

## “A monthly survey of supply chain managers”

Welcome to our April report covering March survey results. Creighton surveys point to improving economic growth with cooling wholesale inflationary pressures (but with asset price bubbles) for the Mid-America region over the next 3 to 6 months. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Too Big to Fail Banks Raise Risks and Hurt Economy

At the height of the U.S. financial crisis in 2008, Goldman Sachs and Morgan Stanley, two of the largest investment banking firms in the world, requested a Federal Reserve (Fed) “bailout.” A portion of this “relief” consisted of classifying Goldman and Morgan as bank holding companies thus allowing both firms to borrow from the Fed discount window with Goldman borrowing \$782 billion and Morgan \$107 billion. Even foreign banks, such as the Royal Bank of Scotland and Swiss giant UBS AG got into the action, each borrowing over \$75 billion from the Fed. The Fed labeled these firms with assets over \$50 billion as “too big” to fail. In addition to this Fed policy, the U.S. Congress passed Dodd-Frank in 2010 but emasculated the bill’s Volcker Rule. Both actions provide “big” banks with a competitive advantage since the fixed cost required to adhere to Dodd-Frank are a much larger burden for community banks and abandoning the Volcker rule allows big banks with trading operations to undertake speculative investments in hedge funds and private equity rather than traditional lending activities. What have been the unintended consequences of all of this big bank support? Investors have overinvested in these behemoth institutions since their continued life is guaranteed even as they undertake excessive speculative activity. From the beginning of the recession until the end of 2012, the Fed’s 34 too big to fail banks grew in size by an average 14.8 percent while the remaining 1,680 commercial banks actually declined in size by an average of 4.2 percent. Thus, Congressional and Fed actions have actually ballooned systemic risks and undermined community banks that provide a lending lifeline to small businesses and agricultural borrowers. Ernie Goss.

#### Link to video:

<http://www.youtube.com/watch?v=rR90t7KMQEo>

### LAST MONTH’S SURVEY RESULTS

#### Mid-America Indicator Soars for March: Economic Outlook Improves as Inflation Cools

#### SURVEY RESULTS AT A GLANCE

- Leading economic indicator experiences biggest one month gain in more than a year.
- Businesses reported that the federal spending sequestration is having little impact.
- New orders expanded at the fastest pace in two years.
- Economic outlook improves and inflation pressures cool.
- Prices expected to grow by approximately 2 percent in 2013.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, bounced higher for the month. The index is pointing to improving economic growth for the region in the next three to six months. **Overall index:** The Business Conditions Index, which ranges between

0 and 100, climbed to 58.2 from February’s tepid 53.1. This is the largest one month jump that we have recorded since January 2012. However, we will have to record several consecutive months of readings like this to be confident that the regional economy is picking up steam. The strongest new orders growth in two years was the prime factor boosting the overall index higher.

**Employment:** After moving below growth neutral for January, the region’s employment gauge climbed above 50.0 for February and March. The March reading rose to 56.3 from February’s 51.6. Over the last year, the region added jobs at a pace of 1.4 percent, ranging from a low of 0.2 percent for Arkansas to 5 percent for North Dakota. Our survey results point to an upturn in regional job growth in the months ahead.

**Wholesale Prices:** The prices-paid index, which tracks the cost of purchased raw materials and supplies, sank to 64.1 from 72.6 in February.

This month supply managers were asked how much they expected the prices for their company’s products and services to increase this year in comparison to last year. On average, supply managers expect their prices to grow by 2 percent for 2013, or approximately the current rate of growth in the U.S. consumer price index. Thus far, the Federal Reserve’s cheap money policy is elevating inflationary pressures, but only modestly. The bigger problem in Mid-America has been the Fed’s impact on asset prices such as farmland which continue to expand at annual rates above 15 percent for much of the region. However, the combination of good growth for the month and cooling inflationary pressure are very positive signals.

**Confidence:** Looking ahead six months, economic optimism, as captured by the March business confidence index, expanded to 58.2 from February’s weaker 50.6. This month we asked supply managers how the federal spending sequestration was affecting their company. More than three-fourths, or 76.3 percent, indicated that the cuts were having no impact on their company. The remaining 23.7 percent reported only modest impacts. None of the businesses reported significant impacts.

**Inventories:** Regional inventory levels increased for the month and at a faster pace compared to February. The March inventory index increased to 58.1 from February’s 52.2. Companies in our survey have now expanded inventory levels for four straight months. This inventory accumulation will add to regional growth in the months ahead. This is another indicator of improving business confidence.

**Trade:** New export orders remain fragile for the region. The new export orders index increased to a 50.9 from 49.2 in February. On the other hand, imports advanced to 55.0 from 53.7. As our overall regional gauge moved higher for March so did purchasing from abroad. On the other hand, economic weakness among the region’s important trading partners restrained export orders.

**Other components:** Other components of the March Business Conditions Index were new orders at 65.4, up dramatically from February’s 55.0; production or sales at 62.4, up from 55.5; and delivery lead time at 49.0, down from 51.1 in February.

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 March overall index for Arkansas increased to 53.9 from 51.1 in February. Components of the index from the March survey of supply managers were new orders at 55.6, production or sales at 49.5, delivery lead time at 56.2, inventories at 58.3, and

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employment at 49.7. While durable goods producers are expanding employment and the average hourly work week, nondurable goods manufacturers are cutting employment. Contrary to other states in the region, the Arkansas construction industry has yet to experience significant gains in business activity according to surveys over the past several months.

### IOWA

For a third straight month, Iowa’s Business Conditions Index increased. The overall index from a survey of supply managers climbed to 65.5, a regional high, from February’s 64.6, also a regional high. Iowa’s leading economic indicator has now moved above growth neutral for 39 straight months. Components of the index for March were new orders at 69.5, production or sales at 74.2, delivery lead time at 51.9, employment at 65.4, and inventories at 66.5. The Iowa economy is experiencing very broad-based business gains. Durable goods producers, especially metal manufacturers and agriculture equipment producers, continue to expand at a very brisk pace. Our surveys over the past several months point to a continuation of the healthy growth with gains in both jobs and average hours worked for most industries.

### KANSAS

The Kansas Business Conditions Index for March slipped to 52.0 from February’s 54.1. Components of the leading economic indicator were new orders at 53.6, production or sales at 58.1, delivery lead time at 50.2, employment at 49.9, and inventories at 48.3. Although durable and nondurable goods manufacturers continue to experience improving economic conditions, transportation equipment producers in the durable sector and food processors in the nondurable sector, report no improvements from February. Importantly after a long period of slow to negative growth, telecommunications firms and their suppliers report expanding business activity.

### MINNESOTA

For a fourth straight month, Minnesota’s Business Conditions Index moved above growth neutral. The index from a monthly survey of supply managers in the state rose to 55.2 from 52.0 in February. Components of the index from the March survey were new orders at 55.7, production or sales at 58.6, delivery lead time at 55.2, inventories at 52.7, and employment at 53.5. Both durable and nondurable goods manufacturers detailed expanding business activity. Growth continues to be especially healthy for metal producers and machinery manufacturers such as agriculture implement manufacturers.

### MISSOURI

The March Business Conditions Index for Missouri advanced to 54.9 from 52.1 in February. Components of the survey of supply managers in the state were new orders at 56.2, production or sales at 54.0, delivery lead time at 52.8, inventories at 52.4, and employment at 58.9. Growth was much stronger among the state’s durable goods producers, such as metal manufacturers and agriculture equipment producers, than among the state’s nondurable goods producers such as food manufacturers. Missouri’s telecommunications firms are experiencing cuts in jobs and business activity.

### NEBRASKA

After declining below growth neutral for two of the past three months, Nebraska’s leading economic indicator bounced above the threshold for March. The Business Conditions Index, from a survey of supply managers, climbed to 53.4 from 48.7 in February. Components of the index for March were new orders at 59.4, production or sales at 54.3, delivery lead time at 51.2, inventories at 54.1, and employment at 48.1. The state’s durable goods producers detailed improvements in business activity. Growth is especially

strong for metal manufacturers and agriculture equipment producers. Nebraska’s nondurable goods manufacturing also reported upturns in business activity with the state’s large food manufacturing sector showing improvements for the month.

### NORTH DAKOTA

North Dakota’s leading economic indicator expanded for March. The index from a survey of supply managers in the state advanced to 55.8 from February’s 54.4. Components of the overall index for March were new orders at 63.4, production or sales at 61.7, delivery lead time at 50.2, employment at 63.9, and inventories at 45.7. Pullbacks among durable goods producers in the state were more than offset by rapid advances for nondurable goods manufacturers such as food producers and for companies in the state’s mining sector. Even with labor shortages in some parts of the state, businesses continued to expand construction activity for the month.

### OKLAHOMA

The Business Conditions Index for Oklahoma moved above growth neutral for March. The leading economic indicator from a monthly survey of supply managers soared to 60.0 from 52.5 in February. Components of the March survey of supply managers in the state were new orders at 63.4, production or sales at 61.7, delivery lead time at 62.0, inventories at 57.3, and employment at 55.4. Business and manufacturing construction has bolstered the state’s economy over the last several months. Additionally durable goods manufacturers, including agriculture equipment producers and metal manufacturers, reported very healthy growth and more than offset weakness among nondurable goods manufacturers such as food processors.

### SOUTH DAKOTA

For a fourth straight month, South Dakota’s leading economic indicator from a survey of supply managers rose above the 50.0 threshold to 58.7 from February’s 52.5. Components of the index for March were new orders at 67.7, production or sales at 69.3, delivery lead time at 49.5, inventories at 57.4, and employment at 49.6. Our South Dakota indicators were strong for March. Manufacturers reported expanding economic conditions and new hiring for the month.



## THE BULLISH NEWS

- The Case-Shiller U.S. home price index rose 8.1 percent over the past year with the index growing at its fastest pace since 2006, a year before the housing collapse.
- The U.S. trade deficit narrowed in February as exports climbed to near a record level. The volume of imported crude oil fell to its lowest level in 17 years for February.
- The Conference Board Leading Economic Indicator rose for both January and February.
- U.S. February retail sales expanded by 1.1% from the previous month. Anything above 0.5% is healthy.



## THE BEARISH NEWS

- The March employment report was not good with employment expanding by only 88,000 jobs. The unemployment rate declined to 7.6% but only because almost 500,000 unemployed left the workforce.
- The Conference Board’s Consumer Confidence Index

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which improved in February declined in March.

- The National PMIs for March weakened significantly while Creighton’s regional PMIs expanded for the month.

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

### WHAT TO WATCH

- **PMI’s:** On May 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI for April. Another decline in the national reading would be very bearish for the economy.
- **Gross Domestic Product (GDP):** On April 26, the U.S. Bureau of Economic Analysis will release GDP estimates for Quarter I, 2013. Annualized growth of 2% - 3% is expected. Anything outside this range will have significant influence on markets.
- **Jobs:** Friday May 3, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for April. Another lousy report will like March’s will dampen the stock market and push interest rates lower.

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[http://www2.creighton.edu/business/economicoutlook/  
www.ernestgoss.com](http://www2.creighton.edu/business/economicoutlook/www.ernestgoss.com)

### THE OUTLOOK

#### FROM GOSS:

- I am getting weak knees regarding my recent long-term interest rate forecast. Due to recent weakness in the economy, I expect long-term interest rates to remain low but rising by less than a quarter percentage point by the end of summer.
- The Fed’s ultra-cheap money policies will not end this year. This will put a floor underneath somewhat weaker agriculture and energy commodity prices. Investors have to remain bullish on agriculture.

#### OTHER FORECASTS:

- “Negotiation Strategies in Supply Chain Management,” Within a supply chain many supplier-buyer relationships exist. Even though supply chain management aims to take a high level view, these dyadic relationships form the basis of the supply chain and therefore should be the focus of a supply chain analysis. The negotiation of the terms of these relationships defines the structure of the supply chain and can affect the power and profit distribution within the supply chain itself. <http://scrmblog.com/review/negotiation-strategies-in-supply-chain-management>

### Goss Eggs (Recent Dumb Economic Moves)

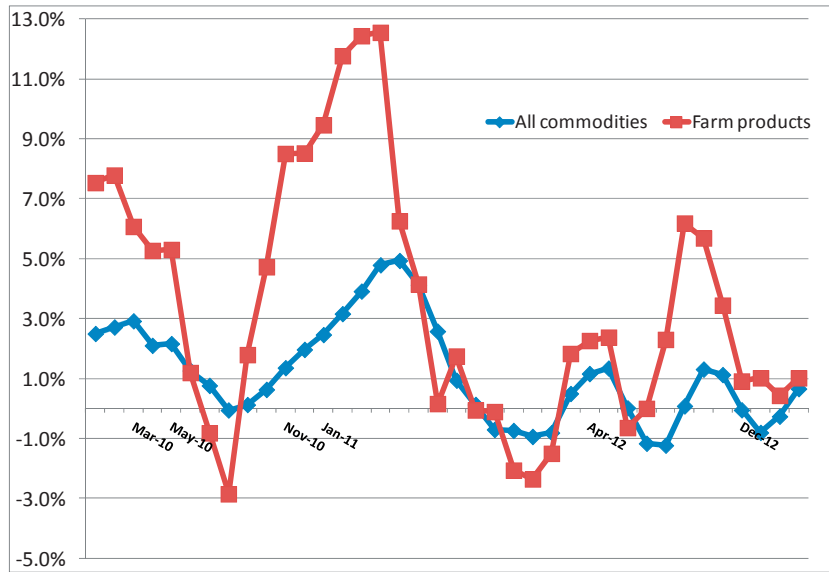
- President Obama called on lenders to make more home loans to applicants with less than stellar credit profiles. Has the Administration forgotten that expanding home ownership to those with poor credit was one of the prime factors that ushered in the financial collapse? Hasn’t the federal government done enough to damage the housing sector and delay its full recovery?

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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

