

## "A monthly survey of supply chain managers"

Welcome to our June report covering May survey results. As Creighton's surveys of Mountain States and Mid-America supply managers point to positive growth, the national survey of supply managers indicates a lagging national economy. I think the national survey is getting it wrong here. Its findings are much too pessimistic. Growth will continue, albeit at a slow pace. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Washington Economic Group Think: Harvard and MIT Economists Think Big (Government That Is)

Washington has always been quick to trumpet the benefits of diversity--- except in the case of economic thought. This month President Obama replaced the Chairman of the White House Council of Economic Advisors (CEA), Alan Krueger, with Harvard trained economist Jason Furman. Professor Krueger, who earned his Ph.D. at Harvard, heads back to Princeton University to join soon to be ex-Fed Chairman Ben Bernanke who obtained his Ph.D. from MIT. Since the beginning of the millennium, there have been 10 CEA Chairmen with none acquiring his/her doctorate in economics beyond the gates of Harvard or MIT. Thus, the White House appears to value homogeneity of educational experience among its economic policy advisors. Moreover, even the faculty members teaching future economic advisors are drawn heavily from this Cambridge, Massachusetts enclave. Of almost 90 faculty members in the combined economic departments of Harvard and MIT, 64 percent received their doctorates from either Harvard or MIT. In addition to gaining lucrative federal policy advisory positions, these Boston/DC beltway economists have been very effective at landing federal subsidies. For example, more than 95 percent of current Harvard and MIT economics faculty members have received National Science Foundation Grants (NSF). In this economist's view, the White House and the nation suffer by drafting a disproportionate share of economic policy advisors from a 5 mile radius of downtown Boston. Ernie Goss.

#### Link to video:

<http://www.youtube.com/watch?v=njaqyziS9IA>

### LAST MONTH'S SURVEY RESULTS

#### Mid-America Leading Economic Indicator Softens for May: Stronger Wage Growth Expected

#### SURVEY RESULTS AT A GLANCE:

- Leading economic indicator points to continuing growth for the next three to six months.
- Inflationary pressures at the wholesale level decline again.
- Supply managers expect wholesale prices to increase at an annual pace of 5.0 percent, or well down from the pace recorded earlier in 2013.
- Supply managers expect wage increases of 2 percent over the next year.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, dipped slightly for the month. The index continues to point to positive, but somewhat slower economic growth for the region in the next three to six months. **Overall**

**index:** The May Business Conditions Index, which ranges between 0 and 100, declined to a solid 56.2 from April's 56.8.

A strengthening value of the U.S. dollar has put downward pressure on the prices of farm and energy products produced in the region. This has tended to reduce the growth and growth outlook for the region, particularly for businesses tied to agriculture. On the more positive side, declining inflationary pressures at the wholesale level increase the likelihood that the Federal Reserve will continue their aggressive bond buying program for months to come.

**Employment:** After moving below growth neutral for January, the region's employment gauge has climbed above 50.0 for the past four months. The May reading slipped to a still healthy 59.3 from April's 60.7. For the next six months, job growth will remain healthy but down somewhat from the same period in 2012. The strengthening U.S. dollar is dampening growth among businesses tied to agriculture. As a result of an improving job market, supply managers have increased their pay outlook with an anticipated annual wage growth of 2 percent. This is up from 1.5 percent recorded earlier this year.

**Wholesale Prices:** The prices-paid index, which tracks the cost of purchased raw materials and supplies, sank to 61.2 from 62.6 in April. Wholesale inflationary pressures continue to move lower in the region. A 5 percent decline in the value of the U.S. dollar thus far in 2013 and sluggish global economic growth have significantly slowed inflationary pressures in the region. This month supply managers reported they expect the prices of products and services that they purchase to increase at an annual pace of 5.0 percent. This is down from 6.0 percent recorded in February of this year.

**Confidence:** Looking ahead six months, economic optimism, as captured by the May business confidence index, declined to 59.4 from 59.9 in April. The upturn in construction and durable goods manufacturing is pushing economic confidence higher. On the other hand, the federal spending sequestration is having almost no impact on the outlook. The last three months, we have asked supply managers how the federal spending sequestration was affecting their company. Approximately three-fourths of supply managers in March, April and May indicated that the cuts have had no impact on their company to date. Less than one-fourth reported modest impacts. None of the businesses reported significant impacts.

**Inventories:** Regional inventory levels increased for the month and at a faster pace compared to April. The May inventory index rose to 56.2 from April's 50.6. Companies in our survey have now expanded inventory levels for six straight months. This inventory accumulation will add to regional growth in the months ahead. This is another indicator of improving business confidence among supply managers.

**Trade:** New export orders improved for the month. The new export orders index increased to 55.9 from 54.5 in April. The import index decreased to 53.5 from April's 58.4. Despite this year's rise in the value of the U.S. dollar, which has made U.S. goods less competitively priced abroad, the export reading rose to its highest level since October of last year. Somewhat slower growth pulled the import reading down for the month.

**Other components:** Other components of the May Business Conditions Index were new orders at 54.8, down from 61.3 in April; production or sales at 57.3 down from last month's 63.2; and delivery lead time at 53.6, up from 48.5 in April.

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.

The forecasting group's overall index, referred to as

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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 May overall index for Arkansas dipped to 55.1 from 56.9 in April. Components of the index from the May survey of supply managers were new orders at 43.1, production or sales at 56.1, delivery lead time at 51.6, inventories at 66.7, and employment at 58.2. Nondurable goods producers in the state continue to shed jobs. However, durable goods manufacturers' growth more than offset this weakness. Despite the national turnaround in construction, Arkansas builders have yet to begin any significant expansion.

#### IOWA

For a fifth straight month, Iowa's Business Conditions Index expanded. The overall index from a survey of supply managers for May rose to 70.0 from April's very strong 69.1. Components of the index for May were new orders at 75.3, production or sales at 75.2, delivery lead time at 59.6, employment at 70.9, and inventories at 68.9. Both durable and nondurable goods producers in Iowa experienced healthy growth for the month. I expect somewhat slower growth in agriculture to pull overall state growth somewhat lower, but it will remain positive and healthy.

#### KANSAS

The Kansas Business Conditions Index for May rose to 53.1 from 52.3 in April. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 67.2, production or sales at 60.1, delivery lead time at 45.1, employment at 55.0, and inventories at 38.3. Durable goods manufacturers in Kansas, especially aircraft and aircraft parts producers, are experiencing healthy growth. Nondurable goods manufacturers are also benefiting from an expanding economy, but at a somewhat slower pace than their heavy manufacturing counterparts.

#### MINNESOTA

For a sixth 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 55.2 from April's 55.7. Components of the index from the May survey were new orders at 53.8, production or sales at 55.4, delivery lead time at 54.5, inventories at 55.7, and employment at 56.6. Durable goods producers, including metal manufacturers, report strong business growth. On the other hand, nondurable goods manufacturers, except for food processors, detailed upturns in economic activity for the month.

#### MISSOURI

The May Business Conditions Index for Missouri climbed to 54.6 from 52.8 in April. Components of the survey of supply managers in the state were new orders at 54.3, production or sales at 57.7, delivery lead time at 52.6, inventories at 48.5, and employment at 59.8. Durable goods manufacturers, excluding vehicle manufacturers, added workers for the month. Nondurable goods manufacturing, including food

processors, continue to experience slow to no growth. According to government data, the average hourly wage in the state expanded by 1.2 percent over the past year. Survey participants indicated that they expect gains of 2 percent over the next year.

#### NEBRASKA

The stronger U.S. dollar is cutting into the growth recorded by Nebraska's businesses. The overall index from the May survey of supply managers sank to 53.2 from April's 55.6. Components of the index for May were new orders at 54.2, production or sales at 55.4, delivery lead time at 49.3, inventories at 54.5, and employment at 52.4. Durable goods producers in the state, especially those linked to agriculture, reported solid business activity for the month. Nebraska nondurable manufacturers, including food processors, likewise detailed healthy activity in recent months.

#### NORTH DAKOTA

North Dakota's leading economic indicator declined for May but remained in a growth range. The index decreased to 55.4 from 57.9 in April. Components of the overall index for May were new orders at 57.8, production or sales at 53.3, delivery lead time at 54.2, employment at 54.3, and inventories at 57.3. As a result of very strong economic growth over the past year, North Dakota's average hourly wage rate expanded by 5.5 percent, one of the tops in the nation. Nondurable goods manufacturers, especially food processors, are experiencing very healthy growth. On the other hand, durable goods manufacturers are experiencing pullbacks in economic activity.

#### OKLAHOMA

The Business Conditions Index for Oklahoma remained above growth neutral for May. The leading economic indicator from a monthly survey of supply managers slumped to a solid 55.6 from 59.8 in April. Components of the May survey of supply managers in the state were new orders at 53.3, production or sales at 56.7, delivery lead time at 41.6, inventories at 71.0, and employment at 55.4. As a result of very healthy growth among Oklahoma manufactures, the average hourly wage rate rose by 6.2 percent over the past year, or well above both the U.S. and regional average. Growth continues to be much stronger among durable goods producers than nondurable goods manufacturers such as food processors.

#### SOUTH DAKOTA

For a sixth straight month, South Dakota's leading economic indicator from a survey of supply managers rose above growth neutral. The overall index from a survey of supply managers in the state climbed to 61.7 from April's 59.4. Components of the index for May were new orders at 69.0, production or sales at 71.1, delivery lead time at 49.9, inventories at 51.9, and employment at 66.6. Manufacturers, both durable and non-durable, in the state continue to report very healthy growth. As a result of solid improvements among goods producers, the average hourly wage for manufacturing workers has expanded by 3.2 percent over the past year.



### THE BULLISH NEWS

- The Case-Shiller U.S. home price index rose 10.9 percent over the past year with the index growing at its fastest pace since October 2005. We are seeing housing price bubbles in some parts of the nation again.
- Creighton's surveys of supply managers in Mid-America, the Mountain States and California all indicate that the

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economy is going to continue to grow, albeit at a slower pace, for the next 3 to 6 months.

- Retail spending actually climbed 0.7% in May and advanced 4.3% from May 2012. Building and garden supplies stores experienced growth of over 10.0% from May of last year.

Will it be stock investors, bond buyers, house buyers, farmland speculators or all of the above? Remember 1996's "irrational exuberance"? Was Greenspan wrong or early?

### OTHER FORECASTS:

- "Six Step to Successful Chain Collaboration," Supply Chain Quarterly, Although collaboration offers many benefits for consumer goods manufacturers and retailers, too often their joint initiatives don't work out. To ensure success, partner companies should take these six actions together. Supply chain collaboration is a hot topic today—and no wonder: companies that collaborate effectively across the supply chain have enjoyed dramatic reductions in inventories and costs, together with improvements in speed, service levels, and customer satisfaction.



## THE BEARISH NEWS

- The national Purchasing Management Index (PMI) declined to its lowest level since 2009 at the end of the recession (a clear warning signal for some economists—not me just yet).
- GDP growth for quarter one 2013 was revised down to a measly 2.4% annualized. We should be growing at double this rate. May's jobs report was mediocre at best (175,000 jobs?).
- The U.S. trade deficit widened in April as American consumer snapped up foreign cars and cell phones from abroad (But the this is a signal the U.S. consumer is still alive and buying so not an entirely bad thing).

## WHAT TO WATCH

- Consumer Price Index (CPI): On June 18 and again on July 16, the U.S. Bureau of Labor Statistics releases the CPI. Creighton's and the BLS's inflation gauges have been trending downward raising concern among some economists about the possibility of deflation. The issue of concern: Is this a signal that the U.S. economy is moving into another recession? I think, not but inflation is coming down.
- Purchasing Management Indices: On July 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI for June. Another decline in the national PMI will be very bearish. This will be a market mover.
- Jobs: On Friday July 5, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for June. A reading below 125,000 will be bullish for bonds (high prices, lower yields).

## Goss Eggs (Recent Dumb Economic Moves)

- The European Union's (EU) recent decision to place tariffs on Chinese solar panels shows just how foolish such moves are. The Chinese retaliated by initiating an investigation into the importation of EU wine and the EU's "illegal" subsidy of wine production. In the end, trade sanctions and tariffs make all of use poorer and are particularly vile economic medicine for the agriculture sector. U.S. agriculture will be the EU's next target.

Survey results for June will be released on the first business day of the month July 1.

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For historical data and forecasts visit our website at:  
<http://www2.creighton.edu/business/economicoutlook/>  
[www.ernestgoss.com](http://www.ernestgoss.com)

## THE OUTLOOK

### FROM GOSS:

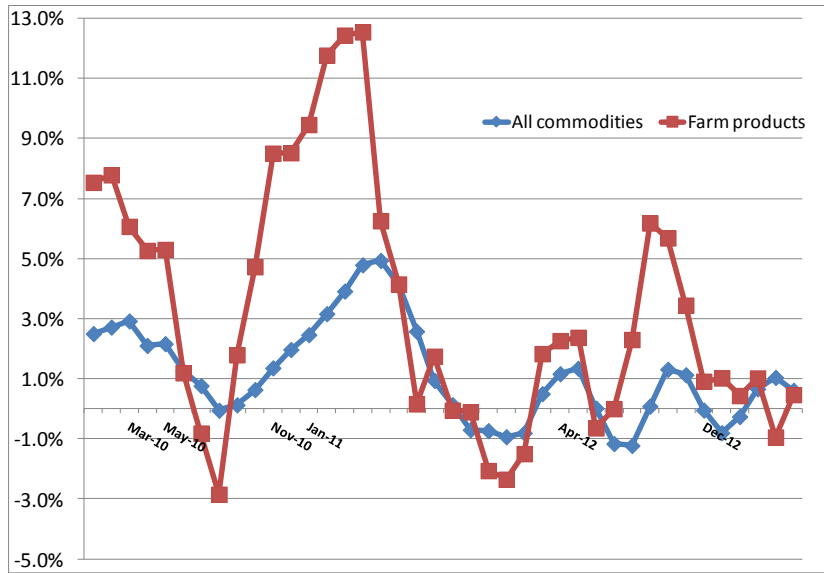
- Watch for another European economic eruption similar to Cyprus 2013. Europe's debt and economic problems and their propensity to lecture us about environmental and economic matters remind us of that "bad" brother-in-law that has great investment advice for you, but can't seem to find two nickels to rub together. As in the past, the next "eruption" will tend to lower U.S. interest rates (but only temporarily).
- U.S. housing prices in many parts of the U.S. will continue to expand at rates that are unsustainable and will begin to raise real concerns at the Federal Reserve and in Congress. The Federal Reserve's "cheap" money policy is going to kick some American's in the pocketbook.

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## PRICE DATA

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

Price changes, 3 month moving average, 2010- May 2013



Price changes, 3 month moving average, 2010 - May 2013

