

"A monthly survey of supply chain managers"

Welcome to our January report covering Creighton's December survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economy is likely to continue to grow at a positive pace but much slow pace with inflationary pressures declining. Follow my comments at: www.twitter.com/erniegoss

Increasing Income Inequality: No Diploma, Births to Unmarried Women, and Higher Taxes Boost Inequality

Over the past two decades, U.S. income inequality, as measured by the Gini Coefficient (GC), has risen dramatically. This has resulted in a parade of politicians calling for taxing high income workers more heavily as a remedy. However, data from the states undermine this simplistic strategy. In 2011, states with the least income inequality were: Utah with the least, followed by Alaska, Wyoming, New Hampshire, and Iowa. The five states, including DC, with the greatest income inequality were: District of Columbia with the highest followed, by New York, Connecticut, Massachusetts and Louisiana. Importantly, three of the states with the least income inequality, Alaska, Wyoming and New Hampshire had no income tax. Furthermore, the latest tax rankings (1=highest taxes) from the National Tax Foundation show that the states with the least inequality with (tax rankings) were: Utah (28), Alaska (49), Wyoming (50), and Iowa (29). The states with the greatest degree of income inequality had rankings of: DC (20), New York (1), Connecticut (3), Massachusetts (11) and Louisiana (46). Thus, all of the states with greatest inequality, except for Louisiana, had state and local tax burdens in the top half of all states. Additionally, all of the states with the least income inequality ranked in the bottom half of states in terms of state and local tax burdens. In order to sort out the factors that contribute to income inequality, Gini Coefficients are statistically modeled against other state population characteristics. It was found that statistically speaking, only the percent of the state population without a high school diploma, and percent of births to unmarried women contributed to income inequality. Higher state and local tax burdens did boost income inequality, but the impact was not statistically significant. Ernie Goss. Analysis available at: <http://www.economicstrends.blogspot.com/2015/01/increasing-income-inequality-no-diploma.html>. Ernie Goss.

Link to video:

<http://youtu.be/-qoNsrA57Sc>

LAST MONTH'S SURVEY RESULTS

Growth Outlook Improves for Mid-America in December:
Inflation Gauge Lowest in More Than 5 Years

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator climbs for the month.
- New hiring expanded for December.
- Businesses expect 2.5 percent wage gain for 2015, unchanged from 2014 expectations.
- Wholesale inflation gauge drops to lowest level in more than 5 years.

The Creighton University Mid-America Business Conditions Index for December, a leading economic indicator for a nine-state region, stretching from North Dakota to Arkansas, jumped from November's tepid reading. Indices over the past several months are pointing to positive economic gains over the next three to six months for the region.

Overall index: The Business Conditions Index, which ranges between 0 and 100, rose to 54.4 from November's 51.3. After hovering slightly above growth neutral for the past several months, the index from a survey of supply managers in the region moved back into a more healthy range.

Over the past six months, a 26 percent decline in grain prices and a 13 percent plunge in fuel and related products have had negative impacts on businesses with ties to agriculture and energy. At the same time, these price declines have produced positive impacts for firms more closely tied to the consumer.

Employment: The regional employment gauge moved back into a range pointing to solid, but not spectacular, job growth in the next 3 to 6 months. The job gauge advanced to 56.5 from 49.4 in November. Businesses linked to agriculture and energy are experiencing weaker hiring conditions. At the same time, shortages of skilled/qualified workers in many parts of the region are limiting business expansion.

This month supply managers reported their expected wage gains for 2015. On average, supply managers anticipate a 2.5 percent increase which is identical to that anticipated for 2014. Last year businesses in the region increased average weekly wages by 1.5 percent, or well below expectations. Thus despite recent very positive national economic news, both expected and actual wage gains remain.

Wholesale Prices: For three months in the past four, the prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation index sank to 50.8, its lowest level in more than five years, and down from November's 56.4. A strengthening U.S. dollar and weaker global demand have pushed inflationary pressures at the wholesale level down over the past several months.

Last year at this time we asked supply managers how much they expected the prices of goods and services they purchase to change by in the months ahead. On an annualized basis, the expected gain dropped by two percentage points from last year's forecast. Clearly, both actual and expected wholesale price gains are declining.

Confidence: Looking ahead six months, economic optimism, as captured by the December business confidence index, dipped to a still solid 58.1 from 61.5 in November. Weaker economic conditions in the regional energy and agriculture sectors, offset improvements in the national and regional job market in terms of supply managers' business outlook.

Inventories: The inventory index, which tracks the level of raw materials and supplies, improved to 53.4 from November's 52.8. Supply managers expanded inventories for the month, and at a slightly faster pace than in November. This is yet another signal that supply managers remain reasonably 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 sank to 52.7 from 57.0 in November. The import index for December climbed to

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56.7 from November's 51.0. Over the past 6 months, the value of the U.S. dollar has risen by more than 10 percent against the currencies of its chief trading partners. This movement has made U.S. goods less competitively priced abroad and foreign goods more cheaply priced in the U.S. I expect this dollar currency move to result in downturns in export orders and continuing increases in imports in the months ahead.

Other components: Other components of the December Business Conditions Index were new orders at 54.3, up from 50.7 in November; production or sales fell to 49.2 from November's 52.2; Delivery speed of raw materials and supplies soared to 58.9 from last month's 51.4.

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

MID-AMERICA STATES

ARKANSAS

The December overall index, or leading economic indicator, for Arkansas rebounded to 51.7 from November's 43.7. Components of the index from the monthly survey of supply managers were new orders at 58.5, production or sales at 47.6, delivery lead time at 52.7, inventories at 43.2, and employment at 56.4. For 2014, Arkansas' leading industry was durable goods manufacturing while its lagging industry was information. Based on our survey results, I expect the state to add jobs at a solid pace for the first half of the year with lower fuel prices being the prime factor pushing hiring up while declining exports will restrain growth.

IOWA

After declining for five straight months, Iowa's Business Conditions Index for December rose to 53.4 from 50.1 in November. Components of the index from the monthly survey of supply managers were new orders at 51.6, production or sales at 49.2, delivery lead time at 66.4, employment at 53.4, and inventories at 46.6. For 2014, Iowa's leading industry was insurance, while its lagging industry was fabricated metal production. Based on our survey results, I expect Iowa to add jobs at a positive pace for the first half of the year but with pullbacks in exports restraining growth.

KANSAS

The Kansas Business Conditions Index for December increased slightly to a healthy 62.6 from November's 62.2. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 64.5, production or sales at 62.2, delivery lead time at 62.2, employment at 54.8, and inventories at 69.2. For 2014, the leading industry for Kansas was telecommunications, while its lagging industry was aerospace manufacturing. Based on our survey results, I expect Kansas to add jobs at a solid pace for the first half of the year with

pullbacks in exports restraining growth, but at a still healthy rate.

MINNESOTA

December survey results mark the 25th straight month Minnesota's Business Conditions Index has remained above growth neutral. The overall index, or leading economic indicator, advanced to a healthy 61.4 from November's 58.0. Components of the index from the December survey of supply managers were new orders at 68.2, production or sales at 69.4, delivery lead time at 56.6, inventories at 57.8, and employment at 55.3. For 2014, Minnesota's leading industry was fabricated metal production, while its lagging industry was telecommunications. Based on our survey results, I expect Minnesota to add jobs at a solid pace for the first half of the year with pullbacks in exports restraining growth to a still healthy rate.

MISSOURI

The December Business Conditions Index for Missouri climbed to 55.7 from 54.9 in November. Components of the index from the survey of supply managers for December were new orders at 56.6, production or sales at 58.3, delivery lead time at 58.4, inventories at 53.8, and employment at 51.6. For 2014, Missouri's leading industry was transportation equipment manufacturing, while its lagging industry was telecommunications. Based on our survey results, I expect Missouri to add jobs at a solid pace for the first half of the year with pullbacks in exports restraining growth to a still healthy rate.

NEBRASKA

For the 12th straight month, Nebraska's Business Conditions Index remained above growth neutral 50.0. The December index, a leading economic indicator from a survey of supply managers in the state, rose to a tepid 52.7 from 51.6 in November. Components of the index for December were new orders at 51.1, production or sales at 46.6, delivery lead time at 51.1, inventories at 59.8, and employment at 54.7. For 2014, Nebraska's leading industry was food processing, while its lagging industry was machinery manufacturing. Based on our survey results, I expect Nebraska to add jobs at a solid pace for the first half of the year with pullbacks in the export of agriculture commodities restraining growth to a still healthy rate.

NORTH DAKOTA

North Dakota's leading economic indicator fell to a level pointing to solid, but slower economic growth in the next three to six months. The December Business Conditions Index fell to 52.7 from November's 53.4. Components of the overall index from the monthly survey of supply managers for December were new orders at 53.6, production or sales at 51.4, delivery lead time at 52.6, employment at 55.0, and inventories at 51.0. For 2014, North Dakota's leading industry was mining, while its lagging industry was machinery manufacturing. Based on our survey results, I expect North Dakota to add jobs at a positive but weaker pace for the first half of the year with pullbacks in the state's energy sector restraining growth.

OKLAHOMA

The Business Conditions Index for Oklahoma, a leading economic indicator, dipped slightly for December, signaling positive growth in the next three to six months. The index for December declined to 54.0 from November's 54.5. Components of the December survey of supply managers in the state were new orders at 58.2, production or sales at 54.5, delivery lead time at 46.5, inventories at 52.8, and employment at 58.2. For 2014, Oklahoma's leading industry was machinery manufacturing while its lagging industry was food processing. Based on our survey results, I expect the state to add jobs at a positive but

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weaker pace for the first half of the year with pullbacks in the state's energy sector and firms tied to energy restraining growth.

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 the monthly survey of supply managers, increased to 52.4 from November's 51.5. Components of the overall index for December were new orders at 47.1, production or sales at 64.7, delivery lead time at 64.3, inventories at 34.7, and employment at 51.3. For 2014, South Dakota manufacturing tied to energy pushed state growth into a healthy range. However, the sharp cut in oil and agriculture prices will reduce South Dakota's growth for the first half of 2015. Even so, I expect growth to remain positive for the first half of the year.



THE BULLISH NEWS

- The U.S. economy added 321,000 jobs in November. Over the past 12 months, the economy has added an average of 224,000 jobs per month. This is very good. The problem is that many of these jobs are temporary, part-time or in low wage occupations.
- The consumer price index (CPI) for Nov. was 1.3% higher than the reading for Nov. 2013. This is a good but on the low end of the Fed's targeted 2%. Lower gasoline prices are holding price growth below optimum.
- In the 12 months ending in Oct. 2014, the Case-Shiller index indicated that average U.S. home prices rose by 4.5%. This is good but I am concerned that the growth in the index is coming down too fast.
- U.S. retail sales expanded by 0.7% in Nov. and were 5.1% above sales for Nov. 2013.



THE BEARISH NEWS

- Year over year wage growth for U.S. workers were 2.1% higher in November. This is just not high enough to really propel the U.S. economy back into solid growth range.
- The Euro is near a 9-year low against the U.S. dollar. Concern that Greek elections will re-install left leaning politicians who reject austerity and embrace more spending.

WHAT TO WATCH

- GDP: On Jan. 30, the U.S. BEA releases preliminary estimate of Q4 GDP. Annualized growth of less than 2.5% will be very disappointing and give bond prices a boost and push interest rates lower.
- Wage growth: On Friday Feb. 6, the U.S. Bureau of Labor Statistics (BLS) will hourly wage growth numbers. Another weak reading (less than 2.5% annualized) will encourage the Federal Reserve hold off on a rate hike. Such an announcement would push U.S. Treasury bond prices higher and yields lower.

- Retail Trade: On Jan. 14, the Census Bureau releases retail sales for December. This will be an important gauge of the U.S. consumer. A year over year gain of more than 5.5% will be bullish for the U.S. economy and U.S. stocks and bearish for bond prices (higher yields).

FROM GOSS:

- I expect Mario Draghi, head of the European Central Bank, to make the same mistake made by the U.S. Federal Reserve by launching a sovereign bond buying program. The European economy does not need lower interest rates. German bond rates are already as low as 0.5% (yes you read that right). Europe needs structural economic reform that encourages work rather than leisure. This is outside the purview of the ECB.
- The U.S. trade deficit is about to soar. If your business depends on exports, it is going to be tougher in the months ahead.

OTHER REPORTS:

- "Negotiation strategies in supply chain management," Fredrik Zachariassen. International Journal of Physical Distribution & Logistics Management. ABSTRACT Purpose – This paper seeks to explore the impact of different negotiation strategies on the negotiation setting in different buyer-supplier relationships. So far, the extant supply chain management (SCM) literature has only briefly touched this subject, though such a study has been advocated on previous notes in the SCM literature. Design/methodology/approach – A qualitative research methodology was chosen in order to investigate a focal firm's negotiations with five of its suppliers. A total of 25 hours of interviews and 15 hours of observations were carried out at the focal firm and with a number of the firms' tier one suppliers in order to investigate the subject at hand. Findings – Explanation is given of when the use of different negotiation strategies can be considered expedient in different relational settings, pairing a distributive negotiation strategy with arm's length relationships, while integrative negotiation strategies remain a more ambiguous exercise. Valuable insight concerning the impact of different negotiation strategies on the negotiation setting are advanced, which, in turn, leads to a questioning of previous research conclusions regarding the application of distributive negotiation strategies in strategic partnerships.

Goss Eggs (Recent Dumb Economic Moves)

- Fannie Mae and Freddie Mac this week announced details of a plan to allow some first-time homeowners to obtain a mortgage while putting down just 3% of the price of the home. Were these folks asleep in 2007 and 2008? When a "home of your own" becomes the next entitlement, the American taxpayer is truly in trouble---bailouts as far as the eye can see.

Survey results for December will be released on the first business day of next month, February 2nd.

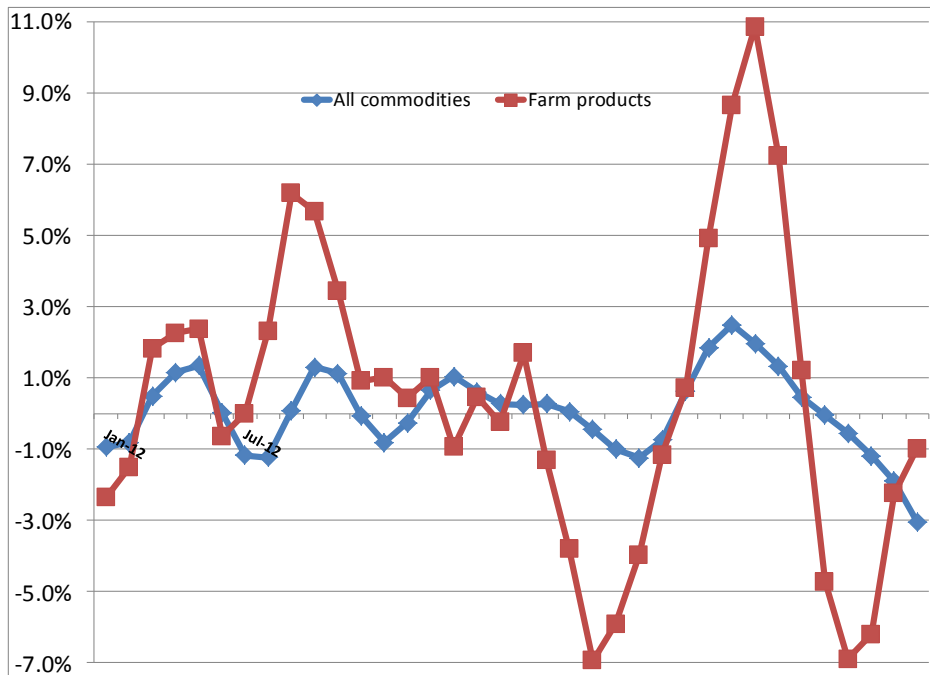
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PRICE DATA

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

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



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

