Welcome to our April report covering Creighton's March survey results. The survey of supply managers in nine Mid-America states indicates that the economy is growing and will continue to grow, but at a slow pace. Follow my comments at:  
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State Aid Fuels Local Spending Growth and Provides No Property Tax Relief

Politicians running for statewide office routinely promise to reduce property taxes, which are actually set at the local level by local officials. Instead of focusing on the real problem, which is overspending at the local level, governors and legislators promise to increase state aid to local units anticipating that the funds will be used to limit the growth in property taxes and local spending. This approach has proved futile in terms of economic outcomes. Between 2000 and 2011 as a share of gross domestic product (GDP), the 26 states that increased state aid to local government raised property taxes by a median of 0.31 percentage points while the 24 states that reduced state aid to local units expanded property taxes by a smaller 0.26 percentage points. Furthermore over the same time period, the same 26 states that increased state aid boosted local spending by 1.05 percentage points while the same 24 states that reduced state aid enlarged local spending by a smaller 0.27 percentage points. Thus, past data show that not only did state aid not provide property tax relief, as customarily promised, property tax burdens and overall local spending actually rose more quickly for states that grew state aid more swiftly. What should state policymakers do instead? States should limit the increase state aid to local units to the growth local population plus the increase in prices. This action would tend to reduce state tax burdens and encourage local political leaders to limit growth in local spending. Ernie Goss.

Link to video: http://youtu.be/XnA1I1UouIc

LAST MONTH’S SURVEY RESULTS

Mid-America Economy Ends First Quarter on High Note: Concerns Raised Over Trade Skirmishes

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

Survey Results at a Glance:

• Leading economic indicator advances pointing to improving regional growth.

• Supply managers expect wages to expand by 1.8 percent over the next year.

• Growth in new export orders remains solid.

• Approximately one in 10 firms expects positive sales impacts from the recently passed farm bill.

The Mid-America Business Conditions Index for March, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, points to positive and improving growth in the next three to six months. Overall Index: The Business Conditions Index, which ranges between 0 and 100, climbed to 58.2 from 57.4 in February.

Much like the national economy, the Mid-America region continues to expand with growth prospects improving monthly. Despite negative fallout from severe weather for the first quarter of the year, supply managers reported healthy business activity for the first three months of 2014.

Employment: After declining below growth neutral for December, the employment gauge has remained above the threshold for the third straight month. The employment index dipped slightly to a still solid 54.4 from 55.6 in February.

According to surveys over the past several months, the region will continue to expand employment at a solid pace. Even with the improving job picture, supply managers expect wage growth to remain weak with an average wage expansion of 1.8 percent for the next year. This is only slightly above the 1.6 percent recorded last year at this time.

Wholesale Prices: For the first time since November of last year, the prices-paid index, which tracks the cost of raw materials and supplies, declined. The wholesale inflation gauge fell to a still strong 72.8 from 75.7 in February. Inflationary pressures at the wholesale level are elevated from the same time last year. This month supply managers in the region were asked to estimate growth in the prices for raw materials and supplies purchased by their firm in the next six months. On average, respondents expect prices to expand by 2.4 percent in the next six months or approximately 4.8 percent annualized. This is two full percentage points lower, on an annualized basis, than was reported by firms in March of last year.

Confidence: Looking six months ahead, economic optimism, as captured by the March business confidence index, declined to a strong 59.0 from February’s 59.7. Improvements in the job market supported supply managers’ business outlook for the month. However, several supply managers raised concerns regarding Russian trade embargoes associated the Russia’s recent invasion of Crimea. There is a fear that any restrictions could result in retaliation.

Inventories: The inventory index, which tracks the level of raw materials and supplies, dipped to 57.6 from February’s 59.7. While the rate of inventory expansion slowed, March’s solid inventory index is yet another signal that supply managers are more upbeat about the economy as they increased inventories in anticipation of expanding sales for their companies in the months ahead.

Trade: The new export orders index declined to a still solid 54.1 from 55.4 in February. The import index for March rose to 54.2 from 52.4 in February. It is a very encouraging signal to track a fifth straight month of healthy new export orders. At the same time, firms in the region continued purchasing from abroad in expectations of upturns in company sales in the weeks and months ahead.

Other Components: Other components of the March Business Conditions Index were new orders at 58.5, up from 53.4 in February; production or sales at 61.1, down from February’s 61.7; and delivery lead time at 59.4, up from February’s 56.8. The Creighton Economic Forecasting Group

Tour of Duty

The purchasing economy survey report
**THE PURCHASING ECONOMY SURVEY REPORT**

**ARIZONA**

For the fourth month Arizona's overall index rose above 50.0. The index, a leading economic indicator from a survey of supply managers in the state, expanded to 54.5 from February's 53.9. Components of the index for March were new orders at 56.6, production or sales at 58.9, delivery lead time at 53.8, and employment at 59.1. The pace of Arizona growth is quickening. Nondurable goods manufacturers, including food processors, are adding output and jobs while growth for durable goods producers has slowed to nil. I expect the overall Arizona economy, including manufacturing, to expand over the next two quarters according to our survey results.

**NEBRASKA**

For the fourth month Nebraska's overall index rose above 50.0. The index, a leading economic indicator from a survey of supply managers in the state, expanded to 54.8 from February's 53.9. Components of the index for March were new orders at 56.6, production or sales at 58.9, delivery lead time at 46.1, inventories at 53.2, and employment at 59.1. The pace of Nebraska growth is quickening. Nondurable goods manufacturers, including food processors, are expanding output and jobs while growth for durable goods producers has slowed to nil. I expect the overall Nebraska economy, including manufacturing, to expand over the next two quarters according to our survey results.

**MISSOURI**

Missouri's Business Conditions Index for March returned to growth above 50.0, up from February's 49.9. Components of the index for March were new orders at 56.1, production or sales at 56.0, delivery lead time at 56.0, and employment at 54.2. Components of the index for March were new orders at 56.1, production or sales at 56.0, delivery lead time at 56.0, and employment at 54.2. Nondurable manufacturers, including food processors, are adding jobs and output at a robust pace. Makers of durable goods, including motor vehicle manufacturing, are expanding output and jobs as well. I expect this growth to spill over into the broader state economy for the first half of 2014.

**OKLAHOMA**

For the third quarter of 2013, Oklahoma's Business Conditions Index has been pointing toward growth for the first half of 2014. The overall index, a leading economic indicator, advanced to 59.5 from February's 58.9. Components of the March survey of supply managers were new orders at 69.6, production or sales at 59.4, delivery lead time at 52.4, inventories at 56.4, and employment at 60.0. Food processors in Oklahoma are experiencing pullbacks in economic activity. Firms linked to vehicle manufacturers are benefiting from expansions among U.S. automobile production. Expansions among firms tied to energy are also pushing state growth higher.

**THE BULLISH NEWS**

- For March, Creighton University's survey of supply managers and the national survey of supply managers point to improving growth for the first half of 2014.
- U.S. employers added 192,000 jobs in March and January/February jobs gains were revised by +37,000.
- Real estate data provider CoreLogic said last week that prices for existing homes rose 12.2% in February from a year ago. That was up slightly from January's year-over-year pace of 12%. On a month-to-month basis, prices in February rose 0.8% from January.

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THE BEARISH NEWS

- The U.S. trade deficit climbed to $42.3 billion in February, its highest level in 5 months.
- The percent of the working age population in the labor force remains at its lowest level since 1978.
- Over the last 12 months, hourly wages have grown by a puny 2.1%.

WHAT TO WATCH

- CPIs: On May 15, the Bureau of Labor Statistics releases consumer price indices for April. A monthly increase of 0.2% or more will encourage the Fed to maintain and potentially reduce its monthly bond buying program. It will point to higher long-term interest rates. No change in short-term interest rates in 2014.
- 1st Quarter GDP: On April 30, the U.S. Bureau of Economic Analysis will release Quarter 1 GDP. Annualized growth above 3.0% will be bad for bond prices resulting in even higher long-term interest rates.
- Jobs: On Friday May 24, the U.S. Bureau of Labor Statistics (BLS) will release employment report for April. Strong job additions (above 200,000) will result in long term interest rates rising more quickly.

THE OUTLOOK

FROM GOSS:

- Short term interest rates will change very little, up or down, in 2014.
- The regional and U.S. economies to continue to improve for the 2nd Quarter 2014.
- Inflationary pressures to rise in the months ahead but to a still modest pace or approximately 2.2% annually.

OTHER REPORTS:

- National Association of Business Economics (March 2014). “Summary: “Despite a challenging start to the year in which adverse weather conditions will likely shave nearly one half of one percentage point from first-quarter real GDP growth, NABE’s March 2014 Outlook Survey panel expects the pace of economic expansion to accelerate this year—and next,” said NABE President Jack Kleinhenz, chief economist of the National Retail Federation. “The consensus of the panelists is that real GDP will advance at a weak 1.9% annualized rate in the first three months of the year but pick up by year end to a pace of more than 3%. On an annual average basis, real GDP growth is forecasted to increase from 1.9% last year to 2.8% this year, and to 3.1% in 2015. Conditions in a variety of areas—including labor, consumer, and housing markets—are expected to improve over the next two years, while inflation remains tame.”
Price changes, 3 month moving average, Jan. 2013 - March 2014

- All commodities
- Farm products

- Fuels & related
- Metals & metal products