

"A monthly survey of supply chain managers"

Welcome to our May report covering Creighton's April survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth is slowing with modest inflationary pressures. Follow my comments at: www.twitter.com/erniegoss

Passage of Trans-Pacific Trade Pact Will Increase U.S. Productivity and Economic Growth

Since the beginning of the U.S. economic recovery in July 2009, the nation's gross domestic product (GDP) has expanded at a puny pace even though employment growth has been fairly strong. Offsetting the job expansion, there has been lethargic capital spending and productivity growth. Since 2009, GDP per hour worked (productivity) expanded at a compound annual rate of 0.7%, which is one-third that in a typical recovery, and less than one-half of the annual pace since 1964. Tom Duesterberg of the Aspen Institute argues that the collapse of U.S. export leadership has contributed to this decline. He finds the U.S. is party to just two of the more than 400 regional free trade agreements that have come into effect since 1995. As a result, World Bank, and Eurostat data show the U.S. share of global exports has sunk from 14% in 2000 to approximately 9% in 2013. Data from U.S. states show this linkage between exports and productivity growth. Since 2009, the top 25 productivity growing states increased exports at almost twice that of the remaining 25 states. Over this period of time, North Dakota came in at the top for productivity growth and expanded exports by 34.5%. Florida, the bottom productivity growth state, grew exports by only 13.1%. Additional statistical analysis show a strong positive association among export growth, capital spending and productivity gains at both state and national levels. The data provides solid support for Congress to boost the nation's capital spending, economic competitiveness and productivity growth by immediately providing President Obama with fast track trade authority so the Tran-Pacific Partnership trade pact could be implemented. Ernie Goss.

Link to video:

<https://www.youtube.com/watch?v=PhfHotDMvzk&feature=youtu.be>

LAST MONTH'S SURVEY RESULTS

Slowing Growth Ahead for Mid-America: Job Losses for April

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator rises but remains in slow growth range.
- Hiring gauge improves for the month.
- Approximately 29.1 percent of firms report shortages of qualified applicants for open positions.
- Inflation reading still indicating only modest wholesale price growth.
- Supply managers expect prices of goods and services sold by their firm to expand by a very modest 1.6 percent over the next year.

The Creighton University's Mid-American Business Index for April, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, climbed from March's reading. Indices over the past several months are pointing to positive, but slower, economic growth over the next three to six months for the region.

Overall index: The Business Conditions Index, which ranges between 0 and 100, rose to 52.7 from March's 51.4. The regional index, much like the national reading, is pointing to positive, but slow growth through the third quarter of 2015.

"Firms linked to energy and agriculture are experiencing pullbacks in economic activity. Growth in Oklahoma and North Dakota, two energy-producing states, is approximately one-third to one-half of what it was one year ago. That growth is likely to move even lower in the months ahead as the strong U.S. dollar slows growth even more.

Employment: The regional employment gauge remained in a range indicating slightly negative to stagnant job growth for manufacturing and value-added services firms in the region. The job gauge sank to 49.2 from March's tepid 52.5.

This month we asked about the hiring situation at survey participants' firms. Approximately 29.1 percent of supply managers reported a shortage of applicants for open positions at their companies. This is up slightly from 27.1 percent in November of last year when we asked this same question. Thus even with job cuts, there remain labor shortages for more skilled workers.

Wholesale Prices: The wholesale inflation index for April dipped slightly to 55.5 from 55.7 in March. A strengthening U.S. dollar and significantly lower fuel prices have pushed wholesale inflationary pressures in our surveys over the past several months to levels indicating only a modest upward movement. Survey participants expect the prices of products and services sold by their company to advance by a modest 1.6 percent over the next year.

Confidence: Looking ahead six months, economic optimism, as captured by the April business confidence index, advanced to 61.5 from March's 55.7. Improving economic expectations from non-energy firms, resulting from lower energy prices, more than offset economic pessimism stemming from weakness in firms directly tied to energy.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, increased slightly to 48.5 from 48.4 in March.

Trade: The new export orders index slid to 53.5 from 56.4 in March. The import index for April fell to 46.8 from March's 53.5. Over the past six months, the value of the U.S. dollar has risen dramatically against the currencies of our chief trading partners. This movement has made U.S. goods less competitively priced abroad and foreign goods more cheaply priced in the U.S.. Despite this, the new export orders index remained in positive territory for April. I expect the export orders index to move even lower in the months ahead.

Regional exports for 2014 were approximately \$90.5 billion. The strong U.S. dollar is likely push 2015 exports down by as much as ten percent below 2014 levels.

Other components: Other components of the April Business Conditions Index were new orders at 55.5,

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down from 60.2 in March; production or sales improved to 57.3 from March's 41.8; and delivery speed of raw materials and supplies decreased to 53.2 from last month's 54.0.

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 April overall index, or leading economic indicator for Arkansas, slipped to 53.6 from March's regional high of 54.9. Components of the index from the monthly survey of supply managers were new orders at 55.2, production or sales at 58.2, delivery lead time at 55.6, inventories at 49.3, and employment at 50.0. The state's exports have declined for 2013 and again for 2014 to \$6.9 billion. The strong U.S. dollar will push 2015 exports even lower. Durable goods manufacturers have been experiencing much stronger economic conditions than nondurable goods producers in the state.

IOWA

Iowa's Business Conditions Index advanced to 53.3 from 51.6 in March. Components of the index from the monthly survey were new orders at 56.1, production or sales at 55.4, delivery lead time at 53.7, employment at 49.7, and inventories at 51.4. Iowa's exports peaked at \$15.1 billion in 2014. Our survey results indicate that Iowa international sales will weaken for 2015. I expect the stronger U.S. dollar to negatively affect one of Iowa's chief exports, agricultural equipment, for the rest of year. This will slow overall state growth for the remainder of the year. Even so, I expect state economic growth to remain positive for 2015, but well below 2014's rate.

KANSAS

The Kansas Business Conditions Index for April expanded to 51.2 from March's 50.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 53.9, production or sales at 55.6, delivery lead time at 51.6, employment at 47.8, and inventories at 47.1. Kansas's export sales are highly volatile. They peaked in 2013 and declined in 2014. I expect 2015 export sales to come in even weaker than 2014 sales. Nonetheless state growth for 2015 will remain positive, but down from that achieved in 2014 for the same period of time.

MINNESOTA

Last month, the Minnesota Business Conditions Index, fell to growth neutral. The overall index for April increased slightly to 51.3 from March's 50.0. Components of the index from the April survey of supply managers were new orders at 55.6, production or sales at 55.7, delivery lead time at 51.7, inventories at 47.5, and employment at 47.9. Minnesota's export sales reached a record high of over \$21.3 billion in 2014. I expect the strong U.S. dollar

and slow global growth to push Minnesota's 2015 export growth into negative territory. Even so, the state economy will continue to expand, but at a slower pace than for the same period in 2014.

MISSOURI

The April Business Conditions Index for Missouri rose to 54.4 from 52.1 in March. Components of the index from the survey of supply managers were new orders at 55.8, production or sales at 59.1, delivery lead time at 54.3, inventories at 50.0, and employment at 52.2. Missouri's exports expanded by more than nine percent for 2014 to \$14.9 billion. The strong dollar will reduce Missouri exports and state economic growth for 2015 below that achieved in 2014. Even so, the state will add jobs at a positive but slow pace in 2015.

NEBRASKA

For the 17th straight month, Nebraska's Business Conditions Index remained above growth neutral 50.0. The leading economic indicator for April climbed to a regional high of 54.6 from March's 51.8. Components of the index were new orders at 55.2, production or sales at 59.3, delivery lead time at 55.1, inventories at 50.2, and employment at 53.4. Nebraska's exports expanded by more than six percent to a record high of \$7.9 billion for 2014. The strong U.S. dollar will push 2015 export growth into negative territory even as the overall state economy grows, but at a slower pace than in 2014. Durable goods manufacturing shed economic activity for the month.

NORTH DAKOTA

North Dakota's leading economic indicator for April climbed to a level pointing to positive, but much slower, economic growth in the next three to six months. The Business Conditions Index declined to 51.6 from a revised 53.2 in March. Components of the overall index from the monthly survey of supply managers were new orders at 55.6, production or sales at 56.4, delivery lead time at 52.0, employment at 45.6, and inventories at 47.4. North Dakota's 2014 exports expanded by almost 42 percent from a year earlier to a record \$5.3 billion. The downturn in energy prices, and the strong U.S. dollar will all reduce export growth by double digits for 2015. Overall state growth will remain positive for the next three to six months, but off significantly from the same period in 2014.

OKLAHOMA

The Business Conditions Index for Oklahoma sank for April, but still signals positive, slow growth in the next three to six months. The index for April decreased to 50.8 from 51.6 in March. Components of the April survey of supply managers were new orders at 53.5, production or sales at 55.2, delivery lead time at 51.2, inventories at 45.6, and employment at 48.7. After reaching a record high of \$6.9 billion in 2013, Oklahoma's exports declined by almost nine percent for 2014. I expect a double-digit decline in state exports for 2015 stemming from lower energy prices and a strong dollar. This will reduce 2015 growth well below that experienced in 2014.

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, rose to 54.2 from 50.9 in March. Components of the overall index for April were new orders at 57.1, production or sales at 58.9, delivery lead time at 54.6, inventories at 49.8, and employment at 50.6. South Dakota exports for 2014 were \$1.6 billion and down from record exports of \$1.7 billion achieved in 2008. I expect the strong U.S. dollar to push 2015 exports ten percent below their 2014 levels and slow overall growth below that achieved in 2014.

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THE BULLISH NEWS

- The nation added 223,000 for April and the unemployment rate fell to 5.4%.
- From February 2014 to February 2015 according to the Case-Shiller home price index advanced by 4.2%, a very healthy reading.
- The number of persons employed part time for economic reasons (sometimes referred to as involuntary part-time workers) was down by 880,000 from a year earlier.



THE BEARISH NEWS

- U.S. job gains for were revised down from the original 126,000 to 85,000.
- The Creighton and National purchasing management indices (PMIs) for April were in a range indicating only modest gains in economic activities for the next 3-6 months.
- The U.S. trade deficit for March jumped to a 6½ high of \$51.4 billion.
- Retail and food services sales for March were only 1.3% higher over March 2014. The gain should be above 2.5% to be considered healthy.
- The nation's consumer price index declined by 0.1% between March 2014 and March 2015. This indicates that merchants have little pricing power.

WHAT TO WATCH

- **Greek and Puerto Rico bond defaults:** The next month or two will be crucial for these high risks bonds. A default by either, especially Greek bonds, would push the U.S. dollar higher and slow U.S. exports and overall U.S. growth. However, it would push U.S. interest rates lower.
- **Wage growth:** On Friday June 5, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another healthy monthly gain, above 0.2%, will "seal the deal" for a Federal Reserve rate hike this June.
- **PMIs:** On June 1, Creighton and the National Institute for Supply Management will release regional and national PMIs for May. Readings below 50.0 will be very bearish economic signals. Readings above April's tepid indices will be bullish.

FROM GOSS:

- I expect reports from supply managers on June 1 to indicate slower growth in the months ahead.
- I expect the nation's trade deficit to continue to deteriorate as U.S. exports decline.

- Retail trade numbers, though still not strong, to improve a bit as consumers begin to spend some of their energy savings.
- I expect a U.S. stock market downward adjustment in the months ahead as somewhat weaker profits, a stronger U.S. dollar and slightly higher interest rates put downward pressures on price/earnings multiples.

OTHER REPORTS:

- The Conference Board. (May 2015): Global Growth Is Not Gaining Much Traction: Volatility Will Prevail. "The last two months have been increasingly challenging for the global economy, leading to some significant adjustments in The Conference Board Global Economic Outlook. The changes are to a large extent the result of greater volatility and uncertainty, and they present a higher risk for the global economy in 2015. The rapid decline in oil prices, quick adjustments in exchange rates (with the US dollar appreciating and weakening of most other currencies, notably the euro), and the new quantitative easing program of the ECB are just a few examples of the economic factors at play. In addition, there is increased geopolitical uncertainty related to the Russia-Ukraine and Middle East conflicts, as well as increased concern about the economic and political future of the Euro Area and European Union. As a result, we made some significant adjustments to the global economic outlook for 2015 released in November. While the overall global real GDP growth average is projected to be 3.3 percent – remaining slightly below the 3.4 percent we projected last November –, the global average reflects a combination of upsides and downsides."

Goss Eggs (Recent Dumb Economic Moves)

- Senator Rob Portman (R) from Ohio jettisoned economic principles in favor of reelection politics by campaigning against giving the President "fast track" trade authority. He is insisting on an amendment that adds currency manipulation as an excuse to trigger economic protection via tariffs. By his reckoning, our own Federal Reserve should be found guilty of managing or manipulating the U.S. dollar.

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

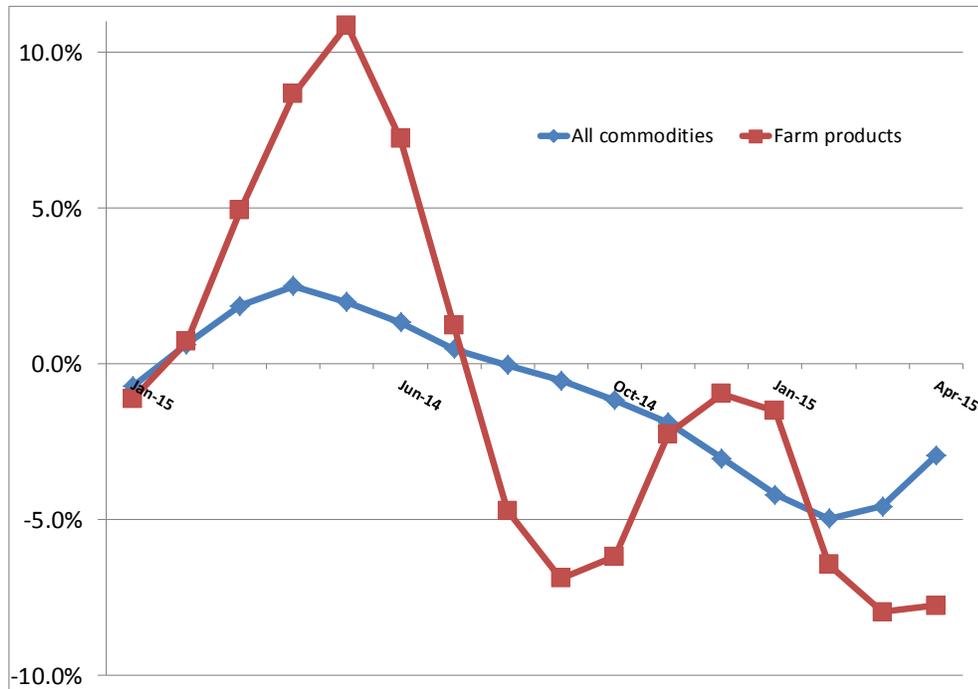
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PRICE DATA

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

Price changes, 3 month moving average, Jan. 2014- April 2015



Price changes, 3 month moving average, Jan. 2014 - 2015

