

## "A monthly survey of supply chain managers"

Welcome to our December report covering November survey results. The Mid-America survey is pointing to slow growth with little inflationary pressure for the first quarter of 2014. Lower agriculture commodity prices will cut into businesses tied to agriculture. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Taxing the Rich More Heavily Is Not Fair to the Poor

It is argued by the Obama Administration that higher income individuals are not paying their fair share of income taxes. They contend that raising tax rates for higher income individuals will not only produce a fairer taxing system, it will move the U.S. to a more equitable income distribution. In 1996, taxpayers earning more than \$200,000 paid an average tax rate that was three times that of workers making less than \$50,000, and two times that of taxpayers earning between \$50,000 and \$200,000. By 2011, those making more than \$200,000 paid almost seven times the average tax rate of taxpayers earning less than \$50,000, and 2.5 times that of workers earning between \$50,000 and \$200,000. As a result of this boost in relative rates for the "rich," the Congressional Budget Office (<http://tinyurl.com/pxzutsz>) concluded that the "top 40 percent of income earning households actually paid 106.2 percent of the nation's net income taxes in 2010," by supplying \$18,950 in what the CBO called "government transfers" or negative income taxes for households in the bottom 40 percent of earners. But how did taxing the rich more heavily affect income inequality? Since 1996, the U.S. Gini coefficient, which measures income inequality, has climbed each year indicating that income inequality in the U.S. has risen. Furthermore in 2010 as measured by Gini coefficients, the ten states with the lowest income tax rates (Alaska, Wyoming, New Hampshire, Wisconsin, Washington, South Dakota, Nevada, Tennessee, Texas and Florida) had the greatest income equality, and the ten states with the highest income tax rates (Minnesota, Maine, New York, Vermont, DC, New Jersey, Iowa, Oregon, Hawaii and California) had the greatest income inequality. Thus, the policy of "taxing the rich" did not contribute to income equality, and there is at least evidence supportive of the hypothesis that taxing the rich more heavily contributed to greater income inequality. In conclusion, raising income taxes on the rich is neither fair, nor helpful to the non-rich. Ernie Goss.

#### Link to video:

<http://www.youtube.com/watch?v=TCOAh5avdVQ>

### LAST MONTH'S SURVEY RESULTS

Mid-America Index Climbs Above Growth Neutral  
for November:  
Inflationary Pressures Down Again

#### SURVEY RESULTS AT A GLANCE:

- Leading economic indicator moves above growth neutral with lower inflationary pressures.
- Businesses reported slight job increases for November.
- Holiday buying is expected to expand by 3 to 4 percent from last year.

- Businesses expect wage rates to expand by only 2.2 percent over the next year.

After declining in October to its lowest level since 2012, the monthly Mid-America Business Conditions Index, a leading economic indicator for a nine-state region, increased for November. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, rose to a tepid 51.2 from October's growth neutral 50.0. Weakness among nondurable goods manufacturers in the region were more than offset by strength among durable goods producers. The region's heavy manufacturers reported solid upturns in new export orders for November.

**Employment:** After falling below growth neutral for October, the region's employment gauge expanded above the threshold for November. The index jumped to 51.2 from 48.2 in October. After taking a hit from the government shutdown and the uncertainty surrounding raising the nation's debt ceiling, firms in the region increased hiring slightly for the month. The lack of significant new hiring over the past several months will restrain growth in 2013 holiday buying.

As a result of the weak job market, respondents expect a very modest 2.2 percent pay increase for next year or only slightly above the rate of inflation.

**Wholesale Prices:** For a second straight month, the prices-paid index, which tracks the cost of purchased raw materials and supplies, declined. The wholesale inflation gauge dipped to 61.6 from October's 63.1 and September's 64.8.

Inflationary pressures at the wholesale level continue to decline. This is likely to result in consumer prices growing at an annual pace significantly below the Federal Reserve's target of approximately 2 percent for the next several months. While the inflation gauge remains in a range indicating only modest inflationary pressures, the Federal Reserve's \$85 billion monthly bond buying stimulus program continues to boost asset prices such as housing and stocks at rates that are not sustainable.

This month supply managers were asked how much they expected prices of products and services that they purchase to change in the next six months. More than one-fourth, or 27.5 percent, expect no change and maybe even a price decline. There is clearly more downward pressure on wholesale prices than the Federal Reserve is comfortable with.

**Confidence:** Looking six months ahead, economic optimism, as captured by the November business confidence index, expanded to 57.2 from October's 56.0. The temporary resolution of the debt ceiling and the re-opening of the federal government had a positive impact on supply managers' outlook.

For each of the last nine months, supply managers were asked how the federal spending sequestration was affecting their company. As in past months, approximately two-thirds of supply managers indicated the cuts have had no impact to date. The remaining one-third of supply managers indicated that sequestration was having a modest impact. According to surveys over the last nine months, the impacts have been modest and have remained subdued.

**Inventories:** The inventory index tracking the level of raw materials and supplies sank to 48.1 from October's 50.0. Even with November's decline, inventory levels are up from this time last year. This is another signal that supply managers are more upbeat about expanding sales for their companies in the months ahead.

Based on inventory levels, confidence, hiring and overall business activity from our survey, I expect the holiday buying season to be up from last year, but it will not be a robust holiday buying season, with sales up between 3 and 4 percent from last year.

**Trade:** Trade numbers strengthened markedly for the month. The new export orders index jumped to 56.4 from 44.4 in October. The import index expanded to 53.5 from October's 48.5. One of the important factors slowing

## "A monthly survey of supply chain managers"

growth in the regional economy has been export orders. It is encouraging to record a sharp upturn in the reading. Furthermore, the November expansion pushed regional firms to step-up their buying from abroad. We will have to see several months of improvements like these before I am confident that trade numbers are solidly on the upswing.

**Other components:** Other components of the November Business Conditions Index were new orders at 57.2, up from 47.0 in October; production or sales at 53.3, up from October's 51.2; and delivery lead time at 50.7, down from last month's 53.0.

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.

### MID-AMERICA STATES

#### ARKANSAS

The November overall index for Arkansas expanded to 51.1 from 45.6 in October. Components of the index from the survey of supply managers were new orders at 53.5, production or sales at 47.0, delivery lead time at 50.5, inventories at 56.4, and employment at 48.1. Nondurable goods manufacturers in Arkansas continue to report job losses even as durable goods producers indicate expanding employment levels. Construction activity has yet to return to pre-recession levels in the state. Even with recent job gains the state's nonfarm employment level is down by 19,000 from its maximum level achieved in February 2008.

#### IOWA

After declining for five straight months, the Iowa Business Conditions Index rose for November to a healthy 59.2 from October's 58.5. Components of the index for November were new orders at 57.1, production or sales at 63.9, delivery lead time at 56.3, employment at 57.7, and inventories at 61.1. Government data show that after peaking in July of this year, Iowa has lost nonfarm jobs albeit at a slow pace. Even with these overall losses, our surveys indicate that Iowa's manufacturing sector, both durable and nondurable, remains the strongest in the nine-state region. I expect the state to continue to add jobs at a solid pace in the months ahead.

#### KANSAS

The Kansas Business Conditions Index for November fell to 51.5 from October's 56.3. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 57.1, production or sales at 49.6, delivery lead time at 48.7, employment at 53.9, and inventories at 48.3. Service providers in Kansas cut back on hours worked by their current employees. Except for food processors, nondurable goods manufacturers experienced upturns in overall economic activity. Durable goods producers continue to expand but at a slower pace.

#### MINNESOTA

For 12 straight months, Minnesota's Business Conditions Index has moved above growth neutral. The index from a monthly survey of supply managers in the state advanced to a solid 55.7 from 55.2 in October. Components of the index from the November survey were new orders at 64.9, production or sales at 55.6, delivery lead time at 56.8, inventories at 47.7, and employment at 53.7. Stronger growth among durable goods manufacturers offset somewhat weaker conditions for nondurable goods producers, including food processors. Construction activity continues to expand although it remains well below pre-recession levels.

#### MISSOURI

The November Business Conditions Index for Missouri declined to 51.9 from October's 54.3. Components of the survey of supply managers in the state were new orders at 56.5, production or sales at 56.4, delivery lead time at 49.5, inventories at 49.8, and employment at 47.6. Even with recent gains, employment levels at construction firms in the state remain 35,000 below pre-recession levels. Durable and nondurable goods manufacturers are adding jobs at a healthy pace. Motor vehicle manufacturers and metal producers in the state are experiencing upturns in business activity.

#### NEBRASKA

For a second straight month, Nebraska's overall, or business conditions index, remained below growth neutral. The index, a leading economic indicator from a survey of supply managers in the state advanced to 48.3 from 47.0 in October. Components of the index for November were new orders at 45.9, production or sales at 48.4, delivery lead time at 50.3, inventories at 46.3, and employment at 50.8. Transportation firms, trucking and rail, continue to benefit from expanding economic conditions among Nebraska's manufacturers. On the other hand, construction activity has softened.

#### NORTH DAKOTA

North Dakota's leading economic indicator decreased, but remained above growth neutral for November. The overall index from a survey of supply managers in the state sank to 55.3 from 59.0 in October. Components of the overall index for November were new orders at 51.5, production or sales at 47.7, delivery lead time at 73.6, employment at 61.3, and inventories at 42.7. Durable goods manufacturers and construction firms linked to North Dakota's large energy sector continue to experience very healthy economic activity.

#### OKLAHOMA

The Business Conditions Index for Oklahoma was up but remained below growth neutral for November to 49.3 from October's 48.6. Components of the November survey of supply managers in the state were new orders at 50.8, production or sales at 48.0, delivery lead time at 48.8, inventories at 49.4, and employment at 49.3. Manufacturing firms tied to the state's energy sector experienced pullbacks in economic activity for the month. Construction activity also slowed for November.

#### SOUTH DAKOTA

After moving below growth neutral in November of last year, South Dakota's leading economic indicator from a survey of supply managers has been above growth neutral 50.0 each month since. The overall index, termed the Business Conditions Index, slipped to 52.3 from 54.7 in October. Components of the index for November were new orders at 60.7, production or sales at 58.4, delivery lead time at 44.5, inventories at 43.9, and employment at 54.1. Manufacturers in South Dakota experienced solid improvements for November. Nonfarm employment in the state is at a record level and well above pre-recession levels.



### THE BULLISH NEWS

- The job report for November showed that the U.S. economy added 203,000 jobs and the unemployment rates declined to 7.0%, its lowest level since the middle of the recession or November 2008.
- Home prices expanded by 13.0% between September 2012 and September 2013 or the fastest pace since just

## "A monthly survey of supply chain managers"

before the collapse. Housing bubbles are forming across the U.S.

- November purchasing management indices (PMIs) from the national survey of supply managers shot up to a solid 57.3 while Creighton's regional surveys improved for November.
- Third quarter GDP expanded by a solid 3.6% (however 50% of the growth came from inventory buildup).

### THE BEARISH NEWS

- Home foreclosures remain unacceptable high for certain parts of the nation even as housing prices expand at very healthy paces.
- The percent of the working age population in the labor force (working or looking for a job), is at the lowest level since 1978.

2013 NABE Outlook Survey expect the pace of economic growth to accelerate in both 2013 and 2014," said Survey Chair Timothy Gill, deputy chief economist at the National Electrical Manufacturers Association. "While the federal government shutdown is likely to weigh on growth in the fourth quarter of 2013, the economy posted a surprisingly strong third-quarter performance. Consequently, the median forecast of the panel is for annual economic growth in 2013 to advance at a 2.1% pace—higher than expectations reported in the September survey. Looking ahead to next year, panelists forecast real GDP growth of 2.8% in 2014, down slightly from the 3% gain expected in September. The U.S. economy is likely to experience some headwinds in 2014. Most panelists believe that the Federal Reserve will begin to rein in its policy of quantitative easing in the first half of 2014, and that additional sequestration cuts will negatively affect economic growth throughout the year. However, survey results reflect the view that another government shutdown or a default on federal obligations early in 2014 is unlikely."

### Goss Eggs (Recent Dumb Economic Moves)

- The recent Congressional deal to end federal spending sequestration will cost airline travelers a bundle. In order to shed spending limitations, Congress agreed to raise taxes (fees) on airline tickets. Congress and the Administration need to have the courage to be honest with the American people and refrain from raising taxes that are "invisible" to most Americans. Tax increases should be transparent, not hidden.



### WHAT TO WATCH

- PMIs: On Jan. 2, Creighton University and the Institute for Supply Management will release purchasing management indices (PMI) for December. This is the first economic data released in January. Keep an eye on the overall index and the inflation gauge.
- FOMC Meetings: On December 17 and 18, the Federal Reserve's Open Market Committee meets to shape interest rate policy. They will likely announce when tapering of their \$85 billion monthly bond buying program. Listen for members of the committee to "hint" at their likely decision well in advance of the meetings.
- Jobs: On Friday Jan. 10, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for December. Another very positive job report such as job growth above 250,000 will push interest rates higher faster than most economists, including the Fed, expect.

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

Follow Goss on twitter at <http://twitter.com/erniegoss>  
For historical data and forecasts visit our website at:  
<http://www2.creighton.edu/business/economicoutlook/>  
[www.ernestgoss.com](http://www.ernestgoss.com)

### THE OUTLOOK

FROM GOSS:

- I expect tepid growth for the agriculturally dependent areas of the nation for the first half of 2014 as lower agriculture commodity prices continue to restrain farm income growth.
- I still expect the Federal Reserve to announce at their Dec. 17-18 meetings that they will begin tapering in January 2014. Keep an eye on your bond fund investments focused on long term U.S. Treasuries. You could sustain some heavy losses in 2014.

OTHER FORECASTS:

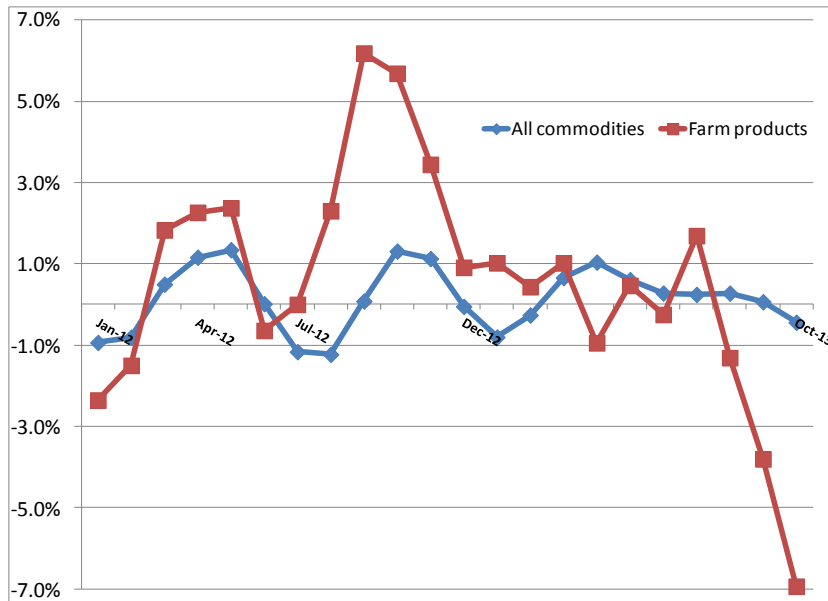
- National Association of Business Economics (December 2013 survey). "Economists participating in the December

"A monthly survey of supply chain managers"

## PRICE DATA

ALL COMMODITIES/FARM PRODUCTS 2007-2013  
 FUELS & RELATED/METALS & METAL PRODUCTS

Price changes, 3 month moving average, 2012- October 2013



Price changes, 3 month moving average, 2012 - October 2013

