

"A monthly survey of supply chain managers"

Welcome to our February report covering Creighton's January survey results. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economy is likely to continue to grow at a positive pace with inflationary pressures declining. Follow my comments at: www.twitter.com/erniegoss

High Wage Jobs Move to Right-to-Work States: Union-Shop States Lose Manufacturing Jobs

Just last month, Mercedes-Benz announced that, in order to become more cost-competitive, it was moving its U.S. headquarters from New Jersey, a union-shop state, to Georgia, a right-to-work state. Right-to-work laws, as authorized by the 1947 Taft-Hartley Act and passed by Georgia, prohibit unions and employers from entering into agreements that require employees to join a union and pay union dues in order to get or keep a job. Twenty-four states have enacted right-to-work laws. The remaining 26 states and DC are union-shop states that require an employee to become a member of the union in order to retain a job. Union leaders maintain that the objective of right-to-work laws is to sow dissension among workers and weaken the labor movement. Proponents of right-to-work laws assert that as a matter of economic freedom, workers should not be required to join a union and that this freedom supports greater economic growth among right-to-work states. Economic data from 2000 to 2013 show that right-to-work states did expand economic growth, as measured by non-inflation-adjusted GDP, by 70.7 percent compared to 59.3 percent for union-shop states. Digging deeper, it is found that during this same period of time, right-to-work states expanded manufacturing wages and salaries by a median 7.7 percent, while union-shop states experienced a median 3.0 percent decline in manufacturing wages and salaries. In fact, 16 of the 26 union-shop states suffered a decline in manufacturing wages and salaries, while only 6 of the 24 right-to-work states experienced a decrease. Furthermore, the share of manufacturing jobs held by union-shop states fell from 55.1 percent to 53.9 percent over the thirteen year period. But the union-shop states' share of the nation's high-wage heavy manufacturing jobs sank by an even larger three percentage points. Data show that high wage manufacturing industries, normally dominated by unions such as steel and automobile, are moving to and expanding in right-to-work states. With manufacturing firms becoming increasingly mobile, the pressure to pass right-to-work laws will grow in the years ahead. I expect Missouri to be the next state to leave the union-shop coalition. Ernie Goss.

Link to video:

<https://www.youtube.com/watch?v=CHi0Nh4sZc>

LAST MONTH'S SURVEY RESULTS

[Growth Outlook Improves for Mid-America in January: Higher Wholesale Inflation Expected](#)

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator climbed for the month.
- On average a 2.5 percent growth in wholesale prices is expected for 2015.
- New hiring expanded at a slower pace for the month.

- Wholesale price index remains muted, indicating very modest inflationary pressures.
- Approximately one-third of supply managers are concerned about declining customer demand, followed by one fifth who are concerned about growing regulatory costs in 2015.
- Business confidence remains very healthy.

The Creighton University Mid-America Business Conditions Index for January, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, increased slightly from December's reading. Indices over the past several months are pointing to positive economic gains over the next three to six months for the region.

Overall index: The Business Conditions Index, which ranges between 0 and 100, rose to 54.8 from December's 54.4. The regional index, much like the national reading, is pointing to positive, but slow to modest growth for the first half of 2015.

Firms such as Helmerich and Payne in Oklahoma, which are tied to energy, and John Deere with links to agriculture, have announced layoffs. I expect these job cuts to grow in the months ahead for states in the region. However, growth for companies outside of energy and agriculture will more than offset the declines in those sectors.

Employment: The regional employment gauge remained in a range indicating positive but slow growth for manufacturing and value-added services firms in the region. The job gauge fell to 51.4 from December's 56.5. Businesses linked to agriculture and energy are laying off workers as firms outside these two sectors are expanding hiring at a healthy pace.

This month supply managers were asked to identify their firm's biggest economic challenge for 2015. More than one third, or 34.7 percent, named low or declining customer demand as their top challenge while more than one-fifth, or 20.8 percent, reported growing regulatory costs as their biggest challenge for 2015. Other obstacles named were: 19.4 percent said cost of Affordable Care Act; 18.1 percent reported higher input prices; 4.2 percent listed competition from abroad; 2.8 percent said rising interest rates.

Wholesale Prices: Last month, the prices-paid index, which tracks the cost of raw materials and supplies, declined to its lowest level in five years. The wholesale inflation index for January expanded to 54.9 from December's 50.8. A strengthening U.S. dollar and weaker global demand have pushed inflationary pressures at the wholesale level lower over the past several months.

Supply managers were asked to project price growth for products that they purchase for 2015. On average, a wholesale price growth of 2.5 percent is expected, which is well above the 1.2 percent experienced for the U.S. for 2014.

Confidence: Looking ahead six months, economic optimism, as captured by the January business confidence index, advanced to 61.8 from December's 58.1. Improving economic expectations resulting from lower energy prices more than offset economic pessimism stemming from layoffs among energy and agriculture linked business.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, fell to 50.0 from 53.4 in December.

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Trade: The new export orders index unexpectedly climbed to 57.0 from December's 52.7. The import index for January declined to 52.8 from December's 56.7. 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 US goods less competitively priced abroad and foreign goods more cheaply priced in the US.

Despite this, the new export orders index moved into a range indicating healthy growth in exports. I do expect exports and new export orders to move lower in the months ahead.

Other components: Other components of the January Business Conditions Index were new orders at 58.6, up from 54.3 in December; production or sales expanded to 60.5 from 49.2 in December; Delivery speed of raw materials and supplies sank to 53.4 from last month's 58.9.

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 January overall index, or leading economic indicator for Arkansas, rose to 52.5 from December's 51.7. Components of the index from the monthly survey of supply managers were new orders at 62.6, production or sales at 48.8, delivery lead time at 59.7, inventories at 46.6, and employment at 48.8. Durable goods manufacturers in the state are growing at a solid pace while nondurable goods producers are experiencing pullbacks in economic activity. Value-added services firms, including business services firms, expanded at a very healthy pace. The Arkansas economy will continue to expand in the next three to six months.

IOWA
Iowa's Business Conditions Index declined for the sixth time in the past seven month. The overall index slipped to 52.2 from December's 53.4. Components of the index from the monthly survey of supply managers were new orders at 53.3, production or sales at 45.1, delivery lead time at 62.8, employment at 54.0, and inventories at 46.1. Durable goods producers, including agriculture machinery manufacturers and metal manufacturing, suffered pullbacks in jobs and economic activity for the month. On the other hand, value-added services firms including engineering and business services companies, more than offset manufacturing losses. However, the strong U.S. dollar is likely to continue to slow overall growth by making Iowa goods less competitively priced abroad.

KANSAS
The Kansas Business Conditions Index for January sank to 53.8 from December's healthy 62.6. Components of the leading

economic indicator from the monthly survey of supply managers were new orders at 38.5, production or sales at 62.4, delivery lead time at 62.4, employment at 52.4, and inventories at 53.4. Expansions for nondurable manufacturers in Kansas more than offset weaker conditions among durable goods producers. Economic growth will be positive, but slower for the next three to six months for the state.

MINNESOTA
January survey results mark the 26th straight month Minnesota's Business Conditions Index has remained above growth neutral. The overall index dipped to a healthy 60.1 from December's 61.4. Components of the index from the January survey of supply managers were new orders at 66.2, production or sales at 70.4, delivery lead time at 53.3, inventories at 58.1, and employment at 52.7. Durable goods manufacturers in the state experienced healthy growth for the month while nondurable goods producers lost economic activity for January. Overall though, the Minnesota economy is expanding at the fastest pace in the region. The healthy growth will continue for the next 3 to 6 months.

MISSOURI
The January Business Conditions Index for Missouri climbed to 56.1 from 55.7 December. Components of the index from the survey of supply managers for January were new orders at 59.6, production or sales at 62.9, delivery lead time at 55.5, inventories at 51.9, and employment at 50.8. Durable goods manufacturers, including transportation equipment producers and metal manufacturers, will continue to push state growth into a healthy range.

NEBRASKA
For the 13th straight month, Nebraska's Business Conditions Index remained above growth neutral 50.0. The January index, a leading economic indicator from a survey of supply managers in the state, rose to a tepid 53.7 from 52.7 in December. Components of the index for January were new orders at 55.3, production or sales at 52.9, delivery lead time at 49.4, inventories at 54.9, and employment at 55.8. Strength among nondurable goods manufacturers, including food processors, more than offset weaker conditions among durable goods manufacturers for the month. Overall Nebraska's economic growth will be positive, but slow for the next three to six months.

NORTH DAKOTA
North Dakota's leading economic indicator climbed to a level pointing to positive, but slower, economic growth in the next three to six months. The January Business Conditions Index increased to 53.0 from 52.7 in December. Components of the overall index from the monthly survey of supply managers for January were new orders at 52.8, production or sales at 52.9, delivery lead time at 54.1, employment at 53.6, and inventories at 51.6. Despite cuts in oil prices, the state's energy sector continues to expand. Durable and nondurable goods producers in the state are experiencing positive but slower growth. I expect growth to slow significantly in the months ahead for North Dakota as lower energy investment and employment begin to dampen state growth.

OKLAHOMA
The Business Conditions Index for Oklahoma, a leading economic indicator, dipped slightly for January, signaling positive but slower growth in the next three to six months. The index for January declined to 52.0 from 54.0 in December. Components of the January survey of supply managers were new orders at 66.6, production or sales at 52.3, delivery lead time at 35.8, inventories at 49.2, and employment at 56.3. Durable goods producers and nondurable manufacturers experienced

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solid gains for the month. Even plunging oil prices have yet to have a significant negative impact on Oklahoma's energy sector.

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, soared to a regional high of 61.2 from December's 52.4. Components of the overall index for January were new orders at 56.9, production or sales at 74.0, delivery lead time at 69.7, inventories at 54.9, and employment at 50.7. Durable and nondurables in the state are experiencing slow, but positive growth. At the same time, plunging oil prices have yet to have a significant and negative impact on South Dakota's energy sector.



THE BULLISH NEWS

- U.S. employers added 257,000 jobs in January and average hourly wages expanded by a strong 0.5% for the month.
- In the 12 months ending in Nov. 2014, the Case-Shiller index indicated that average U.S. home prices rose by 4.3%. This is good news but I am concerned that the growth in the index is coming down too fast.
- The consumer price index (CPI) for Dec. was only 0.8% higher reading for Dec. 2014. This is a good news for bond holders but is well below the Fed's targeted 2%.



THE BEARISH NEWS

- U.S. retail sales for December 2014 and January 2015 declined from the previous month.
- U.S. GDP grew by a paltry 2.4% in 2014. Growth should be in the 4% - 5%.
- The value of the U.S. dollar continues to climb against most major global currencies. These gains are pushing the U.S. trade deficit higher as U.S. goods become less competitively priced abroad.

WHAT TO WATCH

- CPI: On February 26, the U.S. Bureau of Labor Statistics (BLS) releases consumer prices (CPI) for January. If this reading remains soft (i.e. monthly growth of less than 0.2%), bond prices should rebound and potentially push the Federal Reserve to delay a rate hike.
- Wage growth: On Friday March 6, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another monthly gain of 0.4% or more will encourage the Federal Reserve to raise short term interest rates earlier than expected. Currently the market expects a rate hike in June 2015.
- Retail Trade: On March 12, the Census Bureau releases retail sales for February 2015. Given recent weakness in retail sales, there is real concern about consumer strength. A year-over-year gain of more than 5.5%

will be bullish for the U.S. economy and U.S. stocks and bearish for bond prices (higher yields).

FROM GOSS:

- I expect housing price growth to move even lower in the months ahead.
- Central banks across the globe will continue to lower interest rates by making the same mistake made by the U.S. Federal Reserve and launching a sovereign bond buying program. Few sovereign economies suffer from too high interest rates. German bond rates are already as low as 0.5% (yes you read that right). Most economies need structural economic reform that encourages work rather than leisure. This is outside the purview of central banks.
- The U.S. trade deficit is about to soar. If your business depends on exports, it is going to be tougher in the months ahead as nations across the globe devalue their currencies via QE-like programs.

OTHER REPORTS:

- National Association of Business Economics (NABE) January 2015 Business Conditions Survey: "For many companies, the great deflation in oil prices was the most consequential economic shock of 2014. Three-quarters of survey panelists expect lower oil prices to impact their business in 2015, with most anticipating a positive impact," said Survey Chair Jim Duffley, senior director, IHS. "Investment by the oil and gas industry has been a key driver in US economic growth. The big question for 2015 is the impact of lower prices on that investment and its concomitant supply chain. Sales growth improved slightly during the fourth quarter of 2014. Fifty-four percent of respondents reported rising sales at their firms in the fourth quarter survey compared to 49% in the October survey. Falling sales were reported by 15% of respondents, a larger share than was reported in the third quarter (7%). Also, a solid majority of survey panelists from all sectors expect that sales will rise during the first quarter of 2015."

Goss Eggs (Recent Dumb Economic Moves)

- President Obama's recent plan to offer free community college tuition is so wrong on so many fronts. First, it injects more federal interference into higher education. Second, the American taxpayer cannot afford it. Third, and most importantly, students need to have "skin in the game" to prevent over-consuming of this "free" education. The economy needs more community college educated workers but it is a community issue, not a federal one.

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

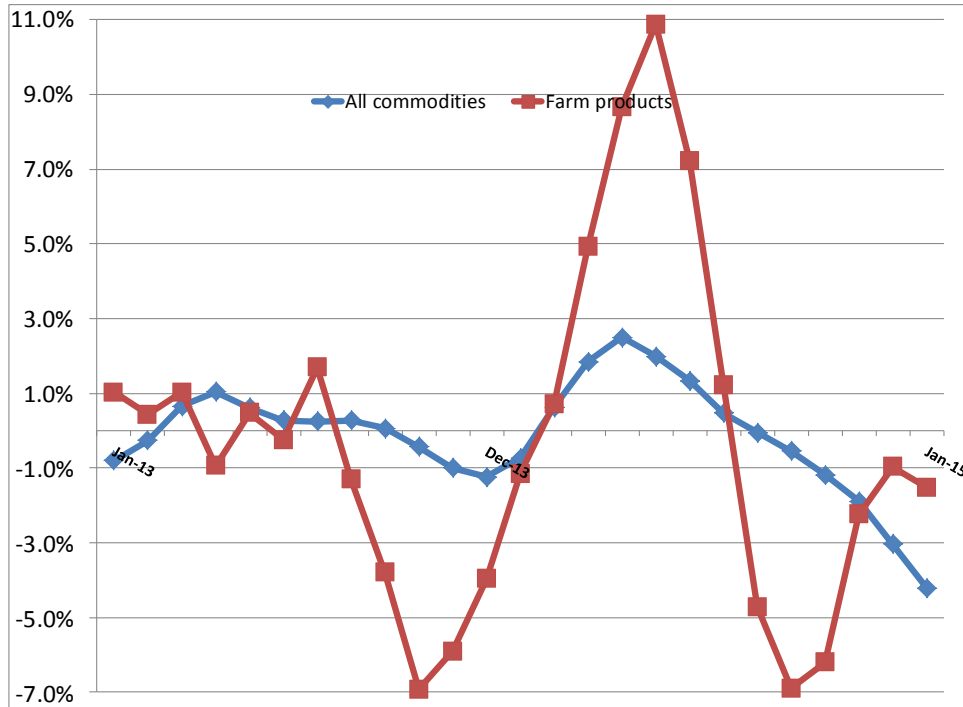
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PRICE DATA

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

Price changes, 3 month moving average, Jan. 2013- Jan. 2015



Price changes, 3 month moving average, Jan. 2013 - Dec. 2014

