

"A monthly survey of supply chain managers"

Welcome to our July report covering results from Creighton's two June economic surveys. Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth was slightly positive for manufacturing with stabilizing economic conditions but job losses. Creighton's monthly survey of bank CEOs in rural areas of 10 states, on the other hand, points to economic weakness for the month with almost record low agriculture equipment sales indices and declining farmland prices. Follow my comments at: www.twitter.com/erniegoss

Taxpayers Need to Shine Light on Solar Energy

In 1982 as a graduate research student at the Department of Energy's (DOE) Oak Ridge National Laboratory, I worked on solar energy projects. At the time, the goal was to replace fossil fuels with solar energy in the production of electricity. As an infant industry, it was argued that all solar needed was short-term taxpayer subsidies to become competitive with its elder rivals. However after 34 years and massive taxpayer subsidies, the industry still cannot compete cost-wise with rival energy sources in producing electricity.

The latest DOE data show that in 2013 taxpayers showered solar energy with \$4.4 billion in subsidies for a mere 19 million megawatt hours (MWH) of electricity production, or one-half of one percent of total electricity usage for the year. That works out to \$23 per MWH when the average retail price for electricity was only \$13 per MWH. In addition to these subsidies, the federal government invested in scores of failed solar energy firms including \$535 million in Solendra, \$1.5 billion in Sun Edison, and even \$2.7 billion in Spanish solar energy giant, Agengoa.

Despite the subsidies and excessive costs per MWH, advocates argue that solar energy remains an infant industry that needs taxpayer funds and regulatory coddling. If the goal is to reduce CO2 emissions from coal-fired electricity generation, a better approach is to introduce a carbon tax taking the decision making out of the hands of market meddling politicians, and putting it into the hands of individuals and investors with "skin in the game." Ernie Goss.

Link to video:

<https://youtu.be/xEqGaqFEsfo>

LAST MONTH'S SURVEY RESULTS

Mid-America Business Conditions Index Slumps: One in Six Firms Expect Second Half Layoffs

SURVEY RESULTS AT A GLANCE:

- For a fifth straight month, the overall index remained above growth neutral.
- Manufacturing job losses were recorded for the month.
- For the second half of 2016, one in six firms expects layoffs while one in four anticipates additional hiring.
- Inflation gauge moved higher while export orders plummeted.
- Kansas, which exports only 0.3 percent of gross

domestic product to Great Britain, is the most susceptible to British economic turmoil among the nine states in the region.

The Creighton University Mid-America Business Conditions Index for January, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, expanded for the first time since June of last year, but remained below growth neutral.

Overall index: Overall index: The June Business Conditions Index, which ranges between 0 and 100, fell to 50.1 from May's 52.1. This is the fifth consecutive month the reading has remained above growth neutral.

Over the past several months the regional index, much like the national reading, has indicated the manufacturing sector is experiencing anemic business conditions.

The region's manufacturing sector is expanding, but at a slow pace as gains for nondurable goods producers more than offset continuing losses for regional durable goods manufacturers.

Most survey participants completed the survey before Great Britain citizens voted to exit the EU. In 2015, the region exported almost \$2.0 billion in goods to Great Britain and imported approximately \$1.9 billion for a relatively small regional trade surplus of almost \$100 million.

Thus, a British recession or weak British currency will not have a significant impact on the Mid-America economy. The larger impact on the regional economy would be a substantial strengthening of the dollar against a broad range of currencies.

Employment: The regional employment gauge once again slumped below growth neutral. The index fell to 46.1 from May's tepid 51.4. While the region's manufacturing sector has lost jobs over the last several months, the overall regional economy continues to add jobs but at a pace of roughly half that of this time last year.

Wholesale Prices: The wholesale inflation index expanded to its highest level since May of last year, to 66.7 for June and up from last month's 62.4. Prices for raw materials and supplies, as reported by regional supply managers, are rising at a pace, if matched in future months, will push the inflation rate above the Federal Reserve's target rate. Despite all of the global risks, I expect the Federal Reserve to increase rates at least once in the second half of 2016.

Confidence: Looking ahead six months, economic optimism, as captured by the June business confidence index, improved to 51.9 from May's 47.7. Only a small share of survey participants completed the survey after the British Brexit vote. Thus, the recorded reading is higher than expected given the global economic uncertainty currently observed.

Inventories: The June inventory index, which tracks the change in the level of raw materials and supplies, increased to 54.0 from May's 52.9.

Trade: The new export orders fell to 47.6 from May's 52.1. The import index for June tumbled to 47.8 from 50.1 in May. Global economic uncertainty and weakness among our trading partners continue to weigh on export orders. At the same time, growth in regional manufacturing pushed supply managers to maintain buying from abroad.

Other components: Components of the June Business Conditions

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Index were new orders at 46.8, down from 50.7; production or sales sank to 47.6 from May's 52.9; and delivery speed of raw materials and supplies rose to 55.4 from last month's 52.1.

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 since 1931, by the Institute for Supply Management, formerly the National Association of Purchasing Management.

MID-AMERICA STATES

ARKANSAS

Arkansas' overall index for June, or leading economic indicator, fell to 48.5 from May's 52.7. Components of the index from the monthly survey of supply managers were new orders at 45.6, production or sales at 46.5, delivery lead time at 53.0, inventories at 52.1, and employment at 45.3. In 2015, Arkansas exported \$170 million in goods to Great Britain representing less than 0.14 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small, negative impact on the state economy.

IOWA

The June Business Conditions Index for Iowa slipped to 50.3 from May's 53.2. Components of the index from the monthly survey of supply managers were new orders at 46.1, production or sales at 46.9, delivery lead time at 54.9, employment at 46.5, and inventories at 57.0. In 2015, Iowa exported \$289 million in goods to Great Britain representing less than 0.20 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small, negative impact on the Iowa's economy.

KANSAS

The Kansas Business Conditions Index for June sank to 48.4 from 49.7 in May. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 45.6, production or sales at 49.9, delivery lead time at 49.4, employment at 45.2, and inventories at 51.7. In 2015, Kansas exported \$432 million in goods to Great Britain representing less than 0.30 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small, negative impact on the Kansas economy.

MINNESOTA

The June Minnesota Business Conditions Index declined to 51.6 from 54.3 in May. Components of the index from the monthly survey of supply managers were new orders at 48.1, production or sales at 47.2, delivery lead time at 54.8, inventories at 60.6, and employment at 47.5. In 2015, Minnesota exported \$534 million in goods to Great Britain representing less than 0.16 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession

will have only a small, negative impact on Minnesota's economy.

MISSOURI

The June Business Conditions Index for Missouri sank to a still regional high of 54.0 from May's 57.0, also a regional high. Components of the index from the survey of supply managers were new orders at 47.8, production or sales at 47.9, delivery lead time at 58.1, inventories at 67.0, and employment at 49.1. In 2015, Missouri exported \$364 million in goods to Great Britain representing slightly more than 0.12 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small, negative impact on Missouri's economy.

NEBRASKA

The June Business Conditions Index for Nebraska slipped to 51.5 from 52.4 in May. Components of the index from the monthly survey of supply managers were new orders at 47.8, production or sales at 47.2, delivery lead time at 55.1, inventories at 60.1, and employment at 47.3. In 2015, Nebraska exported \$42 million in goods to Great Britain representing less than 0.03 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small, negative impact on Nebraska's economy.

NORTH DAKOTA

While North Dakota's leading economic indicator for June rose, it remained below growth neutral 50.0. The Business Conditions Index for the month rose to 41.3, a regional low from May's 40.9, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 47.5, production or sales at 44.8, delivery lead time at 41.2, employment at 40.2, and inventories at 32.3. In 2015, North Dakota exported \$19 million in goods to Great Britain representing approximately 0.03 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small negative impact on North Dakota's economy.

OKLAHOMA

After moving above growth neutral for May, Oklahoma's Business Conditions Index once again moved below the threshold in June. The index from a monthly survey of supply managers slumped to 48.1 from 51.4 in May. Components of the June survey of supply managers were new orders at 46.8, production or sales at 46.4, delivery lead time at 51.3, inventories at 50.9, and employment at 45.0. In 2015, Oklahoma exported \$113 million in goods to Great Britain representing approximately 0.06 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small negative impact on the Oklahoma economy.

SOUTH DAKOTA

The Business Conditions Index for South Dakota dipped to 51.1 from 53.8 in May. The index has moved above growth neutral for six straight months. Components of the overall index for June were new orders at 46.2, production or sales at 47.1, delivery lead time at 54.4, inventories at 59.1, and employment at 48.8. In 2015, South Dakota exported \$9 million in goods to Great Britain representing less than 0.02 percent of the state's gross domestic product. Thus, significant increases in the value of the dollar versus the pound sterling, or a British recession will have only a small, negative impact on South Dakota's economy.

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THE BULLISH NEWS

- U.S. home prices rose by 5.1% between April 2015 and April 2016. This marked the sixth straight month that growth has exceeded five percent.
- The average 30-year fixed mortgage averaged 3.48% for the week ending June 30, down from 3.56% the previous week.
- U.S. companies added a massive 287,000 jobs in June, well above the expected 180,000.



THE BEARISH NEWS

- Between May 2015 and 2016, the core CPI which excludes food and energy, rose by 2.2% and has risen above 2.0% (the Fed's supposed target) for 7 straight months.
- The U.S. trade deficit climbed by \$41.1 billion in May compared to April's \$37.5 billion. Exports declined by 0.2% and imports jumped by 1.6%.

WHAT TO WATCH

- **CPI:** On July 15 and August 16, the Bureau of Labor Statistics releases the consumer price index (CPI) for June and July, respectively. Keep an eye on the core CPI (excludes food and energy). The year-over-year growth has been above the Fed target of 2.0% for the past 7 months.
- **GDP:** On July 29, BEA releases its advance estimate of quarter 2 U.S. GDP (gross domestic product). Another annualized reading below 1.5% will be a bearish economic signal. GDP growth over 2.5% will be a bullish signal.
- **The Jobs Report:** On Aug. 5, the Bureau of Labor Statistics will release the July jobs report. Another very weak report (i.e. less than 100,000 jobs) will push the Federal Reserve to forego raising rates at their July 26-27 meetings.

Goss Eggs (Recent Dumb Economic Moves)

- The Venezuelan government continues to enforce price and currency controls even with empty shelves at grocery stores. Coca-Cola has ceased cola production in this oil rich nation due to sugar shortages. Prices set by politicians below the equilibrium market price inevitability produce two outcomes: shortages and underground markets. The laws of supply and demand are just that, laws, not good ideas.

Survey results for October will be released on the first business day of next month, Aug. 1.

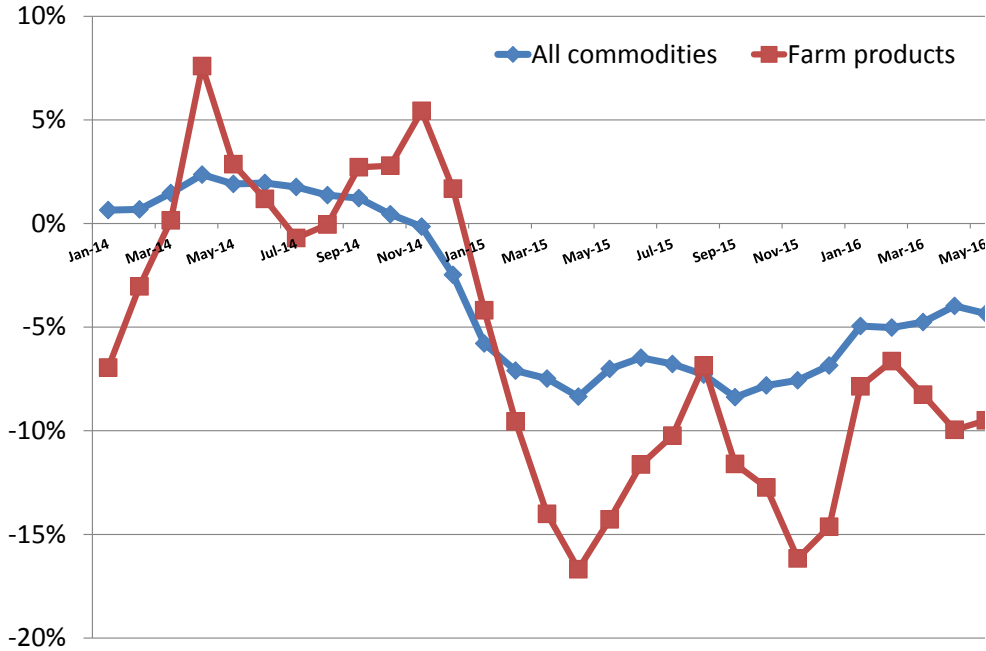
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<http://www2.creighton.edu/business/economicoutlook/>

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PRICE DATA

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

Year over year price change, commodities and farm product, 2014-16



Year over year price change, fuels and metal products, 2014-16

