Welcome to our May report covering Creighton's April survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth is slowing with modest inflationary pressures. Follow my comments at: www.twitter.com/erniegosss

Passage of Trans-Pacific Trade Pact Will Increase U.S. Productivity and Economic Growth

Since the beginning of the U.S. economic recovery in July 2009, the nation's gross domestic product (GDP) has expanded at a puny pace even though employment growth has been fairly strong. Offsetting the job expansion, there has been lethargic capital spending and productivity growth. Since 2009, GDP per hour worked (productivity) expanded at a compound annual rate of 0.7%, which is one-third that in a typical recovery, and less than one-half of the annual pace since 1964. Tom Duesterberg of the Aspen Institute argues that the collapse of U.S. export leadership has contributed to this decline. He finds the U.S. is party to just two of the more than 400 regional free trade agreements that have come into effect since 1995. As a result, World Bank, and Eurostat data show the U.S. share of global exports has sunk from 14% in 2000 to approximately 9% in 2013. Data from U.S. states show this linkage between exports and productivity growth. Since 2009, the top 25 productivity growing states increased exports at almost twice that of the remaining 25 states. Over this period of time, North Dakota came in at the top for productivity growth. North Dakota, Oklahoma and North Dakota, two energy-producing states, experienced pullbacks in economic activity. Growth in the region. The job gauge sank to 49.2 from March's tepid 52.5.

This month we asked about the hiring situation at survey participants' firms. Approximately 29.1 percent of supply managers reported a shortage of applicants for open positions at their companies. This is up slightly from 27.1 percent in November of last year when we asked this same question. Thus even with job cuts, there remain labor shortages for more skilled workers.

Wholesale Prices: The wholesale inflation index for April dipped slightly to 55.5 from 55.7 in March. A strengthening U.S. dollar and significantly lower fuel prices have pushed wholesale inflationary pressures in our surveys over the past several months to levels indicating only a modest upward movement. Survey participants expect the prices of products and services sold by their company to advance by a modest 1.6 percent over the next year.

Confidence: Looking ahead six months, economic optimism, as captured by the April business confidence index, advanced to 61.5 from March's 55.7. Improving economic expectations from non-energy firms, resulting from lower energy prices, more than offset economic pessimism stemming from weakness in firms directly tied to energy.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, increased slightly to 48.5 from 48.4 in March.

Trade: The new export orders index slid to 53.5 from 56.4 in March. The import index for April fell to 46.8 from March's 53.5. Over the past six months, the value of the U.S. dollar has risen dramatically against the currencies of our chief trading partners. This movement has made U.S. goods less competitively priced abroad and foreign goods more cheaply priced in the U.S.. Despite this, the new export orders index remained in positive territory for April. I expect the export orders index to move even lower in the months ahead.

Regional exports for 2014 were approximately $90.5 billion. The strong U.S. dollar is likely push 2015 exports down by as much as ten percent below 2014 levels.

Other components: Other components of the April Business Conditions Index were new orders at 55.5,
Missouri
The April Business Conditions Index for Missouri rose to 54.4 from 52.1 in March. Components of the index from the survey of supply managers were new orders at 55.8, production or sales at 59.1, delivery lead time at 54.3, inventories at 50.0, and employment at 52.3. Missouri’s exports expanded by more than nine percent for 2014 to $14.9 billion. The strong dollar will reduce Missouri exports and state economic growth for 2015 below that achieved in 2014. Even so, the state will add jobs at a positive but slow pace in 2015.

Nebraska
For the 17th straight month, Nebraska’s Business Conditions Index remained above growth neutral 50.3. The leading economic indicator for April climbed to a regional high of 54.6 from March’s 51.8. Components of the index were new orders at 55.2, production or sales at 59.3, delivery lead time at 55.1, inventories at 50.2, and employment at 53.4. Nebraska’s exports expanded by more than six percent to a record high of $7.9 billion for 2014. The strong U.S. dollar will push 2015 export growth into negative territory even as the overall state economy grows, but at a slower pace than in 2014. Durable goods manufacturing shed shipping economic activity for the month.

North Dakota
North Dakota’s leading economic indicator for April climbed to a level pointing to positive, but slow, economic growth in the next three to six months. The Business Conditions Index declined to 51.6 from a revised 53.2 in March. Components of the overall index from the monthly survey of supply managers were new orders at 55.6, production or sales at 56.4, delivery lead time at 52.9, employment at 46.5, and inventories at 47.4. North Dakota’s exports expanded by almost 12 percent from a year earlier to a record $3.3 billion. The downturn in energy prices, and the strong U.S. dollar will all reduce export growth by double digits for 2015. Overall state growth will remain positive for the next three to six months, but off significantly from the same period in 2014.

Oklahoma
The Business Conditions Index for Oklahoma sank for April, but still signals positive, slow growth in the next three to six months. The index for April decreased to 50.8 from 51.6 in March. Components of the April survey of supply managers were new orders at 53.5, production or sales at 55.6, delivery lead time at 51.2, inventories at 45.6, and employment at 48.7. After reaching a record high of 56.9 billion in 2013, Oklahoma’s exports declined by almost nine percent for 2014. I expect a 12 percent increase in 2015 stemming from lower energy prices and a strong dollar. This will reduce 2015 growth well below that experienced in 2014.

South Dakota
After moving below growth neutral in November of 2012, South Dakota’s leading economic indicator has been above growth neutral 50.0 each month since. The Business Conditions Index, from the monthly survey of supply managers, rose to 58.2 from 50.9 in March. Components of the overall index for April were new orders at 57.1, production or sales at 59.9, delivery lead time at 51.2, inventories at 47.5, and employment at 48.7. South Dakota exports for 2014 were $1.6 billion and down from record exports of $1.7 billion achieved in 2008. I expect the strong U.S. dollar to push 2015 export ten percent below their 2014 levels and slow overall growth below that achieved in 2014.

Arkansas
The April overall index, or leading economic indicator for Arkansas, slipped to 53.7 from 54.6 in March. Components of the index from the monthly survey of supply managers were new orders at 55.2, production or sales at 58.2, delivery lead time at 55.6, inventories at 49.3, and employment at 50.0. The state’s exports have declined for 2013 and again for 2014 to 56.9 billion. The strong U.S. dollar will push 2015 exports even lower. Shipments of goods manufacturers have been experiencing much stronger economic conditions than nondurable goods producers in the state.

Iowa
Iowa’s Business Conditions Index advanced to 53.3 from 51.6 in March. Components of the index from the monthly survey were new orders at 56.1, production or sales at 55.4, delivery lead time at 53.7, inventories at 51.4, and Iowas’ exports peaked at $1.1 billion in 2014. Our survey results indicate that Iowa international sales will weaken for 2015. I expect the stronger U.S. dollar to negatively affect one of Iowa’s chief exports, agricultural equipment, for the rest of year. This is insidiously signaling a stall in overall state growth for the remainder of the year. Even so, I expect state economic growth to remain positive for 2015, but well below 2014’s rate.

Kansas
The Kansas Business Conditions Index for April expanded to 53.2 from March’s 50.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 53.9, production or sales at 55.6, delivery lead time at 51.6, employment at 47.8, and inventories at 47.1. Kansas’s export sales are highly volatile. They peaked in 2013 and declined in 2014. I expect 2015 export sales to be even lower than 2014 sales. Nonetheless state growth for 2015 will remain positive, but down from that achieved in 2014 for the same period of time.

Minnesota
Last month, the Minnesota Business Conditions Index, fell to growth neutral. The overall index for April increased slightly to 51.3 from March’s 50.0. Components of the index from the April survey of supply managers were new orders at 55.9, production or sales at 57.5, delivery lead time at 51.7, inventories at 47.5, and employment at 47.9. Minnesota’s export sales reached a record high of over $21.3 billion in 2014. I expect the strong U.S. dollar and slow global growth to push Minnesota’s 2015 export growth into negative territory faster. Even so, the negative rate of raw materials and supplies decreased to 53.2 from last months 54.0.
Price changes, 3 month moving average, Jan. 2014 - April 2015

Price changes, 3 month moving average, Jan. 2014 - 2015

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