

"A monthly survey of supply chain managers"

Welcome to our October 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

Kansas Cuts Taxes and Expands the Economy: Earnings Growth Soars Past U.S. and Neighbors Since Passage

In 2012, Kansas Governor Brownback pushed the Legislature to whack individual tax rates by 25%, to repeal the tax on sole proprietorships, and to increase the standard deduction. In 2013, the Legislature cut taxes again. Since passage in 2012, how has the Kansas economy responded to these dramatic tax cuts? **Post Tax-Cut Earnings:** Since QIV, 2012, Kansas grew its personal income by 2.92% which was higher than the U.S. gain of 2.85%, and was greater than the growth experienced by each state bordering Kansas, except Colorado. Additionally in terms of average weekly earnings, Kansas experienced an increase of 4.82% which was almost four times that of the U.S., more than four times that of Missouri, approximately seven times that of Nebraska, and nearly four times that of Oklahoma. Of Kansas' neighbors, only Colorado with 4.82% average weekly wage growth outperformed Kansas. **Post Tax-Cut Job Performance:** Between the last quarter of 2012 and August 2014, the U.S. and each of Kansas' neighbors, except Nebraska, experienced higher job growth than Kansas. However, much of Kansas' lower job growth can be explained by the fact that during this period, Kansas reduced state and local government jobs by 1.4% while all of Kansas' neighbors and the combined 50 U.S. states increased state and local government employment. In terms of unemployment, Kansas August 2014 joblessness rate was 4.9% compared to rates of 6.1% for the U.S., 5.1% for Colorado, 6.3% for Missouri, 3.6% for Nebraska, and 4.7% for Oklahoma. Kansas job and income data since the tax cut show that, except for Colorado, the state economy has outperformed, by a wide margin, that of each of its neighbors and the U.S. To remain competitive, expect Kansas' neighbors to reduce state and local taxes in the years ahead. Ernie Goss.

Link to video:

<http://youtu.be/whQ7UMV3hxm>

LAST MONTH'S SURVEY RESULTS

Growth in Exports Slows Mid-America Economy: Supply Delivery Bottlenecks Grow

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator was down for the month.
- Businesses expect health insurance costs to rise by 7.2 percent for 2015. Approximately one in six businesses anticipates growth of more than 15 percent.
- Almost half of businesses reported increasing shipping bottlenecks.
- Inflationary pressures at wholesale level decline for a third straight month.
- New export orders grow, but at a much slower pace compared to August.

The Mid-America Business Conditions Index for September, a leading economic indicator for a nine-state region, stretching from North Dakota to Arkansas, declined from August's healthy reading. Indices over the past several months are pointing to solid, 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 54.3 from August's 57.2. 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.

A 30 percent decline in grain prices over the past year has produced a pullback in economic activity for regional businesses linked to agriculture.

Employment: After falling below growth neutral for August, the employment index once again moved above this threshold. The job gauge expanded in September to 53.5 from August's 48.7. Even though the index was up for the month, job growth for the region has slowed from earlier in the year. Regional job growth for the last 12 months ending in August was approximately 1.2 percent which is down from 1.5 percent recorded in January of this year.

Furthermore, average weekly earnings for the region expanded by only 1.6 percent over the past 12 months ranging from -1.3 percent for Missouri to 3.9 percent for Kansas.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation index sank to 60.1 from August's 66.7. This is the third straight month that the inflation gauge has moved lower. Inflationary pressures at the wholesale level have cooled significantly over the past several months.

Confidence: Looking ahead six months, economic optimism, as captured by the September business confidence index, dipped slightly to 59.6 from 60.4 in August. 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 52.0 from August's 57.9. Supply managers expanded inventories for the month, but at slower pace than in August. 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 53.2 from 59.8 in August. The import index for September rose to 52.8 from August's 51.8. 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. I expect our export reading to continue to soften in the fourth quarter.

Delivery speed: The delivery lead time index slipped to a still high 59.0 from August's three year high of 60.6. As a result of rapidly expanding shipments of oil in the region, supply managers are having increasing difficulty in obtaining timely delivery of raw materials and supplies. Approximately 41 percent of businesses reported increasing difficulties in getting timely delivery of raw material and supplies.

This month businesses were asked how much they expect health insurance premiums to grow for 2015. On average, 2015 health insurance premiums are forecast to expand by 7.2 percent over 2014 levels. However, 16.2 percent of the businesses expect them to grow by more than 15 percent.

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Other components: Other components of the September Business Conditions Index were new orders at 52.9, down from 58.1 in August; production or sales sank to 54.3 from at 60.7 in August.

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 September overall index, or leading economic indicator, for Arkansas advanced to a weak 47.0 from August's 45.6. Components of the index from the monthly survey of supply managers were new orders at 47.9, production or sales at 44.1, delivery lead time at 55.1, inventories at 36.9, and employment at 50.9. Even with durable goods manufacturers continuing to expand in the state, nondurable goods producers and value added service firms detailed pullbacks for the state. Surveys over the past several months point to much slower economic growth for the fourth quarter of 2014. For the 12-month period ending in August, government data show that average weekly wages in Arkansas have fallen by approximately one percent. Our surveys indicate that wage growth for the state will remain weak and potentially negative for the last quarter of 2014.

IOWA

Iowa's Business Conditions Index, or leading economic indicator, for September fell to a tepid 51.5 from 58.3 in August. This is the third consecutive month that the reading has declined. Components of the index from the monthly survey of supply managers were new orders at 48.3, production or sales at 45.1, delivery lead time at 62.4, employment at 52.2, and inventories at 49.5. Iowa's manufacturing sector, both durable and nondurable goods producers, are experiencing much slower growth than recorded earlier in the year. Weaker grain prices are spilling over into the broader state economy. For the 12-month period ending in August, government data show that average weekly wages in Iowa have expanded by a healthy 3.1 percent, or second highest in the region. Our surveys indicate that wage growth for Iowa will remain positive but significantly weaker for the last quarter of 2014.

KANSAS

The Kansas Business Conditions Index for September expanded to a healthy and regional high of 69.7 from 63.8 in August. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 77.9, production or sales at 81.9, delivery lead time at 63.9, employment at 58.1, and inventories at 66.8. Growth among nondurable goods producers and value added services firms in the state more than offset weaker numbers from durable goods manufacturers. Construction activity in Kansas continues to advance at a healthy pace. For the 12-month period ending in August, government data show that average weekly wages have expanded by a

healthy and regional high of 3.1 percent. Our surveys indicate that wage growth will remain healthy for the last quarter of 2014.

MINNESOTA

September survey results mark the 22nd straight month Minnesota's Business Conditions Index has remained above growth neutral. The index slipped to a very healthy 66.3 from August's regional high of 66.9. Components of the index from the September survey of supply managers in the state were new orders at 73.6, production or sales at 70.5, delivery lead time at 61.8, inventories at 65.2, and employment at 60.5. Durable goods producers and nondurable goods manufacturers, including food processors, continue to report very healthy growth. Firms in the state with ties to vehicle manufacturing are also expanding at a healthy pace. For the 12 month period ending in August, government data show that average weekly wages in Minnesota have expanded by a solid 2.6 percent. Our surveys indicate that wage growth will remain healthy for the last quarter of 2014.

MISSOURI

The September Business Conditions Index for Missouri declined to a solid 57.7 from August's somewhat stronger 59.2. Components of the index from the survey of supply managers for September were new orders at 58.3, production or sales at 58.9, delivery lead time at 55.9, inventories at 57.1, and employment at 58.3. Durable manufacturers, especially vehicle producers, and nondurable goods manufacturers, except for food processors, reported very healthy expansions for the month. For the 12-month period ending in August, government data show that average weekly wages in the state sank by 1.3 percent, the lowest in the region. Our surveys indicate that wage growth in the state will be healthy for the last quarter of 2014.

NEBRASKA

For the ninth straight month, Nebraska's Business Conditions Index rose above growth neutral 50.0. However, the September index, a leading economic indicator from a survey of supply managers in the state, fell to a tepid 51.8 from August's 54.8. Components of the index for September were new orders at 49.6, production or sales at 55.5, delivery lead time at 58.4, inventories at 49.7, and employment at 45.9. Economic growth for Nebraska will remain positive for the second half of 2014 based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Nebraska added approximately 5,400 manufacturing jobs for a 5.9 percent job gain. However for 2014, the state's durable goods manufacturing firms have added no jobs.

NORTH DAKOTA

North Dakota's leading economic indicator climbed to a level pointing to healthy growth in the next 3 to 6 months. The September Business Conditions rose to 61.8 from 60.7 in August. Components of the overall index from the monthly survey of supply managers for September were new orders at 62.7, production or sales at 58.5, delivery lead time at 72.5, employment at 59.2, and inventories at 56.3. Economic growth will remain healthy for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in North Dakota added approximately 2,000 manufacturing jobs for an 8.5 percent job gain. However for 2014, manufacturing job growth has been nil in the state.

OKLAHOMA

Oklahoma's Business Condition Index continues to point to expanding economic conditions in the months ahead. The index for September expanded to a solid 58.0 from August's 54.0.

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Components of the September survey of supply managers in the state were new orders at 65.2, production or sales at 53.2, delivery lead time at 48.5, inventories at 70.4, and employment at 52.7. Economic growth will remain positive for the second half of 2014 for the state based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in Oklahoma added almost 16,000 manufacturing jobs for a 12.6 percent job gain. Until August, the state's manufacturing sector had added jobs at a healthy pace for 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, fell to 55.0 from August's 58.5. Components of the overall index for September were new orders at 56.7, production or sales at 63.8, delivery lead time at 53.5, inventories at 47.3, and employment at 53.5. Economic growth will remain healthy for the second half of 2014 based on our surveys over the last several months. Since the national recovery began in July 2009, the manufacturing sector in South Dakota added approximately 6,100 manufacturing jobs for a 16.7 percent job gain. Until August, the state's manufacturing sector had added jobs at a healthy pace.



THE BULLISH NEWS

- The U.S economy added 248,000 jobs in September and the unemployment rate declined to 5.9% from August's 6.1%.
- Leading economic indicators from Creighton regional survey of supply managers and the Institute for Supply Management's national survey dropped but continue to point to positive growth for the fourth quarter of 2014.
- In the 12 months ending in July 2014, the Case-Shiller index indicated that average U.S. home prices rose by 5.6%, a bit lower than 6.2% for June but still a very healthy value.



THE BEARISH NEWS

- U.S. average hourly pay dropped by a penny in September. Over the past 12 months, average hourly pay has increased by only 2%, or approximately the rate of inflation.
- While the 0.2% decline in the consumer price index (CPI) for August was good news for the consumer, it raises the concern that the economy is still on shaky grounds.
- More than 97,000 workers left the labor force in September bringing the nation's participation rate (i.e. the share of the working age population in the labor force) to its lowest level in more than 3 decades.
- Retail sales for September dropped by 0.3% from August.

WHAT TO WATCH

- CPIs: On Oct. 22 and Nov. 20, the Bureau of Labor Statistics releases consumer price indices for September and October, respectively. Monthly increases of more

than 0.3% or more will encourage the Fed to begin raising interest rates in the first quarter of 2015.

- GDP: On Oct. 30, the U.S. BEA releases preliminary estimate of Q3 GDP. Annualized growth of less than 2% will be very disappointing and give bond prices a boost and push interest rates lower.
- Jobs: On Friday Nov. 7, the U.S. Bureau of Labor Statistics (BLS) will release employment report for October. Another a strong report (job additions below 200,000) and wage rate growth above 2% will push the Fed to raise interest rates in the first quarter of 2015 instead of the expected second quarter.

FROM GOSS:

- I expect Quarter 3 GDP growth to come in at a tepid 2%. Too many of the Q3 jobs added were part-time and/or low paying jobs.
- I expect housing prices growth to continue to move lower but remain positive.

OTHER REPORTS:

- The Conference Board (October 2014): GDP in the United States is projected to grow at 2.0 percent in 2014, with the second half of this year revised lower—from an average of a 2.8 percent pace to about 2.5 percent pace. The continued slow pace of wage growth and consumer reluctance to finance purchasing (despite improved confidence) implies a little less spending than previously estimated. And, consequently, both investment and inventories are also likely to expand a little less than expected. Still, 2.5 percent growth is slightly above long-trend growth, and it is likely to continue into 2015. Despite these anemic growth rates, the US economy might be approaching full capacity soon.

Goss Eggs (Recent Dumb Economic Moves)

- Corporate Welfare at Its Worst. New York Democrat Governor Cuomo pledged more than \$225 million to refurbish a steel plant to assist billionaire Leon Musk's SolarCity. SolarCity will pay \$1 per month for 10 years to lease the plant. In total, New York will pay \$725 million over two years or \$100,000 per job. Democrats and Republicans are both captives of "big" business. They just serve different "big's."

Survey results for August will be released on the first business day of next month, November 3rd.

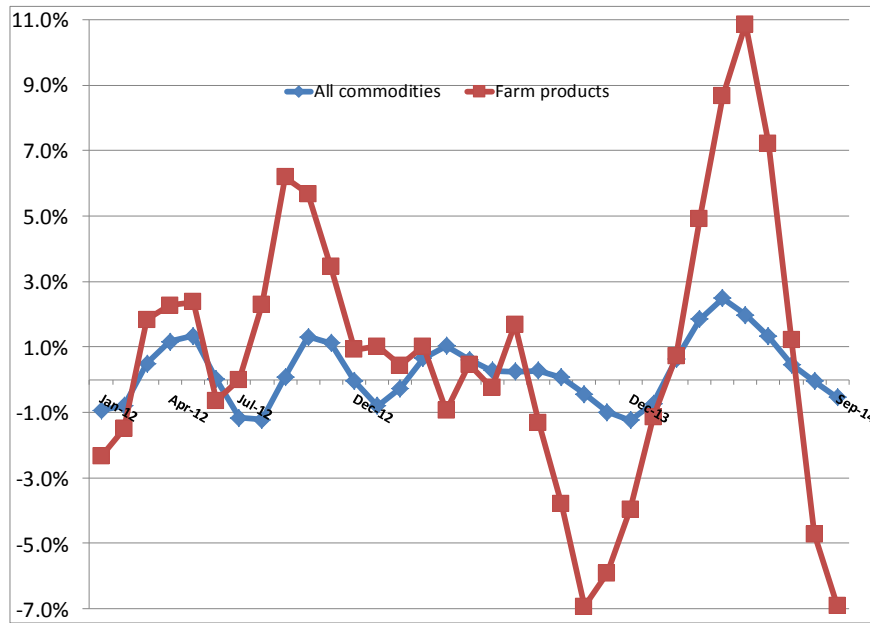
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PRICE DATA

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

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



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

