Welcome to our November report covering Creighton's September survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economy is growing at a positive pace but somewhat slower pace with inflationary pressures declining. Follow my comments at: www.twitter.com/erniegoss

Divided Government and Economic Performance: Evidence from the States

The 2012 elections saw a significant decline in the number of state governments with executive and legislative powers divided between Democrats and Republicans. Between 2012 and 2014, only 13 states were split, while 14 state governments were governed solely by Democrats, and 23 states led by Republicans—the lowest number of states with divided governments since 1952, when there were only 8 splits. Did states with split governments economically outperform those with unified power? Over the last 2 years, GDP growth of 2.9% for split states lagged behind the 3.5% growth for Democrat states and the 3.7% growth for Republican states. During the same time period, wage growth for split states increased by 6.9%, behind both Democrat states with 8.1% and Republican states with 7.8%. Likewise, the past 2 years saw private job expansion in split states of 2.6%, with Democrat states expanding jobs at the rate of 3.7%, and Republican states growing jobs at a rate of 3.9%. In terms of 2013 state & local tax burdens, of the 10 states with the lowest tax burdens, 3 were split states, one was Democrat-led and 6 were led by Republicans. Likewise, in terms of expanding the size of state and local government as measured by state and local government wages, Democrat states expanded by 5.8% and split states climbed by 3.2%, while Republican states rose by a smaller 2.9%. Thus, Democrat states appear to clearly expand the size of state and local government, along with the accompanying tax burden, while Republican states clearly grow the size of state and local government and the related tax burden at a slower pace. Split states fall somewhere between Democrat and Republican states. As data in this essay indicate, the political party composition of a state's executive and legislative branches, whether unified with Democrat or Republican leadership, or governed by split branches of government, influences economic performance of the size state and local government. Ernie Goss.

Link to video: http://youtu.be/kBnQ8Y81TLc

LAST MONTH'S SURVEY RESULTS

Growth Slows for Mid-America for October: Downturn in Hiring and Export Orders

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator was down for the month.
- New export orders decline for the month.
- Businesses cut employment for October.
- Average wage gain of 1.6 percent expected for next year.
- Wholesale pressures remain modest for the last several months.

The Mid-America Business Conditions Index for October, a leading economic indicator for a nine-state region, stretching from North Dakota to Arkansas, slumped from September's solid reading. Indices over the past several months are pointing to positive, but slower, economic gains over the next three to six months for the region.

Overall index: The Business Conditions Index, which ranges between 0 and 100, fell to 51.8 from September's 54.3. After rising to its highest level in more than three years in June, the overall reading has hovered in a range pointing to positive, but slower, growth for the overall regional economy over the next three to six months. Sharp declines in grain and crude petroleum prices drove the overall index down for the month. Even with the pullback, economic growth is expected to be positive, but somewhat slower in the next several months. October weakness in rural areas of the region offset stronger conditions in urban areas of the nine-states.

Employment: For the second time in the past three months, the employment index moved below the growth neutral threshold of 50.0. The job gauge fell to 43.1 from September's much stronger 53.5 and August's 48.7. Businesses tied to agriculture and energy are experiencing weaker economic conditions. At the same time, businesses seeking to hire skilled workers are reporting a lack of qualified applicants.

Trade: New export orders index declined again to 48.8 from 53.2 in September. The import index for October increased to 52.9 from September's 52.8. The significant increase in the value of the dollar this year has made U.S. goods less competitively priced abroad and increased the attractiveness of foreign goods sold in the U.S. Combined with slower global growth, I expect our export reading to soften even more in the months ahead.
Delivery speed: the delivery lead time index decreased to 56.2 in September. Businesses in the region continue to report supply bottlenecks in obtaining timely delivery of goods and supplies.

Other components: Other components of the October Business Conditions Index were new orders at 53.6, production or sales at 52.9, delivery lead time at 56.9, and employment at 56.9. Durable goods producers, especially those with ties to vehicle manufacturing, are experiencing strong growth. Non-durable goods manufacturers, especially food processors, benefitted from an expanding U.S. economy. Growth in construction continues to be a source of state growth. Average weekly wages expanded by 0.9 percent over the past 12 months for private workers in Minnesota.

Missouri

The October Business Conditions Index for Missouri declined to 57.1 from 57.9 in September. The overall average index from the survey of supply managers for October were new orders at 58.1, production or sales at 59.7, delivery lead time at 56.9, inventories at 57.7, and employment at 58.4. The index slipped to a very healthy 63.7 from September’s 66.3. Components of the index from the October survey, except for firms in the durable goods sector, benefitted from an expanding U.S. economy. Growth in construction continues to be a source of state growth. Average weekly wages expanded by 2.9 percent over the past 12 months for private workers in Minnesota.

Iowa

The Iowa Business Conditions Index for October fell to a tepid 51.4 from 51.5 in September. This is the fourth consecutive month that the reading has declined. Components of the index from the monthly survey of supply managers were new orders at 46.0, production or sales at 46.6, delivery lead time at 45.1, inventories at 45.3, and employment at 47.2. Pullbacks among nondurable goods producers and technology firms more than offset growth for durable manufacturers and trucking. I expect manufacturing activity to expand construction activity at a solid pace in the state. Average weekly wages declined by 1.2 percent over the past 12 months, worst in the region, for private workers in Arkansas.

Arkansas

The overall index, or leading economic indicator, for Arkansas advanced to a weak 49.3 from September’s 47.0. Components of the index from the monthly survey of supply managers were new orders at 50.7, production or sales at 56.4, delivery lead time at 60.9, inventories at 43.5, and employment at 42.7. Pullbacks among nondurable goods producers and technology firms more than offset growth for durable manufacturers and trucking. I expect manufacturing activity to grow at a solid pace in the state. Average weekly wages expanded by 2.1 percent over the past 12 months for private workers in Iowa.

Kansas

The Kansas Business Conditions Index for October dipped to healthy 62.4 from September’s 69.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 80.6, production or sales at 74.3, delivery lead time at 48.6, employment at 41.8, and inventories at 66.7. Economic pullbacks among durable goods producers, including transportation equipment manufacturers, were more than offset by solid growth for nondurable goods producers in the state. Average weekly wages expanded by 2.9 percent over the past 12 months for private workers in the state.

Minnesota

October survey results mark the 23rd straight month Minnesota’s Business Conditions Index has remained above growth neutral. Sales at 26.6, delivery lead time at 52.4, inventories at 69.0, and employment at 57.4 in September, pointed to healthy economic growth in the months ahead. The index for October sank to 48.0 from September’s much stronger 58.0. Components of the October survey of supply managers in the state were new orders at 57.4, production or sales at 62.8, delivery lead time at 60.1, and inventories at 67.0.

Mid-America States

A monthly survey of supply chain managers


“Case-Shiller Home Price Index: On the last Tuesday of the month, the Case-Shiller Home Price Index will be released. Another significant decline in the growth number will be a warning signal for the housing market. Home prices that are growing at above 2.0% below 7% will be healthy indicator.

Wage data: On Friday Dec. 5, the Bureau of Labor Statistics, as part of its employment report, releases its wage number at 4:26. This is a significant number. The department will encourage the Federal Reserve Bank to keep short term interest rates low until the middle of 2015. Above 2.0% could be an early warning signal of rate increases earlier than that time.

Jobs: On Friday Dec. 5, the U.S. Bureau of Labor Statistics (BLS) will release employment report for November. Another strong report job additions above 200,000 will push the Fed to raise interest rates sooner than expected.

From Goss: Woll, I was dead wrong on my Q3 GDP growth forecast. I expected 2.7% was below 3%. There is too much weakness in the farm and energy sectors to expect Q4 growth numbers to come in above 2% or even close to Q3 growth.

I expect housing prices growth to continue to move lower, but remain positive.

Part-time job creation will continue to be a big part of U.S. employment growth.

Nationally, this will be the best holiday shopping season since 2007.

Other reports: The National Association of Business Economics (NABE): 1. The NABE updating the third quarter, albeit at a marginally subdued pace from that of the second quarter, and the majority of the NABE’s Business Conditions Survey’s respondents, the 2014 budget deficit dropped to the lowest level in nearly six years.

2. Third quarter GDP growth (annualized) came in above 3.0%. It was not as strong as expected, but not nearly enough growth to make up for the growth ground lost during the Great Recession.

3. The S&P/Case Shiller composite index gained 5.6% in August over last year, the slowest year-on-year increase since November 2012. The S&P/Case Shiller composite index gained 5.6% in August over last year, the slowest year-on-year increase since November 2012.

4. Although the number of people out of work six months or more, the share of respondents reporting higher costs in the fourth quarter, albeit at a marginally subdued pace from that of the second quarter, and the majority of the NABE’s Business Conditions Survey’s respondents, the 2014 budget deficit dropped to the lowest level in nearly six years.

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The Bullish News

1. The U.S. economy added 214,000 jobs in October and the unemployment rate ticked down to 5.8% from 5.9% in September.

2. As tax revenues increased and spending cuts took effect, the 2014 budget deficit dropped to the lowest level in six years.

3. Third quarter GDP growth (annualized) came in above 3.0%. It was not as strong as expected, but not nearly enough growth to make up for the growth ground lost during the Great Recession.

The Bearish News

1. Overall wages were up 2% for the 12 months ended in October. That was a bit better than the 1.7% inflation rate, but not nearly enough to make up for the ground lost during the Great Recession.

2. The S&P/Case Shiller composite index gained 5.6% in August over last year, the slowest year-on-year increase since November 2012.

3. Although the number of people out of work six months or more, the share of respondents reporting higher costs in the fourth quarter, albeit at a marginally subdued pace from that of the second quarter, and the majority of the NABE’s Business Conditions Survey’s respondents, the 2014 budget deficit dropped to the lowest level in nearly six years.

What to Watch

1. Case-Shiller Home Price Index: On the last Tuesday of the month, the Case-Shiller Home Price Index will be released. Another significant decline in the growth number will be a warning signal for the housing market. Home prices that are growing at above 2.0% below 7% will be healthy indicator.

2. Wage data: On Friday Dec. 5, the Bureau of Labor Statistics, as part of its employment report, releases its wage number at 4:26. This is a significant number. The department will encourage the Federal Reserve Bank to keep short term interest rates low until the middle of 2015. Above 2.0% could be an early warning signal of rate increases earlier than that time.

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Goss Eggs (Recent Dumb Economic Moves)

1. Senators Red (D, NV), Dick Durbin (D, IL) and Mike Enzi (R, WY) have led a bipartisan coalition in the Senate to force online merchants to collect sales taxes on purchases done online. This could be an early warning signal of rate increases earlier than that time.

2. Small online suppliers who could not afford the audits will be required to collect sales taxes on purchases done online. This could be an early warning signal of rate increases earlier than that time.
Price changes, 3 month moving average, 2012 - October 2014

Survey results for November will be released on the first business day of next month, December 1st.

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