"A monthly survey of supply chain managers"

Welcome to our April report covering Creighton's March 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

Income Taxes, What's a Fair Share? Federal Government and Fed Actions Fail Low Income

In 2000, workers with incomes greater than $200,000 earned 33% of the nation's income, but paid 46% of income taxes. In 2012, well after the Bush tax cuts, the same high income group earned 41% of the nation's income, but paid a higher 55% of U.S. income taxes. In 2000, workers with incomes less than $40,000 earned 14% of the country's income but paid 9% of U.S. income taxes. By 2012, this low income group earned 7% of U.S. income, but paid only 4% of U.S. income taxes. That is, high income workers are paying an increasing share of the nation's income tax burden. Despite the rising share of federal income taxes paid by high income workers, income inequality continues to escalate. University of California at Berkeley economist Emmanuel Saez estimates that between 2009 and 2012, the top 1% captured 95% of total income growth. What accounts for this? Certainly not income tax rates! It is argue here that Federal Reserve (Fed) and federal government policies since the recession of 2008 have differentially aided high income, high wealth Americans. The Feds bond buying programs (QE1, QE2 and QE3) pushed up asset prices including stock prices, bond prices, art, and other assets at an unprecedented rate. For example, between December 2008 and March 2015, prices of S&P 500 stocks collectively increased by 131%. Additionally, the 2008-09 bailouts of AIG, GM, Bear Stearns, Goldman-Sachs, Morgan Stanley, and the Obama Administration's $830 billion stimulus program mostly stimulated the incomes of the nation's wealthiest. Federal government and Fed market intervention appear to have widened the gap between the high and low income groups. Tackling income inequality with income tax rates, as often advanced, has not and will not work. Ernie Goss.

Link to video:
www.youtube.com/watch?v=SfkK-dp7Bsc

LAST MONTH'S SURVEY RESULTS

Positive, But Slow Growth Ahead for Mid-America:
Five Job Applicants for Every Three Openings

SURVEY RESULTS AT A GLANCE:

- Leading economic indicator declines, but remains positive for the month.
- Hiring gauge improves for the month.
- Businesses report 5 applicants for every 3 jobs
- Strong dollar fails to restrain exports orders.
- Businesses report entry-level annual salary of $45,500 for college graduates at their firms.

The Creighton University Mid-America Business Conditions Index for March, a leading economic indicator for a nine-state region stretching from North Dakota to Arkansas, fell from February'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, sank to 51.4 from February's 57.0. The regional index, much like the national reading, is pointing to positive, but slow growth for the first half of 2015.

Nondurable manufacturing firms, including food processors and ethanol producers, reported sales, production and employment have weakened over the past several months. On the other hand, while our surveys are detecting weaker growth for firms tied oil production, the surveys have yet to record substantial negative outcomes for North Dakota and Oklahoma, two states with sizable oil industry investment.

Employment: The regional employment gauge remained in a range indicating positive but slow job growth for manufacturing and value-added services firms in the region. The job gauge expanded to 52.5 from 50.8 in February. This month we asked about the hiring situation in supply managers' companies for the month. Businesses in the region reported receiving five applicants for every three jobs. Additionally, supply managers reported an average yearly entry level salary for college graduates of $45,500.

Wholesale Prices: The wholesale inflation index for March advanced to 55.7 from February's 51.5. A strengthening U.S. dollar and significantly lower fuel prices have pushed wholesale inflationary pressures in our surveys over the past several months to levels indicating only a modest upward movement.

Confidence: Looking ahead six months, economic optimism, as captured by the March business confidence index, decreased to 55.7 from February's 58.4. Improving economic expectations, resulting from lower energy prices, more than offset economic pessimism stemming from weakness in energy investment among energy and energy-linked businesses.

Inventories: The inventory index, which tracks the change in the level of raw materials and supplies, decreased to 48.4 from 56.6 in February.

Trade: The new export orders index grew to 56.4 from 54.4 in February. The import index for March rose to 53.5 from February's 52.7. 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 and increased in March. I do, however, expect exports and new export orders to move lower in the months ahead.

Other components: Other components of the March Business Conditions Index were new orders at 60.2, up from 57.1 in February; production or sales plunged to 41.8 from 63.8 in March; and delivery speed of raw materials and supplies fell to 54.0 from last month's 56.7.

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 March overall index, or leading economic indicator for Arkansas, rose to a regional high of 54.9 from February's 52.7. Components of the index from the monthly survey of supply managers were new orders at 64.3, production or sales at 44.7, delivery lead time at 57.7, inventories at 51.7, and employment at 56.0. Arkansas' dependence on international trade and exports is less than the rest of the nation and the region. The state's export growth since 2009 has lagged that of the nation and the region. However, the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, presents less of an economic challenge for Arkansas than for the region and nation because the state's chief trading partner is Canada and the state's number one exported product is transportation equipment.

IOWA

Iowa's Business Conditions Index, a leading economic indicator, declined for March to 51.6 from February's 52.6. Components of the index from the monthly survey were new orders at 60.5, production or sales at 42.0, delivery lead time at 54.2, employment at 52.7, and inventories at 48.6. Iowa's dependence on international trade and exports is less than that of the nation, but greater than the rest of the region. However, Iowa's export growth since 2009 has significantly exceeded that of the U.S. and the region. Thus, the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, represents more of an economic challenge for Iowa's growth going forward than for the region and nation. Iowa's chief trading partner is Canada and its number one exported product is agriculture machinery.

KANSAS

The Kansas Business Conditions Index for March sank to 50.7 from 52.7 in February. Components of the leading economic indicator from the monthly survey of supply managers were new orders at 59.4, production or sales at 41.3, delivery lead time at 53.3, employment at 51.8, and inventories at 47.7. The state's dependence on international trade and exports is less than that of the nation, but greater than the region's. Additionally, the state's export growth since 2009 has lagged that of the U.S. and region. Thus, the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, represents a moderate economic challenge for the Kansas economy going forward. The state's chief trading partner is Canada and its number one exported product is transportation equipment.

MINNESOTA

After 27 months of above growth neutral readings for the Minnesota Business Conditions Index, the reading moved to the neutral threshold for March. The overall index slumped to 50.0 from February's much healthier 64.7. Components of the index from the March survey of supply managers were new orders at 58.6, production or sales at 40.7, delivery lead time at 50.0, inventories at 47.1, and employment at 51.1. Forty-one states experienced faster export growth over the past nine years than Minnesota. Furthermore, Minnesota is less dependent on the sale of products abroad than the rest of the nation. Thus, the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, represents a moderate economic challenge for the Minnesota economy going forward. The state's chief trading partner is Canada and its number one exported product is computers and electronic equipment.

MISSOURI

The March Business Conditions Index for Missouri fell to 52.1 from 56.8 in February. Components of the index from the survey of supply managers for March were new orders at 58.0, production or sales at 42.4, delivery lead time at 52.0, inventories at 49.0, and employment at 55.9. Forty-five states experienced faster export growth over the past nine years than Missouri. However, Missouri is less dependent on the sale of products abroad than the rest of the nation and region. Thus, the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, represents less of an economic challenge for the Missouri economy going forward than for rest of the nation. The state's chief trading partner is Canada and its number one exported product is transportation equipment.

NEBRASKA

For the 15th straight month, Nebraska's Business Conditions Index remained above growth neutral 50.0. The leading economic indicator for March declined to 51.8 from 53.8 in February. Components of the index for March were new orders at 60.7, production or sales at 42.2, delivery lead time at 53.2, inventories at 48.8, and employment at 52.9. Nebraska's dependence on international trade and exports is less than that of the nation, but greater than that of the region. Additionally, the state's export growth since 2009 has significantly exceeded that of the U.S. and the region. Thus, the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, represents more of an economic challenge for Nebraska's growth going forward than for the region and nation. Nebraska's chief trading partner is Canada and its number one exported product is processed food.

NORTH DAKOTA

North Dakota's leading economic indicator for March climbed to a level pointing to positive, but much slower, economic growth in the next three to six months. The March Business Conditions Index rose to 43.2 from 51.1 in February. Components of the overall index from the monthly survey of supply managers were new orders at 62.4, production or sales at 43.3, delivery lead time at 53.2, employment at 54.4, and inventories at 50.1. North Dakota's dependence on international trade and exports is greater than that of the nation and region. Furthermore, the state's export growth since 2009 has significantly exceeded that of the U.S. and the region. Thus, the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, represents more of an economic challenge for North Dakota's growth going forward than for the region and nation. North Dakota's chief trading partner is Canada and its number one exported product is energy commodities.

OKLAHOMA

The Business Conditions Index for Oklahoma, a leading sank for March, but still signals positive but slow growth in the next three to six months. The index for March decreased to 51.6 from 53.7 in February. Components of the March survey of supply managers were new orders at 60.5, production or sales at 42.0, delivery lead time at 53.5, inventories at 47.9, and employment at 52.7. Oklahoma's dependence on international trade and exports is substantially less than that of the nation and region. Furthermore, the state's export growth since 2009 has significantly lagged that of the U.S. and the region which means the rising value of the U.S. dollar, represents less of an economic challenge for Oklahoma than for the region and nation. The state's chief trading partner is Canada and its number one exported product is machinery year.

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, fell to 50.9 from February's much stronger 63.3. Components of the overall index for March were new orders at 59.6, production or sales at 41.4, delivery lead time at 50.9, inventories at 47.9, and employment at 52.0. South Dakota's dependence on international trade and exports is significantly less than that of the region. However, the state's export growth since 2009 has significantly lagged that of the U.S. and the region and the rising value of the U.S. dollar, making U.S. goods less competitively priced abroad, represents only a moderate economic challenge for South Dakota moving ahead. The state's chief trading partner is Canada and its number one exported product is processed food.

THE BULLISH NEWS

- The consumer price index including food and energy was unchanged for the last 12 months while the core CPI, which excludes food and energy, rose by 1.7% over the year.
- The Case-Shiller home price index appreciated by 4.5% in January over the January 2014 reading.
- The U.S. trade deficit fell for February but for the wrong reasons—both imports and exports declined.

THE BEARISH NEWS

- Total nonfarm employment increased by a weak 126,000 in March and January and February gains were revised down by 70,000.
- The Creighton and National purchasing management indices (PMIs) fell significantly for March, but both remain above growth neutral.
- U.S. retail sales dropped by 0.6% for February and were up only 1.7% from the February 2014.

WHAT TO WATCH

- GDP: On April 29, the U.S. Bureau of Economic Analysis will release gross domestic product numbers for QI, 2015. GDP growth below an annualized pace of 1% will be a sharp negative blow to the stock market and a very bullish reading for bond prices. Above 2% will be a "non event."
- Wage growth: On Friday May 8, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another healthy monthly gain, above 0.2%, will "seal the deal" for a Federal Reserve rate hike this June.
- PMIs: On May 1, Creighton and the National Institute for Supply Management will release regional and national PMIs for April. Readings below 50.0 will be very bearish economic signals. Readings above March's tepid indices will be bullish.

FROM GOSS:

- I expect the value of the U.S. dollar to soften a bit in the next several months as a Fed rate hike begins to look less likely .
- However even with weaker U.S. economic growth, I expect the Fed to raise short term interest rates by ¼% before September of this year.
- The U.S. energy sector to begin losing jobs at a faster pace in the months ahead. Energy companies have delayed the inevitable.

OTHER REPORTS:

- National Association of Business Economics (NABE): "NABE's March 2015 Outlook Survey panel expects a markedly stronger pace of economic growth in 2015 and 2016 than was recorded last year," says NABE President John Silvia, chief economist of Wells Fargo. "The panelists' median forecast is for real GDP to increase 3.1% on an average annual basis this year followed by a 2.9% rise in 2016. This compares to a gain of only 2.4% in 2014. Healthier consumer spending, housing investment, and government spending growth are expected to make outsized contributions to the projected acceleration in overall economic activity. Accordingly, recent labor market strength is expected to continue. The panelists' median forecast is for net new job creation to average approximately 250,000 per month in 2015 and 216,000 per month next year. The unemployment rate is expected to continue its downward trend over the next several quarters, reaching 5% by the second half of 2016."

Goss Eggs (Recent Dumb Economic Moves)

- Some in Congress are pushing for a federal sales tax sometimes referred to as a value-added-tax (VAT). This would be a big mistake. Because VATs are embedded in the price of products, they can often rise unnoticed by the consumer, which is why big spenders love them as a vehicle for periodic stealth tax hikes. This is why Nobel prize winning economist, Milton Friedman, often said that the best taxes were those that taxpayers could feel so they would be difficult to raise. He was right.

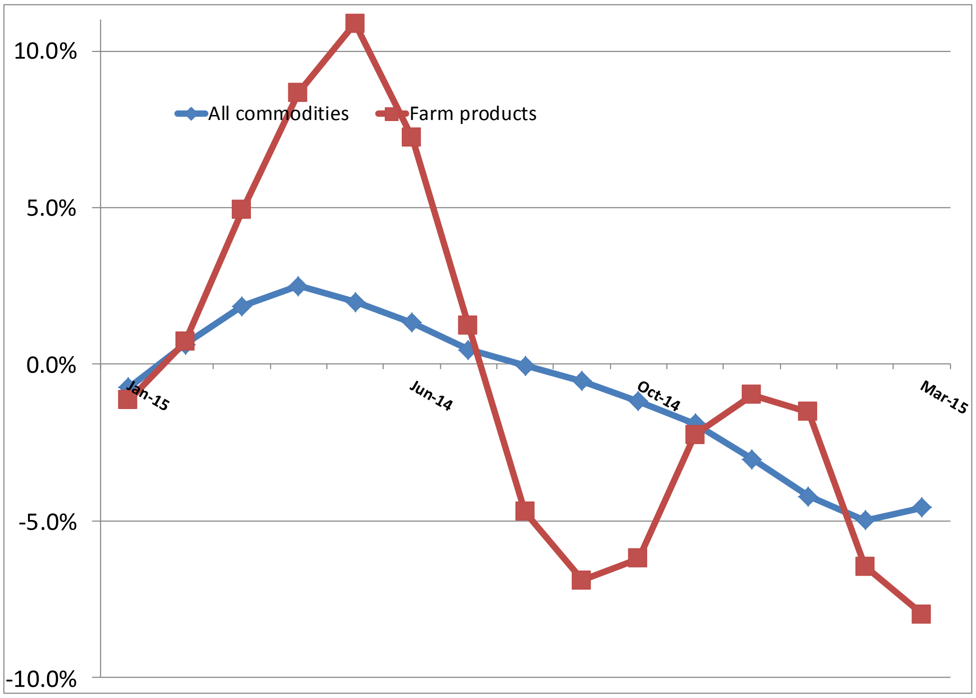
Survey results for December will be released on the first business day of next month, May 1.

Follow Goss on twitter at http://twitter.com/erniegoss
For historical data and forecasts visit our website at:
http://www2.creighton.edu/business/economicoutlook/
www.ernestgoss.com

PRICE DATA

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

Price changes, 3 month moving average, Jan. 2014- March 2015



Price changes, 3 month moving average, Jan. 2014 - March 2014