

"A monthly survey of supply chain managers"

Welcome to our April report covering Creighton's March survey results. The survey of supply managers in nine Mid-America states indicate that the economy is growing and will continue to grow, but at a slow pace. Follow my comments at: www.twitter.com/erniegoss

State Aid Fuels Local Spending Growth and Provides No Property Tax Relief

Politicians running for statewide office routinely promise to reduce property taxes, which are actually set at the local level by local officials. Instead of focusing on the real problem, which is overspending at the local level, governors and legislators promise to increase state aid to local units anticipating that the funds will be used to limit the growth in property taxes and local spending. This approach has proved futile in terms of economic outcomes. Between 2000 and 2011 as a share of gross domestic product (GDP), the 26 states that increased state aid to local government raised property taxes by a median of 0.31 percentage points while the 24 states that reduced state aid to local units expanded property taxes by a smaller 0.26 percentage points. Furthermore over the same time period, the same 26 states that increased state aid boosted local spending by 1.05 percentage points while the same 24 states that reduced state aid enlarged local spending by a smaller 0.27 percentage points. Thus, past data show that not only did state aid not provide property tax relief, as customarily promised, property tax burdens and overall local spending actually rose more quickly for states that grew state aid more swiftly. What should state policymakers do instead? States should limit the increase state aid to local units to the growth local population plus the increase in prices. This action would tend to reduce state tax burdens and encourage local political leaders to limit growth in local spending. Ernie Goss.

Link to video:

<http://youtu.be/XnA11UouIc>

LAST MONTH'S SURVEY RESULTS

Mid-America Economy Ends First Quarter on High Note: Concerns Raised Over Trade Skirmishes

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator advances pointing to improving regional growth.
- Supply managers expect wages to expand by 1.8 percent over the next year.
- Growth in new export orders remains solid.
- Approximately one in 10 firms expects positive sales impacts from the recently passed farm bill.

The Mid-America Business Conditions Index for March, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, points to positive and improving growth in the next three to six months. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, climbed to 58.2 from 57.4 in February.

Much like the national economy, the Mid-America region continues to expand with growth prospects improving monthly. Despite negative fallout from severe weather for the first quarter of the year, supply managers reported healthy business activity for the first three months of 2014.

Employment: After declining below growth neutral for December, the employment gauge has remained above the threshold for the third straight month. The employment index dipped slightly to a still solid 54.4 from 55.6 in February.

According to surveys over the past several months, the region will continue to expand employment at a solid pace. Even with the improving job picture, supply managers expect wage growth to remain weak with an average wage expansion of 1.8 percent for the next year. This is only slightly above the 1.6 percent recorded last year at this time.

Wholesale Prices: For the first time since November of last year, the prices-paid index, which tracks the cost of raw materials and supplies, declined. The wholesale inflation gauge fell to a still strong 72.8 from 75.7 in February. Inflationary pressures at the wholesale level are elevated from the same time last year. This month supply managers in the region were asked to estimate growth in the prices for raw materials and supplies purchased by their firm in the next six months. On average, respondents expect prices to expand by 2.4 percent in the next six months or approximately 4.8 percent annualized. This is two full percentage points lower, on an annualized basis, than was reported by firms in March of last year.

Confidence: Looking six months ahead, economic optimism, as captured by the March business confidence index, declined to a strong 59.0 from February's 59.7. Improvements in the job market supported supply managers' business outlook for the month. However, several supply managers raised concerns regarding Russian trade embargoes associated the Russia's recent invasion of Crimea. There is a fear that any restrictions could result in retaliation.

Inventories: The inventory index, which tracks the level of raw materials and supplies, dipped to 57.6 from February's 59.7. While the rate of inventory expansion slowed, March's solid 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 declined to a still solid 54.1 from 55.4 in February. The import index for March rose to 54.2 from 52.4 in February. It is a very encouraging signal to track a fifth straight month of healthy new export orders. 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 March Business Conditions Index were new orders at 58.5, up from 53.4 in February; production or sales at 61.1, down from February's 61.7; and delivery lead time at 59.4, up from February's 56.8.

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.

The forecasting group's overall index, referred to as the Business Conditions Index, ranges between 0 and 100. An index greater than 50 indicates an expansionary economy over the course of the next three to six months. The Business Conditions Index is a mathematical average of indices for new orders, production or sales, employment, inventories and delivery lead time. This is the same methodology used by the National Institute for Supply Management, formerly

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the Purchasing Management Association, since 1931.

MID-AMERICA STATES

ARKANSAS

The March overall index, or leading economic indicator, for Arkansas expanded to 62.6 from February's 55.1. Components of the index from the monthly survey of supply managers were new orders at 75.2, production or sales at 49.8, delivery lead time at 58.4, inventories at 78.5, and employment at 50.9. Arkansas construction activity continues to expand, but overall building activity remains well below pre-recession levels. Growth among business services firms more than offset pullbacks for nondurable goods manufacturers. Manufacturers continue to expand output via higher productivity and increases in hours worked and thus are not expanding employment at the point in time. I expect manufacturers and nonmanufacturers in Arkansas to add jobs at a healthy pace in quarter two of this year.

IOWA

Iowa's Business Conditions Index climbed to a regional high of 67.2 from February's 64.5, also a regional high. Components of the index from the monthly survey of supply managers were new orders at 69.4, production or sales at 70.8, delivery lead time at 71.3, employment at 60.7, and inventories at 63.6. Both durable and nondurable manufacturers are adding jobs in the Iowa. Based on our surveys over the past several months, I expect manufacturers and nonmanufacturers to expand jobs and output at the higher rate in the second quarter of 2014. Exports will remain an important component of growth. Of the nine Mid-American states, Iowa's economy is the most dependent on exports.

KANSAS

The Kansas Business Conditions Index for March dropped to a still solid 54.6 from 55.1 in February. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 41.2, production or sales at 67.0, delivery lead time at 49.9, employment at 51.0, and inventories at 63.6. Contrary to the rest of the region, nondurable goods producers in Kansas are expanding at a faster pace than durable goods manufacturers. Based on our survey results over the past several months, I expect the Kansas economy to expand jobs and overall economic activity for the second quarter of this year. However, this growth will be below that of the other eight states in the region.

MINNESOTA

For 16 straight months, Minnesota's Business Conditions Index has remained above growth neutral. The index advanced to 66.1 from February's 64.1. Components of the index from the March survey were new orders at 65.0, production or sales at 71.7, delivery lead time at 64.5, inventories at 74.8, and employment at 54.7. Expansions among Minnesota manufacturers and value-added services companies continue to push the overall economy into a robust growth range. While not back to pre-recession levels, construction growth has been solid despite the severe weather.

MISSOURI

The March Business Conditions Index for Missouri grew to 53.8 from 53.6 for February. Components of the survey of supply managers in the state were new orders at 49.9, production or sales at 54.6, delivery lead time at 56.7, inventories at 53.6, and employment at 54.2. Durable goods producers, especially those tied to exports and motor vehicle manufacturing, are expanding jobs and overall economic activity at a healthy pace. I expect this growth to spill over into the broader economy in the next two quarters.

NEBRASKA

For the fourth 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 54.8 from February's 53.9. Components of the index for March were new orders at 56.6, production or sales at 58.9, delivery lead time at 46.1, inventories at 53.2, and employment at 59.1. The pace of Nebraska growth is quickening. Nondurable goods manufacturers, including food processors, are expanding output and jobs while growth for durable goods producers has slowed to nil. I expect the overall Nebraska economy, including manufacturing, to expand over the next two quarters according to our survey results.

NORTH DAKOTA

North Dakota's leading economic indicator rose to 60.3 from February's 57.6. Components of the overall index from the monthly survey of supply managers for March were new orders at 60.0, production or sales at 55.5, delivery lead time at 66.1, employment at 64.4, and inventories at 55.8. Manufacturing growth remains positive. However, growth among firms tied to energy have once again begun to push overall state economy growth well above the pace of the region and the nation. Absent housing and labor shortages in portions of the state, North Dakota growth could be double its current pace according to our surveys over the past several months.

OKLAHOMA

After slipping below growth neutral in the third quarter of 2013, Oklahoma's Business Conditions Index has been pointing toward growth for the first half of 2014. The overall index, a leading economic indicator, advanced to 59.5 from February's 58.9. Components of the March survey of supply managers were new orders at 69.6, production or sales at 59.4, delivery lead time at 52.4, inventories at 56.4, and employment at 60.0. Food processors in Oklahoma are experiencing pullbacks in economic activity. Firms linked to vehicle manufacturers are benefiting from expansions among U.S. automobile production. Expansions among firms tied to energy are also pushing state growth higher.

SOUTH DAKOTA

After moving below growth neutral in November of 2012, South Dakota's leading economic indicator has been above growth neutral 50.0 each month since. The overall index from the monthly survey of supply managers expanded to 63.8 from February's 60.9. Components of the overall index for March were new orders at 63.0, production or sales at 75.3, delivery lead time at 50.3, inventories at 64.3, and employment at 65.9. There are more South Dakotans working than ever before. Manufacturers are growing jobs and output at a healthy pace. This is spilling over into the broader state economy. Based on our survey results, I expect the rate of growth to quicken in the months ahead.



THE BULLISH NEWS

- For March, Creighton University's survey of supply managers and the national survey of supply managers point to improving growth for the first half of 2014.
- U.S. employers added 192,000 jobs in March and January/February jobs gains were revised by +37,000.
- Real estate data provider CoreLogic said last week that prices for existing homes rose 12.2% in February from a year ago. That was up slightly from January's year-over-year pace of 12%. On a month-to-month basis, prices in February rose 0.8% from January.



THE BEARISH NEWS

- The U.S. trade deficit climbed to \$42.3 billion in February, its highest level in 5 months.
- The percent of the working age population in the labor force remains at its lowest level since 1978.
- Over the last 12 months, hourly wages have grown by a puny 2.1%.

WHAT TO WATCH

- **CPIs:** On May 15, the Bureau of Labor Statistics releases consumer price indices for April. A monthly increase of 0.2% or more will encourage the Fed to maintain and potentially reduce its monthly bond buying program. It will point to higher long-term interest rates. No change in short-term interest rates in 2014.
- **1st Quarter GDP:** On April 30, the U.S. Bureau of Economic Analysis will release Quarter 1 GDP. Annualized growth above 3.0% will be bad for bond prices resulting in even higher long-term interest rates.
- **Jobs:** On Friday May 24, the U.S. Bureau of Labor Statistics (BLS) will release employment report for April. Strong job additions (above 200,000) will result in long term interest rates rising more quickly.

THE OUTLOOK

FROM GOSS:

- Short term interest rates will change very little, up or down, in 2014.
- The regional and U.S. economies to continue to improve for the 2nd Quarter 2014.
- Inflationary pressures to rise in the months ahead but to a still modest pace or approximately 2.2% annually.

OTHER REPORTS:

- National Association of Business Economics (March 2014). "Summary: "Despite a challenging start to the year in which adverse weather conditions will likely shave nearly one half of one percentage point from first-quarter real GDP growth, NABE's March 2014 Outlook Survey panel expects the pace of economic expansion to accelerate this year—and next," said NABE President Jack Kleinhenz, chief economist of the National Retail Federation. "The consensus of the panelists is that real GDP will advance at a weak 1.9% annualized rate in the first three months of the year but pick up by year end to a pace of more than 3%. On an annual average basis, real GDP growth is forecasted to increase from 1.9% last year to 2.8% this year, and to 3.1% in 2015. Conditions in a variety of areas—including labor, consumer, and housing markets—are expected to improve over the next two years, while inflation remains tame."

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Goss Eggs (Recent Dumb Economic Moves)

- The federal government continues to incentivize leisure and punish work and educational advancement via a broken income tax system. For 2013, a two parent family with two children earning; the minimum wage-will pay no income taxes and get a refund of \$7,172; \$35,000 will pay no taxes and get a refund of \$4,092; \$45,000 will pay no taxes and get a refund of \$662; \$75,000 paid \$4,188 in income taxes; \$105,000 paid \$9,158 in income taxes; \$200,000 paid \$35,682 in income taxes; \$300,000 paid \$68,553 in income taxes.

Survey results for April will be released on the first business day of next month, May 1.

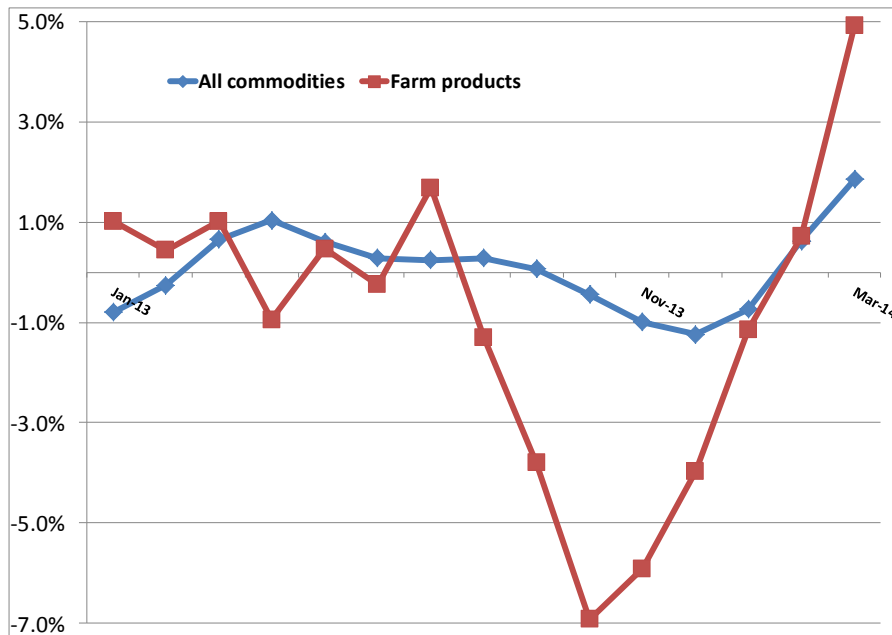
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PRICE DATA

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

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



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