

"A monthly survey of supply chain managers"

Welcome to our October report covering September survey results. All three surveys, U.S., Mid-America and Mountain States are pointing to the same economic outcome for the final quarter of 2013; slow but positive growth. However, lower agriculture commodity prices and pullbacks in the energy sector will cut into Mid-America and Mountain States growth. Follow my comments at: www.twitter.com/erniegoss

Too Much Politics at the Federal Reserve: Fed Supports Politicians' Overspending

Prior to the September meeting of the Federal Reserve's (Fed) Federal Open Market Committee (FOMC), Fed bank presidents, who are chosen by bankers and business leaders from across each of the 12 Fed regions, indicated in speeches that their stimulus program would likely be reduced beginning at the September FOMC meeting. During this same period of time, presidential appointed Fed governors, who are also members of the FOMC fell mute. Surprisingly, instead of reducing the \$85 billion monthly bond buying program, entitled QE3, the FOMC decided to maintain intact this unprecedented economic stimulus program. This program, at its current pace, will purchase three-fourths of new federal government borrowing. Thus the Fed, by buying and holding \$3-4 trillion of federal debt, is bailing out Washington's overspending by providing a ready buyer for bonds and by holding interest rates at near record low levels. And last month, Congressional Democrats torpedoed President Obama's pick for the next Fed Chair, Larry Summers, in favor of a more compliant Janet Yellen who will likely be on the side of keeping QE3 in place, and potentially even expanding the program, when she assumes the chair position in January 2014. QE3, in this economist's judgment, introduces political uncertainty, punishes savers with low interest rates, produces asset price bubbles, and discourages consumer borrowing. The probability of higher future interest rates would encourage home buyers to buy and borrow today. The Fed should begin tapering QE3 ignoring meddling from politicians. Ernie Goss.

Link to video:

<http://youtu.be/uQnUK7RC6Vs>

LAST MONTH'S SURVEY RESULTS

Mid-America Job Index Sinks for September:
Affordable Care Act Having Large Negative Impact

SURVEY RESULTS AT A GLANCE:

- Regional index rises for the second straight month.
- Approximately 37.5 percent of businesses report negative employment impacts from the Affordable Care Act (ACA).
- Approximately two-thirds of firms report no impact from federal spending sequestration.
- Inflationary pressures at the wholesale level rise again.
- Business confidence plunges.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, rose for a second straight month. Surveys over the last several months point to positive, but slow growth for the

final quarter of 2013. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, increased to 54.8 from 53.8 in August. Despite all of the domestic economic uncertainty, the Mid-America survey points to positive growth for the final quarter of 2013. Growth among durable goods manufacturers more than offset pullbacks among non-durable producers and value-added service firms. Businesses linked to agriculture are experiencing much slower growth stemming from weaker agriculture commodity prices. Both exports and farm income growth are down from earlier in the year.

Employment: After moving below growth neutral for January, the region's employment gauge has remained above 50.0 for the past eight months. The September reading declined to a tepid 51.8 from 52.8 in August. Uncertainty surrounding the Affordable Care Act and the budget stalemates in Congress are causing firms to be much more cautious about hiring and have encouraged layoffs and cuts in hours worked. Nondurable goods manufacturers, especially those tied to agriculture and international markets are cutting employment and new hiring in the region.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, increased for a second straight month. The wholesale inflation gauge climbed to 64.8 from 61.8 in August. The last two months, we have recorded fairly sizable jumps in our inflation gauge. Given that the Federal Reserve continues their \$85 billion monthly bond buying stimulus program, the risk of elevated inflation is climbing but still remains well below levels that should cause concern.

Confidence: Looking six months ahead, economic optimism, as captured by the September business confidence index, fell to 51.8 from August's 53.9. Uncertainty surrounding implementation of health care reform and the Congressional/Presidential budget impasse pushed supply managers' economic outlook lower for the month. This month we asked supply managers how the Affordable Care Act (ACA) was affecting hiring in their company. More than one-fourth, or 26.3 percent, reported that the ACA was making their firm more reluctant to hire new workers. Overall 37.5 percent of supply managers indicated that their firms either cut hiring or reduced hours worked as a result of the ACA. Approximately, 62.5 percent reported no hiring or staffing impacts for their firm.

For each of the last seven months, supply managers were asked how the federal spending sequestration was affecting their company. In the September survey, approximately two-thirds of supply managers indicated that the cuts have had no impact to date. Slightly less than one-third reported only modest impacts from sequestration. Only 1 percent of businesses reported significant impacts. According to surveys over the last seven months, the impacts have been modest and have not grown.

Inventories: After declining below growth neutral for August, supply managers reported upturns in the level of raw materials and supplies to support future production. The September inventory index increased to 55.7 from 49.4 in August. A large portion of the increase in the overall index for September was the result of an increase in inventory levels. We will have to wait and see if this upturn in inventories was planned or unplanned.

Trade: The new export orders index fell sharply to 49.0 from 56.2 in August. The import index increased slightly to 50.8 from August's 49.3. Slow regional growth weighed on purchases from abroad for the month. The weakness in the export reading was in-line with what we have been tracking for several months, except for August-weaker exports.

Other components: Other components of the September Business Conditions Index were new orders at 53.7, down from 56.8 in August; production or sales at 59.9, down from last month's 60.1; and delivery lead time at 53.7, up from 50.0 in August.

The Creighton Economic Forecasting Group

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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.

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 September overall index for Arkansas fell to 40.4 from 45.8 in August. Components of the index from the survey of supply managers were new orders at 30.8, production or sales at 32.7, delivery lead time at 52.2, inventories at 47.9, and employment at 38.4. Non-durable manufacturers continue to shed jobs while durable goods processors add jobs at a slow pace. Higher mortgage rates are cutting into construction activity in the state.

IOWA

The Iowa Business Conditions Index declined for a fourth straight month but remains at a very healthy level. The overall index from a survey of supply managers for September slipped to a strong 63.3 from last month's 65.6. Components of the index for September were new orders at 66.0, production or sales at 71.6, delivery lead time at 58.2, employment at 55.8, and inventories at 64.7. Iowa's durable and non-durable goods manufacturers are adding jobs at the healthiest pace in the region. Food processors and manufacturing firms with links to the automobile industry are expanding at a very strong pace.

KANSAS

The Kansas Business Conditions Index for September was unchanged from August's 60.0. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 67.2, production or sales at 70.4, delivery lead time at 41.4, employment at 65.3, and inventories at 55.7. September growth was recorded for durable and non-durable goods manufacturers. Food processors in state continue to experience pullbacks in economic activity. Higher mortgage rates are driving construction hiring lower.

MINNESOTA

For a tenth straight month, Minnesota's Business Conditions Index moved above growth neutral. The index from a monthly survey of supply managers in the state dipped to a still solid 57.0 from 59.0 in August. Components of the index from the September survey were new orders at 60.3, production or sales at 63.7, delivery lead time at 54.8, inventories at 55.7, and employment at 51.9. Expansions among durable goods manufacturers more than offset pullbacks among food processors and other non-durable goods producers in the state.

MISSOURI

The September Business Conditions Index for Missouri climbed to 55.6 from 53.6 in August. Components of the survey of supply managers in the state were new orders at 55.9, production or sales at 63.4, delivery lead time at 51.7, inventories at 50.7, and employment at 56.4. Despite

higher mortgage rates, healthy growth in construction pushed overall state growth higher as well as healthy gains for durable and non-durable goods linked to construction.

NEBRASKA

After declining below growth neutral for July, Nebraska's overall index, or leading economic indicator, moved above the 50.0 threshold for two straight months. The overall index from a survey of supply managers in the state rose to 52.0 from August's 50.6. Components of the index for September were new orders at 50.1, production or sales at 54.2, delivery lead time at 51.3, inventories at 52.1, and employment at 52.3. Durable and nondurable manufacturers combined to push the overall manufacturing sector forward for the month. On the other hand, firms with linkages to agriculture are experiencing downturns in overall economic activity.

NORTH DAKOTA

North Dakota's leading economic indicator soared for September. The overall index, termed the Business Conditions Index, from a survey of supply managers in the state bounced to 68.1 from 54.4 in August. Components of the overall index for September were new orders at 56.0, production or sales at 50.7, delivery lead time at 85.7, employment at 77.4, and inventories at 70.7. Energy firms and firms with ties to the state's energy sector are experiencing very strong gains. On the other hand, manufacturers, outside firms linked to energy, are experiencing much slower growth.

OKLAHOMA

The Business Conditions Index for Oklahoma dipped below growth neutral for September to 49.2 from 49.7 in August. Components of the September survey of supply managers in the state were new orders at 57.6, production or sales at 48.8, delivery lead time at 39.9, inventories at 52.0, and employment at 47.4. As in August, pullbacks in business activity for non-durable goods producers, including food processors, more than offset slight gains for durable goods manufacturers.

SOUTH DAKOTA

After moving below growth neutral last November, South Dakota's leading economic indicator from a survey of supply managers has moved above growth neutral 50.0 each month. The overall index, termed the Business Conditions Index, slipped to 51.8 from 57.4 in August. Components of the index for September were new orders at 52.7, production or sales at 58.4, delivery lead time at 48.2, inventories at 45.7, and employment at 54.1. Manufacturers, especially those linked to agriculture, are detailing pullbacks in economic activity and slowing overall state growth.



THE BULLISH NEWS

- Purchasing management indices (PMIs) from the national survey of supply managers and Creighton's regional surveys point to an expanding economy for the fourth quarter of 2013.
- The Case-Shiller home price index advanced by more than 1.8 percent for July and was up by 12.4% over the past 12 months.
- The Consumer Price Index (CPI) increased 0.1% in August. Over the last 12 months, the CPI increased just 1.5%. This is below the Fed's target.

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THE BEARISH NEWS

- US retail sales rose 0.2% month-on-month in August. This is a troubling signal after July numbers were also weak. Annual growth is only slightly above inflation.
- Total private employment expanded by a weak 166,000 in September according to ADP, a private payroll services provider. Too weak!
- Vampire foreclosures. According to RealtyTrac, an estimated 47 percent of bank-owned homes across the nation are still occupied by the previous owner.

WHAT TO WATCH

- PMIs: On Nov. 1, Creighton University and the Institute for Supply Management will release purchasing management indices (PMI) for October. This is the first economic data released in November. Keep an eye on the overall index and the prices-paid index. Any significant upturn could push the Federal Reserve to begin QE3 taper in December. This will mean higher long-term interest rates.
- Retail Sales: Around the middle of November, depending on shutdown, the U.S. Census Bureau releases its retail sales numbers for October. This will be get a read on the impact of the shutdown and on the Christmas buying season.
- Jobs: On Friday Nov. 1, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for October. A very weak private sector reading will be negative signal for the Christmas buying season.

THE OUTLOOK

FROM GOSS:

- I expect Christmas buying to be reasonably strong this year with growth of 4% from last year.
- The 2013 Farm Bill will be passed but it will contain SNAP food stamps despite Republican efforts exclude them.
- Long term interest rates will continue to head higher after Washington gets beyond the shutdown and debt limit deliberations.
- Listen and watch for a lot more pressure to silence Fed presidents. The Fed governors and pundits think they are too hawkish in terms of QE3 and other monetary policy.

OTHER FORECASTS:

- National Association of Business Economics (September 2013 survey). The NABE panel forecasts a gradual acceleration in economic expansion, from a 2.3% rate of growth in inflation-adjusted gross domestic product in the third quarter of 2013 to 3.0% in the spring through

the autumn quarters of 2014," said Dr. Nayantara Hensel, chair of the NABE Outlook Survey. "The panelists suggest that there is an 80% probability that the Federal Reserve will reduce its asset purchase program in 2014 and that there is a 45% probability that the Fed will reduce both the monthly purchases of mortgage-backed securities and Treasuries in 2013. The panelists suggest that Treasury yields are likely to rise, which may be due to the potential that the Fed may reduce asset purchases. Inflation is expected to remain slow and the labor market is expected to show improvement.

Goss Eggs (Recent Dumb Economic Moves)

- Ohio Republican and former U.S. trade representative Rob Portman is backing a bizarre and economically wrong-headed proposal to ban currency manipulation by our trading partners. This proposal is backed by labor unions and other protectionists who seek to raise the prices of U.S. imported goods. How do you define manipulation? According to most definitions, the U.S. Federal Reserve is manipulating the U.S. dollar making foreign goods less competitively priced in the U.S. and U.S. goods more competitively priced abroad.

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

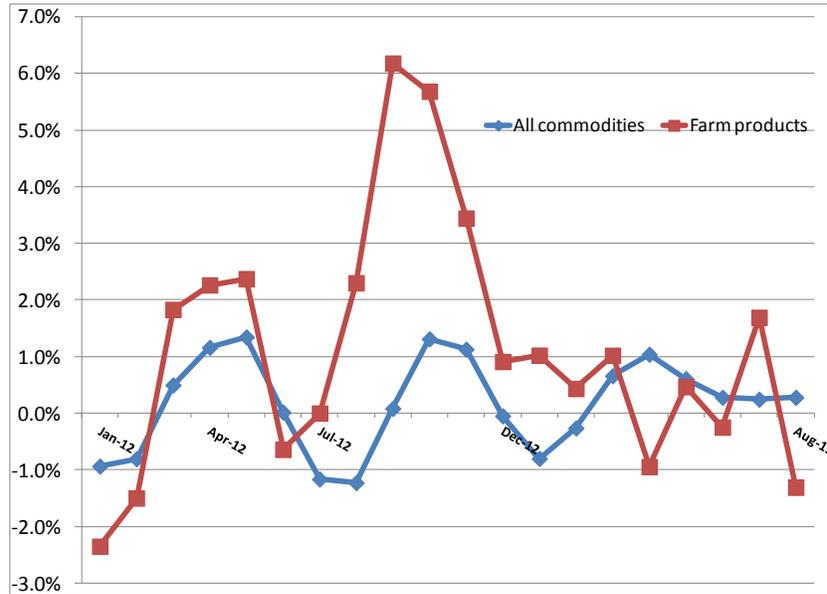
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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2013
FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2012- August 2013



Price changes, 3 month moving average, 2012 - August 2013

