Reducing Income Inequality: Growth Should Be the Goal

President Obama has made reducing income inequality a major policy goal for the remainder of his administration. While it is correct that U.S. income inequality, as measured by Gini Coefficients, has expanded each year of the Obama Administration reaching its highest level in 50 years at 47.7 in 2011, evidence from the 50 states and DC indicates President Obama is focusing on the wrong goal. A Gini Coefficient is a number based on household income that ranges between 0 and 1, with 0 representing perfect income equality, and 1 representing perfect income inequality. The five states with the lowest 2011 Gini coefficients (i.e. least income inequality) -- Wyoming, Alaska, Utah, Hawaii, Vermont and Idaho -- experienced median GDP growth of 70.1 percent and job growth of 13.1 percent between 2000 and 2010. The five states with the greatest income inequality -- New York, Connecticut, Louisiana, New Mexico and California -- suffered the lowest median GDP growth at 6.1 percent and job growth at 11.5 percent for the same time period. In fact, correlation coefficients for the 50 states and DC show a negative relationship between Gini Coefficients and the two measures of growth from 2000 and 2010. But does higher growth reduce income inequality, or does lower income inequality produce higher growth? It is found that 1999 Gini Coefficients had no statistical relationship or association with 2000 to 2010 growth. However 2000 to 2010 growth was negatively related to 2011 Gini coefficients, indicating less income inequality. Thus, recent data indicate President Obama should focus on growing the economy, which will then produce less income inequality. Ernie Goss

Link to video:
http://www.youtube.com/watch?v=R4v0THZx1R8&feature=youtu.be

LAST MONTH'S SURVEY RESULTS

Slow 2014 Start for Mid-America: One-Fifth Named ACA as Biggest 2014 Threat

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator moves above growth neutral for second straight month.
- Businesses reported job losses for two of the last three months.
- Job losses for businesses with direct links to agriculture.
- Approximately one-fifth of businesses judge implementation of the Affordable Care Act as the greatest 2014 economic threat to their industry.
- More than one-third of businesses expect higher input prices to pose the biggest 2014 economic threat to their industry.

For a second straight month, the monthly Mid-America Business Conditions Index, a leading economic indicator for the nine-state region stretching from North Dakota to Arkansas, increased. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, rose to 53.2 from November’s 51.2. Very strong growth for firms in the business services industry and durable goods manufacturing more than offset pullbacks for the region’s non-durable goods manufacturing sector. Businesses tied to agriculture continue to report softer economic conditions.

Employment: For the second time in the past three months, the region’s employment gauge fell below growth neutral. The index sank to 48.7 from November’s 51.2, but up slightly from October’s weak 48.2. Job growth among transportation firms in the region, both rail and truck, remains very strong. On the other hand, non-durable producers tied to agriculture, except for food processors, continue to shed jobs, but at a slow pace.

Wholesale Prices: After declining for two straight months, the prices-paid index, which tracks the cost of purchased raw materials and supplies, increased. The wholesale inflation gauge expanded to 63.6 from 61.6 in November. Inflationary pressures at the wholesale level remain fairly contained. However, more than one-third of supply managers expect higher prices for inputs of raw materials and supplies to be the greatest 2014 risk factor for their firm. While the Federal Reserve has announced that they intend to scale back their $85 billion bond buying program, termed QE3, by $10 billion in January, I expect the Fed to begin scaling this program more aggressively in the first half of 2014 as inflationary pressures at the wholesale level rise.

Confidence: Looking six months ahead, economic optimism, as captured by the December business confidence index soared to a strong 66.5 from 57.2 in November. The resolution of the federal budget impasse and improvements in the nation’s housing sector boosted supply managers’ business outlook for the month. This month we asked supply managers to identify the biggest challenge to their company/industry for 2014. More than one-third, or 35.3 percent, named escalating prices for inputs purchased by their firm as the biggest threat. More than one in five, or 20.6 percent, indicated that higher costs and uncertainties surrounding implementation of the Affordable Care Act represented the top 2014 challenge for their business while 19.1 percent identified rising regulatory costs as the number one 2014 potential hurdle for their business. No other issue was rose above ten percent for supply managers.

Inventories: The inventory index which tracks the level of raw materials and supplies expanded to 51.3 from November’s 48.1 and October’s 50.0. This is another signal that supply managers are more upbeat about expanding sales for their companies in the months ahead.

Trade: The new export orders index slipped to a still solid 55.6 from 56.4 in November but was well ahead of October’s 44.4. The import index sank to 47.2 from November’s 53.5. It is a very encouraging signal to track a second straight month of healthy new export orders. At the same time, firms in the region reduced their purchasing from abroad even as the stronger dollar has made imported goods more competitively priced.

Other components: Other components of the December Business Conditions Index were new orders at 57.4, up from 57.2 in November; production or sales at 56.8, up from November’s 53.3; and delivery lead time at 52.0, up from November’s 50.7. 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 the Purchasing Management Association, since 1931.

**MID-AMERICA STATES**

**ARKANSAS**
The December overall index, or leading economic indicator, for Arkansas expanded to 53.9 from 51.1 in November. Components of the index from the monthly survey of supply managers were new orders at 51.8, production or sales at 48.5, delivery lead time at 50.3, inventories at 61.5, and employment at 57.4. Durable goods manufacturers and business services firms in the state ended the year on a high note. Construction activity is picking up. On the other hand, nondurable goods producers continue to shed jobs. 2014 Arkansas wish list includes: A reduction in the state's unemployment rate by one percentage point; 2014 greatest economic risk: The state's 40,000 discouraged workers remain out of the labor force even as the state economy expands.

**IOWA**
The state's Business Conditions Index rose to a regional high for December. The index, a leading economic indicator from a survey of supply managers in the state advanced to 61.5 from November's healthy 59.2. Components of the index for December were new orders at 66.1, production or sales at 66.3, delivery lead time at 53.2, employment at 63.2, and inventories at 58.7. Durable goods manufacturers ended the year growing at a solid pace. Even agriculture equipment manufacturers, by expanding sales abroad, are experiencing solid gains in business activity. Non-durable goods producers, including food processors, grew their business in the second half of 2013. I expect these same sectors to push the overall Iowa economy into the positive growth range for the first half of 2014. However, that growth will be down from the same period in 2013. 2014 Iowa wish list includes: Continued low interest rates; 2014 greatest economic risk: A significant upturn in the value of the U.S. dollar pushing agriculture commodity prices even lower.

**KANSAS**
The Kansas Business Conditions Index for December climbed to 54.5 from 51.5 in November. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 59.8, production or sales at 56.0, delivery lead time at 49.3, employment at 58.2, and inventories at 49.2. Durable goods producers, business services firms and telecommunications companies ended 2013 on a high note with increases in business activity and jobs. On the other hand, non-durable manufacturers experienced pullbacks in economic activity in the second half of 2013. Kansas will experience positive growth for the first half of 2014 but lower that for the same period in 2013. 2014 Kansas wish list includes: Stable and low long term interest rates; 2014 greatest economic risk: trade skirmishes, restrictions and trade wars.

**MINNESOTA**
For 13 straight months, Minnesota's Business Conditions Index has moved above growth neutral. The index from a monthly survey of supply managers in the state advanced to a healthy 58.9 from 55.7 in November. Components of the index from the December survey were new orders at 69.9, production or sales at 62.2, delivery lead time at 56.2, inventories at 54.4, and employment at 51.8. Durable goods manufacturers and engineering services firms ended the year growing at a very healthy pace. Non-durable goods processors, including food manufacturers and ethanol producers, experienced pullbacks in economic activity in the final quarter of 2013. While construction firms have added jobs for 2013, the industry has not returned to pre-recession employment levels. 2014 Minnesota wish list includes: Federal Reserve maintains its bond buying program above $50 billion monthly for all of 2014; 2014 greatest economic risk: A significant upturn in mortgage rates that pushes the state's construction industry into negative growth territory.

**MISSOURI**
The December Business Conditions Index for Missouri declined to 51.9 from November's 54.3. Components of the survey of supply managers in the state were new orders at 56.5, production or sales at 56.4, delivery lead time at 49.5, inventories at 49.8, and employment at 47.6. Durable and non-durable goods manufacturers ended 2013 on a high note with healthy sales and job growth. Construction firms continue to add jobs but the industry still must add 35,000 jobs to return to pre-recession levels. 2014 Missouri wish list includes: Automobile industry remains on positive growth trajectory; 2014 greatest economic risk: Healthy economic growth fails to reduce the state's large pool of discouraged workers.

**NEBRASKA**
For a third straight month, Nebraska's overall, or business conditions index, sank below growth neutral. The index, a leading economic indicator from a survey of supply managers in the state dipped to 48.1 from November's 48.3. Components of the index for December were new orders at 52.1, production or sales at 49.2, delivery lead time at 46.0, inventories at 45.3, and employment at 47.8. Pullbacks among durable and non-durable goods manufacturers tied to agriculture more than offset gains in the state's transportation sector. Higher mortgage rates reduced construction activity over the last several months. 2014 Nebraska wish list includes: Continued low interest rates; 2014 greatest economic risk: A significant upturn in the value of the U.S. dollar pushing agriculture commodity prices even lower.

**NORTH DAKOTA**
The state's leading economic indicator rose to a solid level for December. The overall index from a survey of supply managers in the state jumped to 57.1 from 55.3 in November. Components of the overall index for December were new orders at 50.7, production or sales at 48.3, delivery lead time at 86.8, employment at 55.6, and inventories at 43.8. Pullbacks for manufacturers linked to agriculture were more than offset by expanding growth for manufacturers tied to energy. Energy growth in the state continues to drive business conditions higher for transportation companies and construction firms. 2014 North Dakota wish list includes: Continued low interest rates; 2014 greatest economic risk: A significant upturn in the value of the U.S. dollar pushing agriculture commodity prices even lower.

**OKLAHOMA**
After slipping below growth neutral in the third quarter of 2013, Oklahoma's Business Conditions Index is once again moving higher. The overall index, a leading economic indicator, from a survey of supply managers in the state jumped to 60.2 from 49.3 in November. Components of the December survey of supply managers in the state were new orders at 50.4, production or sales at 74.0, delivery lead time at 49.4, inventories at 74.7, and employment at 52.7. Expansions for business services firms
and durable goods manufacturers including metal producers, more than offset pullbacks for non-durable goods producers such as food processors. According to recent survey results, growth for the first half of 2014 will be healthy for Oklahoma. 2014 Oklahoma wish list includes: Continued low interest rates: 2014 greatest economic risk: A significant upturn in lending rates that stifles the state’s construction sector.

SOUTH DAKOTA
After moving below growth neutral in November of 2012, South Dakota’s leading economic indicator from a survey of supply managers has been above growth neutral 50.0 each month since. The overall index, termed the Business Conditions Index, expanded to 53.2 from November’s 52.3. Components of the index for December, a leading economic indicator, were new orders at 55.3, production or sales at 54.2, delivery lead time at 52.3, inventories at 52.0, and employment at 52.1. Upturns in manufacturing sales continue to bolster job growth and increases in the hours worked for manufacturing sector. Growth for business services firms continues to spill over into the broader state economy. Economic growth for the first half of 2014 will be healthy according to recent surveys of supply managers in the state. 2014 South Dakota wish list includes: Continued low interest rates: 2014 greatest economic risk: A significant upturn in the value of the U.S. dollar pushing agriculture commodity prices even lower.

**THE BULLISH NEWS**

- First time claims for unemployment insurance are now at their pre-recession levels.
- Home prices expanded by 13.6% between October 2012 and October 2013 or the fastest pace since just February 2006. Housing bubbles are forming across the U.S.
- December purchasing management indices (PMIs) from the national survey of supply managers slipped to a healthy 57.0 and while Creighton’s regional survey improved for December.
- Third quarter GDP (revised) expanded by a solid annualized 4.1%, the highest since the final quarter of 2011.

**THE BEARISH NEWS**

- As a result of Federal Reserve threats to reduce monetary stimulus, the value of the dollar continues to rise putting downward pressures on agriculture commodity prices. Grain prices, for example, have declined by almost 40% over the past year.
- The December jobs report was in a word “dreadful.” Only 74,000 jobs added and more than 300,000 workers left the labor force. I think that is very likely a one month aberration. January will show improved numbers.

**WHAT TO WATCH**

- CPIs: On February 20, the Bureau of Labor Statistics releases consumer price indices for January. Average monthly growth of 0.1%, or less, will force the Fed to maintain its monthly bond buying program at a level above current expectations thus keeping long-term interest rates low.
- GDP: On January 30, the Bureau of Economic Analysis will release the advance estimate for fourth quarter GDP growth. Another annualized gain of more than 4.0% will push the Federal Reserve to begin more aggressively scaling back their monthly bond buying program with higher long-term interest rates to follow. A reading of less than 2% will push the Fed to continue bond buying at $75 billion per month with lower long-term interest rates to follow.
- Jobs: On Friday Feb. 7, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for January. A very positive job report such as job growth above 225,000 will push interest rates higher and faster than most economists, including the Fed, now expect.

**THE OUTLOOK**

FROM GOSS:

- I expect long term interest rates, including mortgage rates to rise by one percentage point by the fourth quarter of 2014.
- The federal deficit and debt to begin rising more quickly in the second half of 2014 even as tax collections grow more swiftly.
- U.S. housing price growth to slow considerably in 2014.

**Goss Eggs**

(Recent Dumb Economic Moves)

- Bailout of Health Insurance Companies. Just before Christmas, the Obama Administration decreed that people with canceled individual and family insurance policies will not be subject to the individual mandate in 2014. Combined with a plethora of other exemptions means that those covered by the Affordable Care Act in 2014 will be older, and less healthy. By covering the less healthy, health insurance companies will sustain mammoth losses pushing many into bankruptcy. Bailouts are just around the corner. Democrats and Republicans must resist another round of business bailouts rivaling those of 2008-11. Two wrongs don’t make a right.

Survey results for December will be released on the first business day of next month, Feb 3.

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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2014
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Price changes, 3 month moving average, 2012- December 2013

Price changes, 3 month moving average, 2012 - December 2013