"A monthly survey of supply chain managers"

Welcome to our July report covering June 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 sluggish national economy. However all surveys point to waning inflationary pressures at the wholesale level thus giving the Federal Reserve flexibility to keep interest rates at near record lows. Follow my comments at: www.twitter.com/erniegoss

Red States Raid Blue States for Jobs: It's a Texas Two-Step Versus an Illinois Slow Waltz

Economic Recovery Stronger in Red States

Governor Rick Perry of Red State Texas, took a June Blue State tour visiting New York and Connecticut, courting and wooing companies in an area of the country that hasn't voted Republican in a national election in the last two decades. Are the economic stars dancing the Texas two-step, or the New York Lindy Hop? Have Red States, those that voted Republican in every presidential election for the past two decades, economically out-performed Democrat voting Blue states, as well as Purple states that divided their electoral votes between Democrat and Republicans in the same time period? Do Red states, which are viewed as more pro-business and tax friendly, experience superior economic performance compared to Blue states that are seen as more pro-government and tax burdensome? From the beginning of the economic recovery in the third quarter of 2009 through the first quarter of 2013, personal income growth was 14.6 percent for Blue States, 14.9 percent for Purples states and 17.3 percent for Red states. Furthermore, May 2013 Red state unemployment rates were a full one percentage point lower than Blue state jobless rates, and one-half of one percentage point lower than the rate of joblessness among Purple states. Since July 2009, employment has grown by 1.7 percent in Red states, a much slower 1.3 percent in Purple states, and an anemic 1.1 percent in Blue states. Thus, approximately 500,000 jobs shifted from Blue and Purple states to Red states during the recovery. Data like this are apt to encourage Red state governors to mimic Governor Perry's efforts and recruit workers and companies from Blue states like Illinois with its slow waltzing economy. Ernie Goss. Details of the analysis can be accessed at:
www.economictrends.blogspot.com

Link to video:
http://youtu.be/dN44wgiCK9E

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Indicator Softens for June: Impact of Spending Sequestration Growing

SURVEY RESULTS AT A GLANCE:

- Regional readings remain significantly stronger than indices from the national survey of supply managers.
- Approximately 30 percent of businesses reported modest and negative impacts from federal spending sequestration.
- Inflationary pressures at the wholesale level declined for the fourth straight month.
- The economic outlook of supply managers tumbles for the month.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, declined for a third straight 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 Business Conditions Index, which ranges between 0 and 100, declined to a solid 55.6 from 56.2 in May. Our regional gauge has been significantly stronger than the national reading over the past several months. Given other economic data over this same period of time, I think our regional indices have been on target pointing to positive, but slowing growth with diminishing inflationary pressures.

Employment: After moving below growth neutral for January, the region's employment gauge has remained above 50.0 for the past five months. The June reading slumped to 53.7 from May's 59.3. Annualized job growth for the first half of 2013 has slowed to approximately 1 percent compared to 1.5 percent for the same period last year for the Mid-America Region. Durable goods manufacturers continue to add jobs at a faster pace than nondurable goods producers and nonmanufacturing firms in the region. Increasing interest rates and a strengthening U.S. dollar have, and will continue to have, negative but modest impacts for businesses in the region, particularly those tied to agriculture. Even so, the regional job growth will remain positive but sluggish.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, sank for a fourth straight month to 58.4 from 61.2 in May. Wholesale inflationary pressures continue to move lower in the region. A 5 percent increase in the value of the U.S. dollar in 2013 and slower global economic growth have placed downward pressure on inflation at the wholesale level. Not only is wholesale inflation tame, it is headed lower.

Confidence: Looking ahead six months, economic optimism, as captured by the June business confidence index, plummeted to 51.1 from May's 59.4 and April's 59.9. The rapid upturn in interest rates pushed supply manager's economic outlook lower. The federal spending sequestration is having very little impact on the outlook. The last four months, we have asked supply managers how the federal spending sequestration was affecting their company.

In the June survey, approximately 70.8 percent of supply managers indicated that the cuts have had no impact on their company to date. Approximately 29.2 percent reported only modest impacts from sequestration. As in past months, none of the businesses reported significant impacts. However, the share of businesses negatively affected has been rising slightly.

Inventories: Regional inventories continue to grow but at a slower pace as the June inventory index slid to 51.6 from May's 56.2. In anticipation of expanding sales, companies in our survey have now increased inventory levels for seven straight months. This inventory accumulation will contribute to regional growth in the months ahead. But declining readings are another indicator of positive, but slowing economic growth for the region.

Trade: New export orders expanded for the month but at a slower pace than in May. The new export orders index dipped to 52.9 from 55.9 in May. The import index fell to 52.9 from 53.5 in May. Despite this year's rise in the value of the U.S. dollar and slowing global growth, export orders continue to grow but at a reduced rate. The decline in the price of foreign goods failed to significantly boost purchases of goods from abroad.

Other components: Other components of the June Business Conditions Index were new orders at 57.0, up from 54.8 in May; production or sales at 60.3, up from 57.3; and delivery lead time at 55.4, up from 53.6 in May.

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 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

Arkansas: The June overall index for Arkansas dipped to 52.6 from 55.1 in May. Components of the index from the survey of supply managers were new orders at 46.5, production or sales at 44.7, delivery lead time at 50.8, inventories at 66.7, and employment at 54.1. Business expansion for durable goods producers remains strong and has offset weakness among nondurable goods producers. Even as construction activity has stabilized, the industry has yet to recapture job losses from the national recession with industry jobs down 17 percent from 2007.

IOWA

For the first time this year, Iowa's Business Conditions Index declined. The overall index from a survey of supply managers for June slipped to a very strong 69.3 from May's70.0. Components of the index for June were new orders at 77.7, production or sales at 70.2, delivery lead time at 54.8, employment at 70.5, and inventories at 73.3. Over the past 12 months, Iowa durable goods producers and nondurable goods manufacturers have increased employment levels by more than 3 percent, which was tops in the region. Our surveys over the past several months signal that this growth will continue over the next three to six months.

KANSAS

The Kansas Business Conditions Index for June rose to 58.6 from 53.1 in May. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 73.6, production or sales at 70.1, delivery lead time at 47.5, employment at 62.5, and inventories at 39.2. Both durable and nondurable goods producers are experiencing healthy growth in sales and jobs. However, pullbacks were recorded for food processors in the state. Growth will be positive, but down from the same period of 2012.

MINNESOTA

For a seventh straight month, Minnesota's Business Conditions Index moved above growth neutral. The index from a monthly survey of supply managers in the state climbed to 56.2 from May's 55.2. Components of the index from the June survey were new orders at 51.9, production or sales at 55.0, delivery lead time at 56.8, inventories at 62.0, and employment at 55.6. Minnesota's economy has been boosted by an expanding construction sector. However even with the expansion, the building sector is well down from pre-recession levels. Pullbacks among nondurable goods manufacturers were more than offset by an expanding durable goods sector including metal manufacturers.

MISSOURI

The June Business Conditions Index for Missouri rose slightly to 54.7 from 54.6 in May. Components of the survey of supply managers in the state were new orders at 55.6, production or sales at 61.0, delivery lead time at 52.2, inventories at 46.7, and employment at 58.2. Expansions among durable goods manufacturers, including metal producers, more than offset cuts for nondurables goods manufacturers for the month.

NEBRASKA

As in previous months, the stronger U.S. dollar is cutting into the growth recorded by Nebraska's businesses. The overall index from the June survey of supply managers in the state sank to 51.1 from May's 53.2. Components of the index for June were new orders at 48.1, production or sales at 52.7, delivery lead time at 52.5, inventories at 51.3, and employment at 51.0. Durable goods producers in the state, including metal manufacturers and agriculture equipment producers, continue to grow at a healthy pace. Nebraska and Iowa are the only states in the region to experience very healthy growth for both durable and nondurable goods manufacturers. Even so, our surveys point to slower growth for the overall Nebraska economy in the months ahead.

NORTH DAKOTA

North Dakota's leading economic indicator expanded for June. The index from a survey of supply managers in the state advanced to 61.0 from 55.4 in May. Components of the overall index for June were new orders at 53.9, production or sales at 51.6, delivery lead time at 60.4, employment at 68.8, and inventories at 70.3. The state's mining industry continues to expand at a brisk pace. Companies that we survey each month that are tied to this sector are likewise growing at a healthy rate. Manufacturers and construction firms are benefiting from the North Dakota's vigorous energy sector.

OKLAHOMA

The Business Conditions Index for Oklahoma remained above growth neutral for June. The leading economic indicator from a monthly survey of supply managers climbed to 59.6 from May's 55.6. Components of the June survey of supply managers in the state were new orders at 64.2, production or sales at 65.9, delivery lead time at 53.3, inventories at 60.5, and employment at 54.2. Growth for durable goods producers in the state more than offset weaker conditions for Oklahoma's energy firms and for nondurable manufacturers.

SOUTH DAKOTA

For a seventh straight month, South Dakota's leading economic indicator from a survey of supply managers rose above growth neutral 50.0. The overall index from a survey of supply managers rose to a strong 62.9 from May's 61.7. Components of the index for June were new orders at 74.5, production or sales at 64.8, delivery lead time at 54.9, inventories at 52.0, and employment at 68.3. Manufacturers in the state are adding to their employment levels as sales and new orders grow at a solid pace.

THE BULLISH NEWS

- Total non-farm employment increased by 195,000 in June with April and May numbers revised upward.
- Over the past year, average hourly earnings have risen by 2.2 percent (a bit above inflation).
- The national ISM leading economic index (the PMI) moved above growth neutral for June after declining

to its lowest level since 2009 in May.

- The Case-Shiller U.S. home price index rose 12 percent over the past year ending in April. From March to April of this year, the Case-Shiller index grew at its fastest pace ever (another bubble?).

- Retail sales rose by 0.6 percent in April reflecting a consumer that continues to spend.

THE BEARISH NEWS

- Restaurants added jobs over the past three months at the fastest pace in 18 years---a signal that employers have begun reducing hours of workers and adding more part-timers. This allows firms to avoid mandated health insurance coverage for workers averaging more than 30 hours.

- The U.S. trade deficit for May increased to its highest level in six months as exports weakened.

- The number of long-term unemployed remained unchanged for June (4.5 million!!).

WHAT TO WATCH

- Consumer Price Index (CPI): On July 16, and on August 15, the U.S. Bureau of Labor Statistics releases the CPI. Annualized readings above 2.0% will "seal the deal" of a Federal Reserve reducing its QE3 stimulus program beginning in September 2013.

- Purchasing Management Indices: On August 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI for July. Another increase in the national PMI will be bullish for the economy.

- Jobs: On Friday August 2, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for July. A reading below 200,000 will be bearish for long bonds (lower prices, higher yields). This would almost guarantee a Federal Reserve QE3 reduction in its QE3 bond buying program in Sept. 2013.

THE OUTLOOK

FROM GOSS:

- I am backtracking. I now think the Federal Reserve will begin tapering or reducing its bond purchases (QE3) beginning at their Sept. 17-18 meeting. Thus, long-term interest rates will continue to move higher for the rest of 2013. I do think the interest rate increases will be modest since the Federal Reserve can increase bond buying if needed. Rates will likely advance by another three quarters of a percentage point by year's end.

- I expect the Fed to maintain its funds rate at essentially zero. This will mean that short term interest rates will remain at record low levels while long term rates such as mortgage rates will continue to rise.

OTHER FORCASTS:

- National Association of Business Economics (May 2013 survey). "NABE panelists estimate 2.4% growth in real GDP from the fourth quarter of 2012 to the fourth quarter of 2013 and suggest an improvement in real GDP growth to 3% in 2014," said Dr. Nayantara Hensel, Chair of the NABE Outlook Survey and Professor of Industry and Business at National Defense University. "Nevertheless, the panelists suggest an even stronger decline in government spending this year relative to last year, which could negatively impact GDP growth. Although the panelists suggest that government spending will decline by 2.3% for 2013, they estimate that it will only decline by 0.9% in 2014. The panelists are more upbeat regarding consumer spending in 2013 and 2014 relative to 2012."

Goss Eggs (Recent Dumb Economic Moves)

- The City Council of Washington D.C. voted 8-5 to require certain "big" retailers to pay workers a minimum of $12.50 per hour despite the city's current unemployment rate which is one percentage point higher than the U.S. average. They intend to enforce this "living wage" for retailers with more than 75,000 square feet and $1 billion in parent company revenues but exempt retailers with a collective bargaining agreement. Say hello to Safeway and Giant and good bye to Target, Home Depot and Wal-Mart. This is bad deal for the unemployed of DC.

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

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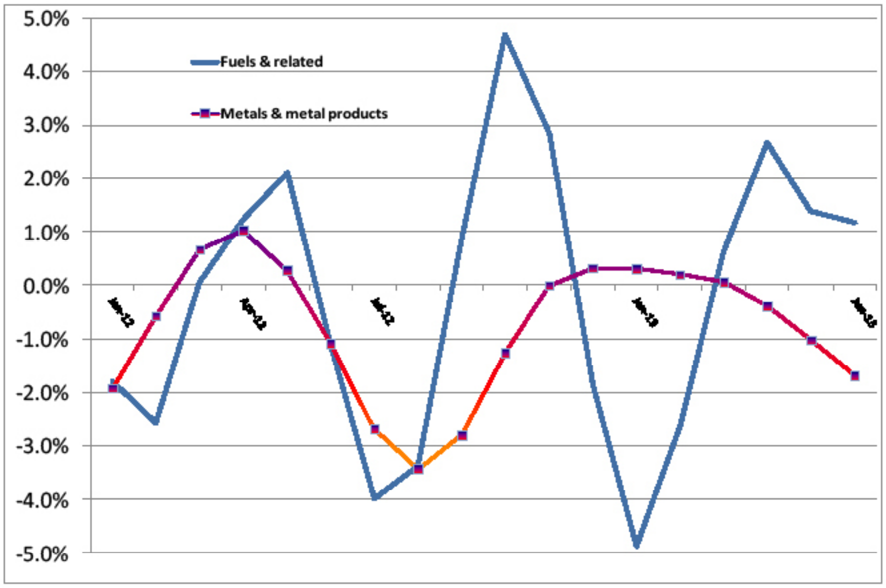
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

PRICE DATA

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

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



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