Welcome to our December report covering November survey results. Our surveys indicate easing inflationary pressures the wholesale level for both regions with a slowing economy for Mid-America but expanding conditions, albeit at a slower pace, for the Mountain States. Follow my comments at: www.twitter.com/erniegoss

Is U.S. Adopting Europe's Anti-Competitive Economic Policies? Import French Wine, Not Economic Policy

Last week, Francoise Hollande, Socialist President of France, recommended that homework be eliminated in French schools. He argued that assigning homework provides an unfair advantage to students with stable home environments. This same type of anti-competitive thinking has produced a social safety net in France and most of Europe that has undermined economic incentives and encouraged workers to remain unemployed or underemployed. For example, the World Bank estimates that the annual cost of the social safety net as a percent of GDP in France is more than twice the size of that in the U.S. http://tinyurl.com/pdqad. Not surprisingly over the past decade, France's unemployment rate averaged 2.6 percentage points higher than the U.S.'s, and the Gaullist nation's annual GDP growth was approximately one-third that of the U.S. Unfortunately, the Obama Administration's proposed tax increases currently under deliberation by Congress on the higher income, higher productivity, and more highly educated workers pushes the U.S. in France's direction. The top five percent of wage earners, or those earning over $154,000 already pay an average income tax rate that is 11 times that of the bottom 50 percent of U.S. workers. Not only do Obama's tax rate hikes on the most productive Americans shrink incentives, they reduce the yearly budget deficit by less than ten percent. Instead of diminishing the income of higher wage workers via elevated taxes, U.S. economic policy should be directed at raising the income of lower income workers. The U.S. should import French wines and movies, not French economic policy. Ernie Goss.

Link to video: http://youtu.be/3T-5Qnu4Q9U

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Economic Indicator Improves: But Still Points to Sluggish Economy

SURVEY RESULTS AT A GLANCE

- The leading economic indicator remains below growth neutral for the fourth time in past five months.
- November gains for Iowa, North Dakota and Oklahoma, but losses elsewhere.
- Economic confidence plummets for November.
- Almost one-third of supply managers expect no increase in pay for next year.
- Supply managers have raised expected wholesale price growth by for next year by two percentage points since May.

For the fourth time in the past five months, the monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, remained below growth neutral. The index continues to point to slightly negative 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 a weak 48.0 from October's 46.5. Our survey is heavily weighted by manufacturers. And much like the national survey of supply managers, we are tracking economic weakness, particularly for nondurable goods producers. This weakness has more than offset slight gains from durable goods manufacturers and value-added service firms. Furthermore, there was a great deal of economic variation among the nine states with Iowa, North Dakota and Oklahoma outperforming the remaining states.

Employment: The region's employment gauge moved slightly above growth neutral for the month. The index increased for a second straight month to 50.5 from a much weaker 47.7 in October. Recent surveys point to job growth hovering close to zero for the nine-state region in the months ahead. Nondurable goods producers, including food manufacturers and ethanol processors, are experiencing job losses while durable goods manufacturers are expanding their job levels, but at a slow pace. As a result of the weak job market, approximately 30 percent of supply managers expect no pay raise next year. On average, supply managers project a 1.4 percent wage gain for the next year.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, declined to 64.4 from October's 71.5 and 66.0 in September. As stated by one supply manger, "Keep your eye on Dr. Copper. The world economy is slowing and copper is struggling to find solid ground." Weaker commodity prices, such as that for oil and copper, linked to slower global growth are showing up in our survey. However, I expect the Federal Reserve's easy money policy to continue to support elevated commodity prices even with the global economic slowdown.

This month supply mangers were asked how much they expect prices for products they purchase to change in the next six months. On average, a 3 percent increase is expected. This compares to a projected 2.0 percent increase recorded in May of this year. Thus, supply mangers have raised their annualized projected wholesale price index from 4 percent to 6 percent.

Confidence: Looking ahead six months, economic optimism, as captured by the November business confidence index, plummeted to 43.5 from 58.0 in October. Both the fiscal cliff and the uncertainty surrounding healthcare reform were reported by supply managers as negatively affecting their economic outlook.

Inventories: Regional inventory levels continued to decline. The November inventory index remained below growth neutral but did increase to 44.9 from 43.5 in October. Supply managers have now cut inventories for five straight months. The last time this happened was in 2009 when supply managers were reducing inventories in anticipation of weaker business activity.

Trade: New export orders were weak for November. The new export orders index sank to 47.9 from 60.8 in October. At the same time, November imports contracted for the month with an index of 42.6 and down from 44.2 in October. Slower Mid-America growth restrained imports while pullbacks in global growth hurt new export orders.

Other components: Other components of the November Business Conditions Index were new orders at 46.0, up from 43.3 in October; production or sales at 46.6, up from 43.9; and delivery lead time at 51.8, lower than October's 54.1.

MID-AMERICA STATES

ARKANSAS

The November overall index, or leading economic indicator, for Arkansas rose to a weak 45.4 from October's 42.3. Components of the index from the monthly survey of supply managers were new orders at 39.6, production or sales at 41.9, delivery lead time at 50.1, inventories at 50.1, and employment at 45.0. Arkansas has lost manufacturing jobs thus far in 2012. However, the losses were in the state's non-durable goods sector with an almost equal gain for the state's durable goods producers. Our November survey indicates that pullbacks among non-durables continue to outweigh advances for durable goods manufacturers.

IOWA

Iowa's October Business Conditions Index declined for a fifth consecutive month to November's 52.6 from 54.2 in October. The overall index, from a survey of supply managers in the state, has remained above growth neutral for the last 35 months. Components of the index for November were new orders at 53.5, production or sales at 45.2, delivery lead time at 55.8, employment at 56.9, and inventories at 51.4. For 2012, Iowa has bucked the trend in the region by adding both durable and non-durable goods manufacturing jobs. Our recent surveys continue to point to growth for both manufacturing and non-manufacturing in the state, but at a slower pacer.

KANSAS

The Kansas Business Conditions Index for November advanced to a tepid 51.3 from 47.9 in October. Components of the index from the November survey of supply managers in the state were new orders at 57.8, production or sales at 49.3, delivery lead time at 53.8, employment at 51.9, and inventories at 43.6. For 2012, Kansas has added both durable and non-durable manufacturing jobs but at a slow pace. Gains, however, were greater for durable goods producers as food processing pullbacks pulled the non-durable goods sector numbers lower. Higher agriculture commodity prices will likely continue to weigh on food processors in the state as the state economy expands but at a very slow pace.

MINNESOTA

For a fifth straight month, the Minnesota Business Conditions Index slumped below growth neutral. The index, based on a survey of supply managers in the state, climbed to 48.4 from 47.1 in October. This is the first time since the recession that the overall index has been below 50.0 for five straight months. Components of the index from the November survey were new orders at 36.9, production or sales at 40.5, delivery lead time at 63.6, inventories at 48.2, and employment at 52.8. For 2012, Minnesota non-durable goods losses more than offset gains among durable goods manufacturers. However over the last several months we have been recording losses, albeit small, across the manufacturing sector. Businesses linked to construction are reporting improving economic conditions. Our surveys point to slightly negative economic and job growth for the state for the next 3 to 6 months.

MISSOURI

The November Missouri Business Conditions Index slipped to 47.2 from 50.0 in October. Components of the survey of supply managers in the state for November were new orders at 41.6, production or sales at 45.8, delivery lead time at 55.5, inventories at 41.9, and employment at 51.5. For 2012, job losses in the state's non-durable goods sector more than offset increases for durable goods producers in the state. Our recent surveys of supply managers in the state show a continuation of this trend with overall job growth in the state likely to hover slightly below zero in the next three to six months.

NEBRASKA

For the fourth time in the past five months, Nebraska's leading economic indicator fell below growth neutral. The Business Conditions Index, from a survey of supply managers, increased to 47.3 from October's 45.5. Components of the index for November were new orders at 47.6, production or sales at 45.5, delivery lead time at 49.2, inventories at 49.0, and employment at 45.3. Improving economic conditions in the state's construction industry are pushing growth higher for firms with linkages to this industry. However, pullbacks in growth for both durable and non-durable goods more than offset non-manufacturing growth. Our surveys over the past several months point to slightly negative job and economic growth for the state over the next 3 to 6 months.

NORTH DAKOTA

The leading economic indicator for North Dakota once again expanded to a regional high. However, the Business Conditions Index from the survey of supply managers slid to 58.1 from 64.1 in October. Components of the overall index for November were new orders at 59.4, production or sales at 72.8, delivery lead time at 53.5, employment at 51.4, and inventories at 53.1. Our surveys over the past several months point to positive but somewhat slower growth for the state over the next 3 to 6 months. Housing and labor shortages are reported by supply managers as restrains to more robust growth.

OKLAHOMA

The Business Conditions Index for Oklahoma fell for November, but to a solid reading. The leading economic indicator from the supply manager survey sank to 56.1 from October's 63.3. Components of the November survey of supply managers in the state were new orders at 63.6, production or sales at 62.4, delivery lead time at 42.0, inventories at 60.5, and employment at 52.1. Growth stemming for a very strong energy sector continues to push state economic growth higher. In addition, both durable and non-durable goods producers continue to expand at a solid pace. For example, metal manufacturing and machinery production are growing at a healthy rate in the state. Our surveys over the past several months project healthy but somewhat slower growth for the next 3 to 6 months.

SOUTH DAKOTA

For a fifth straight month, the leading economic indicator for South Dakota remained below growth neutral. However, the Business Conditions Index from a survey of supply managers in the state did rise to 48.9 from 45.3 in October. Components of the index for November were new orders at 60.7, production or sales at 53.8, delivery lead time at 55.0, inventories at 28.8, and employment at 46.0. For 2012, South Dakota added manufacturing jobs at a very slow but positive pace. Our surveys over the past several months indicate that the growth rate in both manufacturing and non-manufacturing will move to slightly negative for the next 3 to 6 months.

THE BULLISH NEWS

- The nation added 136,000 jobs for the month of November and the unemployment rate declined to 7.7% from 7.9%. However, 350,000 unemployed, discouraged workers left the labor market.
- According to the Case-Shiller home price index for September, U.S. home prices (year over year) increased for a fourth straight month.
- There were 370,000 first-time claims for unemployment insurance last week, down 25,000 from the week before.

THE BEARISH NEWS

- U.S. retail and food services sales for October declined by 0.3% from the previous month and were only 3.8%, above October 2011, or only slightly above inflation.

- Both the national ISM index (the PMI) and Creighton's regional PMI slumped below growth neutral for November.

- Annualized U.S. GDP growth was only 2.7% for the third quarter. Additionally, The growth in real GDP primarily reflected upturns in private inventory and in federal government spending. Consumers not spending and businesses not capital spending.

- U.S. manufacturers shed jobs in November.

WHAT TO WATCH

- PMI's: On Jan. 2, Creighton's releases its regional leading economic indicators (PMIs) and the national Institute for Supply Management releases its national PMI. Additional declines will be very bearish for the economy.

- Jobs: On Friday Jan. 4, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for December. An addition of more than 200,000 jobs is needed but will not be forthcoming. This report will be like its predecessors, lackluster. Focus on manufacturing jobs which have been declining.

- Retail Sales: On Jan. 15, the U.S. Census Bureau releases its retail sales estimate for December. An increase of less than 0.1% will a real warning signal of the rising likelihood of a recession.

THE OUTLOOK

FROM GOSS:

- I expect U.S. annualized Quarter 4 GDP growth to be less than 1%.

- U.S. unemployment rates will begin to rise in the first quarter of 2013.

- The U.S. trade deficit will grow significantly in the months ahead due to declining U.S. exports resulting from much slower global growth (e.g. Europe's recession and Canada's slower growth). The deficit subtracts from U.S. GDP growth.

OTHER FORCASTS:

- "Ongoing Threat of Global Multi-tier Disruptions Drives Continued Demand for Supply Chain Resiliency Solutions." Senior industry executives are rethinking supply chain risk mitigation strategies in order to reduce the potential impacts of future events. The continuous threat of global multi-tier disruptions drives high demand for its supply chain resiliency solutions, confirmed Resilinc Corp., a provider of multi-tier supply chain resiliency solutions. Global supply chains have been impacted in recent years as the result of numerous highly disruptive events including devastating natural disasters; factory explosions and fires; economic crisis; labor disputes; unexpected supply shortages; and other unforeseen disruptions. Most recently, such disruptive events included Superstorm Sandy; the explosion and fire at the Bombardier plant in Quebec; and the explosion at a chemical plant in Japan responsible for as much as one-fifth of the global market of super-absorbent polymers. Such events have caused many senior executives to rethink supply chain risk mitigation strategies in order to reduce the potential impacts of future events.

- National Association of Business Economics (October survey results). "About 20% of the panelists reported that the prices charged by their firms over the past three months have risen, which is an increase over the 9% of panelists reporting rising prices in the July survey. This suggests the potential for slightly higher inflationary pressures in the economy relative to the prior survey. The panelists continue their stable outlook concerning employment over the next six months. About 55% of the panelists suggest that their employment is likely to remain unchanged, while 28% suggest that their firm's employment is likely to increase. About 14% of the panelists suggest that the firm's employment will decrease through attrition and 3% suggest that it will decrease through significant layoffs."

Goss Eggs
(Recent Dumb Economic Moves)

- The state of Mississippi awarded Twin Creeks Solar plant with $27 million in state money and incentives to build a manufacturing plant in Senatobia. But a couple of years later, the company is selling off equipment, and the promise of hundreds of high-tech jobs vanished. Nationwide "green" energy companies are being supported, not by production and sales, but by U.S. and state tax incentives.

Survey results for December will be released on the month's first business day, Jan. 2.

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