

"A monthly survey of supply chain managers"

Welcome to our February report covering January 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

Can the Poor Afford Solar Energy? Low Income Consumers Baked by High Priced Alternative

Between 2008 and 2012, according to the Bureau of Labor Statistics, Americans making less than \$20,000 increased the share of their paycheck going to cover utility and fuel bills from 25% to 29%. During this same period of time, Americans earning more than \$70,000 decreased the proportion of their income spent on utilities and fuel from 5.4% to 5.0%. That is, the percent of income devoted to utilities and fuel is significantly higher and rising for low income consumers, but substantially lower and falling for higher income consumers. At the same time, electricity generation by solar/wind grew by 73% but by fossil fuels declined by 4%. This occurred despite the fact that according to the U.S. Department of Energy, the costs of solar electricity generation is approximately double that of conventional coal and almost triple that of natural gas. In addition to higher direct costs, all taxpayers are picking up the tab for the failure of solar energy companies. Federal tax supported Solyndra, Evergreen Aolar, and SpectraWatt filed for bankruptcy in August 2011 alone. In fact according to GTM Research, one-fifth of tax subsidized U.S. solar panel manufacturing folded as of August 2011. Germany has demonstrated the folly of current U.S. solar policy. Despite 2013 renewable subsidies in Germany of 16 billion Euros (\$21 billion), electricity prices have soared by 17% over the past 4 years. No wonder just last month, German Chancellor Angela Merkel backed a plan to cut German's green energy subsidies while the U.S. moves steadfastly into the costly solar abyss. Unfortunately, the U.S. taxpayer and consumer, especially those of low income, are getting scorched by the expansion of solar electricity generation with no end in sight. Ernie Goss.

Link to video:

<http://www.youtube.com/watch?v=MSqV20W6oOU>

LAST MONTH'S SURVEY RESULTS

Slow 2014 Start for Mid-America:
One-Fifth Named ACA as Biggest 2014 Threat

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator moves above growth neutral for second straight month.
- Businesses reported job losses for two of the last three months.
- Job losses for businesses with direct links to agriculture.
- Approximately one-fifth of businesses judge implementation of the Affordable Care Act as the greatest 2014 economic threat to their industry.
- More than one-third of businesses expect higher input prices to pose the biggest 2014 economic threat to their industry.

For a second straight month, the monthly Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from North Dakota to Arkansas, increased. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, rose to a tepid 53.2 from November's 51.2. Very strong growth for firms in the business services industry and durable goods manufacturing more than offset pullbacks for the region's non-durable goods manufacturing sector. Businesses tied to agriculture continue to report softer economic conditions.

Employment: For the second time in the past three months, the region's employment gauge fell below growth neutral. The index sank to 48.7 from November's 51.2, but up slightly from October's weak 48.2. Job growth among transportation firms in the region, both rail and truck, remains very strong. On the other hand, non-durable producers tied to agriculture, except for food processors, continue to shed jobs, but at a slow pace.

Wholesale Prices: After declining for two straight months, the prices-paid index, which tracks the cost of purchased raw materials and supplies, increased. The wholesale inflation gauge expanded to 63.6 from 61.6 in November. Inflationary pressures at the wholesale level remain fairly contained. However, more than one-third of supply managers expect higher prices for inputs of raw materials and supplies to be the greatest 2014 risk factor for their firm. While the Federal Reserve has announced that they intend to scale back their \$85 billion bond buying program, termed QE3, by \$10 billion in January, I expect the Fed to begin scaling this program more aggressively in the first half of 2014 as inflationary pressures at the wholesale level rise.

Confidence: Looking six months ahead, economic optimism, as captured by the December business confidence index soared to a strong 66.5 from 57.2 in November. The resolution of the federal budget impasse and improvements in the nation's housing sector boosted supply managers' business outlook for the month. This month we asked supply managers to identify the biggest challenge to their company/industry for 2014. More than one-third, or 35.3 percent, named escalating prices for inputs purchased by their firm as the biggest threat. More than one in five, or 20.6 percent, indicated that higher costs and uncertainties surrounding implementation of the Affordable Care Act represented the top 2014 challenge for their business while 19.1 percent identified rising regulatory costs as the number one 2014 potential hurdle for their business. No other issue was rose above ten percent for supply managers.

Inventories: The inventory index which tracks the level of raw materials and supplies expanded to 51.3 from November's 48.1 and October's 50.0. This is another signal that supply managers are more upbeat about expanding sales for their companies in the months ahead.

Trade: The new export orders index slipped to a still solid 55.6 from 56.4 in November but was well ahead of October's 44.4. The import index sank to 47.2 from November's 53.5. It is a very encouraging signal to track a second straight month of healthy new export orders. At the same time, firms in the region reduced their purchasing from abroad even as the stronger dollar has made imported goods more competitively priced.

Other components: Other components of the December Business Conditions Index were new orders at 57.4, up from 57.2 in November; production or sales at 56.8, up from November's 53.3; and delivery lead time at 52.0, up from November's 50.7. 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,

"A monthly survey of supply chain managers"

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 January overall index, or leading economic indicator, for Arkansas dipped to 53.6 from 53.9 in December. Components of the index from the monthly survey of supply managers were new orders at 50.9, production or sales at 49.3, delivery lead time at 50.1, inventories at 64.1, and employment at 53.7. Durable goods manufacturers and business services firms began the year on a high note. On the other hand, nondurable goods producers continue to shed jobs. Arkansas, Kansas and Missouri are the only states in the Mid-America region that haven't returned to pre-recession employment levels. Based on our survey results, Arkansas' employment will be back to fourth quarter 2007 levels by the end of 2014.

IOWA

Iowa's Business Conditions Index fell to a regional high of 59.1 for January from December's 61.5. Components of the index from the monthly survey of supply managers were new orders at 60.8, production or sales at 66.5, delivery lead time at 51.6, employment at 59.4, and inventories at 57.1. Both durable and nondurable manufacturers along with business service firms reported healthy January business activity. Based on our survey results, Iowa's economy will continue to expand for the next three to six months, but at a slower pace than recorded for the same period in 2013.

KANSAS

The Kansas Business Conditions Index for January climbed to 58.3 from 54.5 in December. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 64.9, production or sales at 68.0, delivery lead time at 49.7, employment at 54.1, and inventories at 54.6. Economic gains for durable goods manufacturers and business service firms more than offset business downturns for nondurable goods producers. Arkansas, Kansas and Missouri are the only states in the nine-state region yet to return to pre-recession employment levels. Based on our survey results, Kansas's employment will be back to fourth quarter 2007 levels by the end of 2014.

MINNESOTA

For 14 straight months, Minnesota's Business Conditions Index has remained above growth neutral. The index declined to 57.7 from December's 58.9. Components of the index from the January survey were new orders at 59.9, production or sales at 61.6, delivery lead time at 58.1, inventories at 54.9, and employment at 53.7. Healthy improvements among durable and nondurable goods producers are spilling over into the broader Minnesota economy. While construction activity is not back to pre-recession levels, it continues to advance.

MISSOURI

The January Business Conditions Index for Missouri grew to 53.2 from December's 51.9. Components of the survey of supply managers in the state were new orders at 54.8, production

or sales at 57.5, delivery lead time at 55.4, inventories at 47.9, and employment at 50.3. Durable and nondurable goods manufacturers began 2014 on a high note with healthy sales and job growth. On the other hand, telecommunications firms in the state continue to shed jobs. Arkansas, Kansas and Missouri are the only states in the nine-state region yet to return to pre-recession employment levels. Based on our survey results, Missouri's employment will not be back to fourth quarter 2007 levels until the first half of 2015.

NEBRASKA

After declining below growth neutral for three straight months, Nebraska's overall index rose above 50.0. The index, a leading economic indicator from a survey of supply managers in the state expanded to 52.2 from December's 48.1. Components of the index for January were new orders at 53.7, production or sales at 55.6, delivery lead time at 49.1, inventories at 47.7, and employment at 54.8. Durable and nondurable goods manufacturers along with business service firms experienced solid gains for the month. Nebraska's economy will add jobs at an annual rate of less than 1 percent in the first half of 2014, down from the same period in 2013.

NORTH DAKOTA

North Dakota's leading economic indicator slid to a healthy 56.5 for January from 57.1 for December. Components of the overall index from the monthly survey of supply managers for January were new orders at 53.7, production or sales at 50.9, delivery lead time at 72.3, employment at 56.7, and inventories at 49.1. North Dakota's economy will continue to expand at a healthy pace for the first half of 2014, according to our survey results. Gains will be strong for durable goods manufacturers and firms with ties to energy. Construction activity will remain healthy for the first half of 2014.

OKLAHOMA

After slipping below growth neutral in the third quarter of 2013, Oklahoma's Business Conditions Index has been pointing toward growth over the last several months. The overall index, a leading economic indicator, fell to 54.7 from 60.2 in December. Components of the January survey of supply managers in the state were new orders at 50.2, production or sales at 61.9, delivery lead time at 48.5, inventories at 61.7, and employment at 51.3. Growth is picking up for business services firms in the state. While growth remains healthy for durable and nondurable goods manufacturers, it has cooled slightly. Overall, the Oklahoma economy will add jobs at an annualized rate of 2 percent, well above the regional and national pace.

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 55.1 from December's 53.2. Components of the overall index for January were new orders at 52.2, production or sales at 51.2, delivery lead time at 51.1, inventories at 57.2, and employment at 63.5. Manufacturing activity continues to expand in the state. Durable and nondurable goods producers are not only adding jobs at a solid pace, they are increasing the hours worked for current employees. Growth will continue to be healthy for the first half of 2014 according to our survey results.

"A monthly survey of supply chain managers"



THE BULLISH NEWS

- The U.S. bond market is the "healthiest horse in the glue factory." As a result, capital is flowing into the U.S. bond market from across the globe pushing long term rates even lower.
- U.S. gross domestic product expanded by an annualized and seasonally adjusted rate of 3.2 percent in the fourth quarter of 2013.
- 2013 housing starts were the highest since 2007 despite housing starts falling 9.8% to a seasonally adjusted annual pace of 999,000 in December following a surge in November to the highest level of the year — 1.1 million.



THE BEARISH NEWS

- The U.S. economy added only 113,000 for January signaling a slow start economic start to the new year.
- U.S. trade deficit expanded by 12% to \$38.7 billion for November. A sharp decline in exports was the culprit.

WHAT TO WATCH

- **CPIs:** On February 20, the Bureau of Labor Statistics releases consumer price indices for January. A monthly increase of 0.1% or less will encourage the Fed to maintain its monthly bond buying program at February levels thus keeping long-term interest rates low.
- **PMIs:** On March 3, the National Institute for Supply Management and Creighton University release the national and regional surveys of supply managers for February. Another significant decline for the national reading (i.e. below growth neutral 50.0) will be a real economic warning signal pulling down stock prices, pushing up bond prices and sinking bond yields.
- **Jobs:** On Friday March 8, the U.S. Bureau of Labor Statistics (BLS) will release employment report for January. Another weak reading, something below 125,000 jobs added, will push bond prices up and yields or interest rates lower.

THE OUTLOOK

FROM GOSS:

- U.S. GDP growth to drop from 3.2% in Q4, 2013 to 2.0% in Q1, 2014.
- Contrary to expectations, long-term interest rates, including mortgage rates, to remain low through the first quarter of 2014.
- U.S. housing price growth to slow in the first half of 2014.

Goss Eggs (Recent Dumb Economic Moves)

- In his State of the Union address, President Obama had some very solid proposals on trade. Unfortunately, the Democrats in Congress will not go along with them. This is economic lunacy on the part of Democrat Senator Harry Reid who rejects giving the President fast-track trade authority.

Survey results for February will be released on the first business day of next month, March 3.

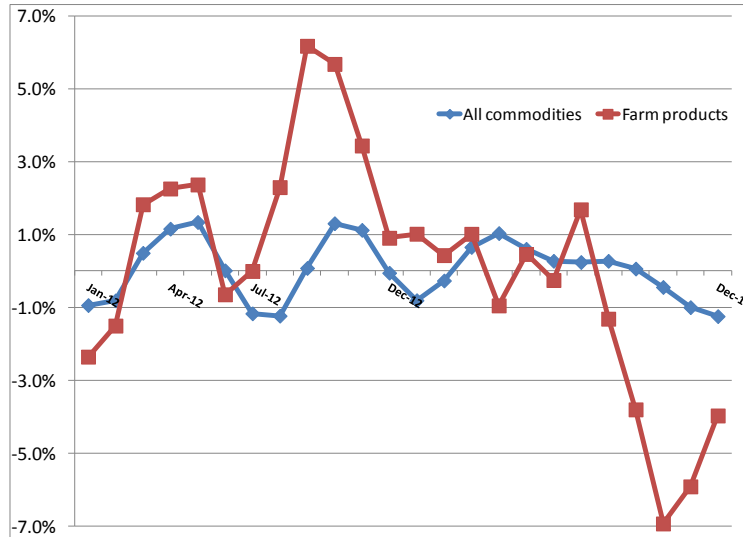
Follow Goss on twitter at <http://twitter.com/erniegoss>
For historical data and forecasts visit our website at:
<http://www2.creighton.edu/business/economicoutlook/>
www.ernestgoss.com

"A monthly survey of supply chain managers"

PRICE DATA

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

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



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

