

## "A monthly survey of supply chain managers"

Welcome to our November report covering results from Creighton's monthly survey of supply managers and procurement experts in nine Mid-America states indicate that the economic growth has turned negative (recessionary) for manufacturing and points to negative for the overall regional economy. Follow my comments at: [www.twitter.com/erniegoss](http://www.twitter.com/erniegoss)

### High U.S. Taxes May Push Pfizer to Ireland: Botox Will Reduce Viagra's Tax Wrinkles

Pfizer, a 166-year-old New York City headquartered company, is considering leaving the U.S. for more tax-friendly Ireland in what is termed a tax inversion. Pfizer, a \$300 billion U.S. biopharmaceutical firm, will purchase the smaller Irish firm Allergan, maker of Botox, for \$120 billion. Pfizer, producer of Viagra, will then move its U.S. headquarters, where its corporate income tax rate approaches 40 percent, to Dublin with a 12.5 percent tax rate.

In 2014, Pfizer paid U.S. income taxes of \$3.1 billion. Pfizer would have saved approximately \$2.0 billion in 2014 income taxes by being Dublin headquartered. As a result of the third highest corporate income tax rate in the world at 39.1 percent, exceeded only by Chad and the United Arab Emirates, the U.S. has suffered the loss of 55 firms via tax inversions in the past year. The avalanche of inversions pushed President Obama to brand the inversions as "unpatriotic."

Instead of issuing such hyperbole, Obama should take action that would both increase tax collections and reduce the legal and administrative costs associated with tax inversion deals. Currently, it is estimated that U.S. firms hold more than \$2.1 trillion outside the U.S. By reducing the income tax rate on repatriated earnings from 39.1 percent to 10 percent, current tax collections would rise by as much as \$210 billion and importantly, it would reduce the motivation to engage in an inversion. This action should then be followed up by a permanent corporate income tax rate cut with the elimination of many tax deductions, often called loopholes. But instead of positive legislative steps such as this, the U.S. Treasury responded with stiffened regulations in a futile effort to limit such corporate moves. Unfortunately, Pfizer will not be the last U.S. firm to hoist shareholder value by moving abroad. Ernie Goss.

#### Link to video:

<https://youtu.be/hjHamuUJaZw>

## LAST MONTH'S SURVEY RESULTS

[Mid-America Business Conditions Falls Again: One of Five Manufacturers Expect Layoffs in Next Six Months](#)

#### SURVEY RESULTS AT A GLANCE:

- For a third straight month, the region's overall index moved below growth neutral 50.0.
- Employment index plummets below growth neutral for a second consecutive month.
- Wholesale inflation gauge drops to its lowest level since May 2009.

- Strong U.S. dollar and global economic weakness push new export orders into negative territory.

The Creighton University Mid-America Business Conditions Index for October, 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 indicated contraction in manufacturing and pointed to slow to negative economic growth over the next three to six months for the overall regional economy.

**Overall index:** The October Business Conditions Index, which ranges between 0 and 100, slumped to 41.9 from September's 47.7. The regional index, much like the national reading, is pointing to weak, and potentially negative growth through the fourth quarter of 2015 for the overall economy.

Manufacturing firms are over-represented in our survey. The strong U.S. dollar and global economic weakness are having a negative impact on manufacturers and businesses linked to manufacturing in the region. At the national level, prices at the wholesale level declined by 12.1 percent for farm products and by 25.5 percent for energy prices. This weakness has been showing up in our surveys over the last three months.

**Employment:** The regional employment gauge slumped for October, and indicates job losses for the manufacturing and value added services sector. The job gauge declined to 42.3 from September's 42.6. Areas heavily dependent on manufacturing, especially those linked to agriculture and energy, are experiencing cuts. For example, metal producers and agricultural equipment manufacturers continue to report job losses. Almost one in five, or 18.5 percent, of firms expect layoffs in the next six months. This compares to 14.5 percent in January when we asked this same question.

Since this time last year, the region's manufacturing sector has lost almost 12,000 jobs, or approximately one percent of the region's manufacturing jobs. Since our survey oversamples manufacturing firms, it is not surprising that our overall index has weakened significantly for states with a large agricultural and energy presence.

**Wholesale Prices:** The wholesale inflation index for October fell to 45.3, its lowest level since May 2009, and down from September's 46.8. As regional growth has slowed so have inflationary pressures at the wholesale level. Agriculture and energy commodity price weakness is shrinking inflationary pressures. I expect weaker inflationary pressures and growth to push the Federal Reserve to delay a rate hike until 2016.

**Confidence:** Looking ahead six months, economic optimism, as captured by the October business confidence index, sank to 42.3 from 43.4 in September. Falling agriculture and energy commodity prices, along with global economic uncertainty, pushed supply managers' expectations of future economic conditions lower for the month.

**Inventories:** In another sign of a sinking economic outlook, supply managers reduced their inventory levels for the month. The October inventory index, which tracks the change in the level of raw materials and supplies, fell to 41.2 from 44.2 in September.

**Trade:** The new export orders index descended to 38.2 from 42.4 in September. The import index for October slumped to 40.9 from September's 48.9. The strong U.S. dollar, making U.S. goods less competitively priced abroad, and a weaker global

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economy, battered new export orders for the month. On the other hand, negative regional growth and lower oil prices again pushed the import index below growth neutral for the month.

**Other components:** Other components of the October Business Conditions Index were new orders at 38.1, down from 45.8 in September; production or sales moved lower to 38.7 from September's 48.3; and delivery speed of raw materials and supplies declined to 49.3 from last month's 57.4.

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 October overall index, or leading economic indicator for Arkansas, plummeted to 43.6 from September's 50.8. Components of the index from the monthly survey of supply managers were new orders at 39.6, production or sales at 40.2, delivery lead time at 51.2, inventories at 42.8, and employment at 44.0. U.S. Bureau of Labor Statistics data show that over the last year, Arkansas has lost 2,800, or 1.8 percent, of its manufacturing jobs. Our surveys of supply managers in the state indicate that these losses will continue into the first quarter of 2016.

IOWA

The October Business Conditions Index for Iowa declined to 44.2 from 50.2 in September. Components of the index from the monthly survey of supply managers were new orders at 40.2, production or sales at 40.9, delivery lead time at 52.0, employment at 44.7, and inventories at 43.4. U.S. Bureau of Labor Statistics data show that over the last year, Iowa has lost 1,700, or 0.8 percent, of its manufacturing jobs. Our surveys of supply managers in the state indicate that this trend will continue into the first quarter of 2016 as losses for ethanol producers and food processor shrink manufacturing jobs primarily in nonurban areas.

KANSAS

The Kansas Business Conditions Index for October fell to 41.7 from September's 47.1. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 37.9, production or sales at 38.5, delivery lead time at 49.0, employment at 42.1, and inventories at 40.9. U.S. Bureau of Labor Statistics data show that over the last year, Kansas has lost 4,300, or 2.7 percent, of its manufacturing jobs. Our surveys of supply managers in the state indicate that these losses will continue into the first quarter of 2016.

MINNESOTA

The October Minnesota Business Conditions Index slumped to 42.7 from September's regional high of 53.0. Components of the index from the monthly survey of supply managers were new

orders at 38.8, production or sales at 39.4, delivery lead time at 50.2, inventories at 41.9, and employment at 43.1. U.S. Bureau of Labor Statistics data show that over the last year, Minnesota added 200 manufacturing jobs for a gain of 0.1 percent. Our surveys of supply managers in the state point to slight losses into the first quarter of 2016 as manufacturing exports slide even lower.

MISSOURI

The Business Conditions Index for Missouri slipped to a regional high 50.1 from September's 50.5. Components of the index from the survey of supply managers were new orders at 45.6, production or sales at 44.6, delivery lead time at 54.4, inventories at 54.1, and employment at 52.3. U.S. Bureau of Labor Statistics data show that over the last year, Missouri added 6,400 manufacturing jobs for a gain of 2.5 percent. Our surveys of supply managers in the state point to slow gains into the first quarter of 2016 as vehicle manufacturing boosts the manufacturing sector.

NEBRASKA

After advancing above growth neutral for 19 straight months, Nebraska's Business Conditions Index fell below 50.0 for the fourth straight month. The index, a leading economic indicator from a monthly survey of supply managers slumped to 40.1 from 45.4 in September. Components of the index were new orders at 35.0, production or sales at 38.5, delivery lead time at 49.0, inventories at 40.9, and employment at 42.1. U.S. Bureau of Labor Statistics data show that over the last year, Nebraska has lost 3,200, or 3.3 percent, of its manufacturing jobs. Our surveys of supply managers indicate these losses will continue into the first quarter of 2016 with ethanol producers and food processors shedding jobs.

NORTH DAKOTA

North Dakota's leading economic indicator for October remained below growth neutral 50.0. The Business Conditions Index sank to a regional low 36.7 from September's 41.7, also a regional low. Components of the overall index from the monthly survey of supply managers were new orders at 33.3, production or sales at 33.9, delivery lead time at 43.1, employment at 37.0, and inventories at 36.0. U.S. Bureau of Labor Statistics data show that over the last year, North Dakota has lost 200, or 0.8 percent, of its manufacturing jobs. Our surveys of supply managers indicate these losses will widen into the first quarter of 2016 as manufacturing linked to agriculture and energy sustain losses.

OKLAHOMA

The October Business Conditions Index for Oklahoma slumped below growth neutral for a sixth straight month. The index from a monthly survey of supply managers in the state, dipped to a weak 40.1 from 46.2 in September. Components of the October survey of supply managers were new orders at 33.2, production or sales at 37.0, delivery lead time at 50.2, inventories at 42.0, and employment at 43.1. U.S. Bureau of Labor Statistics data show that over the last year, Oklahoma has lost 8,100, or 5.8 percent, of its manufacturing jobs. Our surveys of supply managers indicate these losses will continue into the first quarter of 2016 as lower energy prices weigh on Oklahoma's economy and manufacturing.

SOUTH DAKOTA

For the first time since November of 2012, South Dakota's leading economic indicator fell below growth neutral 50.0. The Business Conditions Index, from a monthly survey of supply managers, declined to 42.6 from 50.9 in September. Components of the overall index for October were new orders at 38.7, production or sales at 39.3, delivery lead time at 50.1, inventories at 41.8, and employment at 43.0. U.S. Bureau of Labor Statistics data show that over the last year, South Dakota added 2,100 manufacturing jobs for a gain of 4.9 percent. Unless our survey results

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weaken again in the months ahead, I expect slow but positive growth for the state economy into the first quarter of 2016.



THE BULLISH NEWS

- The U.S. added 271,000 jobs in October and the unemployment rate declined to 5.0%. This is strong and well above expectations. It almost locks the Fed into raising rates at its December 2015 meetings.
- The Case-Shiller home price index for August 2015 was 4.7% above that for August 2014. We are tracking more and more housing price bubbles across the U.S.



THE BEARISH NEWS

- The U.S. gross domestic product rose at an annualized rate of 1.5% in quarter 3, 2015. This is less than half of what we should be tracking to gauge this as a healthy economy.
- The number of first-time home buyers fell to its lowest level in 3 decades. Stiffer lending regulations and college student loans are restraining this segment of the market.

WHAT TO WATCH

- Federal Reserve:** On Dec. 16, the Fed will announce any change in short term interest rates. A 25 basis point (¼%) will be baked into markets by then. Pay special attention to Yellen's language in the press release.
- PMIs:** On Dec. 1, the first business day of December, Creighton and the National Institute for Supply Management will release regional and national PMIs for November. Both PMIs are moving down. A national PMI below growth neutral will be bearish for stocks but bullish for bond prices. Also note the inflation gauges from the reports.
- Yield on 10-Year Treasury Bond:** On finance.yahoo follow the yield on this long-bond yield for evidence or rising inflationary pressures. Yields above 2.7% are early warnings of higher interest rates in the months ahead.

Goss Eggs  
(Recent Dumb Economic Moves)

- A government probe of ExxonMobil, is aimed at silencing the firm. The investigation by New York Attorney General Eric Schneiderman seeks to punish ExxonMobil for supporting research that contradicts global climate change dogma. Trampling constitutional rights of those that question "accepted science" is downright Un-American.

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

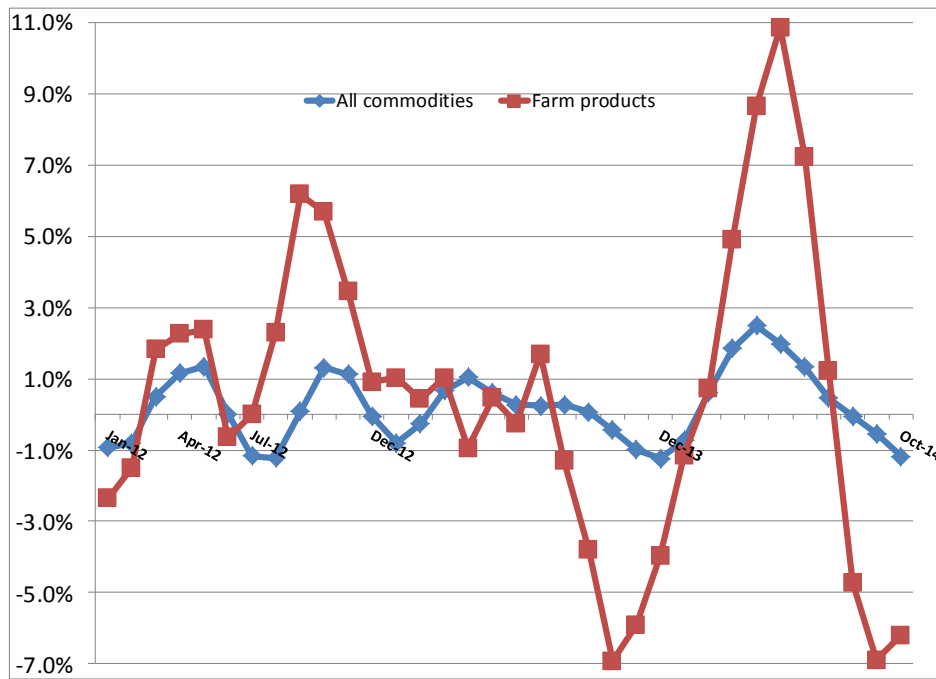
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For historical data and forecasts visit our website at: <http://www2.creighton.edu/business/economicoutlook/>

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## PRICE DATA

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

Price changes, 3 month moving average, 2012- October 2014



Price changes, 3 month moving average, 2012 - October 2014

