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

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 Buffett 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 pursing 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
Manufacturing sector is adding jobs with nondurable goods inventories at 49.9, and employment at 55.4. Minnesota’s from the monthly survey of supply managers were new orders, production or sales at 47.8, employment 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.

The July Minnesota 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 47.8, 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.

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.

The July Business Conditions Index for Iowa slipped to 50.2 from 50.3 in June. Components of the index from the monthly survey of supply managers were new orders at 46.8, production or sales at 46.3, delivery lead time at 58.3, 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.

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 40.5, 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.

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 53.4. 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.

The July Business Conditions Index for South Dakota dipped to 50.2 from 51.1 in June. The index fell below 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 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.
PRICE DATA

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

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

All commodities and Farm products:

-20% -15% -10% -5% 0% 5% 10% 15% 20%

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

Fuels & related and Metal & metal products:

-30% -25% -20% -15% -10% -5% 0% 5% 10% 15% 20% 25% 30%