

"A monthly survey of supply chain managers"

LAST MONTH'S SURVEY RESULTS

SURVEY RESULTS AT A GLANCE

- Business conditions index rises to highest level since October 2008.
- Region loses jobs for the 14th time in 15 months.
- Inflation gauge continues to indicate deflation in the supply chain.
- On average, supply managers expect to receive a pay raise of 1.3 percent this year.
- Regional trade numbers remain very weak.

Leading Economic Indicator for Mid-America Improves: Business Confidence Climbs to Two Year High. The overall index for the Mid-America region, a leading economic indicator for the nine-state area, advanced from February's weak level but continues to point to a struggling economy in the months ahead. The survey, based on a survey of supply managers in the region, also showed job losses for the 14th time in the past 15 months. The overall index, or Business Conditions Index, climbed to 39.7 from February's 34.6 and January's 33.5. An index of 50.0 is considered growth neutral, and March's reading points to a deepening recession for the region until the end of the third quarter of 2009. Since October 2008, the overall index from the survey has been in record low territory and is significantly lower than in the last national recession. This recession is stacking up to be the most severe economic downturn in the past 25 years. The March employment index inched up to an anemic 34.0 from February's 33.1 and January's record low 29.0. The recession definitely came to Mid-America late. Between the beginning of the national recession in December 2007 and October 2008, the region gained more than 120,000 jobs. However, between October 2008 and January of 2009, the region lost more than 200,000 jobs. Our job indices are consistent with an additional 220,000 jobs lost by the end the third quarter of this year. Despite record low interest rates and expanding federal spending, the region's inflation gauge continues to point to deflation at the wholesale level. The prices-paid index which tracks the cost of raw materials and supplies rose to 41.1 from February's 37.7, January's 34.1 and December's record low 33.0. At the March meeting of the Federal Reserve, the rate-setting committee indicated that it expected inflation to remain well contained and there was little likelihood of excessive inflation even though it has set the current funds rate at 0 percent to 0.25 percent, its lowest level since 1913 when the Federal Reserve was created. Also at the March meeting, the Federal Reserve decided to purchase up to \$300 billion of longer-term Treasury securities over the next six months. I am very concerned that this excessive monetary stimulus will result in excessive inflation once the economy has exited the recession sometime at the end of 2009.

MISSOURI

For the sixth straight month, Missouri's Business Conditions Index remained below growth neutral. The index rose to 39.6 from February's 30.3, a record low for Missouri. Components of the overall index from the March survey were new orders at 42.0, production at 41.0, delivery lead time at 48.0, inventories at 40.4, and employment at 33.0. The recession did not begin in Missouri until February of last year. Between the beginning of the national recession in December 2007 and February of 2008,

the state gained 3,100 jobs. However, between February 2008 and February 2009, Missouri lost approximately 51,000 jobs. Our job indices are consistent with additional jobs losses of another 35,000 for the state by the end the third quarter of this year.

THE BULLISH NEWS



- Trade between the United States and the rest of the world contracted again in February, but an unexpected increase in exports fueled a debate about whether the economy was beginning to stabilize. Exports grew by \$2 billion as the country exported more automobiles, semiconductors, pharmaceuticals and chemicals. As imports plunged and exports stabilized, the United States trade deficit narrowed to its lowest levels in nine years. The trade deficit, which measures the gap between imports and exports, fell to \$26 billion in February, from a revised \$36 billion in January.
- The ISM tracks the breadth of growth across firms, asking purchasing managers if business is better this month than last. The PMI came in at 36.3%, up from 35.8% in February. Economists were happy to see this, as a trend may be developing. The PMI rose once again for the third consecutive month, bouncing off its cyclical lows of 32.9% in December. Readings above 50% indicate growth, and anything below, contraction.
- In the bad, but could have been worse category, the weekly tally for those filing first-time unemployment claims for the week of April 4 (the most recent data available) was 610,000, a number that decreased by more than 50,000 from the week before.



THE BEARISH NEWS

- The Institute for Supply Management's index termed the PMI (purchasing management index) rose to 35.8 last month from 35.6 in January. Readings less than 50 signal contraction. Another report showed consumer spending rose more than expected in January after six straight declines as Americans took advantage of post-holiday discounts.
- On average, laid-off workers over 45 years of age were out of work 22.2 weeks in 2008, compared with 16.2 weeks for younger workers.
- The U.S. unemployment rate reached a 26-year high in March as employers shed a staggering 633,000 jobs. During the first three months of this year, 2 million jobs have been lost. Since the start of 2008, 5.1 million have been lost, according to the U.S. Labor Department. The unemployment rate climbed from 8.1 percent in February to 8.5 percent in March, in line with economists' forecasts. It was the highest rate since November 1983.
- The non-manufacturing recession continued in March as the ISM non-manufacturing index recorded its 6th consecutive reading below 50. The ISM non-manufacturing composite index fell from 41.6 in February to 40.8 in March.

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- Retailers in the United States reported continued declines in sales during March, compared to the same month a year earlier, but noted that there were signs of improvement in their performances. Many noted that Easter falling in April this year, as opposed to March in 2008, had a negative impact on the reported figures.

WATCH OUT FOR

- The April PMI released May 1st will be an early economic indicator that will be very, very closely examined. (www.outlook-economic.com and www.ism.ws). Another index below 40.0 will be a bearish sign but an index above 45.0 will be a moderately bullish signal.
- The employment report for April will be released on May 8th . I expect the report to show job losses (above 600,000) for a seventeenth straight month and an increase in the unemployment rate to 8.8%. (www.bls.gov) .
- First time and continuing claims for unemployment insurance. Released every Thursday. First time claims above 600,000 and continuing claims more than 5.0 million are bearish. I expect this number to continue to show significant economic weakness. (www.doe.gov) .
- Keep an eye on the yield for 10-year U.S. Treasuries. This yield has been rising (and at this point in time that is a good thing). Current yields are artificially low and reflect unprecedented fear among investors. Large increases will tell us that either 1) global investors are taking funds out of the U.S. market, or 2) inflation expectations have increased, or 3) investors have reduced the risk perceptions and are pulling money out of treasuries and putting it into equity markets (http://finance.yahoo.com) .

THE OUTLOOK: I expect

- I expect the recession to end in the fourth quarter of this year. In advance of that, watch out for a significant decline in the value of the dollar. Go to Europe now, not next year.
- On March 20th when the Congressional Budget Office (CBO) released its analysis of the Obama spending plans for the next decade which puts the cumulative deficit at \$9.3 trillion.
- The International Energy Agency on Friday cut its 2009 world oil demand forecast by a hefty 1 million barrels a day from earlier projections and said the global economic recession could yet force further reductions to consumption. Nouriel Roubini, the New York University economics professor, predicted last month that prices could fall further to as low as \$20.
- John A. Challenger, Chief Executive Officer of the Challenger, Gray and Christmas Inc., said: “We haven’t seen unemployment rate at this level in 25 years and it looks like the rate will continue to get worse before it gets better, so we may see an unemployment rate of 10 percent this year.”
- Purchases increased 0.3 percent, the second gain in the last three months, according to the median estimate in a Bloomberg survey before the Commerce Department’s April 14 retail report. Industrial production dropped 0.9 percent, the 14th decline in the last 15 months, figures from the Federal Reserve may show.

- The Blue Chip Economic Indicators survey of private economists released on Friday showed that 86 percent of respondents believed that the economic downturn would be declared to have ended in the second half of 2009.

SUPPLY MANAGERS READING ROOM

Why Flexibility Matters. Traffic World (Nov 10, 2008). We have all heard the litany of challenges caused by current economic conditions: higher fuel costs, higher raw material costs, lower consumer spending, tighter capital, fluctuating exchange rates and growing uncertainty about the future. If there has ever been a time for thinking creatively and remaining flexible, it is now. What flexibility means is being able to re-think, reconfigure and redeploy re-sources whenever circumstances change. We’ve known that for years - but in the current economy these beliefs are being put to the test. As part of a recent presentation to the Council of Supply Chain Management Professionals, David Simchi-Levi, professor of Civil and Environmental Engineering at the Massachusetts Institute of Technology in Cambridge, Mass., suggested that companies that want to maintain their competitive edge will need to continually re-evaluate the design and operation of their supply chains, “even if it means ditching recently adopted strategies.”

PURCHASING JOB MARKET

Procurement Specialist, El Paso Corporation. Based in the Denver, Colorado regional office, the selected candidate will provide procurement and contracting support to El Paso Exploration & Production. Contracting re-sponsibilities: - Establish and monitor standardized contract terms and conditions. Liaise with Legal group; - Support acquisition analysis for contracted services by the acquisition target; - Consult to management on contracting issues; - Liaise with the Audit on contract reviews; - Acts as a liaison for contracted services to litigations. Procurement re-sponsibilities: - Develops and negotiates buying programs that ensure maximum cost-savings potential; - Review material requisitions to ensure they are properly approved; - Solicit material bids and perform bid analysis; - Place and expedite purchase orders to ensure material is received at the proper destination when required; - Work closely with receivers to ensure receipts in the PeopleSoft system are done in a timely manner so that the company can realize savings through discounts offered by vendors; - Work with vendors and Accounts Payable to resolve invoicing problems; - Communicate (written and verbal) with outside vendors; - Work closely with business unit receivers and requestors, vendors and accounts payable; Qualifications - At least 7 years of experience in a procurement/contracts role in the Oil & Gas industry - Experience in the Exploration and Production industry a plus - Bachelor’s degree in Business, Supply Chain Management or a related discipline. Qualified candidates should apply online at elpaso.com/careers. Please reference code ISM0309.

Send your job listings to ernieg@creighton.edu.

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.

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PRICE DATA

ANNUALIZED PRICE GROWTH 3 MONTH MOVING AVERAGE 2007-2009

