

"A monthly survey of supply chain managers"

Welcome to our August report covering Creighton's July 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

Lew Says "Be a Patriot, Pay More Taxes" Support Government, Not Shareholders

Last month, Jack Lew, sounding more like a Sunday school teacher than the U.S. Secretary of Treasury called on U.S. corporations to be patriotic, and reject the corporate tactic labeled "inversion." Using this legal device, U.S.-based, multinational companies can slice their tax bills by merging with a foreign company and reorganizing in a country with a lower tax rate. For example, many U.S. corporations can reorganize in Great Britain and cut their income tax burdens in half. Instead of pleading for corporations to financially support the government at the expense of shareholders, U.S. policymakers should undertake two steps. First, allow U.S. corporations to repatriate foreign earnings at a competitive tax rate. A recent analysis by the Wall Street Journal concluded that 60 large corporations, to avoid paying U.S. corporate taxes, are parking over \$160 billion of income overseas. Thus, shrinking the U.S. corporate tax rate to 20% on repatriated earnings could potentially raise \$32 billion in taxes. Second, the U.S. should decrease the tax rate on domestic earnings to 25% and chop deductions/subsidies to favored businesses. In 2013 for example, Walmart experienced a combined state and local income tax rate of 40% and Exxon-Mobil paid a combined tax rate of 42.7%. On the other hand General Electric and U.S. Geothermal, taking advantage of various federal energy subsidies, braved income tax rates of 5.1% and 0.0%, respectively. Commenting on inversion, President Obama, the former constitutional lawyer turned legal vigilante declared that, "I don't care if its legal, it's wrong." The President should lower the rhetoric, cut the corporate tax rate, and reduce deductions/subsidies. These actions would encourage corporations to do what is legal, ethical, and consistent with U.S. economic interests. Ernie Goss.

Link to video:

<http://youtu.be/8bEFpbG2Bno>

LAST MONTH'S SURVEY RESULTS

Global Sales Push Mid-America Index Into Positive Territory:
Expected Yearly Price Growth of 1.5 Percent

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator falls to a still healthy reading for the month.
- Almost one-fourth of businesses report that expanding global sales have been the biggest driver of company sales over the past year.
- Back to school sales expected to be weaker than last year.
- New export orders continue to expand at healthy pace.
- Companies expect to increase the prices of their products and services by 1.5 percent over the next 12 months

The Mid-America Business Conditions Index for July, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, slumped from June's very healthy reading. Even so, indices over the past several months are pointing to solid economic gains over the next three to six months.

Overall index: The Business Conditions Index, which ranges between 0 and 100, sank to 57.0 from June's very healthy 60.6. After rising to its highest level in more than three years in June, the overall reading fell but remained above growth neutral 50.0 for the month. Supply managers indicated anecdotally that a weaker housing market is restraining growth while the region's energy sector, including alternative energy, is a source of positive growth.

Almost one-fourth, or 23.5 percent of supply managers, reported that expanding global sales have been the biggest driver of company sales over the past year. Another 16.0 percent of supply managers indicated that expansions in the farm sector was the major factor pushing their company sales higher for the year. Other factors named as predominant include: the Affordable Care Act, 7.4 percent, low interest rates, 6.3 percent, rebound in housing, 6.1 percent, other factors, 40.7 percent.

Employment: The employment index for July fell to 53.8 from June's two-year high of 61.4. While regional job growth remains solid, it is now about one-half of one percentage point below the U.S. Furthermore, U.S. Bureau of Labor Statistics data indicate that average weekly earnings for the region have expanded by only 1.3 percent over the past 12 months compared to 2.0 percent for the U.S. Motor vehicle manufacturing and companies linked to this industry have been adding jobs at a brisk pace.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation sank to 67.6 from June's 73.5. Inflationary pressures at the wholesale level have recently cooled a bit but remain elevated from the same time last year. This month we asked supply managers how much they expected the sales price of their companies' products and services to change in the next year. On average, supply managers expect their company prices to rise by only 1.5 percent in the next year.

Our surveys along with other regional and national surveys are pointing to the same inflation outcome; rising but still modest inflationary pressures in the next 3 to 6 months.

Confidence: Looking ahead six months, economic optimism, as captured by the July business confidence index, dipped to 60.0 from 63.6 in June. Despite growing global tensions, 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, declined to 51.3 from June's solid 54.0. While the rate of inventory expansion slowed, it was still positive. 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 slipped to 57.5 from June's 60.2. The import index for July jumped to 57.7 from June's 53.4. It is a very encouraging signal to track this very healthy exports reading and a eighth straight month of expanding export orders. Exports remain 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 July Business Conditions Index were new orders at 61.5, down from 67.2 in June; production or sales at 65.0, down from June's 66.0; and delivery lead time for July dropped to 53.7 from last month's 54.4.

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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 the Purchasing Management Association, since 1931.

MID-AMERICA STATES

ARKANSAS

The July overall index, or leading economic indicator, for Arkansas advanced to 53.1 from June's 51.3. Components of the index from the monthly survey of supply managers were new orders at 49.4, production or sales at 49.4, delivery lead time at 53.6, inventories at 47.6, and employment at 65.7. Construction, and manufacturing, durable and non-durable goods, all reported strength for the month. Average weekly salary growth over the past year for the workers in the state at 1.5 percent is weak and below the increase in prices over the same period of time thus leaving workers with a loss once wages are adjusted for inflation.

IOWA

Iowa's Business Conditions Index, or leading economic indicator, for July fell to a still healthy 63.0 from 67.8 in June. Components of the index from the monthly survey of supply managers were new orders at 70.5, production or sales at 72.9, delivery lead time at 56.2, employment at 65.5, and inventories at 49.9. Even though the overall index declined for the month, strong growth among durable goods producers more than offset weaker conditions for non-durable goods manufacturers including food processors to maintain a healthy reading for the month. In another positive signal, average weekly earnings for Iowa workers rose a strong 4.1 percent over the past 12 months and well above inflation.

KANSAS

The Kansas Business Conditions Index, or leading economic indicator, for July dipped to a solid 57.2 from 59.4 in June. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 66.4, production or sales at 65.1, delivery lead time at 43.0, employment at 57.1, and inventories at 54.5. Non-durable goods producers, including food processors, are expanding at a healthy pace which is well above firms in the state's durable goods sector. Even as firms add jobs, average weekly wages for Kansas workers grew at a sub-par 1.2 percent and well below inflation over the past 12 months.

MINNESOTA

June's survey results mark the 19th straight month Minnesota's July's survey results mark the 20th straight month Minnesota's Business Conditions Index, or leading economic indicator, has remained above growth neutral. The index decreased to a regional high of 66.4 from June's 70.1, also a regional high. Components of the index from the July survey of supply managers in the state were new orders at 77.5, production or sales at 77.9, delivery lead time at 61.0, inventories at 57.1, and employment at 58.4. Durable goods manufacturers, including metal producers, and non-durable goods manufacturers, especially food processors, supported a healthy reading for the

month of July. Even with solid job growth in the state, average weekly wage growth for workers in the state over the past year expanded at an anemic 1.2 percent, well below the rate of inflation.

MISSOURI

The July Business Conditions Index for Missouri slipped to a still healthy 59.0 from June's brisk 59.3. Components of the index, or leading economic indicator, from the survey of supply managers for July were new orders at 60.6, production or sales at 66.0, delivery lead time at 56.7, inventories at 53.5, and employment at 58.0. Motor vehicle manufacturers and their suppliers are experiencing healthy growth. Non-durable goods producers, except for food processors, are reporting solid economic business expansions. Even with brisk growth, average weekly wages for Missouri workers declined by almost one-half of one percentage point over the past 12 months. After adjusting for inflation, Missouri workers are losing buying power.

NEBRASKA

For the seventh straight month, Nebraska's overall, or Business Conditions, index remained above 50.0. The index, a leading economic indicator from a survey of supply managers in the state, rose to a solid 55.5 from June's 55.2. Components of the index for July were new orders at 60.1, production or sales at 61.8, delivery lead time at 52.2, inventories at 53.2, and employment at 50.3. Expansions for non-durable goods producers, including food processors, more than offset pullbacks for durable goods manufacturers for the month. While year-over-year job growth has been less than the region and the nation, average weekly wages for Nebraska workers advanced by 2.0 percent over the past 12 months, approximately the same as inflation, but well ahead of regional wage growth.

NORTH DAKOTA

The state's leading economic indicator, or Business Conditions Index, fell, but to a level pointing to an expanding state economy. The July reading of 57.3 was down from June's 61.6. Components of the overall index from the monthly survey of supply managers for July were new orders at 61.7, production or sales at 56.5, delivery lead time at 58.1, employment at 56.4, and inventories at 53.7. Over the past 12 months, North Dakota led the region in job growth at 4.8 percent and was second only to Iowa in average weekly wage growth at 3.0 percent. Our surveys over the past several months point to economic expansion in the months ahead for the state.

OKLAHOMA

Oklahoma's leading economic indicator, or Business Condition Index, continues to point to expanding economic conditions in the months ahead. The index for July fell to a solid 54.9 from June's 66.6. Components of the July survey of supply managers in the state were new orders at 60.6, production or sales at 62.7, delivery lead time at 43.9, inventories at 56.6, and employment at 50.8. Expansions for durable and non-durable goods producers and their suppliers more than offset pullbacks for energy linked firms for the month. Over the past 12 months, Oklahoma's job growth at 2.1 percent exceeded that of the region. On the other hand, average weekly earnings for workers in the state over the past 12 advanced by only 0.6 percent and well below the rate of inflation.

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, the Business Conditions Index, from the monthly survey of supply managers fell to 61.0 from 69.5 in June. Components of the overall index for July were new orders at 65.7, production

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advance of that, short term interest rates will begin to rise slightly.

OTHER REPORTS:

- The Conference Board (August 2014): "Recent improvements in emerging economies seem to be interrupted, and downside risks to major emerging economies are on the rise. While recovery in mature economies continues at a slower rate, for emerging economies, financial stability remains the top concern, and manufacturing sectors continue to weaken due to sluggish domestic demand. Furthermore, political instability and regional tensions have added more uncertainties to the near-term outlook."

Goss Eggs (Recent Dumb Economic Moves)

- The Justice Department is once again "shaking down" a U.S. corporate citizen. Just this month, they indicted FedEx for drug trafficking. Is FedEx supposed to do the job undone by the Drug Enforcement Agency (DEA). If convicted FedEx will pay a fine of \$1.6 billion for allegedly delivering prescription drugs that were sold by on-line pharmacies that were in violation of the Controlled Substance Act.

Survey results for August will be released on the first business day of next month, September 2.

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or sales at 62.8, delivery lead time at 55.9, inventories at 68.9, and employment at 51.7. Manufacturers in the state continue to add jobs at a solid but not spectacular pace. While average weekly wages for all workers in the state grew by only 1.2 percent over the past 12 months, average weekly wages for South Dakota manufacturing workers advanced by a very brisk 8.0 percent. Our surveys of supply managers in the state point to continuing growth in jobs and wages for the state.



THE BULLISH NEWS

- U.S. economy adds 209,000 jobs in July while the unemployment rate rose to 6.2% for the month.
- Annualized and inflation adjusted Gross Domestic Product (GDP) for the second quarter of 2014 (GDP) increased by 4.0% after falling by 2.1% in quarter one.
- The June U.S. trade deficit narrowed by 7% to \$41.5 billion as petroleum imports dropped to a 3-1/2 year low.



THE BEARISH NEWS

- For July, Creighton University's Mid-America survey of supply managers and Rural Mainstreet survey of bank CEOs indicate slower but positive growth in the months ahead.
- U.S. retail sales expanded by only 0.2% for June, only slightly ahead of inflation.
- The U.S. Consumer Price Index (CPI) for June climbed by 0.3% well ahead of expectations and the Federal Reserve's target of an annual gain of 2.0%.

WHAT TO WATCH

- CPIs: On Aug. 19 and Sept 17, the Bureau of Labor Statistics releases consumer price indices for July and August, respectively. Monthly increases of more than 0.3% will encourage the Fed to begin preparing the market for a rate hike in the first quarter of 2015.
- Trade Embargos: Recent Chinese trade restrictions on U.S. DDGs and Russian agriculture trade restrictions significantly raise the potential of trade wars which will hurt U.S. and global economic growth.
- Jobs: On Friday Sept. 5, the U.S. Bureau of Labor Statistics (BLS) will release employment report for August. Another strong report (job additions above 250,000) will be bad for bond prices and yields. Also, begin to "seal the deal" for a Federal Reserve rate hike in the first quarter of 2015.

FROM GOSS:

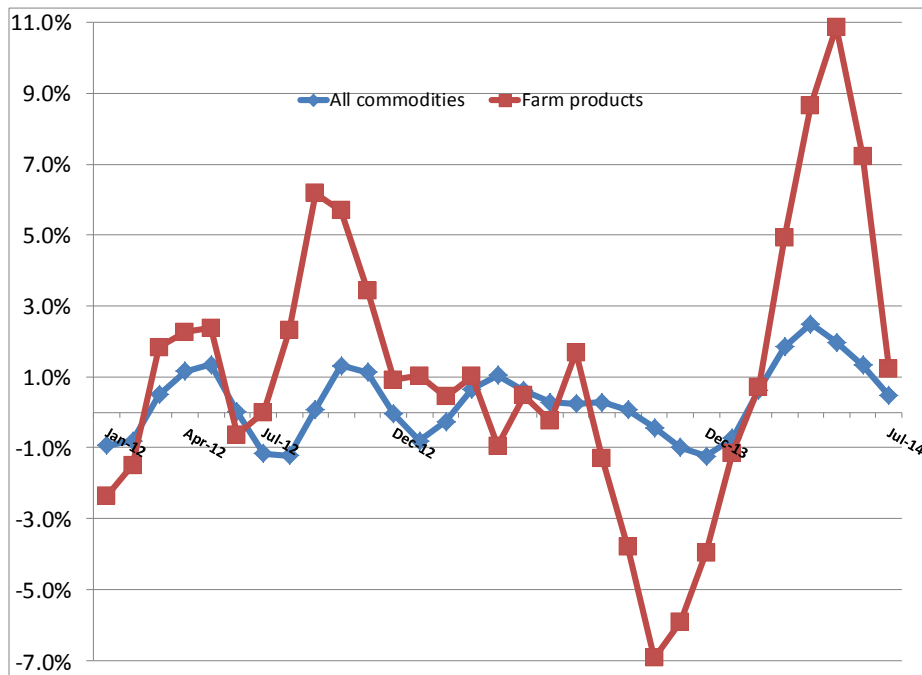
- My most recent stock transactions with price/earnings ratios: Buys-ConAgra \$29.29 with P/E of 13.0; Goodyear Tire \$25.42 with P/E of 8.9; Sales-Bed Bath and Beyond \$59.06 with a P/E of 11.8.
- I expect the Federal Reserve to raise short term interest rates (the fund rate) in the first quarter of 2015. In

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PRICE DATA

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

Price changes, 3 month moving average, 2012- July 2014



Price changes, 3 month moving average, 2012 - July 2014

