

## "A monthly survey of supply chain managers"

Welcome to our March report covering Creighton's February 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](http://www.twitter.com/erniegoss)

### Presidential Budget Deficits, 1930-2014: Both Parties Big Spenders: Democrats Big Taxers

Since 1930, the federal government has spent a total of \$71.5 trillion and collected \$59.9 trillion in taxes, thus adding \$11.6 trillion to the national debt, not including interest. As a share of gross domestic product (GDP), the deficit was 3.3% for the full 84-year period. In terms of party affiliation, Democrats expanded the debt by an average 3.1%, while Republicans boosted the debt by a higher 3.5% average. As a share of GDP, both Democrats and Republicans spent an average of 20.3%, but Democrats levied higher taxes at 17.2% while Republicans imposed a lower 16.8% in taxes. In all cases, it was assumed that the incoming president does not own the deficit for his first year of service. Among the 13 presidents serving during this period, the top deficit creating presidents were Roosevelt and Obama while the top surplus generating presidents were Clinton and Truman. Clinton and Carter collected the largest percentage of taxes while Roosevelt and Obama spent the most heavily among the 13 presidents. With no budget surpluses in sight and 10,000 baby boomers retiring each day, the 2015 national debt of \$18.1 trillion, or 103% of GDP, presents a real challenge for younger generations. With current federal tax collections below average, and federal spending above the 84-year average, the nation's debt level will continue to grow as the share of the population bearing the burden declines. Without tax reform and spending restraint, Gen-Xers and Millennials will face higher taxes, elevated interest rates, rising inflation, or all three of these "bads." Former Colorado governor Richard Lamm sums it up quite well saying "Deficits are when adults tell the government what they want-and the kids pay for it." Ernie Goss.

#### Link to video:

<https://www.youtube.com/watch?v=YJrPWtU40u4>

### LAST MONTH'S SURVEY RESULTS

#### Growth Outlook Improves for Mid-America in February: Negative Impacts from West Coast Port Disputes

#### SURVEY RESULTS AT A GLANCE:

- Leading economic indicator climbed into healthy range for the month..
- Approximately 44.9 percent of supply managers reported negative impacts from West Coast dock disputes.
- Inflationary pressures cool again.
- Rate of new hiring expected to slow in 2015.

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 from January'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 57.0 from January's 54.8. The regional index, much like the national reading, is pointing to improving growth for the first half of 2015.

However, areas of the region linked closely to the energy sector, including ethanol, are experiencing pullbacks in economic activity.

**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 50.8 from January's 51.4. While the job index stood above growth neutral for February, this was the second straight month that the reading has fallen. Businesses linked to agriculture and energy are laying off workers as firms outside these two sectors are expanding hiring at a positive pace.

More than one-third of supply managers, or 35.2 percent, expect new hiring for their firms in 2015. However this is down from 40.3 percent recorded last year at this time.

**Wholesale Prices:** In December of 2014, 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 February sank to 51.5 from January's 54.9, but was up from December's 50.8. A strengthening U.S. dollar and significantly lower fuel prices have pushed inflationary pressures at the wholesale level lower over the past several months.

Supply managers expect the 2015 prices for their company's products and services to grow by 1.6 percent. This is down significantly from 2.6 percent recorded at this time in 2014.

**Confidence:** Looking ahead six months, economic optimism, as captured by the February business confidence index, decreased to 58.4 from January's 61.8. Improving economic expectations resulting from lower energy prices more than offset economic pessimism stemming weakness among energy and energy-linked businesses.

**Inventories:** The inventory index, which tracks the change in the level of raw materials and supplies, jumped to 56.6 from 50.0 in January.

This month, supply managers were asked about the impact of the West Coast port disputes on their firm. Approximately 44.9 percent reported that the port bottlenecks had a negative impact on their ability to purchase inputs of raw materials and supplies. The remaining 55.1 percent registered little or no impact from the shipping difficulties.

**Trade:** The new export orders index sank to 54.4 from 57.0 in January. The import index for February slipped to 52.7 from January's 52.8. 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 stood at a solid level for February. I do expect exports and new export orders to move lower in the months ahead.

**Other components:** Other components of the February Business Conditions Index were new orders at 57.1,

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down from 58.6 in January; production or sales expanded to 63.8 from January's 60.5; and delivery speed of raw materials and supplies jumped to 56.7 from last month's 53.4.

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 February overall index, or leading economic indicator for Arkansas, rose to 52.7 from January's 52.5. Components of the index from the monthly survey of supply managers were new orders at 48.0, production or sales at 52.4, delivery lead time at 54.9, inventories at 56.6, and employment at 51.9. Durable goods manufacturers in the state are growing at a solid pace. However even with this recent healthy growth, compared to pre-recession levels, this heavy manufacturing sector has lost more than 18,000 jobs. Average weekly wages for all Arkansas workers, according to the Bureau of Labor Statistics (BLS) have declined by 1.5 percent over the past year.

IOWA

Iowa's Business Conditions Index, a leading economic indicator, climbed for the month. The overall index increased to 52.6 from January's 52.2. Components of the index from the monthly survey of supply managers were new orders at 49.2, production or sales at 47.6, delivery lead time at 63.9, employment at 49.5, and inventories at 53.1. Durable goods producers, including agriculture machinery manufacturers and metal manufacturing, are shedding jobs at a slow pace. With recent pullbacks, compared to pre-recession levels, this heavy manufacturing sector has lost more than 13,000 jobs. Average weekly wages for all Iowa workers, according to the Bureau of Labor Statistics (BLS) have growth by 1.8 percent over the past year.

KANSAS

The Kansas Business Conditions Index for February sank to 52.7 from January's 53.8. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 35.9, production or sales at 56.2, delivery lead time at 56.2, employment at 54.6, and inventories at 51.7. Durable goods producers, including agriculture machinery manufacturers and metal manufacturing, are shedding jobs at a slow pace. With recent pullbacks, compared to pre-recession levels, this heavy manufacturing sector has lost more than 24,000 jobs. Average weekly wages for all Kansas workers, according to the Bureau of Labor Statistics (BLS) have grown by a very healthy 3.6 percent over the past year.

MINNESOTA

February survey results mark the 27th straight month Minnesota's Business Conditions Index has remained above growth neutral.

The overall index dipped to a healthy 64.7 from January's 60.1. Components of the index from the February survey of supply managers were new orders at 72.4, production or sales at 78.1, delivery lead time at 57.9, inventories at 57.7, and employment at 57.6. Durable goods manufacturers in the state are growing at a solid pace. However even with this recent healthy growth, compared to pre-recession levels, this heavy manufacturing sector has lost almost 13,000 jobs. Average weekly wages for all Minnesota workers, according to the Bureau of Labor Statistics (BLS) have grown by an anemic 0.5 percent over the past year.

MISSOURI

The February Business Conditions Index for Missouri climbed to 56.8 from 56.1 in January. Components of the index from the survey of supply managers for February were new orders at 59.1, production or sales at 64.1, delivery lead time at 55.1, inventories at 54.5, and employment at 51.5. Durable goods manufacturers in the state are growing at a very healthy pace. However even with this recent healthy growth, compared to pre-recession levels, this heavy manufacturing sector has lost almost 32,000 jobs. Average weekly wages for all Missouri workers, according to the Bureau of Labor Statistics (BLS), have sunk by 1.8 percent over the past year.

NEBRASKA

For the 14th straight month, Nebraska's Business Conditions Index remained above growth neutral 50.0. The February index, a leading economic indicator from a survey of supply managers in the state, rose slightly to 53.8 from 53.7 in January. Components of the index for February were new orders at 57.4, production or sales at 56.2, delivery lead time at 51.4, inventories at 51.0, and employment at 52.9. Durable goods manufacturers in the state are growing at a slow pace. However even with this recent growth, compared to pre-recession levels, the state's heavy manufacturing sector has lost more than 5,000 jobs. Average weekly wages for all Nebraska workers, according to the Bureau of Labor Statistics (BLS) have grown by a healthy 2.6 percent over the past year.

NORTH DAKOTA

North Dakota's leading economic indicator for February sank to a level pointing to positive, but much slower, economic growth in the next three to six months. The February Business Conditions Index fell to 51.1 from 53.0 in January. Components of the overall index from the monthly survey of supply managers for February were new orders at 51.4, production or sales at 51.5, delivery lead time at 52.1, employment at 49.7, and inventories at 50.8. Durable goods manufacturers in the state are shedding jobs, but at a slow pace. However, even with recent losses, compared to pre-recession levels, the state's heavy manufacturing sector has approximately the same job level. Average weekly wages for all North Dakota workers, according to Bureau of Labor Statistics (BLS) have grown by a strong 3.6 percent over the past year.

OKLAHOMA

The Business Conditions Index for Oklahoma, a leading economic indicator, increased slightly for February and signals positive but slow growth in the next three to six months. The index for February rose to 53.7 from 52.0 in January. Components of the February survey of supply managers were new orders at 58.3, production or sales at 55.1, delivery lead time at 42.9, inventories at 62.1, and employment at 50.4. Durable goods manufacturers in the state are adding jobs at a healthy pace. However even with recent gains, compared to pre-recession levels, the state's heavy manufacturing sector has lost almost 5,000 jobs. Average weekly wages for all Oklahoma workers, according to Bureau of Labor Statistics (BLS) have grown by 1.7 percent over the past year.

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& Poors will release the Case-Shiller home price index for January 2015. Growth between 4% and 5% will be a non-event. Outside this range will have impacts.

FROM GOSS:

- I expect housing price growth to move even lower in the months ahead .
- Global currency wars. From the Eurozone to Japan, central banks, except for the U.S. Federal Reserve, are reducing the value of their currency. This will tend to put upward pressure on the value of the U.S. dollar. A growing U.S. dollar value will tend to a) put downward pressures on agriculture commodity prices, b) reduce U.S. exports, c) increase U.S. imports, d) increase the U.S. trade deficit. Q

OTHER REPORTS:

- The Conference Board (March 2015): The Conference Board Leading Economic Index® (LEI) for the U.S. was signaling all through the second half of 2014 that the economy was gaining momentum. The growth in the fourth quarter of 2014 was probably around 3 percent (annualized), boosted by strong holiday spending. Much lower oil prices (national average price now is down to about \$2.20/gallon, with 16 states showing below \$2.00, compared with \$3.50/gallon in 2013), add to discretionary consumer spending power. More jobs and soon higher wages are making consumers more optimistic and more willing to spend. At the same time, business investment has turned more negative as lower oil prices lead to cutbacks in new investment in the energy industries. The combination of lower gasoline prices, more jobs, and soon more wages, as well as a strengthening dollar provides the means and incentive to sustained strong spending, but also lower exports and temporarily lower investment.

Goss Eggs (Recent Dumb Economic Moves)

- Americans for Limited Government, a conservative 501 advocacy organization, is attempting to convince its members and subscribers to oppose giving President Obama fast track trade authority to negotiate the Trans-Pacific Partnership. They advocate greater Congress involvement in trade deals. Congressional involvement would only make a slow bureaucratic process even more unworkable, bureaucratic and burdensome.

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

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

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, climbed to 63.3 from January's 61.2. Components of the overall index for February were new orders at 66.0, production or sales at 78.7, delivery lead time at 66.1, inventories at 58.7, and employment at 47.1. Manufacturers in the state continue to add jobs at a healthy pace. As a result of gains in the second half of 2014, compared to pre-recession levels, South Dakota has added more than 1,000 jobs. Average weekly earnings for all South Dakota workers have risen by 1.6 percent over the last year according to Bureau of Labor Statistics data.



THE BULLISH NEWS

- Total employment rose by 257,000 in January, and the unemployment rate was little changed at 5.7%. Job gains occurred in retail trade, construction, health care, financial activities, and manufacturing.
- Creighton's leading economic indicator for the 9-state Mid-American region moved to a solid 57.0 for February.
- In the 12 months ending in Dec. 2014, the Case-Shiller index indicated that average U.S. home prices rose by 4.6%. This is good news but I am concerned that the growth in the index is coming down too fast.



THE BEARISH NEWS

- The Consumer Price Index declined 0.7% in January. Over the last 12 months, the all items index decreased 0.1%. Normally this might be considered good news but this is well below the Federal Reserve's target 2.0%.
- The Producer Price Index (Wholesale prices) decreased 0.8% in January. Final demand prices moved down 0.2% in both December and November. The index for final demand was unchanged for the 12 months ended in January indicating little pricing power in the economy.
- Retail sales and food services sales for January fell by 0.8% from the previous month, and 3.3% higher than for January 2014.

WHAT TO WATCH

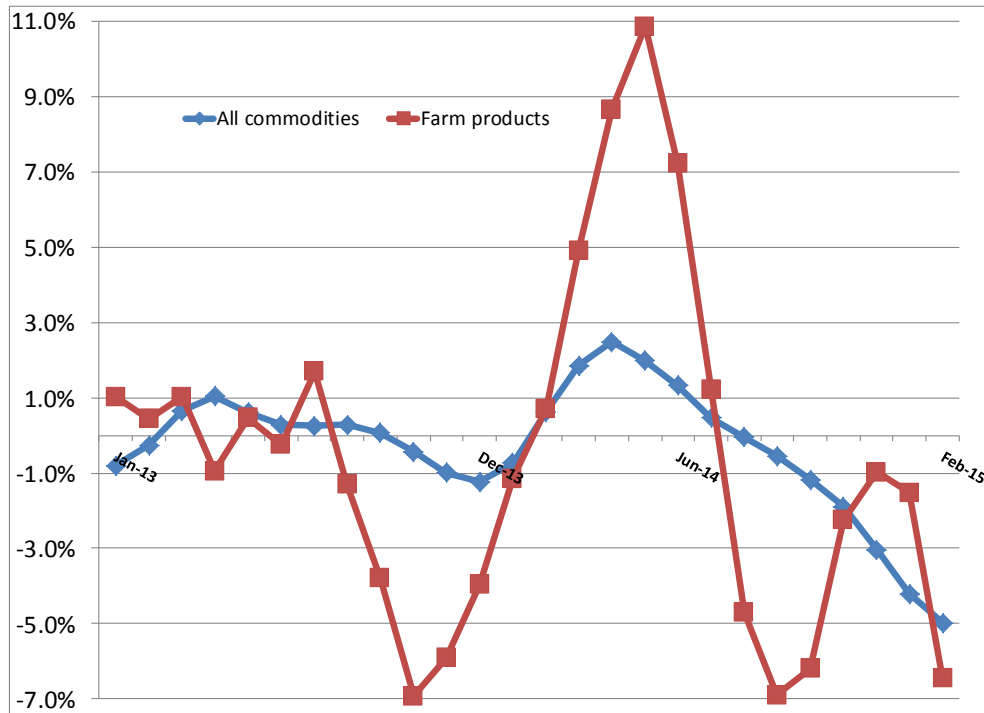
- CPI: On March 24, the U.S. Bureau of Labor Statistics (BLS) releases consumer prices (CPI) for February. If this reading remains soft (i.e. monthly growth of less than 0.2%), bond prices should rebound and potentially push the Federal Reserve to delay a rate hike. However, wage growth numbers will be more closely watched.
- Wage growth: On Friday April 3, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another healthy monthly gain will encourage the Federal Reserve to raise short term interest rates earlier than expected. Currently the market expects a rate hike in September 2015.
- Case-Shiller Home Price Index: On March 31, Standard

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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- Feb. 2015



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

