Welcome to our November report covering results from Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth has turned negative (recessionary) for manufacturing and points to negative for the overall regional economy. Follow my comments at: www.twitter.com/erniegoss

High U.S. Taxes May Push Pfizer to Ireland: Botox Will Reduce Viagra’s Tax Wrinkles

Pfizer, a 166-year-old New York City headquartered company, is considering leaving the U.S. for more tax-friendly Ireland in what is termed a tax inversion. Pfizer, a $300 billion U.S. biopharmaceutical firm, will purchase the smaller Irish firm Allergan, maker of Botox, for $120 billion. Pfizer, producer of Viagra, will then move its U.S. headquarters, where its corporate income tax rate approaches 40 percent, to Dublin with a 12.5 percent tax rate.

In 2014, Pfizer paid U.S. income taxes of $3.1 billion. Pfizer would have saved approximately $2.0 billion in 2014 income taxes by being Dublin headquartered. As a result of the third highest corporate income tax rate in the world at 39.1 percent, exceeded only by Chad and the United Arab Emirates, the U.S. has suffered the loss of 55 firms via tax inversions in the past year. The avalanche of inversions pushed President Obama to brand the inversions as "unpatriotic."

Instead of issuing such hyperbole, Obama should take action that would both increase tax collections and reduce the legal and administrative costs associated with tax inversion deals. Currently, it is estimated that U.S. firms hold more than $2.1 trillion outside the U.S. By reducing the income tax rate on repatriated earnings from 39.1 percent to 10 percent, current tax collections would rise by as much as $210 billion and importantly, it would reduce the motivation to engage in an inversion. This action should then be followed up by a permanent corporate income tax rate cut with the elimination of many tax deductions, often called loopholes. But instead of positive legislative steps such as this, the U.S. Treasury responded with stiffened regulations in a futile effort to limit such corporate moves. Unfortunately, Pfizer will not be the last U.S. firm to hoist shareholder value by moving abroad. Ernie Goss.

Link to video:
https://youtu.be/hjHamuUJaZw

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Falls Again: One of Five Manufacturers Expect Layoffs in Next Six Months

SURVEY RESULTS AT A GLANCE:
• For a third straight month, the region’s overall index moved below growth neutral 50.0.
• Employment index plummets below growth neutral for a second consecutive month.
• Wholesale inflation gauge drops to its lowest level since May 2009.

• Strong U.S. dollar and global economic weakness push new export orders into negative territory.

The Creighton University Mid-America Business Conditions Index for October, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, slumped for the month. Indices over the past several months have indicated contraction in manufacturing and pointed to slow to negative economic growth over the next three to six months for the overall regional economy.

Overall index: The October Business Conditions Index, which ranges between 0 and 100, slumped to 41.9 from September’s 47.7. The regional index, much like the national reading, is pointing to weak, and potentially negative growth through the fourth quarter of 2015 for the overall economy.

Manufacturing firms are over-represented in our survey. The strong U.S. dollar and global economic weakness are having a negative impact on manufacturers and businesses linked to manufacturing in the region. At the national level, prices at the wholesale level declined by 12.1 percent for farm products and by 25.5 percent for energy prices. This weakness has been showing up in our surveys over the last three months.

Employment: The regional employment gauge slumped for October, and indicates job losses for the manufacturing and value added services sector. The job gauge declined to 42.3 from September’s 42.6. Areas heavily dependent on manufacturing, especially those linked to agriculture and energy, are experiencing cuts. For example, metal producers and agricultural equipment manufacturers continue to report job losses. Almost one in five, or 18.5 percent, of firms expect layoffs in the next six months. This compares to 14.5 percent in January when we asked this same question.

Since this time last year, the region’s manufacturing sector has lost almost 12,000 jobs, or approximately one percent of the region’s manufacturing jobs. Since our survey oversamples manufacturing firms, it is not surprising that our overall index has weakened significantly for states with a large agricultural and energy presence.

Wholesale Prices: The wholesale inflation index for October fell to 45.3, its lowest level since May 2009, and down from September’s 46.8. As regional growth has slowed so have inflationary pressures at the wholesale level. Agriculture and energy commodity price weakness is shrinking inflationary pressures. I expect weaker inflationary pressures and growth to push the Federal Reserve to delay a rate hike until 2016.

Confidence: Looking ahead six months, economic optimism, as captured by the October business confidence index, sank to 42.3 from 43.4 in September. Falling agriculture and energy commodity prices, along with global economic uncertainty, pushed supply managers’ expectations of future economic conditions lower for the month.

Inventories: In another sign of a sinking economic outlook, supply managers reduced their inventory levels for the month. The October inventory index, which tracks the change in the level of raw materials and supplies, fell to 41.2 from 44.2 in September.

Trade: The new export orders index descended to 38.2 from 42.4 in September. The import index for October slumped to 40.9 from September’s 48.9. The strong U.S. dollar, making U.S. goods less competitively priced abroad, and a weaker global
Orders at 38.8, production or sales at 39.4, delivery lead time at 50.2, inventories at 43.1, and employment at 41.5. The U.S. Bureau of Labor Statistics data show that over the last year, Minnesota added 200 manufacturing jobs for a gain of 0.1 percent. Our surveys of supply managers in the state indicate these losses will continue into the first quarter of 2016 as vehicle manufacturing boosts the manufacturing sector.

MISSOURI

The October Business Conditions Index for Missouri slipped to a regional high 50.1 from September’s 50.5. Components of the index from the survey of supply managers were new orders at 45.6, production or sales at 44.6, delivery lead time at 54.4, inventories at 54.1, and employment at 52.3. U.S. Bureau of Labor Statistics data show that over the last year, Missouri added 6,400 manufacturing jobs for a gain of 2.5 percent. Our surveys of supply managers in the state indicate these losses will continue into the first quarter of 2016 as manufacturing exports slide even lower.

NEBRASKA

After advancing above growth neutral for 19 straight months, Nebraska’s Business Conditions Index fell below 50.0 for the fourth straight month. The index, a leading economic indicator from a monthly survey of supply managers, slipped to 40.1 from 45.4 in September. Components of the index were new orders at 35.0, production or sales at 38.5, delivery lead time at 49.0, inventories at 49.0, and employment at 42.1. U.S. Bureau of Labor Statistics data show that over the last year, Nebraska has lost 3,200, or 3.3 percent, of its manufacturing jobs. Our surveys of supply managers indicate these losses will continue into the first quarter of 2016 with ethanol processors and food processors shedding jobs.

ARKANSAS

North Dakota’s leading economic indicator for October remained below growth neutral 50.0. The Business Conditions Index sank to a regional low 36.7 from September’s 41.7, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 33.3, production or sales at 33.9, delivery lead time at 43.1, employment at 43.7, and inventories at 46.0. U.S. Bureau of Labor Statistics data show that over the last year, North Dakota has lost 200, or 0.8 percent, of its manufacturing jobs. Our surveys of supply managers indicate these losses will widen into the first quarter of 2016 and manufacturing linked to agriculture and energy sustain losses.

OKLAHOMA

The October Business Conditions Index for Oklahoma slipped below growth neutral 49.4 from September’s 50.0. Components of the index from the monthly survey of supply managers were new orders at 37.9, production or sales at 38.5, delivery lead time at 49.6, employment at 42.1, and inventories at 40.9. U.S. Bureau of Labor Statistics data show that over the last year, Oklahoma has lost 1,700, or 0.8 percent, of its manufacturing jobs. Our surveys of supply managers in the state indicate that this trend will continue into the first quarter of 2016 as losses for ethanol producers and food processors shrink manufacturing jobs primarily in nonurban areas.

THE PURCHASING ECONOMY SURVEY REPORT

November 2015

“Monthly survey of supply chain managers”

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Survey results for October will be released on the first business day of next month, Dec. 1.
**PRICE DATA**

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

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

- All commodities
- Farm products

-6.0% - 6.0%

Fuels & related — Metals & metal products

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