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

**Cutting Coal Electricity Generation: More Costly for Red States**

This month under provisions of the Clean Air Act, signed by Richard Nixon in 1970, President Obama proposed new carbon limits on electricity generation. The goal of his initiative is a 30% reduction of carbon emissions from electricity plants by 2030, three-fourths which come from coal usage. The latest data from the Energy Information Agency show that residential electricity customers in the 25 states generating electricity from coal pay 20% less per kilowatt-hour than customers in the 26 states and DC that use no coal in the production of electricity. Furthermore, 11 of the 12 highest electricity cost states use no coal in the making of electricity. Data indicate that reducing coal's share of electricity production from a national average of 28.3% to 20.0%, by expanding the share produced by renewable energy, will increase the cost of electricity by approximately 19.0%. This increase in cost however, will not be shared evenly. Blue states, those that placed their electoral votes for the Democrat presidential candidate in each of the last four elections, paid electricity prices 43.2% higher than states that voted Republican in the same four elections. Not surprisingly, 16 of the nation's 19 Blue states used no coal for electricity creation, while only 5 of 22 Red states used no coal for electricity production. Purple states, those that split their electoral votes, have a slightly higher cost of electricity than Red states. 5 of the 10 Purple states use no coal in the generation of electricity. Thus in addition to environmental and health concerns, the new policy interjects potential political issues into the President's announced policy.

**Link to video:**
http://youtu.be/O_1KLkb8pec

**LAST MONTH'S SURVEY RESULTS**

**Healthy Growth Ahead for Mid-America Economy: Supply Managers Expect Strong 2014 Hiring**

**SURVEY RESULTS AT A GLANCE:**

- Leading economic indicator rises to highest level in more than three years.
- Employment index surges to highest level in more than one year.
- More than four of ten firms expect upturn in hiring for rest of 2014.
- Only one of ten firms anticipates layoffs for remainder of 2014.
- Wholesale price gauge down for month but is up from same time last year.

The Mid-America Business Conditions Index for May, 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 60.5 from 60.4 in April. This is the highest overall reading that we have recorded in more than three years. Strong growth in new orders over the past two months was the prime factor pushing the overall index higher. Production and sale of these orders in the months ahead will underpin regional economic growth over the next three to six months.

**Employment:** After weather restrained job growth for quarter one, businesses expanded employment at a brisk pace for April and May. The employment index surged to 60.0, its highest level in more than a year, and up from April's 54.2. Both durable goods and non-durable goods manufacturers are adding jobs at a healthy pace. Even with post-recession expansions, regional manufacturing employment is down by almost ten percent from pre-recession levels. Until recently manufacturers had increased output primarily via expanding hours worked for current employees and rising productivity. However, manufacturing employers are currently adding jobs at a healthy pace.

**Hiring for 2014:** Approximately 10.7 percent of firms in the region anticipate layoffs for the remainder of this year while 41.3 percent expect new hiring for 2014. The remaining 48.0 percent expect little or no change in employment levels for the rest of 2014.

**Wholesale Prices:** The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation sank to a still strong 73.1 from April's 75.9. Inflation pressures at the wholesale level, while 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).

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 2.4 percent for the next six months, or approximately 4.8 percent on an annual basis. On an annual basis, this is down by more than one percentage point from January of this year when we asked the same question.

**Confidence:** Looking six months ahead, economic optimism, as captured by the May business confidence index, dipped to a healthy 62.5 from April's 64.2. Improvements in the national and regional job market supported supply managers' business outlook for the month.

**Inventories:** The index of inventories, which tracks the level of raw materials and supplies, dipped to a solid 56.0 from April's 56.6. While the rate of inventory expansion slowed, May's 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 sank to 53.0 from 60.8 in April. The import index for May declined to 62.6 from May's 55.6. It is a very encouraging signal to track 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 May Business Conditions Index were new orders at 63.5, down from 66.3 in April; production or sales at 67.1, down from April's 68.3; and delivery lead time for May dropped to 55.9 from last month's 56.6.

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.

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Over the past year, Minnesota’s manufacturing sector has improved. The Business Conditions Index is a mathematical average of indices for new orders, production, sales, employment, and inventory levels. This is the same methodology used by the National Institute for Supply Management, formerly the Purchasing Management Association, since 1931.

**MINNESOTA**

The May Business Conditions Index for Minnesota slipped to a still solid 57.7 from 54.8 in April. Components of the survey of supply managers in the state for May were new orders at 59.2, production or sales at 54.1, delivery lead time at 46.4, inventories at 57.1, and employment at 59.4. Despite solid gains for manufacturers in the state over the past several months, the manufacturing wage rate in the state has expanded by a tepid 2.2 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with strong wage gains.

**MISSOURI**

The May Business Conditions Index for Missouri slipped to a still solid 57.7 from 54.8 in April. Components of the survey of supply managers in the state for May were new orders at 59.2, production or sales at 54.1, delivery lead time at 57.3, inventories at 51.6, and employment at 59.4. Despite solid gains for manufacturers in the state over the past several months, the manufacturing wage rate has expanded by a strong 6.5 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with strong wage gains.

**NEBRASKA**

For the fifth straight 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 55.6 from April’s 55.1. Components of the index for May were new orders at 58.6, production or sales at 59.7, delivery lead time at 56.5, inventories at 52.6, and employment at 51.2. Despite healthy gains for manufacturers in the state over the past year, Nebraska’s manufacturing sector has approximately 13.0 percent fewer workers today than before the national recession began. Moreover, the manufacturing wage rate has expanded by a weak and sub-par 0.2 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with healthy wage increases.

**KANSAS**

The Kansas Business Conditions Index for April expanded to a healthy 61.0 from 59.6 in March. Components of the leading economic indicator from the monthly survey of supply managers in the state were new orders at 64.4, production or sales at 71.0, delivery lead time at 67.2, and inventories at 69.9. Despite healthy growth in the Kansas manufacturing sector, the state’s manufacturers are employing approximately 6.1 percent fewer workers today than before the beginning of the national recession. On the other hand, the manufacturing wage rate has expanded by a solid 4.4 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy with healthy wage increases.

**OHIO**

The state’s leading economic indicator expanded to 65.2 from April’s 65.2. Components of the overall index from the monthly survey of supply managers for May were new orders at 70.2, production or sales at 62.3, delivery lead time at 66.9, inventories at 53.8, and employment at 58.1. Despite experiencing the strongest economic growth in the nation over the past several years, North Dakota’s manufacturing sector has approximately 2.8 percent fewer workers today than before the national recession began. Additionally, the manufacturing wage rate in the state has expanded by a modest 3.2 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with very strong wage gains.

**OKLAHOMA**

The state’s leading economic indicator continues to point to healthy gains for the next three to six months. Oklahoma’s Business Conditions Index for May expanded to a solid 58.3 from last month’s 58.2. Components of the May survey of supply managers in the state were new orders at 67.4, production or sales at 66.6, delivery lead time at 56.8, inventories at 51.6, and employment at 56.9. Despite healthy gains for manufacturers in the state over the past year, Oklahoma’s manufacturing sector has approximately 6.1 percent fewer workers today than before the national recession began. On the other hand, the manufacturing wage rate expanded by a solid 4.6 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with solid wage gains.

**SOUTH DAKOTA**

After moving below growth neutral in November of 2012, South Dakota’s overall index indicates strong growth neutral 50.0 each month since. The overall index from the monthly survey of supply managers expanded to a regional high of 63.2 in May. Components of the overall index from May were new orders at 67.9, production or sales at 76.1, delivery lead time at 63.6, inventories at 65.0, and employment at 71.7. Despite concerns over the state’s environment conditions earlier in the year, the manufacturing wage rate in the state has expanded by a tepid 2.2 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with strong wage gains.

**THE BULLISH NEWS**

- From the May surveys of supply managers, Creighton University forecasts that manufacturing will continue improving growth through the third quarter of 2014.
- U.S. employers added 217,000 non-farm jobs in May and the unemployment rate remained stable at 6.3%.
- While the housing market has slowed, automobile sales have moved back to their pre-recession levels and are at their highest level in 9 years.

**THE BEARISH NEWS**

- While the overall May unemployment rate was 6.3%, it was 11.5% for Blacks, 19.2% for teenagers, and 7.7% for Hispanics.
- The number of long term unemployed for May was unchanged at a too high 3.4%.
- In May, average hourly earnings for all employees on private nonfarm payrolls rose by 5 cents to $24.38. Over the past 12 months average hourly earnings have risen by a puny 2.1% and only slightly above inflation.

**WHAT TO WATCH**

- CPIs: On July 22, the Bureau of Labor Statistics releases consumer price index for June. Monthly increases of more than 0.2% will encourage the Fed to maintain and potentially reduce its monthly bond buying program, it will point to higher long-term interest rates and could even encourage the Fed to raise short-term interest rates before the end of Quarter 1, 2014.
- Yield or interest rate on 10-year U.S. Treasury Bond: Instantaneously, you can see the yield on the U.S. Treasury bond at finance.yahoo.com. This yield will rise when (or if) inflation rises. It also falls as global financial risks increase. As Iraq/Ukraine risk wars climb, the yield will sink. If yields increase by 3% and hold, some of the air will come out of the U.S. stock markets.

**THE OUTLOOK FROM GOSS:**

- The U.S. 2014 budget deficit to decline to roughly $500 billion, or 2.8% of GDP.
- The U.S. trade deficit to remain unacceptably high as many of our global trading partners experience slower economic growth thus buying less from the U.S.
- U.S. housing price growth to slow to a more sustainable annual growth rate of 4%-6% in the next 6 months.

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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

![Price Changes Chart](attachment:image.png)

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