THE PURCHASING ECONOMY SURVEY REPORT May 2013

"A monthly survey of supply chain managers"

Welcome to our May report covering April survey results. Creighton surveys of supply managers point to improving economic growth with cooling wholesale inflationary pressures (but with asset price bubbles) for the Mid-America region over the next 3 to 6 months. Follow my comments at: www.twitter.com/erniegoss

Is There a Bubble in U.S. Stock Prices?

Not as long as interest rates remain at record lows

Since the Federal Reserve's Quantitative Easing programs (QE) were launched in October 2008, the stock market, as measured by the Dow Jones Industrial average, has soared by 10.9 percent, compounded annually. During this same period of time, U.S. GDP expanded by 2.4 percent, wages and salaries advanced by only 1.4 percent, employment climbed at a pace of less than 0.1 percent, and profits increased by approximately 7.6 percent (all compounded annually). The soaring stock price growth, compared to these other economic benchmarks, has forced investors to wonder if the stock market has come too far too fast. Stock price growth depends on three factors, all which swung in the direction of higher stock prices: 1) higher profits, 2) lower risk free interest rates (U.S. Treasuries), and 3) lower risk. It can be argued that the prime factor driving the stock market higher has been record low interest rates generated by the Fed's aggressive monetary expansion led by its three bond buying programs, termed QE1, QE2 and QE3. These programs have pushed rates into record low territory with the 10-year U.S. Treasury yield (interest rate) hovering around 1.7 percent. The rock bottom yields have incentivized investors to abandon safe, low yield investments such as certificates of deposit and money market funds and to embrace higher risks, higher yielding stocks. My "back of the envelope" calculations indicate that if the Fed allows rates to rise by as little as one percent, the Dow will decline by as much as 6.0 percent assuming profits and risks unchanged. Should rates rise back to their pre-QE1 level, the Dow will slump by 12.7 percent. Thus, investors need to be on guard for unexpected rate hikes or upturns in risks such as a European debt eruption. Both changes would put downward pressure on stock prices taking air out of the Fed inflated stock bubble. Ernie Goss.

Link to video:
http://www.youtube.com/watch?v=OX-q7YTFma8

LAST MONTH'S SURVEY RESULTS

Mid-America Leading Indicator Healthy for April:
Inflationary Pressures Cool Again

SURVEY RESULTS AT A GLANCE

- Leading economic indicator points to continuing growth for the next three to six months.
- More than three-fourths of businesses reported that the federal spending sequestration has had no impact on their business.
- Inflationary pressures at the wholesale level decline again.
- Approximately half of businesses surveyed have experienced or expect to experience negative impacts from the Affordable Care Act.

The monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, dipped for the month. The index continues to point to improving 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 56.8 from March's even healthier 58.2.

Durable goods producers in the region continue to outperform nondurable goods manufacturers. Durable goods manufacturers reported strong growth in new orders from both domestic and international buyers. Despite this healthy growth, inflationary pressures at the wholesale levels remain restrained.

Employment: After moving below growth neutral for January, the region's employment gauge has climbed above 50.0 for the past three months. The April reading rose to 60.7 from March's 56.3. Companies in the region are increasing the pace of new hiring. For the entire region, I expect the employment to rise to pre-recession levels this summer. At this point in time, the region's employment level is off less than one-half of a percentage point from pre-recession levels. Of course this differs by state with Arkansas, Kansas and Missouri lagging well behind the remainder of the states.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, sank to 62.6 from 64.1 in March. Inflationary pressures at the wholesale level are clearly trending lower. Thus far, the Federal Reserve's cheap money policy is elevating inflationary pressures, but only modestly. The bigger problem in Mid-America has been the Fed's impact on asset prices such as farmland which continue to expand at rates that should concern agriculture interests.

Confidence: Looking ahead six months, economic optimism, as captured by the April business confidence index, expanded to 59.9 from 58.2 in March. Supply managers expect the upturn in housing to remain an important ingredient of the economic expansion. The federal spending sequestration is having almost no impact on the outlook. The last two months, we have asked supply managers how the federal spending sequestration was affecting their company. More than three-fourths of supply managers in March and April indicated that the cuts have had no impact on their company to date. Less than one-fourth reported only modest impacts. None of the businesses reported significant impacts.

This month we also asked supply managers the expected outcome from the Affordable Care Act. Approximately fifty percent have experienced, or expect to experience negative impacts. Only 2 percent anticipate positive impacts, while the remaining 48 percent expect little or no impact on their business.

Inventories: Regional inventory levels increased for the month but at a slower pace compared to March. The April inventory index slumped to 50.6 from March's 58.1. Companies in our survey have now expanded inventory levels for five straight months. This inventory accumulation will add to regional growth in the months ahead. This is another indicator of improving business confidence.

Trade: New export orders improved for the month. The new export orders index increased to a 54.5 from 50.9 in March. In another signal of an expanding regional economy, the import index advanced for a third straight month to 58.4 from March's 55.0 and 53.7 in February. Upturns in production have pushed supply managers to increase their purchases from abroad. While the increase in new export orders for the month is good news, we will need to experience several months of this growth to be confident that exports are once again adding to regional growth.

Other components: Other components of the April Business Conditions Index were new orders at 61.3, down from March's very strong 65.4; production or sales at 63.2, up from 62.4; and delivery lead time at 48.5, down from 49.0 in March.

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

The April overall index for Arkansas increased to 56.9 from 53.9 in March. Components of the index from the March survey of supply managers were new orders at 52.8, production or sales at 62.2, delivery lead time at 53.1, inventories at 66.7, and employment at 49.8. Arkansas' current employment level is almost two percent lower than its pre-recession level. Among the nine Mid-America states, Arkansas lags all states, except for Missouri, in terms of job performance. Our surveys over the last several months indicate that Arkansas will continue to add jobs, but at a pace significantly below that of other states in the region. Nondurable goods manufacturers in the state report pullbacks in economic activity.

IOWA

For a fourth straight month, Iowa's Business Conditions Index increased. The overall index from a survey of supply managers climbed to a regional high of 69.1 from March's 65.5, also a regional high. Components of the index for April were new orders at 77.9, production or sales at 78.0, delivery lead time at 51.0, employment at 69.1, and inventories at 69.6. Compared to pre-recession levels, Iowa is currently down only one-half of one percentage point in terms of employment. Both durable and nondurable goods manufacturers are reporting very healthy business activity with job gains trending positively.

KANSAS

The Kansas Business Conditions Index for April rose to 52.3 from 52.0 in March. Components of the leading economic indicator were new orders at 64.3, production or sales at 60.3, delivery lead time at 50.1, employment at 50.0, and inventories at 36.7. Among the nine Mid-America states, only Arkansas and Missouri lagged Kansas in terms of job creation since the recession. The state's current employment level is still down by almost 19,000 jobs, or 1.3 percent. Recent growth among durable goods manufacturers has lagged that of nondurable goods producers.

MINNESOTA

For a fifth straight month, Minnesota's Business Conditions Index moved above growth neutral. The index from a monthly survey of supply managers in the state rose to 55.7 from 55.2 in March. Components of the index from the April survey were new orders at 57.6, production or sales at 57.4, delivery lead time at 55.7, inventories at 51.4, and employment at 56.5. Compared to its pre-recession level, Minnesota has regained all jobs lost during the recession. Over the past several months, durable goods producers are reporting healthier growth in business activity than nondurable goods manufacturers. Our surveys over the past several months point to an expanding state economy in the months ahead with solid improvements in business activity.

MISSOURI

The April Business Conditions Index for Missouri slipped to 52.8 from 54.9 in March. Components of the survey of supply managers in the state were new orders at 53.1, production or sales at 56.8, delivery lead time at 48.5, inventories at 47.0, and employment at 57.4. Since the recession began in 2007, Missouri under-performed all other states in the region in terms of job creation in the region. Compared to pre-recession levels, Missouri's employment is still down more than 120,000 jobs, or 4.3 percent. Recent gains among durable goods producers in the state will boost both economic and job prospects for the state in the months ahead.

NEBRASKA

Nebraska's leading economic indicator is trending higher. The overall index from the April survey of supply managers in the state climbed to 55.6 from March's 53.4. Components of the index for April were new orders at 62.7, production or sales at 58.9, delivery lead time at 48.7, inventories at 53.0, and employment at 54.8. Nebraska has regained all the jobs that it lost during the recession. Durable goods manufacturers will continue to lead economic and job growth for the state in the next three to six months.

NORTH DAKOTA

North Dakota's leading economic indicator expanded for April. The index from a survey of supply managers in the state advanced to 57.9 from 55.8 in March. Components of the overall index for April were new orders at 61.4, production or sales at 56.5, delivery lead time at 58.4, employment at 73.6, and inventories at 39.5. Contrary to all other Mid-America states, North Dakota gained jobs during the recession adding almost 80,000 jobs, or 21.9 percent. While our surveys of firms in North Dakota point to very healthy growth, the economic expansion over the next three to six months will be down from the same period for 2012.

OKLAHOMA

The Business Conditions Index for Oklahoma remained above growth neutral for April. The leading economic indicator from a monthly survey of supply managers dipped slightly to 59.8 from March's 60.0. Components of the April survey of supply managers in the state were new orders at 56.7, production or sales at 57.9, delivery lead time at 48.7, inventories at 78.7, and employment at 57.3. Oklahoma's current employment level is almost 16,000, or 1 percent, above its pre-recession level. While recent activity among nondurable goods producers such as energy firms has been somewhat weaker, durable goods manufacturers continue to expand. Based on our surveys, growth for the next three to six months will be positive but down somewhat from the same period of 2012.

SOUTH DAKOTA

For a fifth straight month, South Dakota's leading economic indicator from a survey of supply managers rose above the 50.0. The overall index from a survey of supply managers in the state climbed to 59.4 from March's healthy 58.7. Components of the index for April were new orders at 63.0, production or sales at 72.2, delivery lead time at 49.8, inventories at 53.7, and employment at 58.1. South Dakota's employment level is now more than 11,000, or 2.8 percent, above its pre-recession level. Our surveys over the past several months point to continuing economic growth and job expansions for the state in the next 3 to 6 months with durable goods manufacturers leading the way.

THE BULLISH NEWS

- The U.S. labor market added 165,000 jobs and the unemployment rate declined to 7.5%.
- The Case-Shiller U.S. home price index rose 9.3 percent

over the past year with the index growing at its fastest pace since 2006, a year before the housing collapse.

- The U.S. trade deficit shrank by 11% in March as imports fell by the most in four years.

THE BEARISH NEWS

- The national Purchasing Management Index (PMI) declined to 50.5, or only slightly above growth neutral (a clear warning signal).

- GDP growth for quarter one 2013 was only 2.5% annualized.

- Q1, 2013 Productivity: Modest Rebound but still far below the long term average. This is going to hurt wage growth.

- U.S. retail and food services sales for March decreased 0.4% from February but were 2.8% above March 2012.

WHAT TO WATCH

- Consumer Price Index (CPI): On May 16 and again on June 18, the U.S. Bureau of Labor Statistics releases the CPI. This index has been trending downward thus alarming the Federal Reserve about the possibility of DEFLATION. It is not a possibility but I don't get a vote on the FOMC which could expand bond buying program.

- Purchasing Management Indices: On June 3, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI for April. A decline in the national PMI below growth neutral 50.0 would be very, very bearish.

- Jobs:On Friday June 7, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for May. A reading above 200,000 would be very bullish for stocks.

THE OUTLOOK

FROM GOSS:

- U.S. inflation, as measured by the consumer price index, will continue to show very weak inflationary pressures. Instead of inflation, current overly aggressive Fed actions are inflating asset bubbles such as housing in some locales and farmland.

- I expect U.S. job growth to remain slow. The Affordable Care Act will begin weighing on the job market as many of the 10,000,000 U.S. workers that currently work 30-34 hours per week are pressured to work less than 30 hours. Employers are required to provide health insurance for all workers averaging more than 30 hours per week.

OTHER FORCASTS:

- National Association of Economics (May 2013): "Results from NABE's April 2013 Industry Survey suggest that business activity advanced at its strongest pace in a year during the first quarter of 2013, while expectations for future economic growth improved for a second straight quarter," said Timothy Gill, Chair of the NABE Industry Survey Committee and director of economics at the National Electrical Manufacturers Association. "A majority of survey participants report sales rose at their firms in the first three months of 2013, despite evidence of at least some negative impact from tighter fiscal policy. The survey also reflects increased gains in profit margins and capital spending following slowdowns in the previous quarter. Employment growth was nearly unchanged, although only 7% of panelists indicate payrolls were lower at their firms than they would have been in the absence of fiscal tightening. Overall, the panel is more upbeat regarding the economic outlook than it was in the January survey, with nearly two-thirds of respondents indicating that they are planning for real GDP growth to exceed 2% in the coming year.

Goss Eggs (Recent Dumb Economic Moves)

- The U.S. Department of Energy continues to "drag its feet" in terms of allowing the export of liquefied natural gas (LNG). Compared to the U.S. natural gas price, Europe's is three times higher and China's is almost four times higher. Exporting LNG will stimulate U.S. growth and move the U.S. toward becoming more energy independent. The incoming Secretary of Energy is neutral on the export LNG. Huh?

Survey results for May will be released on the month's first business day, June 3.

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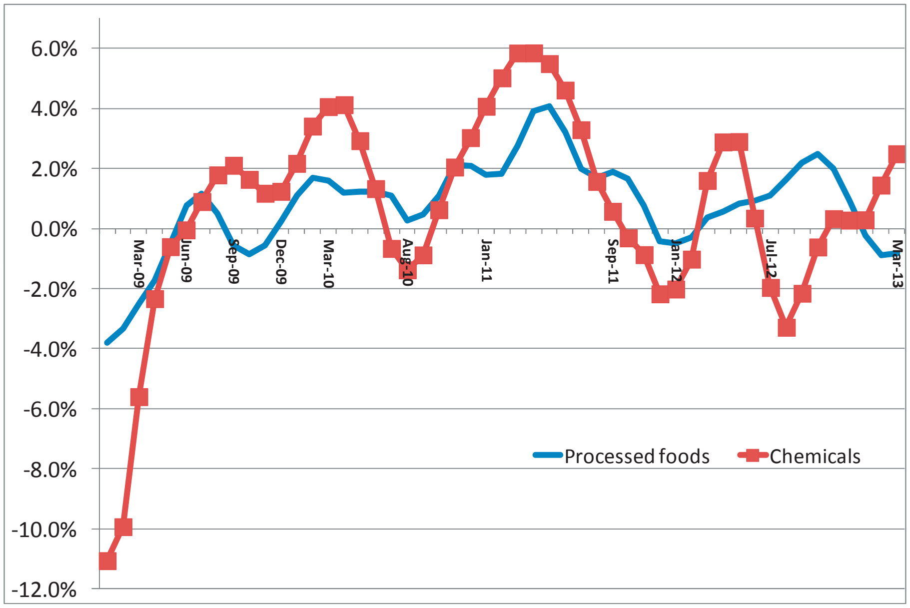
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

PRICE DATA

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

Price changes, 3 month moving average, 2009-2013



Price changes, 3 month moving average, 2009-2013