More Income Inequality & Slower Economic Growth

President Obama just announced plans to reduce, and ultimately eliminate, coal-fired electricity generation in the U.S. Data from the Department of Energy show that electricity from existing coal-fired plants costs $38 per megawatt-hour compared to $106 per MWH from new wind facilities. Since, as a share of family income, the bottom quintile of earners spend five times that of the top quintile on electricity, this action will contribute to rising economic burdens on low income families in the U.S. Policymakers must consider potential impacts of this and other regulatory expansions on income inequality and economic growth.

Gauging income inequality with the 2013 Gini coefficient, measuring regulatory freedom with the Mercatus Center’s regulatory freedom index, and capturing U.S. economic gains with 2008-13 Gross Domestic Product (GDP) reveals how rising regulation influences income inequality and economic growth. When ranking the states from the most regulatory-free, Indiana, to the most regulatory-constrained, California, distinct relationships emerge. First, the 25 states with the most regulatory freedom in 2013 experienced GDP growth of 4.2% for 2008-13, compared to the 25 with the least regulatory freedom which experienced a slower 3.3% GDP growth, and 3.7% greater income inequality. Furthermore, the top 25 states in terms of restraining regulatory growth from 2008 to 2011 experienced GDP growth of 4.6% compared to 2.6% for the 25 states expanding regulatory burdens. The 25 states growing relative regulation also suffered 2.9% greater income inequality. This surface analysis should stimulate more in-depth research that examines how Washington’s boost in regulation among the states impinges on both income inequality and economic growth. Ernie Goss.

Link to video: https://youtu.be/OeDOFojjZ0Q

LAST MONTH’S SURVEY RESULTS

Business Conditions Weaken in July: Hiring and Wage Growth Remain Frail

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator slumps for the month, but with solid gains for Minnesota and South Dakota.
- More than one-fourth of businesses expect negative impacts from a September Federal Reserve rate hike.
- Hiring remains weak with job gains for Arkansas, Iowa, Minnesota, Missouri and South Dakota offset by job losses for Kansas, Nebraska, North Dakota, and Oklahoma.
- Wholesale inflation gauge falls.
- Average weekly wages for region flat from same period in 2014.

The Creighton University Mid-America Business Conditions Index for July, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, slumped for the month. Indices over the past several months have pointed to slow to no economic growth over the next three to six months for the region.

Overall index: The July Business Conditions Index, which ranges between 0 and 100, declined to 50.6 from June’s 53.0. The regional index, much like the national reading, is pointing to weak growth through the third quarter of 2015.

Durable and nondurable goods manufacturers, as well as value-added service industries in the region, are experiencing very little growth. Businesses tied to agriculture and energy continue to report pullbacks in economic activity and this is spilling over into the broader regional economy. Firms in Minnesota and South Dakota are growing at a pace significantly above that for the region.

Employment: The regional employment gauge improved for the month but remains at a level pointing to slow to no new hiring in the months ahead. The job gauge advanced to a weak 50.0 from June’s 49.1. Industries and areas dependent on agriculture and energy are experiencing cuts. For example, metal producers and agricultural equipment manufacturers are facing job losses.

In terms of wage growth, recently released government data show flat average weekly wages for the first half of 2015 compared to the same period in 2014 for the region. Gains in average weekly wages for Iowa, Kansas, Nebraska, and South Dakota were offset by losses for Arkansas, Minnesota, Missouri, North Dakota and Oklahoma.

This month, supply managers were asked how a September 2015 Federal Reserve rate hike would affect their firm. More than one-fourth, or 26 percent, expect negative impacts from a rate increase, 5 percent anticipate positive effects, while the remaining 69 percent expect little or no affects from an interest rate hike in September.

One supply manager reported he expected a hike in interest rates would slow car sales and production down a bit.

Wholesale Prices: The wholesale inflation index for July fell to 57.6 from June’s 64.9 and May’s 69.1. As regional growth has slowed so have inflationary pressures at the wholesale level. Agriculture and energy commodity price declines are diminishing inflationary pressures well below the Federal Reserve target.

Confidence: Looking ahead six months, economic optimism, as captured by the July business confidence index, plummeted to 52.4 from June’s 59.9. Sinking agriculture and energy commodity prices pushed supply managers’ expectations of future economic conditions lower for the month.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, jumped to 55.1 from 54.3 in June.

Trade: The new export orders index fell to 47.4 from 51.3 in June. The import index for July slipped to 54.7 from June’s 54.8. Slowing global economic growth and the rising value of the U.S. dollar reduced new export orders. On the other hand, the rising value of the U.S. dollar, which makes foreign goods more competitively priced in the U.S, boosted regional imports.

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“A monthly survey of supply chain managers”

MINNESOTA

The July Minnesota Business Conditions Index rose to 54.8 from 54.3 in June. Components of the index from the monthly survey of supply managers were new orders at 44.8, production or sales at 45.6, delivery lead time at 50.0, inventories at 50.4, and employment at 54.5. Minnesota durable and nondurable goods manufacturers are expanding jobs and economic activity. For example, food processors and businesses tied to vehicle manufacturing are experiencing very strong growth for the month. U.S. Bureau of Labor Statistics data for Minnesota show a 0.6 percent decline in average weekly wages, but a 1.3 percent gain in jobs.

MISSOURI

The Business Conditions Index for Missouri sank to 49.4 from June’s 50.1. Components of the index from the survey of supply managers were new orders at 44.3, production or sales at 46.6, delivery lead time at 52.4, inventories at 52.9, and employment at 48.0. Durable and nondurable goods manufacturers, including vehicle producers and machinery manufacturers, reported very strong growth for the month. However, the survey of the July business conditions among nondurable goods manufacturers, such as food processors in the state. From this time last year, U.S. Bureau of Labor Statistics data for Missouri show a 1.2 percent decline in average weekly wages, and a 0.8 percent gain in jobs.

NEBRASKA

After advancing above growth neutral for 19 straight months, Nebraska’s Business Conditions Index fell below the threshold for July. The index, a leading economic indicator from a monthly survey of supply managers, slumped to 48.6 from June’s 51.3. Components of the index were new orders at 46.4, production or sales at 45.6, delivery lead time at 50.4, inventories at 52.1, and employment at 48.0. Nondurable goods manufacturing, especially those tied to agriculture cut jobs and experienced pullbacks in economic activity for the month. Nondurable goods manufacturers are also experiencing weaker economic activity. From this time last year, U.S. Bureau of Labor Statistics data for Nebraska show a 2.2 percent increase in average weekly wages, and a 0.4 percent gain in jobs.

OKLAHOMA

The July Business Conditions Index for Oklahoma slipped to 54.2 from June’s 54.4. Components of the index from the monthly survey of supply managers were new orders at 47.7, production or sales at 46.6, delivery lead time at 51.8, employment at 49.4, and inventories at 54.4. Growth for both durable and nondurable goods manufacturers in the state continue to slow. I expect overall economic activity in the state to slow in the months ahead. From this time last year, U.S. Bureau of Labor Statistics data for Kansas show a 20.0 percent increase in average weekly wages, and a 0.8 percent gain in jobs.

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 Business Conditions Index, from a monthly survey of supply managers, declined to a regional high of 53.8 from June’s 56.2, also a regional high. Components of the overall index for July were new orders at 53.2, production or sales at 52.2, delivery lead time at 57.7, inventories at 50.7, and employment at 55.3. As in previous months, both durable and nondurable goods producers and service providers are expanding at a solid pace. Financial services firms are also expanding at a solid pace. Our surveys indicate that healthy growth in South Dakota will continue through the fourth quarter of this year. From this time last year, U.S. Bureau of Labor Statistics data for South Dakota show a 2.1 percent increase in average weekly wages, and a 2.1 percent gain in jobs.

THE BULLISH NEWS

•  U.S. non-farm payroll employment expanded by 215,000 in July.
•  The strongest areas of hiring for July were health care, retailing, and professional and business services. Manufacturing added 15,000 jobs in July.
•  U.S. productivity growth rose 1.3% for Q2 of this year—weak but better than Q1.

THE BEARISH NEWS

•  U.S. wage growth from July 2014 to July 2015 was 2.1%, only slightly above inflation.
•  The June trade U.S. trade deficit rose to 7.1% from May to $48.3 billion.
•  According to the Case-Shiller home price index, U.S. home prices fell 0.2% from April to May of this year.

WHAT TO WATCH

• Federal Reserve: On Sept. 17, the Fed will announce any change in short-term interest rates. A 25 basis point (¼%) hike is currently priced in the market. Consider extending your hold on the July 3.25% Federal Fund futures.
• PMI’s: On Sept. 3, the first business day of September, Creighton and the National Institute for Supply Management will release regional PMIs for August. A decline below growth neutral will be very bearish for stocks and bullish for bonds.
• Chinese currency: This week the Bank of China reduced the value of their currency, the yuan, to stimulate their economy. Another reduction will telegraph to investors just how weak the global economy really is. A reduction will also boost the value of the U.S. dollar against the yuan.

- All commodities
- Farm products


- Fuels & related
- Metals & metal products

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