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June Mid-America Press Release

Leading economic indicator for mid-america economy not as weak: BUSINESS CONFIDENCE INDEX HIGHEST IN FOUR YEARS

Survey results at a glance:

- Business conditions index rises for fifth straight month but remains below growth neutral.
- Region loses jobs for the 16th time in past 17 months.
- Two-thirds of supply managers are opposed to providing taxpayer relief for GM.
- Economic confidence index soars to highest level in more than 4 years.

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Omaha, Neb.

The May overall index for the Mid-America region, a leading economic indicator from a survey of supply managers for a nine-state area, expanded for a fifth straight month but remained below growth neutral. While the index reached its highest level since September of last year, the reading points to a continuation of the regional economic slowdown, at least until the end of the third quarter of 2009.

The Business Conditions Index, climbed to 46.6 from April's 42.7 and March's 39.7. "An index of 50.0 is considered growth neutral. Thus readings over the past several months indicate that the regional economy has bottomed out. However, little in the May survey points to an economic turnaround in the next three to six months," Creighton University Economics Professor Ernie Goss said today.

"While our survey is not indicating an economic turnaround for the next three to six months, economic indicators are certainly improving from record lows achieved earlier this year. I continue to expect the Mid-America economy to be out of a recession by the end of the fourth quarter of this year," said Goss, director of Creighton's Economic Forecasting Group and the Jack A. MacAllister Chair in Regional Economics.

The May employment index unexpectedly declined to 40.5 from April's weak 41.4. "The region is now matching the nation in the pace of job losses. Over the past three months, the region lost jobs at an annualized rate over five percent. Even as the regional economy has bottomed out, the rate of job losses will likely continue on a negative pace with rising unemployment rates for most states in the region. Even as the regional economy moves out of recession territory, I do not expect job gains of any significance until well into 2010," said Goss.

Despite record low interest rates and expanding federal spending, the region's inflation gauge continues to point to deflation in the supply pipeline. The prices-paid index, which tracks the cost of raw materials and supplies, advanced to 39.3 from April's 34.2. "As the economy has moved off the depths experienced earlier in the year, cuts in input prices have likewise moderated a bit. Even so, these price trends, which match those at the national level, allow the Federal Reserve (Fed) to maintain its aggressive interest rate policies with little fear of inflation in the near term," said Goss.



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“The Fed interest rate setting committee meets next on June 23 for two days. I expect no changes in the current funds rate of 0 percent to 0.25 percent, its lowest level since the Federal Reserve was created in 1913. However, given the notable increase in long-term interest rates over the past several months, I expect the Fed to raise short-term rates before the end of 2009. I expect this move will be too late to thwart excessive inflation surfacing in 2010. However at this point in time, this is a terrific time to borrow for businesses and individuals with solid credit scores,” said Goss.

Looking ahead six months, economic optimism, captured by the May confidence index, reached its highest level since February 2005. The index expanded to 65.9 from 61.4 in April and well up from last November’s record low 22.4. “Very low interest rates, both short-term and long-term, and the federal stimulus package have clearly buoyed the economic outlook of supply managers in the Mid-America region. Even the Chrysler bankruptcy and the impending GM bankruptcy have failed to derail economic optimism,” said Goss.

This month, business buyers were asked about their view of the provision of taxpayer relief for GM. Almost two-thirds of the survey participants, 66 percent, were opposed to the bailout with only 16 percent supporting the current approach of President Barack Obama’s administration.

As in previous months, trade numbers were not good. “The global recession has negatively affected both exports and imports. Nonetheless, new export orders advanced to a weak 44.9 from 42.4 in April. The recession continues to place downward pressure on imports. May’s import index stood at 48.2, but up from April’s 44.0,” said Goss.

Supply managers in the nine-state region continue to trim inventories. The May inventory index was 39.3, up from April’s record low 36.2. “We have yet to record any restocking of inventories for raw materials and supplies. However, I expect replenishment of inventory levels later this year to have strong positive impacts on the regional economy,” said Goss.

Other components of the May Business Conditions Index were new orders at 55.1, up substantially from 43.0 in April; production at 51.0, up from 42.8; and delivery lead time at 46.8, down from 50.0.

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 Creighton Economic Forecasting Group uses the same methodology as a national survey by the Institute for Supply Management, formerly the Purchasing Management Association, which has formally surveyed its membership since 1931 to gauge business conditions. The 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.

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