

## "A monthly survey of supply chain managers"

Welcome to our August report covering results from Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that economic growth was negative for manufacturing with job losses. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Super Rich Meet in Omaha and Propose Tax Hike: Highest Bracket Already Pays Six Times the Rate of the Middle

Millionaire Hillary Clinton and billionaire Warren Buffet met in Omaha earlier this month to trumpet higher income tax rates on upper income earners. Ignoring the data, the two super-rich, joined by income laggards Dallas Maverick owner Mark Cuban and former New York Mayor Michael Bloomberg, argue that levying higher tax burdens on workers in the top income bracket will reduce income inequality.

However between 1980 and 2013 when income inequality, as measured by the Gini Coefficient expanded by 22.2%, the share of federal income taxes paid by the highest one-fifth of earners rose from 64.7% to 88.0% while the share paid by the lowest one-fifth declined from +0.1% to -4.0% (i.e. tax rebates greater than tax payments). Even the middle income's share dropped from 10.7% to 3.9% over the 33 years.

The reasons that taxing high income individuals more heavily does not reduce income inequality are that excessively high tax rates on high income: 1) discourage individuals from pursuing higher education and training to increase income; 2) encourage individuals to reduce work efforts and to increase leisure activity; 3) restrain small business formation and risk taking by entrepreneurs seeking greater financial returns; 4) incentivize individuals to spend excessively on goods and services that are deductible from taxes and; 5) encourage high income individuals to move to lower tax nations. But unfortunately for the economy, envy economics, as evidenced in Omaha in August, remains a viable political tool by generating votes and self-righteous smugness from its devotees. Ernie Goss.

#### Link to video:

<https://youtu.be/bYTaKSyJ50k>

### LAST MONTH'S SURVEY RESULTS

#### Mid-America Business Conditions Falls Below Growth Neutral: Global Problems Hit Businesses

#### SURVEY RESULTS AT A GLANCE:

- After five straight months of advancing above growth neutral, the overall index sank below the 50.0 threshold.
- More than one-third of businesses report global economic conditions as the greatest factor weighing on company sales.
- More than one-fifth of companies named weakness in the farm economy as the biggest factor diminishing sales.
- Manufacturing job losses were recorded for the

month.

- Companies expect to raise prices by 1.6 percent for the rest of 2016.

The Creighton University Mid-America Business Conditions Index, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, declined for July.

**Overall index:** The July Business Conditions Index, which ranges between 0 and 100, fell to 47.6 from June's 50.1. This is the first time since January the reading has fallen below growth neutral 50.0.

Over the past several months the regional index, much like the national reading, has indicated the manufacturing sector is experiencing anemic to negative business conditions.

More than one-third, or 34.3 percent, of businesses report global economic conditions as the greatest factor weighing on company sales and business conditions over the past year.

More than one-fifth of businesses, or 20.9 percent, named downturns in the farm economy as the largest factor slowing company sales and growth. Thus, the relative strength of the U.S. dollar, which has made regional manufactured goods less competitively priced abroad and pushed agriculture commodity prices lower, continue to slow regional manufacturing growth.

**Employment:** While the regional employment gauge improved for June, the reading remains below growth neutral. The index rose slightly to 46.9 from June's 46.1. While the region's manufacturing sector has lost jobs over the last several months, the overall regional economy continues to add jobs, but at a pace well below that of the nation and this time last year.

**Wholesale Prices:** The wholesale inflation gauge remained in a range indicating modest inflationary pressures at the wholesale level. The prices-paid index declined to 60.8 from June's 66.7. On average, supply managers expect the prices for their firm's products to expand by 1.6 percent in the second half of 2016.

Prices for raw materials and supplies, as reported by regional supply managers, are rising at a pace that, if matched in future months, will push the core inflation rate above the Federal Reserve's comfort zone. The core consumer price index, which excludes food and energy, has risen above 2.0 percent for eight straight months. As a result, I expect the Federal Reserve to increase rates before the end of 2016.

**Confidence:** Looking ahead six months, economic optimism, as captured by the July business confidence index, sank to 47.0 from June's 51.9. Global economic uncertainty, including June's Brexit vote was a significant economic concern for a large share of supply managers in our survey.

**Inventories:** The July inventory index, which tracks the change in the level of raw materials and supplies, plummeted to 43.5 from June's 54.0.

**Trade:** Surprisingly, the new export orders index rose to 52.5 from June's 47.6 and May's 52.1. The import index for July expanded to 51.0 from 47.8 in June. Expansions among global trading partners more than offset a relatively strong U.S. dollar. A strong U.S. dollar makes U.S. goods less competitively priced abroad. However, I do expect the strength of the dollar to continue to weigh on export orders. At the same time, the relatively strong U.S. dollar, making foreign goods more

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competitively priced in the U.S., boosted imports for the month.

**Other components:** Components of the July Business Conditions Index were new orders at 41.9, down from 46.8 in June; production or sales were 47.6 for July unchanged from June; and delivery speed of raw materials and supplies rose to 58.3 from last month's 55.4.

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 since 1931, by the Institute for Supply Management, formerly the National Association of Purchasing Management.

### MID-AMERICA STATES

#### ARKANSAS

Arkansas' overall index for July, or leading economic indicator, fell to 47.3 from June's 48.5. Components of the index from the monthly survey of supply managers were new orders at 41.0, production or sales at 46.8, delivery lead time at 57.6, inventories at 44.3, and employment at 46.9. Job losses for durable goods producers more than offset gains for nondurable goods manufacturers for July.

#### IOWA

The July Business Conditions Index for Iowa slipped to 47.9 from June's 50.3. Components of the index from the monthly survey of supply managers were new orders at 41.1, production or sales at 46.9, delivery lead time at 58.3, employment at 47.4, and inventories at 45.8. Over the last 12 months, Iowa has lost almost 7,000 manufacturing jobs with all losses recorded among durable or heavy manufacturing firms. Losses have been significant for firms linked to agriculture, such as agricultural equipment producers and metal manufacturers. On the other hand, food processors in the state continue to expand according to July survey results.

#### KANSAS

The Kansas Business Conditions Index for July sank to 47.0 from 48.4 in June. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 40.9, production or sales at 49.9, delivery lead time at 54.0, employment at 46.7, and inventories at 43.7. Over the past 12 months, Kansas has lost approximately 1,000 manufacturing jobs with the heavy or durable goods producers suffering almost all of the reductions. On the other hand, food processors are expanding, but with minimal job gains.

#### MINNESOTA

The July Minnesota Business Conditions Index declined slightly to 51.2 from 51.6 in June. Components of the index from the monthly survey of supply managers were new orders at 48.1, production or sales at 47.4, delivery lead time at 55.1, inventories at 49.9, and employment at 55.4. Minnesota's manufacturing sector is adding jobs with nondurable goods producers' job gains more than offsetting job losses for heavy or durable goods producers. But within the durable

goods sector, technology manufacturers, such as medical equipment producers, continue to experience positive growth.

#### MISSOURI

The July Business Conditions Index for Missouri sank to a still regional high of 52.3 from June's 54.0, also a regional high. Components of the index from the survey of supply managers were new orders at 47.8, production or sales at 51.7, delivery lead time at 59.9, inventories at 49.9, and employment at 52.2. After expanding at a brisk pace beginning in the second half of 2013, vehicle manufacturers and related firms are now shedding jobs. However, more than offsetting these losses have been gains for nondurable goods producers including food processors in the state.

#### NEBRASKA

The July Business Conditions Index for Nebraska fell to 47.0 from 51.5 in June. Components of the index from the monthly survey of supply managers were new orders at 44.4, production or sales at 46.7, delivery lead time at 58.9, inventories at 43.7, and employment at 41.4. Gains among nondurable goods producers, including food processors, were more than offset by losses from durable goods manufacturers such as agricultural equipment producers.

#### NORTH DAKOTA

North Dakota's leading economic indicator for July once again sank below growth neutral 50.0. The Business Conditions Index for the month declined to 40.8, a regional low, and down from June's 41.3, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 41.2, production or sales at 45.2, delivery lead time at 45.9, employment at 42.1, and inventories at 29.5. North Dakota is unique among the nine regional states because it has a heavy dependence on both agriculture and energy, two sectors that continue to experience negative growth. As a result, North Dakota's durable and nondurable goods producers are shedding jobs and experiencing pullbacks in economic activity.

#### OKLAHOMA

After moving above growth neutral for May, Oklahoma's Business Conditions Index has been below growth neutral 50.0 for two straight months. The July index sank to 45.2 from 48.1 in June. Components of the July survey of supply managers were new orders at 46.8, production or sales at 46.3, delivery lead time at 51.3, inventories at 39.6, and employment at 42.1. Over the last 12 months, Oklahoma has lost more than 12,000 manufacturing jobs with 90 percent of the losses recorded among durable or heavy manufacturing firms. Losses have been significant for metal manufacturers with links to the energy sector. On the other hand, food processors in the state continue to expand sales, but with only slight net new hiring.

#### SOUTH DAKOTA

The Business Conditions Index for South Dakota dipped to 50.2 from 51.1 in June. The index has been above growth neutral for seven straight months. Components of the overall index for July were new orders at 41.6, production or sales at 47.5, delivery lead time at 61.9, inventories at 51.0, and employment at 49.1. In terms of employment, South Dakota's manufacturing sector has added almost no net new jobs even as producers expanded sales and production. I expect the state's manufacturing sector to add jobs in the second half of 2016 with the overall state economy expanding at a slow, but positive pace.

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

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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/>



### THE BULLISH NEWS

- U.S. home prices rose by 5.2% between May 2015 and May 2016. This marked the seventh straight month that growth has exceeded five percent.
- U.S. companies added 255,000 jobs in July as the labor force (unemployed + employed) expanded by 407,000.



### THE BEARISH NEWS

- The US economy grew just 1.2% in the second quarter of 2016 and has now grown at an average of 1.2% over the past 12 months. At this stage in the business cycle, growth should be triple this.
- Between July 2015 and July 2016, wages expanded by only 2.6%. Subtract inflation and workers are seeing little reason for joy.
- Between June 2015 and June 2016, the core CPI, which excludes food and energy, rose by 2.3% and has risen above 2.0% for 8 straight months.
- The U.S. trade deficit climbed by \$44.5 billion in June, its highest level in 10 months.

### WHAT TO WATCH

- **CPI:** On Sept. 16, the Bureau of Labor Statistics releases the consumer price index (CPI) for August, respectively. Keep an eye on the core CPI (excludes food and energy). The year-over-year growth has been above 2.0% for the past 9 months.
- **Federal Reserve (Fed) Meetings:** On Sept. 20-21, the interest rate setting committee of the Fed meets to consider changing short-term interest rates. While they may not raise rates at this meeting, they may set the stage for a Dec. rate increase in their post-meeting statements.
- **The Jobs Report:** On Sept. 2, the Bureau of Labor Statistics will release the August jobs report. Another very strong report (i.e. more than 200,000 jobs) will push the Federal Reserve to raise rates at their meetings in Sept. or Dec. There will be no rate hike in Nov. due to the elections.

### Goss Eggs (Recent Dumb Economic Moves)

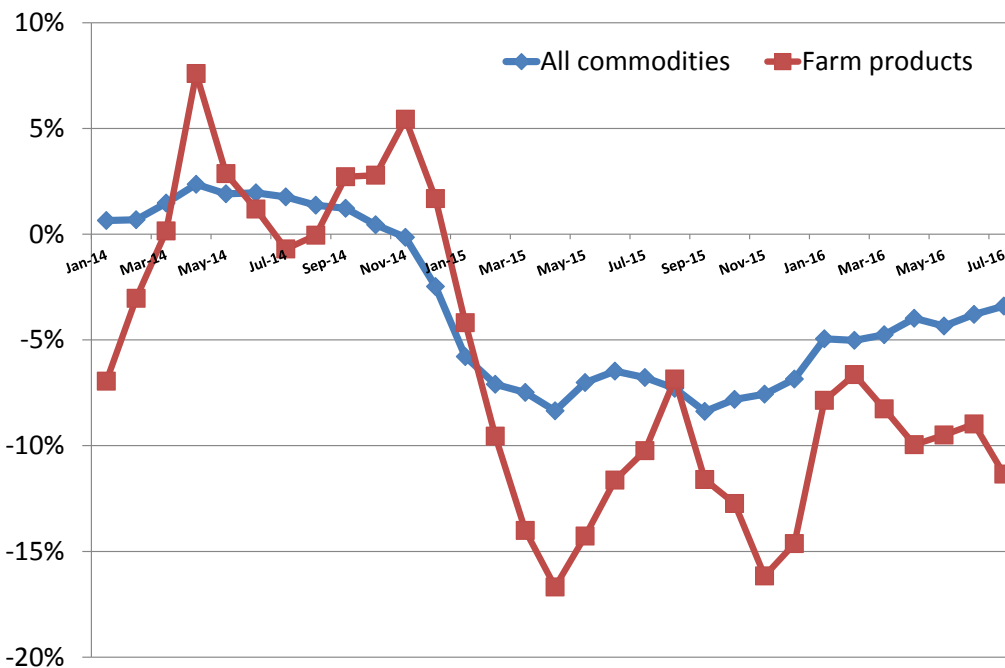
- According to the WSJ, the Belgium government's welfare system awarded \$28,000 to terrorist Khalid el-Barraouri before he blew himself and 16 innocents up in Brussels' subway system, and just after he exited prison. Now that is a sure-fire method of reducing prisoner recidivism.

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## PRICE DATA

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

Year over year price change, commodities and farm product, 2014-16



Year over year price change, fuels and metal products, 2014-16

