THE PURCHASING ECONOMY SURVEY REPORT November 2013

"A monthly survey of supply chain managers"

Welcome to our November report covering October survey results. The Mid-America and Mountain States surveys are pointing to the same economic outcome for the final quarter of 2013; slow to no growth. Lower agriculture commodity prices and pullbacks in the energy sector will cut into Mid-America and Mountain States growth. Supply managers in the U.S. survey reported much more positive results for the month. Follow my comments at: www.twitter.com/erniegoss

Luddites Against GMOs and Fracking

But GMOs & Fracking Good for Environment and Pocketbook

Luddites, or anti-technology progressives, are placing ballot initiatives before voters to require labeling of genetically modified (GM) products and to limit natural gas fracking. Just last week, Washington state citizens rejected Initiative 522, which would have required labeling of all GM foods on supermarket shelves by 2015, while in Colorado, three of four communities voted to proceed with restrictions on natural gas fracking. It has been estimated that both GM farm products and fracking have reduced food and energy costs significantly. It has been estimated that GM products have resulted in a 15%-20% reduction in food costs (http://tinyurl.com/lp9nvsr) and fracking has cut yearly energy costs by $2,000 per household (http://tinyurl.com/nypjkdv). Furthermore, replacing GM food with traditional farm products damages the environment since non-GM food production requires more pesticides and other chemicals that result in negative impacts on the environment. And, unlike fracking, electricity generation from conventional coal/oil introduces more pollutants into the air than does natural gas electricity production. Additionally, no studies to-date have demonstrated fracking has negatively affected the environment or ground water. However, data do show the lowest quintile of U.S. earners spend 36% of their income on food and 23% on utilities, while the highest one-fifth of U.S. earners spend only 7% of their income on food and 3% on utilities. Thus, increases in food or utility costs coming from limiting or stopping GM farming or natural gas fracking will differentially and negatively affect low income families in the U.S. Anti-technology, anti-science Luddites are attempting to push farmers and energy providers back to the techniques and technologies of the last millennium with resultant higher costs to the U.S. consumer and negative environmental impacts. Ernie Goss.

Link to video:
http://www.youtube.com/watch?v=Ua5Co4ewCZc

LAST MONTH'S SURVEY RESULTS

Mid-America Index Plummets for October:
Negative Impact from Government Shutdown

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator drops to its lowest level since 2012.
- Businesses reported job cuts for October.
- Almost one-fourth of businesses report negative impacts from government shutdown.
- New export orders tumbled to lowest level since April 2009.
- Two-thirds of businesses reported no impact from federal spending sequestration.

After rising for two straight months, the monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, tumbled to its lowest level since 2012. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, fell to growth neutral 50.0 from 54.8 in September.

The partial government shutdown combined with pullbacks among firms with ties to agriculture pushed overall economic conditions lower for the month. For example, agriculture equipment manufacturers are reporting cuts in business growth. Additionally, new export orders declined dramatically for the month.

Employment: After eight straight months above growth neutral, the region's employment gauge fell below 50.0 for October. The index declined to a weak 48.2 from 51.8 in September. This month a fairly significant number of companies reported reducing hiring and temporarily cutting employment as a result of the partial government shutdown. Firms linked to agriculture continue to experience weak hiring and pullbacks in business activity.

Wholesale Prices: The prices-paid index, which tracks the cost of purchased raw materials and supplies, declined for the month. The wholesale inflation gauge dipped to 63.1 from September's 64.8. While the inflation gauge remains in a range indicating only modest inflationary pressures, the Federal Reserve's $85 billion monthly bond buying stimulus program continues to boost asset prices such as farmland and housing at rates that are not sustainable.

Confidence: Looking six months ahead, economic optimism, as captured by the October business confidence index, expanded to 56.0 from September's 51.8. The October survey was conducted after the government shutdown had ended. Even thought the shutdown and raising the debt ceiling was only pushed out several months, it did boost the economic outlook for firms in our survey.

This month supply managers were asked how the shutdown affected their firm. Almost one-fourth, or 23.8 percent, indicated the shutdown had negatively affected their firm. The remaining 76.2 percent reported that the shutdown had no impact on their firm.

For each of the last eight months, supply managers were asked how the federal spending sequestration was affecting their company. In the October survey, approximately two-thirds of supply managers indicated the cuts have had no impact to date. Slightly less than one-third reported only modest impacts from sequestration. Only 1.2 percent of businesses reported significant impacts. According to surveys over the last eight months, the impacts have been modest and have remained subdued.

Inventories: The inventory index tracking the level of raw materials and supplies sank to 50.0 from September's 55.7. This was a sizable decline in the index. It is difficult to determine at this point in time if the decline was planned or unplanned. Based on inventory levels, confidence, hiring and overall business activity from our survey, I expect the holiday buying season to be up from last year but it will not be a robust holiday buying season with sales up by less than 4 percent from last year.

Trade: Trade numbers weakened markedly for the month. The new export orders index fell sharply to 44.4 from 49.0 in September. The import index sank to 48.5 from September's 50.8. This is the lowest new export order reading that we have recorded since the recession of April 2009. Slow regional growth weighed on purchases from abroad for the month. Over the last several months, the export reading has been moving lower reflecting slower economic growth among trading partners.

Other components: Other components of the October

Business Conditions Index were new orders at 47.0 down from 53.7 in September; production or sales at 51.2, lower than last month's 59.9; and delivery lead time at 53.0, down from September's 53.7.

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 October overall index for Arkansas expanded to a weak 45.6 from 40.4 in September. Components of the index from the survey of supply managers were new orders at 40.4, production or sales at 44.1, delivery lead time at 51.1, inventories at 46.2, and employment at 46.3. Companies linked to agriculture and food production are experiencing downturns in economic activity. I expect the state to add few jobs over the next three to six months.

IOWA

The Iowa Business Conditions Index declined for a fifth straight month but remains at a very healthy level. The overall index from a survey of supply managers for October declined to a still solid 58.5 from last month's 63.3. Components of the index for October were new orders at 58.0, production or sales at 65.4, delivery lead time at 56.4, employment at 52.9, and inventories at 59.6. Based on our surveys over the past several months, I expect Iowa's manufacturing growth to continue to diminish in the months ahead. Overall state growth will be positive, but down from the same period one year earlier.

KANSAS

The Kansas Business Conditions Index for October fell to 56.3 from September's 60.0. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 58.6, production or sales at 65.2, delivery lead time at 47.4, employment at 57.6, and inventories at 52.9. Both durable and nondurable goods manufacturers expanded for the month. A decline in export orders restrained overall business activity for the month.

MINNESOTA

For an 11th straight month, Minnesota's Business Conditions Index remained above growth neutral. The index from a monthly survey of supply managers in the state slipped to a still solid 55.2 from 57.0 in September. Components of the index from the October survey were new orders at 59.7, production or sales at 58.9, delivery lead time at 54.5, inventories at 50.0, and employment at 53.0. Manufacturing growth in Minnesota is slowing but remains positive. Firms are increasing hours worked rather than adding to their payrolls.

MISSOURI

The October Business Conditions Index for Missouri declined to 54.3 from 55.6 in September. Components of the survey of supply managers in the state were new orders at 55.1, production or sales at 58.8, delivery lead time at 52.9, inventories at 53.6, and employment at 51.1. Improving conditions in the state's construction activity continue to be a source of economic growth. In manufacturing, companies are increasing hours rather than adding new employees. Metal producers in the state are experiencing improving economic conditions.

NEBRASKA

After moving above growth neutral for two straight months, Nebraska's overall, or business conditions index, moved below the threshold for October. The index, a leading economic indicator from a survey of supply managers in the state sank to 47.0 from 52.0 in September. Components of the index for October were new orders at 41.7, production or sales at 46.3, delivery lead time at 50.7, inventories at 50.0, and employment at 45.6. Pullbacks in construction activity and weaker conditions in agriculture negatively influenced manufacturing firms linked to these two sectors. Food processors continue to experience healthy business conditions.

NORTH DAKOTA

North Dakota's leading economic indicator decreased, but was the regional high reading for October. The overall index sank to 59.0 from 68.1 in September. Components of the overall index for October were new orders at 53.0, production or sales at 50.4, delivery lead time at 92.8, employment at 63.7, and inventories at 35.4. As in previous months, energy firms and firms with ties to the state's energy sector experienced strong gains for the month. On the other hand, North Dakota firms with strong ties to agriculture are experiencing slower growth.

OKLAHOMA

The Business Conditions Index for Oklahoma dipped below growth neutral for October to 48.6 from 49.2 in September. Components of the October survey of supply managers in the state were new orders at 51.6, production or sales at 46.1, delivery lead time at 47.7, inventories at 48.8, and employment at 48.7. Nondurable goods firms and companies linked to energy are experiencing pullbacks in economic activity. On the other hand, metal producers in the state continue to expand at a solid pace.

SOUTH DAKOTA

After moving below growth neutral in November of last year, South Dakota's leading economic indicator from a survey of supply managers has moved above growth neutral 50.0 each month since. The overall index, termed the Business Conditions Index, advanced to 54.7 from 51.8 in September. Components of the index for October were new orders at 51.4, production or sales at 66.7, delivery lead time at 49.1, inventories at 47.9, and employment at 58.3. Manufacturers in the state experienced solid improvements for October. Construction activity continues to lag even with very low interest rates.

THE BULLISH NEWS

- The latest job report was far better than expected with 204,000 jobs added for October and an unemployment rate rising slightly to 7.3%.
- Home prices expanded by 12.8% between August 2012 and August 2013 or the fastest pace since just before the collapse. Another housing bubble is taking shape.
- Purchasing management indices (PMIs) from the national survey of supply managers shot up to a solid 56.4 while

Creighton's regional surveys nosedived for October.

THE BEARISH NEWS

- The U.S. economy continues to grow at an unacceptable rate with GDP expanding by only 2.8% (annualized) in the third quarter. Additionally, one-third of the growth came from expanding inventories. This will likely reduce quarter 4 growth.

- U.S. retail sales are growing but not fast enough. September sales decrease of 0.1% from the previous month, but were 3.2% above September 2012.

- In housing hot spots of Los Angeles and Miami, 60% of foreclosed properties are still occupied by the former owners. Be very careful bidding on these properties. You will not get a warranty deed but a quit claim.

WHAT TO WATCH

- PMIs: On Dec. 2, Creighton University and the Institute for Supply Management will release purchasing management indices (PMI) for November. This is the first economic data released in December. Keep and eye on the overall index and the jobs index. Any significant upturn could push the Federal Reserve to be begin QE3 taper at their December 17-18 meetings.

- FOMC Meetings: On December 17 and 18, the Federal Reserve's Open Market Committee meets to shape interest rate policy. They will likely announce when tapering of their $85 billion monthly bond buying program. Listen for members of the committee to "hint" at their likely decision well in advance of the meetings.

- Jobs: On Friday Dec. 6, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for November. Another very positive job report such as job growth above 200,000 will push the Fed to begin reducing its monthly bond buying program. This will have the impact of raising long-term interest rates.

THE OUTLOOK

FROM GOSS:

- I am not as pessimistic as Morgan Stanley. I expect Christmas buying to be reasonably strong this year with growth of 3.5%-4.0% from last year.

- I expect the Federal Reserve to announce at their Dec. 17-18 meetings that they will begin tapering in January 2014. Long term interest rates will begin rising in advance of their December meeting.

OTHER FORCASTS:

- National Association of Business Economics (October 2013 survey). Results from NABE's October 2013 Industry Survey suggest the economy continues to expand at a moderate pace," said Timothy Gill, Chair of the NABE Industry Survey Committee and Deputy Chief Economist at the National Electrical Manufacturers Association. "Sales growth accelerated in the third quarter, despite potential headwinds such as rising interest rates and oil prices, and a renewed wave of policy uncertainty. Profit margins rebounded after weakening in the previous quarter, while gains in capital spending matched those reported in the first half of the year. In contrast, employment growth, though still solid, slowed in the third quarter, wage and salary growth also slowed, and plans for near-term hiring and capital spending moderated. Despite these quarter-to-quarter fluctuations, the latest readings for most of these indicators fall broadly in the middle of ranges observed in the current and in previous business cycle expansions.

Goss Eggs (Recent Dumb Economic Moves)

- Newly elected New York City mayor, Bill de Blasio, seeks to remedy income inequality in the city---certainly a worthy goal. He vows to represent the 99% and tax the other 1%. The top 1% of earners (about 35,000 people) currently pay 43% of the city's income taxes. Including federal and state taxes, they already face a top marginal rate of 55% or so. Raising that rate will be a real boost to Florida as more New Yorkers abandon the city for warmer and more tax friendly environs. It may make de Blasio feel better, but it will only make income inequality a bigger problem. Not surprisingly, Mr. de Blasio is a former community organizer with no business background.

Survey results for November will be released on the first business day of next month, Dec. 2.

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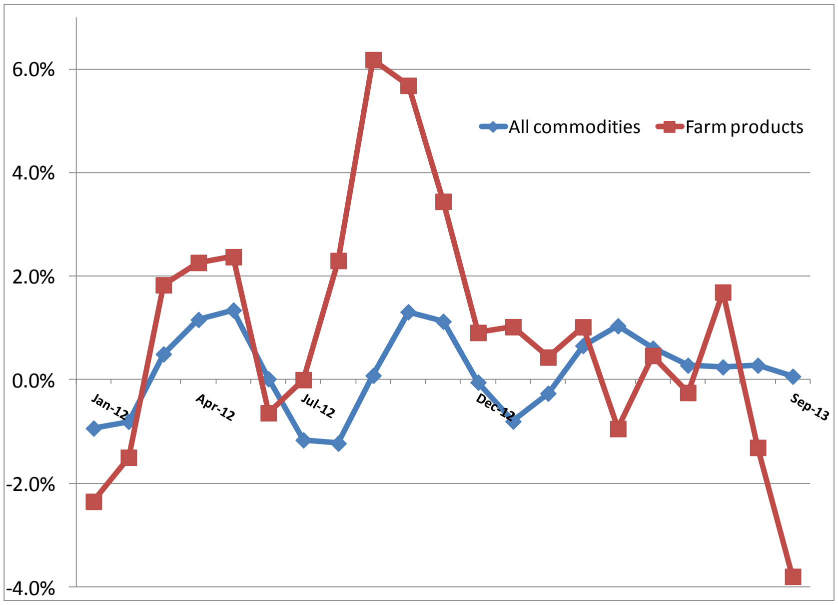
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

PRICE DATA

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

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



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