Welcome to our July report covering Creighton's June survey results. The survey of supply managers in nine Mid-America states indicate that the economy is currently growing at a healthy pace with positive projections. Follow my comments at: www.twitter.com/erniegoss

**Piketty’s Taxing the Rich More Heavily Doesn’t Help Poor: Education Does**

Thomas Piketty's New York Times best-selling book, Capital in the Twenty-First Century has created quite a stir among armchair economists, sociologists and politicians. Among Piketty’s most embraced, rebuked and naïve recommendations for reducing income inequality is to raise income taxes on high income earners. U.S. tax collection data since 1996 crush the soundness of this proposal. In 1996, taxpayers earning more than $200,000 paid an average tax rate that was three times that of workers making less than $50,000, and two times that of taxpayers earning between $50,000 and $200,000. By 2011, those making more than $200,000 paid almost seven times the average tax rate of taxpayers earning less than $50,000, and 2.5 times that of workers earning between $50,000 and $200,000. Furthermore between 1996 and 2011, the bottom half of income earners’ portion of total federal income tax collections dropped from approximately 10.0% to 2.5%. During this time period, the degree of income inequality rose as measured by the Gini Coefficient. With a higher Gini Coefficient indicating greater inequality the expansion in the U.S. Gini Coefficient from 39.3 in 1996 to 47.7 in 2011 indicates significant expansion in income inequality. If taxing the rich more heavily does not reduce income inequality, what does? Education! In 2011, the ten states with the greatest degree of income equality had a high school graduation rate of 90.7% and the ten states with the greatest degree of inequality, had a much lower high school graduation rate of 59.1%. Furthermore, the latest U.S. employment data show that high school dropouts have an unemployment rate almost three times that of college graduates, and average annual earnings that are roughly 42.6 percent that of college graduates. Reduce income inequality, don't drop out! Ernie Goss.

**Link to video:**
https://www.youtube.com/watch?v=PvFVM-sP1v0

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**LAST MONTH’S SURVEY RESULTS**

**New Export Orders Push Index to Healthy Level: Supply Managers Expect 7.4 Percent Increase in 2015 Health Insurance Costs**

**SURVEY RESULTS AT A GLANCE:**

- Business Conditions Index climbed to highest level since March 2011.
- Growth in domestic and export orders over past three months strongest since second quarter of 2010.
- Employment index surges to highest level in two years.
- Businesses expect 2015 health insurance premiums to increase by 7.4 percent from 2014 levels.
- Inflation gauge declines but is at a level indicating elevated inflationary pressures at wholesale level.

- Business confidence index very strong for June.

The Mid-America Business Conditions Index for June, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, points to healthy and improving growth in the next three to six months. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, climbed to 60.6 from 60.5 in May. This is the highest overall reading that we have recorded since March 2011. Not since the second quarter of 2010 have we recorded new orders growth above that of the second quarter of this year. Production and delivery of these orders in the months ahead will underpin regional economic growth over the next three to six months.

**Employment:** Businesses expanded employment at a brisk pace for the past three months. The employment index rose to 61.4, its highest level in two years, and up from last month’s 60.0. Growth among durable goods manufacturers in the region is pushing overall employment growth higher. Except for Arkansas and Missouri, all states in the region have regained all jobs lost during the recession. Regional job growth for the first half of 2014 is running at a 1.5 percent annual rate which is well ahead of the growth experienced for the same period in 2013. This pace will remain strong for the third quarter of this year according to our surveys over the past several months.

**Wholesale Prices:** The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation expanded to 73.5 from May's 73.1. Inflationary pressures at the wholesale level, while still not in the danger zone, are elevated from the same time last year. Reports like this by supply managers will encourage the Federal Reserve to continue to reduce its monetary stimulus termed quantitative easing (QE3). Given inflation data from our surveys as well as others will push the Fed to raise short term interest rates in the first half of 2015 in my judgment. This month supply managers in the region were asked how much they expect the price of products that they purchase to rise by in the next six months. On average, supply managers anticipate a gain of 2.9 percent for the next six months, or approximately 5.8 percent on an annual basis. On an annual basis, this is an increase of a full one percentage point from last month when we asked the same question.

**Confidence:** Looking six months ahead, economic optimism, as captured by the June business confidence index, climbed to 63.6 from 62.5 in May. Improvements in the national and regional job market supported supply managers’ business outlook for the month.

**Inventories:** The inventory index, which tracks the level of raw materials and supplies, dipped to a solid 54.0 from May’s 56.0. While the rate of inventory expansion slowed, June’s inventory index is yet another signal that supply managers are 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 soared to 60.2 from 53.0 in May. The import index for June sank to 53.4 from May's 62.6. It is a very encouraging signal to track this healthy reading and a seventh straight month of expanding new export orders. Exports have been an important source of growth for the region. 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 June Business Conditions Index were new orders at 67.2 up from 63.5 in May; production or sales at 68.0, down from 67.1; and delivery lead time for June dropped to 54.4 from last month’s 55.9.

The Creighton Economic Forecasting Group has conducted the monthly survey of supply managers in nine states since 1994 to produce leading economic...
“A monthly survey of supply chain managers”

“Goss Eggs (Recent Dumb Economic Moves)"

"The Purchasing Economy Survey Report"

July 2014

Indicators of the Mid-America economy. States included in the survey are Arkansas, Minnesota, Missouri, Nebraska, North Dakota, Oklahoma and South Dakota.

The Purchasing Economy Survey Report was first released in 1931 as the Business Conditions Index, ranges between 0 and 100. An index greater than 50 indicates an expansionary economy over the course of the last six months. The Mid-America Business Conditions Index is a mathematical average of indices for new orders, production or sales, employment, inventories and delivery lead time. This same methodology used by the National Institute for Supply Management, formerly the Purchasing Management Association, since 1931.

The titlepage of the first survey report and the titlepage of the latest survey report.

THE PURCHASING ECONOMY SURVEY REPORT

July 2014

“Goss Eggs (Recent Dumb Economic Moves)"

“Monthly survey of supply chain managers”

“I anticpate that short term interest rates (loans and bonds) below less than 5 years in length will rise in the months ahead.

• I expect a major retracement in the values (stock prices) of some recent fluffly IPOs (Initial Public Offers). Venture capitalists and others are throwing money at supply chain companies. If you consider the latest nutty ventures DiedInHouse.com was founded in 2013 by a software development company. The Died In House is a profiled with the most death notices associated with a specific address. Re-examine your portfolio and reduce your risks related to such companies. In the next year, there will be some big losers among those placing these risky bets.

THE BULLISH NEWS

Total nonfarm payroll employment increased by 288,000 in June, and the unemployment rate declined to 6.1%. This is much better than expected. Job gains were widespread, led by employment growth in professional and business services, construction, trade, food services and drinking places, and health care.

For May, Creighton/University of supply managers and the national survey of supply managers point to improving growth for through the third quarter of 2014.

The U.S. trade deficit fell in May as exports hit an all-time high and imports dipped slightly.

THE BEARISH NEWS

GDP declined by 2.9% in the first quarter of 2014. This is the second quarter since May's regional high 58.3. Components of the June survey were new orders at 69.8, production or sales at 75.7, delivery lead time at 61.8, inventories at 75.2, and employment at 65.8. South Dakota's employment level has expanded to a record level for the third quarter of 2014. Manufacturing continues to expand and boost overall state growth higher. I expect this trend to continue for the second half of 2014.

WHAT TO WATCH

CPIs: On July 12, the Bureau of Labor Statistics releases consumer price indices for June. A monthly increase of more than 0.3% will encourage the Fed to begin preparing the market for a rate hike in the first quarter of 2015.

GDP: On July 30, the U.S. BEA releases preliminary estimate of Q2 GDP. Annualized growth of less than 2% will be very disappointing and give bond prices a boost and push interest rates lower.

Jobs: On Friday August 1, the U.S. Bureau of Labor Statistics (BLS) will release employment report for June. Another strong report (job additions above 250,000) will result in long term interest rates rising more quickly and a short-term rate rise in the first quarter of 2015.

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Price data

All commodities/farm products 2007-2014
Fuels & related/metals & metal products

Price changes, 3 month moving average, Jan. 2013 - May 2014

-7.0%
-5.0%
-3.0%
-1.0%
1.0%
3.0%
5.0%
7.0%
9.0%
11.0%

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5.0%
7.0%

Fuels & related
Metals & metal products

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