THE PURCHASING ECONOMY SURVEY REPORT January 2013

"A monthly survey of supply chain managers"

Welcome to our January report covering December 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

## The Federal Reserve Continues to Bail Out the Federal Government: Unmatched Debt Buying Supports Federal Overspending

Since 2008, the U.S. federal government has run yearly deficits in excess of $1 trillion and has expanded its debt to $16.4 trillion. Despite this borrowing binge, interest rates on U.S. debt hover at record lows. Why? To paraphrase former Wyoming Senator Alan Simpson, U.S. debt is the healthiest horse in the glue factory. That is, investors are lending to the U.S. Treasury because all other options are more risky. But it goes beyond this. During its 100 years of operations, the Federal Reserve (Fed) never matched its current aggressive monetary expansion activities. Since December 2008, the Fed has held its short term interest rate at close to 0%. Furthermore, the Fed has launched three bond buying programs, termed quantitative easing 1, 2 and 3 (QE1, QE2 and QE3). When the Fed Launched QE1 in November 2008, the yield (market interest rate) on U.S. 10-year U.S. Treasury bonds was 3.3 percent. QE3 was inaugurated in September 2012 with the Fed currently purchasing $85 billion per month of long-dated Treasury bonds and mortgage backed securities with the result of driving the rate on U.S. Treasury bonds to an even lower 1.8 percent. At this point in time, the Fed holds more than $3 trillion in bonds, or approximately 18 percent of total U.S. federal debt. By buying U.S. Treasury bonds and keeping interest rates artificially low, the Fed has incentivized the U.S. government to borrow and overspend. When the Fed begins to sell these bonds, which they will, interest rates will move in the opposite direction. A return to pre-QE1 interest rates would cost U.S. taxpayers as much as $240 billion per year. Who will bear this guaranteed added burden? Ernie Goss.

**Link to video:**
http://www.youtube.com/watch?v=8ePHz5XEjYk

## LAST MONTH'S SURVEY RESULTS

Mid-America Economy Stuck in Neutral:
Slow 2013 Start for Regional Economy

SURVEY RESULTS AT A GLANCE

- The leading economic indicator remains below growth neutral for the fifth time in past six months.
- Slight manufacturing job losses; slim positive overall job additions expected for next three to six months.
- Inflationary pressures continue to trend downward.
- Pickup in growth for Minnesota and Oklahoma expected. Slower for rest of region.
- Only 3.1 percent of supply managers indicated that the potential longshoreman strike affected their purchasing decisions for the month.

For the fifth time in the past six 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 to zero growth for the region in the next three to six months, but still no recession. **Overall index:** While the Business Conditions Index, which ranges between 0 and 100, rose for a second straight month it remained below growth neutral with a reading of 49.5, up from November's 48.0 and October's 46.5.

Job and economic growth will continue to slow for the region according to our survey results over the last several months. Unemployment rates in all nine states are declining due primarily to the jobless leaving the labor force rather than continuing their job search. I expect slight manufacturing job losses and only small overall job additions for the region.

**Employment:** The region's employment gauge once again fell below growth neutral. The index declined to 48.0 from 50.5 in November. Recent surveys point to overall job growth hovering close to zero for the nine-state region in the months ahead. For 2012, only three states in the region outperformed the nation in terms of nonfarm job growth. Minnesota, North Dakota and Oklahoma expanded nonfarm payrolls at a pace significantly exceeding that of the rest of the nation. On the other hand, Arkansas, Iowa, Kansas, Missouri, Nebraska, and South Dakota experienced slower nonfarm job growth than the nation. Overall the Mid-America region expanded employment at a pace significantly below that of the U.S. Our survey indicates that the region will add few jobs in the next three to six months.

**Wholesale Prices:** The prices-paid index, which tracks the cost of purchased raw materials and supplies, declined to 63.5 from November's 64.4 and October's much higher 71.5. The cheap dollar policy of the Federal Reserve has thus far failed to ignite inflation or economic growth in the nation or region. Instead, slower global growth and elevated unemployment remain an obstacle to significantly raising wholesale prices.

**Confidence:** Looking ahead six months, economic optimism, as captured by the December business confidence index, rose to 50.0 from November's 43.5. Given recent declines in consumer confidence from national surveys, it was surprising to calculate an uptick in the business confidence reading, although it remains at a low level. An improving housing environment was an important factor pushing the index higher.

**Inventories:** Regional inventory levels expanded for the month. The December inventory index rose to 51.5 from November's 44.9. After reducing inventories for five straight months, supply managers expanded inventory levels for December. Even with recent cuts in inventory levels, 45.4 percent of supply managers reported that their company's inventory levels were above normal while only 14.4 percent indicated that their firm's inventory levels were below normal.

This month supply mangers were asked how their firm was dealing with the potential longshoreman strike. Only 3.1percent of supply managers indicated that the impending strike affected their purchasing decisions.

**Trade:** New export orders were weak for December. The new export orders index advanced to a tepid 50.0 from 47.9 in November. Once again, imports remained below growth neutral with an index of 48.7, which was up from 42.6 in November and 44.2 in October. Slower Mid-America growth restrained imports while slow global growth continues to confine new export orders. Even though the longshoreman dispute was postponed for 30 days, a strike would be crippling to the regional and national economy.

**Other components:** Other components of the December Business Conditions Index were new orders at 46.4, up slightly from 46.0 in November; production or sales at 48.0, up from last month's 46.6; and delivery lead time at 53.5, up from 51.8 in November.

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 December overall index for Arkansas rose to a weak 47.7 from November's 45.4. Components of the index were new orders at 44.8, production or sales at 46.0, delivery lead time at 50.0, inventories at 50.1, and employment at 47.5. Over the last year, the Arkansas labor force shrank by almost 10,000 workers. The labor force equals employed plus unemployed workers. Thus, despite little job growth, Arkansas's unemployment rate has continued to move lower. Since the national economic recovery began in July 2009, Arkansas has lost almost 3,000 manufacturing jobs. Our surveys over the past several months indicate that those losses are likely to continue, but at a slow pace.

### IOWA

For the first time since June, Iowa's Business Conditions Index increased. The overall index from a survey of supply managers in the state climbed to 53.8 from November's 52.6. Even though the overall index has declined from stronger readings recorded earlier in 2012, it has now been above growth neutral for the last 36 months. Components of the index for December were new orders at 54.9, production or sales at 47.6, delivery lead time at 59.2, employment at 47.5, and inventories at 50.7. Over the last year, the Iowa labor force shrank by almost 22,000 workers. Thus, as a result of job growth and a reduction in the size of the labor force, Iowa's unemployment rate has continued to move lower. Since the national economic recovery began in July 2009, Iowa has added more than 20,000 manufacturing jobs. Our surveys over the past several months point to very moderate overall job gains with slight manufacturing job losses for the first half of 2013.

### KANSAS

The Kansas Business Conditions Index for December dipped below growth neutral for December. The index declined to 46.6 from November's 51.3 and October's 47.9. Components of the index from the December survey of supply managers in the state were new orders at 48.9, production or sales at 44.6, delivery lead time at 51.9, employment at 41.0, and inventories at 46.8. Over the last year, the Kansas labor force shrank by almost 23,000 workers. Thus, despite little job growth, Kansas's unemployment rate has continued to move lower. Since the national economic recovery began in July 2009, Kansas has added more than 5,000 manufacturing jobs. Our surveys over the past several months point to a reversal of those gains for the first half of 2013 with slight manufacturing job losses.

### MINNESOTA

After moving below growth neutral for five straight months, the Minnesota Business Conditions Index bounced significantly higher for December to 57.2 from November's 48.4. Components of the index from the 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. Over the last year, the Minnesota labor force has shrunk by almost 7,000 workers. The labor force equals employed plus unemployed workers. The smaller labor force combined with recent job growth has pushed the Minnesota's unemployment rate well below the national jobless rate. Since the national economic recovery began in July 2009, Minnesota has added more than 9,000 manufacturing jobs. Our surveys over the past several months point to positive job and economic growth for the first half of 2013.

### MISSOURI

The December Missouri Business Conditions Index slipped to 46.8 from November's 47.2. Components of the survey of supply managers in the state were new orders at 41.3, production or sales at 44.8, delivery lead time at 53.5, inventories at 43.6, and employment at 50.7. Over the last year, the Missouri labor force has shrunk by approximately 41,000 workers. Thus despite little job growth, the state's unemployment rate has now moved well below the national jobless rate. Since the national economic recovery began in July 2009, Missouri has lost almost 6,000 manufacturing jobs. Our surveys over the past several months point to slight job losses for both manufacturing and nonmanufacturing for the first half of 2013.

### NEBRASKA

For the fifth time in the past six months, Nebraska's leading economic indicator remained below growth neutral. The Business Conditions Index, from a survey of supply managers, increased to a weak 48.4 from November's 47.3. Components of the index for December were new orders at 45.5, production or sales at 45.8, delivery lead time at 49.6, inventories at 54.3, and employment at 46.7. Nebraska was one of only three states in the region to expand its labor force over the last year. However despite growth in the labor market by 10,000, Nebraska added jobs at a pace that reduced its unemployment rate to the second lowest in the nation. Since the national economic recovery began in July 2009, Nebraska gained almost 3,000 manufacturing jobs. Our surveys over the past several months point to slow to no job gains for the first half of 2013 for both manufacturing and nonmanufacturing.

### NORTH DAKOTA

After rising to a regional high for much of 2012, the North Dakota leading economic indicator declined to a level pointing to slower growth in the months ahead. The index slumped to 50.9 from November's 58.1 and October's 64.1. Components of the overall index for December were new orders at 48.4, production or sales at 61.4, delivery lead time at 51.8, employment at 44.5, and inventories at 48.4. North Dakota was one of only three states in the region to expand its labor force over the past year. Despite growth in the labor force by 4,000, North Dakota added jobs at a pace that reduced its unemployment rate to the lowest in the nation. Since the national economic recovery began in July 2009, North Dakota gained approximately 1,400 manufacturing jobs. Our surveys over the past several months point to no job gains for the first half of 2013 in manufacturing and only modest positive increases for nonmanufacturing. Shortages of labor and housing will continue to restrain North Dakota's growth.

### OKLAHOMA

The Business Conditions Index for Oklahoma fell for December. The leading economic indicator sank to 52.1 from 56.1 in November. Components of the December survey of supply managers in the state were new orders at 56.9, production or sales at 43.7, delivery lead time at 46.0, inventories at 67.7, and employment at 46.1. Oklahoma was one of only three states in the region to expand its labor force over the past year. However despite growth in the labor force by approximately 42,000, Oklahoma added jobs at a pace that reduced its unemployment rate significantly over the past year. The labor force equals employed plus unemployed workers. Since the national economic recovery began in July 2009, Oklahoma gained almost 12,000 manufacturing jobs. Our surveys over the past several months point to positive job and economic gains for the first half of 2013.

### SOUTH DAKOTA

After moving below growth neutral for five straight months, South Dakota's leading economic indicator for a survey of supply managers rose above the 50.0 threshold to a tepid 51.9 from

November's 48.9 and October's 45.3. Components of the index for December were new orders at 61.6, production or sales at 58.2, delivery lead time at 58.7, inventories at 26.9, and employment at 54.3. Over the last year, the South Dakota labor force shrank by approximately 2,600 workers. Thus despite almost no job growth, South Dakota's unemployment rate has continued to move lower. Since the national economic recovery began in July 2009, South Dakota has added more than 4,000 manufacturing jobs. Our surveys over the past several months point to a reversal of these gains for the first half of 2013 with no change in manufacturing jobs and very slow increases in nonmanufacturing jobs.

## THE BULLISH NEWS

- Nonfarm payroll employment rose by 155,000 in December, and the unemployment rate was unchanged at 7.8%. Health care employment continued to expand in December (+45,000). Job gains occurred in ambulatory health care services (+23,000), in hospitals (+12,000), and in nursing and residential care facilities (+10,000). In 2012, health care employment rose by 338,000.

- The Consumer Price Index declined 0.3% in November. Over the last 12 months, the all items index increased 1.8%. This is well within acceptable bounds.

- According to the Case-Shiller home price index for October, U.S. home prices (year over year) increased for a fifth straight month.

- Retail sales for December expanded by 0.5%. This is much better than I expected.

## THE BEARISH NEWS

- Construction spending for November 2012 was estimated to have declined by 0.3% from October's level.

- U.S. retail and food services sales for November, adjusted for seasonal variation and holiday and trading-day differences, increased by 0.3% from October and were 3.7% higher than November 2011. This is only slightly above inflation growth.

- Exports decreased to $180.5 billion in October from $187.3 billion in September. This is a potentially troubling signal of slower global growth.

- The Conference Board Consumer Confidence Index®, which had declined slightly in November, posted another decrease in December. The Index now stands at 65.1 from 71.5 in November. The Expectations Index declined sharply to 66.5 from 80.9.

## WHAT TO WATCH

- PMI's: On Feb. 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI. A large decline would be very bearish for the economy.

- GDP:On Jan. 30, the U.S. Bureau of Economic Analysis releases its advance estimate for GDP growth for Q4, 2012. An annualized and seasonally adjusted growth rate above 2.5% will be very bullish. A growth rate below 1.5% will be very bearish.

- Jobs: On Friday Feb. 1, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for January. Watch out for a negative "surprise." Everybody is "all in" for an expanding economy. Job additions below 50,000 or an unemployment rate of 8.0% will be very bearish.

## THE OUTLOOK

FROM GOSS:

- I expect inflation to pick up in 2013 (though it will remain below 3.1%)

- As a result of higher inflation and larger and larger federal budget deficits, the era of record low long-term interest rates is over. Mortgage rates will likely rise by one percent by the middle of 2013.

- U.S. unemployment rates will fail to move lower even as jobs are added.

OTHER FORCASTS:

- The Conference Board (2013 Outlook): "Across the advanced economies, the Outlook predicts 1.3 percent growth in 2013, compared to 1.2 percent in 2012. The slight uptick is largely due to the Euro Area, which is expected to return to very slow growth of 0.2 percent after the -0.6 percent contraction in 2012. U.S. growth is expected to fall from 2.1 percent in 2012 to 1.8 percent in 2013." The Conference Board expects: housing starts to expand by 16 percent for the first six months of 2013 compared to the last six months of 2012.

## Goss Eggs (Recent Dumb Economic Moves)

- The recently passed fiscal cliff tax package is loaded with breaks for Hollywood, rum makers and wind mills. The $248 million Hollywood gift does disallow credits for the production of sexually explicit content. Instead your tax dollars will support more uplifting programs such as Jersey Shore (sex out ignorance in).

Survey results for January will be released on the month's first business day, February 1.

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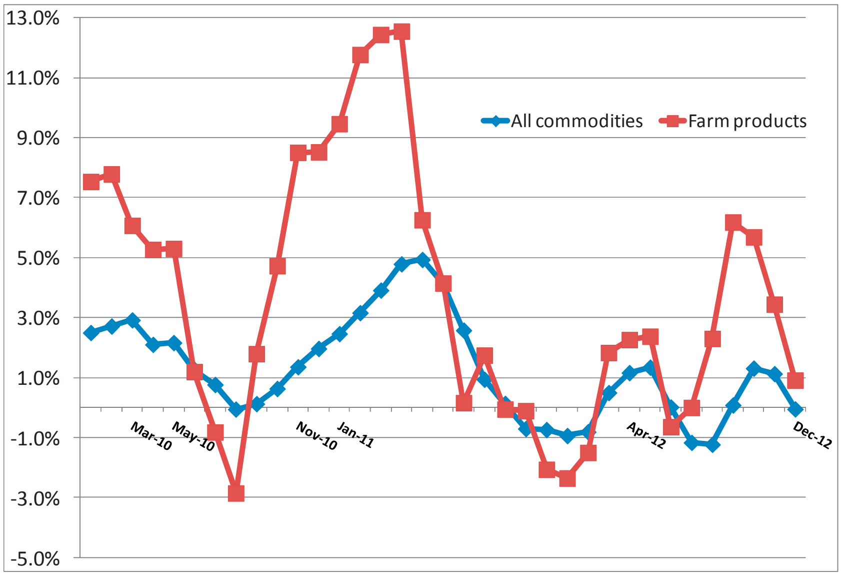
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

## PRICE DATA

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

Price changes, 3 month moving average, 2010-2012




Price changes, 3 month moving average, 2010-2012