"A monthly survey of supply chain managers"

Welcome to our January report covering December survey results. According to Supply Managers this economic recovery is frail and the likelihood of a return to recessionary conditions is rising. Follow my daily comments at: www.twitter.com/erniegoss

BAILING OUT FANNIE MAE FREDDIE MAC & THE FEDERAL DEBT

This past month the U.S. Congress once again opened the national piggy bank to the biggest of the big financial institutions. On December 24, the U.S. Treasury announced that it would provide an unlimited amount of assistance to Fannie Mae and Freddie Mac, the government supported enterprises that are the largest source of funds for U.S. home loans. According to the American Enterprise Institute, taxpayer losses will top $400 billion from this mis-guided policy http://tiny.cc/EvadC . Additionally, bailouts such as this raise the national debt, which now exceeds $13.1 trillion, to its highest level relative to the size of the economy, since 1946. Since 1946, the federal debt has grown 15 times faster than the overall economy and now approaches 90 percent of GDP. According to a recently completed study, http://www.kansascity.com/444/story/1675905.html advanced countries spending above the 90 percent threshold cut their average annual growth by about two percentage points lower than countries with public debt of less than 30 percent of GDP. Thus a continuation of the recent trend in bailouts and deficit spending will lower yearly economic growth. Furthermore, interest rates, including mortgage rates, will rise significantly over the next two years absent federal government spending restraint. Likewise, the Federal Reserve will have to push short term interest rates, such as the prime rate, higher to combat higher inflationary pressures resulting from out-of-control federal spending. To quote former First Lady, Nancy Reagan, "Just say no." Ernie Goss

LAST MONTH'S SURVEY RESULTS

SURVEY RESULTS AT A GLANCE

- Business conditions index climbs above growth neutral for third straight month.
- Firms added jobs in the region.
- Over 81 percent of supply managers reported that current inventory levels were about right.
- Inflation pressures on the rise.

For a third straight month, the overall index for the Mountain States region, a leading economic indicator for the three-state area, moved above growth neutral 50.0. The overall index, or Business Conditions In-dex, for December climbed to 59.1 from November's healthy 55.4 and October's 51.6. The index is pointing to improving economic conditions for the three-state region composed of Colorado, Utah and Wyoming in the months ahead. The December employment index increased to 53.2 from 49.9 in No-vember. While the region has yet to record overall and significant positive job growth, surveys over the past several months indicate that the region will begin experiencing increasing gains in the first quarter of 2010. While the region ended the decade on a subdued note from a jobs perspective, each of the states out-performed the nation. Colorado's non-farm employment advanced by 86,200 jobs, or 4.0 percent over the decade; Utah added 141,600 total jobs, or 13.4 percent over the last ten years; and Wyoming's employment expanded by 48,500 jobs, or 20.6 percent over the decade. On the other hand, U.S. employ-ment increased by 758,000 jobs, or 0.6 percent, over the decade. Rebounding prices have accompanied the struggling economy. For the eighth time in the past nine months, the regional inflation gauge rose above growth neutral. The inflation gauge, which tracks the cost of raw materials and supplies, slipped to 54.5 from November's 57.4. At its December meeting, the Federal Reserve interest rate setting committee said it expects inflation to 'remain subdued for some time.' Supply manager surveys over the last several months run contrary to the Fed's projection. I expect inflation at the consumer level to approach 3.0 percent as early as the middle of 2010. This is a full percentage point above the Fed's acceptable level.

MOUNTAIN STATES

COLORADO

For a third straight month, the state's leading economic indicator rose above 50.0. The December index, based upon a survey of supply managers in the state, slid to a healthy 62.8 from 70.3 in November and 65.5 in October. Components of the overall index for December were new orders at 64.5, production or sales at 58.9, delivery lead time at 57.7, inventories at 66.8, and employment at 66.3. Over the past decade, Colorado lost almost 60,000, or 31.9 percent, of its manufacturing employment. Most losses were due to productivity growth of more than 80 percent over the decade. While I expect the state to grow overall jobs by 0.5 percent in the first half of 2010, manufacturing job growth will be nil as producers continue to grow output via productivity gains.

UTAH

The state's Business Conditions Index, a leading economic indicator, once again climbed above growth neutral 50.0. Based on the monthly survey of the membership of NAPM-Utah (www.napmutah.org), the overall index stood at 55.0, identical to November's 55.0, but higher than October's 50.9. Components of the overall index for December were new orders at 64.5, production or sales at 61.1, delivery lead time at 34.7, inventories at 64.5, and employment at 50.3. Over the past decade, Utah lost almost 15,000, or 11.6 percent, of its manufacturing employment. Most losses were due to productivity growth of more than 50 percent over the decade. While I expect the state to grow overall jobs by 0.1 percent in the first half of 2010, manufacturing job growth will be nil as producers continue to grow output via productivity gains.

WYOMING

After falling below growth neutral for eleven consecutive months, the state's leading economic indicator climbed above 50.0 for the past two months. The Wyoming Business Conditions Index for December increased to 64.4 from November's 53.7. Supported by NAPM-Western Wyoming (http://www.ism.ws/sites/westwyoming/index.htm), surveys over the past several months indicate that the state's economic prospects will brighten in the first half of 2010. Components of the overall index for December were new orders at 50.0, production or sales at 64.4, delivery lead time at 83.6, inventories at 64.2, and employment at 59.8. Over the past decade, Wyoming lost 1,100, or 10.5 percent, of its manufac-turing employment. Contrary to Colorado and Utah, Wyoming lost manufacturing jobs due to relocation and employment cuts of firms in the state rather than productivity growth. I expect the state to grow overall jobs by 0.2 percent in the first half of 2010 as manufacturing jobs remain flat.

THE BULLISH NEWS

- Inflation pressures at the wholesale level eased in December as a drop in energy prices offset a big jump in food cost
- Oil prices tumbled Wednesday, weighed down by a drop in stock prices, a stronger dollar and signs that China's energy needs might not be as robust as predicted earlier.
- All but one of the 19 largest banks have raised the extra capital cushion regulators said they'd need to with-stand a deeper recession -- a sign of how much the financial system has improved since the crisis began.
- U.S. retail sales in November and December 2009 rose 1.7%, boosted by a post-Christmas surge that made up for sales lost from a massive East Coast winter storm.
- Consumer confidence rose for the second straight month as more Americans expect the nation's economy to improve in 2010.
- Mortgage rates declined this week after a month of gains, with the average rate on 30-year fixed-rate mortgages retreating closer to 5%, according to Freddie Mac's weekly survey of mortgage rates.
- A key gauge of the manufacturing sector from the Institute for Supply Management rose to 55.9 last month from 53.6 in November. Readings above 50.0 point to growth.
- Precious metal prices received a boost on blowout Chinese export data.. Exports rose 18% in December with copper imports popping 27%. The news lifted metals across the board. Gold for February delivery, the most actively traded contract, was surging $15.60 to $1,154.50 an ounce.

THE BEARISH NEWS

- Construction of new homes and apartments fell 4 percent in December to a sea-sonally adjusted annual rate of 557,000 from an upwardly revised 580,000 in No-vember.
- The US economy lost 85,000 jobs in December the same day new major layoffs were an-nounced by UPS and Lockheed Martin. Job losses in 2009 totaled more than 4.2 million. More than 15.3 million American workers are now officially unemployed. Since December 2007, upwards of 8 million jobs have been lost.
- The official jobless rate remained at 10% in December, but a broader measure of unem-ployment, which takes into account those who have fallen out of the workforce or are em-ployed part-time involuntarily, increased to 17.3%.
- Oil prices zoomed past $83 per barrel this week. According to AAA, oil prices are up 20% over last month. A gallon of regular has climbed more than 8 cents in the past week nationwide. That made it almost $1 a gallon more than it was a year ago.
- U.S. pending home sales index fell 16% in November.

WATCH OUT FOR

- On Jan. 29, the Bureau of Labor Statistics will release GDP growth data for QIV, 2009. Annual-ized growth below 1.5% will be bearish.
- The January PMI released Feb. 1st. This is the first economic indicator released for the month and will very, very, very important. A significant drop would be bearish. Another increase will be very bullish (www.outlook-economic.com and www.ism.ws).
- Monthly retail sales for January will be released on Feb.11th by U.S. Census Bureau (www.census.gov) . A monthly increase of more than 1.0% will be considered very healthy.
- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims below 425,000 will be bullish. (www.dol.gov).

THE OUTLOOK: I expect

FROM GOSS:

- The dollar to trend downward in 2010 but there will be lots of ups and downs along the way.
- The U.S. economy will begin adding jobs at a very slow pace in the first quarter of 2010.
- Annualized inflation will increase to 3.0% by the middle of 2010.

NATIONAL ASSOCIATION OF BUSINESS ECONOMICS FORECASTS:

- After declaring in October that the Great Recession of 2008-2009 was over, the NABE forecast panel is now boosting its expectations for growth.
- The household sector is still expected to lag behind the overall economy.
- The recovery will not remain "jobless" for long. With more than 7.3 million jobs lost since Decem-ber 2007, firms will begin adding jobs in the first half of 2010.
- The nascent housing recovery will be uninterrupted and will gather momentum.

OTHER FORECASTS:

- Futures on the Chicago Board of Trade show a 32 percent chance the U.S. central bank will raise its target rate for overnight bank loans by at least a quarter-percentage point by June, down from 51 percent odds a week earlier.
- Carl Lantz, fixed-income strategist at Credit Suisse in New York Longer-term Treasury yields should continue to push up through the first quarter to as high as 4% to 4.25% on inflation worries and on fears about how the market will respond once the Fed ceases buying mortgage securities.
- Herman Van Rompuy, the European Union's first full-time president, warned of a bleak economic outlook marked by industrial decay in the wake of the deepest recession since the Great Depression.

SUPPLY MANAGER JOBS AVAILABLE

Buyer: Test Equipment/Computing. Raytheon, Garland, Texas. Source and acquire material in support of DoD & Government Contracts and Capital requirements. Have overall responsibility for procurement and supplier management. Specific duties include: RFQ generation, quote / proposal analysis, negotiations, documentation, PO generation and supplier follow-up. Work extensively with internal teams consisting of, but not limited to, Engineering, Quality, Operations and Program personnel along with other key func-tional groups to ensure on-time delivery of compliant product at or below program budget. Job Descrip-tion: Required Skills:* Minimum of 2 years of Supply Chain experience. * Ability to multi-task with minimum or no supervision. * Excellent verbal and written communication skills. * MS Office (Word, Excel, PowerPoint). Desired Skills: -Experience with SAP. -Excellent problem solving skills. -Ability to multi-task with minimum or no supervision. -Experience with Government procurement/material acquisi-tion. -Material procurement experience - Experience with $500,000 subcontract negotiations and asso-ciated procurement documentation -Experience with Six Sigma and productivity improvement. Required Education: * Bachelor degree in Supply Chain, Business, or technical related field.
To apply for this position,
https://raytheon.rayjobs.com/frameset.html?goto=er-view-job&erjob=658248&eresc=Institute%20for%20Supply%20Management%20%2Dwww%2Eism%2Ews

SUPPLY MANAGERS READING ROOM

"Federal Contracting for Food and Refreshments," Public Manager 37, no. 1 (Spring 2008): p. 72-76. Contracting professionals must ensure that the federal government receives the best value for the taxpayer dollar while following acquisition regulations during procurement and contract management. This article reflects on the legal regimen of the procurement of food and beverages, with emphasis on conferences. It also discusses the state of the meeting industry and how this can influence rates, as well as negotiation techniques to ensure fair and reasonable pricing. The Federal Travel Regulation defines light refreshments as coffee, tea, milk, juice, soft drinks, donuts, bagels, fruit, pretzels, cookies, chips, and muffins. Under the Government Employees Training Act, agen-cies are authorized to pay necessary expenses for training -- defined as directly related to the performance of offi-cial duties for the government. This article encourages young procurement professionals to be vigilant regarding contracts that include the purchase of food and light refreshments with hotels and resorts for the use of confe-rences.

ASK ERNIE

If you have any questions about the survey or have any specific questions about the recent economic conditions, please write to Ernie at ernieg@creighton.edu.

PRICE DATA

*All Commodities/Farm Products
*Fuels & related/Metals & metal products