Welcome to our June report covering Creighton’s May 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 rising inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Kansas City, a Laboratory for Kansas Tax Cuts: Data Suggest That Tax Reductions Stimulated Growth

The Kansas City Metropolitan area is divided into two portions, Kansas and Missouri. This makes the area a good laboratory to gauge the effectiveness of economic policy changes made on one side, but not the other. For example, what do metro growth numbers have to say about the wisdom of the 2012 and 2013 Kansas tax reductions? Post Tax-Cut Earnings: From March 2012 to March 2015, the Kansas fraction of the metro grew its average weekly wages for private workers by 6.7% which was higher than the Missouri side’s growth of 5.6%. Post Tax-Cut Job Performance: During this same time period, the Kansas side of the metro experienced private job growth of 7.5% compared to a much lower 4.4% for the Missouri segment of the metropolitan area. Both sides of the metro area reduced the number of government workers, but the Kansas side lost 4.8% of its government jobs, while the Missouri portion lost 1.0% of its public jobs. Not surprisingly, Kansas public workers are raising a ruckus, claiming an economic calamity. But even after the tax cut, 2014 state taxes as a percent of personal income for the Sunflower state, when compared to its neighbors, were more than one percentage point higher than Colorado and Missouri, but still slightly above Nebraska and Oklahoma. Furthermore, 2012 to 2014 personal income growth for Kansas surpassed that of Missouri and Nebraska, but trailed Colorado and Oklahoma. Post tax cut data from Kansas City, the state of Kansas, and its neighbors support the hypothesis that the tax cuts improved the state’s economic growth. However critics of the reduction correctly argue that this data, as presented here, shows correlation, but does not prove causation. Ernie Goss.

Link to video: https://www.youtube.com/watch?v=1R_veMyGzk4&feature=youtu.be

LAST MONTH’S SURVEY RESULTS

Slowing Growth Ahead for Mid-America: Job Losses for May

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator drops to a weak reading.
- Hiring gauge remains below growth neutral.
- Inflation reading jumps to its highest level in the past 12 months.
- Over the next year, supply managers expect prices of goods and services purchased by their firm to expand by a strong 3.8 percent.

The Creighton University Mid-America Business Conditions Index for May, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, fell from April’s reading. Indices over the past several months are pointing to positive but slow economic growth over the next three to six months for the region.

Overall index: The Business Conditions Index, which ranges between 0 and 100, slumped to 50.4 from April’s tepid 52.7. The regional index, much like the national reading, is pointing to positive but slow growth through the third quarter of 2015. Firms linked to energy and agriculture are experiencing pullbacks in economic activity. Job growth in Oklahoma and North Dakota, two energy-producing states, has moved into negative territory. Other states dependent on agriculture are also experiencing slower economic growth. That growth is likely to move even lower in the months ahead as the strong U.S. dollar slows economic activity even more.

Employment: The regional employment gauge remained in a range indicating slightly negative to stagnant job growth for manufacturing and value-added services firms in the region. The job gauge fell to 48.3 from 49.2 in April. These negative job numbers will spill over into the broader job market in the months ahead.

This month, supply managers were asked about the hiring situation at their firms. Ten percent of supply managers reported an upturn in the number of applicants for each available job. On the other hand, approximately 9 percent of supply managers indicated the shortage of qualified workers increased from last month. The remaining 81 percent indicated no change in the number of applicants to open positions. One supply manager reported, “(We) have dozens of applicants for every opening. Salaries have not changed in years.”

Wholesale Prices: The wholesale inflation index for May climbed to 69.1 from 55.5 in April. Despite a strong U.S. dollar and significantly lower fuel prices, the wholesale inflationary gauge indicates that inflationary pressures are rising, but still remain in a range indicating only moderate inflationary pressures.

Over the next year, survey participants expect the prices of products and services purchased by their company to advance by 3.8 percent. On the other hand, they expect prices for the products and services their companies sell to expand by a much smaller 1.6 percent over the next year.

Our data, along with other government data, signal that inflationary pressures have risen over the last several months. I expect rising inflationary pressures to push the Federal Reserve to begin raising interest rates, even in the face of weak economic growth.

Confidence: Looking ahead six months, economic optimism, as captured by the May business confidence index, declined to 58.3 from April’s 61.5. Weak regional and national growth has pushed supply managers to lower their expectations about future economic conditions.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, fell to 48.2 from 48.5 in April.

Trade: The new export orders index slid to 50.0 from 53.5 in April. The import index for May increased to a weak 48.8 from April’s 46.8. Over the last year, the value of the U.S. dollar has risen by more than 16 percent against the currencies of our chief trading partners. This movement has made U.S. goods less competitively priced abroad and foreign goods more cheaply.

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over the course of the next three to six months. The Business Conditions Index greater than 50 indicates an expansionary economy, according to the National Institute for Supply Management, formerly known as the Business Conditions Index, ranges between 0 and 100. An index above 50 than 50 than the same time period in 2014. Our surveys over the past several months point to even stronger, sustained growth in the months ahead for the state. Despite the strong dollar making Missouri goods less competitively priced abroad, durable goods manufacturers expect growth for the year and for 2015. Growth in heavy manufacturing, or durable goods, will slow in the months ahead, spilling over into the broader state economy. Food processors will continue to experience pullbacks in economic activity.

The May Business Conditions Index for Missouri sank to 50.7 from 54.4 in April. Components of the index from the survey of supply managers were new orders at 48.7, production or sales at 52.2, delivery lead time at 53.3, inventories at 50.2, and employment at 50.0. Missouri's economy has expanded in 2015, but at a slower pace than for the same period in 2014. Our surveys over the past several months point to even stronger, sustained growth in the months ahead for the state. Despite the strong dollar making Missouri goods less competitively priced abroad, durable goods manufacturers expect growth for the year and for 2015. Growth in heavy manufacturing, or durable goods, will slow in the months ahead, spilling over into the broader state economy.

Arkansas

The May overall index, or leading economic indicator for Arkansas, has conducted the monthly survey of supply managers 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 than the same time period in 2014. Our surveys over the past several months point to even stronger, sustained growth in the months ahead for the state. Despite the strong dollar making Missouri goods less competitively priced abroad, durable goods manufacturers expect growth for the year and for 2015. Growth in heavy manufacturing, or durable goods, will slow in the months ahead, spilling over into the broader state economy. Food processors will continue to experience pullbacks in economic activity.

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PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2014
FUELS & RELATED/METALS & METAL PRODUCTS


-10.0%
-5.0%
0.0%
5.0%
10.0%

All commodities
Farm products


-20.0%
-15.0%
-10.0%
-5.0%
0.0%
5.0%
10.0%
15.0%
20.0%

Fuels & related
Metals & metal products