

## "A monthly survey of supply chain managers"

Welcome to our July report covering Creighton's June survey results. The survey of supply managers in nine Mid-America states indicate that the economy is currently growing at a healthy pace with positive projections. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### Piketty's Taxing the Rich More Heavily Doesn't Help Poor: Education Does

Thomas Piketty's New York Times best-selling book, *Capital in the Twenty-First Century* has created quite a stir among armchair economists, sociologists and politicians. Among Piketty's most embraced, rebuked and naïve recommendations for reducing income inequality is to raise income taxes on high income earners. U.S. tax collection data since 1996 crush the soundness of this proposal. 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. Furthermore between 1996 and 2011, the bottom half of income earners' portion of total federal income tax collections dropped from approximately 10.0% to 2.5%. During this time period, the degree of income inequality rose as measured by the Gini Coefficient. With a higher Gini Coefficient indicating greater inequality the expansion in the U.S. Gini Coefficient from 39.3 in 1996 to 47.7 in 2011 indicates significant expansion in income inequality. If taxing the rich more heavily does not reduce income inequality, what does? Education! In 2011, the ten states with the greatest degree of income equality had a high school graduation rate of 90.7% and the ten states with the greatest degree of inequality, had a much lower high school graduation rate of 59.1%. Furthermore, the latest U.S. employment data show that high school dropouts have an unemployment rate almost three times that of college graduates, and average annual earnings that are roughly 42.6 percent that of college graduates. Reduce income inequality, don't drop out! Ernie Goss.

#### Link to video:

<https://www.youtube.com/watch?v=PvFVM-sPIv0>

### LAST MONTH'S SURVEY RESULTS

New Export Orders Push Index to Healthy Level:  
Supply Managers Expect 7.4 Percent Increase in 2015 Health  
Insurance Costs

#### SURVEY RESULTS AT A GLANCE:

- The Business Conditions Index climbed to highest level since March 2011.
- Growth in domestic and export orders over past three months strongest since second quarter of 2010.
- Employment index surges to highest level in two years.
- Businesses expect 2015 health insurance premiums to increase by 7.4 percent from 2014 levels.
- Inflation gauge declines but is at a level indicating elevated inflationary pressures at wholesale level.

- Business confidence index very strong for June.

The Mid-America Business Conditions Index for June, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, points to healthy and improving growth in the next three to six months. **Overall index:** The Business Conditions Index, which ranges between 0 and 100, climbed to 60.6 from 60.5 in May. This is the highest overall reading that we have recorded since March 2011. Not since the second quarter of 2010 have we recorded new orders growth above that of the second quarter of this year. Production and delivery of these orders in the months ahead will underpin regional economic growth over the next three to six months.

**Employment:** Businesses expanded employment at a brisk pace for the past three months. The employment index rose to 61.4, its highest level in two years, and up from last month's 60.0. Growth among durable goods manufacturers in the region is pushing overall employment growth higher. Except for Arkansas and Missouri, all states in the region have regained all jobs lost during the recession. Regional job growth for the first half of 2014 is running at a 1.5 percent annual rate which is well ahead of the growth experienced for the same period in 2013. This pace will remain strong for the third quarter of this year according to our surveys over the past several months.

**Wholesale Prices:** The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation expanded to 73.5 from May's 73.1. Inflationary pressures at the wholesale level, while still not in the danger zone, are elevated from the same time last year. Reports like this by supply managers will encourage the Federal Reserve to continue to reduce its monetary stimulus termed quantitative easing (QE3). Given inflation data from our surveys as well as others will push the Fed to raise short term interest rates in the first half of 2015 in my judgment.

This month supply managers in the region were asked how much they expect the price of products that they purchase to rise by in the next six months. On average, supply managers anticipate a gain of 2.9 percent for the next six months, or approximately 5.8 percent on an annual basis. On an annual basis, this is an increase of a full one percentage point from last month when we asked the same question.

**Confidence:** Looking six months ahead, economic optimism, as captured by the June business confidence index, climbed to 63.6 from 62.5 in May. Improvements in the national and regional job market supported supply managers' business outlook for the month.

**Inventories:** The inventory index, which tracks the level of raw materials and supplies, dipped to a solid 54.0 from May's 56.0. While the rate of inventory expansion slowed, June's inventory index is yet another signal that supply managers are 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 soared to 60.2 from 53.0 in May. The import index for June sank to 53.4 from May's 62.6. It is a very encouraging signal to track this healthy reading and a seventh straight month of expanding new export orders. Exports have been an important source of growth for the region. At the same time, firms in the region continued purchasing from abroad in expectations of upturns in company sales in the weeks and months ahead.

**Other components:** Other components of the June Business Conditions Index were new orders at 67.2 up from 63.5 in May; production or sales at 66.0, down from 67.1; and delivery lead time for June dropped to 54.4 from last month's 55.9.

The Creighton Economic Forecasting Group has conducted the monthly survey of supply managers in nine states since 1994 to produce leading economic

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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 June overall index, or leading economic indicator, for Arkansas declined to 51.3 from May's much stronger 58.9. Components of the index from the monthly survey of supply managers were new orders at 48.9, production or sales at 48.7, delivery lead time at 57.3, inventories at 45.2, and employment at 56.4. Even with recent growth, Arkansas and Missouri are the only two states that have yet to regain the jobs lost during the national recession. According to our surveys, Arkansas will continue to add jobs but at a slow pace with durable goods manufacturing outperforming nondurable goods production in the state.

IOWA

Iowa's Business Conditions Index for June expanded to a very healthy 67.8 from May's 66.5. Components of the index from the monthly survey of supply managers were new orders at 77.4, production or sales at 77.5, delivery lead time at 57.9, employment at 67.3, and inventories at 58.8. "There are more workers on Iowa payrolls than ever before. Our surveys indicate this expansion will continue. However China's recent decision to reject the importation of U.S. dried distillers' grains (DDGs), due to concerns over bioengineered corn, is a risk to the state's large bioenergy sector, especially if other nations follow suit. China currently purchases between one-fourth and one-third of the U.S. output of DDGs that is exported, and Iowa is the nation's largest producer of DDGs. Food producers in Iowa experienced a pullback in business activity for the month.

KANSAS

The Kansas Business Conditions Index for June expanded to a healthy 59.4 from 58.8 in May. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 70.3, production or sales at 67.7, delivery lead time at 48.4, employment at 51.7, and inventories at 59.0. Kansas continues to add jobs and economic activity at a positive pace. While the state's durable goods sector, including aircraft and aerospace parts producers, is experiencing pullbacks in economic activity, this has been more than offset with positive growth among nondurable goods manufacturers.

MINNESOTA

June's survey results mark the 19th straight month Minnesota's Business Conditions Index has remained above growth neutral. The index expanded to a regional high of 70.1 from 67.3 in May. Components of the index from the June survey of supply managers in the state were new orders at 80.0, production or sales at 80.8, delivery lead time at 57.7, inventories at 72.4, and employment at 59.6. There are more workers on Minnesota companies' payrolls than ever before. Our surveys indicate that this expansion will continue setting a new record each month. However China's recent decision to reject the importation of U.S. DDGs, due to concerns over bioengineered corn, is a risk to the

state's bioenergy sector especially if other nations follow suit. China currently purchases a between one-fourth and one-third of the U.S. output of DDGs that is exported, and Minnesota is the nation's fourth largest producer of DDGs. Contrary to other food producers in the region, Minnesota's expanded for the month

MISSOURI

The June Business Conditions Index for Missouri advanced to a brisk 59.3 from May's solid 57.7. Components of the survey of supply managers for June were new orders at 61.3, production or sales at 63.9, delivery lead time at 55.8, inventories at 53.1, and employment at 62.3. Even with recent growth, Arkansas and Missouri are the only two states that have yet to regain the jobs lost during the national recession. According to our surveys, Missouri will continue to add jobs but at a slow pace with durable goods manufacturing, especially vehicle manufacturing, outperforming nondurable goods production in the state.

NEBRASKA

For the sixth straight month, Nebraska's overall index remained above 50.0. The index, a leading economic indicator from a survey of supply managers in the state, slipped to a still solid 55.2 from May's 55.6. Components of the index for June were new orders at 59.8, production or sales at 59.0, delivery lead time at 52.3, inventories at 52.5, and employment at 52.6. Our surveys indicate that Nebraska's expansion will continue with state employment rising to record levels in the months ahead. Growth in Nebraska's nondurable manufacturing sector, especially biofuels, has offset weaker conditions among durable goods manufacturers. However China's recent decision to reject the importation of U.S. DDGs, due to concerns over bioengineered corn, is a risk to Nebraska's large bioenergy industry, especially if other nations follow suit. China currently purchases a between one-fourth and one-third of the U.S. output of DDGs that is exported and Nebraska is the nation's second largest producer of DDGs.

NORTH DAKOTA

The state's leading economic indicator fell, but to a level pointing to healthy improvements in the state's economy. The June reading of 61.6 was down from May's 65.2. Components of the overall index from the monthly survey of supply managers for June were new orders at 60.1, production or sales at 56.3, delivery lead time at 53.4, employment at 84.0, and inventories at 54.0. Almost every month since the fourth quarter of 2007, North Dakota's employment level has risen to a record high. Our surveys indicate that this trend will continue for the second half of 2014. On the other hand, durable goods producers in the state and food processors are experiencing pullbacks in economic activity.

OKLAHOMA

Oklahoma's leading economic indicator continues to point to expanding economic conditions in the months ahead. Oklahoma's Business Conditions Index for June jumped to 66.6 from May's healthy 58.3. Components of the June survey of supply managers in the state were new orders at 71.2, production or sales at 69.9, delivery lead time at 62.8, inventories at 63.3, and employment at 65.9. There are more workers on Oklahoma companies' payrolls than ever before. Our surveys indicate that this expansion will continue to with a new employment record set each month. Growth for both durable and nondurable goods, especially those tied to energy, will boost economic expansion for the second half of 2014.

SOUTH DAKOTA

After moving below growth neutral in November of 2012, South Dakota's leading economic indicator has been above

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FROM GOSS:

- I anticipate that short term interest rates (loans and bonds less than 5 years in length will rise in the months ahead.
- I expect a major retrenchment in the values (stock prices) of some of recent fluffy IPOs (Initial Public Offers). Venture capitalists and others are throwing money at some idiotic ideas from Silicon Valley and beyond. One of the latest nutty ventures DiedInHouse.com was founded in 2013 by a software development company. The Died in House provides users with death records associated with a specific address. Re-examine your portfolio and reduce your risks related to such companies. In the next year, there will be some big losers among those placing these risky bets.

OTHER REPORTS:

- National Association of Business Economics (NABE) (June 2014): NABE's June 2014 Outlook Survey panelists expect stronger economic growth for the balance of this year than they did three months ago," said NABE President Jack Kleinhenz, chief economist of the National Retail Federation. "The consensus forecast is that real GDP will advance at a strong 3.5% annualized clip in the second quarter of 2014, bolstered by activity that was postponed due to adverse weather conditions earlier in the year. The March survey called for a 2.8% second-quarter gain. Growth expectations for the third and fourth quarters of 2014, at 3.1% and 3.2%, respectively, have also been revised upward. "The latest forecast for annual real GDP growth this year is lower than the previous survey, though, due to a contraction in the first quarter. On an annual average basis, real GDP growth is seen increasing from 1.9% in 2013 to 2.5% in 2014, down from March's expectation of 2.8%. The panel's forecast of a further acceleration to 3.1% real GDP growth in 2015 is unchanged from March. Expectations for business investment, housing construction, exports and government outlays have been tempered. In contrast, consumer spending is projected to increase—and the labor market to improve—both more quickly than previously forecast. Moreover, inflationary expectations remain low."

Goss Eggs (Recent Dumb Economic Moves)

- Once again Congressional Democrats and Republicans are bonding to advance bailouts for some of the nation's biggest corporations. This time it is funding for the Depression era relic, the Export-Import bank. The bank hands out loans, capital and credit insurance to support U.S. firm's sales abroad. Last year, the bank's authorizations exceeded \$27 billion. Why should the U.S. taxpayers guarantee loans that private lenders reject?

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

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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/www.ernestgoss.com>

growth neutral 50.0 each month since. The overall index from the monthly survey of supply managers expanded to 69.5 from May's regional high 68.9. Components of the overall index for June were new orders at 68.9, production or sales at 75.7, delivery lead time at 61.8, inventories at 75.2, and employment at 65.8. South Dakota's employment level expanded to a record level for the second quarter of 2014. Manufacturing continues to expand and boost overall state growth higher. I expect this trend to continue for the second half of 2014.



THE BULLISH NEWS

- Total nonfarm payroll employment increased by 288,000 in June, and the unemployment rate declined to 6.1%. This is much better than expected. Job gains were widespread, led by employment growth in professional and business services, retail trade, food services and drinking places, and health care.
- For May, Creighton University's survey of supply managers and the national survey of supply managers point to improving growth for through the third quarter of 2014.
- The U.S. trade deficit fell in May as exports hit an all-time high and imports dipped slightly.



THE BEARISH NEWS

- GDP declined by 2.9% in the first quarter of 2014. This is the worst quarter since Quarter 1, 2009.
- The Consumer Price Index (CPI) increased 0.4% in May after rising 0.3% in April. The index for all items less food and energy rose 0.3% in May after increasing 0.2% in April. Both readings are above the Federal Reserve's target and could push interest rates up before currently anticipated by the Fed.
- Price earnings ratios for U.S. stocks are getting a bit rich, especially if the Fed begins to talk tough on interest rates.

WHAT TO WATCH

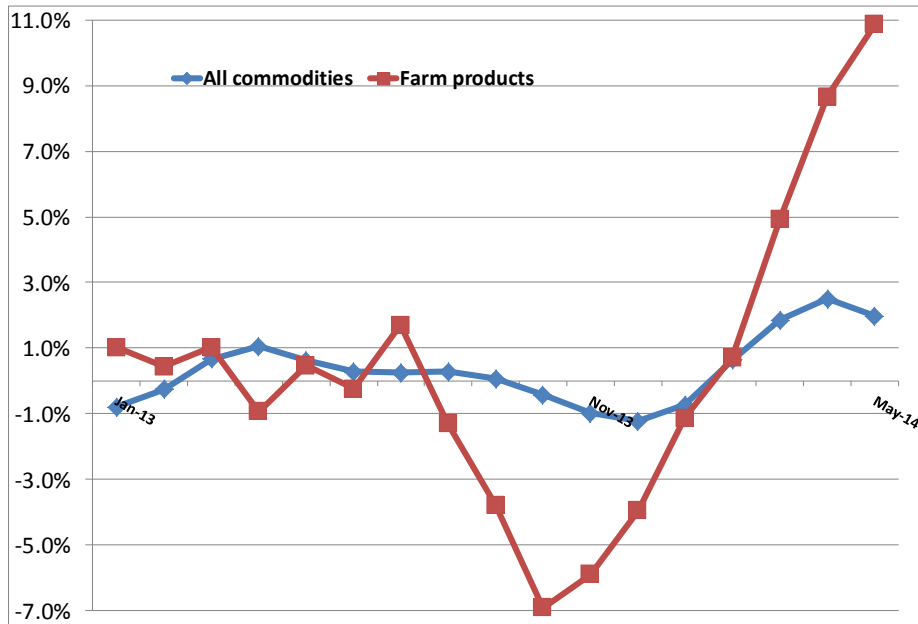
- CPIs: On July 22, the Bureau of Labor Statistics releases consumer price indices for June. A monthly increase of more than 0.3% will encourage the Fed to begin preparing the market for a rate hike in the first quarter of 2015.
- GDP: On July 30, the U.S. BEA releases preliminary estimate of Q2 GDP. Annualized growth of less than 2% will be very disappointing and give bond prices a boost and push interest rates lower.
- Jobs: On Friday August 1, the U.S. Bureau of Labor Statistics (BLS) will release employment report for June. Another strong report (job additions above 250,000) will result in long term interest rates rising more quickly and a short-term rate increase in the first quarter of 2015.

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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 - May 2014



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

