-manufacturing jobs, albeit at a slow pace, in the final quarter of 2012. Gains for Iowa, North Dakota and Oklahoma will be more than offset by losses for the other six states in the region.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, advanced to 66.0 from August's 65.2 and was much higher than July's 51.1. The combination of drought conditions and the Federal Reserve's easy or cheap money policies are driving the wholesale level higher. Higher food and commodity prices at the wholesale level, as indicated in our surveys, will surface in upturns in consumer prices in the months ahead. Furthermore over the next six months, supply managers expect the costs of inputs they purchase to rise by 3.0 percent. This is significantly higher than July's 2.1 percent expected rise. Thus both current and future expected price growth are heading higher. While I do not expect rampant inflationary pressures in the months ahead, it is clear that the recent period of very benign inflation is coming to an end.

Confidence: Looking ahead six months, economic optimism, as captured by the September business confidence index, climbed slightly to a weak 44.7 from August's 44.3. Supply managers, much like the entire business sector, remain very pessimistic regarding future economic conditions. The looming fiscal cliff, the elections, and European economic turmoil are all weighing on economic confidence.

Inventories: Regional inventory levels continued to decline, but at a slower rate with a September inventory index increasing to 49.2 from August's 47.3. Supply managers have cut inventories for three straight months. This is yet another signal of economic pessimism as supply managers cut the inventory levels in anticipation of slower production and/or sales in the months ahead.

Trade: New export orders once again declined for the month but at a slightly slower rate than for August. The new export orders index advanced to 48.7 from 48.3 in August. At the same time, September imports contracted for the month with an index of 48.9, down from 51.4 in August. Weaker global and regional economic growth contracted both import and export readings. Given the importance of exports to past regional growth, the downturn in new export orders is another factor that will contribute to a final quarter that is lackluster.

Other components: Other components of the September Business Conditions Index were new orders at 48.7, up from 46.1 in August; production or sales at 51.7, up from 49.5; and delivery lead time at 56.4, up from 56.2 in August.

MID-AMERICA STATES

ARKANSAS

The September overall index, or leading economic indicator, for Arkansas slipped to 49.6 from August's 51.2. Components of the index from the monthly survey of supply managers for September were new orders at 43.5, production or sales at 49.6, delivery lead time at 50.3, inventories at 50.5, and employment at 54.0. Job growth in the state has slipped over the past several months. Our recent surveys indicate that the Arkansas' job growth will continue to decline for the final quarter of the year with no new net job gains. Job gains for durable goods producers will be offset by losses for nondurable goods manufacturers. The 2012 drought will continue to restrain retail sales in the state.

IOWA

Iowa's September Business Conditions Index declined to 56.5 from 57.1 in August. The overall index has remained above growth neutral for the last 33 months. Components of the index for September were new orders at 59.6, production or sales at 55.4, delivery lead time at 58.8, employment at 53.2, and inventories at 55.5. Both durable and nondurable goods manufacturers continue to report expanding economic conditions with job gains. The 2012 drought has yet to put a dent in business activity for agriculture equipment manufacturers in the state, but has negatively influenced retail sales.

KANSAS

The Kansas Business Conditions Index for September sank 47.3 from August's 48.0. Components of the index from the September survey of supply managers in the state were new orders at 45.5, production or sales at 53.1, delivery lead time at 46.8, employment at 45.3, and inventories at 46.0. Surveys over the last several months point to no job gains for Kansas for the final quarter of 2012. The 2012 drought will continue to weigh on businesses linked to agriculture in the state. Pullbacks in exports will negatively impact the state's economy in the fourth quarter of 2012.

MINNESOTA

For a third straight month, the Minnesota Business Conditions Index slumped below growth neutral. The index, based on a survey of supply managers in the state, decreased to 47.2 from 49.7 in August. This is the first time since the recession that the overall index has been below 50.0 for three straight months. Components of the index from the September survey were new orders at 36.8, production or sales at 42.9, delivery lead time at 60.4, inventories at 50.3, and employment at 45.8. Very strong job growth for the first half of 2012 will be replaced by zero to slightly negative employment gains for the final quarter of 2012. Job gains for durable goods producers will be more than offset by job losses for nondurable goods manufacturers, including food processors.

MISSOURI

The September Missouri Business Conditions Index slipped to 51.0 from August's 53.9. Components of the survey of supply managers in the state for September were new orders at 49.9, production or sales at 52.0, delivery lead time at 54.4, inventories at 45.4, and employment at 53.1. Durable goods producers in Missouri continue to report very healthy growth. However, nondurable goods manufacturers are experiencing pullbacks in economic activity. Additionally, businesses linked to agriculture continue to be negatively influenced by the 2012 drought. Job additions for the final quarter of 2012 will be less than one-fourth of that experienced in the first quarter of 2012.

NEBRASKA

After slipping below growth neutral for two straight months, Nebraska's leading economic indicator moved above 50.0 for September. The Business Conditions Index advanced to a weak 50.3 from 47.8 in August. Components of the index for September were new orders at 46.3, production or sales at 49.9, delivery lead time at 55.8, inventories at 52.0, and employment at 47.7. Job growth will be flat for the final quarter of 2012 for Nebraska. Gains for durable goods producers will be offset by losses for nondurable goods manufacturers, including food processors.

NORTH DAKOTA

The leading economic indicator for North Dakota expanded to a regional high for September. The Business Conditions Index from the survey of supply managers increased to 61.6 from August's 57.4, also a regional high. Components of the overall index for September were new orders at 70.9, production or sales at 74.7, delivery lead time at 64.2, employment at 52.3, and inventories at 45.9. All sectors of the North Dakota economy continue to expand at a solid pace. However, industries and firms with close ties to energy are growing at a very healthy pace with labor shortages reported in some areas of the state.

OKLAHOMA

The Business Conditions Index for Oklahoma advanced for September. The leading economic indicator from the supply manager survey climbed to 56.6 from 53.6 in August. Components of the September survey of supply managers in the state were new orders at 54.8, production or sales at 49.5, delivery lead time at 78.1, inventories at 42.0, and employment at 58.4. Durable goods producers in Oklahoma, such as metal product manufacturers, are expanding at a very healthy pace. This expansion is more than offsetting losses for nondurable goods manufacturers such as food processors. Surveys over the past several months point to solid gains and a reduction in the state's unemployment rate by 0.3 percentage points in by the end of the year.

SOUTH DAKOTA

For a third straight month, the leading economic indicator for South Dakota declined below growth neutral. The Business Conditions Index from a survey of supply managers in the state slipped to 46.6 from August's 47.2. Components of the index for September were new orders at 42.9, production or sales at 50.7, delivery lead time at 49.9, inventories at 45.4, and employment at 44.1. Manufacturing growth has stymied over the past several months. Companies in South Dakota continue to expand sales and output via increases in the hours worked of current employees rather than adding new workers. Job growth will be flat for the final quarter of 2012.

THE BULLISH NEWS

- The U.S. unemployment rate sank to from 8.1% to 7.8%, its lowest level in almost 4 years.
- According to the Case-Shiller home price index for July, U.S. home prices (year over year) increased for a second straight month.
- Due to expanding natural gas supplies from fracking, utility rate payers have saved as much as $3,000 per household over the past year (depending on state and usage).
- The Federal Reserve's Sept. 13 QE3 has had the impact of supporting and expanding the stock market as measured by the Dow Jones industrial average by 4.4 percent as of Oct. 5.

THE BEARISH NEWS

- The October jobs report was not good with only 114,000 jobs created and the manufacturing sector lost 16,000 jobs. We need more than 200,000 jobs additions per month to get back on track.
- A high share of jobs created for September were part-time.

- The U.S. debt surpassed $16 trillion or about 100% of GDP. Ultimately, this will push long term interest rates higher but no one knows when.

- This week it was announced that the federal budget deficit for fiscal 2012 was over $1 trillion. As a share of GDP, the largest budget deficits since 1947 have been recorded for 2009, 2010, 2011 and now 2012.

WHAT TO WATCH

- PMI's: On Nov.. 1, Creighton's releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Investors will take another move upward as a bullish economic signal.

- Jobs: On Friday Nov. 2, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for October. This is the last report before the November 6 elections. Another weak jobs report (less than 150,000) will signal that the U.S. economy needs more help (but not from the government).

- GDP: On Oct. 26, the U.S. BEA releases third quarter GDP. A growth number above 2.0 percent will be bullish for stocks. A growth number below 1 percent will be bearish. I expect 1.5% - 2%.

THE OUTLOOK

FROM GOSS:

- I expect another European financial eruption before the end of 2012. This will help keep U.S. interest rates super low.

- Housing prices, but not new construction, will continue to progress at an improving rate in the months ahead. Case-Shiller index will be up for August.

- The October U.S. unemployment rate will rise as discouraged workers begin looking for seasonal work.

OTHER FORCASTS:

- National Association of Business Economics. "Most respondents consider current monetary policy to be "about right" and three-quarters of the respondents believe that short-term interest rates will remain unchanged over the next 12 months. Note that the survey was conducted before the Federal Reserve announced a third round of quantitative easing (QE) on September 13, and nearly 60 percent of the panelists said that the Fed should not undertake more QE. There was no clearly defined consensus among panelists about the efficacy of the Fed's announced target for inflation and its projections of the federal funds rate. Two-thirds of the panelists believe that a Volcker-type rule, which would prohibit banks from engaging in trading for their own accounts, should be enacted, and 70 percent of the panelists favor approval of the Keystone pipeline. There is also a widely shared expectation that health-care costs in the United States will account for a larger share of GDP in 10 years than they do at present, assuming that the Affordable Care Act is not repealed. Finally, more than 60 percent of the NABE panel expects that in five years, the European Monetary Union will have less than its current 17 member countries."

- Supply Manager Reading Room- Is Your Supply Chain Intelligent Enough? In today's constantly changing environment, it's evident that companies need access to key data and metrics to meet customer demands, grow and stand out from their competitors. And perhaps this holds true even more so for businesses directly involved with their supply chain processes—those that are geared to obtain competitive intelligence; maintain contractual compliance; connect buyers with suppliers; generate sales leads; and conduct market research, all to help grow their businesses and maintain efficiencies. http://www.sdcexec.com/article/10769888/is-your-supply-chain-intelligent-enough?utm_source=SDCE+Newsletter&utm_medium=email&utm_campaign=SDCE120830002

Goss Eggs (Recent Dumb Economic Moves)

- Last week the Federal Reserve (Fed) launched QE3 (quantitative easing 3). I liken this mortgage-backed securities buying program to getting that third hit of caffeine with your morning coffee. The first cup (QE1) has an impact, the second less of an effect (QE2), and the third (QE3) is a non-event. QE3 may boost farm commodity prices and stocks temporarily but will have NO impact on the overall economy. The Fed should have taken no action.

Survey results for October will be released Nov. 1.

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http://www2.creighton.edu/business/economicoutlook/
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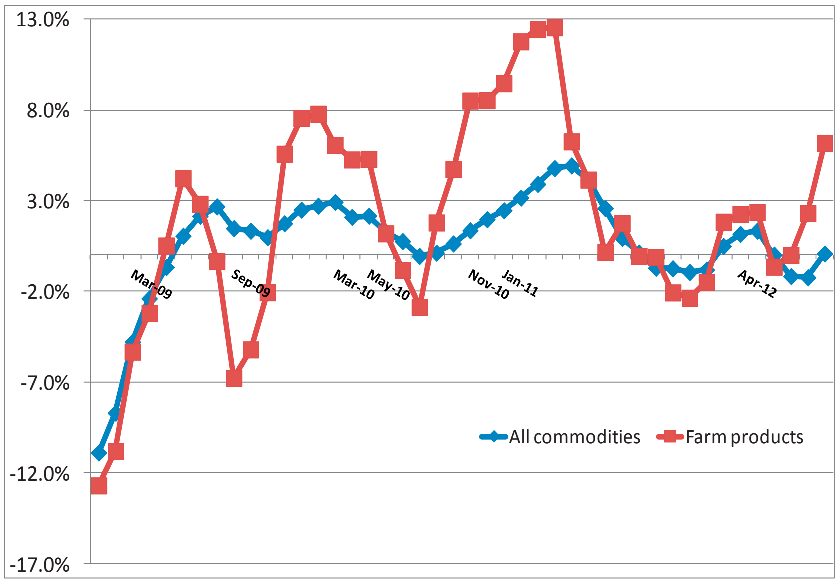
PRICE DATA

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

Price changes, 3 month moving average, 2009-2012



Price changes, 3 month moving average, 2009-2012