

## "A monthly survey of supply chain managers"

Welcome to our November report covering Creighton's September survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economy is growing at a positive pace but somewhat slower pace with inflationary pressures declining. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Divided Government and Economic Performance: Evidence from the States

The 2012 elections saw a significant decline in the number of state governments with executive and legislative powers divided between Democrats and Republicans. Between 2012 and 2014, only 13 states were split, while 14 state governments were governed solely by Democrats, and 23 states led by Republicans—the lowest number of states with divided governments since 1952, when there were only 8 splits. Did states with split governments economically outperform those with unified power? Over the last 2 years, GDP growth of 2.9% for split states lagged behind the 3.5% growth for Democrat states and the 3.7% growth for Republican states. During the same time period, wage growth for split states increased by 6.9%, behind both Democrat states with 8.1% and Republican states with 7.8%. Likewise, the past 2 years saw private job expansion in split states of 2.6%, with Democrat states expanding jobs at the rate of 3.7%, and Republican states growing jobs at a rate of 3.9%. In terms of 2013 state & local tax burdens, of the 10 states with the lowest tax burdens, 3 were split states, one was Democrat-led and 6 were led by Republicans. Likewise, in terms of expanding the size of state and local government as measured by state and local government wages, Democrat states expanded by 5.8% and split states climbed by 3.2%, while Republican states rose by a smaller 2.9%. Thus, Democrat states appear to clearly expand the size of state and local government, along with the accompanying tax burden, while Republican states clearly grow the size of state and local government and the related tax burden at a slower pace. Split states fall somewhere between Democrat and Republican states. As data in this essay indicate, the political party composition of a state's executive and legislative branches, whether unified with Democrat or Republican leadership, or governed by split branches of government, influences economic performance of the size state and local government. Ernie Goss.

#### Link to video:

<http://youtu.be/kBnQ8Y81TLc>

### LAST MONTH'S SURVEY RESULTS

#### Growth Slows for Mid-America for October: Downturn in Hiring and Export Orders

#### SURVEY RESULTS AT A GLANCE:

- Leading economic indicator was down for the month.
- New export orders decline for the month.
- Businesses cut employment for October.
- Average wage gain of 1.6 percent expected for next year.
- Wholesale pressures remain modest for the last several months.

The Mid-America Business Conditions Index for October, a leading economic indicator for a nine-state region, stretching from North Dakota to Arkansas, slumped from September's solid reading. Indices over the past several months are pointing to positive, but slower, economic gains over the next three to six months for the region.

**Overall index:** The Business Conditions Index, which ranges between 0 and 100, fell to 51.8 from September's 54.3. After rising to its highest level in more than three years in June, the overall reading has hovered in a range pointing to positive, but slower, growth for the overall regional economy over the next three to six months.

Sharp declines in grain and crude petroleum prices drove the overall index down for the month. Even with the pullback, economic growth is expected to be positive, but somewhat slower in the next several months. October weakness in rural areas of the region offset stronger conditions in urban areas of the nine-states.

**Employment:** For the second time in the past three months, the employment index moved below the growth neutral threshold of 50.0. The job gauge fell to 43.1 from September's much stronger 53.5 and August's 48.7. Businesses tied to agriculture and energy are experiencing weaker economic conditions. At the same time, businesses seeking to hire skilled workers are reporting a lack of qualified applicants.

There is currently a record number of workers employed in the region. Even so, employers in the region continue to expand output primarily by increasing hours worked of current workers and adding temporary workers. I think the October decline is temporary with hiring likely to remain on a positive pace.

This month supply managers were asked how much they expect wages and salaries for workers in their firm to grow in the next year. On average, growth of 1.6 percent is expected, which is less than the growth estimate in March 2014 of 1.8 percent.

**Wholesale Prices:** After three straight monthly declines, the prices-paid index, which tracks the cost of raw materials and supplies, rose for the month. The wholesale inflation index advanced to 60.6 from September's 60.1. Even with the slight increase, inflationary pressures at the wholesale level remain moderate.

This month supply managers were also asked to estimate the price change for the next 12 months for raw materials and supplies purchased. On average an increase of 5.8 percent for the next 12 months is expected. This is up from the 4.8 percent estimated in March of this year.

**Confidence:** Looking ahead six months, economic optimism, as captured by the October business confidence index, climbed to 61.2 from 59.6 in September. Despite weaker economic conditions in the regional energy and agriculture sectors, improvements in the national and regional job market supported supply managers' business outlook.

**Inventories:** The inventory index, which tracks the level of raw materials and supplies, decreased to 51.4 from September's 52.0. Supply managers expanded inventories for the month, but at slower pace than in September. 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 declined again to 48.8 from 53.2 in September. The import index for October increased to 52.9 from September's 52.8. The significant increase in the value of the dollar this year has made U.S. goods less competitively priced abroad and increased the attractiveness of foreign goods sold in the U.S. Combined with slower global growth, I expect our export reading to soften even more in the months ahead.

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**Delivery speed:** The delivery lead time index decreased to 56.2 from 59.0 in September. Businesses in the region continue to report supply bottlenecks in obtaining timely delivery of raw materials and supplies.

**Other components:** Other components of the October Business Conditions Index were new orders at 53.6, up from 52.9 in September; production or sales rose to 55.0 from last month's 54.3.

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 overall index, or leading economic indicator, for Arkansas advanced to a weak 49.3 from September's 47.0. Components of the index from the monthly survey of supply managers were new orders at 50.7, production or sales at 48.8, delivery lead time at 60.9, inventories at 43.5, and employment at 42.7. Pullbacks among nondurable goods producers and technology firms more than offset growth for durable goods manufacturers for October. Businesses continue to expand construction activity at a solid pace in the state. Average weekly wages declined by 1.2 percent over the past 12 months, worst in the region, for private workers in Arkansas.

IOWA

Iowa's Business Conditions Index for October fell to a tepid 51.4 from 51.5 in September. This is the fourth consecutive month that the reading has declined. Components of the index from the monthly survey of supply managers were new orders at 46.0, production or sales at 46.6, delivery lead time at 65.6, employment at 54.2, and inventories at 43.5. Durable goods producers, including agriculture equipment producers and nondurable goods manufacturers, especially food processors, reported much slower growth than recorded earlier in the year. Businesses continue to expand construction projects in the state. Average weekly wages expanded by 2.1 percent over the past 12 months for private workers in Iowa.

KANSAS

The Kansas Business Conditions Index for October dipped to healthy 62.4 from September's 69.7. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 80.6, production or sales at 74.3, delivery lead time at 48.6, employment at 41.8, and inventories at 66.7. Economic pullbacks among durable goods producers, including transportation equipment manufacturers, were more than offset by solid growth for nondurable goods producers in the state. Average weekly wages expanded by 2.9 percent over the past 12 months for private workers in the state.

MINNESOTA

October survey results mark the 23rd straight month Minnesota's Business Conditions Index has remained above growth neutral.

The index slipped to a very healthy 63.7 from September's 66.3. Components of the index from the October survey of supply managers in the state were new orders at 65.4, production or sales at 67.4, delivery lead time at 62.2, inventories at 67.0, and employment at 56.9. Durable goods producers, especially those with ties to vehicle manufacturing, are experiencing strong growth. Nondurable goods manufacturers, including food processors, benefited from an expanding U.S. economy. Growth in construction continues to be a source of state growth. Average weekly wages expanded by 0.9 percent over the past 12 months for private workers in Minnesota.

MISSOURI

The October Business Conditions Index for Missouri declined to a solid 57.1 from September's 57.7. Components of the index from the survey of supply managers for October were new orders at 58.1, production or sales at 59.7, delivery lead time at 56.9, inventories at 57.7, and employment at 52.8. As in prior months, durable manufacturers, especially vehicle producers, and nondurable goods manufacturers, except for food processors, reported very healthy expansions for the month. Trucking firms have benefited significantly from the manufacturing growth. Average weekly wages expanded by 2.1 percent over the past 12 months for private workers in the state.

NEBRASKA

For the 10th straight month, Nebraska's Business Conditions Index remained above growth neutral 50.0. However, the October index, a leading economic indicator from a survey of supply managers in the state, fell to a tepid 50.3 from September's 51.8. Components of the index for October were new orders at 51.9, production or sales at 54.8, delivery lead time at 54.2, inventories at 48.8, and employment at 42.0. Growth for nondurable goods producers, including food processors, more than offset weakness for durable goods manufacturers in the state. Expansions for manufacturers in Nebraska have significantly benefited trucking firms in the state. I expect Nebraska growth for the final quarter of 2014 to be well down from the same period in 2013. Average weekly wages expanded by 1.8 percent over the past 12 months for private workers in the state.

NORTH DAKOTA

North Dakota's leading economic indicator climbed to a level pointing to healthy but slower economic growth in the next three to six months. The October Business Conditions Index slumped to 54.8 from 61.8 in September. Components of the overall index from the monthly survey of supply managers for October were new orders at 53.3, production or sales at 55.5, delivery lead time at 60.2, employment at 51.2, and inventories at 53.9. Both durable and nondurable goods manufacturing activity softened a bit, but remained healthy with oil prices coming down significantly. Growth remains healthy with trucking firms benefiting significantly from the state's economic expansion. I expect North Dakota's growth for the final quarter to be down from the same period in 2013 as the state experiences reduced economic prospects due to weaker conditions in agriculture and energy. Average weekly wages expanded by 3.5 percent, the highest in the region, over the past 12 months for private workers in North Dakota.

OKLAHOMA

Oklahoma: The Business Condition Index for Oklahoma fell below growth neutral for the month signaling a potential slowdown in economic growth in the next three to six months. The index for October sank to 48.0 from September's much stronger 58.0. Components of the October survey of supply managers in the state were new orders at 57.6, production or

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sales at 26.6, delivery lead time at 52.4, inventories at 60.9, and employment at 42.6. Durable goods producers, except for firms with ties to transportation equipment, and nondurable goods manufacturers, except for food processors, reported growth for the month. Based on survey results, I expect economic growth for the final quarter of 2014 to be down from the same period in 2013. Average weekly wages expanded by 0.9 percent over the past 12 months for private workers in the state.

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, fell to a weak 51.8 from September's 55.0. Components of the overall index for October were new orders at 48.4, production or sales at 63.2, delivery lead time at 57.0, inventories at 38.7, and employment at 51.8. Manufacturers in the state continue to expand operations. However, the expansion is slowing as companies have reduced the hours worked for current employees. I expect growth to remain positive for the final quarter of 2014, but down from the same period in 2013. Average weekly wages expanded by 0.3 percent over the past 12 months for private workers in the state.



THE BULLISH NEWS

- The U.S. economy added 214,000 jobs in October and the unemployment rate ticked down to 5.8% from 5.9% in September.
- As tax revenues increased and spending cuts took effect, the 2014 budget deficit dropped to the lowest level in six years.
- Third quarter GDP growth (annualized) came in above 3.0%. While not vigorous, it is better than we have been seeking.



THE BEARISH NEWS

- Overall, wages were up 2% for the 12 months ended in October. That was a bit better than the 1.7% inflation rate, but not nearly enough growth to make up for the ground lost during the Great Recession.
- The S&P/Case Shiller composite index gained 5.6% in August over last year, the slowest year-on-year increase since November 2012.
- Although the number of people out of work six months or longer has fallen 28% over the past year, some 3 million can't find a full-time job. That's still higher than anytime before the 2007-2009 recession.

WHAT TO WATCH

- Case-Shiller Home Price Index: On the last Tuesday of the month, the Case-Shiller home price index will be released. Another significant decline in the growth number will be a warning signal for the housing market. Year over year growth above 5.0% but below 7% will be healthy indicator.
- Wage data: On Friday Dec. 5, the Bureau of Labor

Statistics, as part of its employment report, releases its wage number. Year over year growth of 2.0% or less will encourage the Federal Reserve Bank to keep short term interest rates low until the middle of 2015. Above 2.0% could be an early warning signal of rate increases earlier than that time.

- Jobs: On Friday Dec. 5, the U.S. Bureau of Labor Statistics (BLS) will release employment report for November. Another strong report (job additions above 200,000) will push the Fed to raise interest rates sooner than expected.

FROM GOSS:

- Well, I was dead wrong on my Q3 GDP growth forecast. I expected 2% or less, and it was above 3%. There is too much weakness in the farm and energy sectors to expect Q4 growth numbers to come in above 2% or even close to Q3 growth.
- I expect housing prices growth to continue to move lower, but remain positive.
- Part-time job creation will continue to be a big part of U.S. employment growth.
- Nationally, this will be the best holiday shopping season since 2007.

OTHER REPORTS:

- National Association of Business Economics (NABE): "Business conditions continued to improve during the third quarter, albeit at a marginally subdued pace from that of the second quarter, and the majority of the NABE Business Conditions Survey panelists report strong expectations for continued economic growth," said NABE President John Silvia, chief economist for Wells Fargo Securities. "Results from NABE's October 2014 Business Conditions Survey suggest that growth is continuing at a majority of survey respondents' organizations, with an increasing number of panelists also reporting employment growth and less difficulty in filling open positions. The number of respondents reporting increasing profit margins at their firms fell only slightly. There continues to be little change in the share of respondents reporting higher materials costs in the third quarter or expecting higher costs in the fourth quarter. A growing share of respondents does report that they expect future price increases at their firms as the economy continues to strengthen. The majority of respondents expects the economy to continue to grow in the 2-3 percent range."

Goss Eggs (Recent Dumb Economic Moves)

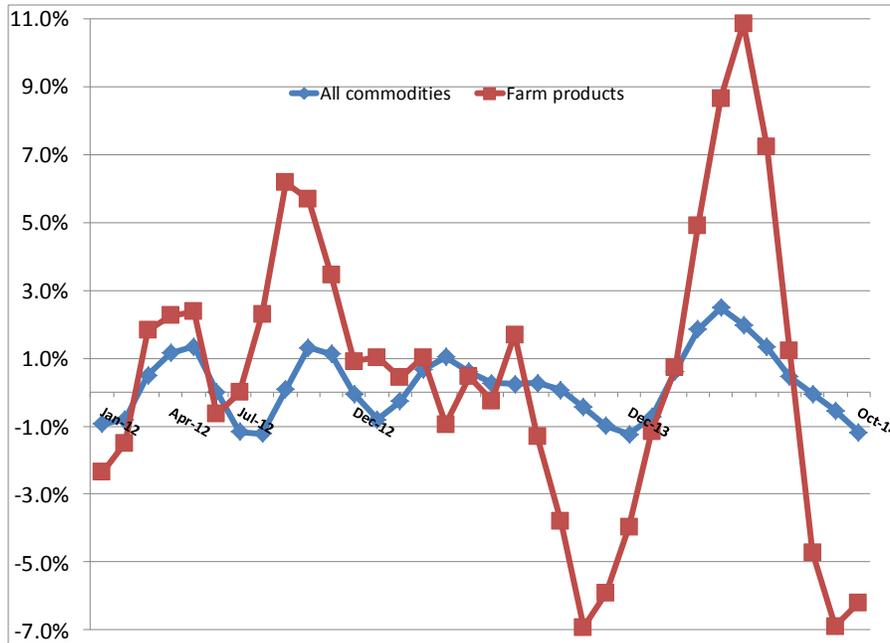
- Senators Harry Reid (D. NV), Dick Durbin (D. IL) and Mike Enzi (R, WY) have led a bipartisan coalition in the U.S. Senate to force online merchants to collect sales taxes on tens of thousands of items. If passed this bill would bury small online suppliers who could not afford the audits and other compliance measures that would ultimately be required."

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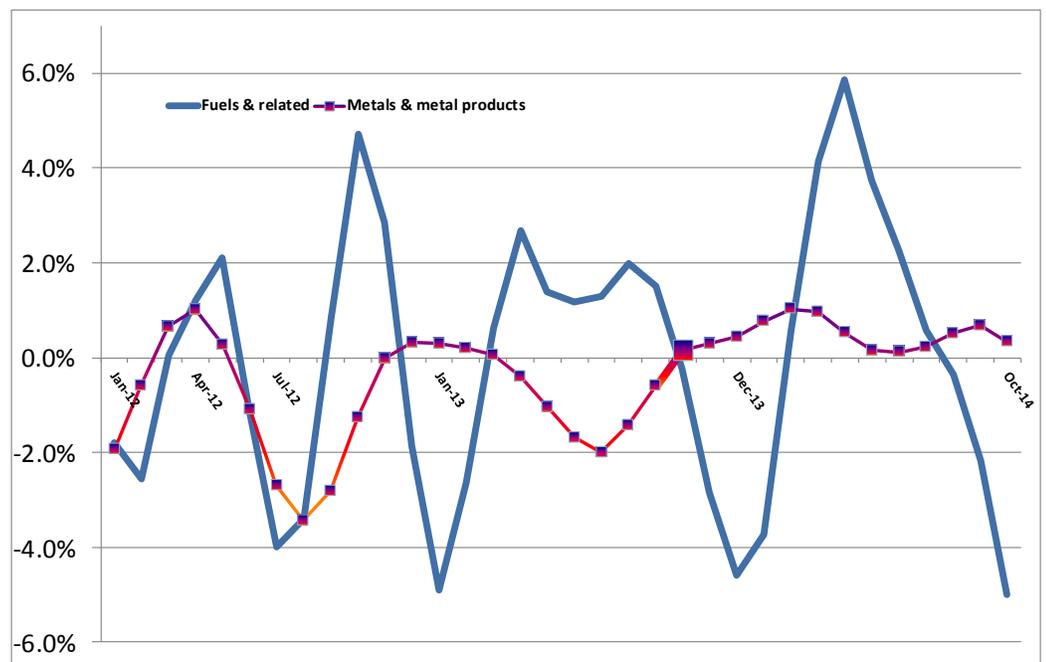
## PRICE DATA

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

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



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



Survey results for November will be released on the first business day of next month, December 1st.

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