

"A monthly survey of supply chain managers"

Welcome to our May report covering results from Creighton's April economic survey of supply managers and procurement experts in nine Mid-America states. Results from last month indicate that the economic growth was slightly positive for manufacturing with stabilizing economic conditions and job losses. Follow my comments at: www.twitter.com/erniegoss

Healthy Job Growth But Unhealthy Economic Growth: More Regulations Contribute to Weak Economy

Without even a hint of irony, President Obama last week sold, and even trumpeted, his administration's economic accomplishments to the national press. But much like Arthur Miller's Willie Loman, or Meredith Wilson's Harold Hill, the sales job stands in stark contrast to reality. True, government data show that the U.S. unemployment rate stood at healthy 5.2 percent with more than 200,000 jobs created each month over the past two years. On the other hand, government data indicated that the overall economy expanded at an annualized pace of only 1.4% for the final quarter of 2015 and a 0.5% rate for the first quarter of 2016. This seemingly inconsistent data, that is solid job growth and lousy overall economic growth can be reconciled by peeking behind the headline data.

Since the economic recovery began in July 2009, GDP growth has expanded at the slowest pace of any 7-year period since 1947. The healthy job growth has been in part-time, low wage and/or low productivity occupations and industries. For example over the past two years, a reduction in the average hourly work week resulted in effective job losses of almost 420,000. Furthermore, output per worker since the beginning of the economic recovery is roughly one-third the long-term U.S. average. As a result, average percentage gains in compensation are currently approximately 56% of the long term average.

But there has been one area of healthy growth--regulations. According to the Wall Street Journal, the Obama Administration is responsible for six of the top seven years of red-tape creation in the nation's history. Good for economists and lawyers, but not for other workers. Ernie Goss.

Link to video:

<https://youtu.be/xWDR31WJZWY>

Mid-America Business Conditions Weaken Again: Kansas, Nebraska, North Dakota and Oklahoma Sink Index

SURVEY RESULTS AT A GLANCE:

- Weakness in Kansas, Nebraska, North Dakota and Oklahoma pushed the regional index below growth neutral for August.
- Wholesale inflation gauge drops to its lowest level since the recession of May 2009.
- Approximately 75 percent expect a September Federal Reserve rate hike to have either a positive, or no impact, on their businesses.
- New hiring remains weak with job gains for Arkansas, Iowa, Minnesota, Missouri and South Dakota offset by job losses for Kansas, Nebraska, North Dakota, and Oklahoma.

- The nine-state region has lost almost 9,000 manufacturing jobs since January of this year.

The Creighton University Mid-America Business Conditions Index for August, a leading economic indicator for a nine-state region stretching from Arkansas to North Dakota, slumped for the month. Indices over the past several months have pointed to slow or no economic growth over the next three to six months for the region. However, five of the nine states had overall indices above growth neutral for August.

Overall Index: The August Business Conditions Index, which ranges between 0 and 100, declined to 49.6 from July's 50.6. The regional index, much like the national reading, is pointing to weak, and potentially negative growth through the fourth quarter of 2015.

Growth for nondurable goods manufacturers offset weaker business conditions for durable goods producers including metal manufacturers, agricultural equipment producers and energy equipment manufacturers. Firms in Arkansas, Iowa, Minnesota, Missouri and South Dakota reported positive growth for the month while businesses in Kansas, Nebraska, North Dakota and Oklahoma detailed cuts in economic activity.

Employment: The regional employment gauge improved for August, but remains at a level pointing to slow new hiring for the overall region in the months ahead. The job gauge advanced to a weak 52.0 from July's 50.0. Industries and areas dependent on agriculture and energy are experiencing cuts. For example, metal producers and agricultural equipment manufacturers continue to report job losses.

Since January of this year, the nine-state region has added more than 57,000 nonfarm jobs according to U.S. Bureau of Labor Statistics data. On the other hand, the region lost almost 9,000 manufacturing jobs during this same period of time. Since our survey oversamples manufacturing firms, it is not surprising that our overall index has weakened significantly for states with a large agriculture and energy presence.

This month, supply managers were asked how a September 2015 Federal Reserve rate hike would affect their firm. One-fourth, or 25 percent, expect negative impacts from a rate increase, 5 percent anticipate a positive impact, while the remaining 70 percent expect little or no effect from an interest rate hike in September. August's results differed little from July when the same question was asked.

Wholesale Prices: The wholesale inflation index for August fell to 47.6 from July's 57.6 and from June's 64.9 and May's 69.1. As regional growth has slowed so have inflationary pressures at the wholesale level. Agriculture and energy commodity price declines are diminishing inflationary pressures well below the Federal Reserve's target. This is the lowest inflation reading for the region since the recession in May 2009.

Confidence: Looking ahead six months, economic optimism, as captured by the August business confidence index, plummeted to 47.7 from 52.4 in July. Sinking agriculture and energy commodity prices, along with global economic uncertainty, pushed supply managers' expectations of future economic conditions lower for the month.

Inventories: The August inventory index, which tracks the change in the level of raw materials and supplies, fell to 41.7 from 55.1 in July.

Trade: The new export orders index rose to 50.0 from 47.4 in

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July. The import index for August sank to 47.9 from July's 54.7. Despite slowing global economic growth and a strong U.S. dollar, export orders rose to growth neutral for the month. On the other hand, weaker regional growth and lower oil prices pushed the import index below growth neutral for the month.

Other components: Other components of the August Business Conditions Index were new orders at 53.0, up from 48.3 in July; production or sales was unchanged from July's 47.4; and delivery speed of raw materials and supplies climbed to 54.0 from last month's 52.4.

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

MID-AMERICA STATES

ARKANSAS

The August overall index, or leading economic indicator for Arkansas, slipped to 52.1 from July's 52.4. Components of the index from the monthly survey of supply managers were new orders at 55.7, production or sales at 49.8, delivery lead time at 56.2, inventories at 43.7, and employment at 54.6. According to U.S. Bureau of Labor Statistics, Arkansas has lost 2,000, or 1.3 percent, of its manufacturing job base since January 2015. The strong dollar, which has restrained sales abroad, weighted on the state's durable goods sector in terms of jobs. The nondurable goods sector experienced slim job gains. Our survey results over the past several months, point to positive but weak gains for the overall state economy for the rest of 2015.

IOWA

Iowa's August Business Conditions Index declined to 51.6 from 51.8 in July. Components of the index from the monthly survey of supply managers were new orders at 55.1, production or sales at 49.3, delivery lead time at 56.2, employment at 54.1, and inventories at 43.3. According to U.S. Bureau of Labor Statistics, Iowa increased manufacturing employment by approximately 1,000, or 0.5 percent. The strong dollar, which has restrained sales abroad, weighted on the state's durable goods sector in terms of jobs. During the same time period, job gains for the nondurable goods sector more than offset durable goods losses. Our survey results over the past several months, point to positive, but weak gains for Iowa's overall economy for the rest of 2015.

KANSAS

The Kansas Business Conditions Index slipped below July's growth neutral reading of 50.0 to 48.2 for August. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 51.5, production or sales at 46.1, delivery lead time at 52.5, employment at 50.5, and inventories at 40.5. According to U.S. Bureau of Labor Statistics, Kansas increased manufacturing employment by

approximately 2,000, or 1.3 percent, jobs since January 2015. Despite a strong dollar, which restrains sales abroad, Kansas added durable goods jobs. These gains more than offset slight losses for the state's nondurable goods sector. Creighton survey results over the past several months, point to positive, but weak gains for the overall state economy for the rest of 2015.

MINNESOTA

The August Minnesota Business Conditions Index fell to 51.9 from 54.8 in July. Components of the index from the monthly survey of supply managers were new orders at 54.8, production or sales at 49.3, delivery lead time at 56.2, inventories at 49.8, and employment at 54.9. According to U.S. Bureau of Labor Statistics, Minnesota's level of manufacturing employment is virtually unchanged since January 2015. Minnesota job growth in durable goods, especially metal manufacturing, offset job losses among nondurable goods producers. Our survey results over the past several months, point to positive economic gains for the overall state economy for the rest of 2015 despite weakness among manufacturers.

MISSOURI

The August Business Conditions Index for Missouri grew to a weak 50.9 from July's 49.4. Components of the index from the survey of supply managers were new orders at 51.7, production or sales at 48.7, delivery lead time at 55.5, inventories at 42.8, and employment at 56.1. According to U.S. Bureau of Labor Statistics, Missouri has lost approximately 1,200, or 0.5 percent, of its manufacturing job base since January 2015. Job losses for nondurable goods producers, including food manufacturers, more than offset gains for durable goods manufacturers, including vehicle manufacturers. Our survey results over the past several months, point to weak gains for Missouri's overall economy for the rest of 2015.

NEBRASKA

After advancing above growth neutral for 19 straight months, Nebraska's Business Conditions Index fell below 50.0 for the second straight month. The index, a leading economic indicator from a monthly survey of supply managers in the state slumped to 45.9 from 48.6 in July. Components of the index were new orders at 49.0, production or sales at 43.8, delivery lead time at 49.9, inventories at 38.5, and employment at 48.1. According to U.S. Bureau of Labor Statistics, Nebraska has lost approximately 1,200, or 2.5 percent, of its manufacturing jobs since January 2015. The strong dollar, which has restrained sales abroad, weighted on the state's durable and nondurable goods sectors. Our survey results over the past several months, point to slight economic losses for the overall state economy for the rest of 2015.

NORTH DAKOTA

North Dakota's leading economic indicator for August remained below growth neutral 50.0. The Business Conditions Index fell to a regional low of 41.3 from July's 43.9, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 44.1, production or sales at 39.5, delivery lead time at 45.0, employment at 43.3, and inventories at 34.7. According to U.S. Bureau of Labor Statistics, North Dakota has lost approximately 1,000, or 3.8 percent, of its manufacturing jobs since January 2015. The strong dollar, which has restrained sales abroad, weighed primarily on the state's nondurable goods sector. Only Wyoming is more dependent on the two U.S. industries experiencing pullbacks in economic activity – agriculture and energy. Creighton's survey results over the past several months have pointed to economic losses for the overall state economy for the rest of 2015.

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OKLAHOMA

The August Business Conditions Index for Oklahoma slumped below growth neutral for a fourth straight month. The index from a monthly survey of supply managers in the state, dipped to a weak 48.1 from 48.3 in July. Components of the August survey of supply managers were new orders at 51.4, production or sales at 46.0, delivery lead time at 52.4, inventories at 40.4, and employment at 50.4. According to U.S. Bureau of Labor Statistics, Oklahoma has lost approximately 5,000, or 3.6 percent, of its manufacturing jobs since January 2015. The strong dollar and weakness in the state's energy sector weighed primarily on Oklahoma's manufacturing sector, particularly metal producers. Only Wyoming and North Dakota are more dependent on the two U.S. industries experiencing significant pullbacks in economic activity – agriculture and energy. Creighton's survey results over the past several months have pointed to economic losses for the overall state economy for the rest of 2015.

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 a monthly survey of supply managers, declined to a regional high of 54.3 from July's 55.8, also a regional high. Components of the overall index for August were new orders at 58.0, production or sales at 51.9, delivery lead time at 59.1, inventories at 45.6, and employment at 56.9. According to U.S. Bureau of Labor Statistics, South Dakota has increased manufacturing employment by 800, or 1.8 percent since January 2015. The strong dollar, which has restrained sales abroad, did not dent the state's manufacturing sector in terms of jobs. Our survey results over the past several months, point to positive gains for South Dakota's overall economy for the rest of 2015.

- **Brexit:** On June 23, British citizens will vote to exit or remain in the European Union. A majority vote to exit will result in a spiking of global financial volatility. This will push global investors into “safe haven” investments including U.S. Treasury bonds. This move will drive U.S. interest rates lower, the value of the dollar higher and agriculture commodity prices lower.
- **The Jobs Report:** On June 3, the Bureau of Labor Statistics will release the April jobs report. Another very weak report (i.e. less than 100,000 jobs and an increase in the unemployment rate) will push the Federal Reserve to forego raising raise rates at their June 14-15 meetings.

Goss Eggs
(Recent Dumb Economic Moves)

- After soaking the U.S. taxpayer for \$1.5 billion in tax incentives and loan guarantees, Sun Edison, the world's largest renewable energy firm, filed for bankruptcy last month. Five years earlier, Solendra, another solar energy firm, went belly-up after receiving \$545 million from the U.S. Energy Department. Even with these high profile failures, the federal government continues to provide solar energy producers with the largest subsidies per kilowatt hour than any other form of energy production.

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

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



THE BULLISH NEWS

- Year over year U.S. wage growth hit an improving 2.5% in April.
- The Case-Shiller home price index expanded by 5.4% from February 2015 to February 2016.
- The CPI fell 0.2% in February. In the 12 months through March, the CPI increased 0.9% after advancing 1.0% in February.



THE BEARISH NEWS

- The U.S. economy added only 160,000 jobs in April and the number of discouraged workers leaving the labor force expanded.
- Due to a weakening U.S. dollar, U.S. corn prices top \$4 per bushel for the first time since July 2015.

WHAT TO WATCH

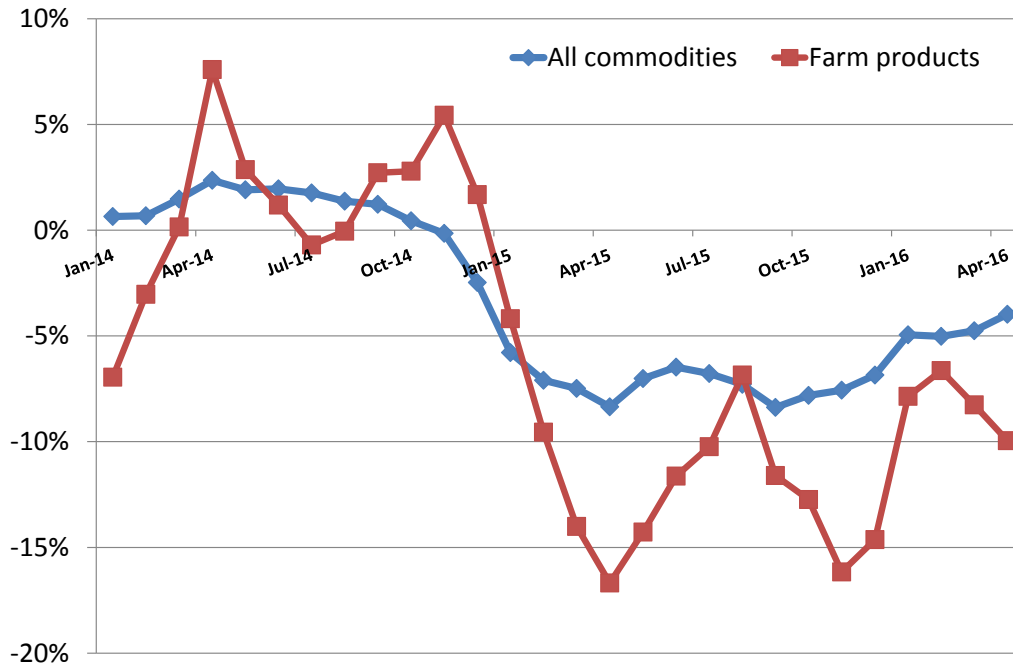
- **Housing Prices:** On the last Tuesday of May, S&P will release the Case-Shiller home price index for March. Yearly growth of more than 5% will be more evidence of growing housing price bubbles in some parts of the nation.

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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

