Welcome to our August report covering Creighton’s August 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 with slightly higher inflation. Follow my comments at: www.twitter.com/erniegoss

Raising the Minimum Wage: Impact Depends on Its Effect on Hours Worked

The current popular rant among many non-economists is that opposition to raising the minimum wage is equivalent to opposition to worker rights. Those who are more intellectually curious will find that there is no theoretical basis for this conclusion and empirical studies have come down on both sides of the argument—i.e. increasing the minimum wage is beneficial to workers, or boosting the minimum wage is harmful to workers. Total wages in a state are the product of the number of hours worked and the hourly wage rate. Raising the minimum wage may result in reducing the number of hours worked to the point that total state wages shrink instead of expanding. There are currently 24 U.S. states and DC that have a minimum wage above the federal level, and 27 states with a minimum wage that is at or below the federal minimum hourly wage of $7.25. Since the beginning of the economic recovery in 2009 through 2013, the states with minimum wages above the federal level, compared to states with minimum wages at or below the federal minimum, experienced a 3.1% lower gross domestic product growth (GDP), 0.3% lower job growth, and 0.2% higher welfare payments. On the other hand, these same high minimum wage states experienced a 0.4% lower increase in the median poverty rate than states with minimum wages at or below $7.25. Furthermore, Washington, the state with the highest minimum wage in the nation at $9.32, underperformed the 27 low minimum wage states in GDP and job growth during the recovery period, but did experience a slower growth in its poverty rate. This analysis is certainly not definitive and does not control for other important factors influencing a state’s economy. But it does at least question the popular notion, or “accepted science” that raising the minimum wage is necessarily a winner for the state economy. Ernie Goss.

Link to video: http://youtu.be/iWoC05O1b1o

LAST MONTH’S SURVEY RESULTS

Export Orders Push Mid-America Leading Indicator Higher; Job Losses Recorded for the Month

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator rose to a healthy reading for the month.
- Four in 10 businesses reported job openings exceeded job applicants.
- New export orders continued expanding at a healthy pace.
- Inflationary pressures declined.
- Shipping bottlenecks surfaced across the region.

The Mid-America Business Conditions Index for August, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, rose slightly from July's healthy reading. Indices over the past several months are pointing to solid, but not spectacular, economic gains over the next three to six months for the region.

Overall index: The Business Conditions Index, which ranges between 0 and 100, improved to 57.2 from July's 57.0. “After rising to its highest level in more than three years in June, the overall reading has hovered in a range pointing to positive growth for the overall economy and the job market over the next three to six months.”

Anecdotally, supply managers are reporting more and more supply shipment delays as the overall economy improves. One supply manager complained that rail shipping had become particularly problematic as shipments of energy products and housing inputs have begun to take up shipping space.

Employment: The employment index fell below growth neutral for the first time in 2014. The employment gauge slumped to 48.7 from July's 53.8 and 61.4 in June, which was a two-year high. Businesses linked to agriculture lost jobs for the month. Furthermore, job growth in the region has lagged that of the nation for 2014. However, this growth has varied significantly across the region with North Dakota, Missouri and South Dakota above the national average and the remaining states below the U.S. average.

Approximately 40 percent of supply managers indicated that in terms of hiring new workers at their firms, there were more job openings than job applicants. More than one in five, or 22 percent, reported that the number of applicants and the number of openings were about equal. The remaining 38 percent of respondents indicated that they had more job applicants than job openings.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation index sank to 66.7 from July's 67.6 and June's much higher 73.5. Inflationary pressures at the wholesale level have recently cooled a bit. This month we asked supply managers how much they expected the prices of products they purchased to rise in the next six months. On average, supply managers anticipate a gain of approximately 2.2 percent. This estimate is below the 2.4 percent reported by supply managers in April of this year when we asked this same question. Thus, after a period of advancing inflationary pressures, we are now seeing those pressures diminishing.

Confidence: Looking ahead six months, economic optimism, as captured by the August business confidence index, climbed slightly to 60.4 from 60.0 in July. Despite growing global tensions, and weaker numbers out of agriculture, improvements in the national and regional job market supported supply managers’ business outlook.

Inventories: The inventory index, which tracks the level of raw materials and supplies, jumped to 57.9 from July’s 51.3. This is yet another signal that supply managers remain reasonably upbeat about the economy, as they also increased inventories in anticipation of expanding sales for their companies in the months ahead.

Trade: The new export orders index expanded to 59.8 from 57.5 in July. The import index for August fell to 51.8 from July’s 57.7. It is an encouraging signal to track very healthy export readings as new export orders grew for a ninth straight month. Exports remain an important source of growth for the region. At the same time, firms in the region continued to purchase from abroad in expectations of upturns in company sales in the weeks and months ahead.

Delivery speed: The delivery lead time index popped to 60.6, its highest level in more than three years, and well up from July’s 53.7. As a result of rapidly expanding shipments in the region, supply managers are having increasing difficulty in obtaining timely delivery of raw materials and supplies.
Other components: Other components of the August Business Conditions Index were new orders at 57.9, production or sales at 75.2, delivery lead time at 61.1, inventories at 55.9, and employment at 65.0. Economic growth will remain positive for the second half of 2014 for August based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in North Dakota has added approximately 2,000 manufacturing jobs for a 5.9 percent job gain. However for 2014, the state’s manufacturing sector has added jobs at a much faster pace.

MINNESOTA The August Business Conditions Index for Minnesota expanded slightly to a healthy 59.2 from July’s 59.0. Components of the index, or leading economic indicator, from the monthly survey of supply managers for August were new orders at 60.9, production or sales at 65.0, delivery lead time at 58.9, inventories at 53.6, and employment at 46.2. Economic growth will remain positive for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Minnesota has lost another 6,000 manufacturing jobs for an additional 3.7 percent job loss. However for 2014, the state has begun to recover a share of the durable goods manufacturing jobs that were lost.

ARKANSAS The August overall index, or leading economic indicator, for Arkansas sank to 45.1. Components of the index from the monthly survey of supply managers were new orders at 47.2, production or sales at 47.1, delivery lead time at 60.1, inventories at 46.0, and employment at 44.6. Economic growth will slow for the second half of 2014 for the state based on our surveys. Since the national recovery began in July 2009, the manufacturing sector in Arkansas has lost another 6,000 manufacturing jobs for an additional 3.7 percent jobs lost. However for 2014, the state has begun to recover a share of the durable goods manufacturing jobs that were lost.

IOWA Iowa’s Business Conditions Index, or leading economic indicator, for August fell to a still solid 58.3 from 63.0 in July. Components of the index from the monthly survey of supply managers were new orders at 57.8, production or sales at 56.9, delivery lead time at 62.2, employment at 60.0, and inventories at 54.3. Economic growth will remain healthy for the second half of 2014 for Iowa based on our surveys over the last several months. Since the monthly survey began in July 2009, the manufacturing sector in Iowa added almost 18,000 manufacturing jobs for a 9 percent job gain. However for 2014, the state’s manufacturing sector has added jobs at a somewhat slower pace.

KANSAS The Kansas Business Conditions Index for August expanded to a healthy 63.8 from 57.2 in July. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 77.0, production or sales at 76.3, delivery lead time at 52.8, employment at 53.6, and inventories at 58.5. Economic growth will remain healthy for the second half of 2014 for Kansas based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Kansas lost an additional 2,200 manufacturing jobs for a 1.4 percent loss. For 2014, the state’s durable goods manufacturers have continued to shed jobs even as nondurable goods producers have expanded jobs.

MINNESOTA August survey results mark the 21st straight month Minnesota’s Business Conditions Index has remained above growth neutral. The index climbed to a regional high of 64.9 from July’s 64.4, which was also a regional high. Components of the index from the August survey of supply managers in the state were new orders at 72.1, production or sales at 72.3, delivery lead time at 61.1, inventories at 59.2, and employment at 59.8. Economic growth will remain healthy for the second half of 2014 for Minnesota based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Minnesota has added approximately 22,000 manufacturing jobs for a 7.4 percent job gain. For 2014, both durable and nondurable goods manufacturers have continued to add jobs at a healthy pace.

SOUTH DAKOTA After moving below growth neutral in November of 2012, South Dakota’s leading economic indicator has been above growth neutral 50.0 since May 2013. The Business Conditions Index from the monthly survey of supply managers fell to 58.5 from July’s 61.0. Components of the overall index for August were new orders at 57.9, production or sales at 72.5, delivery lead time at 58.0, inventories at 54.5, and employment at 47.0. Economic growth will remain healthy for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in South Dakota added approximately 6,000 manufacturing jobs for a 5.2 percent job gain. However, until August, the state’s manufacturing sector had added jobs at a healthy pace.

OTHER REPORTS: • National Association of Business Economics (NABE) (September 2014): NABE’s August Outlook Survey. While there is less confidence than current fiscal policy, the share expressing approval has increased markedly to 46% (Pritchard, Carl, ed., 2013). Some policymakers have said NABE President Jack Kleinhenz, chief economist at the National Retail Foundation, said most panelists do not see inflation being a major concern in the coming year. The majority of NABE panelists believe that inflation will be at or near 2% in 2015. A majority of respondents (53%) indicated they believe monetary policy is on the right track, but 39% felt that monetary policy was too stimulative. “Another third (30%) of panelists believe the Federal Reserve should stop reinvesting Treasury debt and agency-backed securities by the end of 2014, but only 7% expect the Fed to do so by then.”

Goss Eggs (Recent Dumb Economic Moves) • The Financial Stability Oversight Council (FSOC) is nominating MetLife as “systematically important” or “too big to fail.” MetLife neither responded to the Federal Reserve nor received taxpayer support during the economic downturn. This claim forces MetLife, and potentially other insurers to maintain excessive low yielding cash balances.

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

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"A monthly survey of supply chain managers"
Price Data

All Commodities/Farm Products 2007-2014
Fuels & Related/Metals & Metal Products

Price changes, 3 month moving average, 2012 - August 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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