

"A monthly survey of supply chain managers"

Welcome to our May report covering Creighton's April 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

Cutting Coal Electricity Generation: More Costly for Red States

This month under provisions of the Clean Air Act, signed by Richard Nixon in 1970, President Obama proposed new carbon limits on electricity generation. The goal of his initiative is a 30% reduction of carbon emissions from electricity plants by 2030, three-fourths which come from coal usage. The latest data from the Energy Information Agency show that residential electricity customers in the 25 states generating electricity from coal pay 20% less per kilowatt hour than customers in the 26 states and DC that use no coal in the production of electricity. Furthermore, 11 of the 12 highest electricity cost states use no coal in the making of electricity. Data indicate that reducing coal's share of electricity production from a national average of 28.3% to 20.0%, by expanding the share produced by renewable energy, will increase the cost of electricity by approximately 19.0%. This increase in cost however, will not be shared evenly. Blue states, those that placed their electoral votes for the Democrat presidential candidate in each of the last four elections, paid electricity prices 43.2% higher than states that voted Republican in the same four elections. Not surprisingly, 16 of the nation's 19 Blue states used no coal for electricity creation, while only 5 of 22 Red states used no coal for electricity production. Purple states, those that split their electoral votes between Democrat and Republican presidential candidates, paid 23.3% more for electricity production than Red states, and 5 of the 10 Purple states use no coal in the generation of electricity. Thus in addition to environmental and health concerns, the new policy interjects potential political issues into the President's announced policy. Ernie Goss.

Link to video:

http://youtu.be/O_tKikb8pec

LAST MONTH'S SURVEY RESULTS

Healthy Growth Ahead for Mid-America Economy: Supply Managers Expect Strong 2014 Hiring

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator rises to highest level in more than three years.
- Employment index surges to highest level in more than one year.
- More than four of ten firms expect upturn in hiring for rest of 2014.
- Only one of ten firms anticipates layoffs for remainder of 2014.
- Wholesale price gauge down for month but is up from same time last year.

The Mid-America Business Conditions Index for May, 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 60.5 from 60.4 in April. This is the highest overall reading that we have recorded in more than three years. Strong growth in new orders over the past two month was the prime factor pushing the overall index higher. Production and sale of these orders in the months ahead will underpin regional economic growth over the next three to six months.

Employment: After weather restrained job growth for quarter one, businesses expanded employment at a brisk pace for April and May. The employment index surged to 60.0, its highest level in more than a year, and up from April's 54.2. Both durable goods and non-durable goods manufacturers are adding jobs at a healthy pace. Even with post-recession expansions, regional manufacturing employment is down by almost ten percent from pre-recession levels. Until recently manufacturers had increased output primarily via expanding hours worked for current employees and rising productivity. However, manufacturing employers are currently adding jobs at a healthy pace.

Hiring for 2014: Approximately 10.7 percent of firms in the region anticipate layoffs for the remainder of this year while 41.3 percent expect new hiring for 2014. The remaining 48.0 percent expect little or no change in employment levels for the rest of 2014.

Wholesale Prices: The prices-paid index, which tracks the cost of raw materials and supplies, declined for the month. The wholesale inflation sank to a still strong 73.1 from April's 75.9. Inflationary pressures at the wholesale level, while 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).

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 2.4 percent for the next six months, or approximately 4.8 percent on an annual basis. On an annual basis, this is down by more than one percentage point from January of this year when we asked the same question.

Confidence: Looking six months ahead, economic optimism, as captured by the May business confidence index, dipped to a healthy 62.5 from April's 64.2. 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 56.0 from April's 56.6. While the rate of inventory expansion slowed, May's inventory index is yet another signal that supply managers are more 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 sank to 53.0 from 60.8 in April. The import index for May declined to 62.6 from May's 55.6. It is a very encouraging signal to track 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 May Business Conditions Index were new orders at 63.5, down from 66.3 in April; production or sales at 67.1, down from April's 68.3; and delivery lead time for May dropped to 55.9 from last month's 56.6.

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.

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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 May overall index, or leading economic indicator, for Arkansas declined to a healthy 58.9 from April's even stronger 62.9. Components of the index from the monthly survey of supply managers were new orders at 52.1, production or sales at 54.1, delivery lead time at 64.6, inventories at 57.1, and employment at 62.7. Despite recent growth in the Arkansas manufacturing sector, the state's manufacturers are employing approximately 17.2 percent fewer workers today than before the beginning of the national recession. Furthermore, the manufacturing wage rate is down by 0.2 percent from one year ago. However, our surveys over the past several months point to solid improvements for manufacturing and the overall state economy in the next three to six months with healthy wage additions.

IOWA

Iowa's Business Conditions Index for May slipped to a still robust 66.5 from April's very healthy 67.2. Components of the index from the monthly survey of supply managers were new orders at 74.7, production or sales at 75.1, delivery lead time at 50.8, employment at 69.6, and inventories at 62.6. Despite healthy growth in the Iowa manufacturing sector, the state's manufacturers are employing approximately 6.1 percent fewer workers today than before the beginning of the national recession. On the other hand, the manufacturing wage rate has expanded by a solid 4.4 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy with healthy wage increases.

KANSAS

The Kansas Business Conditions Index for April expanded to a healthy 61.0 from 54.6 in March. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 64.4, production or sales at 71.0, delivery lead time at 43.7, employment at 56.8, and inventories at 69.3. Despite healthy growth in the Kansas manufacturing sector, the state's manufacturers are employing approximately 14.0 percent fewer workers today than before the beginning of the national recession. On the other hand, the manufacturing wage rate has expanded by very strong 9.7 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months.

MINNESOTA

For 18 straight months, Minnesota's Business Conditions Index has remained above growth neutral. The index expanded to a robust 67.3 from 64.9 in April. Components of the index from the May survey of supply managers in the state were new orders at 76.7, production or sales at 78.3, delivery lead time at 57.0, inventories at 69.8, and employment at 54.8. Despite impressive gains for manufacturers in the state over the past year, Minnesota's manufacturing sector has approximately 6.6 percent fewer workers today than before

the national recession began. Additionally, the manufacturing wage rate has expanded by a weak 1.5 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with upturns in wage gains.

MISSOURI

The May Business Conditions Index for Missouri slipped to a still solid 57.7 from 54.8 in April. Components of the survey of supply managers in the state for May were new orders at 57.4, production or sales at 62.7, delivery lead time at 57.3, inventories at 51.6, and employment at 59.4. Despite solid gains for manufacturers in the state over the past year, Missouri's manufacturing sector has approximately 13.0 percent fewer workers today than before the national recession began. On the other hand, the manufacturing wage rate has expanded by a strong 6.5 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months.

NEBRASKA

For the fifth straight month, Nebraska's overall index rose above 50.0. The index, a leading economic indicator from a survey of supply managers in the state expanded to 55.6 from April's 55.1. Components of the index for May were new orders at 58.6, production or sales at 59.2, delivery lead time at 56.5, inventories at 52.6, and employment at 51.2. Despite healthy gains for manufacturers in the state over the past year, Nebraska's manufacturing sector has approximately 5.8 percent fewer workers today than before the national recession began. Moreover, the manufacturing wage rate in the state has expanded by a weak and sub-par 0.2 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with healthy wage increases.

NORTH DAKOTA

The state's leading economic indicator expanded to 65.2 from April's 60.2. Components of the overall index from the monthly survey of supply managers for May were new orders at 70.2, production or sales at 62.5, delivery lead time at 56.9, employment at 78.3, and inventories at 58.1. Despite experiencing the strongest economic growth in the nation over the past several years, North Dakota's manufacturing sector has approximately 3.0 percent fewer manufacturing workers today than before the national recession began. Additionally, the manufacturing wage rate in the state has expanded by a modest 3.2 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with very strong wage gains.

OKLAHOMA

The state's leading economic indicator continues to point to healthy gains for the next three to six months. Oklahoma's Business Conditions Index for May expanded to a solid 58.3 from last month's 54.8. Components of the May survey of supply managers in the state were new orders at 67.4, production or sales at 64.8, delivery lead time at 50.6, inventories at 51.6, and employment at 56.9. Despite healthy gains for manufacturers in the state over the past year, Oklahoma's manufacturing sector has approximately 8.3 percent fewer manufacturing workers today than before the national recession began. On the other hand, the manufacturing wage rate in the state has expanded by a solid 4.6 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with solid wage gains.

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Statistics (BLS) will release employment report for June. Another strong report (job additions above 200,000) will result in long term interest rates rising more quickly.

THE OUTLOOK

FROM GOSS:

- The U.S. 2014 budget deficit to decline to roughly \$500 billion, or 2.8% of GDP.
- The U.S. trade deficit to remain unacceptably high as many of our global trading partners experience slower economic growth thus buying less from the U.S..
- U.S. housing price growth to slow to a more sustainable annual growth rate of 4% - 6% in the next 6 months. .

OTHER REPORTS:

- National Association of Business Economics (June 2014) SUMMARY: "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 majority view is that the Federal Reserve will terminate its long-term asset purchase program by the end of 2014 and begin to raise the federal funds rate in 2015.

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, July 1st.

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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/>
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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 overall index from the monthly survey of supply managers expanded to a regional high of 68.9 from April's 68.1. Components of the overall index for May were new orders at 67.9, production or sales at 76.1, delivery lead time at 63.6, inventories at 65.0, and employment at 71.7. Despite healthy gains for manufacturers in the state over the past year, South Dakota's manufacturing sector has approximately the same number of workers today than before the national recession began. Furthermore, the manufacturing wage rate in the state has expanded by a tepid 2.2 percent from one year ago. Our surveys over the past several months point to solid improvements for manufacturing and the overall state economy for the next three to six months with strong wage gains.

THE BULLISH NEWS



- From the May surveys of supply managers, Creighton University's and the national's point to improving growth through the third quarter of 2014.
- U.S. employers added 217,000 non-farm jobs in May and the unemployment rate remained steady at 6.3%.
- While the housing market has slowed, automobile sales have moved back to their pre-recession levels and are at their highest level in 9 years.

THE BEARISH NEWS



- While the overall May unemployment rate was 6.3%, it was 11.5% for Blacks, 19.2% for teenagers, and 7.7% for Hispanics.
- The number of long termed unemployed for May was unchanged at a "too high" 3.4 million.
- In May, average hourly earnings for all employees on private nonfarm payrolls rose by 5 cents to \$24.38. Over the past 12 months, average hourly earnings have risen by a puny 2.1% and only slightly above inflation.

WHAT TO WATCH

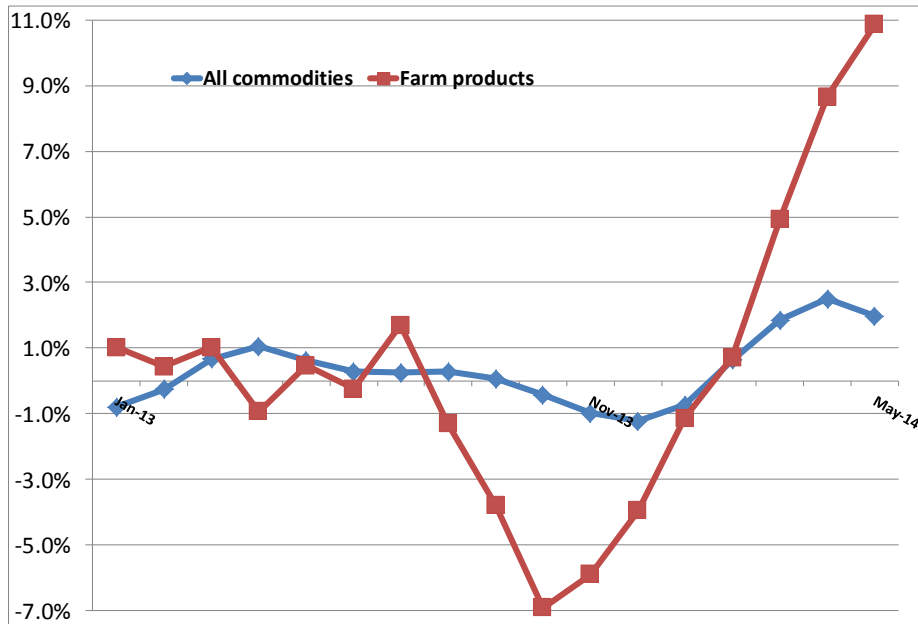
- CPIs: On July 22, the Bureau of Labor Statistics releases consumer price indices for June. Monthly increases of more than 0.2% will encourage the Fed to maintain and potentially reduce its monthly bond buying program. It will point to higher long-term interest rates and could even encourage the Fed to raise short-term interest rates before the end of Quarter 1, 2014.
- Yield or interest rate on 10-year U.S. Treasury Bond: Instantaneously, you can see the yield on the U.S. Treasury bond at finance.yahoo.com. This yield will rise when (or if) inflation rises. It also falls as global financial risks increase. As Iraq/Ukraine war risks climb, the yield will sink. If yields increase above 3.1% and hold, some of the air will come out of the U.S. stock markets.
- Jobs: On Thursday July 3, the U.S. Bureau of Labor

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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

